International Journal of Academic Research and Development
ISSN: 2455-4197; Impact Factor: RJIF 5.22
Received: 03-01-2020; Accepted: 04-02-2020; Published: 03-03-2020
www.academicjournal.in
Volume 5; Issue 2; 2020; Page No. 12-15

Impact of FDI on economic growth of India with reference to agriculture, industry and service sector

Therese Francis
Associate Professor, Seshadri Puram Commerce College Bangalore, Karnataka, India

Abstract
FDI is one of the most important components which increase the revenue of the country and is also considered as a major monetary source for the economic development of India. The main causes of FDI are the availability of cheap labor in India when compared to a foreign country. The main objective of this paper is to analyze the impact of FDI on GDP and workforce across economic sectors of India, to study and evaluate FDI inflow in India and also to study the initiatives which are taken by the government to promote FDI. This paper is descriptive in nature and based on secondary information btained from various websites, the obtained data is analyzed in order to suit the objectives of the study, by using a simple statistical tool and findings and suggestion are drawn based on the analysis of the data.

Keywords: FDI, GDP, Economic Development, government initiatives, workforce, etc.

1. Introduction
The Business Environment of India is changing since 1950's Economic crisis of 1991 gave way to liberalize the economy of India. India sensed the need for FDI since 1991 and realized that, FDI is one of the most important components which increased the revenue of the country and is also considered as a major monetary source for economic development of India. The main causes of FDI are availability of cheap labour in India when compared to foreign country. In this scenario, we witness that foreign countries are investing in fast growing private business of India. India is one among the top 10 leading countries in FDI. It has become investor friendly in terms of foreign investments. The government of India has taken various measures to attract FDI.

Important definitions and Concepts of FDI
"Foreign Direct Investment": It is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased.
MNC's: The businesses that make foreign direct investments are often called as Multinational Corporations/Enterprises. An MNE may make a direct investment by creating a new foreign enterprise, which is called a Greenfield investment, or by the acquisitions of a foreign firm, either called an acquisition or Brownfield investment.

Routes: The two routes through which FDI flows are
a. **Automatic route**: It is a route through which FDI flows without prior approval of RBI or GOI. Under this route, the non-resident investor or the Indian Company does not require any approval from GOI.
b. **Government route**: It is a route through which government approval is required. FIPB is the responsible agency which uses to oversea government route. But now it is handled by concerned ministries or Department in consultation with Department for Promotion of Industry and Internal Trade [DPIIT].

Make in India: Is a program which is framed by GOI to facilitate investment, foster Innovation, enhance skill development, protect intellectual property and build excellent Infrastructure in the country. The main objective is to attract investor from all over the globe.

Review of Literature
1. Sourangsu Banerji. Research student ISI, India in his "Effects of Foreign Direct Investment in Indian Economy" conducted a study to examine the effects of FDI in India and its economy and speak for and against. FDI in India.
2. Dr. Priyanka 2017 in their "Impact of Make in India Launch in FDI" speaks about how launch of make in India in 2014 September, has supported the growth of FDI in manufacturing sector in India.
3. Shib Shankar June 28th 2019- in his resource article. "FDI and Economic Growth in India": A sector-specific analysis, analysis, specific that the FDI inflow is not contributing to agricultural output growth.
4. Vinay Kumar 2019 Trend's of FDI in India and its impact on Economic, This paper has analyzed the trend, FII and GDP of the country.

Statement of the problem
India as a developing country is blessed with plenty of natural and human resources, but it is left behind when compared to that of capital resources. The development of the country is possible only when its capital is strong and blends properly with other resources. Foreign Direct Investment is that component of revenue which a country can obtain without payment of any interest. There is a tremendous need of FDI to India.

Objectives of the Study
1. To analyze the impact of FDI on GDP.

2. To analyze the impact of FDI on workforce across Economic sector of India.
3. To study and evaluate FDI inflow in India.
4. To Study the Initiative taken by Government to promote FDI.

Research Methodology
This paper is descriptive in nature; it is based on the secondary information obtained from various website, the obtained data is analyzed in order to suit the objectives of the study, by using simple statistical tool, findings and suggestions is drawn based on the analysis of the data.

