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## Role of foreign direct investment (FDI) in economic development of India

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### Abstract

FDI is vital for India's economic growth since it helps to connect the country's numerous economies by investing money in sectors such as manufacturing, infrastructure, transportation, technology, productivity, and hospitality, among others. Foreign money is viewed as a way to bridge the gap between local savings and investment. The fact that India has attracted unprecedented amounts of foreign investment is a source of national pride. India has the ideal blend of openness and chance in terms of market size, investment reform, and economic growth rates. India, on the other hand, appears to be facing a slew of barriers and hurdles in terms of entirely opening its markets to all investors. Political instability, infrastructure, tax policies, corruption, governmental laws, and so on are some of the significant problems in the field of FDI. The focus of this article is on India's FDI patterns. And foreign investment patterns in India.

**Keywords:** FDI, GDP, growth of Indian economy

### Introduction

India's financial stability, development, and GDP growth rate have all benefited from foreign direct investment (FDI). For India to achieve its economic reforms, FDI as a planned component of investment is required. The government should structure its FDI policy in such a manner that FDI inflows may be used to boost domestic output, savings, and exports by distributing FDI inflows fairly across states. Inflows of foreign direct investment (FDI) into India have had a huge influence in recent years. Global FDI is becoming an increasingly important component of both developed and developing country development due to its rapid rise.

Both the home and host nations want to reap the benefits of FDI, such as increased market openness, technical progress, management skills, and foreign exchange earnings.

India has opened its market to foreign investment as a result of the influence of globalisation. They also permitted FDI into India after making the required policy adjustments. After trade obstacles were lifted, India's industry grew dramatically across the board. As a result, India has made significant strides in terms of technical advancement, enhanced exports-imports, and overall economic development.

This article tries to reveal "The Role of Foreign Direct Investment (FDI) in India and also mainly focused on pattern of investment in India and the sector wise investment in India. It also tries to analyse the relationship between foreign direct investment and GDP contribution.

### The study's objectives

The current study's aims are as follows.

1. Research the trends and patterns of foreign direct investment into India from 2000-2001 to 2020-21.
2. To examine the share of FDI inflow sector wise in INDIA.
3. To understand the link between FDI inflows and GDP.

### Methodology

This research relies on secondary data. The necessary data were gathered from a variety of sources, including World Investment Reports, Asian Development Bank Reports, various

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Reserve Bank of India Bulletins, publications from the Ministry of Commerce, Government of India, Economic and Social Survey of Asia and the Pacific, United Nations, Asian Development Outlook, Country Reports on Economic Policy and Trade Practice- Bureau of Economic and Business Affairs, United States Department of State, and websites of the World Bank, IMFC, and IMF. The quantitative analysis was used to perform the study on the influence of FDI on economic growth in INDIA.

#### Foreign Direct Investment: Key Characteristics

1. It is most typically produced in open economies, which, in comparison to strictly controlled countries, provide a trained workforce and high growth possibilities for investors.
2. It necessitates a long-term commitment because no short-term capital gains are desired.
3. Investment of 10% or more from outside the country is termed FDI by the Organization for Economic Cooperation and Development (OECD).
4. Foreign direct investment needs not just finance but also managerial and technological capabilities.
5. Because it includes the construction of real assets, it boosts the target company's productivity. This contributes to the host country's rapid economic growth and creation of employment possibilities.
6. In the firm where the investment is made, it creates effective control.
7. The investing firm has a significant impact on the investment firm's decision-making process.

#### In India, There Are Several Different Ways to Invest from A far

##### A foreign firm can invest in India in two different ways

1. **Automatic Route:** In this scenario, a foreign investor does not need the Reserve Bank of India's or the Indian government's permission to invest.
2. **Government route:** In this scenario, the foreign investor must obtain prior clearance from the necessary departments or ministries of the Indian government through the foreign investment facilitation site. Before making an investment, international investors need get approval from the Department of Economic Affairs (DEA), the Foreign Investment Promotion Board (FIPB), the Ministry of Finance, or the Department of Industrial Policy and Promotion (DIPP).

