

## Role and Significance of FDI (Outward) in Indian perspective An Analysis: Post Demonetization Period

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### Abstract

In this research paper we have tried to focus that up to what extent that foreign direct investment (FDI) in Indian context considered one of the most crucial factors either to acquire or transferring investments witnessing development and growth in its economy. There are many set-up of FDI both inward as well as outward and accordingly companies should try to do an advanced research before actually investing in a foreign country.

We have monitored each and every aspect of FDI both inward as well as outward in pre demonetization and post demonetization periods. In the first part of our research we have already analyzed Indian economy in the perspective of IFDI and got published titled foreign direct investment (influx) from different nations and its impact on economic development in India: "A detailed study in service sectors and its contribution in overall economic development" in one of international journals. It has been proved and accepted that FDI (inward or outward) can be a win-win situation for both the ventures whether home country or foreign country involved. The investors can gain cheaper access to products/services and the host country can get valuable investment locally as well as internationally.

We researchers have focused FDI outward in country wise, sector wise as well as year wise from India and compared various aspects and implications to its counterparts.

**Keywords:** OFDI; Economic development; Growth; GDP; Investment

### Introduction

FDI is lifeblood of any country as far as its international trade is concerned. We have seen in recent years that due to fast development and growth in investment patterns globally, the definition has been expanded to include all the acquisition resources and activities outside the investing firm in respective home country.

FDI in both the cases of inward and outward may take an array of acquisition of a foreign firm, transferring its establishment to foreign country from home country, or investing in a joint venture or even establishing a strategic alliance and cooperation with one of the local or international firms with transferring technology and other vital resources in order to yield financial gains and leverages as compared to other companies in their competition in home as well as in foreign country.

FDI is targeted to provide benefits to home country as well as foreign country in many aspects. This gives the investor an opportunity to enter the new market and earn substantial profits and other business benefits. Foreign investors are many a times persuaded with low or no taxes depending upon types of investments and type of countries e.g. middle east, easy rules, low interest rates on loans and many things.

FDI also witness to bring new capital, new and innovative technological resources to the domestic economy and increases to grab employment opportunities for untapped potential youths leading enormous growth for both the parties worldwide.

In India the present government in latest budget session demonstrated many guidelines and mandates for the FDI sector in both inward and outward international business activities according to the nature of business. For an example, FDI in the mining of precious stones and other minerals, there is no need to take any prior permission and instructions from the government. Although just for the sake of information and risk alertness companies involved in aforesaid business activities need to send Reserve Bank of India a notification within 30 days of the receipt of the investment amount from concerned countries. At the same time, the related documents have to be handed over to the foreign investor within 30 days.

### Literature Review

Singh and Agarwal [1] states FDI, all perspectives both inward as well as outward in detail his research paper. Rajalakshmi and Ramachandran [2], in their research paper also emphasized on policy framework of FDI and its relevance but restricted in automobile segment. DIPP [3] discussed whole charter and data on Indian FDI in depth and also circulated various aspects and validity of data is tested through various statistical tools.

Further RBI [4] in its report stated role of RBI and FEMA act to control and monitor all regulatory activities by RBI in regard of foreign ventures intend to operate in India. Khaliq and Noy [5] in his empirical research study stated that FDI and its impact on economic growth using detailed sectoral data for FDI inflows. Singh et al. [6] argued various aspects of FDI and its importance in India and also mentioned that how foreign capital helps in economic development in India. Azhar and Marimuthu [7] defended their research by highlighting that FDI enabled economic and financial stability in India through FDI. Alfaro and Johnson [8] argued that FDI has not merely benefits on economic growth but it has several ambiguous impact known and unknown on economy of any country too. Choi and Baek [9] stated about the productivity of business spill over if it affects from India's inward foreign direct investment (FDI), controlling for trade, in the framework of the CVAR. Rajaganesh [10] in his research paper stated that FDI is a non-debt major source of Indian economy in Make in India

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scenario. Mishra [11] stated in special edition of concerned article that FDI (inward) is considered major source of revenue in an economic development of India. OECD [12] circulated full reports about recent development of FDI inward and outward and also explored full analysis of all sectors and concerned countries accountable for becoming role model in the growth and development of India.

