Content available at: https://www.ipinnovative.com/open-access-journals

Southeast Asian Journal of Case Report and Review

Journal homepage: https://www.sajcrr.com/

Original Research Article

Foreign direct investment (FDI) and Indian economy: Conceptual perspective

R. K. Tailor[1,*], K. Goyal[1], N. K. Saini[1]

[1] *Dept. of Business Administration, School of Business & Commerce, FoMC, Manipal University, Jaipur, Rajasthan, India*

ARTICLE INFO

Article history:
Received 29-11-2021
Accepted 20-12-2021
Available online 08-02-2022

Keywords:
FDI
GDP

ABSTRACT

India has risen as the quickest developing significant economy on the planet and is required to be one of the best three financial forces on the planet throughout the following 10-15 years, upheld by its superior democratic system and solid organizations. India is a developing nation, and our economy is a blended economy where the public sector coincides with the private area. For an outline of Indian Economy, we should initially experience the qualities of Indian economy.

1. Introduction

The function of FDI in the financial development of a nation has been a very active topic of banter in a few nations including India. FDI is an indispensable part of the globalization which serves as a vision and a goal for the world economy. The development of worldwide creation is driven by financial and mechanical powers. It is further determined by the progressing advancement of Foreign Direct Investment (FDI) and exchange approaches. One extraordinary highlight of the present-day world has been the course of private capital streams in the type of unfamiliar direct venture (FDI) in creating nations, particularly since 1990s. Since the 1980s, the global enterprises (MNCs) have come out as significant players in the globalization setting. In this unique situation, globalization offers an equal chance for creating nations like India to achieve faster monetary development through exchange and speculation.

FDI is the point at which an investor from another nation (far off nation) makes an interest in a business arranged in the nation. Presently such an investment can be an individual, firm, organization, and so forth By and large, the financial specialist will gain resources of the business or builds up business activities to get a controlling upper hand in the business in an outside nation. This is unmistakably very deviant from purchasing the value of unfamiliar organizations, for example portfolio venture. In 1970s, worldwide trade developed more quickly than FDI, up until this point that worldwide trade was most critical monetary exercises for global coordinated effort. This situation seemed to be changed in a general sense in the 1980s, when FDI began to increment strongly. In this period, the FDI has expanded its significance by moving innovations and building up showcasing and obtaining networks for effective creation and deals internationally. FDI streams contain capital gave by foreign investors, legitimately or for the purpose of undertaking another economy with a desire for getting better benefits and furthermore interest in the administration of the venture in which they contribute. The outsider financial investors took the possessions of various assets present in these firms of various nations. The previous Indian definition of FDI varied from that of the IMF just as that of the UNCTAD's WIR, IMF's definition incorporates ECBs. In a perfect world, FDI inflows ought to get reflected in capital arrangement, arrangement of new firms i.e. a manufacturing plant, increment in foreign value holding or

* *Corresponding author*.
E-mail address: drrktailor@gmail.com (R. K. Tailor).

https://doi.org/10.18231/j.sajcrr.2021.003

acquired possession in existing firms. India has risen as the quickest developing significant economy on the planet and is required to be one of the best three financial forces on the planet throughout the following 10-15 years, upheld by its superior democratic system and solid organizations. India is a developing nation, and our economy is a blended economy where the public sector coincides with the private area. For an outline of Indian Economy, we should initially experience the qualities of Indian economy. Indian economy depends on agriculture.52% of the overall total density of population of India relies upon horticulture. As indicated by the 2011-2012 study of Indian agribusiness contributes 14.1% of the Gross Domestic Product (GDP). It was 55.4% in 1950-1951. India is probably going to be the third biggest economy with a GDP size of 15 trillion dollars by 2030. The economy of India is right now the world's fourth biggest regarding genuine GDP (buying power equality) after the USA, China and Japan and the second quickest developing significant economy on the planet after China.

1.1. Areas of indian economy

1. *Essential/Primary Sector:* When the monetary action relies primarily upon utilization of normal assets at that point that action goes under the essential sector. Farming and horticulture related exercises are the essential areas of economy.
2. *Auxiliary Sector:* When the principal activity includes producing then it is the optional area. All modern creation where physical merchandise is delivered gone under the auxiliary area.
3. *Tertiary Sector:* When the principal action includes providing a service in the market and contributing to the economy thus contributing to the tertiary sector. Money related financial activities or services, the board consultancy, communication, and IT are instances of administration area.

