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A Study on the Impact of Foreign Direct Investment on Indian Economy- Post Reform Period

Dr.Smitha B Nair
Assistant Professor Presidency College, Bangalore.

ABSTRACT
The remarkable and exceptional progress of the Foreign Direct Investment over the world economy in the past couple of decades has become a vital component of the expansion policy of both the developing and the developed countries. FDI acts as a key catalyst in the economic growth of a nation in the form of improved technology, professional competencies and a lot more to count. FDI can be deemed to be a lifebuoy for a developing or underdeveloped country, to stay afloat in the competent world of economy. It portrays a vital part in the long-term advancement of a nation not only as a source of investment but also for augmenting effectiveness of the domestic financial system through transference of technology, reinforcement of infrastructure, levitation of output and engendering new job opportunities. Allowing FDI in a country creates remarkable upgrade in supply chain management technology to regional entities and economical subtleties which could eventually benefit the suppliers and consumers. The paper emphasizes on the impact of Foreign Direct Investment inflows with various economic indicators and its impact on Indian economy.

KEY WORDS: *Foreign Direct Investment, Lifebuoy, financial system.*

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I. INTRODUCTION

Foreign Direct Investment (FDI) has been identified as the most incredible advancements in the new millennium. FDI in a wider perspective is every capital outlay by an individual - inhabits out of mother country. The overseas unit provides capital to the mother country intended for a sustained phase. They initiate a preliminary outlay during launch besides subsequently retain capitalizing conferring wants plus necessities of the mother nation that will possibly may be the admission towards improved resources, access to a buyer marketplace, aptitude specific to the host country - which outcomes in enrichment of aptitude. That prolonged association return equally to the investors as well as the host country. FDI investments remain deemed to be further advantageous to the host country as it promptly entails infrastructure enhancement, improve occupational prospects, better logistic combined with supply chain scheme and, many further points to attach. This additionally leads to the handover of technology, superior authority and management systems. It is a well-known reality that FDI in emerging/underdeveloped nation be able to perform an essential role in the growth of the financial system; the justification for the afore said conundrum is a disparity of the accessible materials or finance and necessary supplies and money. It is apparent to know that FDI fulfills this divergence via injecting necessary funds besides the transmission of information and expertise also. Hence information sharing and expertise shifting augments specialized proficiencies, reinforces infrastructure, safeguard accessibility of world-wide marques at front doorway, better standard of living, generate job opportunities and so on. FDI likewise believed to be a progressive device for achieving self-reliance of the nation entirely and specific sectors.

II. REVIEW OF LITERATURE

Anitha, R. (2012) attempted to review the factors influencing the inflow of investment by overseas entities and the justifications for less significant incursions and its curative actions. This article shares a popular viewpoint that foreign direct investment portrays a crucial role in the monetary development of every emerging nation; the explanation remaining the mismatch of needed cash/supplies and accessible funds/resources. The improvements and predicted foreign direct investment for a phase of five years are reviewed in the study with the help of Autoregressive Integrated Moving Average (ARIMA) technique.

Gola, K. R., Mridul, D., & Ankur, A. (2013), they analyzed that Foreign Direct Investment implies invasions of investment from a foreign country which is been provided to give a boost to the manufacturing proficiency of the host country. Despite globalization, the key function of foreign fund flows in the advancement of the nation persists unaffected. FDI will be a major ground for the economic escalation in all developing nations, enhancement in the capital formation and provides transfer of most modern expertise to the host nation. This article aims at analytically scrutinize the position of foreign fund influxes in the monetary progress of the nation during a time period of 1990-2011.

Dimple, G., & Ritu, J. (2014), they tried towards evaluating trends in the FDI equity inflows in different sectors in India. A detailed statistics of 13 years from 2000-2013 were collected and used as secondary data for the study. These data were analyzed to study the trend of FDI equity inflows and found that there is a huge variation of FDI equity inflow. It was learnt from the study that service sector was the area where majority of the fund was invested. Dadra & Nagarhavali, Maharashtra and Daman & Diu were identified at the top positions to achieve highest inflows which are 32% of the total FDI.