### Types of FDIs

Ideally FDIs are of three types

**Horizontal FDI:** This is also known as primary foreign direct investment in which company performs same business (production, sales, promotional etc.) activities in foreign country as it does in home country. For an example Ford a giant automobile company assembles same product line (cars) in India or any other country as it does in USA.

**Vertical FDI:** This is different from horizontal FDI since in this type of FDI a kind of international integration takes place in both forward as well as backward form of vertical FDI. For an example Ford may take major stakes in some tyre companies or even manufacturing tyres in India or a country concerned.

**Conglomerate FDI:** Since it is one of special types of FDIs in which companies cross two international barriers one, they enter into foreign market and the most importantly they enter into new industry. For an example Warren Buffet's Berkshire Hathaway a top and leading conglomerate in which it has major stakes and somewhat direct investments in top MNEs all over the world starting from Wal-Mart to prominent car manufacturers.

### Outward direct investment (ODI) in Indian context

India's outward foreign direct investment (OFDI) witnessed its growth so rapidly during first phase of LPG reforms during 1991 and after that it also witnessed decline since the global financial crisis erupted that demotivated investment pattern of both host countries as well as foreign countries. In today's scenario after 28 years post LPG reforms India has seen many ups and downs in OFDI. We observe that India witness to play significant role in establishing business in foreign economies and that too towards developed economies like USA, UK, and Australia etc. India as compared to other developing nations except China has been emerging international market in doing courage to invest in foreign countries in many sectors such as software, pharmaceuticals, tobacco, grains etc.

Every OFDI month wise or year wise in India affects GDP of it with different parameters as we see that increase in GDP indicates greater cumulative income and, therefore, higher ability to motivate investors (companies) to invest abroad and also low GDP indicates limited market size of India in the present economy also indicate great desires by Indian companies to expand their wings to foreign countries to gain and capture market share.

### Demonetization in India and its effects on FDI (outward)

During LPG reforms Indian economic development and growth were witnessed and sustained with more pace and stability until currency demonetization took place in India on November, 2016 that changed entire equation of all kinds of investment done by or through FDI. By this decision we have analyzed that not only inflow of FDI but outflow of FDI also got affected. Big and organized international business players showed their concern and expressed their reluctance either in inward or outward of FDIs.

Fundamental reasons as we have found from demonetization that it lead to sudden decrease in cash flow from market and thus lack of new currency available for business transactions, many companies at domestic level as well as international level lost their confidence for further FDIs both inward and outward.

For any sound developing economy like India, FDI is one of major sources for economic stability and development and due to demonetization India faced liquidity crunch for foreign payments and FDI inward and more of that FDI outward substantially reduced as it hurt confidence of foreign ventures to invite Indian MNEs to invest within their countries, to justify our theme of research we have shown enough reasons from the available data to defend our topic. Also we have noticed from our study that demonetization is not the basic reason for slow economic growth and development, there are many other reasons also which are explained through the reflection of our data obtained by analysis.

### Objective of the Study

- To estimate various aspects of OFDI in Indian Economy
- To analyze country wise OFDI
- To analyze sector wise OFDI
- To analyze year wise OFDI.

### Research Methodology

The data was collected by using stratified random sampling from FDI outwards during the year 2013 to 2018. The sources of data were RBI, Money Control, World Bank etc. (Table 1).

### Total outwards FDI from India in the last consecutive five financial years (sector wise)

**Analysis of outwards foreign direct investment sector wise from India 2013 to 2018:** As per research methodology, 5 sectors were picked and accordingly their analysis was done on the basis of which conclusion on OFDI in Indian context was given in present study.

Firstly, in sector of electricity, gas and water during financial year 2013 to 2018, huge growth 1397% was recorded in Indian OFDIs investment ever (Table 2). And more of that major outward was recorded in equity as compared to debt and guarantee (Figure 1).

Particulars	Description
Population size (countries) 66	Sample size 5
Population size (sectors)	Sample size 5
Population size (years)	Sample size 5
	(Due to complexity only above mentioned sample size is taken for study)
Sample plan	Stratified random sampling
Data collection	FDI outwards during 2013-14 to 2017-18
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

Table 1: Work plan.

Similarly in financial, insurance and business services sector (Table 3) tremendous growth of approximately 102% was recorded in all types of outward foreign direct investments (equity, debts and guarantee) (Figure 2) during the selected financial year.

