OPEN ACCESS

International
Journal
Of Modern Engineering Research (IJMER)

Growth and Development of FDI on Indian Economy

J. Rama Devi[1], Prof. B. Ramachandra Reddy[2]
[1] *Ph.D. Research Scholar, S. V. University, Tirupati, India*
[2] *Professor, Department of Commerce, S. V. University, Tirupati, India*

Abstract: *India has been attracting substantial of foreign direct investment since last few decades, highly in services sector, telecommunications, software products, real estate etc. FDI are highly promoting manufacturing sector of India's exports & attracting more number of earnings on Foreign exchange, Institutional Investments, MNCs and speeding up our economic growth through Technology transfer, Employment generation and improved access to managerial expertise, global capital, product markets and distribution network. FDI bring out the generation-wise innovation, hidden technology, spending more on research & development to retain our strength in the globalised competitor products. Indian economy is going to over track the developed and developing countries. Recently, due to the recession most of the countries have not able to run their investment as well, but India has been managed better then developed country without elevated struggling. This paper analyzes the growth and development of FDI and it discussed the Indian economic growth through FDI. In addition it explains and showed the various sector-wise FDI performances in India.*

Key Words: *FDI, Indian Economy, Exports, Service Sector.*

I. Introduction

Foreign Direct Investment is one of the main key factors for the development of countries economic growth in the 21st century globalised world. Because, MNCs have able to make it is a long-term management control as opposed to direct investment in buildings and equipment still accounts for a vast majority of FDI activity. Liberalized policy of today world is welcoming investment from other countries and searching for huge capital resources. Further it focusing on new markets where there is availability for abundant labours, product scope, high profits etc. Therefore FDI has become a battle ground of emerging markets, behind allowing FDI is to complement and supplement domestic investment, for achieving a higher level of economic development and providing opportunities to technological up gradation, plus access to global managerial skills and practices(ICA). Initially there were open door policies in South Asian country except India, after 1991 India implemented the liberalized policies during congress government period before that it followed conservative policy of Industrial protection.

II. Objectives

- To identify the various determinants of FDI
- To study the FDI inflows in India

III. What Is FDI?

Foreign Investment refer to long term participation by country. It usually involves participation in management, joint venture, transfer of technology and expertise. It made to serve the business interests of the investor of the company, which is in a different nation direct from the investor's country of origin. It may be individual/ group/incorporate/ unincorporated/enterprise group/government body/estate/trust/social institution/combination of the above.

3.1 Determinants of FDI

One of the most important determinants of foreign direct investment is the size as well as the growth prospects of the economy of the country where the foreign direct investment is being made;

- It is normally assumed that if the country has a big market, it can grow quickly from an economic point of view and it is concluded that the investors would be able to make the most of theory investment in that country.
- One country population plays an important role in attracting foreign direct investors to a country. In such cases the investors are lured by the prospects of a huge customer base.
- If the country has a high per capita income or if the citizens have reasonably good spending capabilities then it would offer the foreign investors with the scope of excellent performances.
- The status of the human resources in a country also helps in attracting FDI from overseas.
- If a country has plenty of natural resources it always finds investors willing to put their money in them.
- Inexpensive labour force is also an important determinant of attracting FDI.
- Infrastructural factors such as the status of telecommunication and railways play an important role in having the foreign direct investors come into a particular country.

IV. FDI Inflows In India

After independence in India 1947, FDI gained attention of the policy makers for acquiring advanced technology and to mobilize foreign exchange resources. In order to boost the FDI inflows in the country Indian government allowing frequent equity participation to foreign enterprises apart from provides many incentives such as tax concessions, simplification of licensing procedures and de-reserving some industries like drugs, fertilizers, aluminium etc. But due to significant outflow of foreign reserve in the form of remittances of dividends, profits, royalties etc in 1973 government of India set up Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of FDI to India. Further Government of India set up Foreign Investment Promotion Board (FIPB) for processing of FDI proposals in India. The Board is the apex inter-ministerial body of the Central Government that deals with proposals relating to FDI into India for projects or sectors that do not qualify for automatic approval by the Reserve Bank of India (RBI) or are outside the parameters of the existing FDI policy.

