ISSN 2063-5346

AN ANALYSIS ON ROLE OF FOREIGN DIRECT INVESTMENT AND FOREIGN INSTITUTIONAL INVESTMENT IN THE INDIAN ECONOMY

[1]Dr. Shiv Deo Singh, [2]Dr. Poonam Kumari

Article History: Received: 01.02.2023 **Revised:** 07.03.2023 **Accepted:** 10.04.2023

Abstract

The foreign direct investment is commonly known as FDI. During business, we required fundings from outside India. In this investment requires government and RBI approval. So generally, whenever any foreigner company invest capital in any Indian company. According to our Indian government policy and RBI policy. In this present paper, we focus on what is FDI, history and why it need for Indian economy in 1991. We have also analysis the effect of this foreign direct investment on Indian economy. In this analytical analysis, we found some challenge, we will be discussed in this paper. The foreign direct investment is an tool that use by Indian economists in 1991. The FDI has affect the Indian economy in positive way and make it good growth of Indian economy. In this article, we have analysed the foreign direct investment (FDI) status from 1991 to 2022.

Keywords: Foreign direct investment, Reserve of India, Economy, Investment, Share market.

[1]Prof. & Dean, Faculty of Management Teachings, Aryabhatta Knowledge University(AKU Patna), Bihar, India

[2]Prof. & Head, Department of Political Science, J.D. Women's College, Patna, Patliputra University(Bihar), India

DOI: 10.31838/ecb/2023.12.s1.124

Introduction:

Neoclassical economics and macroeconomic theory were used to establish the theory of foreign investments by Eli Heckscher (1919) and Bertil Ohlin (1933). According to this theory, commerce between nations and job specialization are caused by disparities in the costs of producing commodities between two countries [1]. Foreign direct investment (FDI) means the owner of any company from another country (source country) invests his money in some other country (host country) to ownership of the host country. They have controlled the productivity and distributorship of assets of the host country. India has gradually allowed foreign investment over the past 20 years, especially since the historic economic liberalization of 1991 [2].

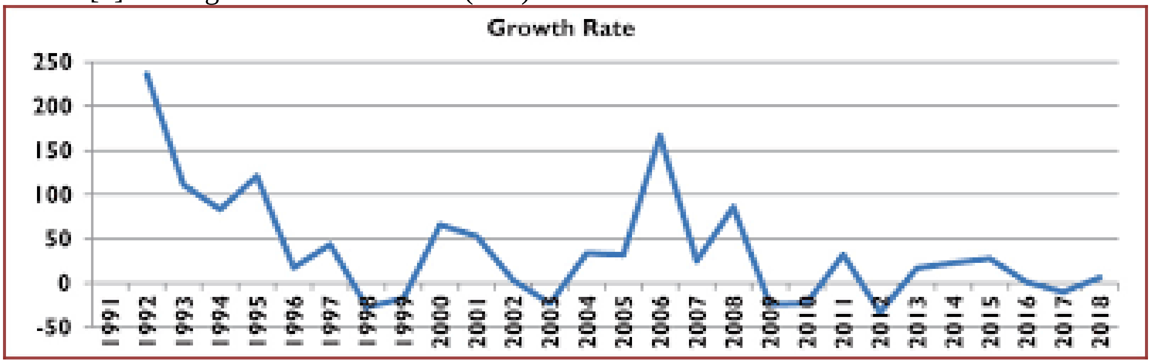

Fig. 1. The foreign direct investment (FDI) growth rate in India.

India followed in inward-looking trade policy but in 1991 these restrictions were relaxed or removed. That is quantitative restrictions of economic exports and imports were removed. There was a reduction in the tariff rate removal of import. Licensing for most of industries and also removal of export duties [3]. All these steps were undertaken in order to encourage foreign trade for the Indian economy. Shedding of ownership or management of government enterprises. Firstly by disinvestment, that is withdrawal of the government from ownership and management of public sector companies, or secondly, by simply outright sale or public sector companies to private sector. We need privatization in order to improve the financial discipline of public sector, private sector is managed through better capabilities and discovered by profit earning motive. However, some public sector enterprises work performing fairly better and some leverages for given to them. Then they were also granted thumb status like maharatna, navratna and Mini Ratna. The 3rd aspect globalization means transforming the world towards more interdependence and integration [4]. One of the important aspect of globalization for Indian economy is outsourcing. Outsourcing means hiring regular service from an external source, mostly from the other countries which were previously provided within the countries in data is a hump of outsourcing for many. Such as legal advice, computer service, advertisement, accountancy, banking, music recording, film editing, book. Thus India has a huge potential to earn from globalization [5].

There was a drastic increase in foreign direct investment and foreign institutional investment. Relaxation in the restriction on export and import, there was an increase in the foreign exchange reserves. Now India became a successful exporter of many could suggest automobile, software engineering goods [6]. There was a control on inflation as well. However, there were sorted negative effects such as removal of subsidies from the agriculture give a setback to the agriculture sector. GDP increased but there was an increase in the unemployment as well. If Indian economy will take right steps to rectify the problems then we can go ahead and be the Super power very soon.

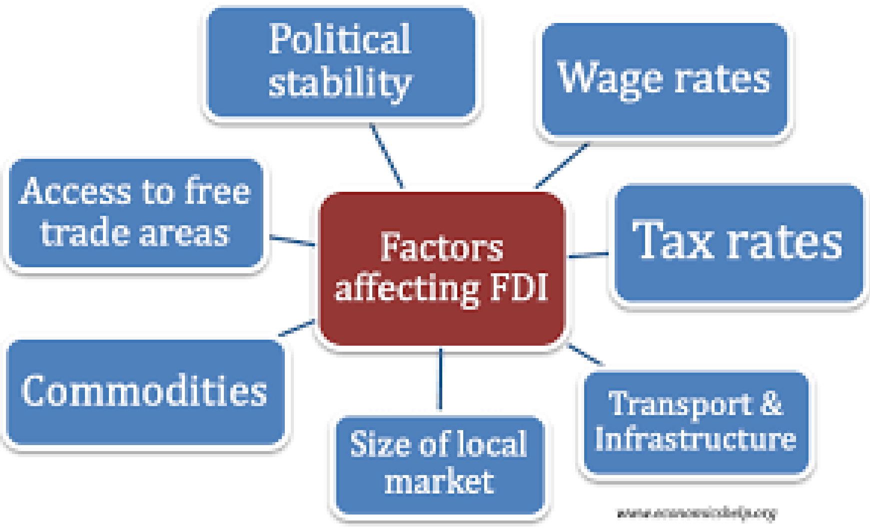

Fig. 2. These are the seven factors that affects foreign direct investment (FDI).

Research Methodology:

We have carefully collected the research articles and survey data from government agencies related to foreign direct investment (FDI) in India. The keywords used to search research articles in reputed journal sites such as foreign direct investment, FDI, new economic policy, NEP 1991, and GDP of India. We have found that 71 journals and survey agencies data from different places. After the scrutiny of these data, we have included 20 of them, which are important to our goals. On the basis of these articles and survey data, this article is framed.

Literature review:

In 1991 India initiated a set of new economic policy under the Prime Ministership of Mr. Narasimha Rao and Finance Minister Manmohan Singh. Economic policy in 1991 mean was to manage the crisis of 1990's 1990s [7]. India face pallets of payment crisis, poor performance of public sector lead due to huge losses and the mounting fiscal deficit and the high rate of inflation. To solve problems for result of the restricted policies that were adopted by Indian economy prior to 1991. In order to manage these crises, India approach World Bank and ICMP and also received the help of $7,000,000 as loan but in return of the loan [8]. World Bank and IMF asked India to liberalize and open up the economy by removing certain restrictions and as a result India introduced a set of new economic policy in 1991 [9]. In 1991, India was initiated two major steps. Firstly, stabilization measures which were shot. To rectifying immediate crisis like inflation and balance of payment. Apart from this, long term measures are structural measures were also introduced which transformed the Indian economy. These measures were liberalisation, privatisation, and globalization. Now let us study each and every major into each day. Starting with equalization, the polarization means putting an end to the restriction an open various sectors of the economy. All major sectors of economy were liberalised under New Economy Policy 1991. Let's see how liberalization measures were introduced in different sectors of Indian economy. Starting with industrial sector, industrial sector was under super many restrictions prior to 1991. These restrictions were relaxed under liberalization that is industrialising [10]. Finance minister Manmohan Singh was abolished apart for few industries such as alcohol segued frog. Critical industries like Atomic Energy, railway and defines were now reserved for the public sector. Goods produced by small scale industries have also been paid reserved market. He was allowed to determine the crisis and there was a drastic reduction in government control. Now coming to financial sector, before we all know that RBI is the apex financial institution governing the financial sector of Indian economy, there was a change in the role of RBI from regulator [11]. After liberalization reforms of 1991 for an investment limit in bank was raised to 50%, there was a relaxation to open or expand the branch network of banks with certain. Restrictions for an institutional investors like merchant bankers, mutual funds, pension agencies were allowed to invest in India now.

Impact of FDI on Indian Economy:

To the second most popular country with 18% of the world's population. Over 1.3 billion people live here. The Indian economy is the positive impacts and negative impacts also. So, lets discuss positive impacts first. Significant increase in growth rate of our economy. Prior to new economic policy, the growth rate was around 5%, but after the policy it increases to 8%. New economic policy also provided stimulus to the industrial production as various relaxations were given to the industrial sector. This led to the debit industrialisation in our country and thus the industrial production was increased. Economic policy also helped us to check. On fiscal deficit, fiscal deficit refers to the excess of government expenditure over its receipts other than borrowings, which is a negative sign for our economy prior to 1991 new economic policy [12]. It was 8.5% of GDP, whereas after new economic policy it reduced to 3.5% of architect. New economic policy also helped us to control inflation in our economy. Due to slow growth of industrial sector pride to new economic policy, there was a wide gap between demand and supply and their prices of goods and services were increasing. After new economic policy due to the increase in industrial production. There was greater flow of goods and services in our economy and it controlled the inflation. Economic policy also ensured consumer for so many variety [13]. In this new Policy consumers have to purchase their goods provided by the public sector monopolies. After new economic policy, there is significant rise in foreign exchange reserves due to deep foreign investment by multinational corporations, which is a sign of economic prosperity.

Some negative impacts of new economic policy on our country economy. The major negative impact is neglect of agriculture centre. As we know, more than 50% of India's working population depends upon agriculture sector but no provision was made under NEP for upliftment of agriculture sector. New economic policy also led to the foreign interference by multinational corporations. They demanded greater flexibility in labour laws and thus workers lost job security. The small scale industries could not face competition with multinational corporations and thus collapsed [14]. Unemployment as most of the multinational corporations used capital intensive technique which led to increase in growth rate but at the same time there was lesser job opportunities created. So, India was great raised by jobless growth. Multinational corporations prefer to set up their industries in urban areas because of better infrastructure. A wide gap between the development process of urban and rural areas.

Analysis of Indian economy after FDI

The foreign direct investment is commonly known as FDI. During the course of business, we required fundings from outside India. In this investment requires government and RBI approval. So generally whenever any foreigner company invest capital in any Indian company. According to our Indian government policy and also RBI policy.

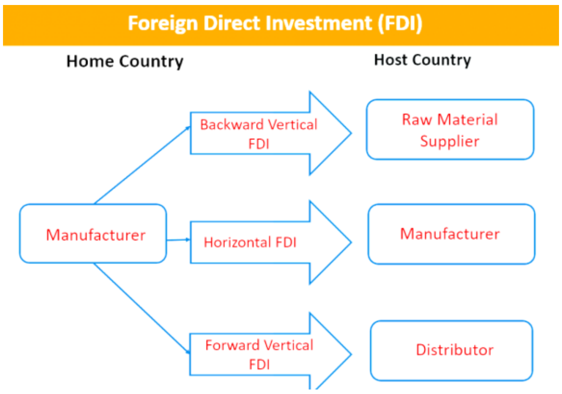

Fig. 3. Introduction of foreign direct investment and representation FDI.

