

Outward Foreign Direct Investment and its Economic Implications on Indian Economy: A Pre and Post Demonetization Analysis

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Abstract

The current paper “*Outward Foreign Direct Investment and its Economic Implications on Indian Economy: A Pre and Post Demonetization Analysis*” is an attempt to summarize Indian outward foreign direct investment (OFDI) before and after the demonetization in India. The OFDI is not merely an investment for creating the wealth for multinational enterprises but is also considered as a carter for economic growth and development in the target countries. An attempt has been made to analyze the trends of outward FDI in the pre and post demonetization period, post 8 November 2016, of India. It has been proved and accepted that FDI (both inward and outward) can be a win-win situation for both the ventures whether it is the home country or the host country involved. The investors can gain cheaper access to products/services while the host country gets benefited through the direct investment.

Key Words: - *OFDI, Emerging Economy, Economic Implications, Demonetization, India, etc.*

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Introduction

FDI is a mean of support of any country as far as its global buy and sell is concerned. We have seen in latest years that due to rapid expansion and augmentation in venture patterns internationally, the explanation has been long-drawn-out 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 attainment of a foreign firm, transferring its establishment to foreign country from home country, or investing in a joint venture or even establishing a calculated association and collaboration with one of the local or global firms with transferring technology and other very important 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 (Martins, 2017) (McMillan, 2014.) (Shimeles, 2016). In this paper, the effects of the demonetization, which got applicable from November 8, 2016, on the outflow of the foreign direct investment (FDI) from India will be analyzed in form of comparing country wise, sector wise as well as year wise outward Indian Foreign Direct Investment (OFDI) made and a discussion is made on its role, significance and impact on the Indian economy.

Literature Review

Introspective

Agarwal P.K. (2012) states the concept of the inward as well as outward FDI in a detailed manner. Rajalakshmi K. and Ramachandran F., (2011), emphasized on policy framework of FDI and its relevance but was restricted to the automobile segment. DIPP (2017) discussed whole

charter and data on Indian FDI in depth and also circulated various aspects validating the results through various statistical tools.

(Petrovska, 2012) elaborated the FDI and its impact on Macedonian economy with significant justification in all different sectors. (Porter, 1985) stated in one of his theories known as Porter's Diamond that how synthesis of Foreign Trade depends on essentially four attributes and further explained country, product as well as company specific foreign trades (inward/outward). (Daniels, 1995) pointed out the relationship of the investors and non-investors in the FDI and performed discriminant function analysis. (Ajami, 1984) described the proper utilization of many economic indicators for the purpose of FDI in USA. Aliber (1970) gave many international theories and concepts of foreign direct investments both inward as well outward for economic growth in host and foreign country depending upon types and sectorial investment pattern. Cantwell (1989) focused about functioning of the top Multinational Enterprises (MNEs) worldwide and their pattern of businesses. Caves (1971) in one of his papers highlighted various patterns of economics in the FDI and also elaborated various pros and cons doing international trade in multiple forms. Syed & Ahmad (2018) in their paper discussed demonetization and its affects on FDI influx and also carried out sector wise, company wise and year wise analysis of foreign direct investment.

Reserve Bank of India (RBI) in the report for year 2017-18 stated its role and Foreign Exchange Management Act (FEMA) to control and monitor all regulatory activities by the regulatory body with regards to the foreign ventures to be based in India. Khaliq (2007) in his empirical research study stated that (FDI) and its impact on economic growth using detailed sectoral data for FDI inflows. Singh (2012) argued on the various aspects of FDI reporting its importance in the economic development of India. Azhar & Marimuthu (2012) defended their research by highlighting that FDI enabled economic and financial stability in India. Alfaro (2003) stated that the FDI has not merely benefits on economic growth but has several known and unknown effects on economy of any country. Jung Choi I & Baek II (2017) stated about the productivity of business spillover if it affects from India's inward foreign direct investment (FDI), controlling for trade, in the framework of the (CVAR). Rajaganesh (2017) proposed that the FDI is a non-debt major source of Indian economy in Make in India scenario. (Mishra, December 13, 2017) stated in special edition of concerned article that FDI (inward) is considered major source of revenue in an economic development of India. OECD (2017) 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.

Outward Foreign Direct Investment – Indian context

India's outward foreign direct investment (OFDI) witnessed growth so rapidly during first phase of LPG (liberalization, privatization and globalization) reforms mandated in 1991. It also observed the decline in the outflow of the FDI from India mainly due to the global financial crisis which derailed the investment pattern of the host countries as well as the investing countries. There had been many upward and downward trends in the Indian OFDI post LPG reforms resulting in the emergence of India as one of leading investing countries from the developing world. The outward investments from India has led India to play a significant role in

establishing business in the destination economies which include the developed economies also like the USA, the UK, Australia, etc. India, as one of the leading emerging economy along with China is keenly investing in many countries in multiple sectors like automobiles, steel, software, pharmaceuticals, tobacco, agriculture, 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.

Economic Implications of Outward Foreign Direct Investment

Implication Outwards Foreign Direct Investment on economics may have both impact - positive and negative.

