

EMPIRICAL ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIA

(A case study of BRICS Nations)

Dr. N.N. Sharma (Former Dean HPTU Hamirpur)
Principal Govt. College Jawali Kangra, H.P.
nsharma585@gmail.com

Sahil Mahajan
Assistant Professor (Commerce)
Govt. Degree College Baroh Kangra, H.P.
sahil7.overseas@gmail.com

Abstract:

Foreign Direct Investment (FDI) plays an important role for growth and development of every country i.e. developed or developing country. On the other hand foreign investment is an important asset for every country which helps them to develop a global outlook in this competitive business world. Foreign Direct Investment is a major monetary source for economic development in India. FDI not only brings money with them, but also develops knowledge, skills and technology. Although, encouraging and fluctuating trends have been observed with respect to Foreign Direct Investment (FDI) in India in recent years and it has opened number of new vistas for the foreign investors after economic reforms with a concept of Liberalization, Privatization and Globalization after the year 199 but more can be done in this regard.. India being a growing business tycoon and important part of BRICS have emerged as an attractive FDI destination for different sectors with a focus on services and needs to enhance its scope of investments in manufacturing sectors so as to make its important place in the group of BRICS nations. This group offers to foreign investors a multiple attractions to invest like cheap, young, energetic and techno- friendly labor force, natural resources and huge market potential with positive impact on their growth and development..The present paper is an attempt to evaluate the foreign direct investments scenario of India in particular with analysis a comparative outlook of BRICS nations.

KEYWORDS: Foreign Direct Investment (FDI), GDP (Gross Domestic Product), BRICS (Brazil, Russia, India, China & South Africa).

1.0 INTRODUCTION

Investment plays an important role for the economic development and upliftment of any country developed or developing. With the introduction of concept of LPG, the role and relevance of foreign investments has created a global image and attraction for the foreign investors in India and BRICS nations as a whole. On the other hand, such foreign investments either in the shape of FDI or FII both are expected to provide required and strong capital base . It provides capital on one hand and results in removing the balance of payment constrained, brings technology management and marketing skills with export promotion and employment generation. Such investments also create competitive environment for the host country and provides ample opportunity for its corporates to grow and develop. India being a part of emerging economy and also a part of BRICS nations. FDI plays important role in overall economic development of the country.

Fast growing economies like Singapore, China etc have registered incredible growth at onset of FDI. Direct investment targets a specific enterprise, with the aim of increasing its capacity/productivity or changing its management control.

2.0 REVIEW OF LITERATURE

Nistor, 2011 examined that FDI is considered as a active factor for the economic development and is a important asset for emerging economies . It significantly contributes to overall GDP of the world. Brazil, Russia, India, China and South Africa, can also evolve with the help of foreign direct investment to reach the developed economies.

O'Neill, (2011) concluded that an emerging country is a country whose economy is at least 1% of global GDP. This feature of emerging economies was supported by the American economist Jim O'Neill who created the acronym BRIC in 2001, formed by four countries: Brazil, Russia, India and China. Jim O'Neill argued his choice by the fact that this group of countries has the potential to reach developed economies primarily because of their size, large areas and populations.

Singh Kr. Arun and Agarwal P.K., (2012) "Foreign direct investment: The big bang in Indian retail". In this article they have studied the relation of foreign investment and Indian retail business. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The study concludes that FDI in multi brand retail should be considered being a source for better technology and employment with a opinion that FDI in India would help India to integrate into worldwide market.

Carp and Popa, (2013) through their analysis of panel data for the period of 2001–2007 highlighted that the BRICS economies have become a symbol of change of power in the global economy and an important representative of the developing world in the development and cooperation relations at bilateral, regional, and even multilateral levels. The BRICS states are increasingly dependent on foreign trade.

Kalpana Singh (2014) analysed that present structure of Indian retail sector and changes their in during last few years. He made segment analysis of Indian retail sector in order to know the various sub segment of organized and traditional retail sector changes in the relative share of various sub sectors and penetration of organized retail sector in it. It is expected that organized retail sector FDI growth of 8% in 2012 will accelerate to 24% in India by 2020.