1.2. Categories of indian economy

1. *Organized Sector:* The area which facilitates all activities through a framework and adheres to the law of the land is called organized sector. Additionally, work rights are given due regard and compensation are according to the standards of the nation and those of the business. laborers get the advantage of federal retirement aid as outlined by the Government. Certain advantages like provident fund, health advantages and protection are given to laborers in the organized sector. These security arrangements are important to give wellspring of food in the event of incapacity or demise of the primary provider of the family without which the wards will confront a dull future.
2. *Unorganized Sector:* The areas which dodge most of the laws and do not follow the framework go under unorganized zone. Little businesspeople, some little scale-based production houses keep all their consideration on benefit making and overlook their laborers fundamental rights. Laborers do not get sufficient pay furthermore, different advantages like leave, medical advantages and protection are past the creative mind of individuals working in sloppy areas.
3. *Public Sector:* Companies which are run and financed by the Government contains the public area. After autonomy India was an extremely helpless nation. India required colossal level of cash to set up fabricating plants for fundamental things like iron and steel, aluminum, manures, and concretes. Extra framework like streets, railroads, ports, and air terminals likewise require colossal investment. In those days Indian businessmen were not so prosperous so government needed to begin making huge public sector endeavors like SAIL (Steel Authority of India Limited), ONGC(Oil and Natural Gas Commission).
4. *Private Sector:* Companies which are run and financed by private individuals involve the private sector. Companies like Mahindra and TATA beverages Ltd.

1.3. Foreign direct investment role in economic growth of india

FDI retains a very strong position and function in the general improvement of Indian economy. It gives another source to capital, can prompt mechanical upgradation, aptitude improvement and result in effectiveness impacts. While FDI is relied upon to make positive effect on economy, it has additionally acquired certain negative effect on Indian economy during the previous years.

Foreign Investment can lessen homegrown reserve funds' investments hole. Thus, despite the homegrown reserve funds investment void, monetary development can be expanded in an open economy with inflow of outside investment. The firms from other nations interest in India would invigorate the country's overall capital asset pool. Interest in an economy raises yield and improves standard of livings of the individuals.

Keeping this fact in view both created and partly growing nations are making an honest effort to attempt investment programs. Since the accessibility of capital is vague in numerous nations because of low pace of homegrown reserve funds, the significance of foreign investment is ever rising.[1] The development of foreign investment is legitimately connected with the development of worldwide organizations.

The Government of India is likewise putting numerous genuine attempts to draw in and advance foreign direct interest so as to enhance homegrown capital, innovation, and expertise, for quickened monetary development. FDI, as differentiated from portfolio investment has the goal or sense of setting up an 'enduring enthusiasm' for an undertaking that is occupant in the economy other than that of the financial investor. India has effectively denoted its essence as one of the quickest developing economies of the world. It has been positioned among the best 3 alluring nations which are the most profitable and cooperative for a foreign investment. Since 1991, the government climate as far as raising funds and economy is concerned on providing reliably facilitating environment for the foreign firms to make it foreign investment inviting.[2]

2. Review of Literature

Review of literature is a type of text that expects to survey the hypothetical and methodological commitments of related specialists and workplaces to a specific exploration subject. Its' definitive objective is to make the researchers fully informed regarding the facts revolving around a theme and structures the reason for another objective, for example, future examination that might be required in a particular field of literature.[3]

Renuka, S, & Lalitha R. (2013). conducted an examination about the deviation of prior pattern of FDI during the early on system of financial changes and the progressions following the next few years. Financial changes were outlined with the desire that it would pull in tremendous foreign investment, anyway in the beginning reaction was not so appalling. After a few alterations and relaxations, the investment chart began demonstrating a consistent and steep increment, however India is behind few growing industrial nations like China. The paper close with the view that India keeps on loosening up strategies to pull in more investing bodies and accordingly toughen the nation's economy.[4]

