Journal of Economics and Sustainable Development www.iiste.org
ISSN 2222-1700 (Paper) ISSN 2222-2855 (Online)
Vol.5, No.19, 2014

Effects of FDI on Indian Economy: A Critical Appraisal

Prin. Dr.J.S.Patil
Principal, Shikshan Maharshi Bapuji Salunkhe, Mahavidyalaya, Karad.
Dean,Faculty of Social Sciences, Shivaji University, Kolhapur.

Shri. Bandu J. Kadam
Research Student, Shivaji University, Kolhapur
bjkadam@gmail.com; bandu123kadam@yahoo.in

Introduction

Foreign investment are always welcomed by developing countries for meeting the requirements of large scale programmes of industrialization, filling up of technological gap to make high level investments, to overcome foreign gab to exploit the natural resources and to compete with the rest of the world. The competition has evolved as a great challenge for all the third world countries. The foreign capital is always favored in order to meet the above-mentioned requirements[1].

FDI plays a very vital role in economy of country. The pace of its sustained economic growth and development reflects Nations' progress and prosperity. Investment provides the base and pre-requisite for growth and development. A part from a Nation's foreign exchange reserves, exports, government's revenue, and financial position, available supply of domestic savings, magnitude and quality of foreign investment is necessary for the well-being of a country. Developing nations, in particular, consider FDI as the safest type of International capital flows out of all the available sources of external finance available to them. It is during 1990s that FDI inflows rose faster than almost all other indicators of economic activity worldwide. Thus, a nation can improve its economic fortunes by adopting liberal vis-à-vis by creating conditions conducive to investment as these things positively influence and determinants of the investment process[2]. This research paper highlights the role of FDI in economic growth of the country.

In India, the rate of saving is very low compared to other developed countries. Because of this, our economic development does not achieved as per China's growth. Most of our finances have diverted to non-development expenditure, which led less capital in our country. To answer this problem, Foreign Direct Investment (FDI) inflow into India is the best solution.

I) Concept of FDI

The definition of FDI has revised in India, which includes three aspects of capital flows i. e. equity capital, reinvestment earnings (retained earnings of FDI companies) and other direct capital (inter-company debt transactions) in line with internationally accepted standards. Now days FDI may come in India by four routes: 1) RBI (equity), 2) Government (SIA - secretariat & Industrial Assistance or FIPB - Foreign Investment Promotion Board) 3) NRI: (Non Residential Indian) investment and acquisition of shares.

More recently, the Economic Survey 2008 -09 reiterated that: FDI is considered the most attractive type of capital flow for emerging economic as it is expected to bring latest technology and enhance production capabilities[3].

Foreign investments mean both foreign portfolio investments and foreign direct investments(FDI).FDI bring better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. This efficiency contribution of FDI is much more important[4].

By 1997 India became the ninth largest recipient of such investment among the developing economies (World Bank, 1998:20)[5]. However, despite increasing inflows of FDI there has not been any attempt to assess its contribution to India's export performance- one of the channels through which FDI affects growth[6].

II) Statement of the Problems

FDI plays very vital role in Indian economy. After opening the gates of Indian economy so many changes were realized in general and FDI in particular. FDI have allowed in number of fields. In most of the sectors, FDI is allowed up to 100% e.g. NBFC, higher education, power, medical, hospital etc. As per World Development Reports 2002 among Asian countries, China stands 1st which is far away from India. We have failed to attract the good amount of FDI in our country.

III) Importance of study

The present study attempts to analyze the important of FDI in India .The study works out the trends and attempts main terminates and investment flows to India. The study also examines the role of FDI on economic growth in India for the period 2000 to 2010. The period under study is importance for a variety of reasons. The study is important from the viewpoint of the macroeconomic variables included in the study as no other study has included the explanatory variables, which are included in this study. The study is appropriate in understanding inflows during 2000- 2010

IV) Hypothesis of the Study

The present study attempts to test the following Hypothesis.

1. "Flow of FDI shows a positive trend over the period 2000-2010"
2. "FDI inflow in India can help to achieve its faster economic growth."

V) Objectives of the Study

1. To know the trends in FDI inflows in India.
2. To understand the country wise FDI inflows in India.
3. To study the effects of FDI on Indian economy.
4. To identify the constraints in FDI inflows in India.