3.0 RESEARCH METHODOLOGY

The present study is of analytical nature and makes use of secondary data. The relevant secondary data are collected from various publications of Government of India; Reserve Bank of India, websites, annual reports, World Bank reports, DIPP, research reports, already conducted survey analysis and World Investment Report 2018 Published by UNCTAD etc. The reference period is restricted from 2007 to 2018. To have an empirical idea about the status of FDI in India trend analysis has been conducted. For this purpose parameter such as FDI equity inflows country-wise, sector-wise, region-wise and foreign technology approval and transfer from different country to different sector have been taken into consideration. An attempt has also been made to understand the role of BRICS in FDI inflow and outflow in recent years.

3.1 Objectives of study:

- a) To study the pattern and recent trends of FDI flow in India.
- b) To study the India's FDI position in Emerging Economies (BRICS)
- c) To study the relationship of FDI on Indian stock market (Sensex)
 - i) FDI and Indian Stock Market (Sensex)

Hypothesis:

Null Hypothesis: There is no relationship between FDI and Indian Stock Market (Sensex)

Alternative hypothesis: There is significance relationship between FDI and Indian Stock Market (Sensex).

3.2 Analytical Tools & Technique

In order to analyze the collected data the statistical tool(SPSS) such as correlation model is used. Correlation coefficient is a statistical measure that determines the degree to which two variable's movements are associated. Correlation coefficient value ranges from -1 to 1. In the current paper attempt is made to study the impact of FDI on Sensex.

4.1 SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS:

Ranks	Country	<u>Cumulative Inflows (April, 00 - March, 18)</u>	In \$	<u>%age to total Inflows (in terms of US \$)</u>
1.	MAURITIUS	585,950	111,638	34%
2.	SINGAPORE	315,042	54,590	16 %
3.	JAPAN	142,260	25,675	8%
4.	U.K.	125,545	24,591	7 %
5.	NETHERLANDS	117,167	20,682	6 %
6.	U.S.A.	110,532	20,323	6 %
7.	GERMANY	52,045	9,698	3 %
8.	CYPRUS	46,731	9,156	3 %
9	FRANCE	30,637	5,725	2 %
10.	UAE	26,187	4,705	1 %

Source: RBI Bulletin 2018,(DIPP)

Table no. 1: *SHARE OF TOP INVESTING COUNTRIES FDI INFLOWS IN INDIA*

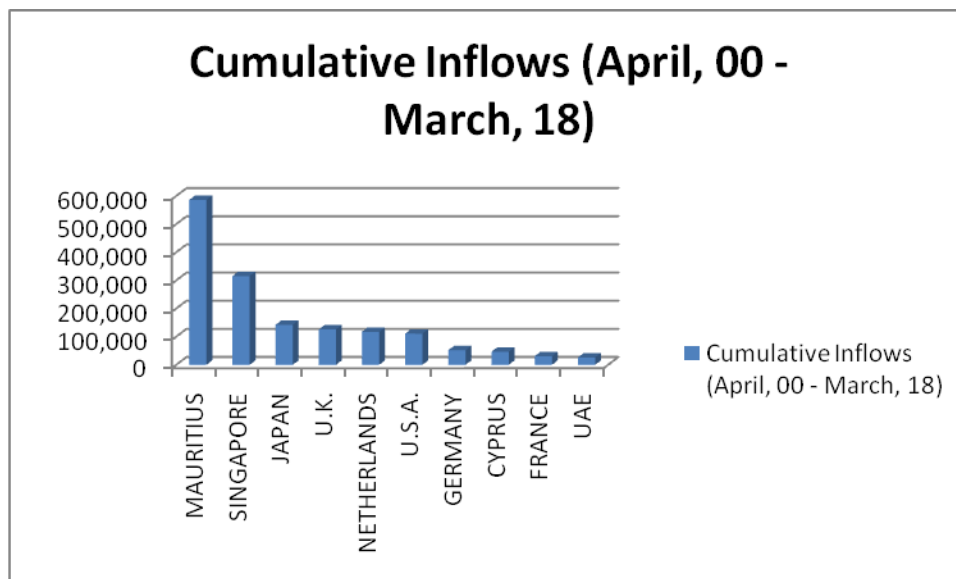


Figure 2

Source:(i)Includes inflows under NRI Schemes of RBI. (ii)Cumulative country-wise FDI equity inflows (iii) %age worked out in US\$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic route+ acquisition of existing shares only.