Kidwai (1998) made correlation among Indian and Chinese economy. It was just when the Chinese improvement train started to move quicker in the 90's that foreign capital truly started to move in quickly. In 1995 China got more FDI than any other nation aside from United State of America. In India more than 90% of venture assets ought to be expanded so the Indian story moves quicker, yet it can in no way, shape or form be supplanted through homegrown endeavors.[5]

Bhavya, M. (2014) Shared her view that India is a good place for investment by foreign firms. The paper analyzes the difficulties for continuing India's current position in the serious field of foreign investment. The study covers regions like variables of FDI inflow, patterns and designs, records on Indian economy and so forth the findings of the paper mirrors the firm feeling that FDI in India has had a positive effect and it goes about as a mediator in the monetary development of the nation. Bhattacharyya (2002) believed FDI to be a significant improvement to monetary development in creating nation as it can manage significant obstructions, for example, deficiency of money related assets and innovation and expertise. Thus, it has gotten the focus from the policy makers in the low salary nations specifically. So FDI might be considered as mixed factor affecting the Indian economy.[5]

Priyanka, B., & Ekta, K. (2014). stated that even after having friendly environment conditions, India have pulled in less FDI inflows when contrasted with different nations. The investigation breaks down the issues and difficulties that made the nation less appealing and made not many suggestions to conquer this circumstance. The examination suggests more changed approaches of FDI in Airports, protection, media and retail, notwithstanding usage of GST, work law changes. The paper further expresses that actualizing these suggestions will assist with pulling in more interests in coming years.[6] Ghosh (2011) presumed that FDI inflows have demonstrated noteworthy development in the post liberalization period, particularly in administration area. The administration area like media transmission, I.T., protection and account are getting more conspicuous to draw in FDI in India. The government has lifted sectoral covers since the presentation of LPG Model in 1991 in staged way. Expulsion of limitations on FDI inflows in the administration area like emergency clinic and wellbeing, training may likewise be thought of. There is a colossal extent of FDI in these areas which in turn, will help the development of the Indian economy.[7] Kishore (2003) communicated that FDI helped in quickening the monetary development of numerous nations. The significance of FDI is more if there should arise an occurrence of creating nations which secure capital, innovation, and better administration for quicker financial development. Singh (2010) made an investigation on expanding competition among national and semi-national establishments to draw in Foreign Direct Investment (FDI),and has attempted to investigate the developing patterns and examples of FDI inflows in India, to find out the different strategy estimates received by the Government of India since mid-1980 and later years. The consequence of the investigation proposed that the FDI inflows show an expanding pattern during the post-change period. Moreover, nation wise correlation of FDI inflows too shows that FDI inflows into India have expanded significantly in contrast with other creating economies in the ongoing years.[8]

Bhaumik and others (2010) analyzes the effect of possession structure on developing business sector firms which are formed by neighborhood foundations with concentrated possessions and are less inclined to put resources into abroad firms in order to promote FDI.

Ray and others (2014) saw that the commitment of American interest in India is tremendous. The general commitment of venture must be found as far as direct effects, production of occupations, for example, the overflow impacts of the R&D on development. Most American R&D focusing on India are occupied with cutting edge research, utilize Indian researchers and engineers, and furthermore move innovation created in these labs somewhere else.

Joshi(1986), has analyzed the different explanations behind declining patterns in productivity. His investigation depends on secondary information. He has proposed profit management both at small- and large-scale levels for the financial business to beat the declining patterns in productivity.

2.1. Research gap

It is obvious from the review of literature to us, that various research has been directed on FDI by different researchers and data analysts. so, as a response, their examination has been restricted to not many areas, nations, and regions with respect to foreign direct interest in India. These research studies have additionally considered the effect and function of FDI in India. It has framed a concept to that India is an alluring host country for FDI and FDI assumes a noteworthy function in its economy. In any case, the past examinations do not consider the pattern of FDI in various areas, districts and nations and the stock market trends of India.[9]

India has witnessed in excess of 50 areas for FDI. In any case, the progression of FDI is limited to not many areas of the economy. These examinations have been focused principally on its effect on GDP, Export, Import, Foreign Reserves, Gross Capital Formation, Gross Domestic Savings and Per Capita Income and so forth. In this study of relationship between FDI and economic development of a nation, Trends in FDI, GDP, NIFTY and Sensex are considered in an attempt to ascertain the impact of FDI on the economy of India communicated through the stock market and gross domestic product of India. The connection between FDI, GDP and Market Indices were inspected. NIFTY and SENSEX were taken as the intermediaries for analyzing status of FDI in our nation.