Table-1: FDI inflows in India (from 1948-2010)

Amount of FDI	Mid 1948	March 1964	March 1974	March 1980	March 1990	March 2000	March 2010
In crores	256	565.5	916	933.2	2705	18486	123378

It could be observed that there has been a steady build up in the actual FDI inflows in the pre-liberalization period in table-1. But measures introduced by the government to liberalize provisions relating to FDI in 1991 increased FDI Rs.2705 crores in 1990 to Rs.123378 crores in 2010. The list of investing countries to India reached to 150 in 2010 as compared to 29 countries in 1991. Nevertless, still a lion's share of FDI comes from only a few countries.

Fig. 1: FDI Inflows in India (1948-2010)

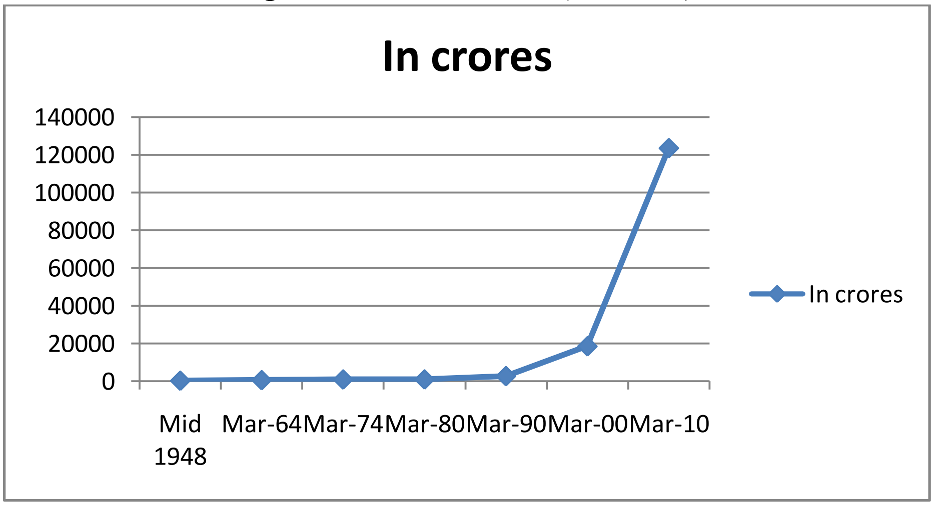

Table-2: Share of Top Ten Investing Countries in FDI Inflows (Financial Year Wise)

(Rs. in Millions)

Ranks	Country	2008-09 (April-March)	2009-10 (April-March)	2010-11 (April-March)	2011-2012 (April-March)	2012-13 (April-March)
1.	Mauritius	10,165	9,801	5,616	8,142	8,059
2.	Singapore	3,360	2,218	1,540	3,306	1,605
3.	U.S.A	1,236	2,212	1,071	994	478
4.	U.K	690	643	538	2760	1,022
5.	Netherlands	682	804	1,417	1,289	1,700
6.	Japan	266	971	1,256	2,089	1,340
7.	Cyprus	1,211	1,623	571	1568	415
8.	Germany	611	602	163	368	467
9.	France	437	283	486	589	547
10.	U.A.E	234	373	188	346	173
Total FDI Inflows		**18,892**	**19,530**	**12,846**	**21,451**	**15,806**

Source: DIPP

Table-2 shows the actual investment flows of top ten countries during the period of 2008-09 to 2012-13. The FDI inflows increased from Rs.18892 million in the year 2008-09to Rs.21,451 millions in the year 2011-2012, further decreased to Rs. 15,806 millions in 2012-2013 among the Top Ten investing countries in FDI inflows during the year 2012-2013 Maurities occupied first place and U.A.E is in the last place.

V. Impact On Indian Economy

FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy.

Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. There are many businesses or individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm.

