The Evolution and Impact of Foreign Direct Investment on the Indian Economy: A Decade Analysis (2010-2020)

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Abstract

Foreign Direct Investment (FDI) has played a pivotal role in shaping India's economic landscape over the past decade. This paper examines evolving impact of FDI on various sectors of the Indian economy from 2010 to 2020. It employs a comprehensive analysis of FDI inflows, policy changes, sector-wise distribution, and their implications on economic growth, employment, technology transfer, and overall development. Furthermore, it also investigates the effects of FDI on the host countries, economic growth shows that FDI enhances economic growth in developing economies but not in developed economies. It is found that in developing economies FDI and economic growth are mutually supporting. In other words, economic growth increases the size of the host country market and strengthens the incentives for market-seeking FDI. It is also observed that bidirectional causality exists between FDI and economic growth i.e. GDP growth attracts FDI and FDI also contributes to an increase in output. The research amalgamates statistical data, policy evaluations, and scholarly insights to offer a comprehensive understanding of FDI's relevance in the Indian context.

Keyword: FDI inflows, host countries, Foreign Direct Investment, Indian Economy, Economic Growth, Sector-wise Analysis, Policy Changes, Technology Transfer, FDI relevance

Introduction

Foreign Direct Investment (FDI) has been a significant catalyst in shaping the growth trajectory of the Indian economy over the past decade (2010-2020). As one of the fastest-growing economies globally, India has increasingly opened its doors to foreign investors, recognizing the potential for FDI to spur economic growth, enhance technological capabilities, and foster employment opportunities. The period under analysis witnessed dynamic shifts in India's FDI landscape, influenced by both domestic policy reforms and global economic trends. Understanding the evolution and impact of FDI during this period is crucial for policymakers, economists, and businesses alike, as it offers insights into the opportunities, challenges, and strategies for leveraging foreign investments to sustain long-term economic development.

Today Foreign Direct Investment has become an integral part of national development strategies for almost all the nations globally. Its global popularity and positive output in augmenting domestic capital, productivity, and employment; have made it an indispensable tool for initiating economic growth for countries. So, it is being said that a high level of FDI inflows is an affirmation of the economic policymakers that have been implemented as well as a stamp of approval for the future economic health of that particular country. Therefore, nowadays there has been an immense increase in global competitiveness for FDI. Developing nations, in particular, consider FDI as the safest type of international capital flows out of all the available sources of external flows. India is evolving as one of the most favored destinations for FDI in Asia and the Pacific. It has displaced the US as the second most attractive destination for FDI in the world after China according to A.T Kearney Confidence Index. While there has been an intense "global race" for FDI, how important is FDI to a country's economy is still a big question and it is very difficult to quantify the complex package of resources that FDI confers to the host country. There have been several macro studies attempting to determine the relationship between FDI and economic growth. Therefore, this chapter highlights the relevance of FDI in the Indian economy.

Nowadays, developed countries are focusing more on new markets having qualities such as easy availability of labor, scope for products, and high profits. Therefore, Foreign Direct Investment (FDI) has become a battleground in developing countries specifically those who are showing the attributes of emerging markets. India is one of these emerging markets. Foreign direct investment includes mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intracompany loans. As a part

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of the National accounts of a country, and regarding the national income equation y=C+I+G+(X-M) where I is Investment plus Foreign Investment. Thus, FDI is defined as the net inflows of investment to acquire lasting management, joint ventures, and transfer of technology and expertise.

In the early nineties, India witnessed the growth of FDI by expanding their scope in different sectors. The steps taken included the removal of general ceiling of 40% on foreign equity under the Foreign Exchange Regulation Act, 1973 (FERA), lifting of restrictions on the use of foreign brand names in the domestic market, removing restrictions on entry and expansion of foreign direct investment into consumer goods, abandoning the phased manufacturing program (PMP), diluting the dividend balancing condition and export obligations, liberalizing the terms for import of technology and royalty payments and permitting foreign investment up to 24% of equity of small scale units and reducing the corporate tax rate[1].