Archana, U. (2016). On "*Foreign Direct Investment and Indian Economy*," she tried to study in her paper about the impact of FDI, after two decades of introduction, on Indian economy. The paper also examines the impediments for its improvement in the global market. The pros and cons of implementing FDI in Indian domestic market is also studied in this paper. WEFGCI ranks India at 55 amongst 140 countries, which was a giant leap of 16 positions from the previous rating.

Research Gap

Since the impact of FDI in the stock market and Indian economy has not been evaluated in the studies which have been conducted so far, a gap for research is appropriate.

Statement of the Problem

It is imperative that any developing country should have an additional mobilization of resources in order to make a leap to become at par with the developed countries. This is due to the huge difference in required and available resources. India, as a developing country is also no different from this. These resources can be either in the form of funds or in the form of technology, infrastructure development or a combination of any/all of these. Monetary restructurings were outlined in an anticipation it may fascinate immense foreign influxes to the nation; nevertheless preliminary response was disheartening. Foreign direct investment forms an inevitable component of India's economy; however, many are still ambiguous about it. On the other hand, there are concerns rather speculations over the adverse implications of FDI in a developing economy like India.

III. RESEARCH METHODOLOGY

a) Objectives of the Study

- To analyze the progress of inflow of foreign fund influxes to the nation
- To find out the relationship amongst FDI , GDP & Market indices
- To appraise the impact of FDI on BSE.

b) Source of Data

The entire study is centered on statistical research tools with the help of evidence stockpiled from government archives. Amassed information selected mostly in this research were gathered from 1992 to 2015. Secondary data have been collected from various sources like World Bank, government database, various issues of UNCTAD

c) Tools used

Gathered data have been evaluated by applying statistical tools like CAGR and Regression with the help of Statistical Package for Social Sciences (SPSS).

1. **Scope of the Study**

It is crucial that domestic capital would be inadequate for achieving desired growth, particularly for a developing country. Foreign investment is assumed to have the potential to bring in market development along with technical skills, business expertise and infrastructure development. This study has the scope to focus on the influence of FDI on Indian economy.

2. **Data analysis and interpretation**

Trend Analysis

Table 1 Trend of FDI

YEAR	FDI(US$ Million)	% Increase/Decrease
1992	252	---
1993	532	111.11%
1994	974	83.08%
1995	2151	120.84%
1996	2525	17.38%

1997	3619	43.32%
1998	2633	-27.24%
1999	2168	-17.66%
2000	3587.99	65.49%
2001	5477.638	52.67%
2002	5629.671	2.78%
2003	4321.076	-23.24%
2004	5777.807	33.71%
2005	7621.769	31.91%
2006	20327.76	166.71%
2007	25349.89	24.71%
2008	47102.42	85.81%
2009	35633.94	-24.35%
2010	27417.08	-23.06%
2011	36190.46	31.99%
2012	24195.77	-33.14%
2013	28199.45	16.55%
2014	34582.1	22.63%
2015	44208.02	27.83%

Source: Various issues of UNCTAD

Increase/ decrease figure may give the impression that the FDI is stable, even though there were few ups and downs and the investment remained exceptionally precarious, varying a great deal in every year.

Table 2: Descriptive Statistics

Mean	15436.53504	32.91051462
Standard Deviation	15658.6932	51.68033677
Range	46850.42	199.8498246
Minimum	252	-33.1432372
Maximum	47102.42	166.7065874
Sum	370476.841	789.8523509
Count	24	24

From the above table we can find mean 15436.53 ie, the average of FDI inflows from 1992-2015 and 32. 910 is the annual average percentage. Standard deviation ie, the deviation from mean is 15658.69. range is 199.84 which is at a very high level and the reason being the drastic decrease of -33.14 per cent FDI inflows in 2012 and the amazing increase of 166.70 per cent in the inflows in 2006. Minimum 252 is the lowest inflows happened during the period of study ie in the year 1992 and maximum is the highest FDI inflows in the year 2008. Sum total of all inflows from 1992 – 2015 and count 24 is the number of observations taken for the study.

