Foreign Direct Investment (Influx) from different nations and its impact on Economic Development in India: - A detailed study in Service sector and its contribution in overall economic development

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Abstract- In these research paper researchers examines emerging economic as well as implications on overall economic development and growth of Indian economic globalization. The paper focuses on the main motives of the Influx Foreign Direct Investment **(IFDI)** by the MNEs and its economic implications on the Indian economy. The originality of the study lies in its analysis of the overall investment pattern of MNEs companies and the nature of their global operations in a view to invest in India. Furthermore researchers explore the contribution of Service Sector that is one of highly demanded sectors towards economic development and growth of India through FDI in the current economic scenario in India.

Index Terms- FDI, Economic Development, LPG, Economy, Investment Flows

I. Introduction

India witnesses its economy rapidly growing since post LPG reforms. It has two sides. One has been saying that this market is excellent. The other part argues is that the FDI is violating economic rules and transactions. It was said that the money coming from outside is not being properly accounted for.

In current scenario Foreign Direct Investment (FDI) especially Influx FDI plays a crucial role in the development of any nation.

It has become an important force of economic globalization over the last many years. The previous approximately three decades witnessed major internationalization of industries from developing economies in terms of their greater participation in global trade, increase in the share of FDI, and a rush forward in their outsider merger and acquisition activity. Investment in FDI from different countries is not a new notion but now days; there has been a remarkable increase in the degree of inflows (influx).

The rapidly growing internationalization of companies from two fastest growing developing economies, China and India are matter of debate in every sphere of business world. We are focusing India's FDI in current fiscal year. Apart from all economic developments and growth exports of various goods and services have been a major feature of the growth of the Indian economy over the last few decades. Influx FDI from MNEs has grown rapidly in recent years and industries from India are increasingly involved in overseas mergers and acquisitions.

II. Literature Review

Chakraborty Chandana and Basu Parantap, (2002), the author is reconnoitered through an organizational co-assimilation model with vector inaccuracy rectification mechanism, by a two-way relation between FDI and extensive rapport transpires between FDI and GDP, i.e. unit labor cost and import duty in over-all tax revenue. Park Jongsoo, (2004), the investigator scrutinized the movement of FDI in India through industrial bunch: with exceptional allusion to Hyundai Motors. The study recapitulates that the approach of Indian government towards foreign direct investment has displayed a radical reform after 1991. The fresh modifications of FEMA have been drawing the FII's but the article also encapsulates that dualistic principal restraints to investment in India are establishment and displaying leap of transformations. The study recommends that the progress of India has improved through mutual projects and Green belt investments. Rajalakshmi K. and Ramachandran F., (2011), the writer has reflected the foreign investment flows (FDI) from side to side the auto segment with distinctive allusion to customer Pullmans. The examination approach applied for scrutiny contains the use of ARIMA, coefficient, linear and compound model. The epoch of study is from 1991 to 2011. This article is a realistic investigation of foreign direct investment (FDI) flow after post liberalization era. The authors have also scanned the tendency ad composition of foreign direct investment (FDI) flow and the consequence of foreign direct investment (FDI) on fiscal progress. The writer has also acknowledged the difficulties confronted by India in foreign direct investment (FDI) progression of motor segment through recommendations of strategy insinuations.

Khan A.Q. and Siddiqui Ahmad Taufeeque (2011) studied the influence of foreign direct investment (FDI) on Indian economy and a link with China & USA. The article has also been attempted into figure out set of tactics to covenant with the concerns & glitches in drawing foreign direct investment (FDI) for advancement & progress of global business. In this paper the dual log model has been applied to find resistance between diverse causes. Authors also focus the bearing of foreign direct investment (FDI) on engagement. In this research paper, the debate between GDP and foreign direct investment (FDI) as to calculate that foreign direct investment (FDI) helps in makes better development of a country. Bhanagade D.B, Shah A. Pallavi (2011), the bearing of foreign direct investment (FDI) on Indian Economy where they also accentuate on the investments, areas fascinating maximum foreign direct investment (FDI) inflows and foreign direct investment (FDI) hints to creation of occupation chances. Hence the progress of inflow of foreign direct investment (FDI) would tip to encouraging development of gross capital creation. In India, the progress of GDP is basically swayed by foreign direct investment (FDI).

