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## AN ANALYTICAL STUDY ON FOREIGN DIRECT INVESTMENT IN INDIAN PERSPECTIVE

### Article Particulars

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### Abstract

*The investment is the flow of funds from origin to the destination for appreciation in terms of return, thereby in a globalized economy the country having core competencies to achieve faster economic growth. The openness process of our economy to the world economy plays a pre-dominant in the sustainable growth and development, on this context the rationale of the foreign direct investment associated with the term economic progress, economic growth, and economic development are synonymously correlated with the sustainable growth and development. It is the task based on the commitment of funds only. So the present study intends to analyze the Foreign Direct Investment in the Indian scenario. The main objectives of the study are to examine the impact of Foreign Direct Investment on Indian economy and analyze the correlation between FDI and different economic variables. For analyzing the correlation between FDI and economic variables hypotheses are framed and correlation coefficient technique is used to test the hypotheses. The study is based on only secondary data which is collected from different sources available in Government of India publications, annual reports, Reserve Bank of India bulletins, textbooks, journals, articles, and internet sources.*

**Keywords:** Foreign Direct Investment, GDP, GNP, foreign trade, foreign reserve

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### Introduction

The globalization plays a significant role in the development of different sectors in the economy. It is a red carpet welcome to the world economy to enter the Indian market by committing their funds to profitable avenues. It is a process to open our country economy to the world economy thereby creating opportunities for investment in the Indian economy. India with its strong and potential industrial background, a competent workforce with the well developed financial system has the potentiality to invite the foreign direct investment. It helps enjoy the globalized products, market, and globalized organizations with quality products by the potential consumers. The impact

of financial and economic reforms on different growing sectors in the economy mainly focused on banking, marketing, agriculture, human resource, capital market and especially in the industrial sector is very prominent in nature. The Stabilized economy with structural adjustment programs acts as a foundation for the new economic policy, 1991. The economic stabilization involves monitoring the inflationary pressures and sustainable fiscal and balance of payments position, and the structural adjustment program mainly concentrates on industrial licensing, investment and other portfolio issues etc. Many Countries provide many incentives for attracting the foreign direct investment (FDI). The need for FDI depends on saving and investment rate in any country. Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving (Dr. Jasbir Singh & et al, 2012). FDI inflows into a country are also often linked with the economic prosperity issue. FDI now plays an important role in the internationalization of business (Iman Naufal Mahadika & et al 2017). So in this background, the present study attempts to analyze the significant role of foreign investment in the growth and development of our economy.

### Objectives of the Study

- To analyze the correlation between of FDI and economic variables.
- To examine the impact of foreign direct investment on Indian economy

### Methodology of the Study

The methodology of the study includes only the secondary data which is collected from different sources like annual reports published by the department of industrial policy and promotion of government of India, articles published in newspapers, journals, textbooks, internet sources, etc. For analyzing the correlation between the foreign direct investment and economic variables the hypotheses are framed and Coefficient correlation technique is used for testing statistical significant between foreign direct investment and economic variables.

### Need for the Study

The investment is the process of committing the funds in a profitable avenue with the intention to get the highest rate of return, in countries economic development point of view the finance is an essential factor for the development of the entire sector in the economy. So the present study intends to analyze the data about foreign direct investment in the Indian economy, and address the importance of foreign direct investment in the economic development and growth of a country.

### Hypotheses for the Study

#### Alternative Hypotheses

1. **H<sub>1</sub>**- There is a significant correlation between FDI and Gross Domestic Product
2. **H<sub>1</sub>**- There is a significant correlation between FDI and Gross National Product

3.  $H_1$ - There is a significant correlation between FDI and foreign trade
4.  $H_1$ - There is a significant correlation between FDI and Balance of Payments

### Null Hypotheses

1.  $H_0$ - There is no significant correlation between FDI and Gross Domestic Product
2.  $H_0$ - There is no significant correlation between FDI and Gross National Product
3.  $H_0$ - There is no significant correlation between FDI and foreign trade
4.  $H_0$ - There is no significant correlation between FDI and Balance of Payments