It is a process whereby residents of one country acquires the ownership of asset for the purpose of controlling the production and other activities of a firm in. Country that is host country. So here you can see the picture that another country is going to invest in the home country. It is which is the another country is called host country and where they are going to invest that is called home country. So as you know, international businessman trade between two countries, so there are two types of countries, home country and host country. Home country means your parent country means a where you are business is located actually or established. And host country means when you are going to export your product in the other country that is or when you're running your business in other country that is called host country [15]. So this is home country India and Here one business is running and it is host country that is USA is going to invest in Indian company. The USA company wants to invest in Indian company. He comes to the India and he purchases from shares or debentures. They invest in the Indian company and that is called foreign direct investment. Foreign country is direct investing to the home country are to the parent country that is called foreign direct investment. First is foreign company purchases shares and debentures of Indian Company and invest in the Indian company.

The interesting things about India economy, explosive growth at the end of 2022. Morgan Stanley published research paper on future investment opportunities. In that paper, they robbed India is on track to become the world's 3rd largest economy by 2027. It's surpassing both Japan and Germany and do have the 3rd largest stock market by the year 2023. Research paper then goes on to say that India's GDP could more than double from 3.5 trillion dollars that it's at today to over 7.5 trillion by the year 2031. And it also estimates that the Bombay Stock Exchange, which is India's stock market, could grow at 11 % per year [14,16]. It means that India stock market could help perform the US over the next decade and that's waiting for recession. The world that is experiencing negative growth.

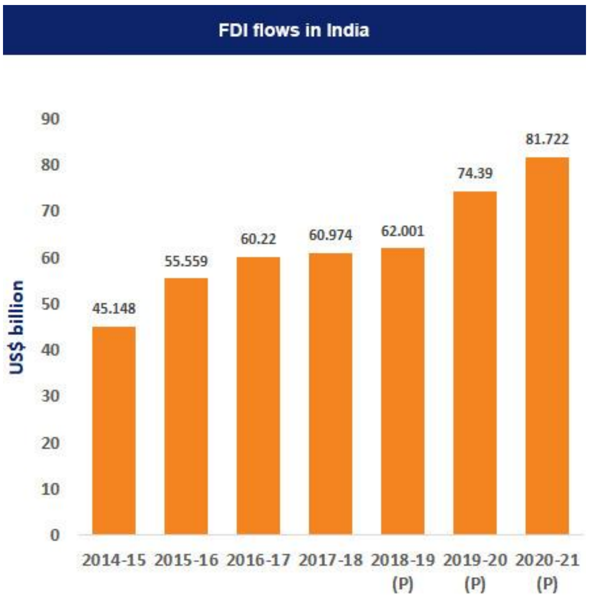

Fig. 4. Foreign direct investment (FDI) investment status of India.

This is an interesting prediction about what will happen in 2023. Even though we're seeing Bitcoin slightly bounce up this year, it might not last. That purely global recession risk is still high next. Illustrates increasing and staying that way for the rest of the year and their real global GDP will be between 1.5 to 2%. Thanks for the slow down the economic growth and India will have a really strong year [18].

By comparison, in 2022 the US GDP was estimated to grow to percent and this year 2023, if there is a recession, which most people seem to believe, there will be the economy separating that 2023, the US GDP will grow point to percent just 0.2. Now China by comparison, which is usually the global leader in economic growth grew only 3% and 2022 India by comparison though is going to grow 6% over anytime there is an economic slowdown. Usually means people are going to work less, we are going to make less, we are going to consume less.

Challenges:

There are some issues and challenges in FDI in India [19]. Which are given below:

i. Resource challenges
ii. Equity challenges
iii. Political challenges
iv. Federal challenges
v. Lack of clear and transparent policy
vi. Environment rigid policy etc.

