CHAPTER V

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

The present study has been undertaken with a view to analyse FDI inflows and its impact on economic variables like GDP, balance of payments, exports and imports. In this chapter findings of the study, suggestions and conclusion are presented.

5.1 Findings of the Study

The important findings of the study are described below.

FDI Inflows

Analysis regarding FDI inflows into India reveals the following.

- FDI inflows into India had increased from US $ 129 million in the year 1991-92 to US $ 42215 million in the year 2016-17.
- The annual growth rate of FDI inflows was 144.2 per cent in the year 1991-92 and in the year 2016-2017 it was -5.9 per cent. The annual growth rate of FDI inflows becomes negative in the long run.

Route wise FDI Inflows

The study about the route wise FDI inflows in to India reveals that

- FDI inflows into India through government route had increased from US $ 66 million in the year 1991-92 to US $ 5900 million in the year 2016-
17. The annual growth rate in the year 1992-93 was 236.4 per cent and in the year 2016-17 it was 65.1 percent. The percentage share of FDI inflows through government route to total FDI inflows had decreased from 51.2 per cent in the year 1991-92 to 13.9 percent in the year 2016-17.

- FDI inflows into India through RBI route had increased from US $ 42 million in the year 1992-1993 to US $ 30417 million in the year 2016-17. The annual growth rate of FDI inflows through RBI route was 111.9 per cent in the year 1993-94 and it was -6.3 per cent in the year 2016-17. The percentage share of FDI inflows through RBI route to total FDI inflows had increased from 13.3 percent in the year 1992-93 to 72.1 per cent in the year 2016-17.

- FDI inflows into India through the route of NRI was US $ 63 million in the year 1991-92, which decreased to US $ 35 million in the year 2001-02. The annual growth rate of FDI inflows through this route was -19.0 per cent in the year 1993-94 and it was -47.7 per cent in the year 2016-17. The percentage share of FDI inflows through the route of NRI to total FDI inflows had decreased from 48.8 percent in the year 1991-92 to 0.6 per cent in the year 2001-02. This route was merged with the RBI route from 2002.

- FDI inflows into India through the route of acquisition of shares increased from US $ 11 million in the year 1995-1996 to US $ 7161 million in the year 2016-17. The annual growth rate of FDI inflows
through this route was 1036.3 per cent in the year 1995-96 and it was 82.1 per cent in the year 2016-17. The percentage share of FDI inflows through this route to total FDI inflows had increased from 0.5 percent in the year 1995-96 to 16.9 per cent in the year 2016-17.

- FDI inflows into India through the route of unincorporated bodies had increased from US $ 61 million in the year 2000-01 to US $ 1223 million in the year 2016-17. The annual growth rate of FDI inflows through this route was 213.1 per cent in the year 2001-02 and it was 10.0 per cent in the year 2016-17. The percentage share of FDI inflows through the route of unincorporated bodies to total FDI inflows had increased from 1.5 percent in the year 2000-01 to 2.9 per cent in the year 2016-17.

- FDI inflows into India through the route of reinvested earnings increased from US $ 1350 million in the year 2000-01 to US $ 12343 million in the year 2016-17. The annual growth rate of FDI inflows through this route was 21.8 per cent in the year 2001-02 and it was 18.5 per cent in the year 2016-17. The percentage share of FDI inflows through the route of reinvested earnings to total FDI inflows had decreased from 33.5 percent in the year 2000-01 to 29.2 per cent in the year 2016-17.

- FDI inflows into India through other capital had increased from US $ 279 million in the year 2000-01 to US $ 3176 million in the year 2016-17. The annual growth rate of FDI inflows through other capital was
39.7 per cent in the year 2001-02 and it was -21.2 per cent in the year 2016-17. The percentage share of FDI inflows through other capital to total FDI inflows had increased from 6.9 percent in the year 2000-01 to 7.5 per cent in the year 2016-17.