VI) Database and Research Methodology

To study the whole position of FDI in India data analysis is necessary. The present study have based on the secondary data only. Secondary data has collected from various sources such as RBI Bulletin, Central Statistical organization, Economic Times and other relevant websites. Data have collected for the period 2000-01 to 2009-2010.Collected data have tabulated and interpreted with the help of necessary statistical tools. The collected data have classified ,tabulated and processed by using appropriate statistical tools like Average, Percentage , Simple Growth Rate ,(SGR),Compound Growth Rate(CGR). For this, the use of computer software packages such as Excel and SPSS have made as per necessity. Likewise, the use of graphs, charts, figures maps also have made.

VII) Year wise FDI Inflows in India

Table No - I

Year wise FDI flow in India (crores)

Year	FDI inflows in India amount
2000-01	10368
2001-02	18486
2002-03	13711
2003-04	11789
2004-05	14653
2005-06	24613
2006-07	70630
2007-08	98664
2008-09	123025
2009-10	243641
CGR	**41.64**

Source: various issues of RBI Bulletin

Table No. 1 indicates that the rate of growth of FDI inflow is positive except the year 2000-2010. After 2005, onwards FDI was higher up to 2009-10. This is due to economic reforms. The negative percentage growth rate have experienced during certain periods. This is due to unstable central government for the respective years.

VIII) Effects of FDI on Indian Economy

A) FDI Share in India's GDP

Table No-II

FDI share in India's GDP (Rs. crores)

Year	GDP	FDI	FDI at % of GDP
2000-01	1864301	10368	0.57
2001-02	1972606	18486	0.94
2002-03	2048286	13711	0.67
2003-04	2222758	11789	0.53
2004-05	2388768	14653	0.61
2005-06	2616101	24613	0.94
2006-07	2871120	70630	2.46
2007-08	3129717	98664	3.15
2008-09	3339375	123025	3.68
2009-10	4493743	243641	5.42
CGR	**9.24**	**41.64**	

Source: various issues of RBI Bulletin

The table No. 2 shows the FDI's share in India's GDP. It indicates that the FDI share in India's

GDP was 0.55% in 2000-01 and it was 5.42% in 2009-10

B) Share of Top Investing Countries

In terms of the country wise breakup of FDI inflows shows that the Mauritius country has topped in FDI inflows in India. This is due to special concessions to Mauritius. Similarly, UNCTAD's World Investment Report (2005) considers India the 2nd most attractive investment destination among the Transnational Corporations (TNCs)[7]

C) Sectors Attracting FDI Approvals in India

The most important industries are electrical equipments, telecommunication, transportation and energy have accounted for 48% of FDI inflows.

D) Foreign Exchange Reserve

The foreign exchange resources are to the extent of Rs. 70300 crores (US$ 140.6 billion) as on 29, July 2005. The FDI has made to the extent of Rs. 247664 crores in the post reform period in India.

E) Interest Rates and Inflation Rate

The average interest rate was 16.3% in 1990-91 and it came down up to 11.3% in 2002-03. The average inflation rate was 10.3% in 1990-91 and it has declined by 3.5% in 2002-03.

H) FDI in Total Trade

According to WTO, the total world FDI outflows have increased nine- fold during 1982 to 1993; world trade of merchandise and services has only doubled in the same. Since 1990 virtually every country-developed or developing, large or small, like have sought FDI to facilitate their development process. Thus, a nation can improve its economic fortunes by adopting liberal policies vis-à-vis by creating conditions conducive to investment as these things positively influence the inputs and determinants of the investment process[8].

Table No III

FDI Inflows in Total trade in India

(Rs. in Crores)

Year	**FDI inflow**
2000-01	434444
2001-02	454218
2002-03	552343
2003-04	652475
2004-05	876405
2005-06	1116827
2006-07	1412285
2007-08	1668176
2008-09	2072438
2009-10	845534
Total	99509.50
CGR	**16.15**

Source: TRAI, July 2004

Table 4 shows that the actual inflows of FDI in total trade were maximum in the 2003.

IX) FDI Inflows Country wise

According to World Investment Report 2007 (WIR), India has emerged as major recipient of FDI in South Asia. Its share is nearly 75% of total FDI flow to South Asia.[9]

Table No-IV

Top 10 Countries Investors in India (In Million and in Rs.)