#### India's FDI determinants

1. Investors like countries with stable rules because they draw them across borders.
2. Federal investment will be attracted by economic considerations such as tax breaks and subsidies for international companies.
3. Labourers, both skilled and unskilled, will be recruited due to the abundance of both skilled and unskilled labour at low cost. Infrastructure, information, and communication are all needed for corporate progress. Foreign direct investment (FDI) aids in this endeavour.
4. The country's natural resources draw foreign direct investment.

#### Foreign Direct Investment (FDI) has several advantages The following benefits will accrue when FDI increases in our country

- The growth of numerous industrial units would improve people's economic lives.
- More import and export options for products and services.
- An increase in the quantity of jobs available.
- Innovation in all fields of technology
- Helps to stabilise the economic situation by outsourcing expertise from one country to another.

#### Low FDI inflow to India poses a number of problems

India, which is seen as a safe haven for international investors, has additional motivations to attract foreign direct investment. It is, nevertheless, beset by a number of issues.

- Inadequate infrastructural amenities deter many international investors from investing in India.
- One of the major impediments to FDI inflow is labour restrictions, allegations of corruption, and a lack of institutional changes.
- A lack of decision-making competence among the country's officials will stifle FDI influx.
- Incentive packages that aren't clear and change frequently.
- Due to monopoly and a glut of low-cost goods, domestic industries struggle to thrive.
- Ethical misconduct is on the rise.
- An increase in our reliance on foreign resources will have an impact on our overall progress.

#### Data Analysis

FDI Limit in Different sector

sector	FDI permissible	Entry route
Hotel & tourism sector	100% FDI permissible	Automatic route
Insurance sector	26% FDI permissible	Automatic route
Trading companies	51% FDI permissible but 100% FDI permissible if the company does bulk import and cash & wholesale trading.	Government route
Non-banking financial companies	49% FDI permissible	Automatic route
Call centers	100% FDI permissible	Government route

S. No	Financial Year (April-March)	Foreign Direct Investment						Investment by FIIs Foreign institutional Fund (net)
		Equity		Re-Investing Earning	Other Capital	FDI flows in India		
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI flows	% growth over previous year (in US Terms)	
		Financial years 2000-01 TO 2020-21			2020-21			
1-	2000-01	2339	61	1350	279	4029		1847
2-	2001-02	3904	191	1645	390	6130	(+)52%	1505
3-	2002-03	2574	190	1833	438	5035	(-)18%	377
4-	2003-04	2197	32	1460	633	4322	(-)14%	10918
5-	2004-05	3250	528	1904	369	6051	(+)40%	8686
6-	2005-06	5540	435	2760	226	8961	(+)48%	9926
7-	2006-07	15585	896	5828	517	22826	(+)155%	3225
8-	2007-08	24573	2291	7679	300	34843	(+)53%	20328
9-	2008-09	31364	702	9030	777	41873	(+)20%	(-)15017
10-	2009-10	25606	1540	8668	1931	37745	(-)10%	29048
11-	2010-11	21376	874	11939	658	34847	(-)8%	29422
12-	2011-12	34833	1022	8206	2495	46556	(+)34%	16812
13-	2012-13	21825	1059	9880	1534	34298	(-)26%	27582
14-	2013-14	24299	975	8978	1794	36046	(+)5%	5009
15-	2014-15	30933	978	9988	3249	45148	(+)25%	40323
16-	2015-16	40001	1111	10413	4034	55559	(+)23%	-14016
17-	2016-17	43478	1223	12343	3176	60220	(+)8%	7735
18-	2017-18	44857	664	12542	2911	60974	(+)1%	22165
19-	2018-19	44366	689	13672	3274	62001	(+)2%	-12225
20-	2019-20	49977	1757	14175	8432	74390	(+)20%	552
21-	2020-21	30004	778	7420	1727	39290		8122
Cumulative total		502881	17996	161713	39194	721783		222924

