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GROWTH AND INSTABILITY OF FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract

This paper mainly explains the growth and instability of India's foreign direct investment inflow in India. India's foreign direct investment inflows from 1990-91 to 2023-24 illustrate the nation's successful evolution into a global investment centre, bolstered by substantial reforms, market expansion, and diversification across various sectors. Although there have been temporary setbacks in FDI due to global economic disruptions, India has demonstrated exceptional resilience and remains one of the most appealing destinations for foreign investment. The cornerstone of maintaining this growth resides in policy consistency, enhanced infrastructure, and a sustained emphasis on developing sectors such as technology, renewable energy, and manufacturing. Through strategic reforms, sectoral diversification, and a commitment to sustainable growth, India is strategically positioned to continue attracting robust foreign investments in the forthcoming years.

Key words: Foreign Direct Investment, Growth, Instability, Inflow, Capital.

Introduction

Foreign capital plays a substantial function in the economy of every nation, irrespective of its level of development. Supporting sustainable development is essential for industrialised nations. It is used to boost capital accumulation in developing nations in order to set the stage for faster economic growth. The transition countries are those that are shifting from a centrally planned economy to a free market one [a transition country or transitional economy is an economy]. It is beneficial to implement the reforms in order to overcome the previous long-term issues, create conditions for stable and continuous GDP growth, and integrate into the global economy. Transition economies go through economic liberalisation, which allows market forces to set prices and lowers trade barriers; macroeconomic stabilisation, which brings immediate high inflation under control; and restructuring and privatisation, which creates a financial sector and shifts resource ownership from the public to the private sector. But in order for emerging countries to realise their full potential, outside investment is necessary. By providing them with the required funds and technology, capital inflows which include foreign direct investment (FDI), foreign portfolio investment (FPI), external commercial borrowing (ECBs), NRI deposits, and social deposit schemes can aid in the economic development of developing nations. In nations where local savings are insufficient to support investment, capital flows help close the resource gap. When the marginal productivity of capital within the recipient nation's boundaries is higher than in capital-rich regions of the world, the influx of capital enables the recipient nation to invest and consume more than it generates The goal of the National

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Economic, Empowerment, and Development Strategy (NEEDs) and the Millennium Development Goals (MDGs) are both made possible by capital inflows. The transformation of the developing economy will be greatly aided by capital flows as the economy grows more open and integrated with the rest of the globe. Furthermore, because capital inflows impact a variety of macroeconomic factors like interest rates, currency rates, foreign exchange reserves, domestic monetary conditions, saving, and investment, they are essential for macroeconomic stability. The process by which citizens of one nation (the source country) purchase assets in another (the host country) with the intention of controlling output is known as foreign direct investment, or FDI.

Review of Literature

Archana Upadhyay (2016) Globalisation and liberalisation offer many new inventive products to the world, one of which is Foreign Direct Investment (FDI), which is currently available in a variety of forms. Foreign Direct Investment is the single most effective tool for promoting international economic integration in any economy. It acts as a bridge between investment and savings. Many emerging countries, like India, face a savings shortage. This issue can be handled with the assistance of Foreign Direct Investment. The purpose of this research paper is to investigate the influence of FDI on the Indian economy, particularly after two decades of economic reforms, and to analyse the obstacles that the country faces in competing for FDI globally. This article also seeks to understand the scenario, role, and scope of foreign direct investment in India. In this study, we examine the consequences of foreign direct investment (FDI) on India and its economy. We attempt to evaluate the benefits and drawbacks of FDI when implemented in the Indian domestic market.

Sai Rani. P and Sourav Kumar Ghosh (2020) as one of fastest emerging economy in the world, Indian economy attracts the significant inflow of foreign direct investments annually. But last few years usage of the reports explains that in inflow of foreign direct investment is not consistent in India and also the GDP from India is found to be going in decreasing manner. These require studying diverse aspects of such investments. The study relies on secondary data amassed from different authentic resources. The study makes use of simple statistical tools such as CAGR (Compound Annual Growth Rate), Percentage etc. The research unspeaks distinct trends of FDI inflows in India in the recent years which correlate with those of the world economy however generally it’s on an elevating aspect. The study shows that Mauritius has been the most investing nation in India and of the entire sector; the service sector attracts maximum FDI from different nation during the period of study. Keywords: Employee Retention; Human Resource Management; Indian Economy Your data for study is limited to less than two decades of time only and is entirely focused on Indian economy.

Shalini S (2020) FDI is a significant factor for India's economic growth as it promotes FDI investment in India's various sectors such as Manufacturing, Infrastructure, Transport, Technology, Productivity, Hospitality, etc. It also brings closer India's different economies through capital investments. Foreign investment levels into India are at record levels; this is an understandable source of pride. India has the right combination of openness and opportunity from the size of the market to the investment reform to the growth rate in the economy. However, India appears to be reeling under several restrictions and hurdles related to fully opening its markets to global RNIs.

Methodology

Under this period, the specific objective of the study is to examine the growth and instability of foreign direct investment in India. For this, the secondary data regarding foreign direct investment in India has been taken from RBI Bulletin. The collected data were analyzed using econometric tools such as linear trend, semi-log, compound growth rate, and Cuddy-Della Valle Index. By using SPSS 19 software, the analysis has been done.

Linear Trend

$$Y = \beta_0 + \beta_1 t + U_t$$

Semi-Log

$$\text{Log } Y = \beta_0 + \beta_1 t + U_t$$

Compound Growth Rate

CGR = [(Antilog b-1) x 100]

Cuddy Della Valle Instability Index

$$I = CV^* \sqrt{1 - R^2}$$

Results and Discussions

The following table depicts the foreign direct investment in India during 1990-91 to 2023-24.

Table 1

Foreign Direct Investment in India during 1990-91 to 2023-24

Year	FDI	%Change	Index	Year	FDI	%Change	Index
1990-91	74	-	-	2007-08	34844	52.65	152.65
1991-92	129	74.32	174.32	2008-09	41874	20.18	120.18
1992-93	315	144.19	244.19	2009-10	37745	-9.86	90.14
1993-94	586	86.03	186.03	2010-11	36047	-4.50	95.50
1994-95	1314	124.23	224.23	2011-12	46552	29.14	129.14
1995-96	2144	63.17	163.17	2012-13	34298	-26.32	73.68
1996-97	2821	31.58	131.58	2013-14	36046	5.10	105.10
1997-98	3557	26.09	126.09	2014-15	45147	25.25	125.25
1998-99	2462	-30.78	69.22	2015-16	55559	23.06	123.06
1999-00	2155	-12.47	87.53	2016-17	60220	8.39	108.39
2000-01	2463	14.29	114.29	2017-18	60974	1.25	101.25
2001-02	4065	65.04	165.04	2018-19	62001	1.68	101.68

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2002-03	3197	-21.35	78.65	2019-20	74390	19.98	119.98
2003-04	4322	35.19	135.19	2020-21	81973	10.19	110.19
2004-05	6051	40.00	140.00	2021-22	84835	3.49	103.49
2005-06	8961	48.09	148.09	2022-23	71355	-15.89	84.11
2006-07	22826	154.73	254.73	2023-24	71279	-0.11	99.89

Source: RBI Bulletin, various issues.

Table 1 portrays the India's foreign direct investment inflow has noticeable increased from $ 74 million in the year 1990-91 to $ 129 million in the year 1991-92 due to restrictions on Foreign Direct Investment (FDI) have been lifted across numerous sectors. Then the India's FDI inflow has drastically accelerated from $ 1314 million in the year 1994-95 to $ 2144 million in the year 1995-96 owing to The Securities and Exchange Board of India (SEBI) has been enhanced, thus bolstering the transparency and credibility of the financial markets. A more regulated stock market has fostered confidence among foreign portfolio investors, while institutional investors have also played a role in enhancing FDI confidence. The FDI inflow has terrifically decreased from $ 3557 million in the year 1997-98 to $ 2462 million in the year 1998-99 due to, in May 1998, India undertook nuclear tests (Pokhran-II), which prompted several nations, including the United States, Japan, and members of the European Union, to impose economic sanctions on India.

The FDI inflow has increased from $ 2463 million in the year 2000-01 to $ 4065 million in the year 2001-02 owing to This period has witnessed sectoral liberalisation, investor-friendly reforms, and a significant surge in global outsourcing, particularly in the IT and telecommunications sectors. The India's FDI inflow has massively increased from $ 8961 million in the year 2005-06 to $ 22826 million in the year 2006-07 owing to India is regarded as a globally attractive investment destination, particularly in the sectors of services, infrastructure, and real estate. The FDI inflow has decelerated from $ 41874 million in the year 2008-09 to the level of $ 37745 million in the year 2009-10 this perception was significantly influenced by the residual effects of the global financial crisis, which instigated a climate of uncertainty and risk aversion worldwide. After that, FDI inflow has decreased from $ 46552 million in the year 2011-12 to $ 34298 million in the year 2012-13 the challenges faced were predominantly a result of domestic policy miscalculations, concerns regarding taxation, and a declining business environment, rather than being solely attributable to global economic factors. The value has tremendously increased from $ 45147 million in the year 2014-15 to $ 55559 million in the year 2015-16 due to the positive momentum was propelled by advantageous reforms, enhanced investor confidence, and effective promotion of India as a premier investment destination through flagship initiatives such as Make in India.

Then this FDI inflow slightly accelerated from $ 60974 million in the year 2017-18 to $ 62001 million in the year 2018-19 due to this situation underscores India's enduring economic resilience, a reform-oriented environment, and its increasing attractiveness as a global investment hub, especially within the services, retail, and technology sectors. The India's FDI inflow has significantly increased from $ 81973 million in the year 2020-21 to $ 84835 million in the year 2021-22 owing to it highlights India's robust economic resilience and the successful enactment of reforms aimed at drawing investment into critical sectors such as manufacturing, digital services, and pharmaceuticals. The India's FDI inflow has notably decreased from $ 71355 million in the year 2022-23 to $ 71279 million in the year 2023-24 due to it reflects a complex interplay of global economic challenges, geopolitical uncertainties, domestic policy issues, and evolving investment trends.

During years 1998-99, 1999-2000, 2002-03, 2009-10, 2010-11, 2012-13 2022-23 and 2023-24 the India's FDI inflow has registered negative growth. In the year 2006-07 the annual growth of India's FDI inflow has registered highest level of 154.73 per cent and in the year 2017-18 the growth has registered lowest level of 1.25 per cent. The value of the index shows that the value of India's FDI inflow has increased more than 960 times in the year 1990-91 than that of in the year 2023-24.

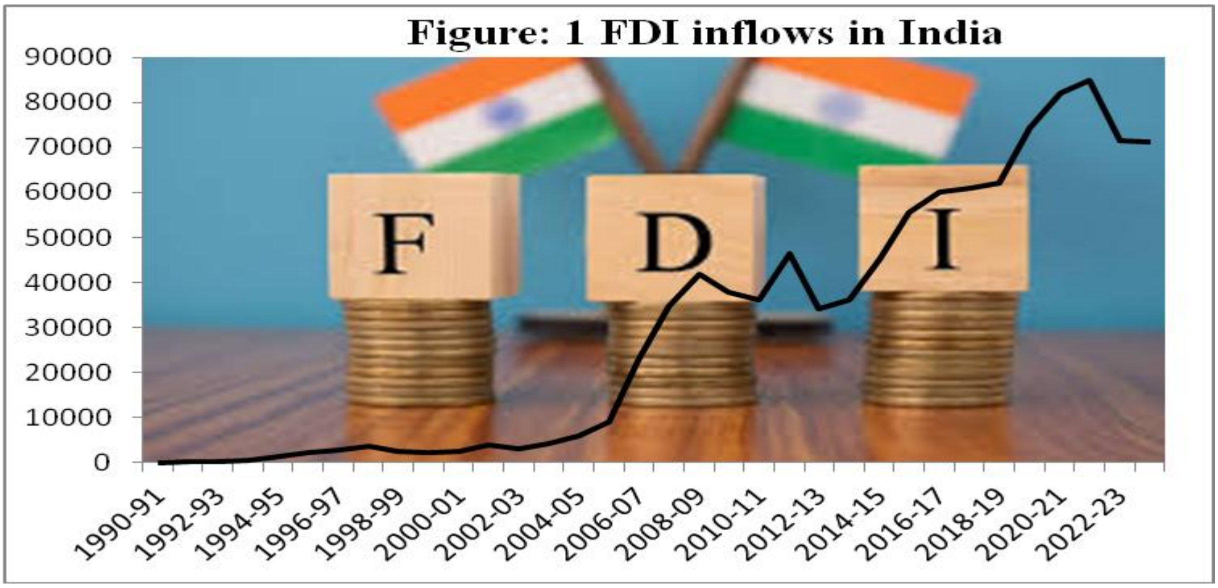

Table 2

Results of Foreign Direct Investment in India during 1990-91 to 2023-24

Variables	Linear Model				
	a	b	F	t	R^2
FDI	-18389.032	2735.812	266.538	16.326 **	0.893
Variables	**Semi-log Model**				**CGR**
	a	b	F	t	R^2
FDI	5.928	0.187	230.499	15.182 **	0.878	0.206

Source: Authors own calculation.

Table 2 visualizes that the R^2 and F values of India's FDI inflow were found to be satisfactory and 't' values were also found to be statistically significant at one per cent level. On an average the value of India's FDI inflow has increased by $ 2735.812 million per annum during the study period. The annual average growth rate of India's FDI inflow has risen by 18.7 per cent per year. Similarly, the compound growth rate of India's FDI inflow was found to be 20.6 per cent per annum.

Cuddy Della Valle Index of India's FDI inflow in India during 1990-91 to 2023-24 is presented in Table 3.

Table 3

Cuddy Della Valle Index of FDI inflow in India during 1990-91 to 2023-24

Variable	CV	Adjusted R^2	Index	Inference
FDI	97.779	0.893	31.984	**High Instability**

Source: Authors own calculation.

This highlights the significant growth rate of India's Foreign Direct Investment (FDI) inflow from the fiscal year 1990-91 to 2023-24. This remarkable increase is primarily attributed to a series of structural reforms, sectoral liberalisations, and pro-business policies implemented during this period.

Conclusion

India's foreign direct investment inflows from 1990-91 to 2023-24 illustrate the nation's successful evolution into a global investment centre, bolstered by substantial reforms, market expansion, and diversification across various sectors. Although there have been temporary setbacks in FDI due to global economic disruptions, India has demonstrated exceptional resilience and remains one of the most appealing destinations for foreign investment. The cornerstone of maintaining this growth resides in policy consistency, enhanced infrastructure, and a sustained emphasis on developing sectors such as technology, renewable energy, and manufacturing. Through strategic reforms, sectoral diversification, and a commitment to sustainable growth, India is strategically positioned to continue attracting robust foreign investments in the forthcoming years.

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