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Indian Status in the FDI Flows in the World

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ABSTRACT
Countries around the world, both developed and developing, are working together to encourage bigger FDI flows into their economy. In an attempt to lure bigger FDIs to India, the Indian government leaves no stone untouched. However, although India provides a vast market potential, has a pool of experienced, qualified and bright employees, low labor costs and a liberal democratic political structure, FDI inflows into India have remained modest compared to other rising economies. In this context, the status of FDI flows into India and identifies the concerns and problems which have made India more appealing than other countries. In this study we examine the status of Indians in the FDI world flows, the FDI picture in India's indigenous economy, FDI growth in developed countries, and the flow of FDI in Asia. Asia is by both nominal and purchasing power parity GDP the world's fastest-growing economic area and the largest continental economy.
Keywords: Indian status, FDI flows, world, liberalization, globalization and Indian Economy, etc.

INTRODUCTION

The whole globe becomes one economy, which has boosted the movement of international capital across economies via FDI. Economists show that FDI influxes as well as outflows have increased at far quicker rates than commodities and services movements in the present age of globalization. Their explanations may be that the liberalization of foreign investment rules has been sluggish during the last 25 years. By opening up some formerly severely regulated industries, the United States, Europe and mainly other developed nations have made important measures to increase FDI during the 1990s. This was the outcome of the Uruguay Round and the related trade agreements. In developed countries, which have lately become major sources and destinations for FDI [1], liberalization has also taken place. Many companies have moved in these economies to industrial activities which lead to forward and reverse connections. Most of them are used in export-oriented manufacturing, leading to better payment balance and improved industrialization.

FDI is mainly supported by multinational corporations that are not only regarded a source of foreign money but also for manufacturing, marketing and management technologies. This liberalization and globalization trend has strengthened financial and commercial ties between developed and developing nations. Due to technological advances in transport and communications, the economic gap is decreasing. The rivalry between nations has now increased and the nature of competition itself has altered as well. India likewise implemented economic changes in 1991 via liberalization, privatization and globalization. Today China is one of the world's fastest growing emerging economies and the 6th biggest nominal GDP and the third-largest Purchasing Power Parity economy in the world (PPP) [2]. The per capita GDP (nominal) is 139th, with $2,134 and GDP (PPP) is 122nd per capita, with $7,783 in 2018.India attained an average yearly GDP growth rate of 6 to 7 percent after economic liberalization in 1991. Over the course of time, India is also one of the favorite international investment locations.

FDI Scenario in Indian Economy since Independence

Before independence, India was exploited a lot. It had been plagued with commerce, poverty and industrial growth. It had been a huge struggle. However, there remained optimism that the situation might improve one day. After independence, Indians took international market commerce extremely seriously, and wanted no foreign company to return and exploit their riches in the Indian sub-continent. All this was due to the dread of the British exploitation. In order to avoid entering the Indian market easy, Indian government created tough rules and legislation on foreign investments and foreign firms [3]. Strict legislation has been adopted by the Government of India to regulate and manage FDI inflows, and the following phases of this regulation are possible:

- Phase in which FDI is cautious and discriminatory (1948-1967).
- The selective and limiting policy phase (1967-79).
- The semi-liberalization phase (1980-1990).
- The FDI Open Documentation Phase (1991 onwards).

Following independence, India's FDI inflows in terms of stringent rules have been relatively modest. In several of the areas suggesting that the Indian Government aspired to have a lesser interest in the Indian economy in the first phase, foreign investment was limited. In the second phase (1967-79), large industrial houses and international companies were allowed to establish factories in the core and heavy sector of investment. Due to the Foreign Exchange Regulation Act (FERA), 1974, foreign participation was limited. Only 40% of foreign stock holdings were authorized. The total influx of FDI varied throughout the third phase, over the years 1980-1990. In 1982–83 [4], the India Government freed up bank deposits and business equity investments.

FDI AND SENSEX

The Sensex variation is affected by FDI about 3 percent, while 2 percent of FDI is influenced by BSE. The regressions of co-integration depict the long-term link between equity prices and FD In. The study indicates as well that FDI does not have a significant influence on FDI in terms of movement of stock prices. There is thus a positive and favorable effect on the Sensex price on the FDI, based on regression research.