Dr. S N Babar and Dr. B V Khandare, (2012), the paper is predominantly concentrated on altering configuration and way of India's foreign direct investment (FDI) during globalization era. The search is completed from end to end analysis of benefits of foreign direct investment (FDI) for trade and industry development. The examination has been done complete faction verbal scrutiny of foreign direct investment (FDI) partaking, as well as complete enquiry of nation wise movement of foreign direct investment influx in India till 2010.Singh Kr. Arun and Agarwal P.K., (2012) in this study they have considered the relation of foreign direct investment and Indian retail industry. The analysis is grounded on diverse case studies, literatures and analysis of organized retail market. The investigators converse the strategy progress for foreign direct investment (FDI) in the two retail groupings: sole brand and multi brand. The writers summarize that foreign direct investment (FDI) in multi brand retail should be well thought-out, improved technology and occupation. The article also run through that candidness of foreign direct investment (FDI) in India would benefit India to assimilate into universal market.

N Maruti Rao, (2013) FDI in multi-brand retailing which has activated a discussion on whether India should permit access of overseas traders or not. In the name of this expansion, a search has been steered to find out the challenges and opportunities of permitting foreign direct investment FDI in multi-brand retailing. It is detected that multi-brand retailing will have constructive as well harmful bearing on Indian economy, Indian customers, farmers, retail sector and society. It is also establish that there are numerous challenges before foreign companies which are required to be speaking to before arriving into India. Sandeep Kumar and Sheenu Sharma (2017), In this paper the investigators studies that foreign direct investment (FDI) is very critical feature for the growth of the country and also plays a dynamic role for the hi-tech up gradation and creation of employment openings. Service zone matures at a quicker rate as related to trade and useful for the transfer of the administrative abilities abroad. This examination has shown that foreign direct investment (FDI) has affirmative and noteworthy sway on GDP .The prominence of the foreign direct investment (FDI) was amplified after the fresh fiscal policy 1990-1991. The outcomes establish that foreign direct investment (FDI) had a worthy and encouraging influence on the GDP.

Objective of the Study

- To analyze FDI influx in Service Sectors in India in present economy

Sub Objectives

- To identify sector wise FDI influx in India
- To explore FDI in economic development of India

Research Methodology

Particulars	Description
Sample Size	Sectors :- Service sector(Financial & Non-Financial)
Data Collection	FDI influx during 2007-8 to 2016-17
Research Design	Descriptive and Quantitative
Sources of Data	Secondary data collected from RBI, Money Control, World Bank etc.
Data analysis methodology	Data gathered and analyzed by researchers

Types of FDIs

As for as Foreign direct investment (FDI) is concerned it is essentially of two types-

1. **Green Field Investment (GFI)** - Under GFI, a new foreign company can be established in India.
2. **Portfolio investment (PI)** - Under PI, shares of a foreign company are purchased or the foreign company owned by them is acquired.

In India as per guidelines from existing government FDI whether Influx or outward can be done in the following ways;

1. In order to participate in the management of concerned enterprise, shares of existing foreign venture can be acquired.
2. Existing enterprises and factories can be taken on depending upon regulatory framework of respective country where investment is proposed.
3. A new subsidiary with 100% ownership can be established in India.
4. It is possible to participate in a joint venture through shareholding in India in accordance with SEBI.
5. New foreign branches, offices and factories can be established in India as per FIPB earlier and now DIPP (Department of Industrial Policy and Promotion).
6. Existing foreign branches and factories can be expanded and modified in operations as per guidelines issued by Foreign Investment Promotion Board (FIPB), falls under the Department of Economic Affairs as of now but later on abolished by present government and will now be processed

by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry.

Economic Development in India through FDI (Influx)

FDI (Foreign direct investment) is one of major economic factors indicating the investment environment in the economy of India that facilitates the confidence level as well as motivation of investors in domestic and international levels. FDI Influx in India definitely enhances technological upgradation, increases competitiveness in the industry, increases capital stocks, strengthens infrastructure base and thus in this way the overall level of prosperity in the economy is reflected.

After the post LPG (Liberalization, Privatization, Globalization) of Indian economy in 1991, India not only attracted various economies of the world in various fields to foreign direct investment but also proven substantial growth and development too. With the continuing improvement process till now in 2018, in many sectors 100 per cent foreign direct investment has been permitted in the Indian economy.

In present course of time India has witnessed one of the most preferred destinations for foreign direct investment (FDI) across the world. Total foreign direct investment flows in India have increased nine fold in the past fifteen years. Foreign direct investment Influx as per DIPP in the financial year 2007 was US $ 24,575 Million, that got increased to US $ 36,541 Million in the year 2017-18 that resulted 48.69% growth.

Advantages of FDI

At Supportive -Investing levels

Foreign investment from different countries can fill the gap between the desired investment and the investment from local level.

Upgradation of Technology

It further demonstrates that by transferring machinery and equipment to developing countries with an objective of investment for long time, there is a technical mingling with foreign investment and thus enhances technology support of higher grade and quality.

Employment Generation

Also through FDI facilitates in generating employment in modern areas in developing countries such as India.

Benefits to traders and consumers

Traders and consumers in developing countries like India witnesses to get benefitted from foreign direct investment (FDI) through launching of new products range which they deprived for earlier with improved quality of goods at competitive prices.

Improve EXIM policies

Through robust FDI policies and commitments towards trade respective countries can improve their trade both import and export of goods and services.

Disadvantages of FDI

Apart from many advantages there are few ignorable disadvantages too as mentioned.

Technology and knowledge transfer

The minor disadvantage of FDI is that due to technology and knowledge transfer foreign countries take undue advantages over technology of host country and undue to this upgraded technology and expertise knowledge trade is adversely affected done by traders in host countries.

Cultural Differences

Due to cultural mismatch and differences between traders there is sometimes cultural differences and thus lead to business failure with one another.

Huge Capital expenditure

Although there is debate whether capital expenditure is considered as disadvantage or not but in our point of view it is considered as disadvantage since huge commitment of funds of required for investing in foreign country and if requirement of funds is increased drastically due to some reasons then it can increase cost of investment and may lead to failure of project.

Foreign Exchange and Inflation Crisis

In FDI many a times it happens that due exchange rate risk involved between two countries can further delay the project or even cancel if not hedged within time frame. Also sometimes due to inflation occurred after investment or during the investment, cost of project is affected that further affect other confounding factors associated to Foreign Direct Investment.

Political Corruption

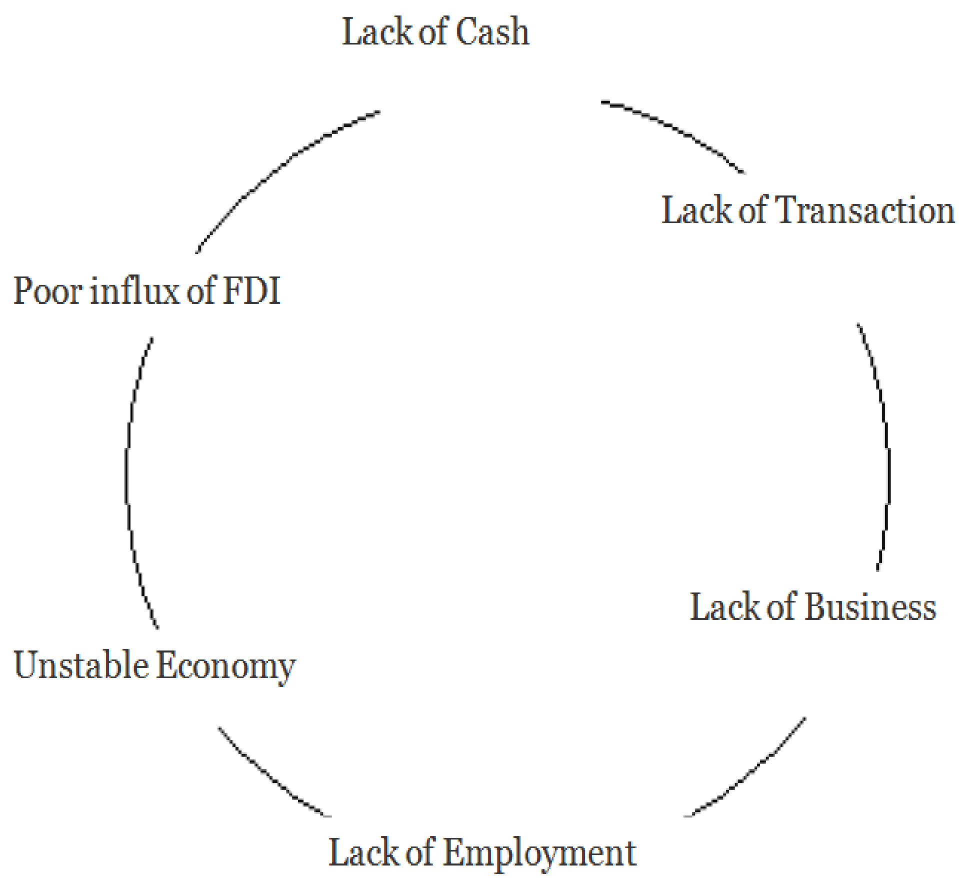
Some foreign ventures interested in FDI try to influence political parties in order to achieve their professional objectives and that too sometimes unfair and unethical trade practices.