VI. Need For FDI In India

As India is a developing country, capital has been one of the scare resources that are usually required for economic development. Capital is limited and there are many issues such as Health, poverty, employment, education, research and development, technology obsolesce, global competition. The flow of FDI in India from across the world will help in acquiring the funds at cheaper cost, better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and pullovers to domestic firms. The following arguments are advanced in favour of foreign capital.

- ***Sustaining a high level of Investment*****:** As all the under-developed and the developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level to investment substantially. Due to poverty and low GDP the saving are low. Therefore there is a need to fill the gap between income and savings through foreign direct investments.
- ***Technological Gap:*** In Indian scenario we need technical assistance from foreign source for provision if expert services, training of Indian personnel and educational, research and training institutions in the industry. It only comes through private foreign investment or foreign collaborations.
- ***Exploitation of Natural Resources:*** in India we have abundant natural resources such as coal, iron and steel but to extract the resources we require foreign collaboration.

- ***Understanding the Initial Risk:*** In developing countries as capital is a scare resource, the risk of investments in new ventures or projects for industrialization is high. Therefore foreign capital helps in these investments which require high risk.
- ***Development of Basic Economic Infrastructure*:** In the recent years foreign financial institutions and government of advanced countries have made substantial capital available to the under developed countries. FDI will help in developing the infrastructure by establishing firm's different parts of the country. There are special economic zones which have been developed by government for improvising the industrial growth.
- ***Improvement in the Balance of Payments Position:*** The inflow FDI will help in improving the balance of payment. Firms which feel that the goods produced in India will have a low cost, will produce the goods and export the same to other country. This helps in increasing the exports.
- ***Foreign Firm's Helps In Increasing The Competition*:** Foreign firms have always come up with better technology, process, and innovations comparing with the domestic firms. They develop a completion in which the domestic firms will perform better it survive in the market.

VII. Measures Of FDI

India, post liberalization, has not only opened it's doors to foreign investors but also made investing easier for them by implementing the following measures:

- Foreign exchange controls have been eased on the account of trade.
- Companies can raise funds from overseas securities markets and now have considerable freedom to invest abroad for expanding global operations.
- Foreign investors can remit earnings from Indian operations.
- Foreign trade is largely free from regulations, and tariff levels have come down sharply in the last two years.
- While most Foreign Investments in India (up to 51 %) are allowed in most industries, foreign equity up to 100 % is encouraged in export-oriented units, depending on the merit of the proposal. In certain specified industries reserved for the small scale sector, foreign equity up to 24 % is being permitted now.

As the industry progresses, opportunities abound in India, which has the world's largest middle class population of over 300 million, is attracting **foreign investors** by assuring them good returns. The scope for **foreign investment in India** is unlimited.

VIII. Conclusion

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc.

Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. FDI can help to raise the output, productivity and export at the sectoral level of the Indian economy. However, it can observed the result of sectoral level output, productivity and export is minimal due to the low flow of FDI into India both at the macro level as well as at the sectoral level. Therefore for further opening up of the Indian economy, it is advisable to open up the export oriented sectors and higher growth of the economy could be achieved through the growth of these sectors.

REFERENCES

[1]. Basu P., Nayak N.C. and Vani A., Foreign Direct Investment in India: Emerging Horizon, Indian Economic review, **25,** 255-266, (**2007**)
[2]. Department of Industrial Policy & Promotion, Ministry of Commerce and Industry
[3]. Ministry of Finance, Report of the economic survey, Government of India, New Delhi **(2011-12)**
[4]. Mishra, S.K and Puri, V.K (2006), Indian Economy, 24th Revised Edition.

[5]. Nayak D.N., Canadian Foreign Direct Investment in India: Some observations, Political Economy Journal of India, **8**, 51-56 (**1999**)

[6]. Srivastava S., What is the true level of FDI flows to India?, Economic and Political Weekly, **19**, 1201-1209 (**2003**)

[7]. Economy Watch, http:///www.economywatch.com/foriegn-direct-investment/

[8]. Weisskof T.E., The impact of foreign capital inflow on domestic savings in underdeveloped countries, Journal of International Economics**, 2,** 25-38 (**1972**)

[9]. www.indiastate.com