Therefore, in conjunction with the FDI regime, many steps were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors. The objective was not only to facilitate non-debt-creating foreign capital inflows but also to develop the stock market in India, lower the cost of capital for Indian enterprises and indirectly improve corporate governance structures. Henceforth over time, FDI became one of the major drivers of growth.

FDI has been a crucial component of India's economic growth strategy, playing a significant role in attracting capital, technology, and managerial expertise. Understanding how FDI has evolved over a decade can provide insights into its impact on various sectors of the Indian economy.

The study aims to analyze how changes in government policies and economic reforms have influenced FDI inflows and outflows in India during the chosen period. This analysis can shed light on the effectiveness of policy measures in promoting FDI and their impact on economic development.[2]

Objectives

The study covers the following objectives:

1. **To study the FDI Inflows in India in Post Reform Era**
2. To study the relevance of FDI inflows in India
3. To evaluate the impact of FDI on the Economy.

Research Methodology

This study is based on secondary data. The required data have been collected from various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins of Reserve Bank of India, publications from the Ministry of Commerce, Govt. 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, U.S. Department of State and from websites of World Bank, IMF, WTO, RBI, UNCTAD, EXIM Bank, etc. It is a time series data and the relevant data have been collected for the period 2010 to 2020. The research methodology is descriptive.

FDI Inflows in India in Post Reform Era

The economic reform of 1991 generated strong interest in foreign investors and turned India into one of the favorite destinations for global FDI flows. According to "Ernst & Young's 2012 India Attractiveness Survey Ready for the Transition" has ranked 3rd as 3rd global destination in terms of FDI value and 4th in terms of FDI projects. Further A.T. Kearney1 has ranked India in second position in the World in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability, and business environment. Similarly, UNCTAD's World Investment Report2, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India. The FDI inflows have grown by about 20 times since the opening up of the economy to foreign investment. India received the maximum amount of FDI from developing economies. Net FDI flow in India was valued at US$ 80618 million in 2008.[3]

The number of FDI projects in India began to grow again in 2011, recovering from the slump observed in 2009-10. The number of FDI Projects increased by 20% in 2011 reaching 932 Projects and not only the number of projects increased from 2010 to 2011 but the value also increased by 12% as can be seen in the chart. This has resulted in to increase in the number of jobs by 15%[4].

After 2010, bigger companies started to invest in India cautiously and their confidences were highly supported by consumer demand, easy access to financing, and increased approval by the Foreign Investment Promotion Board. Mirroring the trend seen in the number of investment projects peaked in value in 2008 but the value declined in 2007 since the average project was worth US$ 73 million. The government of India is continuously working towards increasing FDI flows into the country. FDI rose by an impressive 56 % to US$ 2.53 billion in November 2011. The cumulative flows for April-November 2011 aggregated to US$ 22.83 billion, exceeding the total FDI of US$ 19.43 billion for 2010 -11. Therefore, in this context, the inflow of FDI has been shown in the below table.

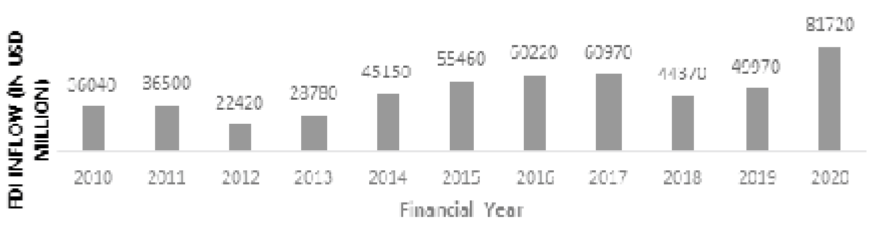
Year-wise FDI inflows in India from 2010 to 2020

Table 1.1

Year	FDI Inflow (In USD Million)
2010	36040
2011	36500
2012	22420
2013	28780
2014	45150
2015	55460
2016	60220
2017	60970
2018	44370
2019	49970
2020	81720