FDI AND HDI

Numerous studies have demonstrated the effects of FDI on economic growth and advancement both in developing and developed nations in recent years. However, research into FDI stimulation on an enhanced understanding of socio-economic development such as human development is lacking. We have tried to investigate the effect of the FDI on HDI in light of this research gap. This analysis suggests the FDI's impact on human development for India for the period 2007-2017 (with consideration of the human development index).

FDI AND POPULATION

India is a potential significant market and a major and major host for FDI flows with its second-largest population on earth. Achieving foreign investment has always been a vital driver of the country's growth and development. FDI's gross inflows in low- and middle-income nations are favored by people. The study shows that higher living standards are dictated by the employment of persons in the nation as the influx of FDI increases. The analysis so demonstrates that the FDI has a favorable association to the population.

FDI AND INFLATION

The inflation rate is an important element in determining foreign investment inflows in the nation. The microeconomic factors increase balance of payments and reduce inflation by reducing the assessment, including restrictive fiscal and monetary measures. A steady inflation always provides foreign investors with an enticing chance for us to declare that the high influx of FDI would mean a reduced production cost, labor costs, leading to increased profits.

FDI AND GDP

This paper is aimed primarily at analyzing India's FDI-GDP linkages. Increased FDI inflows in India over the last time might be considered as a boost to justify high domestic investments, thanks to the relatively constant GDP growth rate. The growth impact of FDI on GDP is less noticeable in the near term. The direction is therefore advised for carrying out a long-term examination.

CURRENT CHALLENGES AND IMPROVEMENT AREAS

India is obviously an attractive location for FDI, but difficulties and places for development are clearly still there. Until these sectors are perfectly improved, India is not the number one FDI location. India is working along with a regulatory framework towards enhancing political and social stability. Although the FDIs obviously have advantages,

There are quite a few challenges facing larger FDIs in India, such as:

- Resource challenge
- Equity challenge
- Political Challenge
- Federal Challenge

FDI Growth in Developed Countries

The FDI flows have eclipsed trade flows as a 'spring board' for rapid growth and worldwide economic development. It should be poured out. In short, the FDI inflows were almost 100 times higher in 20 years. During the 1990s, FDI inflows into the developed nations increased progressively. The lion's share of FDI flows mostly had gone to the developed economy and it showed that the investment choice had been more than just relaxed by their cash. In 1991, FDI inflows into developed nation economies stood to US $114,035,000,000, down to US $111,141 billion in 1992 and gradually and continuously up to US$ 1.137.996 million in 2000 in the post-1992 period, representing a positive growth rate of 33.55%. The inflows of FDI into the developed nations from 1992 to 2000 might be understood to have increased steadily. In 2001, developed nations got

US$601,241 million from the FDI, which is lower than in 2000 from the FDI inflows [5, 6]. The study showed that throughout the period 2001-2004 there was a downward tendency in the FDI inflows into the developed nations as a whole. Due to the decline in the economic downturn in most areas of the world, the trend during this era may be attributed to the country. In 2004, developed nations received the FDI at US$ 422.179 million, which rose to US$ 1.310.425 million in 2007 and dropped in 2008 to the level of US$ 606.212 million in 2009, which represented negative growth at 40.55%. Economic downturns also occurred worldwide and in 2011, after rising to $747,860 million, a positive growth rate of 20.90 percent.

FDI Growth into the Developing Countries Economy

The FDI flows of the globe have grown more rapidly in recent years than the world output and trade rates. With wealthier nations striving for a larger portion of the market, worldwide rivalry for FDI inflows among emerging economies has increased. In the past two decades, the share of emerging nations in global FDI inflows has been constantly growing. FDI influxes have several advantages, including accelerating technology transfers from developed countries to developing countries, generating sufficient capital for developing countries, help to restructure industries, and stimulate economic changes and lead developing countries to economic prosperity. FDI inflows have another significant function to play in developing nations and are in relation to export promotion; however they rely on the reason for receiving FDI inflows.

The ongoing liberalization of the limitations of FDI had contributed to the revival of FDI inflows. The substantial growth in FDI inflows, which was particularly significant in emerging nations, was responsible for several causes. In many industries and top companies, they also have tremendous competitive pressures to discover innovative methods to increase their competitiveness. Some of these methods were to expand their operations in the developing countries' rapidly increasing markets, raise the volume of sales and rationalize productive activity in order to benefit the economies of scale and reduce production costs. The increasing cost of many goods further boosted FDI influx into nations wealthy in natural resources such as petroleum and minerals [7]. The increased Greenfield FDI inflows and an increase in cross-border mergers and acquisitions (M&A) activity were other variables responsible for the rising trend.