Positive Implications

a. Decreases Gap between Costs and Revenues

Outward Foreign direct investment can decrease the gap between costs and revenues. Countries will be able to make sure that production costs will be in control and can be traded easily.

b. Economic Boost and Employment

Outward Foreign direct investment creates new jobs, as investors build new businesses in the target nation, generate fresh prospects. This increases in income and increases purchasing power to the local people, which gives an economic boost.

c. Economic Expansion Stimulus

Outward foreign direct investment can encourage the targeted nation's economic expansion, producing a more favorable atmosphere for the investor and assistances for the indigenous business.

d. Growth in Income

The biggest implication of outward foreign direct investment is the escalation of the target nation's income. With additional jobs opportunity and higher salaries, the income of nation increases. As a consequence, economic development is stimulated.

e. Human Resource Develops

One of the most positive things of outward foreign direct investment is that it develops the human resources. Human resource is the skill and understanding of persons capable to do labor, known labor force.

f. Incentives and Tax benefits

As the foreign investor, businesses receive tax enticements that will be highly beneficial in particular field of business.

g. Productivity Increases

The amenities and apparatus added by foreign players can upsurge workers' productivity in the target nation.

h. Relaxed International Trade

Generally, a nation has its own import tariff policy, and that is the reasons why business with it is relatively challenging. Also, there are businesses that usually need their existence in the global markets to safeguard their trades and objectives will be fully met. With outward foreign direct investment, all these will be made easier.

i. Transfer of Resources, Knowledge, Technologies and skills

Outward Foreign direct investment will allow transfer of resources and exchanges of knowledge. Countries are given access to new technologies and skills.

Negative Implications

a. Adverse Impact on Exchange Rates

Outward foreign direct investments may intermittently disturb exchange rates to the gain of one country and the loss of another.

b. Deterrent to Local Investment

As resources emphasizes in a different place other than the local investment, Outward Foreign direct investments can sometimes deter the local investment.

c. Jeopardy from Political Moods

Political issues in target nations can instantly change; Outward Foreign direct investment is very precarious. The risk factors that are going to experience by the investors are exceptionally high.

d. Higher Costs

If invest in certain foreign nations, maybe more costly than export goods. So, it is very vital to organize adequate fund to set up the tasks.

e. Economically Non-Viable

Bearing in mind that outward foreign direct investments may be wealth-intensive from investor point of view, it may occasionally be very perilous or economic non-viability.

f. Confiscation

Political changes can also lead to seizure, which is a situation where the régime will have control over resources.

g. Destructive bearing on the Nation's Investment

The laws that administer foreign exchange rates and direct investments may adversely have bearing on the investing nation. Investment may be barred in some foreign countries.

h. Economic Colonialism in Modern-Day

Several third-world countries, concern that outward foreign direct investment exposes host nations and leave them susceptible to foreign companies' exploitations.

Objective of the Study (outward foreign direct investment)

- Analyze various aspects of OFDI on Indian Economy
- Interpret the economic implications from the OFDI, in terms of
 - i. country
 - ii. sector
 - iii. year

Research Methodology

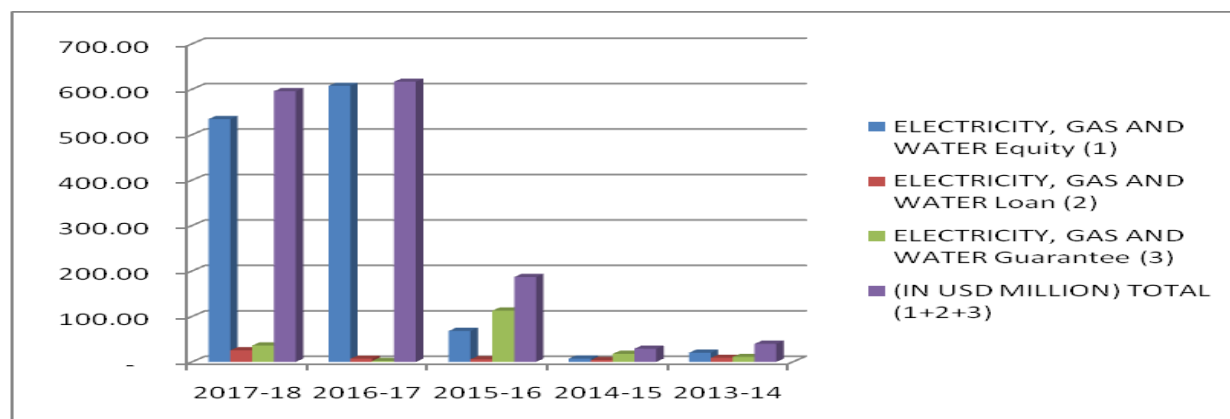
This study is mainly based on secondary data and Research Design - Descriptive and Quantitative and the Sample Plan - Stratified Random Sampling. The required data have been

collected from various sources i.e. Reserve bank of India, Asian Development Bank's Reports, World Investment Reports, various Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India, Economic and Social Survey of Asia and the Pacific, United Nations, Asian Development Outlook, Country Reports on Economic Policy and Trade Practice-Bureau of Economic and Business Affairs, U.S. From websites of RBI, IMF, World Bank, UNCTAD, WTO, EXIM Bank, Department of State etc. It is a time series data and the relevant data have been collected for the period April 2013-14 to March 2018. The population size of the country under study was 66 in which drawn sample was 5, same has been applied on the sectors. To confine the study authors took only 5 years data.