Conclusion

The foreign direct investment is commonly known as FDI. In this investment requires government and RBI approval. So generally whenever any foreigner company invest capital in any Indian company. According to our Indian government policy and RBI policy. India's economy growing so fast and compare to other part of the world. This is happening global offshoring financial transformation and energy transition global offshore your first too when a country outsources gets production to another country. The interesting things about India economy, explosive growth at the end of 2022. Morgan Stanley published research paper on future investment opportunities. In that paper, they robbed India is on track to become the world's 3rd largest economy by 2027. It's surpassing both Japan and Germany and do have the 3rd largest stock market by the year 2023.

Reference:

1. Aggarwal, T., & Solomon, P. (2017). *Trends and Patterns of FDI and FII in India- Implications for the Future*. *17*(3).
2. Dssf IBEF. (2022). FDI in India: Foreign Direct Investment Opportunities, Policy | IBEF. Retrieved April 7, 2022, from IBEF website: https://www.ibef.org/economy/foreign-directinvestment
3. Joo, B., & Mir, Z. (2014). Impact of FIIs Investment on Volatility of Indian Stock Market: An Empirical Investigation. 1(2), 2375–0774. Retrieved from www.jbepnet.com
4. Kapadia, S. (2020). FDI in India – Now, Next and Beyond: Reforms and opportunities. Retrieved April 7, 2022, from EY website: https://www.ey.com/en_in/tax/fdi-in-india-now-nextand-beyond-reforms-and-opportunities
5. Mishra, S., & Kumar, R. (2016). Impact of Outward FDI on Macroeconomic Variables of Home-Country (INDIA). Pacific Business Review International, 8(9), 99–108.
6. Prasad, G., & Sharma, E. (2012). IMPACT OF FDI ON ECONOMIC DEVELOPMENT OF INDIA. 2(6), 131–149.
7. Singh, S. (2019). Foreign Direct Investment (FDI) Inflows in India. 41–53.
8. Sultana, S., & Pardhasaradhi, S. (2012). Impact of Flow of FDI & FII on Indian Stock Market. Indian Journal of Science and Technology, 9(15), 4–10.
9. https://doi.org/10.17485/ijst/2016/v9i15/92104 The Indian Express. (2022). FDI, not FII, the right measure of India's economy: Nirmala Sitharaman |
10. India News,The Indian Express. The Indian Express. Retrieved from https://indianexpress.com/article/india/indiacontinues-to-remain-highest-receiver-of-fdi-fm-inlok-sabha-7852099/
11. Verma, R., & Saluja, R. (2018). A Study of Impact of FDI and Investment by FII on Economic Growth of India. 8(2), 54–61.
12. Agarwal, A (2001): 'Liberalisation, Multinational Enterprises and Export Performance: Evidence from Indian Manufacturing', ICRIER Working Paper, No 69, New Delhi.
13. Agosin, M R and Ricardo Mayer (2000): 'Foreign Investment in Developing Countries: Does it Crowd in Domestic Investment?' UNCTAD Discussion Paper, No 146, UNCTAD, Geneva.
14. Arthreye, Suma and Sandeep Kapur (1999): 'Foreign-Controlled Manufacturing Firms in India: Long-Term Trends',Economic and Political Weekly, November 27, pp M149-51.
15. Battat, Joseph, Isiah Frank and Xiaofang Shen (1996): 'Suppliers to Multinationals: Linkage Programmes to Strengthen Local Capability in Developing Countries', FIAs, Washingtong, DC.
16. Fikkert, Brian (1994): 'An Open or Closed Technology Policy? The Effects of Technology Licensing', Foreign Direct Investment, and Technology
17. Spillovers on R&D in Indian Industrial Sector Firms, PhD Dissertation, Yale University, New Haven, CT.
18. Fry, Maxwell J (1992): 'Foreign Direct Investment in a Macroeconomic Framework: Finance, Efficiency, Incentives and Distortions', PRE Working Paper, The World Bank, Washington, DC.
19. Kumar, Nagesh (1990a): Multinational Enterprises in India: Industrial Distribution, Characteristics and Performance, Routledge, London and New York.