A FEW EVIDENCES RELATING TO FDI GROWTH TRENDS AND INDIA'S ECONOMIC DEVELOPMENT

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Abstract
The Indian government began its economic reforms initiative in July 1991 to fully realize the nation's enormous economic potential. These reforms have boosted FDI, foreign trade, and outsourcing as well as determined the potential growth of the economy. To fund the Indian economy's developmental demands, FDI inflows have become essential. India must therefore make significant efforts to increase the current level of FDI inflows in order to meet its finance development demands. Additionally, India must employ FDI as a means or tool to quicken the rate of economic development. India's economy is still seen as a country where investors are hesitant. For the economy to grow and thrive, we require long-term capital. As a result, this article will present some facts about FDI growth trends and India's economic advancement.

Key words:
FDI, Economic growth and development, Economic reform, potential growth, internationalization

Introduction

The development of the economies of the developing nations has benefited greatly from FDI. The type of economy will determine the extent to which it will be invited. FDI flow is high if the economy is open. Due to their lack of money, underdeveloped nations will undoubtedly see a halt in their economic development if foreign capital is introduced. In addition, the most significant driver of FDI and the internationalization of the production network is due to the growing globalization of businesses as a result of most countries' liberalization efforts. Therefore, as far as the Indian economy is concerned, the acceptance of FDI is modest. But since the economy was liberalized, there has been a significant increase in FDI into India [1].

The notion that India is fresh to international investment is false. Prior to 1947, there was a sizable amount of foreign investment in Indian industry, which was mostly focused in the primary sectors and services. Mining, plantations, trade, and a large portion of India's developing manufacturing base were dominated by foreign companies, primarily British. Early on after independence, India looked to foreign countries for both technology and cash [2]. The Indian government began inviting foreign investment in numerous industries, including medicines, aluminum, and others, by the late 1950s. By the end of the 1960s, manufacturing industries accounted for over 60% of all FDI [2]. However, there was a hardening of policy following two famines and the devaluation of the rupee in the 1960s, leading to the nationalization of foreign oil companies in the early 1970s. The result of this was the Foreign Exchange Regulation Act (FERA) of 1973. Concern over technological obsolescence and stagnation had grown by the middle of the 1980s.

The demand for economic change and deregulation was sparked by the Indian industry. Major problems first emerged in the 1990s. Foreign exchange remittances decreased after the Gulf War, which led to the deportation of Indian expatriate workers from the Middle East [3]. as the state of the balance of payments deteriorated. Thus, following the sequence of crises, we opened up our economy in the 1990s, which led to an increase in FDI. In July 1991, the Indian government introduced the Economic Growth Reforms Programme in an effort to fully realize the enormous economic potential of the nation. These reforms have boosted FDI, foreign trade, and our sourcing, as well as determined the prospective expansion of the economy [4]. To fund the Indian economy's developmental demands, FDI inflows have become essential. India must therefore make significant efforts to increase the current level of FDI inflows in order to meet its finance development demands. Additionally, India must employ FDI as a means or tool to quicken the rate of economic development.

India's FDI policy and state-wise growth

According to Table 1, the majority of the government's industrial policy announcements are in line with the FDI policy. With the exception of railroads, atomic energy, tobacco and tobacco substitutes, and defense, almost all industrial sectors are open to foreign direct investment [5].

Table No 1: Sector-specific FDI restrictions

Sector	Percent	Route
Mining and exploration of metal and non-metal ores	100%	Automatic
Petroleum & Natural Gas	100%	Automatic
Manufacture of items reserved for production in Micro and Small Enterprises (MSEs)	100%	Government
Defense	26%	Government
Pharmaceuticals		
[i] Greenfield	100%	Automatic
[ii] Existing Companies	100%	Government

Source: GOI (2012) FDI Policy DIPP)

FDI has only been allowed in a small number of economically robust states, including Maharashtra, Delhi, Tamil Nadu, Andhra Pradesh, and Karnataka [6]. The administration in these states has made an effort to examine the relationship between FDI and domestic investment.

[i] Maharashtra: Since 1991, Maharashtra has consistently held the top spot in terms of FDI attraction. The top five sectors are chosen in order to better understand the trends in FDI and local investment in Maharashtra. According to Tables 2 and 3, it is clear that FDI and the State Government of Maharashtra are both interested in some industries, such as housing and construction, while the State Government of Maharashtra has made significant investments in key industries, such as energy and transport services [7].