Country	**FDI inflows in India August 1991-2006**		**Share of FDI in % from 1991-2006**
	Dollars	Rs.	
Mauritius	16000	69653	39.20
US	5445	23439	13.19
UK	3662	15796	8.89
Netherlands	2482	10714	6.03
Japan	2176	9168	5.16
Singapore	1583	6851	3.86
Germany	1581	6840	3.85
France	858	3440	2.05
Korea (South)	814	3193	1.80
Switzerland	683	2839	1.60

Source: various issues of RBI Bulletin

Table 3 indicates that Mauritius country has been toped in sharing of FDI in India from 2000-2010.

This is so that Mauritius country has so many concessions regarding taxes. Because of this, FDI inflows is maximum/highest from Mauritius 39.20% and a very least from Switzerland i. e. 1.60% during 2000-2010. Singapore and Germany's FDI inflows are more or less same during the said period.

X) Constraints in FDI inflows in India

A) Defective Policy

Most of areas are covered FDI in India. However, the policy of FDI does not much liberalize as it is in China. Many investors are investing to export but to take advantage of the domestic market. In case of tariff policy, though duties have reduced but still in the context of protection, tariffs are very high. China has more business oriented and more FDI friendly policies than India (AT Kearney-2001). In case of approvals, China's procedural clearances for setting up units are easy and quick

B) Infrastructure

Inadequate infrastructural facilities are not only constraints on FDI inflows, but also constraints for the economic development and economic growth. It is necessary to have more infrastructure facilities, which will surely help to boost the FDI inflows in India.

C) Labour Laws

Rigid labour laws are impediment not only economic development but also to attract FDI. In China wages are paid on productivity basis and companies can follow the "hire and fire" policy. In our country, labour community have protected at larger scale.

D) High Fiscal Deficit

No doubt, that Fiscal Responsibility and Budget Management Act (FRBM Act) has passed in India, as well as almost all states in India, but we are unable to control fiscal deficit less than 3%. Because of this, the FDI inflows are not up to the mark.

XI) Conclusion

India has received many benefits through FDI, but still we are far away from the China's FDI inflows. If we want to achieve top rank in FDI flows, then it is necessary that our government have to the friendly FDI policy, better infrastructures, and reforms in labour laws, lower level of fiscal deficit and higher purchasing power in India.

Further, the above analysis helps in identifying the major determinants of FDI in the country. FDI plays a significant role in enhancing the level of economic growth of the country. This analysis also helps the future aspirants of research scholars to identify the main determinants of FDI at sectoral level because FDI is also a sector- specific activity of foreign firm’s vis-à-vis an aggregate activity at national level.

Finally, the study observes that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the country.

Foreign investment is playing an important role in India′s economic development. This phase of the Indian economy needs more and more attention towards its development the other developing countries are in field to develop the economic instability. The foreign investment is one of the ingredients to deal with the rotten economy.

References

1. S.K.Kulkarni (1998), World Economic Environment,Phadke Prakashan, Kolhapur.p.p71
2. Ms.Sapna Hooda,(2011),“ study of FDI and Indian Economy”(P.hd Thesis), Department of Humanities and Social Sciences, National Institute of technology (Deemed University) Haryana.
3. Ministry of Finance, Economic Survey 2008-09, para 133 of the economy. (Emphasis added)
4. India, National Manufacturing Competitiveness Council, The National Strategy for Manufacturing, 2006, pp.23-24
5. World Bank (1998) Global Development Finance:Analysis and Summary Tables Washington D.C.
6. Kumar,N.(1994), Multinational Enterprises and Industrial Organization ,The Case of India (New Delhi:Sage Publication).
7. United Nations Conference on Trade and Development (UNCTAD) 2005, World Investment Report (WIR)
8. www.worldbank.org
9. United Nations Conference on Trade and Development (UNCTAD) 2007, World Investment Report (WIR)

iv) Reports:

1. RBI Bulletins (2000-2010)
2. Economic Survey,(2009-10):Ministry of Finance, Government of India, New Delhi.
3. Reseve Bank of India, RBI (2009): Handbook of Statistics on the Indian Economy.

v) Articles and Journals:

1. D. Chennappa (2005) "Role of FDI in Indian Telecom Industry", Southern Economists.
2. R. K. Shrivastava, August 15, 2005, "FDI Inflows into India: Pit falls and Outlook", Southern Economist.
3. Ghosh D.N. (2005):"FDI and Reform: Significance and Relevance of Chinese Experience", Economic and Political Weekly.pp5388-5391.

vi) Web Research Addresses:

1. www.imf.org
2. www.rbi.org
3. www.worldbank.org
4. www.wto.org
5. www.ifi.org

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar