

Relationship between RBI's Regional Offices Wise Fdi Inflow and Gross Domestic State Product (GSDP) of India: An Analytical Study

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Abstract

Foreign Direct Investment involves the ownership and control of a foreign company in a foreign country. The Country which wants to invest transfers some of its financial, technical, managerial, trademark and any other resources to the company of host country in exchange of this ownership and control. . The revised FDI statics now includes 'equity capital' including that of unincorporated entities, non-cash acquisition against transfer of technology, plant and machinery, business development, goodwill, control premium, and non-competition fees. In case of developing countries this impact is not only beneficial but also statistically significant. The result is not significant in case of developing countries with lower human resource development. The study also reveled that FDI has also significant impact on growth of a country. This impact of growth would be high in case of developing country with high human development in comparison to country with low human development.

Keywords: Foreign Direct Investment, Transition Countries.

Introduction

Foreign Direct Investment involves the ownership and control of a foreign company in a foreign country. The Country which wants to invest transfers some of its financial, technical, managerial, trademark and any other resources to the company of host country in exchange of this ownership and control. The international transfer of funds need is not the necessity of this exchange between the companies of two different countries. In March 2003, the Government of India revised the definition of FDI with regard to international practices. The revised FDI statics now includes 'equity capital' including that of unincorporated entities, non-cash acquisition against transfer of technology, plant and machinery, business development, goodwill, control premium, and non-competition fees. It also includes re-invested earnings' including that of unincorporated entities, corporate entity and reinvested earnings of indirectly held direct investment enterprises.

Besides, 'other capital' including short-term and long-term inter-corporate borrowings, trade-credit, supplier credit, financial leasing, financial derivatives, debt securities, and land buildings are factoring. FDI can be considered as method to support domestic investment for achieving a higher level of economic growth and development. FDI offer various to advantages to companies of host country as well as to the consumer by giving opportunities for technological up gradation, , optimal utilization of human and natural resources, access to global managerial skills and practices, developing business internationally competitive, promoting exports market, providing forward and backward connections and linkages and have access to international quality services as well as products.

The state foreign investment and level of technology adopted by a country plays a significant important role in the economic development of a country. The economic condition of the transition countries in Eastern Europe, Central Asia and Asia is very good due to these kinds of inputs. The FDI inflow in an economy is also welcomed by communist countries like China with the objective to make their country financially strong and developed. The reason behind the development of most of developed countries is FDI which helped the advanced country to grow as high income generating economies. Economic growth is proportional to the

capital formation. Less developed have less income as well as less development and low saving which act as a obstacle in development of economy. Hence, domestic resources are combined with foreign investment to make better plans for development of economy. Foreign investment also gives us the opportunity to import better quality raw material, high technical capital goods, and latest technical knowledge which is base for the development and growth of any economy. If investment is done in export related industries it will increases exports of the countries and also supplements economy with foreign currency. With the impact of FDI, customers will get cheaper and best quality products which help an economy in increase in the real incomes of their people due to change in saving pattern of people. If investment is done for the development of infrastructure it will leads to the growth and Development of all kinds of industries. FDI have a positive impact on the balance of payment position of a country.

Initially the concept of Flow of foreign investment started in India in year 1980. Government of India introduced the policy in respect of oil exporting developing countries (OECD) with following exemptions.

1. Without linking to technology transfer now Countries can invest up to 40 per cent in equity of new ventures.
2. With some defined conditions, Non-resident Indian's (NRIs) investments were also allowed to invest in Indian industrial units.

Objectives of The Study

The present study has attempted to determine pattern of FDI inflow as per RBI's regional offices in India and to analyse the relationship between FDI inflow and Gross state domestic product of India.