In manufacturing sector, data and analysis were quite astonishing

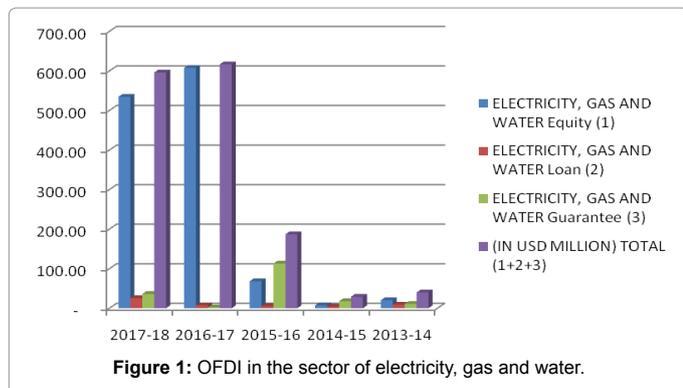


Figure 1: OFDI in the sector of electricity, gas and water.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	534.36	25.44	35.94	595.73
2	2016-17	607.49	6.3	2.20	616.62
3	2015-16	68.10	5.82	112.85	186.78
4	2014-15	7.26	4.10	17.62	28.99
5	2013-14	20.11	8.87	10.80	39.78

Table 2: OFDI in the sector of electricity, gas and water.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	1326.28	1779.87	2546.10	5652.24
2	2016-17	3372.32	1159.75	1415.99	5948.06
3	2015-16	1114.01	906.37	2851.85	4872.24
4	2014-15	1086.32	517.64	3440.33	5044.29
5	2013-14	635.61	896.25	1266.26	2798.13

Table 3: OFDI in the sector of financial, insurance and business services.

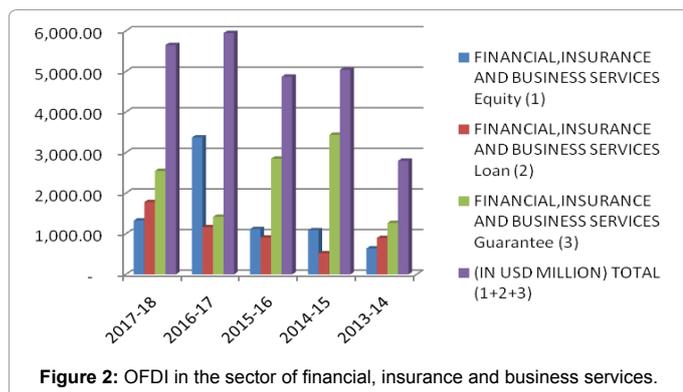


Figure 2: OFDI in the sector of financial, insurance and business services.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	1251.89	1611.68	1443.89	4307.46
2	2016-17	1274.73	1112.08	2625.34	5012.15
3	2015-16	2143.14	1080.70	5294.53	8518.37
4	2014-15	840.96	1238.14	6118.80	8197.90
5	2013-14	1686.31	1067.38	6254.29	9007.98

Table 4: OFDI in the sector of manufacturing.

Table 4. During financial year 2013 to 2018 negative growth of about 109% was recorded (Figure 3).

As shown in Table 5, in transport, storage and communication services sector, data and its analysis have further shown negative growth by nearly 79% in manufacturing sector in all kinds of OFDIs (Figure 4).

Last but not the least, in selected sector of wholesale, retail trade, restaurants and hotels during financial year 2013 to 2018 again negative growth was recorded by nearly 38% in all kinds of OFDIs in the concerned sector (Table 6 and Figure 5).

In totality it was estimated during data analysis that except two sectors "electricity, gas and water" and "financial, insurance and business services", all remaining sectors have shown discouraging results in the form of growth.