There are as many as many examples that due to this political corruption many undeserving foreign ventures captured the projects and later on leading to gain enormously and unethically from their investment be exploiting human as well capital resources.

World Bank and IMF

Although, there is an argument about the fair role of World Bank and IMF, in Foreign Direct Investment, that there is major discrimination about their role to provide some financial assistance among developing and developed countries.

Demonetization cyclic process and its effects FDI in Indian Economic Development



Country as well as Sector wise investments in current year from 2014-15 uptill, 2016-17

Share of Top Investing Countries FDI Equity Inflows (Financial Years):

Amount Rupees in Crores (US$ in Millions)

Ranks	Country	2014-15 (April – March)	2015-16 (April – March)	2016-17 (April – March)	Cumulative Inflows (April, 00 – March, 17)	%age to total Inflows (in terms of US $)
1	Mauritius	55,172 (9,030)	54,706 (8,355)	105,587 (15,728)	585,950 (111,638)	34%
2	Singapore	41,350 (6,742)	89,510 (13,692)	58,376 (8,711)	315,042 (54,590)	16 %
3	Japan	12,752 (2,084)	17,275 (2,614)	31,588 (4,709)	142,260 (25,675)	8%
4	UK	8,769 (1,447)	5,938 (898)	9,953 (1,483)	125,545 (24,591)	7 %
5	Netherlands	20,960 (3,436)	17,275 (2,643)	22,633 (3,367)	117,167 (20,682)	6 %
6	USA	11,150 (1,824)	27,695 (4,192)	15,957 (2,379)	110,532 (20,323)	6 %
7	Germany	6,904 (1,125)	6,361 (986)	7,175 (1,069)	52,045 (9,698)	3 %
8	Cyprus	3,634 (598)	3,317 (508)	4,050 (604)	46,731 (9,156)	3 %
9	France	3,881 (635)	3,937 (598)	4,112 (614)	30,637 (5,725)	2 %
10	UAE	2,251 (367)	6,528 (985)	4,539 (675)	26,187 (4,705)	1 %

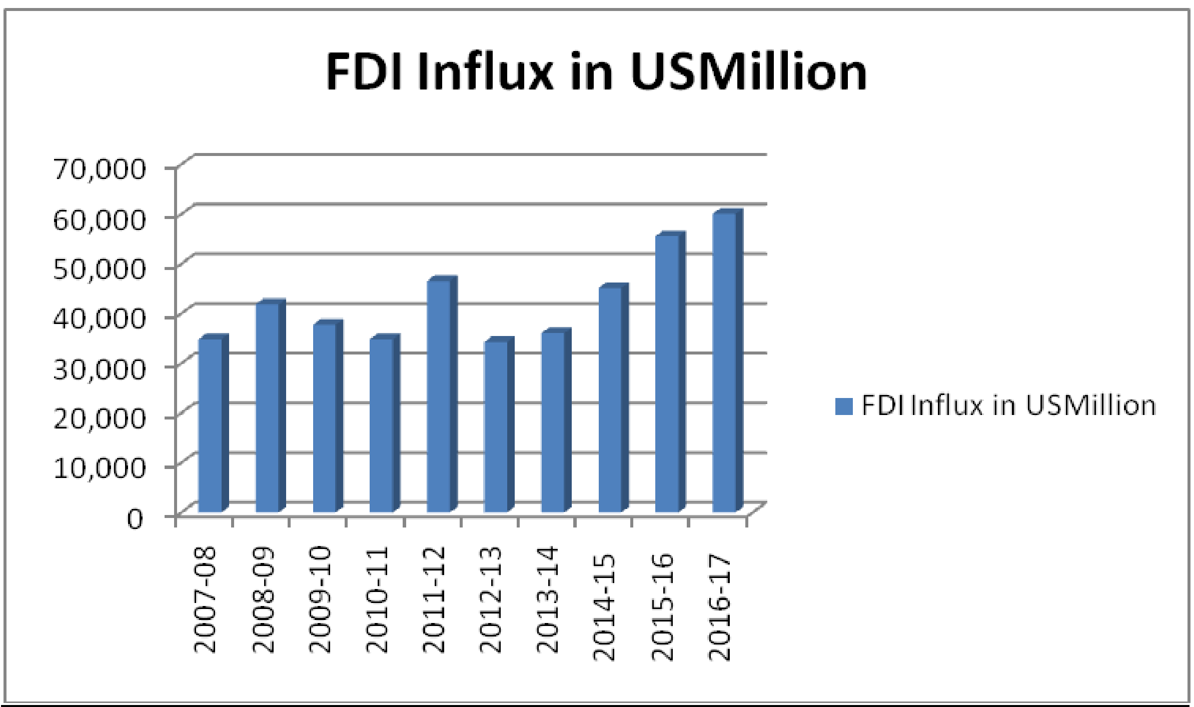
TOTAL FDI INFLOWS FROM ALL COUNTRIES *	189,107 (30,931)	262,322 (40,001)	291,696 (43,478)	1,787,555 (332,112)	-