Total Outwards FDI from India in the Last Consecutive Five Financial Years (Sector Wise)

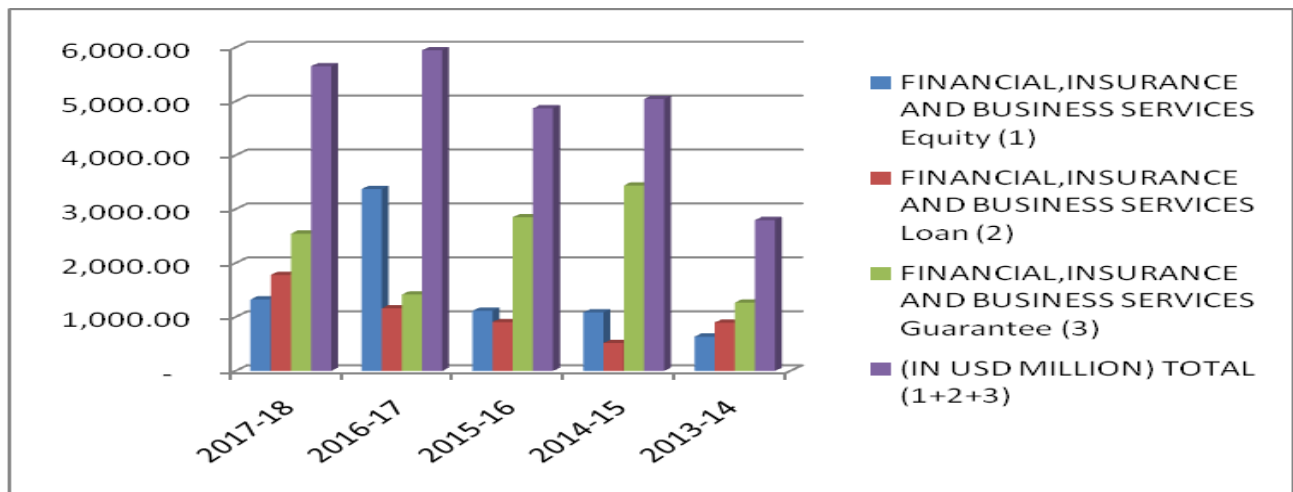
ELECTRICITY, GAS AND WATER					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	534.36	25.44	35.94	595.73
2	2016-17	607.49	6.93	2.20	616.62
3	2015-16	68.10	5.82	112.85	186.78
4	2014-15	7.26	4.10	17.62	28.99
5	2013-14	20.11	8.87	10.80	39.78

**Collected and Compiled by Researchers*



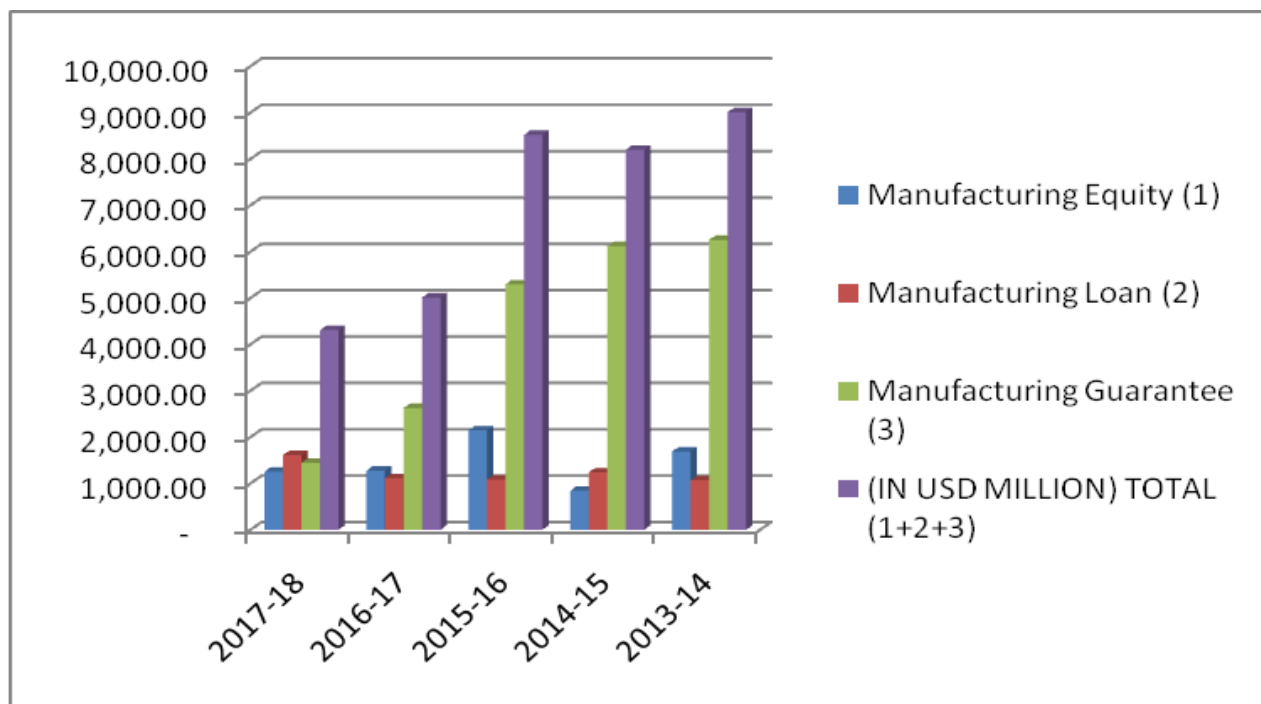
FINANCIAL,INSURANCE AND BUSINESS SERVICES					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	1,326.28	1,779.87	2,546.10	5,652.24
2	2016-17	3,372.32	1,159.75	1,415.99	5,948.06
3	2015-16	1,114.01	906.37	2,851.85	4,872.24
4	2014-15	1,086.32	517.64	3,440.33	5,044.29
5	2013-14	635.61	896.25	1,266.26	2,798.13