2.2. Research objectives

1. To examine the patterns of FDI in India over the recent 19 years
2. To discover the connection amongst FDI and GDP of the nation
3. To discover the connection amongst FDI and Indian Stock market developments
4. To break down the effect of FDI on Indian Economy on account of Indian local businesses.

2.3. Collection of data

The backdrop of this study is empirical which depends on secondary sources of information discovered from various entities on account of figures of FDI, and BSE (Bombay Stock Exchange) SENSEX. The information identified with FDI inflows has been gathered from different sources like statements of Reserve Bank of India and Handouts of the Ministry of Commerce and Industry, Government of India. The BSE SENSEX information have been gathered from the site of www.bseindia.com separately. The different facts and realities have been gotten from the various sources for example Handbills, research papers, articles, and so on.[10]

The data have also compiled some primary firsthand qualitative data through a questionnaire based on “Impact of Foreign Direct Investment (FDI) on local businesses” framed by myself, which I had sent to 45 local business owners out of which 26 responded. This questionnaire helped me a lot to get the responses to some specific questions I had on my mind.

3. Materials and Methods

The data which was compiled from secondary sources is analyzed through Karl Pearson’s coefficient of correlation formula to gain an understanding about the correlation of FDI with BSE SENSEX. Later I applied Fishers T-test to know about the effect of inflow of Foreign Direct Investment (FDI) in India on the Indian Stock market (measured in terms of S&P BSE SENSEX).

The questionnaire that had compiled from the various local business owners will be analyzed based on the responses of the respondents. This will provide us with the ground reality of the effects of FDI on local businesses.

3.1. Data analysis and interpretation

To understand the relationship between FDI and BSE SENSEX I had used Pearson Correlation Coefficient to fully evaluate the effect of both the Variables.

Values
$\sum = 276380.25$
Mean = 16257.662
$\sum(X - Mx)\ 2 = 1221498987.354$
Values
$\sum = 486529$
Mean = 28619.353
$\sum(Y - My)\ 2 = 8521122207.882$
And Y Combined
N = 17
$\sum(X - Mx)\ (Y - My) = 2650605340.669$
Calculation
$r = \sum(X - My)\ (Y - Mx))$
$\sqrt{\sum(X - Mx)\ 2} \times \sqrt{\sum(Y - My)2}$
r = 2650605340.669
$\sqrt{((1221498987.354)(8521122207.882)} = 0.8216$
orrelation Significance level is0.01
T-Test:
$r\sqrt{n-2}$
$\sqrt{1-r2}$
$= .822\sqrt{17-2}$
T =5.59
$r\sqrt{n-2}$

Table 1:

X-MEAN	Y-MEAN	(X - Mx)2	(Y - My)2	(X - Mx) x (Y – My)
-12995.332	-24590.353	168878647.675	604685457.772	319559794.682
-12880.382	-22489.353	165904234.405	505770995.713	289671451.524
-10418.702	-23584.353	108549346.462	556221703.654	245718339.608
-9654.972	-24297.353	93218479.777	590361359.948	234590256.604
-6859.732	-22568.353	47055919.884	509330554.478	154812847.548
-2470.752	-19658.353	6104614.283	386450840.360	48570910.221
4029.328	-5793.353	16235486.028	33562938.301	-23343320.583
-6610.352	6215.647	43696750.453	38634268.360	-41087613.504
1207.148	13254.647	1457206.862	175685668.654	16000323.807
4251.428	9125.647	18074642.040	83277434.242	38797033.571
-802.742	4281.647	644394.341	18332501.536	-3437056.916
3169.048	-6199.353	10042866.718	38431976.889	-19646048.498
4913.018	-619.353	24137748.180	383598.066	-3042892.294
11241.758	6380.647	126377128.221	40712656.889	71729691.620
9859.878	34380.647	97217198.815	1182028892.183	338988993.651
10368.798	17380.647	107511976.844	302086892.183	180216422.552
13652.558	58780.647	186392346.368	3455164468.654	802506207.079
Mx: 16257.662	My: 28619.353	Sum: 1221498987.354	Sum: 8521122207.882	Sum: 2650605340.669