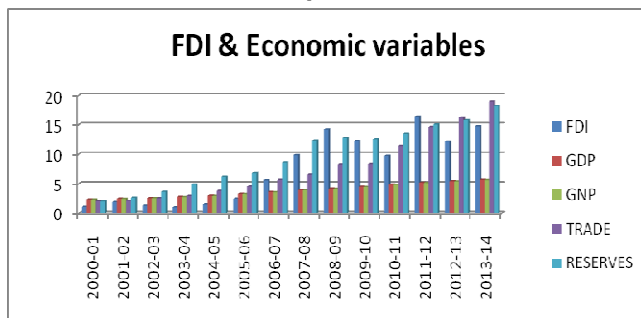
### Data Analysis and Interpretation

**Table-1 Foreign Direct Investment and Economic variables**

Year	FDI	GDP	GNP	Trade	Reserves
2000-01	1.07	2.34	2.32	2.03	1.97
2001-02	1.86	2.47	2.45	2.09	2.64
2002-03	1.28	2.57	2.55	2.55	3.61
2003-04	1.00	2.78	2.76	2.93	4.90
2004-05	1.46	2.97	2.94	3.75	6.19
2005-06	2.45	3.25	3.23	4.56	6.76
2006-07	5.63	3.56	3.53	5.71	8.68
2007-08	9.86	3.90	3.88	6.55	12.37
2008-09	14.28	4.16	4.13	8.40	12.83
2009-10	12.31	4.51	4.48	8.45	12.59
2010-11	9.73	4.91	4.86	11.42	13.61
2011-12	16.51	5.24	5.20	14.65	15.06
2012-13	12.19	5.48	5.45	16.34	15.88
2013-14	14.75	5.74	5.67	19.05	18.28

**Source:** www.dipp.gov.in, Handbook of Statistic on the Indian Economy (RBI)

**Graph 1.1**



The indicators of economic growth and development are gross domestic product and gross national product and other two economic variables such as foreign reserves and foreign trade are also helps to boost the economy. The table 1 and the graph 2 reveals that data about

foreign direct investment and economic variables from 2000-01 to 2013-14. From last fourteen years, the FDI inflows increased in a significant manner and it leads to impact on GDP to increase up to 5.74 in 2013-14. The GNP was also increased from 2.32 to 5.67 in 2013-14, and other indicators of economic growth and development are foreign trade and foreign reserves were also increased.

Table-2 Correlation analysis

Correlation between FDI and Economic variables				
Particulars	GDP	GNP	Foreign trade	Reserve
'r' Value	0.916222	0.917048	0.86557	0.937656
Result	Very strong positive	Very strong positive	Very strong positive	Very strong positive
Null hypothesis	Rejected	Rejected	Rejected	Rejected

**Source:** Author calculations

### Foreign Direct Investment and GDP

The standardized single indicator which helps to measure the healthy growth of an economy is a gross domestic product at factor cost which is based on economic activity. The table -2 reveals that the statistically significant correlation between the foreign direct investment and gross domestic product at factor cost. The correlation coefficient between these two variables is very strong positive, means the 'r' value is 0.916222. Hence the null hypothesis is rejected and it is clear that there is a significant correlation between foreign direct investment and gross domestic product.

### Foreign Direct Investment and GNP

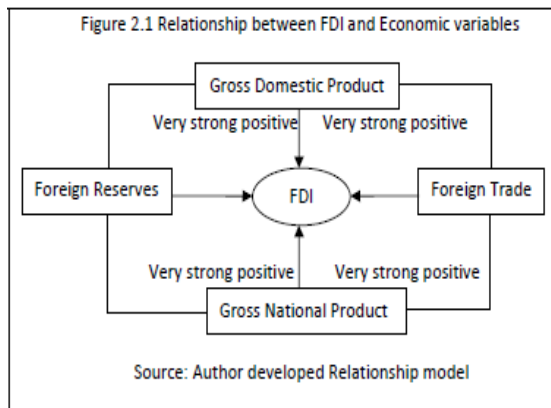
The relationship between foreign direct investment and the gross national product is very significant in nature. The coefficient correlation (r) value is 0.917048 indicates that there is a strong positive correlation between foreign direct investment and gross national product. Hence the null hypothesis is rejected and its clear that there is a significant correlation between foreign direct investment and gross national income.