In the above mentioned data compiled from RBI it has been found that Mauritius, Singapore and Japan are the top three Foreign Direct Investors shown their confidence in investing in India in diversified sectors as shown.

FDI Influx data since year 2007-08 to 2016-17

S. No	Year	FDI Influx in US Million	% Growth as compared to previous year
1	2007-08	34,843	(+) 53 %
2	2008-09	41,873	(+) 20 %
3	2009-10	37,745	(-) 10 %
4	2010-11	34,847	(-) 08 %
5	2011-12	46,556	(+) 34 %
6	2012-13	34,298	(-) 26%
7	2013-14	36,046	(+) 5%
8	2014-15	45,148	(+) 25%
9	2015-16	55,559	(+) 23%
10	2016-17	60,082	(+) 8%

Collected and Compiled by Researchers



Industries	FDI influx in USD Million	% Yield
Services Sector*(Financial & Non-Financial)	**59,476.49**	**17.92**
Computer Software & Hardware	24,669.49	7.43
Infrastructure and construction-development projects	24,293.08	7.32
Telecommunications	23,946.04	7.21
Automobile Industry	16,673.91	5.02

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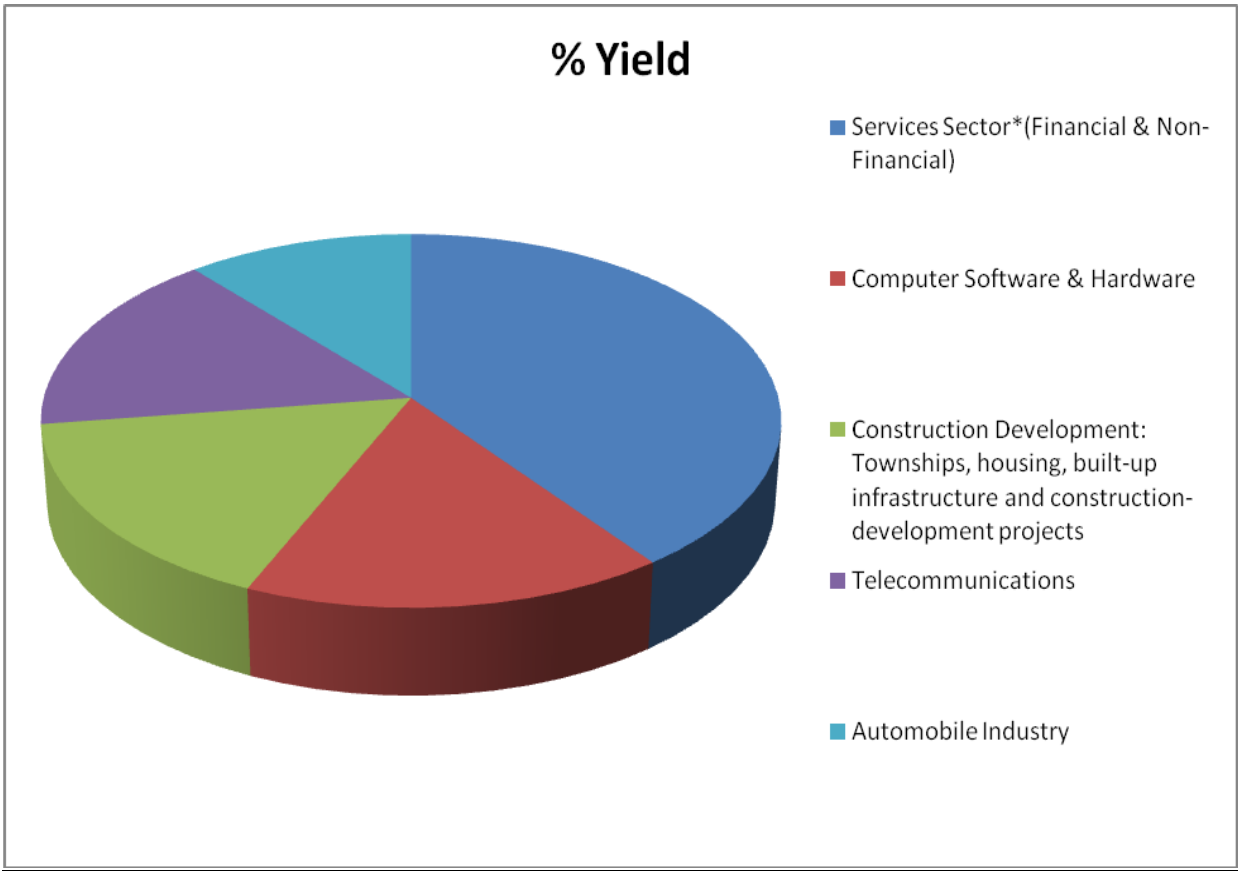