The above Table –1.1 shows FDI inflows in India from the financial year 2010-11 to 2019 – 20. The Foreign Direct Investment (FDI) inflow data from 2010 to 2020 in India reveals dynamic trends and shifts in investor confidence, economic conditions, and policy influences over the decade. In 2010 and 2011, the FDI inflow showed a marginal increase, reaching 36,040 million USD and 36,500 million USD, respectively. However, a noteworthy downturn occurred in 2012, with a. sharp decline to 22,420 million USD, suggesting potential economic challenges or changes in the investment climate. In the subsequent years, we witnessed a remarkable recovery. From 2013 to 2015, FDI consistently increased, indicating a resurgence in investor interest. 2014 marked a significant turning point, with FDI soaring to 45,150 million USD, reflecting a robust and growing economy. The positive momentum continued into 2015, reaching 55,460 million USD, indicative of a favorable investment environment.

Chart 1.1 FDI Inflow (In USD Million)



Source: Department of Industrial Policy and Promotion (DIPP):https://dipp.gov.in/sites/default/files/FDI_FactSheet_June22.pdf

Reserve Bank of India (RBI): https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications#!6_34

The years 2016 to 2018 displayed a mix of trends. While there was a substantial increase in 2016, with FDI reaching 60,220 million USD, subsequent years saw fluctuations. In 2017 and 2018, FDI reached 60,970 million USD and 44,370 million USD, respectively, suggesting potential economic shifts or changes in policy impacting investor decisions.

The data for 2019 and 2020 is particularly noteworthy. FDI continued to grow in 2019, reaching 49,970 million USD, demonstrating sustained investor confidence. However, the most striking observation is the substantial surge in FDI in 2020, reaching 81,720 million USD. This remarkable increase could be attributed to various factors, including government policies, global economic conditions, and perhaps strategic investments in response to emerging opportunities or challenges. Henceforth, the FDI inflow data reflects a decade of economic fluctuations and recovery, with 2020 standing out as a year of exceptional growth.

Year-wise Numbers of FDI Projects from 2010 to 2020

Table1.2

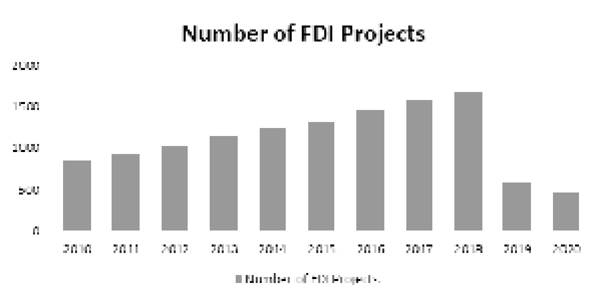
Year	Number of FDI Projects
2010	852
2011	936
2012	1028
2013	1157
2014	1242
2015	1314
2016	1452
2017	1587
2018	1692
2019	586
2020	455

As discussed earlier in this research paper there has been a positive increase in the number of FDI projects from 2010 in India which is evident from the above table. The above table shows that from 2010 to 2018, there was a consistent upward trend in the number of FDI projects, indicating a general increase in foreign investments and interest in the United States. The number of projects starts at 852 in 2010 and steadily climbs to 1,692 in 2018. This progressive growth suggests a favorable investment climate, robust economic conditions, and the attractiveness of the U.S. market to foreign investors during this period.

However, a notable deviation occurred in 2019, when the number of FDI projects experienced a sharp decline to 586. This unexpected drop may be attributed to various factors, such as economic uncertainties, changes in government policies, or global geopolitical shifts. Analyzing the causes behind this decline could be crucial for understanding the dynamics of FDI during that specific year.

The trend took a further downturn in 2020, with only 455 FDI projects recorded. The global economic landscape was significantly affected by the COVID-19 pandemic in 2020, and the decline in FDI projects likely reflects the uncertainties and disruptions caused by the pandemic. Travel restrictions, economic contractions, and uncertainty about future business conditions may have contributed to this decrease in foreign investment projects.