### Foreign Direct Investment and Foreign Trade

Another economic variable which helps to boost the economy is the cross-border transactions or exports and imports from and to India. The correlation between foreign direct investment and foreign trade is very significant in nature. The 'r' value of these two variables is 0.86557. Hence the null hypothesis is rejected and it is clear that there is a statistically significant correlation between foreign direct investment and foreign trade.

### Foreign Direct Investment and Foreign Reserves

The foreign reserve is the financial asset of the monetary authorities which helps back its liabilities. The correlation between foreign direct investment and foreign reserves is very strong positive in nature. The correlation coefficient (r) between these two variables is 0.937656. Hence it is clear that the null hypothesis is rejected.



### Relationship model

The relationship model depicts the significant correlation between the FDI inflows and the different economic variables. The inflow of FDI predominantly plays a crucial role on the growth track of GDP, GNP, foreign reserves, and foreign trade. Hence it is clear the FDI is growth determinant of our country economy.

The standard indicator of economic growth and development based on

economic activity which is called as GDP at factor cost is a successor of foreign direct investment. The other standardized measure is GNP which indicates gross national income is also boosted by foreign capital inflow. Finally, the foreign reserve and foreign trade are key determinants which are influenced by foreign direct investment.

**Importance of FDI:** A foreign direct investment is a commitment of funds made by a company or entity or foreign institution located in another country, by establishing new ventures or acquiring business assets. It can be categorized as horizontal, vertical, conglomerate, green field and brown field investments etc. The FDI is key factor which helps achieve financial stability. It connects the global world with pool of benefits and opportunity door in terms of employment, transformation of technology by that we have chance to achieve to optimum utilization of natural resources.

### Findings of the Study

- **The relationship between FDI and Economic variables:** The present study identifies the significant correlation between foreign direct investment and economic variables. It indicates that all four economic variables are the successor of the FDI input.
- **Top ten countries in FDI inflows:** As per available statistics in government of India in 2015-16 the ten ranking countries contributed their funds to the Indian economy are Mauritius 35%, Singapore 14%, U.K. 9%, Japan 7%, Netherlands 6%, U.S.A. 6%, Germany 3%, Cyprus 3%, France 2%, Switzerland 1%. The above table reveals that the share of top investing countries foreign direct investment inflows in the financial year . 2013-14, 2014-15, and 2015-16. The Mauritius is the top one investing country in foreign direct investment in India.
- **Top ten sectors attracting highest equity inflows.** The service sector attracts 17% of foreign direct investment equity inflows compare to other sectors in India, in 2015-16 Rs 4036 Crore. The other sectors attracting the foreign direct investment like, Construction, 9%, Computer, software & Hardware 7%, 7%, Automobile Industry 5%, Drugs & pharmaceutical 5%, chemicals, 5%, power 4%, Metallurgical industries 3%.

## Suggestions

- **FDI requirement:** The above data reveals that some of the sectors in the economy which requires foreign direct investment such sectors like automobile industry, drugs & pharmaceuticals chemicals (other than fertilizers), power, trading metallurgical industries.
- **Government role:** The foreign direct investment is a vigorous factor which determines the faster-growing economy. But inviting the foreign capital as a government, need to take at most care to control the dominance of foreign institutions or corporations.

## Conclusion

The finality with remarks about foreign direct investment in India from 2000-01 to 2013-14 by analyzing the statistically significant correlation between FDI and other four economic variables such as gross domestic product, gross national product , foreign trade and foreign reserves , the foreign direct investment is essential to develop the different sectors in the economy of a country with the financial stability , especially to the developing countries as well as underdeveloped countries which are facing the problem of finance. The is key determinant is the role of government of India and concerned state governments' measures to invite the foreign direct investments to our economy. So finally conclude that the financial sector reforms after 1991 plays a dominant role in the development of the economy with new financial reforms in foreign direct investment.

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