- Out of the total seven routes by which FDI inflows have come into India, RBI route ranks first with 47.5 per cent investment, followed by reinvested earnings (23.7 per cent), Acquisition of shares (15.3 per cent), government route (11.1 per cent), other capital (4.9 per cent), equity capital of unincorporated bodies (3.0 per cent) and NRI route (0.6 per cent).

**Country wise FDI Inflows**

Analysing the country wise FDI inflows into India shows that,

- In the study period, from 1991 to 2017 Mauritius emerged as a top investing country with US $ 91860 million (19.7 per cent of the total) FDI inflows. The other investing countries with highest investment are Singapore with US $ 44534 million (9.6 per cent), the USA with US $ 20827 million (4.5 per cent), Japan with US $ 17825 million (3.8 per cent), Netherlands with US $ 17189 million (3.7 per cent), the UK with US $ 13447 million (2.9 per cent), Germany with US $ 7377 million (1.6 per cent), France with US $ 4376 million (0.9 per cent), Switzerland with US $ 2681 million (0.5 per cent) and South Korea with US $ 2593 million (0.5 per cent).
• From the study it is clear that the top ten investing countries have jointly accounted for about 47.7 per cent of the total FDI inflows into India. The remaining investment has come from other investing countries constituting a small percentage.

Sector wise FDI Inflows

Sector wise FDI inflows into India have been analysed under three division of time periods such as 1991 to 2003, 2003 to 2010 and 2011 to 2017, due to the difference in the priority of allocation of FDI inflows, and it reveals the following:

• During 1991 to 2003, engineering sector attracted the major share of FDI in the years 1992-93, 1995-97 and 1998-2001. Chemical and allied products sector registered with major FDI inflow during 1993-95. Electrical and electronic equipment industry received the maximum share of FDI inflows in the years 1997-98 and 2001-02. Computer services sector registered the maximum share of FDI inflows in 2002-03.

• During the period 1992 to 2003 engineering sector attracted the maximum investment amount to US $ 3317 million. This was followed by electrical and electronic equipment, chemical and allied products, computer services, finance, food and dairy products, pharmaceuticals and domestic appliances sector.
• Manufacturing sector attracted the major portion of the FDI during 2003-04 to 2009-10, except 2007-08. During 2007-08 Finance sector attracted the highest amount of FDI, this was followed by the manufacturing and finance sector, the highest share of FDI is attracted by construction sector, Computer services sector, and real estate sector during the period 2003-04 to 2009-10. Sectors like mining, retail and wholesale trade and education received below one per cent of the total FDI inflows.

• During the period 2003 to 2010 manufacturing sector attracts the major portion of FDI inflows which is 11.5 per cent, followed by finance (8.1), construction (6.3), computer services (3.5), communication services (2.8), real estate (2.8), electrical and electronic equipment (2.4), transport (1.1), hotels and restaurants (1.1), retail and wholesale trade (0.7), mining and trading sectors (0.6). Education sector attracts the minimum amount of FDI inflows during these years which is only 0.4 per cent.

• During the period 2011 to 2017 manufacturing sector has attracted the maximum amount of FDI inflows which is above 15 per cent in all these years. The finance sector has received the maximum of 8.0 per cent of FDI in the Year 2012-13. Construction sector has attracted the maximum of 5.6 per cent in the year 2011-12. Electrical and electronic equipment sector has attracted the maximum of 4.8 per cent FDI in the year 2012-13. Hotels and restaurants sector has attracted the maximum
of 9.1 per cent in the year 2012-13 and in the remaining years the share of this sector is below 2 per cent. The sectors like trade, communication service, computer service, mining, transport, real estate and education have accounted below 3 per cent in these years.

- During the period from 2011 to 2017 manufacturing sector attracts the major share of the FDI inflows which is 20.5 per cent. Construction sector attracts 5.1 per cent of FDI inflows. This is followed by finance (5.0), retail and wholesale trade (4.5), mining (3.5), transport (2.9), electric and electronic equipment (2.6), trading (2.6), computer services (2.5), communication services (2.3), hotels and restaurants (1.9) and real estate services (0.7). During these period education sector attracts the minimum of 0.2 per cent of FDI inflows among the top most sectors. All the other sectors attract below 0.2 percent.