Analysis

Table 1

Year	% of GDP Growth	CAGR
2012-13	7.49%	-
2013-14	7.34%	-2.00%
2014-15	8.70%	18.5%
2015-16	8.03%	-7.70%
2016-17	8.87%	10.46%
2017-18	6.77%	-23.68%
2018-19	7.00%	3.29%
2019-20	4.50%	-35.7%

CAGR: compounded average growth rate.
Source: www.livemint.com/ne

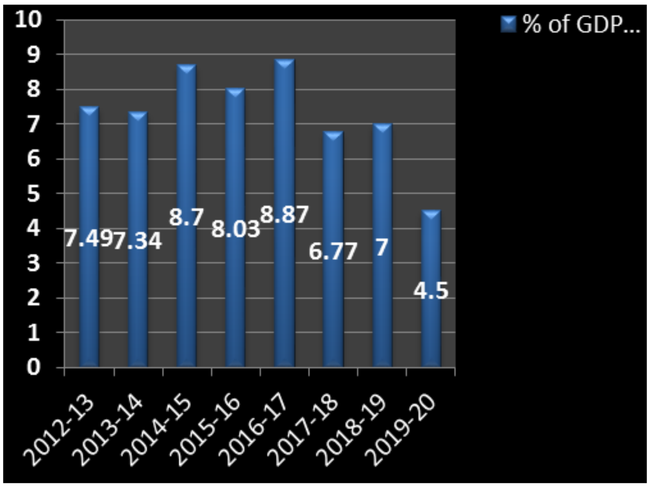


Fig 1

Analysis and interpretation
As per the analysis of the secondary data GDP growth rate is moderate from 2012-18 which was world's faster growing major economy. Between 6.77% to 8.87% and the country has witnessed a tremendous fall of GDP from 7.00% to 4.5% with -35.7% CAGR. The expectation of the economist was 5.7% in 2019 June, but went wrong. India is the world's fifth largest economy in nominal GDP.

GDP By sector 2018-19

Table 2

Sl. No	Sector	Percentage (%)
1	Agriculture	15.5%
2	Industry	23.0%
3	Service	61.5%
Total		100%

Sources: en.mwikipedia.org

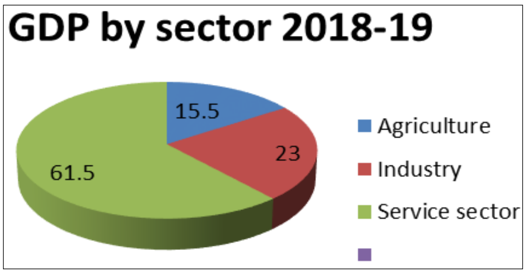


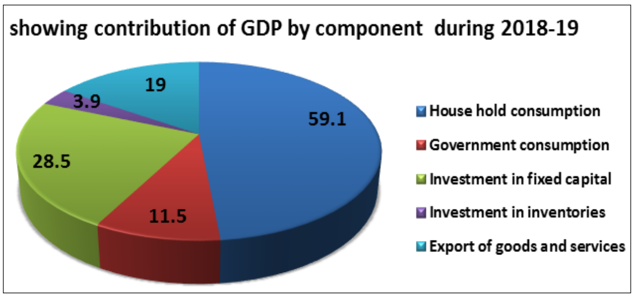
Fig 2

Analysis and Interpretation
During the year 2018-19, the highest contribution of GDP is from service sector followed by 23% and 15% in Industry agriculture respectively.

Contribution of GDP by component during 2018-19

Table 3

Sl. no	Component	Percentage
1	Household consumption	59.1%
2	Government consumption	11.5%
3	Investment in fixed capital	28.5%
4	Investment in inventories	3.9%
5	Export of goods and services	19.0%
6	Import of goods of service	-22%
Total		100%



Sources: en.mwikipedia.com

Fig 3

Analysis and interpretation
During the financial year 2018-19, the contribution of GDP from household consumption is highest recording 59.1%, followed by Investment in fixed capital of 28.5% and export of goods and services with 19%.

The work force across Economic Sectors from 2009-2010, 2018-2019 Agriculture, Industry and Service Sector.

Table 4

Year	Agriculture %	C.A.G.R	Industry %	C AGR	Services %	CAGR
2009 -10	52.12	-	21.61	-	26.27	-
2010 -11	51.06	-2.03	22.38	35.6	26.57	1.14
2011-12	48.96	-4.11	23.52	3.57	27.52	3.58
2012 -13	47	-3.79	24.36	3.57	28.64	4.1
2013 -14	46.06	-0.85	24.36	0	29.04	1.6
2014 -15	46.07	-1.14	24.38	0.08	29.55	1.76
2015 -16	46.56	-0..01	24.34	-0.16	30.1	1.86
2016 -17	45.12	-0.97	24.29	-0.21	30.59	1.63
2017 -18	44.52.	-1.33	24.47	0.74	30.1	-1.60
2018 -19	43.86	-1.48	24.69	0.9	31.45	4.49