Above figure depicts that Mauritius country alone itself contributes 34% **age to total Inflows (in terms of US \$) of FDI Inflow in India** ,then Singapore contributes 16% ,Japan 8% **contributes the cumulative Inflows (in terms of US \$) FDI inflows in India from April 2000 to March 2018.** Though India has observed a remarkable rise in the flow of FDI over the last few years, it receives comparatively much lesser FDI than China. Even smaller economies Asia such as Hong Kong, Mauritius and Singapore are much ahead of India in terms FDI inflows (UNCTAD,2018). There is a positive link between FDI and India's growth story.

4.2 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS: from 2000-2018 (Top Ten Sectors)

Sr.no.	Sector	Amt. of FDI		%age in total FDI inflow
		In Rs.Cr.	In US \$ million	
1	SERVICES SECTOR	316,567.77	59,476.49	17.92
2	COMPUTER SOFTWARE & HARDWARE	136,789.08	24,669.49	7.43
3	CONSTRUCTION	114,638.90	24,293.08	7.32
4	TELECOMMUNICATIONS	130,163.87	23,946.04	7.21
5	AUTOMOBILE INDUSTRY	92,218.42	16,673.91	5.43
6	DRUG & PHARMA	75,820.05	14,706.89	4.43
7	TRADING	84,557.43	14,210.86	4.28
8	CHEMICALS (OTHER THAN FERTILIZERS)	68,951.96	13,293.09	4.00
9	POWER	60,086.74	11,589.13	3.49
10	METALLURGICAL INDUSTRIES	53,074.07	10,330.53	3.11

Table

no. 2: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

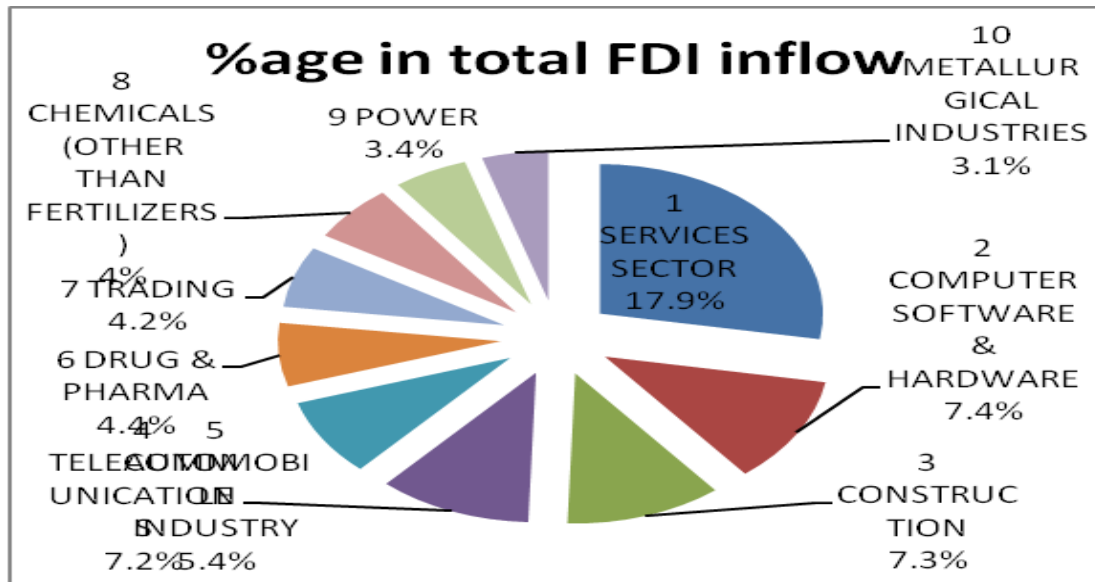


Figure no. 2-Source: Government of India (GOI) (2018). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.

Above figure depicts that Service sector(59,476.49 US \$) contributes 17.9% of FDI equity inflow from 2000-2018,after that Computer software sector(24,669.49 US \$) attracts 7.4% ,construction sector attracts 7.3%,Telecommunication sector attracts 7.2%, Drug & Pharma sector 4.4% respectively contributes FDI equity inflow from 2000-2018.

5.1 RECENT TRENDS OF FDI INFLOWS IN INDIA

Year	FDI U.S. \$ millions	%age Change
2000-01	4029	
2001-02	6130	(+)52%
2002-03	5035	(-)18%
2003-04	4322	(-)14%
2004-05	6051	(+)40%
2005-06	8961	(+)48%
2006-07	22826	(+)146%
2007-08	34835	(+)53%
2008-09	41874	(+)20%
2009-10	37745	(-)10%
2010-11	34847	(-)08%
2011-12	46553	(+)34%
2012-13	34,298	(-) 26%
2013-14	36,046	(+) 5%
2014-15	45,148	(+) 25%
2015-16	55,559	(+) 23%
2016-17	60,082	(+) 8%
2017-18(p)	60,974	(+)1.5%

2018-19(p)	64,375	(+)5.6%
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Table no.3 Source: RBI's Bulletin (Table No. 34 – FOREIGN INVESTMENT INFLOWS),DIPP

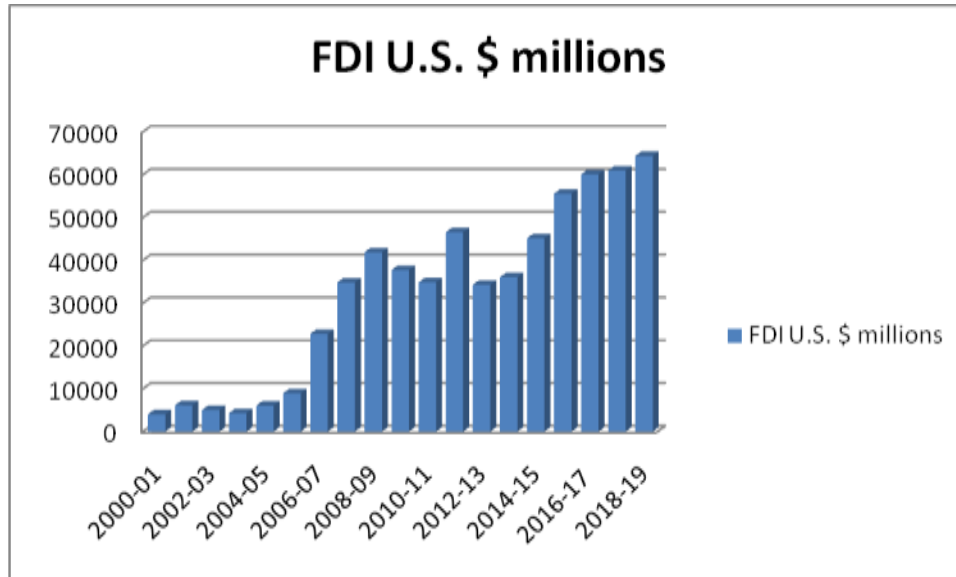


Figure no. 3: TREND OF FDI INFLOWS

Source: Government of India (GOI) (2018-19). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion.