Table No 2: The Maharashtra State Government announced investment

Sectors	Total Investment announced by the State during 2002-12
Electricity	29,19,436
Transport services	24,75,815
Construction & real estate	21,24,212
Chemicals	6,01,641

Source: CMIE Website

Table No 3: Top Five Maharashtra Sectors for FDI from January 2000 to December 2009

Maharashtra	2 Crore	$ Million	Percent with FDI
Services	64,033.29	14,335.56	37.7
Housing & Real Estate	13,370.09	2,947.66	7.75
Computer Software & Hardware	9,334.00	2,118.72	5.57
Telecommunications	9,569.49	2,039.58	5.36
Construction Activities	7,308.62	1,653.88	4.35

Source: CMIE Website

[ii] Delhi: In terms of luring FDI, Delhi is in second place. To understand the trend and pattern of state government investment and foreign investment, the following comparative study was conducted: It is clear from Tables 4 and 5 that the Delhi State Government and FDI are both interested in particular sectors, including IT, services, and real estate and construction. The state of Delhi has not made any investments in infrastructure related to energy [8].

Table No 4: The Delhi State Government announced investment

Sectors	Total Investment announced by the State during 2002-12
Services (other than financial)	14,75,979
Transport Services	10,91,505
Construction & real estate	2,81,807
Information Technology	1,29,733
Recreational Services	1,03,792

Source: CMIE Website

Table No 5: Top Five Maharashtra Sectors for FDI from January 2000 to December 2009

Delhi	Crore	$ Million	Percent with FDI
Services	12,988	2,843	14.03
Telecommunications	12,152	2,739	13.51
Housing & Real Estate	11,686	2,643	13.04
Construction Activities	10,855	2,419	11.93
Automobile	6,345	1,368	6.75

Source: CMIE Website

[iii] Karnataka: Karnataka has been successful in obtaining FDI thanks to the investment declared by the State Government of Delhi FDI in the Top Five Sectors in Delhi from January 2000 to December 2009. The following comparison study has been carried out to assess the trend and pattern of stage government investment and FDI in Karnataka [9]. Tables 6 and 7 make it clear that the state of Karnataka and FDI share an interest in computer hardware and software, residential real estate, and building projects. However, the state of Karnataka has grabbed the lead in regards to power and metal and metal products [10].

Table No 6: Investment announced by the State Government of Karnataka

Sectors	Total Investment announced by the State during 2002-12
Metals & Metal Products	31,69,462
Electricity	12,17,690
Construction & Real Estate	1,440
Transport Services	7,43,784
Information Technology	5,30,482

Source: CMIE Website

Table No 7: The Top Five Sectors in Karnataka for Foreign Direct Investment (FDI)

Karnataka	Crore	$ Million	Percent with FDI
Computer Software and Hardware	5,07,608.00	1,12,983.00	16.68
Service Sector	3,799.83	867.55	12.81
Housing & Real Es	3,593.81	826.39	12.2
Construction Activities	1,687.09	398.93	5.89
Telecommunication	1,345.96	302.35	4.46

Source: CMIE Website

[iv] Gujarat: Gujarat is the top-performing state in terms of GDP growth over the past ten years. The comparative analysis was conducted in the manner described below to understand the pattern and trajectory of state government investment and FDI [11]. Tables 8 and 9 make it clear that FDI and the state government of Gujarat have invested in a number of common sectors, including energy, power, and natural gas.

Table No 8: Investment announced by the State Government of Gujarat

Sectors	Total Investment announced by the State during 2002-12
Electricity	53,21,523
Chemicals	25,32,885

Mining	2,19505
Construction & Real estate	16,33,113
Transport Services	13,47,093

Source: CMIE Website

Table No 9: FDI in Top Five Sectors in Gujarat (2000-2010)

Gujarat	Crore	$ Million	Percent with FDI
Telecommunications	7,312	1,605	25.36
Petroleum & Natural Gas	3,107	749	11.84
Power	3,098	682	10.77
Metallurgical industries	2,830	666	10.52
Automobile industry	2,170	480	7.58

Source: CMIE Website

[v] **Tamil Nadu:** The state of Tamil Nadu ranks first in luring foreign direct investment. The following comparison study has been performed to better understand the trend and pattern of state government investment in Tamil Nadu and FDI [13]. It is clear from tables 10 and 11 that real estate and building are two topics that are frequently discussed. Government has, however, taken the lead in regards to power, transportation, chemicals, and machines.