**Collected and Compiled by Researchers*



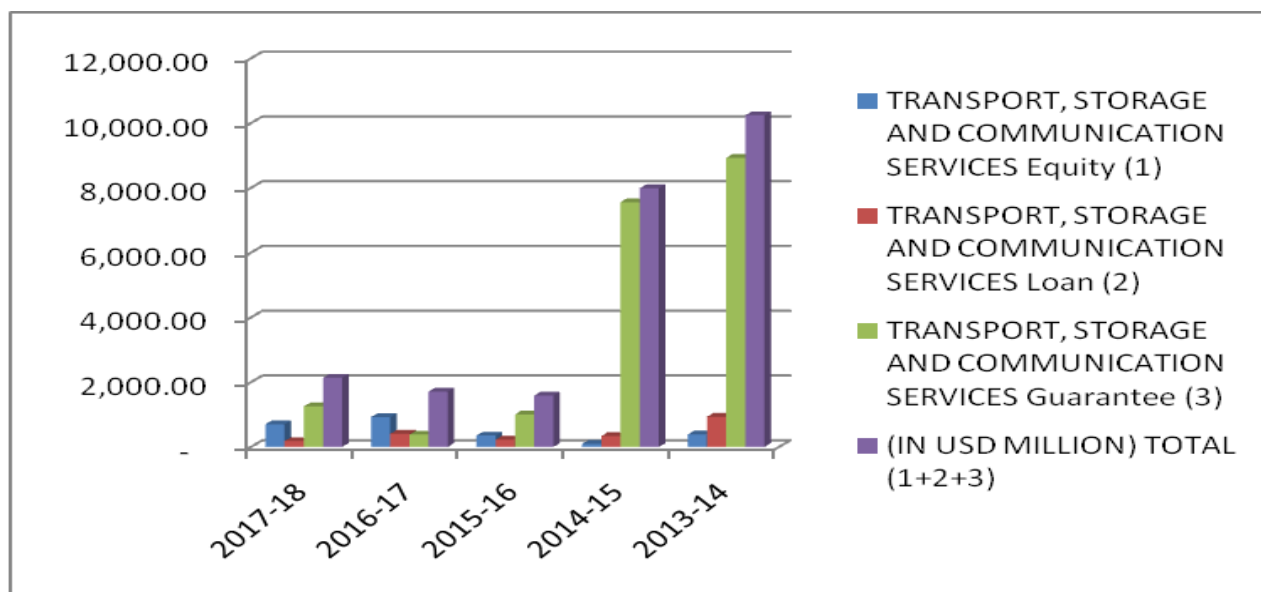
Manufacturing					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	1,251.89	1,611.68	1,443.89	4,307.46
2	2016-17	1,274.73	1,112.08	2,625.34	5,012.15
3	2015-16	2,143.14	1,080.70	5,294.53	8,518.37
4	2014-15	840.96	1,238.14	6,118.80	8,197.90
5	2013-14	1,686.31	1,067.38	6,254.29	9,007.98

**Collected and Compiled by Researchers*



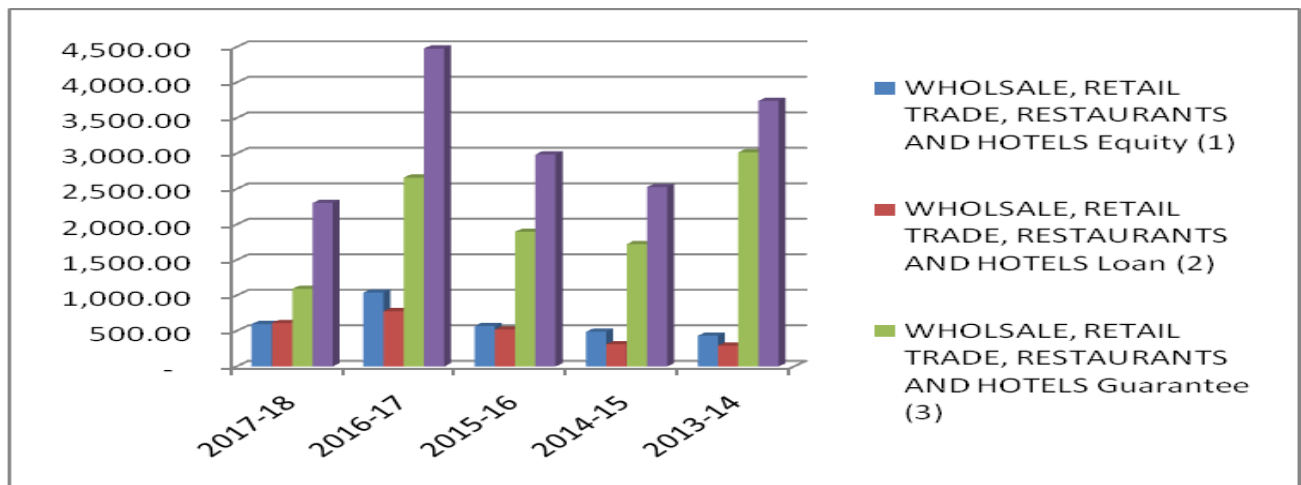
TRANSPORT, STORAGE AND COMMUNICATION SERVICES					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	702.23	181.79	1,253.57	2,137.59
2	2016-17	921.21	406.33	381.71	1,709.25
3	2015-16	352.15	228.14	1,005.24	1,585.52
4	2014-15	94.95	337.10	7,558.48	7,990.53
5	2013-14	384.69	932.32	8,925.83	10,242.84

**Collected and Compiled by Researchers*



WHOLSALE, RETAIL TRADE, RESTAURANTS AND HOTELS					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	597.59	611.95	1,093.25	2,302.80
2	2016-17	1,039.70	778.54	2,660.11	4,478.36
3	2015-16	568.66	520.18	1,897.85	2,986.68
4	2014-15	489.57	313.47	1,723.93	2,526.97
5	2013-14	432.13	293.37	3,016.16	3,741.66

**Collected and Compiled by Researchers*



Analysis of Outwards Foreign Direct Investment Sector-wise from India - 2013-14 to 2017-18

We have carefully monitored and noticed some very significant changes during pre as well as post demonetization era in India. As per our research methodology we have picked 5 sectors and accordingly done their analysis before coming to any conclusion in our research paper related with OFDI in Indian context. Since demonetization took place suddenly in November ,2016 by immediate stripping Rs 500 and Rs 1000 currency denomination from Indian financial and banking system that resulted huge impact on OFDI in various sectors.