In 2006-07 the total FDI inflow in India was US \$ 22,826 million while the outflow of FDI from India was up to the US \$ -15046 million resulting in total FDI of US \$ 7693 million. The same trend continued and the total FDI substantially increased to US \$ 15401 million in the year 2007-08 due to an increase in the inflow of US \$ 34236 million. During the global economic slowdown period the FDI showed a positive trend in 2008-09 with an increase of FDI to US \$ 17496 million. During the year 2018-19 FDI increased to 64,375US \$ million , i.e. 5.6% increase to its previous year. It depicts that FDI journey in India stands as increasing order which is a positive sign for emerging economy like India.

6.0 THE RISE OF BRICS & FDI

BRICS is the acronym for an association of five major emerging national economies: Brazil, Russia, India, China and South Africa. Originally the first four were grouped as "BRIC" (or "the BRICs"), before the induction of South Africa in 2010. The BRICS members are all leading developing or newly industrialized countries, but they are distinguished by their large, sometimes fast-growing economies and significant influence on regional affairs; all five are G-20 members. Since 2009, the BRICS nations have met annually at formal summits. China

five BRICS countries represent over 3.6 billion people, or about 41% of the world population; all five members are in the top 25 of the world by population, and four are in the top 10. The five nations have a combined nominal GDP of US\$16.6 trillion, equivalent to approximately 22% of the gross world product, combined GDP (PPP) of around US\$37 trillion and an estimated US\$4 trillion in combined foreign reserves. Overall the BRICS are forecasted to expand 4.6% in 2016, from an estimated growth of 3.9% in 2015. The World Bank expects BRICS growth to pick up to 5.3% in 2017. The BRICS have received both praise and criticism from numerous commentators.

China's cheap labor force, the young population of India, Russia and Brazil's natural resources were some of the advantages who had the effect of attracting an increasing amount of FDI in the BRICS economies.

6.1 Inflows of FDI to BRICS

FDI inflows to BRICS are characterized by some key features:

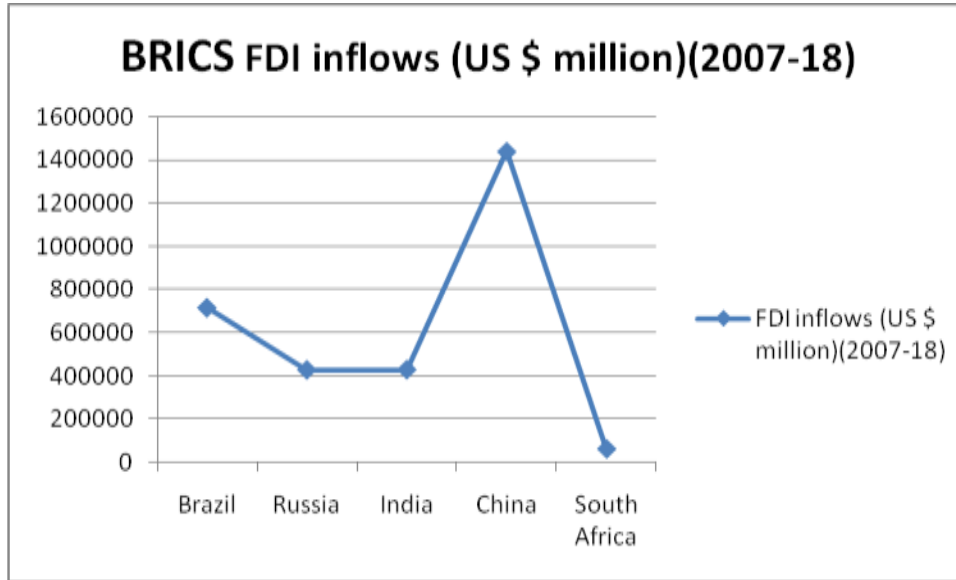
The big jump in FDI inflows to BRICS took place from 2003 to 2008, growing from \$77 billion to \$281 billion, with China and the Russian Federation accounting for the lion's share of growth. FDI flows to BRICS remained relatively resilient to the crisis compared to other countries, with a decline in inflows by 30% in 2009 (compared to 40% for developed countries), and a much more rapid recovery to peak levels. As a consequence, the share of FDI flows to BRICS in the world total kept rising during the crisis and reached a record of 20% in 2012, almost three times more than the 6% share registered in 2000.

As sum total of FDI inflows from 2007-18 shows China contributes 47% and the Russian Federation 14% account whereas India contributes 14%. It also depicts that in BRICS nation China stands on top in Inflows of FDI with **1441469 US \$ million from year 2007-18 i.e. 47% alone ,then Brazil stands in second place with 716766 US \$ million, and just behind is both Russia & India with 14% of Fdi inflow contribution and in last place South Africa stands with 2% share respectively.**

Countries	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	FDI inflows (US \$ million)(2007-18)
Brazil	34585	45058	25949	77687	97422	82060	59089	63846	49514	52751	67583	61223	716766
Russia	54922	75856	27752	31668	36868	30188	53397	29152	11858	37176	25954	13332	428122
India	25350	47102	35634	27417	36190	24196	28199	34582	44064	44481	39904	42286	429405

China	83521	108312	95000	114734	123985	121080	123911	128500	135610	133710	134063	139043	1441469
South Africa	6538	9209	7502	3636	4243	4559	8300	5771	1729	2235	2007	5334	61063

Table no-5 Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).



BRICS Countries	FDI inflows (US \$ million)(2007-18)	% share
Brazil	716766	23%
Russia	428122	14%
India	429405	14%
China	1441469	47%
South Africa	61063	2%

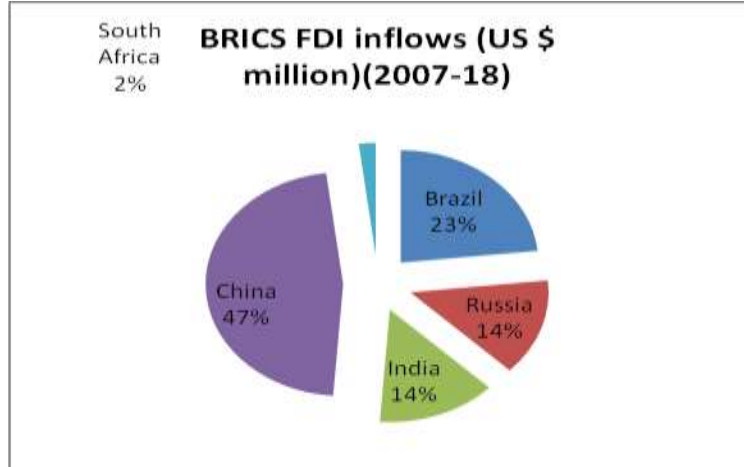


Fig no-5 % share of FDI inflow among BRICS Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics)

6.2 Outflows of FDI to BRICS

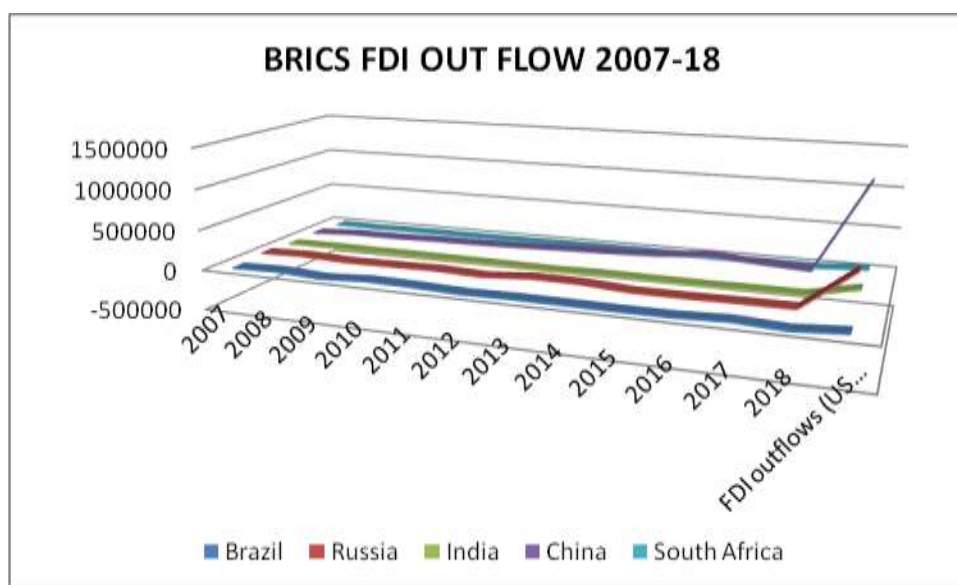
The rise in FDI outflows started slightly later than that of inflows, jumping from US\$31 billion in 2005 to US\$93 billion in 2006. BRICS investors also remained resilient to the crisis, with outflows dropping by only 26% in 2009, compared to 41% for the world as a whole.

As sum total of FDI outflows from 2007-18 shows China contributes 63% and the Russian Federation 26% account whereas India contributes 7% and stands on third rank.

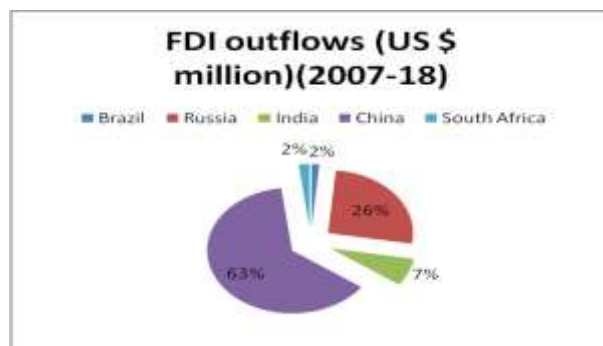
Again China contributes the most in outflow of FDI among Emerging countries too from year 2007 -2018.It also depicts that in BRICS nation China stands on top in outflows of FDI with 1231111 US \$ million from year 2007-18 i.e. 63% alone ,then Russia stands in second place with 512735 US \$ million,and just behind is India with 7% of Fdi outflow contribution and in last two place Brazil &South Africa stands with 2% share respectively

Countries	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	FDI outflow (US \$)(2007-18)
Brazil	7067	20457	10084	22060	11062	-8425	-478	-3261	-7686	-5934	16678	-13036	28419
Russia	43849	56735	34450	41116	48635	28423	70685	64203	27090	26951	34153	36445	512735
India	17234	21142	16058	15947	12456	8486	1679	11783	7572	5072	11141	11037	139608
China	26506	55907	56529	68811	74654	87804	107844	123120	145667	196149	158290	129830	1231111
South Africa	2966	-3134	1151	-76	-257	2988	6649	7669	5744	4474	7366	4552	40092

Table no-6 Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).



BRICS Countries	FDI outflows (US \$ million)(2007-18)	% share
Brazil	28419	2%
Russia	512735	26%
India	139608	7%
China	1231111	63%
South Africa	40092	2%



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Fig no-6 % share of FDI outflow among BRICS