India’s Share Performance in the Global FDI

The available statistics revealed that India has played a relatively tiny part in global FDI inflows, in its share in developing countries' inflows and in its part in Asian countries' inflows. Despite its strategic position in the various countries of the globe with easy access to a huge domestic and Southern Asian market, India has a very low FDI inflow share in the developing countries. In 1991, India only showed a small relative proportion of 0.05% in world total FDI influxes, whereas in 2011, 21 years later Indian relative proportion in worldwide FDI influxes rose to 2.06%, meaning that India's relative proportion grew by 2.01 percentage points. It should be noted that India's participation in global FDI inflows never affected the level of 3% between 1991 to 2011. The percentage of India in FDI inflows into developing nations grew to 4.61% from the 0.18% level in 1991 [8]. In the period between 0.18 and 6.85% the actual FDI flows to India as a proportion of FDI inflows to developing nations fluctuated. Although the contribution of India on FDI flows to developing nations in the early era of economic reforms was less than one percent, it could be recognized that after 2001 the proportion has risen to more than 2%. The real FDI flows to India as a fraction of the entire flow of FDIs to Asian countries amounted for just 0.31% in 1991 [9], but in 1997 the FDI had progressively grown to 3.37%. Subsequently, the amount fell steadily to 1.90 percent in 1999 and there was certain volatility between 2000 and 2011. It may be noted that 2008 saw the greatest proportion of FDI inflows reaching 11.41%. The initial years of liberalization, from 1991 to 1994, accounted for less than 50% of India's FDI share in the whole South Asian economy, but after 1994, India had more than 50% of FDI inflows into the countries of South Asia. It is apparent that India's overall FDI inflows from 1991 to 2011 was US$17246613 million, or 1,32 per cent of the cumulative FDI flows received by all the nations in the globe.

Growth and Performance Determinants of Foreign Direct Investment (FDI)

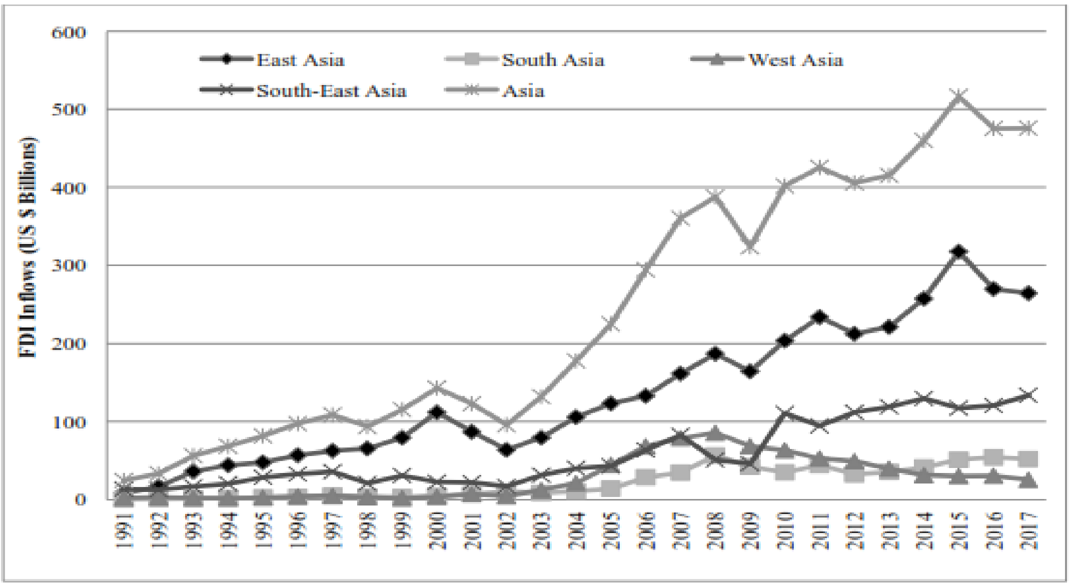
The economic elements that determine the entrance in India of foreign direct investment. An effort is made to identify the relationship of every single variable with India's FDI inflow by using a matrix of correlations, multiple regression patterns, to identify the most appropriate combination of variables that could explain the relative variability in the foreign direct investment inflow in India. Multinational companies' foreign direct investment is one of the highlights of today's world economy. India, like many others, draws FDIs, since the FDI is commonly seen as an analgesic of money, technology, marketing and management, and is vital for the enhancement of its economic development. An essential challenge for policymakers is to recognize the influences of FDI in an economy and attract them. Determinants are referred to be variables that typically determine the flows in a country or region. Three methods have mostly been employed by foreign direct investment determinants [9]: (i) aggregate econometric analysis (ii) foreign investor opinion assessment and (iii) industry econometric research. Unfortunately, all three techniques failed, not least because the FDI flows to diverse economic sectors in an economy lack appropriate and consistent information.