Chart 1.2



Sources: Department for Promotion of Industry and Internal Trade (DPIIT), Therefore, the data illustrates a generally positive trajectory in FDI project numbers from 2010 to 2018, with unexpected declines in 2019 and 2020. The sudden drops in these two years may serve as a focus for further investigation to uncover the underlying factors influencing FDI trends, providing valuable insights for policymakers, economists, and businesses aiming to navigate the complexities of the global investment landscape.

The explosive growth of FDI gives opportunities to the Indian industry for technological upgradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources, and competing internationally with higher efficiency. Most importantly FDI is central to India's integration into global production chains which involves production by MNCs spread across locations worldwide. (Economic Survey 2003-04)[5].

Relevance of FDI in the Indian Economy

The following arguments justify the relevance of Foreign Direct Investment in the Indian economy.

1. Need for FDI in India

As India is a developing country, capital has been one of the scarce resources that are usually required for economic development. Capital is limited and there are many issues such as Health, poverty, employment, education, research and development, technology obsolesce, and global competition. The flow of FDI in India from across the world will help in acquiring the funds at a cheaper cost, better technology, employment generation, upgraded technology transfer, scope for more trade, linkages, and spillovers to domestic firms. Below are some critical factors that determine the need for FDI in India[6] .

2. Sustaining a High Level of Investment

As all the under-developed and developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level of investment substantially. Due to poverty and low GDP, the savings are low. Therefore, there is a need to fill the gap between income and savings through foreign direct investments in India.

3. Fill the Technological Gap

In the Indian scenario we need technical assistance for fulfilling the technological demand, training of Indian personnel, and educational, research, and training institutions in the new upcoming modern industry to maintain global pace. It will only come through foreign private investment or foreign collaborations.

4. Utilization of Natural Resources

In India, we have abundant natural resources which are some or the other way remains underutilized or unutilized. So, these natural resources need proper utilization and to extract these resources we require foreign collaboration.

5. Understanding the Initial Risk

In developing countries, as capital is a scarce resource, the risk of investments in new ventures or projects for industrialization is high. Therefore, foreign capital helps in these investments which require high risk.

6. Development of Basic Economic Infrastructure

In recent years International financial institutions and governments of developed countries have made substantial capital available to the developing and underdeveloped countries for the development of infrastructure. FDI will help in developing the infrastructure by establishing firms in different parts of the country and as we know that India lacks infrastructural facilities. Thus, in this regard role of FDI becomes very important.

7. Improvement in the Balance of Payments Position

The inflow of FDI will help in improving the balance of payment. Firms that feel that the goods produced in India will have a low cost, will produce the goods and export the same to other countries. This helps in increasing the exports.

8. Foreign Firms Help in Increasing the Competition

Foreign firms have always come up with better technology, processes, and innovations compared with domestic firms. They develop a competition in which the domestic firms will perform better it survive in the market.

9. Increase in the Employment Opportunities

There is a direct and positive relationship between FDI and employment. As firms are operated in India, they require skilled and unskilled labor and FDI will ensure the number of employment opportunities by aiding the setting up of industrial units in various corners of India. In India, labor is a cheap source and available in abundance. Therefore, FDI employs all the sections of the people. They contribute a good proportionate of the total employment

10. Integration into the Global Economy

Developing countries, that invite FDI, can gain access to a wider global and better platform in the world economy.

11. Economic Growth

This is one of the major sectors, which is enormously benefited from foreign direct investment. A remarkable inflow of FDI in various industrial units in India has boosted the economic life of the country.

12. Trade

Foreign Direct Investments have opened a wide spectrum of opportunities in the trading of goods and services in India both in terms of import and export production. Products of superior quality are manufactured by various industries in India due to the greater amount of FDI inflows in the country.

13. **Technology Diffusion and Knowledge Transfer**

FDI helps in the outsourcing of knowledge from India especially in the Information Technology sector. Developing countries by inviting FDI can introduce world-class technology technical expertise and processes to their existing working process. Foreign expertise can be an important factor in upgrading the existing technical processes. For example, the civilian nuclear deal led to the transfer of nuclear energy know-how between the USA and India.