Table No 10: Investment announced by the State Government of Tamilnadu

Sectors	Total Investment announced by the State during 2002-12
Electricity	21,78,954
Transport Services	15,16,726
Chemicals	12,56,036
Construction & Real estate	8,32,515
Machinery	4,07,860

Source: CMIE Website

Table No 11: FDI in Top Five Sectors in Tamil Nadu

Tamil Nadu	Crore	$ Million	Percent with FDI
Computer Software & Hardware	4,417	1,004	18.73
Construction Activities	3,220	721	13.45
Automobile Industry	2,049	448	8.35
Telecommunication	1,939	437	8.16
Service Sector	1,576	368	6.87

Source: CMIE Website

Indian FDI trends

Following the post-liberalization system, there is a growing tendency in FDI inflows into India. Table 12 makes it very evident that, from 1990 to 2010, FDI inflows to India increased each year. From Rs. 174 crore to Rs. 138462 crore, it has grown. Compound growth rates (CGRs) were also calculated in addition to this to determine the gross root level of FDI trends in India [13]. When compared to the period from 2000-2001 to 2010-2011, the growth rate between the years 1990-1991 to 1999-2000 showed favorable tendencies, consisting of roughly 61.41 percent and 30 percent, respectively [14]. Due to the primary effects of the global crisis in the years 2007–2008, recent FDI trends have decreased.

Additionally, the growth rate of FDI inflows, which were just Rs. 174 crore in 1990-1991, reached Rs. 13220 crore in 1997-1998. But FDI inflows sharply decreased in 1998, 1999, 2002, and 2003 [15]. In addition to the Asian crisis, restrictions placed on India as a result of a nuclear explosive test significantly reduced FDI flows to India. But from 2004 to 2009, the FDI flow once more demonstrated an upward trend. According to the information in the table above, FDI into India increased from 174 crore rupees in 1990–1991 to 1, 38,462 crores in 2010–2011. The same is explained in great detail in Graph 1 [16].

Table No 12: Growth rate of FDI inflows to India Over a period of time

Year	FDI	Year	FDI
1990-1991	174	2000-2001	18406
1991-1992	316	2001-2002	29235
1992-1993	965	2002-2003	24367
1993-1994	1838	2003-2004	19860
1994-1995	4126	2004-2005	27188
1995-1996	7172	2005-2006	39674
1996-1997	10015	2006-2007	103367
1997-1998	13220	2007-2008	140180
1998-1999	10358	2008-2009	173741
1999-2000	9338	2009-2010	179059
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CGR	61.41	CGR	29.55

Source : RBI Bulletin; Note : CGR – compound growth rate

Table 12 shows the growth rate of FDI into India progressively over time. The almost tripling of green-field FDI into India, with an estimated $63 billion flowing in, was the highest change in green-field FDI (for establishing new ventures) in 2015 globally, according to the Financial Times' FDI report 2016. The UNCTAD-World Investment Report 2016's 'FDI overview' revealed that inbound FDI through cross-border M&A in terms of 'Sales (net)' - in India fell to $1.4 billion in 2015 from $7.54 billion in 2014 [17]. India overtook the U.S., which had $59.6 billion of green-field FDI, and China, which had $56.6 billion. A record $55.4 billion in FDI was received by the Indian government during 2015 and 2016. The Make in India programme was introduced in September 2014 with the goal of highlighting India as a centre for global manufacturing and a desirable investment. Comparing the 20 months from February 2013 to September 2014 to October 2014 to May 2016, the FDI equity inflow grew by 46%, from $42.31 billion to $61.58 billion. [18]

Conclusion

The study comes to the conclusion that India's annual growth rate in terms of capital inflows is a long-term positive trend. The liberalization reforms made it possible for India to experience a noticeable trend and influx of capital. India's standing among developing nations has unquestionably improved as a result of this trend, and it is also argued that FDI inflows into India are projected to rise state- and sector-by-state [19]. Finally, it proposes that in order to overcome the challenges facing India's development process, the government needs to implement a progressive policy to draw in an increasing amount of FDI. At the national and state levels, it has been noted that FDI has been outperforming domestic investment. The GDP growth rate's slowdown during the post-crisis period had a significant impact on FDI inflows. The domestic investment rate, however, demonstrates the ability to endure the crisis. To ensure sustained development, the current situation, however, places more stress on sensible and optimistic policy reforms in regard to FDI as well as domestic investment.

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