Review of Literature

FDI and GDP

Xiaoping Liu (2005) conducted a study to investigate the impact of foreign direct investment on economic growth on as well as economies of developed and developing countries. the data of 84 countries from year 1970 to 1999 was analyzed for concluding the results. Both simultaneous equation system technique and single equation technique was used to investigate the relationship. The result of study depicted that there is a strong relationship between economic growth and FDI in both developing as well as developed countries. FDI directly promote economic growth and indirectly support interaction terms. There is a strong favorable effect of FDI with human resource and negative interaction effect is there between the technology gap and FDI on the economic growth of developing countries. The study developed a new theory related to FDI and economic growth which confirms that inflow of foreign direct investment in any host country is attracted by large size of market. With this absorptive capacity of Technology and quality of human capital significant for inflow of foreign direct investment. Finally the study concluded that economic growth of a country in FDI is highly dependent on each other. an increase in

human development Technology economic development promote foreign direct investment. Tanushree Mazumdar (2005) conducted a study to investigate the role and contribution of capital inflows on economic growth of India. The Empirical data from 1971 to 2000 was collected for the purpose of analysis. The hypothesis of study was that inflow of capital to India has contribution on economic development of India. The variables are selected to have a control on various factors of economic and other Metro economic sectors. The findings of study revealed that of inflow of capital has no impact on either to economic growth and production. The reason behind the scene was a sufficient amount of capital inflow was there and the funds were not used properly. The research also expressed that inflow capital had not much impact on productivity as well as growth in export of India. Li and Liu (2005) used 3S.L.S. to study the impact of FDI on economic growth in 84 countries during 1970– 1999. The variables studied were the GDP, inflation, the literacy ratios, the gross domestic investment, black market premium, interest rates, trade volume, regional inequalities .he concluded in his studies that there is a positive relationship between FDI and economic growth of any country. However it depends on the host country how well it uses and accumulates external knowledge. The study has paid special attention on the financial system of any country. The study also depicted that the FDI give advancement to technical development of country which again leads to economic development of country.

Balasubramanyam and Mahambare (2002) conducted a study to analyses the pattern FDI inflow into India after introduction of new economic policy i.e. from year 1991. The researcher analysed that Foreign Direct Investment is very important medium for technology transfer into a developing economies like India. The study of foreign direct investment into India related to sectoral-contribution and of foreign collaborations were also undertaken the study also examined the pattern of state-wise FDI inflow into India.

The research paper of Shalini Sharma and Ruchi Sharma (2003) revealed two alternative econometric models to investigate the degree of correlation between FDI inflows and GDP. The study used the data of 29 countries and gave an empirical base to the hypothesis that FDI is directly realted to development, as measured by income, in order to provide a scientific base to the oft repeated common sense speculation about the role of FDI in development. But no strong evidence was found to support the result that the rates of growth of FDI and GDP are related. Pradhan Jaya Prakash (2003) expressed his view on an empirical study done by him that if the level of human resource development is high, it will have more positive impact on FDI inflow of country. In case of developing countries this impact is not only beneficial but also statistically significant. The result is not significant in case of developing countries with lower human resource development. The study also reveled that FDI has also significant impact on growth of a country. This impact of growth would be

high in case of developing country with high human development in comparison to country with low human development.

Trend of RBI's Regional Office Wise Fdi Inflow

The table No 1 shows Regional office of RBI with various states covered under it. The cumulative

FDI inflow received during 2000 to 2012 by various regional offices Of FDI is US\$ 194,362.30 million which also includes RBI NRI schemes amounted US\$ 5891.50 million .the NRI schemes of RBI was applicable for year 2000 to 2002 only