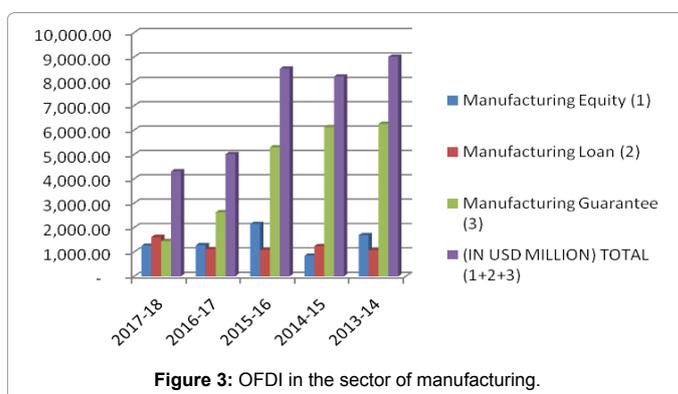


Figure 3: OFDI in the sector of manufacturing.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	702.23	181.79	1253.57	2137.59
2	2016-17	921.21	406.33	381.71	1709.25
3	2015-16	352.15	228.14	1005.24	1585.52
4	2014-15	94.95	337.10	7558.48	7990.53
5	2013-14	384.69	932.32	8925.83	10242.84

Table 5: OFDI in the sector of transport, storage and communication services.

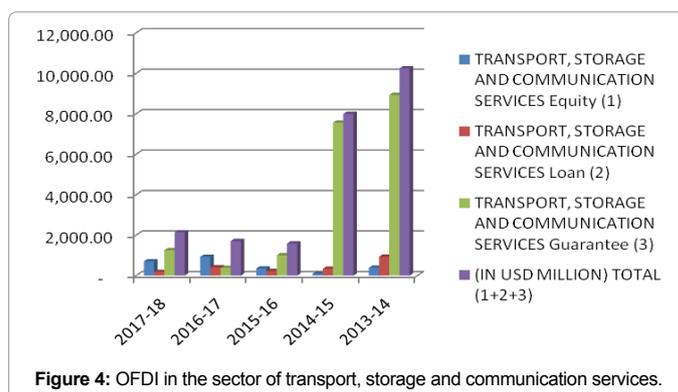


Figure 4: OFDI in the sector of transport, storage and communication services.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	595.59	611.95	1093.25	2302.80
2	2016-17	1039.70	778.54	2660.11	4478.36
3	2015-16	568.66	520.18	1897.85	2986.68
4	2014-15	489.57	313.47	1723.93	2526.97
5	2013-14	432.13	293.37	3016.16	3741.66

Table 6: OFDI in the sector of wholesale, retail trade, restaurants and hotels.

**Total outwards FDI from India in the last consecutive five financial years (country wise)**

**Analysis of outwards foreign direct investment country-wise from India 2013 to 2018:** Apart from our sample population of 66 countries concerned with FDI (outwards), 5 countries were analysed namely Mauritius, Netherland, Singapore, UAE and USA. On the basis of strata very surprising results were observed:

Data the financial years 2013 to 2018 were analysed and it was observed that Mauritius took growth of approximately 17% i.e., from USD Million 4581.90 to USD Million 5393.68 in all types of OFDI (equity, loan and guarantee) (Table 7) and the maximum growth was seen in equity in year 2017-18 (Figure 6).

In Netherland during the financial year 2013 to 2018 total OFDI

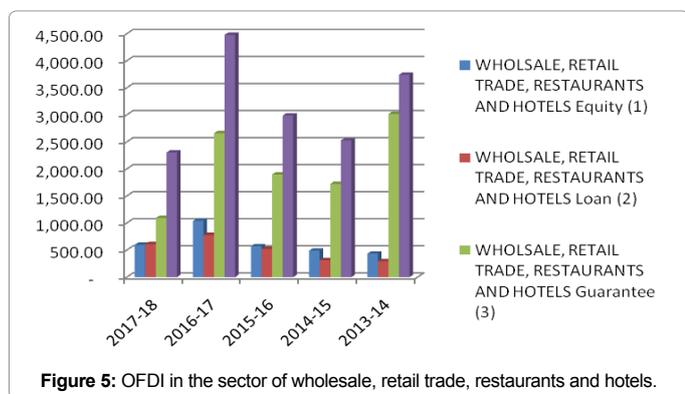


Figure 5: OFDI in the sector of wholesale, retail trade, restaurants and hotels.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	637.44	675.21	3269.24	4581.90
2	2016-17	242.06	308.49	3995.61	4546.16
3	2015-16	349.45	661.58	2659.57	3670.60
4	2014-15	3967.91	483.80	940.98	5392.69
5	2013-14	3967.90	484.80	940.98	5393.68

Table 7: OFDI in Mauritius.

