

Trend of FDI in India with special reference to European countries

Dr Shantanu Chakraborty¹

¹Professor, School of Management
Swami Vivekananda University

Abstract:

Foreign direct Investment is major contributor of the Economic development. Foreign Investors were very active in developed European countries particularly in USA, France and Spain. But gradually a trend of shift in FDI from developed economy to developing and growing economy is observed. Investment are now flowing more and more in Latin American countries, China and India. This article has studied the shifting of trend in this respect. The study has considered France and Spain as they are more preferred now over USA Germany and UK. India has been considered. One of the reasons is impact of implementation of IFRS in FDI. India has not adopted IFRS. But to make AS compatible, IND AS are gradually implemented. Due to this, in recent years, FDI net inflow has increased significantly from 2020 and onwards.

Key words: FDI, IFRS, INDAS, Investment.

Introduction:

International Financial Reporting Standard (IFRS) is the latest system of accounting developed by International Accounting Standard Board (IASB) in London. It is the most powerful body of designing accounting procedure and regulations in World. About 120 countries are now using IFRS for domestic listed companies particularly for complying with the reporting standards.

Use of IFRS will mean financial statements of different countries are formed on the same basis. So, comparison of

performance worldwide will be possible. Also, companies will be able to raise capital from other countries. However, many other countries in the world believe that certain level of quality will be lost if it is adopted in full. Also cost of adopting IFRS may outweigh its benefits.

Foreign direct investment (FDI) is direct investment equity flows in the reporting country. Resident of one country invest their money in different countries. It can be considered as the sum of equity capital, reinvestment of earnings and other capital. Ownership of 10% or more of the voting stock is considered the criteria for existence of a direct investment relationship.

Implementation of IFRS practices in states of European Union:

The implementation of IFRS practices in the states of European Union (EU) will need substantial efforts from the companies. There will be a significant change in the language of preparing financial statements. Companies will require re-scheduling the publication of their annual reports and other interim publications. IFRS requires such reports to be published earlier than was required by US GAAP (International financial reporting standards, n.d.). All companies that are listed in the European Union will have to mandatorily follow IFRS guidelines in designing their financial statements from **January 1, 2005**. It is believed that IFRS will be instrumental in enhancing the transparency and cross-country comparability of the financial reports. Companies can be evaluated in a more complete manner and national accounting discrepancies can be got rid of completely. Certain economists had expressed their faith in the implementation of IFRS regulations.

They increasingly felt that shifting to the new accounting standards would improve the flow of investments into the Euro zone. However, organisations will need to put in extra efforts to face the combined challenge of changing into an entire set of new regulations ushered in by simultaneous adoption of Basel II norms, IFRS and Financial Services Action Plan. The IFRS

advocates the use of Fair Value principle in valuation of investments, and emphasises on mandatory disclosure.

Literature Review:

Many articles were published on impact of adopting IFRS on FDI.

Lawrence A. Gordon and Martin P Loab have carried out a research work to test the impact of adopting IFRS on FDI of the country. Range of data taken was 1996-2009. They applied ordinary least square technique and difference-in-difference test. Result shows that FDI increased due to adoption of IFRS particularly in developed countries. In developing countries tendency is to get financial aid from world bank. For such countries two stage instrumental variable model was used. Ultimately it also showed that FDI improved after adoption of IFRS. Konstantinos Kapelas and Georgia Siougle shows effect of adoption of IFRS on European settings and worldwide settings. Special emphasis was on European crisis in investment management. It has considered impact of Adoption of IFRS on FDI, cross border investment and foreign mutual fund ownership. Positive relation was observed in this respect.

Mr, Aswinkumar Chougule has selected two companies of India that have adopted IFRS voluntarily in 2011-12. Comparison of different ratios for 2010-11 and 2011-12 are done. Result shows a significant improvement in them.

In 2022 Liviu Alexandru Tudor has established that adoption of IFRS improves quality and transparency of financial information. Ali M. Shaheen in year 2022 has investigated the impact of IFRS on expansion of public companies in the economy. Result was a significant role of IFRS in shaping economic growth of public sector business.

L.Lungu, C. Caraiani and C. Dasculu investigated association of IFRS and FDI inflows. Result shows that European countries adopting IFRS are more benefitted in adopters. Benefit is more prominent in non-European countries. In India IND-AS has been made mandatory from 1.4.2016.

Dr. Arti Singh and others have observed that IFRS has improved quality like relevance, reliability, understand ability, faithful representation in financial data. Shobani and Sindu concluded that IFRS provides fair valuation approach and have more transparent disclosure. Ashok Kumar in 2021, has analysed results of WIPRO. It has voluntarily adopted IFRS. Liquidity ratio and Equity ratio improved during 2009-10 to 2012-13. But no significant improvement observed in profitability.

Finally, Surajit sangha in 2023 observed that IFRs can be adopted in different ways. But training is needed in this respect to grasp the knowledge. Also support of various sector is required in adoption process.

Objective of the study:

This study aims at a comparison of trend in FDI in Europe and India. Period considered is year 2002 to 2022. Also FDI trends of India will be compared with European countries to draw some fruitful conclusion.

Data collection:

In Europe two countries France and Spain are taken. They are shown in Table 1 and table 2. Data of India is also collected and represented in Table 3 below.

Data Table 1:
Historical data of FDI inflows in France

[\$ billion]

YEAR	FDI	% o f GDP	YEAR	FDI	% of GDP	YEAR	FDI	% of GDP
2002	51.55	3.43	2009	18.42	0.68	2016	32.80	1.33
2003	42.35	2.30	2010	38.89	1.47	2017	35.87	1.38
2004	35.61	1.68	2011	44.21	1.54	2018	77.49	2.78
2005	85.14	3.88	2012	32.94	1.29	2019	53.50	1.96
2006	78.46	3.40	2013	31.59	1.12	2020	19.37	0.73
2007	83.78	3.15	2014	5.80	0.20	2021	95.86	3.24
2008	68.00	2.32	2015	42.03	1.76	2022	105.42	105.42

Data Table 2:
Historical data of FDI inflows in Spain

[\$ billion]

YEAR	FDI	% o f GDP	YEAR	FDI	% of GDP	YEAR	FDI	% of GDP
2002	39.36	5.55	2009	9.55	0.64	2016	44.25	3.59
2003	30.74	3.39	2010	36.61	2.57	2017	31.57	2.40
2004	25.27	2.36	2011	26.83	1.81	2018	58.63	4.12
2005	27.01	2.34	2012	20.85	1.57	2019	25.88	1.86
2006	32.93	2.61	2013	47.37	3.49	2020	38.32	3.00
2007	68.23	4.63	2014	32.94	2.40	2021	57.19	3.96
2008	74.09	4.54	2015	23.04	1.93	2022	51.43	3.63

Data Table 3:
Historical data of FDI inflows in India

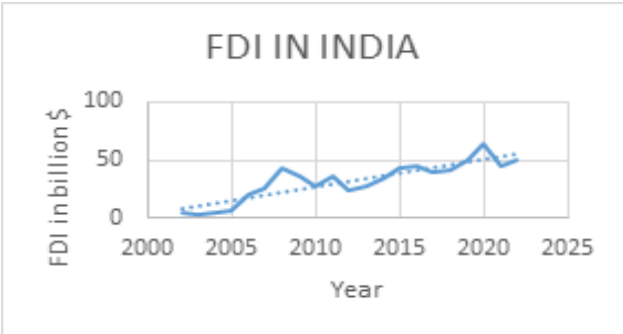
[\$ billion]

YEAR	FDI	% o f GDP	YEAR	FDI	% of GDP	YEAR	FDI	% of GDP
2002	5.21	1.01	2009	35.58	2.65	2016	44.46	1.94
2003	3.68	0.66	2010	27.40	1.64	2017	39.97	1.51
2004	5.43	0.77	2011	36.50	2.00	2018	42.12	1.56
2005	7.27	0.89	2012	24.00	1.31	2019	50.61	1.73
2006	20.03	2.13	2013	28.15	1.52	2020	64.36	2.41
2007	25.23	2.07	2014	34.50	1.70	2021	44.73	1.42
2008	43.41	3.62	2015	44.01	2.09	2022	49.94	1.46