Analysis of Influx Foreign Direct Investment in Service Sector in India till 2017-18

In is clear from the above tables that FDI Influx got increased drastically during 2007-08 with growth of approximately 53% as compared to previous year as calculated. As per our study as we have analyzed data available from 2007-08 we researchers have observed that since 2007-08, FDI Influx got increased except few years 2008-09, 2010-11 and 2012-13 (Minimum growth found)

Also it has been found that during year 2016-17 FDI Influx (in USD) got increased but growth as compared to previous years got down i.e. merely 8%.

During our study we have also noticed that after demonetization (8 Nov; 2016) FDI Influx get affected neutrally or bit negatively during current fiscal year 2017-18 because of poor response from foreign ventures but analysts see it for only short term until Indian economy comes on track to improve economically and boosting confidence level of domestic as well foreign investors (FDI).

It is also evident from the above data that Services Sector, Computer Software & Hardware, infrastructure and construction-development projects, Telecommunications, Automobile Industry have been top five sectors of Foreign Direct Investors worldwide and their choice of preferences was found to be in Service sector followed by other sectors have been top contributor in the current Indian Economy. During our selected years of study, Indian service sector (specifically Banking and Insurance) has seen enormous growth and potential that bagged Indian financial market huge FDI Influx.

Researchers closely monitor data available in different sectors and then dare to defend their research by statistics clearly showing that in each year starting from 2007 to 2017, major FDI inflow recorded nearly 17.92 % in service sector (Financial and Non- Financial) , which is highest in all sectors.

T- test and P- test(two tailed at 5 % Degree of Freedom)

Observed values	% Yield
59,476.49	17.92
24,669.49	7.43
24,293.08	7.32
23,946.04	7.21
16,673.91	5.02

By observing this table considering mean values at 5% level of significance we have found T value 2.8668 that is greater than 2.57 and P value is 0.018512 at $p<0.05\%$ in the prescribed table value ,therefore the result is found to significant on aforesaid data shown in the table.

III. CONCLUSION

During our writing of this research paper we have closely monitored reliable and genuine secondary sources of data. On the basis of our analysis we strongly recommend that for the economic development, growth and foreign revenue generation, FDI influx plays significant role and all sectors need to contribute in an economy since merely domestic investment cannot play substantial role to witness development and growth in its economy.

Therefore like other developed economies India also focus on Foreign Direct Investment (FDI-Influx) should be distributed in all sectors strengthening its running economy but as we have observed in our analysis that service sector has been major contributor with approximately 18% towards Indian economy that sounds motivating and strengthening for overall growth and economic development.

We have also noticed during our analysis that several confounding factors such as demonetization and complex GST structure in Indian Economic System that could further reduce and demotivate foreign ventures towards investment in India as mentioned in demonetization cyclic process.

Research Gap and Further Scope of Study:-

After intense exploration and analysis of many research papers and articles in this area we still find that there is vast scope to explore other various aspects of FDI in Indian context as a whole and of course sector wise influx of FDI in India in current economic scenario.

Although there is other confounding factors that are affecting FDI influx such as post demonetization phase and GST(Goods and Service Tax) but in this paper not described in details but touched in brief due to limited time frame and primary objective of study in this paper.

However to bridge the gap of many researches in this area we researchers have to an extent filled the gap and due to some constraints found and faced during research leave some essential areas for further study and research in FDI.

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