CAGR had used for ascertaining a pattern on FDI inflows in India. CAGR is computed in the following way:-

CAGR - (End Rate / Initial Rate) $(^{1/\text{no. of years})-1}$

Here,

End Rate = $44208.02

Initial Rate =$ 252

Number of years = 24

Substituting the value to the above equation, we arrived at 24.02 per cent Compound Annual Growth Rate for Foreign Direct Investment inflows to the country.

Over a period of 24 years, Foreign Direct Investment inflows grew from $252millions to $44,208.02millions, its compound annual growth rate is24.02 per cent

Impact of FDI on GDP

Table 3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.896[a]	.802	.793	300234.1551

a. Predictors: (Constant), Foreign Direct Investment

Here R is .896 which implies there is a favorable association among foreign investment and GDP of country 80 per cent variations in GDP is on account of FDI. There is a substantial relation amongst FDI and GDP of the country.

Table 4

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	8037180506802.695	1	8037180506802.695	89.163	.000[b]
1	Residual	1983092053719.846	22	90140547896.357		
	Total	10020272560522.541	23			

a. Dependent Variable: GDP

b. Predictors: (Constant), Foreign Direct Investment

Significance value is below .05, that signifies that model is substantial at 5 per cent significant level.

Table 5

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	365731.333	86974.669		4.205	.000
	Foreign Direct Investment	37.751	3.998	.896	9.443	.000

a. Dependent Variable: GDP

Table 3 summarizes that the value of .896 & .802 which infers that the study between variables is significant therefore alternative hypothesis is accepted and the model being developed for estimating the GDP

Model is GDP = 365731.333+ 37.751*FDI

The alph he FDI whereas it is dependent in the tune of 37.752 million US$ multiplied with FDI inflow into the country. From the above model GDP remains independent to the extent of 365731.333 US$

Impact of FDI on Stock Market

Table 6

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908[a]	.825	.812	1336.13467

a. Predictors: (Constant), Foreign Direct Investment

Here R is .908 which means that a strong positive association among FDI and BSE S & P 500 of the country. Approximately 83 per cent variations in BSE S & P 500 is on account of FDI.

Table 7

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	117797464.685	1	117797464.685	65.984	.000[b]
1	Residual	24993582.144	14	1785255.867		
	Total	142791046.828	15			

a. Dependent Variable: BSE S&P 500

b. Predictors: (Constant), Foreign Direct Investment

Significance value is below .05, that clearly reveals that model is considerable at 5 percent significant level.

Table 8
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	772.901	608.009		1.271	.224
	Foreign Direct Investment	.186	.023	.908	8.123	.000

a. Dependent Variable: BSE S&P 500

Table 6 summarizes that the value of .908 & .825 infers that the study between variables is significant therefore alternative hypothesis is accepted and the model being developed for estimating the market indices.

The alpha value of BSE S&P 500 is 772.901million US$ which is independent to the FDI where as it is dependent in the tune of .186million US$ multiplied with FDI inflow into the country. From the above model BSE S&P 500 remains independent to the extent of 772.901millionUS$

Model is BSE S&P 500 = 772.90+.186*FDI

8. Findings of the Study

1. FDI inflows are stable, even though there were few ups and downs and the financing was extremely precarious, unpredictable from year to year.
2. Foreign Direct Investment grew from $252millions to $44,208.02millions, its Compound Annual Growth Rate (CAGR) is 24.02 per cent.
3. FDI has a key influence on GDP of India. (80 per cent variation in GDP is explained by FDI)
4. FDI has a major impact on BSE S & P 500 of the country. (Approximately 83 per cent variation in BSE S&P 500 is explained by FDI)
5. A positive relationship between FDI and GDP of the country prevails.
6. There is a positive relationship between FDI and Market indices.

IV. CONCLUSION

A substantial element of restructuring package of the nation is that it has focused on a gradual changeover rather than rapid revolutions. This strategy was implemented post 1991 reforms due to the situation arose out of the balance of payment crisis. The capital formation and technological advancement was the resultant of the amended foreign investment strategy, which allowed cent percent, in defense, via government approval method. To conclude, majority segments falls in the category of automated approval method, consequently position India amongst the highly preferred investment destinations, that drive definitely advantageous to the country's financial system..

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