7.0 RELATIONSHIP BETWEEN FDI AND SENSEX

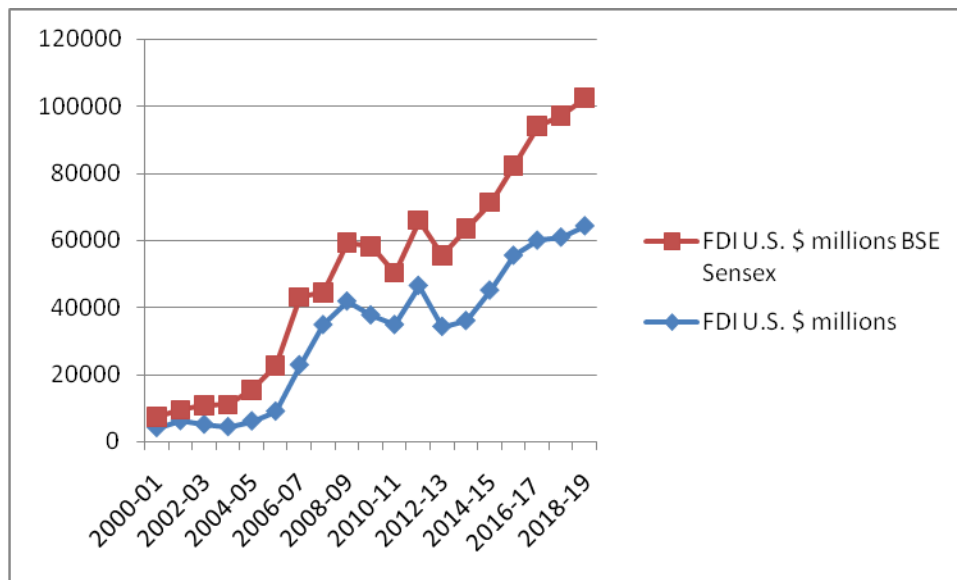
Correlations

Year	FDI U.S. \$ millions	BSE Sensex			fdi	Sensex
2000-01	4029	3,262.33	Fdi	Pearson Correlation	1	.866(**)
2001-02	6130	3,377.28		Sig. (2-tailed)		.000
2002-03	5035	5,838.96		N	19	19
2003-04	4322	6,602.69	Sensex	Pearson Correlation	.866(**)	1
2004-05	6051	9,397.93		Sig. (2-tailed)	.000	
2005-06	8961	13,786.91		N	19	19
2006-07	22826	20,286.99				
2007-08	34835	9,647.31				
2008-09	41874	17,464.81				
2009-10	37745	20,509.09				
2010-11	34847	15,454.92				
2011-12	46553	19,426.71				
2012-13	34,298	21,170.68				
2013-14	36,046	27,499.42				
2014-15	45,148	26,117.54				
2015-16	55,559	26,626.46				
2016-17	60,082	33,227.99				
2017-18	60,974	36068				
2018-19(P)	64,375	38127				

** Correlation is significant at the 0.01 level (2-tailed).

Source: Department of Industrial Policy and Promotion.,2018

*Table no.7 Correlation is significant at the 0.01 level (2-tailed)



Correlation between FDI & Sensex

Interpretation: As Sensex indicates the barometer of Indian Economy. The above table shows the relationship between foreign direct investment and the Indian Stock Market (Sensex) for real economic growth in India over a period 2000-01 to 2018-19. The value of Karl Pearson correlation(r) is found to be +0.866. So here null hypothesis is being rejected and alternative hypothesis have been accepted. It means that there is significant relation between the FDI and Sensex.

8.0 CONCLUSION

FDI is considered to be the life blood and an important vehicle of for economic development as far as the developing nations are concerned. The important effect of FDI is its contribution to the growth of the economy. FDI has an important impact on country's trade balance, increasing labour standards and skills, transfer of technology and innovative ideas, skills and the general business climate.

The five BRICS countries are home to 41 per cent of the world population and account for **23 per cent of world GDP** between them but received 15 per cent of global FDI flows in 2017. They held \$2.4 trillion FDI stock in 2017 – **9 per cent of the world total**.

It is concluded from above analysis that India stands **with 14% of Fdi inflow contribution among BRICS nation from year 2007-18** whereas China stands on top with **47%**, whereas in relation to **FDI outflow India stands 7% among BRICS nation** and here also **China stands on top with 63% of Fdi outflow contribution among BRICS nation from year 2007-18**. Over the last years, FDI inflows in BRICS economies reached 20% from the world share of FDI in 2012, but it has shown significant growth to 23% in 2017. China's cheap labor force, the young population of India, Russia and Brazil's natural resources were some of the advantages who had the effect of attracting an increasing amount of FDI in the BRICS economies. FDI seems to have positive

impact by contributing to their development. Being India part of emerging economy and part of BRICS the flow of FDI plays an important role in real economy growth of country. As Karl Pearson correlation values indicate positive correlation between the foreign direct investment and Sensex (pearson correlation value are 0.866)

7.0 REFERENCES

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