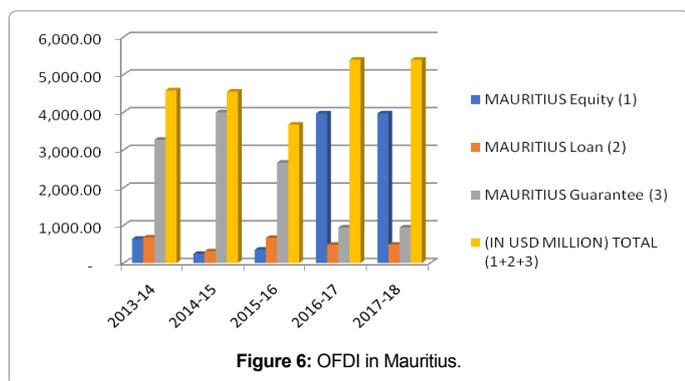


Figure 6: OFDI in Mauritius.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	356.4	624.98	784.72	1784.10
2	2016-17	190.76	441.04	428.78	1060.59
3	2015-16	428.82	455.20	561.28	1445.30
4	2014-15	1075.51	200.55	8513.43	9789.49
5	2013-14	230.24	1200.42	8349.13	9779.97

Table 8: OFDI in Netherland.

(equity, debt and guarantee) were recorded way down to approximately 81% (Table 8 and Figure 7).

Singapore has always been great source of IFDI and OFDI from economic perspective of India (Table 9 and Figure 8).

From the financial years 2013 to 2018 India has seen negative growth of nearly 9% that is considered to be insignificant as compared to Netherland that showed negative growth nearly 81% that can be alarming destination for Indian OFDI.

Like Singapore, UAE was also very friendly and profit oriented investment destination for India from many years but recent scenario it was analysed that especially post demonetization UAE also showed negative growth approximately 43% during the five financial years (Table 10 and Figure 9).

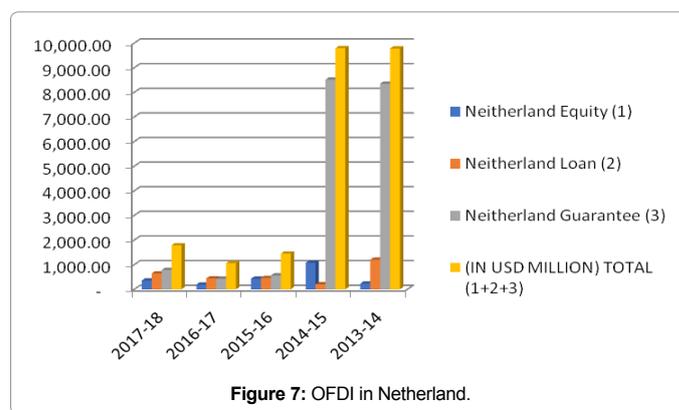


Figure 7: OFDI in Netherland.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	1043.34	1489.63	2056.14	4589.10
2	2016-17	1786.01	1029.41	3718.31	6533.73
3	2015-16	465.22	661.08	2625.30	3751.60
4	2014-15	612.22	680.67	5815.60	7108.49
5	2013-14	671.82	533.17	3852.79	5057.78

Table 9: OFDI in Singapore.

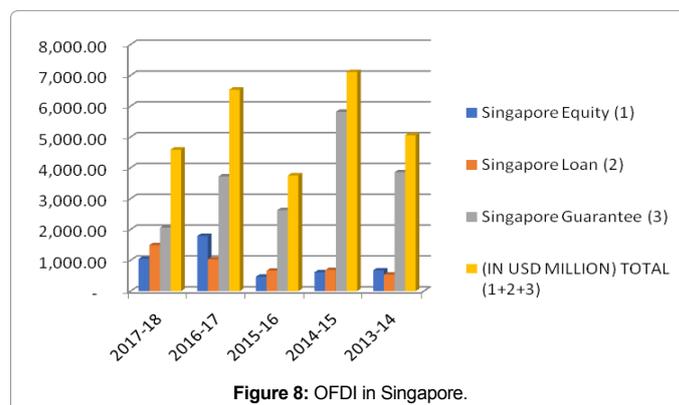


Figure 8: OFDI in Singapore.