Table 1
RBI's Regional Offices Wise Fdi Inflow In India
(With State Covered) Received FDI Equity Inflows From January, 2000 To December, 2017
(As Reported to Regional Offices of RBI)
(Amount in Million)

| Sr No | Regional Offices of RBI | States Covered | 2000-2012 (Jan-Dec) | 2013 Jan-Dec | 2014 Jan-Dec | 2015 Jan-Dec | 2016 Jan-Dec | 2017 Jan-Dec | Total |
|-------|-------------------------|------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | | | FDI in US\$ million |
| 1 | Mumbai | Maharashtra, Dadra & Nagar Haveli, Daman & Diu | 61,470.92 | 4,618.68 | 5,086.60 | 7,380.25 | 21,831.67 | 13,658.93 | 114,047.05 |
| | | | 32.6% | 21.0% | 17.7% | 18.8% | 47.0% | 31.3% | 30.9% |
| 2 | New Delhi | Delhi, Part Of Up And Haryana | 36,137.61 | 2,816.47 | 7,364.93 | 13,860.84 | 6,938.89 | 7,155.91 | 74,274.65 |
| | | | 19.2% | 12.8% | 25.6% | 35.2% | 15.0% | 16.4% | 20.2% |
| 3 | Bangalore | Karnataka | 10,531.32 | 1,640.33 | 2,523.80 | 4,854.82 | 2,422.54 | 6,881.46 | 28,854.27 |
| | | | 5.6% | 7.4% | 8.8% | 12.3% | 5.2% | 15.8% | 7.8% |
| 4 | Chennai | Tamil Nadu, Pondicherry | 10,068.91 | 2,650.22 | 3,332.38 | 5,292.35 | 1,364.97 | 3,869.25 | 26,578.08 |
| | | | 5.3% | 12.0% | 11.6% | 13.5% | 2.9% | 8.9% | 7.2% |
| 5 | Ahmedabad | Gujarat | 8,608.66 | 713.54 | 900.52 | 2,296.53 | 3,485.42 | 1,435.22 | 17,439.90 |
| | | | 4.6% | 3.2% | 3.1% | 5.8% | 7.5% | 3.3% | 4.7% |
| 6 | Hyderabad | Andhra Pradesh | 7,674.49 | 810.02 | 1,352.44 | 970.16 | 2,411.08 | 1,315.08 | 14,533.27 |
| | | | 4.1% | 3.7% | 4.7% | 2.5% | 5.2% | 3.0% | 3.9% |
| 7 | Kolkata | West Bengal, Sikkim, Andaman & Nicobar Islands | 2,158.33 | 445.01 | 337.87 | 929.39 | 115.4 | 208.28 | 4,194.29 |
| | | | 1.1% | 2.0% | 1.2% | 2.4% | 0.2% | 0.5% | 1.1% |
| 8 | Kochi | Kerala, Lakshadweep | 901.93 | 73.79 | 111.49 | 197.89 | 439.41 | 203.93 | 1,928.44 |
| | | | 0.5% | 0.3% | 0.4% | 0.5% | 0.9% | 0.5% | 0.5% |
| 9 | Jaipur | Rajasthan | 647.93 | 65.19 | 549.6 | 42.74 | 166.47 | 103.9 | 1,575.84 |
| | | | 0.3% | 0.3% | 1.9% | 0.1% | 0.4% | 0.2% | 0.4% |
| 10 | Chandigarh | Chandigarh, Punjab, Haryana, Himachal Pradesh | 1,187.68 | 73.05 | 69.46 | 23.8 | 10.05 | 108.08 | 1,472.11 |
| | | | 0.6% | 0.3% | 0.2% | 0.1% | 0.0% | 0.2% | 0.4% |
| 11 | Bhopal | Madhya Pradesh, Chattisgarh | 931.98 | 181.54 | 101.97 | 57.2 | 51.13 | 68.27 | 1,392.08 |
| | | | 0.5% | 0.8% | 0.4% | 0.1% | 0.1% | 0.2% | 0.4% |