Result								
	N	Mean	Std. Deviation	Variance	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Total FDI	22	65587.5909	148116.58942	21938524060.920	4.530	.491	20.956	.953
Valid N (list wise)	22							

Above Table shows the mean score for FDI in India. The mean of FDI Inflow is 65587.5. The standard deviation for all the items is close to the values of mean 148116.58942 these data are near the value of mean, which means the dispersion is less.

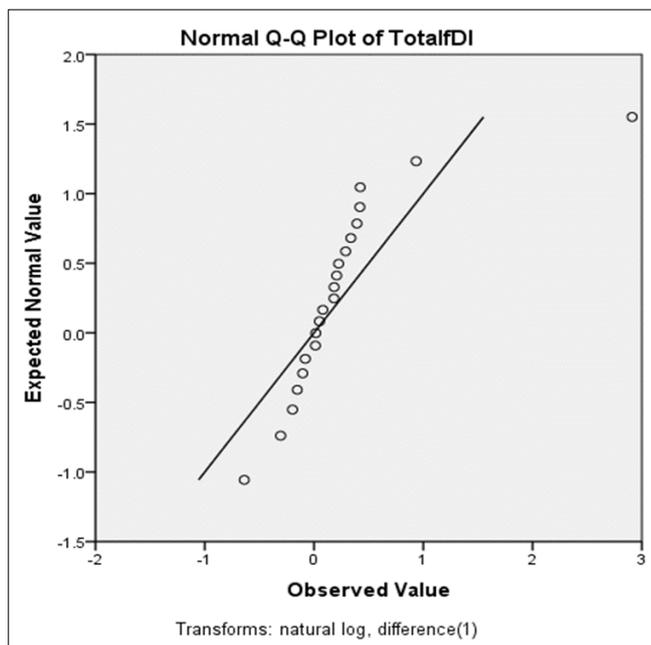


Fig 1: Normal Q-Q plot of total FDI

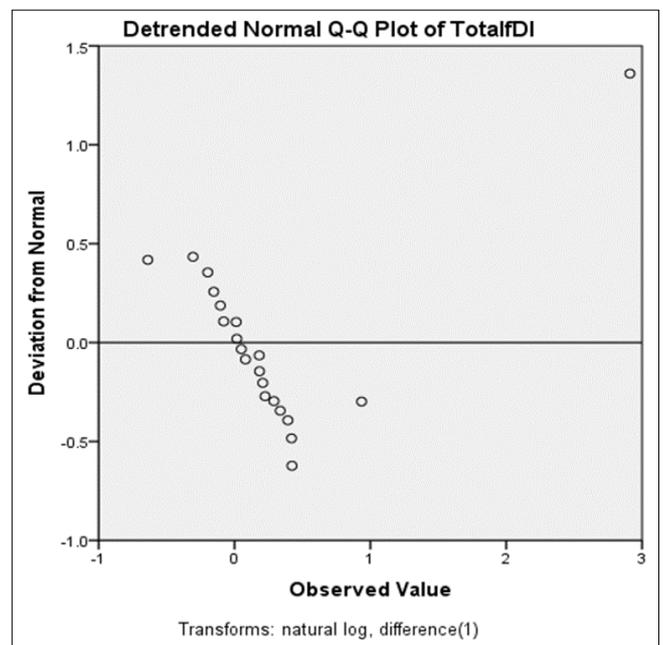


Fig 2: Detrended normal Q-Q plot of total FDI

Above Chart shows the histograms of FDI inflow in Indian economy. The negative side of histograms show long tail, which is negatively skewed result. On the Histogram chart all the data is not on the diagonal line which is deviation. The points which close to the diagonal line, it shows less deviation.

## Sector wise FDI equity inflows in India

Foreign Direct Investment Flows to India: Country-wise and Industry-wise						Date : May 27, 2021
Source/Industry	2016-17	2017-18	2018-19	2019-20	2020-21 (P)	(US\$ million)
1	2	3	4	5	6	7
Total FDI	36,317	37,366	38,744	42,629	52,545	
<b>Country-wise inflows</b>						
Singapore	6,529	9,273	14,632	12,612	15,908	
US	2,138	1,973	2,823	3,401	13,204	
Mauritius	13,383	13,415	6,570	7,498	4,491	
UAE	645	408	853	323	4,071	
Saudi Arabia	12	125	27	89	2,815	
Cayman Islands	49	1,140	863	3,496	2,558	
Netherlands	3,234	2,677	2,519	5,295	2,138	
Japan	4,237	1,313	2,745	2,308	1,794	
France	487	403	375	1,167	810	
UK	1,301	716	1,211	1,125	779	
Germany	845	1,095	817	443	625	
Spain	213	243	109	83	425	
South Korea	466	293	982	777	400	
Luxembourg	99	243	251	252	267	
Belgium	172	213	56	388	246	
Taiwan	12	112	24	44	219	
Switzerland	502	506	290	140	188	
Others	1,993	3,218	3,607	3,188	1,604	
<b>Sector-wise inflows</b>						
Computer Services	1,937	3,173	3,453	4,104	23,050	
Transport	891	1,267	1,019	2,333	7,584	
Manufacturing	11,972	7,066	7,919	8,153	6,739	
Retail & Wholesale Trade	2,771	4,478	4,311	4,914	2,960	
Financial Services	3,732	4,070	6,372	4,326	2,728	
Communication Services	5,876	8,809	5,365	6,838	2,314	
Business Services	2,684	3,005	2,597	3,684	1,750	
Construction	1,564	1,281	2,009	1,937	1,746	
Electricity and Other Energy Generation, Distribution & Transmission	1,722	1,870	2,427	1,906	989	
Education, Research & Development	205	347	736	528	963	
Miscellaneous Services	1,816	835	1,226	443	671	
Real Estate Activities	105	405	213	564	401	
Restaurants and Hotels	430	452	749	2,546	278	
Mining	141	82	247	217	186	
Trading	0	0	0	0	0	
Others	470	226	102	137	187	

P: Provisional.  
 Note: Includes FDI through approval and automatic routes only.  
 Source: RBI.