Table 2:

	FDI	BSE Sensex
FDI Pearson Correlation (2 tailed)	1	0.822
N	17	17
BSE SENSEX Pearson Correlation (2 tailed)	0.822	1
N	17	17

Table 3:

Year	S&P BSE Sensex (X)	FDI(USD Million) (Y)
2004	3262.33	4029
2005	3377.28	6130
2006	5838.96	5035
2007	6602.69	4322
2008	9397.93	6051
2009	13786.91	8961
2010	20286.99	22826
2011	9647.31	34835
2012	17464.81	41874
2013	20509.09	37745
2014	15454.92	32901
2015	19426.71	22420
2016	21170.68	28000
2017	27499.42	35000
2018	26117.54	63000
2019	26626.46	46000
2020	29910.22	87400

$\sqrt{1-r2}$

$$= \frac{.822\sqrt{17-2}\sqrt{1-0.8222}}{T\ = 5.59}$$

As the value of T calculated is 5.59 and it is greater than the value 1.753 acc to 5% level of significance so this shows that there is a considerable effect of Foreign Direct Investment (FDI) on the Indian Stock Market takin into account i.e. S&P BSE SENSEX. FDI has had a great impact on the economy of its host country, and it has led to new unveiling of new opportunities for the citizens as well as the huge corporations operating in a country.

4. Conclusion

From the above study on "Impact of FDI on Indian Economy" it is quite clear that FDI plays a major role in overall development of economy of India. It contributes to the progressive advancements in the Indian Stock Market as we observed from the Karl Pearson's correlation Formula about the Significance of FDI which revealed that there has been a high degree of positive correlation (r=0.82) between FDI inflows at the end of a financial year and the Indian Stock Market BSE SENSEX.

To achieve a lot of gainful insights into the opinions and thoughts of local Indian business owners as many small-scale retailers are the one who can understand the effect of FDI more vibrantly as there are a lot of Supplier and production advantages involved too from FDI in case the business deals with manufacturing industry.

To understand that FDI though may give some serious competition to local businesses but if we look at it from the perspective of economic development of India as a whole, then FDI could also increase the stock market performance as well as the GDP of India. From the responses, it is observed that there are still many sectors such as healthcare, Agriculture, and transportation where there is no reach of FDI due to strict regulations of approval course of government which is drawing off potential investors. From the above analysis one thing was crystal clear that FDI had a great impact on the Stock market status of India. The inflows which stormed in the economy of India once more sectors were included in Automated course played a huge role in altering the total money inflow which went through these stock market as the companies and businesses which were benefited were having huge profits as a result the stock market prospered with higher closing records each year FDI kept on improving.

India is currently changing its Foreign Direct Investment (FDI) strategy to make the market more investment friendly. The outcomes have been empowering. The new government has permitted foreign Investments past 49 per penny and up to 100 percent through the government endorsement course, in protection, bringing about admittance to current innovation in the nation. The ongoing strategy amendments incorporate 100% FDI under government approval course for exchanging, including through web-based business, in regard of food items manufactured or delivered in India, bringing into impact Financial Budget 2016-17. In Pharmacy sector, the government has allowed up to 74 percent FDI under automatic course in existing pharmacy businesses.

The government approval course will proceed beyond 74 percent FDI and up to 100 percent in such pharmaceutical ventures. In short now a large portion of the sector would be under automatic route making India one of the most open economies on the planet for FDI. Dealing with every one of these aspects the current study was to break down the effect of FDI inflows on Indian economy. Consequences of this study presumes that the Stock market developments are needy to a more noteworthy reach out on the FDI inflows into the nation. FDI has positively affected Indian economy which has huge development potential in the coming years. FDI inflows has enhanced homegrown capital, as well as innovation and abilities of existing organizations in the nation. These have added to the economic development of the Indian economy.