The factors of FDI are as follows:

- Market Size and Market Potential
- Exports
- Imports
- Foreign Exchange Reserves
- Tax
- Debt-GDP Ratio
- Exchange Rate
- Cost of Labor

Growth and Trends of FDI Inflows in Asia

Asia is the fastest-growing economic region and the largest continental economy in the world by both nominal and purchasing power parity GDP. It is divided into four regions East Asia, South Asia, West Asia and South-East Asia. The growth and trends of FDI inflows in Asia and its regions are shown in the table 3.3. It depicts that in Asia FDI inflows has increased from $24.5 billion in 1991 to $475.9 billion in 2017 at Compound Annual Growth Rate (CAGR) of 11.2 per cent. It was at its peak in 2015 ($523.6 billion). Asia has observed negative growth of FDI inflows in 2016 but becomes stable in 2017. In 1991, Asia was getting 15.9 per cent of world’s FDI inflows; this share has increased to 33.3 per cent in 2017. In East Asia, FDI inflows have increased from $8.3 billion in 1991 to $264.5 billion in 2017 with CAGR of 10.9 per cent. In this region, FDI inflows was also highest in 2015 ($317.8 billion) and declined in 2016 by 15.1 per cent. During the same period, FDI inflows in South Asia have increased from $0.5 billion to $52.1 billion with CAGR of 18.6 per cent. In this region, FDI inflows was highest in 2008 ($56.7 billion) and after this [10], it observed negative trend of FDI inflows up to 2012. In West Asia, FDI inflows have increased from $2.1 billion to $25.5 billion with CAGR of 15.9 per cent. It was also highest in 2008 ($85.5 billion) after this there was continuous decline in FDI inflows till 2017.



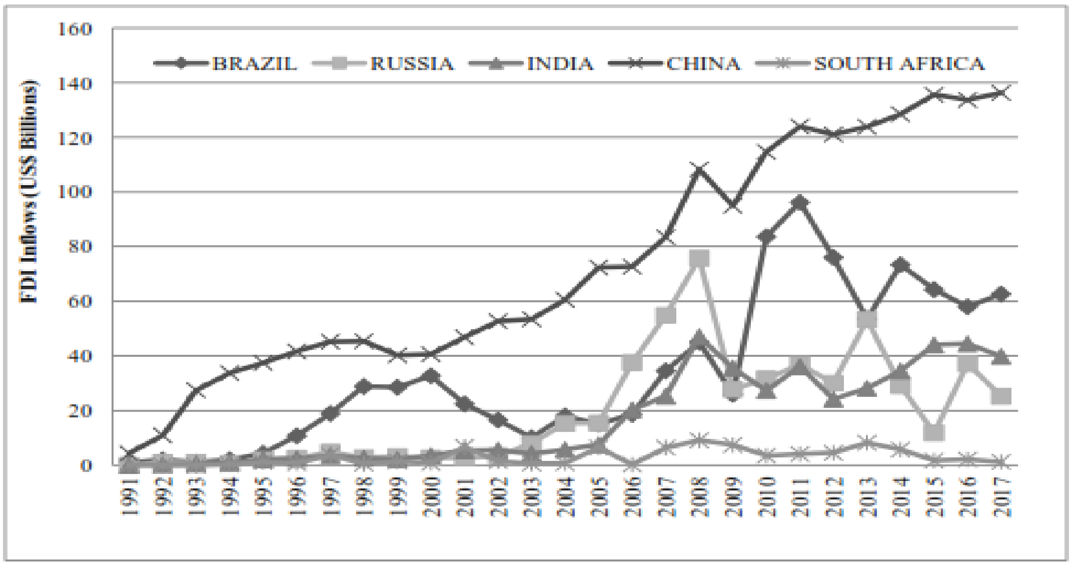
Source: Various Issues of World Investment Reports, UNCTAD

Figure 1: Trends of FDI Inflows in Asia

Growth and Trends of FDI Inflows in BRICS

BRICS is used for an group of five major emerging economies- Brazil, Russian Federation, India, China and South Africa. Initially, the first four were grouped as 'BRIC', before the introduction of South Africa in 2010. The members of BRICS are all leading developing and newly industrialized countries, but they are distinguished by their large, fast-growing economies and significant influence on regional affairs. All five members are also members of G20. BRICS economies prominently attract larger capital because of their huge potential in the consumer market due to large population. The growth and trends of FDI inflows in BRICS is presented in table 3.5. In 1991, FDI inflows in BRICS were $5.8 billion, it increased to $297.5 billion in 2011 and in 2017 it has reduced to $264.2 billion. The share of BRICS countries in the world's FDI inflows was 3.8 percent in 1991; it increased to 19 percent in 2008. Due to global slowdown, the share of these economies decreased in 2009 to 2012. But in 2013 and 2014, its share again revived to 20 percent. In 2017, BRICS countries were attracting 18.5 percent of the world's FDI inflows. Although from 1991 to 2017, FDI inflows in the world have increased with a CAGR of 9 percent while FDI inflows in BRICS increased with CAGR of 12 percent. This points out the growing importance of these countries in the world economy. Among the BRICS, FDI inflows in Brazil was $1.1 billion in 1991, it was highest in 2011 ($96.2 billion) and after 2011, a decreasing trend of FDI inflows is observed. In 2017, it has got $62.7 billion of FDI inflows.

Meanwhile, rising wages in Shanghai and other coastal regions have twisted China's cost advantages in labor-intensive production (Bartlett, 2008). South Africa was receiving FDI $0.2 billion in 1991. This increased to its highest in 2008 ($9.2 billion) but it fell to $1.3 billion in 2017. It has reduced by 40.9 per cent of its previous year [11]. The compound annual growth rate of FDI inflows in South Africa from 1991 to 2017 is 12 per cent. Trends of FDI inflows in BRICS countries. It is clear from the figure 3.8 that China is receiving highest FDI and with increasing growth trends among the BRICS.



Source: Various Issues of World Investment Report, UNCTAD

Figure 2: Trends of FDI Inflows in BRICS

Brazil and Russian Federation have faced greater fluctuations in FDI inflows. In Brazil, FDI inflows were highest in 2011. In Russian Federation, it was highest in 2008. India is receiving nearly half of FDI than China. In BRICS, FDI is highly concentrated with China.

Status of India in World's FDI Outflows

Many studies have been made in previous years to analyze the impact of Foreign Direct Investment (FDI) inflows on economic growth and development in industrially less advanced countries. These studies highlighted the effect of investments made by multinational enterprises (MNEs) of advanced economies in host economies at earlier stages of development. In the same way, it is also important to study FDI outflows. It was considered that FDI outflows were the first and foremost as consequence of economic development. Earlier, most of the MNCs were from developed economies. Over the period, there are successful MNCs from developing countries like Brazil, China, India, Mexico and Russian Federation etc. even though these economies are in the middle of a challenging economic development process, encountering typical problems such as technological backwardness, poor infrastructure, environmental degradation and poverty. Instead of it, FDI outflows from these and other developing countries have risen sharply [12, 13]. The status of India in FDI outflows in the world by exploring growth and trend of FDI in overall world, Asia and BRICS economies.

Growth and Trends of FDI Outflows in Overall World

FDI outflows from the world and different economies, FDI outflows in the world were $198.0 billion in 1991, it has increased to $1430.0 billion in 2017 with CAGR of 8.2 percent. Global FDI outflows were highest in 2007 ($2165.2 billion). In 2016 and 2017, there is a negative annual growth rate of FDI outflows. FDI outflows from developed economies was $187.8 billion, it reached to its highest in 2007 ($1843.2 billion) but declined to $1009.2 billion in 2017. During this period, the FDI outflows have increased with CAGR of 6.8 percent. FDI outflows from developing economies was $11.1 billion in 1991, it reached to its highest $458 billion in 2014 but decreased to $380.8 billion in 2017. During the period from 1991 to 2017, FDI outflows have increased with CAGR of 14.3 percent, which is double from developed economies. It increased with the highest annual growth rate in 2004 that was 192 percent. It is clear from the comparison that FDI outflows of developing economies are growing at a merely faster rate than developed countries which surely suggests improvement in the position of developing economies. Globalization extends the markets of developing economies to foreign shores which encourage their domestic companies to cross geographical barriers.

Growth and Trends of FDI Outflows from BRICS

Growth and trends of FDI outflows from BRICS countries, in 1991, FDI outflows from BRICS were $2.1 billion in 1991 and it increased to $206.4 billion in 2016. It has increased by 98 times over the time period but in 2017, there was 16 per cent reduction in FDI outflows from BRICS. In 1991, FDI outflows from BRICS were 1.1 per cent of world's FDI outflows and its share has increased to 12.4 per cent in 2017. From 1991 to 2017, FDI outflows have increased with CAGR of 20.8 per cent. FDI outflows from Brazil was $1 billion in 1991, It increased to its highest in 2006 ($28.2 billion). After that, it observed negative growth of FDI outflows except the years 2008, 2010 and 2015. In 2017, FDI outflows from Brazil were (-) $ 1.4 billion. The CAGR of FDI outflows from Brazil is 2.8 per cent. FDI outflows from Russian Federation were negligible in 1992 but it increased to its highest in 2013 ($70.7 billons). Latter, it reduced and reached to $36 billion in 2017. The CAGR of FDI outflows from Russian Federation is 22.2 per cent. India has also negligible FDI outflows till 1998. After it, this has reached to its highest in 2008 ($21.1billion). Negative growth has observed in FDI outflows except the years 2014 and 2017. In the year 2017, FDI outflows has increased with annual growth rate of 121.6 per cent and reached to $11.3 billion. From 1991 to 2017, the FDI outflows from India increased with CAGR of 23.5 percent. China has the highest FDI outflows among BRICS countries. FDI outflows from China were $0.9 billion in 1991 and rose to $196.2 billion in 2016. But it has reduced by 36.5 per cent in 2017 and reached to $124.6 billion [14]. FDI outflows from China have grown with CAGR of 23.3 per cent from 1991 to 2017. FDI outflows from South Africa were $0.2 billion in 1991 which increased to its highest in 2014 ($7.7 billion). Later, it reduced but revived in 2017 by 64.4 percent. It was highest in the year 2006 ($6.1 billion). The FDI outflows from South Africa increased with CAGR of 9.4 percent. BRICS economies are a growing foundation of investment in other developing economies, contributing to the reinforcement South-South cooperation. Outward FDI from BRICS countries in neighboring economies consists of a significant percentage.

Performance Index of FDI Inflows in India

UNCTAD has developed an index known as FDI performance index to measure the performance of FDI in any country. It is expected that a country whose index is greater than one includes several advanced industrial economies whose FDI performance reflects high incomes and technological strengths (e.g. the United Kingdom) or a location within large regional markets like the EU (Ireland). In other economies, high scores replicate the end of economic or political crises, transition to a market economy or enormous privatizations. Countries with low values that would be expected to receive less FDI than their size. These can be due to a range of factors including instability, poor policy design and implementation or competitive weaknesses. India's inward FDI performance index, it is clear from the table that FDI performance index is very low in 1991. As Government adopts favorable and liberal policies towards FDI, it improves. It upgrades up to 1997. It is low during 1998 to 2000. And it again revived up to 2008. It has least value in 2012 and it is greater than one in 2008, 2009 and 2014, showing an attractive destination for foreign investors in these particular years.

CONCLUSION

The growth and trends of FDI inflows and outflows in the overall world includes developed, developing, and transition economies, in Asia and in BRICS economies. To sum up, there is an increase in FDI flows (inflows and outflows) over the period. FDI inflows have increased in developed, developing and transition economies. Although share of developed economies has contracted in total FDI inflows still they are major destinations for FDI followed by developing economies. FDI inflows have also increased over the world in period time. The CAGR of FDI inflows is highest in South Asia. East Asia is attracting more than fifty percent of FDI inflows of Asia. And least share is of West Asia. Among BRICS economies, FDI inflows have also increased over the period time.

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