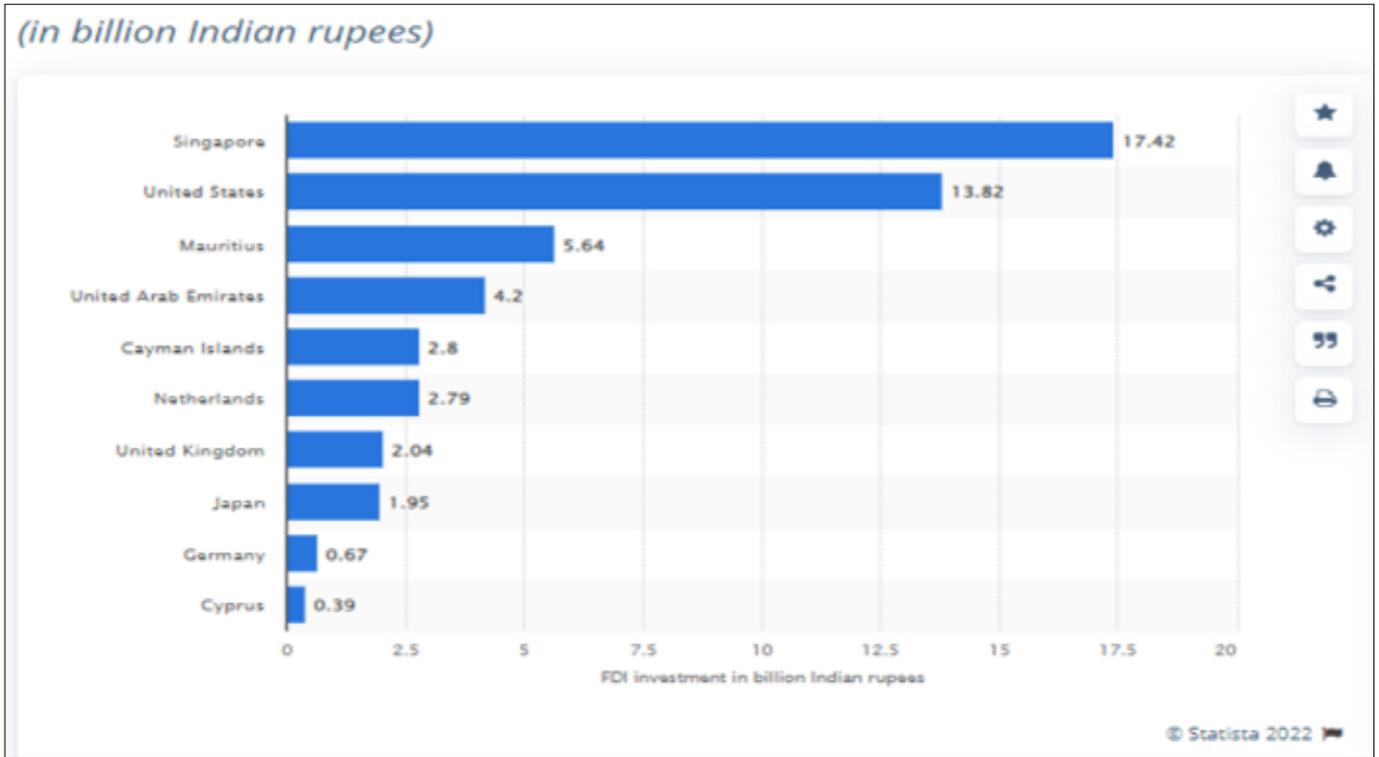
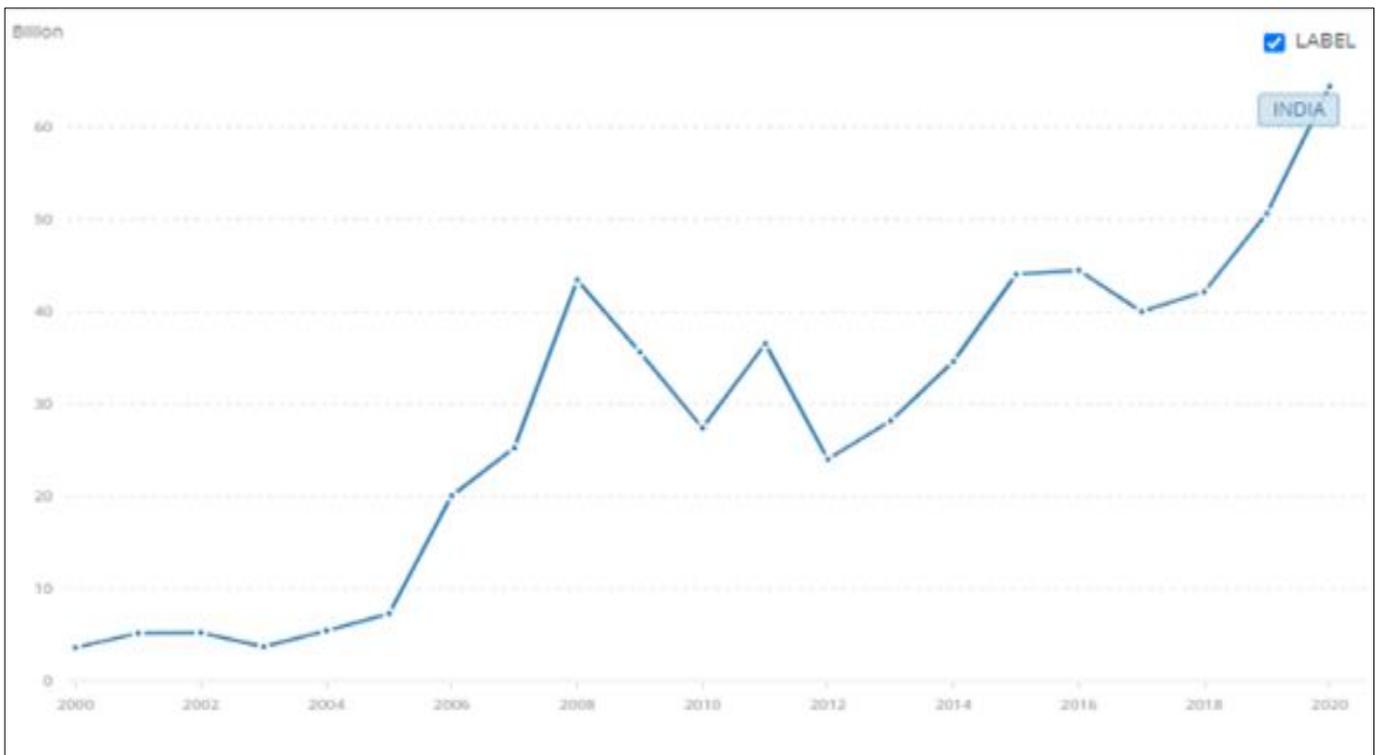