Particulars					(In USD million)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	127.66	363.20	477.38	968.24
2	2016-17	130.00	395.93	543.52	1069.45
3	2015-16	1538.42	214.49	1192.82	2945.73
4	2014-15	100.85	337.95	1011.73	1450.53
5	2013-14	114.51	148.34	1439.47	1702.32

Table 10: OFDI in United Arab Emirates.

S. No.	Year	Particulars			(In USD million)
		Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	1044.86	963.34	1702.11	3710.31
2	2016-17	1131.17	325.56	939.50	2396.23
3	2015-16	604.01	422.95	1840.39	2867.36
4	2014-15	875.30	419.50	1006.45	2301.24
5	2013-14	623.11	418.95	1323.24	2365.30

Table 11: OFDI in United States America.

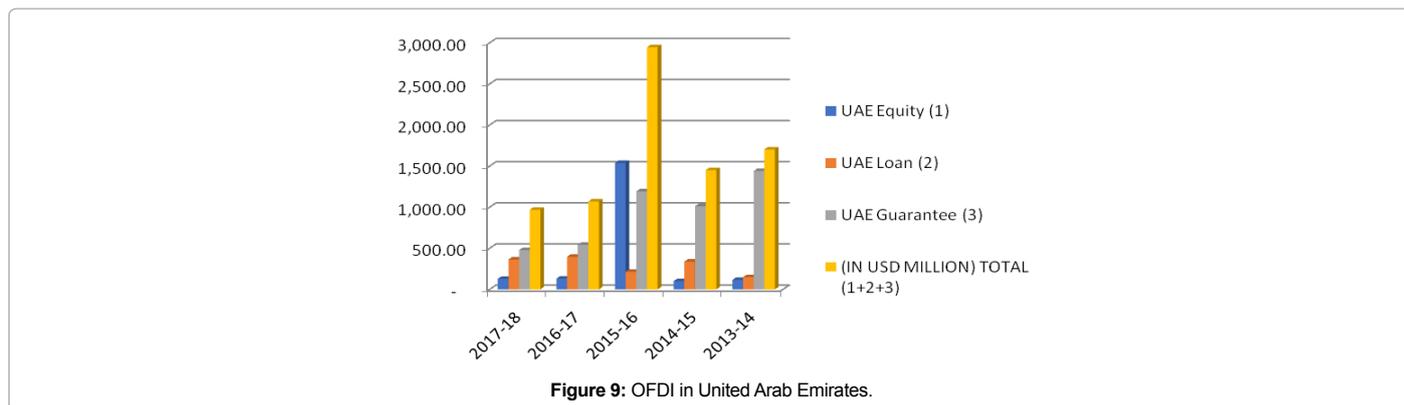


Figure 9: OFDI in United Arab Emirates.

S. No.	Particulars	Equity (1)	Loan (2)	Guarantee (3)	Grand Total
1	Mauritius	9164 (5466.68) (2500.64)	2613 (3419.12) (190.06)	11806 (14697.20) (568.75)	23583
2	Netherland	2281 (5530.42) (1909.21)	2940 (3458.99) (77.87)	18637 (14868.59) (955.10)	23858
3	Singapore	4578 (6267.80) (455.57)	4393 (3920.99) (57.03)	18068 (16851.02) (87.89)	27039
4	UAE	2011 (1885.51) (8.35)	1459 (1179.29) (66.34)	4664 (5069.20) (32.39)	8134
5	USA	4278 (3161.60) 394.22)	2550 (1977.42) (165.80)	6811 (8499.98) (335.61)	13639
Column Totals		22312.00	13955.00	59986.00	96253

Table 12: Chi-square and p-value.

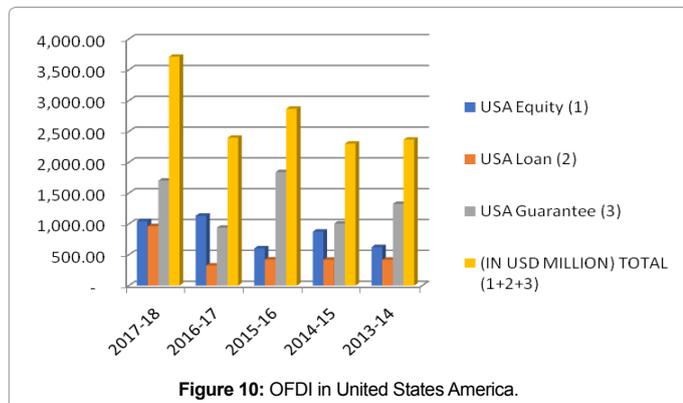


Figure 10: OFDI in United States America.