| | | | | | | | | | |
|--------------------|-------------------------------|-----------------------------------------------------------------------------------------------|-------------------|------------------|------------------|------------------|------------------|------------------|-------------------|
| 12 | Panaji | Goa | 773.28 | 18.15 | 34.49 | 18.94 | 6.15 | 117.54 | 968.54 |
| | | | 0.4% | 0.1% | 0.1% | 0.0% | 0.0% | 0.3% | 0.3% |
| 13 | Kanpur | Uttar Pradesh, Uttranchal | 339.54 | 23.6 | 76.49 | 109.33 | 20.91 | 82.19 | 652.06 |
| | | | 0.2% | 0.1% | 0.3% | 0.3% | 0.0% | 0.2% | 0.2% |
| 14 | Bhubaneswar | Orissa | 340.71 | 16.17 | 40.02 | 5.94 | 9.66 | 12.58 | 425.09 |
| | | | 0.2% | 0.1% | 0.1% | 0.0% | 0.0% | 0.0% | 0.1% |
| 15 | Patna | Bihar, Jharkhand | 34.05 | 4.46 | 9.53 | 44.99 | 10.25 | 9.72 | 113 |
| | | | 0.02% | 0.02% | 0.03% | 0.11% | 0.02% | 0.02% | 0.03% |
| 16 | Guwahati | Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura | 78.3 | 0.6 | 1.41 | 9.97 | 4.93 | 8.59 | 103.81 |
| | | | 0.04% | 0.00% | 0.00% | 0.03% | 0.01% | 0.02% | 0.03% |
| 17 | Jammu | Jammu & Kashmir | 0 | 0 | 4.29 | 0 | 1.93 | 0 | 6.22 |
| | | | 0.00% | 0.00% | 0.01% | 0.00% | 0.00% | 0.00% | 0.00% |
| 18 | Region Not Indicated | | 46,585.16 | 7,886.74 | 6,887.32 | 3,232.77 | 7,111.99 | 8,335.87 | 80,039.85 |
| | | | 24.7% | 35.8% | 23.9% | 8.2% | 15.3% | 19.1% | 21.7% |
| Sub Total | | | 188,470.80 | 22,037.56 | 28,784.62 | 39,327.93 | 46,402.85 | 43,574.79 | 368,598.55 |
| 19 | RBI's-NRI SCHEMES “**” | | 5,891.50 | 0 | 0 | 0 | 0 | 0 | 134.37 |
| Grand Total | | | 194,362.30 | 22,037.56 | 28,784.62 | 39,327.93 | 46,402.85 | 43,574.79 | 368,732.92 |

Note: “**” RBI's NRI schemes for the period from 2000 to 2002.

Source; Data compiled from DIPP, FDI Newsletter Vol. XXIII No 25 January 2018

In 2013 FDI inflow by various regions of RBI is US\$ 22037.56 million which increased to US\$ 28784.62 million in 2014, increased to US\$ 39327 million in year 2015, increased to US\$ 46402.85 in year 2017 and US\$ 43574.79 in year 2017 which is total FDI inflow amounts to US\$ 368,732.92 million from year 2000 to 2012. there is increasing trend of FDI inflow through various regional of RBI from year 2000 to 2017. The table describes RBI regional office wise FDI equity inflow received during period of 2000 to 2017. it can be seen from the table that the percentage of cumulative total inflow was highest 32.26 % for t state Maharashtra, Dadra and Nagar Haveli, daman and due which covered under the regional office Mumbai of RBI for period 2000 to 2012 and lowest of 0.2% of Kanpur, Bhubaneswar and Patna regional offices of RBI. If we consider Yearly data, In 2013 also Mumbai regional office of RBI came at top with 21 % of total FDI inflow covered that states Maharashtra, Dadra and Nagar Haveli, Daman and Due and New Delhi regional office is at second place with FDI inflow of US\$ 2,816 million (12.8%) which was also at second place during the cumulative period of 2000 to 2012. Chennai regional office is at 3rd place with US\$ 2650 million (12%) FDI inflow covered by states Tamil Nadu and Pondicherry. The other regional offices received FDI inflow which range