Fig 3: Share of top investing countries FDI equity inflows

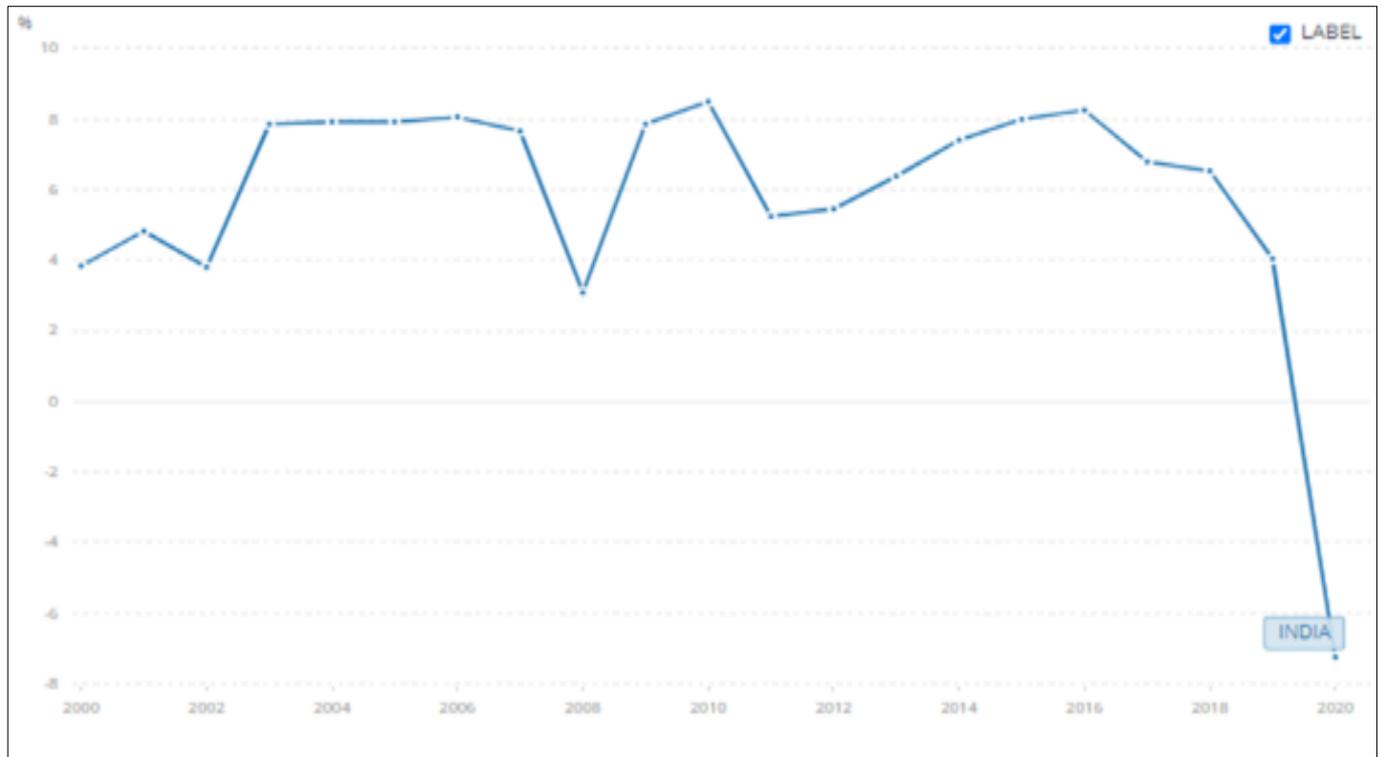
Singapore had the greatest FDI equity inflow to India in the financial year 2021, worth over 17 billion Indian rupees, followed by the United States, with about 14 billion Indian rupees. For the previous three fiscal years, Singapore has