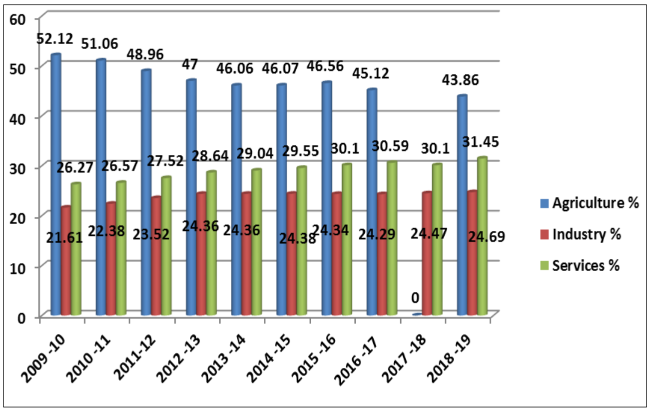


Fig 4

Analysis and Interpretation

During the year 2018-19, 24.69% of the workforce was engaged in industry, 31.45 in service sector and 43.86 in agriculture, as compare to 21.61, 26.27% and 52.12% during 2009-10 industry, service and agriculture respectively. It is observed that CAGR of Agriculture is negative throughout, It means that, the Indian population working in Agriculture is declining but still major percentage of the people are working in agricultural sector. Since 2013-14, the employment in industry is not increasing CAGR during this year is 0%, the CAGR of employment in service sector recorded -1.60% during the year 2017-18 and 4.49% during 2018-19.

FDI Inflows in India 2008-19

Table 5

Year's	FDI Inflow's Amount US $ Million	CAGR
2008-09	41,873	-
2009-10	37,745	-9.86.
2010-11	34,847	-7.68
2011-12	46.556	33.60
2012-13	34,298	-26.33
2013-14	36,048	+5.01
2014-15	45,148	+25.25
2015-16	55,559	+23.06
2016-17	60,220	+8.39
2017-18	60,974	+1.25
2018-19	64,375	+5.58
Total	48,2796	

Sources: as per RBI' News Bulletin

Government initiative in FDI

- Government of India permitted 100% FDI under the automatic route in coal mining for open sale.
- Government of India has planned to consider 100% FDI in Insurance intermediates
- During the union budget 19-2020 the government of India gave a proposal to open FDI in Aviation Media & Insurance sector consulting the stake holders
- The government of India is working on a road map to reach a goal of UA 100 billion worth of FDI inflows.
- Government of India released the National Digital policy communication policy.
- Government of India released the draft National E-commerce policy which encourage FDI in the market place model of e-commerce.
- Government of India allowed foreign airlines to invest in Air India up to 49% with government approval.
- For real estate broking service government approval is not required up to 100% FDI.
- The government of India liberalized FD in defense under automatic route from 51% to 49% in order to boost Make in India initiative & Generate Employment Sources: (www.ibef.org) Dec 2019

Findings and suggestion

- It is evident that, the compound annual growth rate of GDP has reduce to -35.7% during 2019-20. A big fall in GDP is noticed, it may be due to prevalence of natural calamities in different parts of the country. The highest contribution of GDP is from service sector, contribution of GDP from agriculture and industries is not up to the mark.
- It is observed that, a huge percentage of population in India is employed in agriculture. The economy needs FDI in industries and agricultural sector in order to create more jobs in these fields.
- The FDI inflow during 2017-18 is not up to the mark, even during 2018-19 a small growth is noticed. DPIIT secretary tells that, apart from slow down in the global economy, the FDI into the country is not impacted.
- It is clear from the analysis that there is a direct relationship between FDI and GDP.
- Government of India has permitted 100% FDI under automatic route in coal mining. 100% FDI in insurance, proposal to aviation and media, 100% FDI in real-estate broking, 51% in defense.

- In order to boost employment opportunities "Make in India" initiative is taken by the Government of India.

It is suggested that, the government should take serious measures to attract more number of foreign companies in order to set up their business in manufacturing sector, so that even unskilled and semi-skilled population will get an opportunity to be employed.

Conclusion

The government of India has liberalized the norms and the growth in FDI is also noticed. DPIIT is also working very actively on two major policies like New Industrial Policy and national E-commerce policy. The new industrial Policy aims to promote important sectors, reducing any kind of hurdles and to focus more on manufacturing sector. The sector that received maximum FDI includes service sector.

Referances

1. Shodhganga.inflibnet.ac.in>
2. www.livemint.come/ne
3. en.mwikipedia.org
4. RBI' news bulletin
5. Central statistical organization
6. ET now News.com
7. Dr. P Subba Rao. International Finance, 2010.
8. Dr. VA. Avadhani International Finance.
9. Dr. Ashwathappa Business Environment, 2011.
10. Dr. Francis Cherunillem International Finance