from Zero to 7.4% in year 2013. In Year 2014, the percentage of FDI inflow was highest US \$7364.93 million (25.6 %) for t state Delhi, Part of UP and Haryana which comes under the regional office New Delhi of RBI for year 2014 and lowest of 0.0% of Assam, Arunachal Pradesh, Manipur, Meghalaya, Nagaland, Tripura which are under regional offices Guwahati of RBI. If we consider Yearly data. Similarly Jammu and Kashmir which is covered under regional office of Jammu received 0.0% of FDI inflow. After New Delhi, the second position in Receiving FDI inflow is of Maharashtra, Dadra and Nagar Haveli and Daman and Diu which comes under regional office Of Mumbai. Tamil Nadu, Pondicherry is at third Place Received US\$ 3332.38 million (8.8%) of total FDI inflow from various Regions in year 2014. The other regional offices FDI inflow range from zero to 8.8% in year 2014.

In Year 2015, the total FDI received by various Regional offices is US\$ 28784.62 million. The percentage of FDI inflow was highest US \$13,860 million (35.2 %) for state Delhi, Part of UP and Haryana which comes under the regional office New Delhi of RBI for year 2014 and lowest of 0.0% of Goa and Orissa which comes under regional office of Panji and Bhubaneswar of RBI.. After New Delhi, the second position in Receiving FDI inflow is of

Maharashtra, Dadra and Nagar Haveli and Daman and Diu which comes under regional office Of Mumbai which received US\$7380.25million (18.8%) of total FDI in year 2015. Tamil Nadu, Pondicherry is at third Place Received US\$ 5,292 million (13.5 %) of total FDI inflow from various Regions in year 2014. The other regional offices FDI inflow range from zero to 12.3% which is received by Karnataka which comes under regional offices of Bangalore.

In Year 2016, the total FDI received by various Regional offices is US\$ 39,327.93 million. the percentage of FDI inflow was highest US \$21,831.67 million (47 %) for state Maharashtra, Dadra and Nagar Haveli and Daman and Diu which comes under regional office Of Mumbai of RBI for year 2014 and lowest of 0.0% of Goa, Utter Prades, Uttranchal and Orissa of which comes under regional office of Panji ,Kanpur and Bhubaneswar respectively. After Mumbai, New Delhi is at the second position in Receiving FDI inflow is of which received US\$ 6938.89million (15%) of total FDI in year 2015. Karnataka which is under Bangalore region of RBI is at third Place Received with US\$ 2,422 million (5.2 %) of total FDI inflow from various Regions in year 2014. The other regional offices FDI inflow range from zero to 7.5% which is received by Karnataka which comes under regional offices of Bangalore.

In Year 2017, the total FDI received by various Regional offices is US\$ 43,574.79 million. the percentage of FDI inflow was highest US \$13,658 million (31.3 %) for state Maharashtra, Dadra and Nagar Haveli and Daman and Diu which comes under regional office Of Mumbai of RBI for year 2014 and lowest of 0.0% of Orissa and Jammu of which comes under regional office of Bhubaneswar and Jammu of RBI.. After New Delhi, the second position in Receiving FDI inflow is of which received US\$ 7155.91 million (16.4%) of total FDI in year 2017. Karnataka under Bangalore region of FDI is at third Place Received US\$ 6881.46 million (15.8 %) of total FDI inflow from various Regions in year 2017. The other regional offices FDI inflow range from zero to 8.9% which is received by Tamil Nadu, Pondicherry which comes under regional offices of Chennai.

If we consider FDI inflow data of Regional offices we consider that Mumbai ,New Delhi

Bangalore, Chennai are the top regional offices receiving maximum of FDI inflow.Mumabi regional office FDI inflow trend is increasing from year 2000 to 2017.In 2013 its share in total FDI inflow is 21% in 2013,17.7% in 2014,18.8%in 2015,47% in 2016 and 31% in 2017.New Delhi regional office has received 12.8 % in 2013,25.6% in 2014,35.2%in 2015,15% in 2016 and 16.4% in 2017. Bangalore regional office has received 7.4 % in 2013, 8.8% in 2014, 12.3%in 2015, 5.2% in 2016 and 15.8% in 2017.