been the most important source of foreign direct investment into India, accounting for nearly 30% of total FDI inflows in fiscal year 2020.



Source: <https://data.worldbank.org/indicator>  
GDP growth (annual %)-India.

Fig 4: Foreign direct investment, net inflows (Bop, Current USD)-India



Source: <https://data.worldbank.org/indicator>

Fig 5: India GDP Growth 2020 (-) 7.3

### Conclusion

In fiscal year 2021, India received around 60 billion dollars in FDI equity infusion. Inflows of foreign direct investment (FDI) are critical to India's economic development. Higher FDI inflows are directly proportional to the country's employment rate. This increases efficiency while also improving process and supply chain quality in order to meet global quality requirements.

Changes in FDI have an influence on the country's GDP, implying that a rise in FDI has a positive effect on India's GDP. In terms of Gross Domestic Product, Foreign Direct Investment is so beneficial to the Indian economy. COVID-19 Negative Effectuated GDP as well as FDI.

Higher equity inflows may be ascribed to the government's efforts to improve ease of doing business, as well as loosened FDI restrictions, according to the Department of Promotion of Industry and Internal Trade. The service sector attracted the most FDI equity inflows in fiscal year 2020, accounting for 17% of total FDI equity inflows. The computer software and hardware industry came in second and third, respectively, with the telecommunications and trade sectors coming in third and fourth.

The main flaw in this work is that the researcher only evaluates the influence of FDI on one dimension, GDP, although FDI has an impact on other dimensions such as employment, small scale industry (SSI), and so on, which I do not address.

### The journey to come

According to a survey published by the CII and EY, India is likely to attract FDI of US\$ 120-160 billion per year by 2025. Over the last decade, the country's GDP has increased by 6.8%, with FDI contributing 1.8 percent to that growth. According to the Economic Times, investors placed India third in terms of desirability, with 80% planning to invest in the country within the next 2-3 years and 25% reporting

investments worth more than US\$ 500 million. In addition, according to a Deloitte analysis released in September 2021, India remains an attractive market for overseas investors in both the short and long term. India was placed 43rd in the annual World Competitiveness Index 2021 released by the Institute for Management Development (IMD).

According to the IMD, India's improvements in government efficiency are attributed mostly to reasonably stable public finances (despite COVID-19-related issues) and hopeful emotions among Indian industry players towards government financing and subsidies.

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