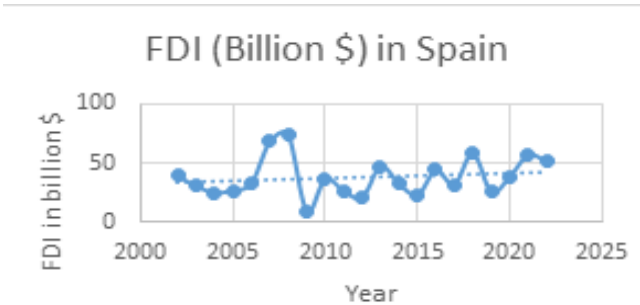
Analysis of data:

Data table above shows the inflows of FDI along with percentage of GDP funded by FDI. Period. It covers relevant data of France and Spain along with India. It shows that % of GDP funded by FDI is 3% to 5%. In India it is within the range of 1% to 3%. Volume wise absolute FDI figure is much higher than the same in India. It is due to the difference in volume of GDP in developed European countries and developing Indian economy.

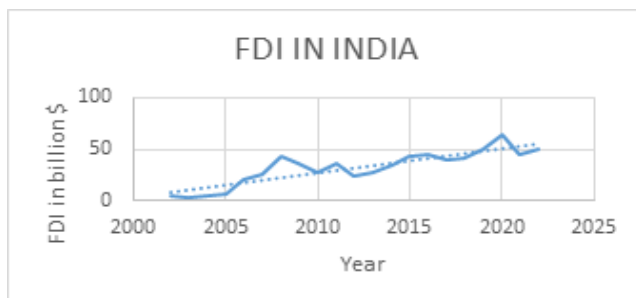
Next point is the fluctuation in FDI contribution year wise in different countries. Following diagrams will highlight it.



Three significant drop in FDI observed in year 2009 (18.42 billion \$), year 2014 (5.8 billion 4) and (19.37 billion \$) in year 2020.



Next diagram shows significant downfall in FDI during 2009 (9.55 billion \$). This trend is also observed in France. But downfall in 2014 is not so severe. It has dropped to 32.94 in 2014 and then further to 23.04 billion Dollar in 2015. Thus downtrend is spread over in the tenure of 2014-2015. France has overcome this downtrend in 2015 and showed uptrend in FDI again. Finally considered year 2020 when a severe downfall is observed in year 2020. But in Spain FDI has increased in 2020 to 38.32billion dollar.



In India the picture is just reversed. Since 2002 there is a continuous upsurge in FDI figure. In 2009 FDI in European countries dropped significantly. In 2009 it has also dropped in India and continued till 2010. This downfall is not so severe as observed in France or Spain. In 2014-15 again downfall was found there. But it has increased in these two years in India. Again in 2020 it has dropped in France but not in India or Spain. In India there is a significant increase in FDI in India. It has moved up from 50.61 billion \$ to 64.36 billion dollar in 2020.

Analysis and results:

France is considered as a very attractive country in FDI. It is ahead of Germany, UK. In 2009 downtrend observed in European countries and USA. Causes were growing divestment in Transnational Corporation from Europe to growing countries in Latin America and China. This impact was also observed in Spain but not so severe as France. During 2014 there was macroeconomic imbalance due to deterioration in trade balance and competitiveness and very high debt burden in public sector.

Decrease in FDI in developed countries is counterbalanced by increase in the same in developing and growing economies. It is clearly visible from the data of 2020 when FDI in India has shown significant upsurge although it has dropped in France.

Finally considered trend of FDI in 2002 to 2022. Dotted line represents trend lines. It is almost horizontal in France and

Spain but has a very sharp positive slope in India. Regression statistical results are shown below.