First of all we have found in Electricity, Gas and Water from financial year 2013-14 to 2017-18, huge growth 1397% found in Indian OFDIs investment ever. And more of that we have noticed that major outward was recorded in equity as compared to debt and guarantee in prior to November ,2016 and post November ,2016. In the second sector Financial, Insurance and Business Services, we have found tremendous growth approximately 102% from selected financial year data in all types of outward foreign direct investments (equity, debts and guarantee). In the manufacturing sector data and analysis were quite astonishing as we have noticed from the financial year 2013-14 to 2017-18 that negative growth recorded by 109%.,i. e

shown initially some growth but later on in post demonetization era shown negative growth as mentioned statistically.

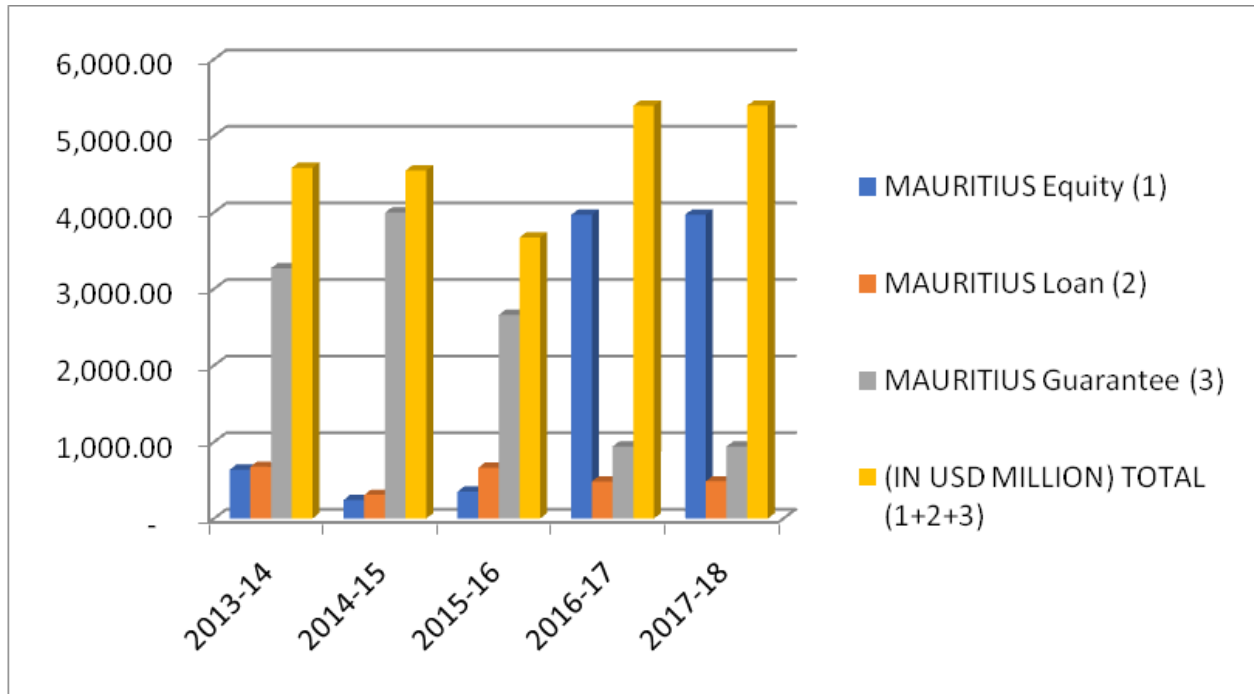
In Transport, Storage and Communication Services, our data and their analysis has further shown negative growth by nearly 79% as we have seen and analyzed in manufacturing sector in all kinds of OFDIs. Lastly, in the sector of Wholesale, Retail Trade, Restaurants and Hotels we have observed that from financial year 2013-14 to 2017-18, again negative growth have been recorded by nearly 38% in all kinds of OFDIs in the concerned sector specifically noticed in post demonetization period.

In total, it is estimated during our 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.

Total Outwards FDI from India in the Last Consecutive Five Financial Years (Country Wise)