FDI inflow data of Regional offices depict that Mumbai, New Delhi, Bangalore, Chennai are the top regional offices receiving maximum of FDI inflow. Mumbai regional office FDI inflow trend is increasing from year 2000 to 2017.Its share in total FDI inflow is 21% in 2013, 17.7% in 2014, 18.8%in 2015, 47% in 2016 and 31% in 2017.New Delhi regional office has received 12.8 % in 2013,25.6% in 2014,35.2%in 2015,15% in 2016 and 16.4% in 2017. Bangalore regional office has received 7.4 % in 2013, 8.8% in 2014, 12.3%in 2015, 5.2% in 2016 and 15.8% in 2017.

It is observed from the above analysis that level of development of States is also correlated with FDI inflow. Maharashtra is Having Highest FDI equity inflows and at the same time top in the terms of GDP in the absolute term(US\$ 430 Billion) as well as percentage of total GDP similarly Haryana which are covered by RBI regional offices at Delhi have attracted second highest share20.2% in cumulative inflows of FDI inflow from year 2000 to 2017 and Bangalore regional offices of RBI which have crucial position in Percentage share (7.8%) of FDI equity inflows have almost comments weight position in terms of GDP and per capita income. the state covered by regional office Guwahati, Assam, Arunachal Pradesh, Manipur , Mizoram ,Nagaland ,Tripura only 0.1% for FDI equity inflows and also having lowest Percentage share in GDP capita income similarly Orissa which rank 50 in terms of GDP and 19th in terms of per capita income has only 0.2 % share in FDI equity inflow all this suggest that level of development growth and prosperity as represented by different economic indicators plays an important role in mobilizing FDI equity inflows.

Table 2
Statement Showing Relationship between FDI Inflow Destinations (RBI's) and GSDP

| RBI Regional Offices with Highest FDI inflow | Cumulative FDI Inflow (2000-2017) | Rank in Gross State Domestic Product (GSDP) |
|-----------------------------------------------------|------------------------------------------|----------------------------------------------------|
| Mumbai (Maharashtra) | 30.9% | 1 |
| New Delhi (New Delhi) | 20.2% | 13 |
| Bangalore (Karnataka) | 7.8 % | 5 |
| Chennai (Tamil Nadu) | 7.2% | 2 |
| Ahmadabad (Gujarat) | 4.7 | 3 |
| RBI Regional offices with Lowest FDI Inflow | Cumulative FDI inflow (2000-2017) | Rank In Gross State Domestic Product (GSDP) |
| Bhubneshwar (Orissa) | 0.1% | 16 |
| Patna (jharkhand) | 0.03% | 15 |
| Guwahati (Assam) | 0.03 | 17 |
| Jammu Kashmir | 0.00% | 21 |

Source: compiled from https://en.wuftgygthrrjikipedia.org/wiki/List_of_Indian_states_and_union_territories_by_GDP

Conclusion

It can be concluded from the above table No. 2 that the GSDP (Gross state domestic product) of Regional Offices of RBI in various states are Correlated with FDI inflow. The FDI inflow has improved the GDP as well as per capita income of individual state. The Regional offices situated in various states with highest FDI inflow are Mumbai (Maharashtra), New Delhi (part of UP and Haryana), Bangalore (Karnataka), Chennai (Tamil Nadu) and Ahmadabad (Gujarat) with 30.2%, 20.2%, 7.8%, 7.2%, 4.7% and their rank in GSDP is 1, 13, 5, 2, 3, which shows that FDI inflow has positive impact on GDP of these states. Also the table shows that the states with lowest Cumulative FDI inflow from 2000 to 2107 which are Bhubneshwar (Orissa), Patna (Jharkhand), Guwahati (Assam) and Jammu Kashmir are also having very low rank in GDP. So it states that FDI inflow has impact on the GSDP of country.

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