14. Increased Competition

FDI increases the level of competition in the host country. Other companies will also have to improve their processes and services to stay in the market. FDI enhances the quality of products, and services and regulates a particular sector. Linkages and spillover to domestic firms- Various foreign firms are now occupying a position in the Indian market through Joint Ventures and collaboration concerns. The maximum amount of the profits gained by the foreign firms through these joint ventures is spent on the Indian market.

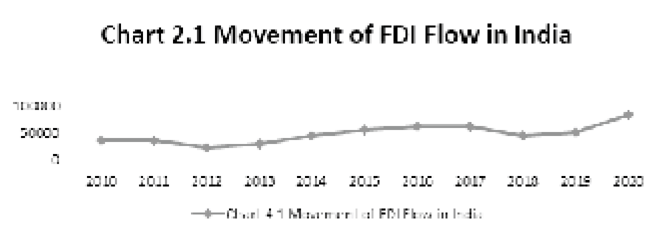
15. FDI and the Indian Economy

Developed economies consider FDI as an engine of market access in developing and less developed countries vis-à-vis their technological progress and in maintaining their economic growth and development. Developing nations look at FDI as a source of filling savings, foreign exchange reserves, revenue, trade deficit, management, and technological gaps. FDI in India has contributed effectively to the overall growth of the economy in recent times. FDI inflow has an impact on India's transfer of new technology and innovative ideas in improving infrastructure and creating a conducive business environment. FDI is considered an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity, and access to foreign markets. Thus, in this present context, the relevance of FDI becomes more important as it augments sustained economic growth and development of the Indian economy. The flow of FDI plays a significant and contributory role in the economic growth of the country. In 2008-09, India's FDI touched Rs. 123025 crores up 56% against Rs. 98664 crores in 2007-08 and the country's foreign exchange reserves touched a new high of Rs.1283865 crores in 2009-10. FDI has been very instrumental in the growth of the Indian Economy which is very much evident below.

Table 2.1 which shows the movement of FDI inflow year-wise
Movement of FDI Flow in India from 2010 to 2020

Year	FDI Inflow (In USD Million)	% Change
2010	36040	1.2
2011	36500	1.3
2012	22420	-38.6
2013	28780	28.4
2014	45150	56.9
2015	55460	22.8
2016	60220	8.6
2017	60970	1.2
2018	44370	-27.2
2019	49970	12.6
2020	81720	63.5

The above table is showing that the fluctuating trend in FDI inflows over these years, marked by significant variations in percentages. There's a notable drop in 2012 (-38.6%) and 2018 (-27.2%), which could indicate economic challenges or specific policy changes affecting foreign investment. Moderate growth from 2010 to 2011 (1.2% to 1.3%). A substantial drop in 2012, followed by recovery and strong growth till 2015.Relatively steady growth from 2016 to 2017, albeit at a lower rate. Another decline in 2018, showed some instability.2014 saw an exceptional growth rate (56.9%), likely due to favorable economic conditions or significant policy changes encouraging foreign investment. Despite the dip in 2018, the subsequent years (2019 and 2020) displayed positive growth rates (12.6% and 63.5%, respectively), indicating a potential recovery or improved policies attracting foreign investors.2020 stands out with a remarkable increase (63.5%), possibly due to specific factors like policy reforms, market opportunities, or global economic shifts. However, it's essential to consider the impact of extraordinary events, such as a response to a crisis, which might not represent regular trends.



Source: Department of Industrial Policy and Promotion (DIPP): https://dipp.gov.in/sites/default/files/ FDI_FactSheet_June22.pdf Reserve Bank of India (RBI): https://dbie.rbi.org.in/DBIE/dbie.rbi? site= publications # !6_34

The FDI inflow data reflects a volatile yet evolving landscape for foreign investments. While there are periods of decline, there are also substantial growth phases, emphasizing the influence of economic conditions, policies, and global events on FDI. The surge in 2020 could indicate resilience or newfound attractiveness for investment, but ongoing analysis and consideration of various factors are crucial for a comprehensive understanding of the FDI landscape.