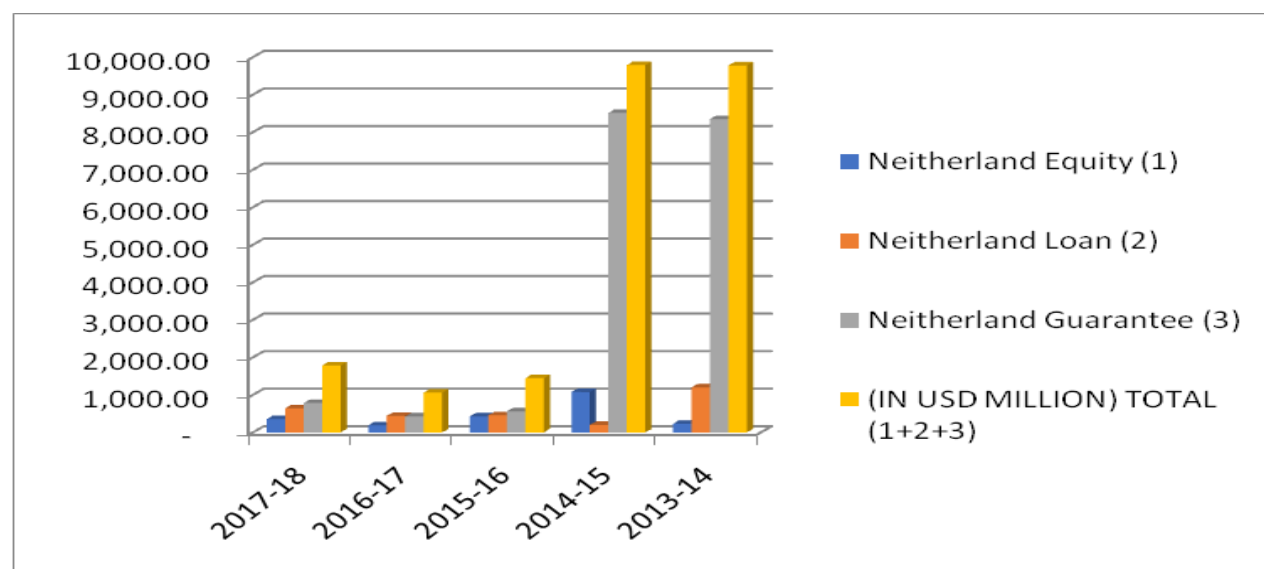
Mauritius					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee	TOTAL (1+2+3)
1	2013-14	637.44	675.21	3,269.24	4,581.90
2	2014-15	242.06	308.49	3,995.61	4,546.16
3	2015-16	349.45	661.58	2,659.57	3,670.60
4	2016-17	3,967.91	483.80	940.98	5,392.69
5	2017-18	3,967.90	484.80	940.98	5,393.68

**Collected and Compiled by Researchers*



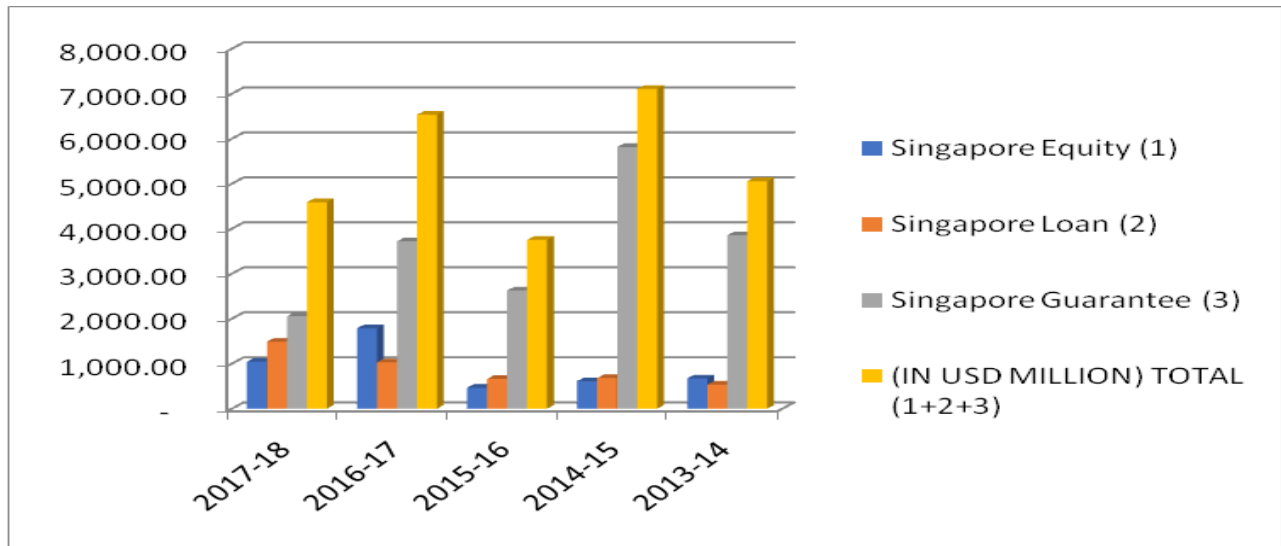
Neitherland					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee	TOTAL (1+2+3)
1	2017-18	356.40	642.98	784.72	1,784.10
2	2016-17	190.76	441.04	428.78	1,060.59
3	2015-16	428.82	455.20	561.28	1,445.30
4	2014-15	1,075.51	200.55	8,513.43	9,789.49
5	2013-14	230.24	1,200.42	8,349.31	9,779.97