4.1. Suggestions

Though FDI has not made its way into the Indian agricultural sector as it is believed to hinder with India's local farmers livelihood and even from my questionnaire many people believed that FDI should not be considered as an opportunity for gaining profits through allowing automation in agricultural sector. I was able to comprehend this information by considering the fact that People in India do not want to consider FDI for their agricultural sector needs as India is highly self-sufficient when it comes to farming and harvesting as it is considered one of the activities that has been going on in India since decades, and we are quite good at it at the same time.

FDI is an excellent way to gain profits through trades and allowing foreign firms to operate in India but still there are many restrictions when it comes to penetrating certain sectors in the foreign country. For instance, the current emotional status of people living in a foreign country plays a part. China which was the major exporter to India for all kinds of goods has suddenly received huge backlash from the Indian customers which led to altering of government trading policies and imposing Ban on various Chinese goods. The emotional tension within a country needs to be carefully observed and comprehended by the Host country foreign investor firms as the people of a country act as a driving force in bringing changes in the FDI regulations. However, it is suggested that India must focus on boosting political and social dependability alongside a cordial government climate to make the nation alluring for foreign Financing. The conduct of Foreign Financers has affected the presentation of stock market entities in India. Keeping in mind the discoveries of this research, it is very well safe to say that the government of India alongside its managerial bodies should put forth additional attempt to draw in increasingly more FDI for the smooth and fast improvement of the financial exchange and the economy of India in general. This will boast the overall economic position of India in the world and also promote a friendly relationship with other nations in terms of trading. Nevertheless, the consumers will be the most benefitted as FDI leads to more Quality Offerings, More Employment, Technical Development and not to forget the endless financial benefits which are received to a nation through exercising Foreign Direct Investment (FDI).

5. Source of Funding

None.

6. Conflict of Interest

None.

References

1. Bhavya M. Foreign Direct Investment: Impact on Indian Economy; 2014. Available from: https://www.ripublication.com/gjbmit/gjbmitv4n1_03.pdf.
2. Renuka S, Lalitha R. Sectoral Trends and Patterns of FDI in India. *Int J Marketing Financial Serv Manag Res*. 2013;2(7):1–10. Available from: http://indianresearchjournals.com/pdf/IJMFSMR/2013/July/12.pdf.
3. Kidwai N. Globalization, Foreign Direct Investment and the Corporate. The Management Accountant. 1998;Available from: https://www.thebalance.com/foreign-direct-investment-fdi-pros-cons-and-importance-3306283.
4. Bhattacharyya J. FDI in Developing Countries Special Reference to India. The Management Accountant; 2002. doi:https://icmai.in/upload/Institute/Journal/TMA-April-2021.pdf.
5. Kishore N. FDI in Post Globalization Era- India's Strategy and Prospect. *Business Prospective*. 2003;5(2):1–22.
6. Jasbir S, Sumita C, Anupama S. Role of Foreign Direct Investment in India: An Analytical Study. *Int J Eng Sci*. 2012;1(5):34–42.
7. Priyanka B, Ekta K. Analysis of Inflows of Foreign Direct Investment in India - Problems and Challenges. *Glob J Finance Manag*. 2014;6(7):675–84.
8. Ghose A. Service Sector in India and Role of Foreign Direct Investment. The Management Accountant. vol. 46; 2011.
9. Singh J, Ranjan JS, Singh Y. Impact of Liberalization on Foreign Direct Investment: An Empirical Analysis of Indian Economy in Post-Reform Period. *J Public Finance*. 2011;9(3):23–33.
10. Kumar B, Sumon D, Nigel P. Does Ownership Structure of Emerging Market Firms Affect their Outwards FDI? The Case of the Indian Automotive Pharmaceutical Sectors. *J Int business Stud*. 2010;41(3):437–50.

Author biography

R. K. Tailor, Associate Professor

K. Goyal, Student

N. K. Saini, Student

Cite this article: Tailor RK, Goyal K, Saini NK. Foreign direct investment (FDI) and Indian economy: Conceptual perspective. *Southeast Asian J Case Rep Rev* 2021;8(1):14-20.