Notwithstanding some concerns about the large fiscal deficit, India represents a promising macroeconomic story, with the potential to sustain high economic growth rates. According to a survey conducted by Ernst and Young in June 2008 India has been rated as the fourth most attractive investment destination in the world after China, Central Europe, and Western Europe. Similarly, UNCTAD's World Investment Report 2005 considers India the 2nd most attractive investment destination among the Transnational Corporations (TNCs). All this could be attributed to the rapid growth of the economy and favorable investment process, liberal policy changes, and procedural relaxation made by the government from time to time and these timely policy changes related to Institutional and Structural reform have resulted in a conducive business environment for FDI and have improved the ranking of India in Business Environment from 62 in 2002-06 to 54 in 2007- 11 out of 82 countries[7].

FDI Impact on the Indian Economy

FDI has helped India to attain financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand, some critics have blamed the government for ousting the domestic inflows. After the liberalization of Trade policies in India, there has been a positive GDP growth rate in the Indian economy. Foreign direct investments help in developing the economy by generating employment for the unemployed, generating revenues in the form of tax and incomes, financial stability to the government, developing infrastructure, and backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for the financial system. Forward and backward linkages are developed to support the foreign firm with the supply of raw and other requirements. It helps in the generation of employment and also helps poverty eradication[8]. There are many businesses of Equipment; growing and processing of crops; construction parts; textiles; and non-metallic mineral products that need foreign capital and technical assistance and there are many Individuals who earn their livelihood through foreign investments. The impact of foreign capital in the Indian economy is very noticeable as the number of proposals approved by the Foreign Investment Board from the period of February 2003 to December 2009 was 3511 proposals and the proposed inflows of foreign direct investment is 194708.83 (Rs. in crores). During 2009 alone FIPB approved 300 proposals with an FDI inflow of Rs.404111 crores. In the thirteenth round second quarter of the financial year 2011 the professional forecasters survey conducted by the RBI, expects the real GDP growth to be marginally higher at 8.5 percent in financial year 2011 from the last survey [9].

Conclusion

The analysis of Foreign Direct Investment (FDI) in the Indian economy over the past decade reveals a complex interplay of factors influencing its evolution and impact. From 2010 to 2020, India has emerged as an attractive destination for foreign investors, driven by its vast market potential, demographic dividend, and ongoing policy reforms aimed at liberalizing the investment environment. The period witnessed a steady increase in FDI inflows across various sectors, with significant contributions from sectors such as services, manufacturing, and telecommunications.

However, while FDI has undoubtedly played a pivotal role in stimulating economic growth, enhancing technological capabilities, and creating employment opportunities, certain challenges persist. Regulatory bottlenecks, bureaucratic hurdles, and infrastructure constraints continue to dampen the full potential of foreign investments. Moreover, the COVID-19 pandemic posed unprecedented challenges, disrupting global supply chains and investor confidence, albeit with some sectors like digital technology witnessing accelerated FDI inflows.

Looking ahead, sustaining the positive momentum of FDI inflows necessitates a multi-faceted approach. This includes further streamlining regulatory processes, improving infrastructure, enhancing ease of doing business, and promoting sector-specific policies to attract investments in critical areas such as healthcare, education, and sustainable development. Additionally, fostering innovation and entrepreneurship ecosystems will be crucial for maximizing the spillover effects of FDI and nurturing domestic capabilities.

In conclusion, the decade analysis underscores the significance of FDI as a key driver of India's economic growth and development. While the journey so far has been marked by notable achievements, the path forward requires continuous adaptation, resilience, and strategic foresight to leverage foreign investments effectively for achieving inclusive and sustainable economic prosperity. By addressing existing challenges and capitalizing on emerging opportunities, India can position itself as a global investment hub and realize its aspirations of becoming a leading economic powerhouse in the 21st century.

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