**Collected and Compiled by Researchers*



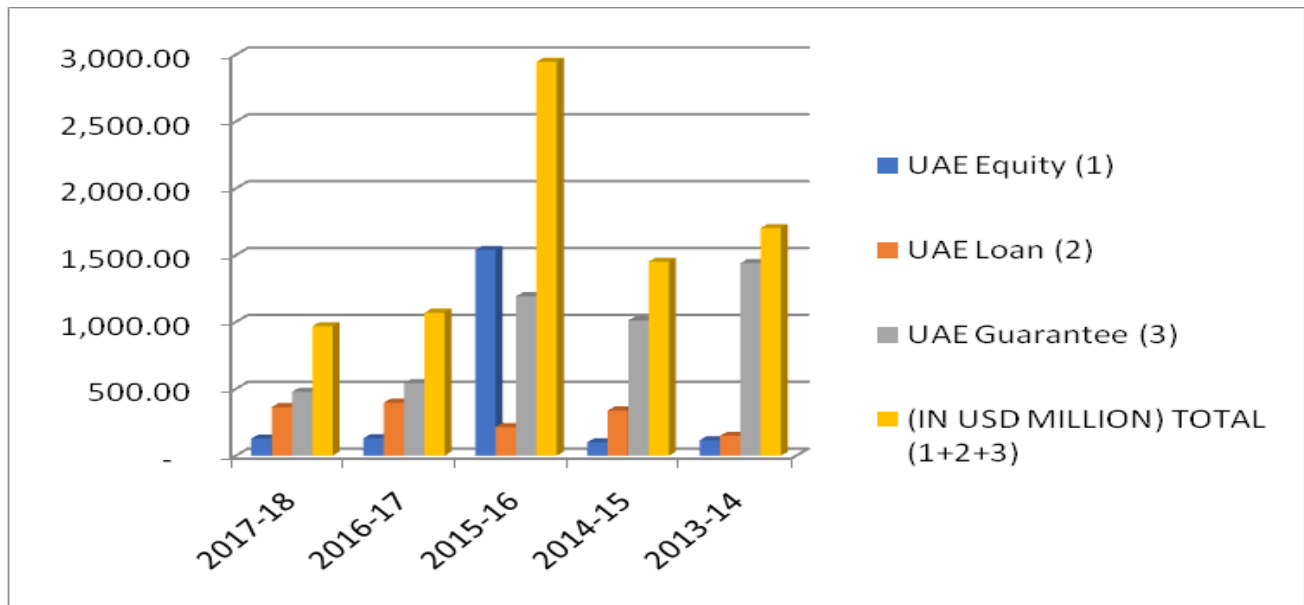
Singapore					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee	TOTAL (1+2+3)
1	2017-18	1,043.34	1,489.63	2,056.14	4,589.10
2	2016-17	1,786.01	1,029.41	3,718.31	6,533.73
3	2015-16	465.22	661.08	2,625.30	3,751.60
4	2014-15	612.22	680.67	5,815.60	7,108.49
5	2013-14	671.82	533.17	3,852.79	5,057.78

**Collected and Compiled by Researchers*



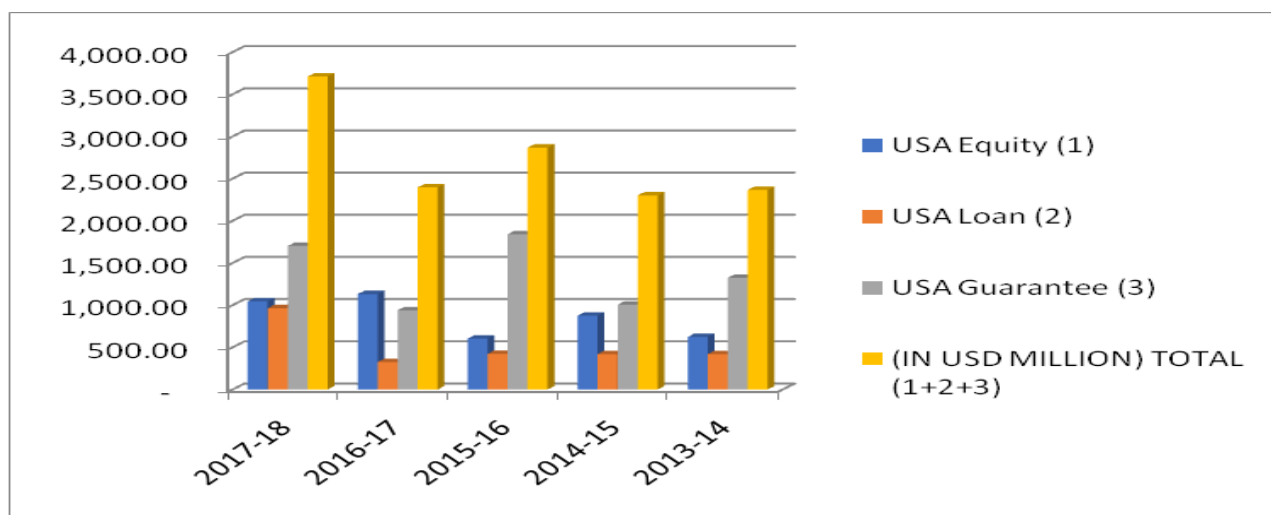
UAE					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee	TOTAL (1+2+3)
1	2017-18	127.66	363.20	477.38	968.24
2	2016-17	130.00	395.93	543.52	1,069.45
3	2015-16	1,538.42	214.49	1,192.82	2,945.73
4	2014-15	100.85	337.95	1,011.73	1,450.53
5	2013-14	114.51	148.34	1,439.47	1,702.32

**Collected and Compiled by Researchers*



USA					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee	TOTAL (1+2+3)
1	2017-18	1,044.86	963.34	1,702.11	3,710.31
2	2016-17	1,131.17	325.56	939.50	2,396.23
3	2015-16	604.01	422.95	1,840.39	2,867.36
4	2014-15	875.30	419.50	1,006.45	2,301.24
5	2013-14	623.11	418.95	1,323.24	2,365.30

**Collected and Compiled by Researchers*



Analysis of Outward Foreign Direct Investment country-wise from India - 2013-14 to 2017-18 witnessing Pre as well as post demonetization in Indian Economy.

Aforesaid study is witnessed on the basis of pre and post demonetization period in India, in which FDI, inflows as well as outflow were affected and consequently affected an economy.

Apart from our sample population of 66 countries concerned with FDI(Outward) , we have analyzed 5 countries named Mauritius, Netherland, Singapore, UAE and USA on the basis of strata in which very surprising results found as mentioned below:-

After analyzing data from the financial years 2013-14 to 2017-18, 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). Whereas, maximum growth was seen in equity in year 2017-18. In case of the Netherlands, we have noticed from our analysis that from financial year 2013-14 to

2017-18 total (Equity, Debt and Guarantee) OFDI was found way down to approximately 81%. Singapore has always been great source of IFDI and OFDI from economic perspective of India. If we look at data which we have gathered we analyzed that from the financial years 2013-14 to 2017-18 India has seen negative growth nearly 9% that is considered insignificant as compared to Netherland that showed negative growth nearly 81% that is alarming destination for Indian OFDI.