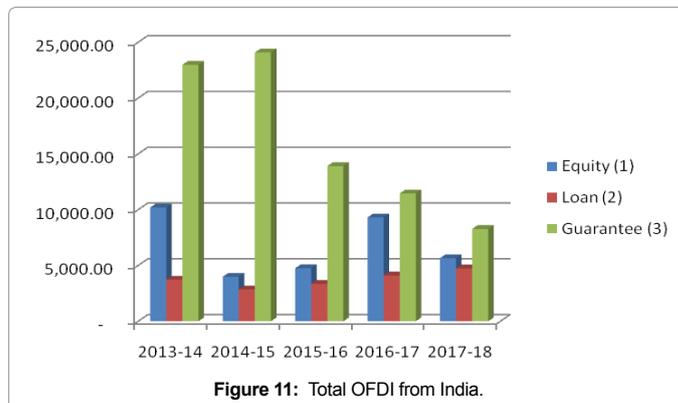


Figure 11: Total OFDI from India.

The data gathered for USA shows that, throughout all economic cycles USA always has shown its political as well economic interests in Indian economy (Table 11 and Figure 10).

From the financial years 2013 to 2017 OFDI in totality got increased by nearly 57% that is quite encouraging from an economic point of view of India despite all ups and downs (Table 12 and Figure 11).

The result in chi-square statistic is found to be 7804.8274 and the p-value is <math>0.00001</math>. The result is significant at  $p < 0.05$ , therefore present study could be carried further to be more accurate.

### Total outwards FDI from India in the last consecutive five financial years

OFDI was observed in year 2013 in totality from each sector as

well as country wise, it was estimated 36,900.48 USD million which got decreased in financial year 2018 i.e., USD million 18,655.16. It was the remarkable negativity which was found in almost all kinds of OFDIs especially in guarantee; in percentage calculated negative growth is 49.44% (Table 13).

S. No.	Year	Particulars			(In USD million)
		Equity (1)	Loan (2)	Guarantee (3)	Total (1+2+3)
1	2017-18	5650.20	4732.92	8272.03	18655.16
2	2016-17	93.01.93	4106.78	11454.34	24863.05
3	2015-16	4753.76	3354.45	13908.42	22016.64
4	2014-15	3985.73	2852.94	24080.85	30919.51
5	2013-14	10194.5	3725.51	22980.49	36900.48

Table 13: Total OFDI from India.

These data in current financial year 2018 clearly highlight downward investment towards foreign direct investment in outwards after demonetization period.

Hypothesis (two tailed) were done at 5% level of significance and found that the T-value is 8.19 which are greater than that of 2.57. The P-value is 0.0012. The result in data found to be significant at  $p < 0.05$  (Table 14).

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

Table 14: T- test and P- test (two tailed at 5% degree of freedom).

## Conclusion

Researchers have carefully monitored and analyzed all data sector wise, country wise and yearly wise from financial year 2013 to 2018 in which all sectors and countries taken together as per our research methodology. After the careful analysis, in present study it was concluded that India is though a developing nation but it has tremendous investment opportunities and options available.

It was also noticed during present research that India's outward direct investment (OFDI) has shown development and growth so rapidly, especially since the global financial crisis occurred. Some sluggishness in Indian economy seemed to have occurred during post demonetization period but as per our analysis this recession is momentary and the declining growth observed in our analysis.

In recent economic scenario in India after demonetization not only IFDI but also OFDI has tremendously come down due to fall in liquidity and complex tax structure (GST), India has witnessed sharp

decline in OFDI in 2017 by approximately 8.9 percent to USD 1452 billion from USD 1594 billion in the year 2016. Also towards developed economies India in current fiscal year witness decline by 11% and towards developing economies witness by 1% down. In 2016, the Indian economy witness OFDI of transitional economies decreased by 22 percent. As per data analyzed it was notice that USA, China and Netherlands were the top countries in FDI outflow in 2016-17.

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