**Impact of FDI on GDP**

It is observed that the inflow of foreign direct investment and India’s economic growth is significantly related with each other. The following results are observed from the study.

- The percentage share of FDI to GDP was 0.05 in 1991-92, which increased to 1.86 per cent in 2016-17 with fluctuations. The effect of FDI on GDP is significant with the R$^2$ value of 0.894 explaining the model variance by 89.4 per cent. It is found that a one per cent increase in FDI leads to 36.07 per cent increase in GDP of India.
Impact of FDI on Balance of Payment

The study observes that foreign direct investment inflows into India have a direct impact on the balance of payments position of India. The current account and capital account is influenced by the inflow of foreign direct investment and it has a positive impact in the trade balance of balance of payments position. The study further reveals the following:

- A one per cent increase in foreign direct investment leads to a 10.6 per cent increase in current account receipts, 11.6 per cent increase in current account payments and 97.1 per cent decrease in net value of current account.

- A one per cent increase in foreign direct investment leads to a 5.8 per cent increase in merchandise exports, 9.2 per cent increase in merchandise imports and 3.3 per cent decrease in trade balance.

- A one per cent increase in foreign direct investment leads to a 48 per cent increase in invisible receipts of current account, 24.5 per cent increase in invisible payments of current account, 20.8 per cent increase in the capital account receipts, 18.1 per cent increase in capital account payments and 26.6 per cent increase in the net value of capital account of balance of payments.

Impact of FDI inflows on Exports

Export of primary products, manufactured products and export of other similar products have a significant impact of foreign direct investment inflows. Many
studies support the view that FDI increases the host country’s exports. The present study reveals that

- A one per cent increase in foreign direct investment leads to 13.7 per cent increase in export of primary products, 67.1 per cent increase in export of manufactured products, 20.6 per cent increase in export of petroleum products and 6.2 per cent increase in export of other commodities.

- It is also important to note that manufacturing sector has attracted the major share of FDI inflows into India and analysing the impact of FDI on exports shows that FDI inflows have a major impact on exports. A one per cent increase in FDI creates 67.1 per cent increase in exports of manufacturing products.

**Impact FDI inflows on Imports**

Foreign direct inflows into India have a significant impact in the import of petroleum, crude and similar products, bulk consumption goods, capital goods, export related items and the import of non-bulk items. From the present study it is observed that;

- A one per cent increase in foreign direct investment leads to 51.5 per cent increase in import of petroleum, crude and similar products, 4.9 per cent increase in import of bulk consumption goods, 17.2 per cent increase in import of other bulk items, 31.4 per cent increase in import of capital goods, 15.9 per cent increase in import of export related items and 41.3 per cent increase in import of other non-bulk items
A 16.4 per cent increase in total imports is caused by a 1 per cent increase in foreign direct investment.

5.2 Suggestions:

1. FDI inflow is very important and should be encouraged significantly in all spheres of the Indian economy.

2. The foreign direct investment inflows in some sectors are very limited. So the government should revise the policy and make changes to spread the foreign direct investment evenly to all the sectors.

3. It is advisable to open up export oriented sectors which leads to increase in exports.

4. The government should increase the capital intensive technologies to improve the production of primary products, so that the export of primary products can also be increased.

5. The government should take steps to increase a certain per cent of employment opportunities through all sectors which attracts the high amount of foreign direct investment inflows.

5.3 CONCLUSION

The study observes that the inflows of foreign direct investment is increasing but the share of top investing countries are not in a progressive manner. Majority of the FDI inflows is attracted by the manufacturing sector. Other sectors should also be given equal importance. The study also finds out the impact of FDI is significant on
GDP. Export oriented foreign direct investment inflows not only improve the trade situation but also deteriorate the current account deficit situation. The share of foreign direct investment in the capital account plays an important role in balancing the balance of payments position. During the study period the inflow of foreign direct investment increases imports due to the import of foreign technology and raw material by the investing countries.