Like Singapore UAE was also very friendly and profit oriented investment destination for India for so many years but as we analyzed in recent scenario especially post demonetization, UAE showed negative growth approximately 43% from the financial years 2013-14 to 2017-18. Now if we look at data gathered for USA we have noticed that throughout all economic cycles USA always has shown its political as well economic interests in Indian economy. From the financial years 2013-14 to 2017-18 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.

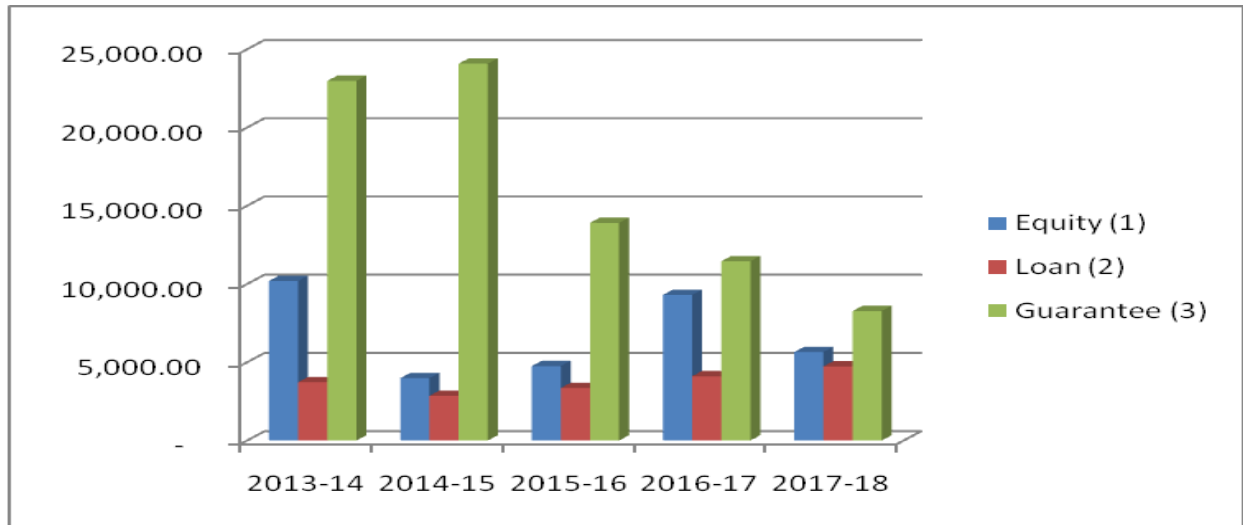
Mauritius	9164 (5466.68) [2500.64]	2613 (3419.12) [190.06]	11806 (14697.20) [568.75]	23583
Netherland	2281 (5530.42) [1909.21]	2940 (3458.99) [77.87]	18637 (14868.59) [955.10]	23858
Singapore	4578 (6267.80) [455.57]	4393 (3920.18) [57.03]	18068 (16851.02) [87.89]	27039
UAE	2011 (1885.51) [8.35]	1459 (1179.29) [66.34]	4664 (5069.20) [32.39]	8134
USA	4278 (3161.60) [394.22]	2550 (1977.42) [165.80]	6811 (8499.98) [335.61]	13639
Column Totals	22,312.00	13,955.00	59,986.00	96253 (Grand Total)

The result in chi-square statistic is found to be 7804.8274 and the p-value is < 0.00001. The result is significant at $p < .05$ therefore we could carry our study further to be more accurate in our study.

Total Outwards FDI from India in the Last Consecutive Five Financial Years

					(IN USD MILLION)
S. No.	Year	Equity (1)	Loan (2)	Guarantee (3)	TOTAL (1+2+3)
1	2017-18	5,650.20	4,732.92	8,272.03	18,655.16
2	2016-17	9,301.93	4,106.78	11,454.34	24,863.05
3	2015-16	4,753.76	3,354.45	13,908.42	22,016.64
4	2014-15	3,985.73	2,852.94	24,080.85	30,919.51
5	2013-14	10,194.50	3,725.51	22,980.49	36,900.48

**Collected and Compiled by Researchers*



Now we see OFDI in totality from each sector as well as country wise, we happen to see that in 2013-14 whereas total OFDI estimated USD million 36,900.48 that got decreased in financial year 2017-18 USD million 18,655.16, it was remarkable negativity found in almost all kinds of OFDIs specially in guarantee, in percentage we have calculated negative growth by 49.44 %.

These data in current financial year 2017-18 clearly highlight downward investment towards foreign direct investment in outwards after demonetization period.

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

Also we have done one hypothesis (two tailed) at 5 % level of significance and found the T-value is found to be 8.19 is found to be greater than table of 2.57. The P-Value is 0.0012. The result in data found to be significant at $p < 0.05$.

Conclusion :

The authors had monitored and analyzed all data sector wise, country wise and also year wise from financial year 2013-14 to 2017-18 in which all sectors and countries taken together as per our research methodology. We have done careful analysis and reached conclusion that India is though developing nation yet it has tremendous investment opportunities and options available in India. We have also noticed during our 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 OFDI has tremendously come down due to fall in liquidity and complex tax structure (GST) , India has witnessed sharp decline in OFDI in 2016-17 by approximately 8.9 percent to USD 1452 billion from USD 1594 billion in the year 2015-16. 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 (see data analysis). As per data analyzed we notice that USA, China and Netherlands were the top countries in FDI outflow in 2016-17.

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