Details	France	Spain	India
Regression equation	$Y=0.3579 \cdot X - 668.6$	$Y = 0.4681 \cdot X - 903.7$	$Y = 2.381 \cdot X - 4758$
Slope	0.3579 ± 1.006	0.4681 ± 0.5950	2.381 ± 0.2950
X intercept	-668.6 ± 2.002		-4758 ± 593.6
R2	0.006614	0.03155	0.7741
P	0.726	0.441	<0.0001
Deviation from horizontal	Not significant	No significant	significant

Above results shows that India has a very high positive slope in India. But it less than 0.5 in France and Spain. R2 value is also very low in France and Spain. So hardly there is an impact of year selected (i.e. X value). But in India R2 is very high. So year change has a significant positive impact on FDI. Finally considered P value. A high P value indicates deviation of actual trend value from horizontal value is not significant. In other word, result is accepting null hypothesis that linear FDI value is not significantly different from horizontal FDI value. So, actual change in FDI from constant horizontal FDI in not significant. It is just opposite in India. Here, P value is very insignificant. So null hypothesis is rejected. Hence trend FDI is significantly different from horizontal FDI value.

Finally, considering the impact of International Finance Reporting Standard and its impact in FDI in India. IFRS is providing a common international reporting guideline of Financial results. Objective is to compare financial information of Companies in Foreign countries with domestic companies results. It is very crucial for comparing of financial performances of companies in two different countries. In FDI this comparison is very crucial before taking any investment decision. India has not adopted IFRS. So Indian companies are not bound to follow their guidelines. But after globalisation its adoption is considered very crucial. Therefore, India has decided to change their accounting Standards so that they can be at per with IFRS guidelines. Gradually AS are rectified and new guidelines known as INDAS are developed and gradually implemented. Its implementation started on 1st

April 2015. From 2016 it is made compulsory. Initially it was not applied in Banking and Insurance, but it has also been implemented in those areas. The impact of this adoption is eminent in diagram above. FDI has continuously grown after 2015. Alex

Conclusion:

Results are showing that Investment in India is growing very fast. It will foster the growth rate of India in near future also. Percentage of FDI with GDP shows no significant up or down trend in any of the countries considered here. In fact, it is much lower in India comparing with France and Spain. But absolute dollar value of GDP is growing very fast in India. It is justified by the slope of trend line. All these indicators are in favour of a high growth rate in GDP. FDI has a very big role in its achievement. In near future it is expected that FDI will continue to flow in India as desired.

References:

Gordon A, Martin P. Loeb, Weinjie Zhu (2012); The impact of IFRS adoption on Foreign Direct Investment; Journal of accounting and Public Policy, Issue July 2012, Vol 31, pp 374-398

Konstantinous Kapelas, Georgia Siougle (2019); effect of IFRS adoption on Investment Management: a review of literature; Technology of Investment, vol. 9, No 1, Feb 2018.

Dr Rashmim M, Ashwinkumar Chougule (2017); A Study on IFRS and its impact on selected Indian Companies; KIIT Journal of Management; Dec 2017; vol 13; pp 1-16.

Liviu Alexandru Tudor (2022); IFRS adoption and impact on FDI evidence from Central and European countries; proceedings of International conference on Business excellence; Academy of Economic study, Bucharest, Romania; vol 16; pp 870-878.

Ali Murthada Shaheen (2022); The impact of International financial Reporting & its role in improving the economic development of public companies; An analytical study; Journal of law and sustainable development; Vol II, no.6.

Camelia Iuliana Lungu & Chirata Caraiani & Cornelia Dascalu (2017); the impact of IFRS adoption of foreign Direct Investments: Insights for emerging countries; *Accounting in Europe*; Taylor and Francies Journal 2017; vol 14(3), pp 331-357.

Dr Arti Singh, Msu unime Jahanara, Dr b.M. Raja Sekhar (2022); Impact of International Financial reporting Standards; A Review of Literature; *journal of positive school of psychology*, 2022; vol 6, no.6, pp 5274-5281.

Surajit Singha 92023); Analysis and effect on Merging of International financial Reporting Ethics in Indian Corporate Sector; *Management Journal of advance research*; vol 3 no 2.