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ROLE OF FOREIGN DIRECT INVESTMENT IN THE ECONOMIC DEVELOPMENT OF INDIA

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ABSTRACT

Foreign direct investment is the life blood of international business and the barometer of a nation's prosperity. Foreign direct investment is assumed to be benefitting a country like India. India offers attractive investment opportunities for foreign companies and has adopted a number of policies to attract foreign direct investment into the country. The foreign direct investment has received importance since the liberalization as in 1991-92 the FDI inflows to India is RS409 crore which has improved to RS 262322 crore. The aim of this study is to investigate the Role of foreign direct investment in the economic development of India during the period 1991-2016.The theoretical framework shows that FDI has a positive impact on economic growth because it serves as a channel through which new technology is transferred.

KEY WORDS: *Foreign direct investment, economic development, India*

INTRODUCTION

FDI Refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy. It can be a subsidiary ,joint venture or merger or acquisitions and includes Greenfield & Brownfield projects .FDI is also called the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production distribution and other activities of a firm in another country(the host country).The international Monetary FUND'S balance of payments Manual defines FDI "as an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise."OECD has defined FDI as investment by a foreign investor in at least 10% or more of the voting stock or ordinary shares of the investee company.

FDI POLICY IN INDIA

Foreign investment in India is governed by the FDI policy announced by the Government of India & the provision of the foreign exchange Management Act (FEMA) 1991.The reserve Bank of India in this regard has issued a notification, which contains the foreign exchange management (Transfer or issue of security by a person resident outside India) Regulations, 2000.This notification has been amended from time to time. The foreign investors are free to invest in India except few sectors/activities, where prior approval from the RBI or foreign investment promotion Board (FIPB) would be required.

Foreign investment would bring associated advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. The government will therefore welcome foreign investment which is in the interest of the country's industrial development. FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings 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 .FDI Can also be called growth enhancing factor through capital accumulation and incorporation of new inputs and technology in the production function of the recipient economy .FDI can be a potential source of productivity gains via knowledge spill overs to domestic firms .The technologic change through product innovations in technologically advanced countries which came in the form of FDI help in changing the features of production from old domestically produced goods into new FDI related products.

Historical background of FDI in India

The historical background of FDI in India can be traced back with the establishments of east India Company of Britain. British capital come to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI driving in India due to lack plentiful and authentic data. Before independence of India, major amount of FDI came from the British companies. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. At the time of independence in 1947, India was a host of significant collection of FDI as it was largely owned to her colonial master: the UK. soon after independence, India embarked on a strategy of industrialisation with active governmental intervention. Domestic enterprises accumulated considerable capabilities in the process of industrialisation, which influenced the pattern of FDI flows to the economy in the subsequent periods. The changes in the governmental policies had also an important bearing on the FDI position of India. The first prime Minister of India considered foreign investment as "necessary" not only to supplement domestic capital but also to secure scientific, technology, industrial knowledge and capital equipment's economic reforms of launched in 1990s by prime Minister Narasimo Rao and Dr. Manmohan Singh was much wider and deeper as compared with previous attempts. The other developing countries were launching economic reforms and extreme pressure on economic crisis, India also could not stop itself from introducing economic reforms due to the impact of economic crisis. Meanwhile India also launched economic reforms. The twin crisis was reflected through an uncontrolled BOP crises and a socially unbearable high rate of inflation that were building up in the 1980 and peaked in 1990-91.in the liberalization era of the world, India is known to have attracted a huge amount of FDI, especially after our liberalization policy in 1991. In India, the post 1991economic reforms have been evolutionary and incremental in nature. India needs enormous amount of financial resources to carry forward the agenda of transformation (from a planned economy to an open market) to tackle imbalance in BOP, to accelerate the rate of economic growth and have a sustained economic growth. Industrial licensing was abolished for all industries except for a few on strategic, social, and social security considerations and the number of those requiring compulsory licensing was reduced to 18.Meaures were also taken to enhance the scope for FDI and to give more freedom to the entrepreneurs to negotiate the terms of technology acquisition Despite the slow pace of hiccups and delays caused primarily by the compulsions of democratic politics, The scope for FDI ,However ,got widened progressively with opening of more sectors ,enhancing of the limits for foreign participation and whittling down the case-by-case approach the performance of the Indian economy under the reforms carried out in last two decades exhibits a mixed picture of notable achievements and weaknesses.

LITERATURE REVIEW

1. Anitha.R (2012) in his research paper entitled "foreign direct investment & economic growth in India." she found that foreign direct investment played a significant role in the long –term development of a country. In addition, using the auto regression integrated moving average (ARIMA) forecasting technique to know the future inflows of FDI.

2. Pradipbhai parth (2013) in his research paper entitled, "Role of FDI in Indian economy development". Analyse the FDI inflows with reference to top10 most sector wise inflows in India from 2010-2013 and service sector is top sector among all sectors. The researcher also examines the country wise inflows of top 10 countries from 2010-1013 and Mauritius became the top country. The researcher concludes that FDI has good impact on Indian economy though there are also other variables which may effect to the inflows of FDI & GDP in India and efforts should be taken to avoid these hurdles in future.

3. Gola Ram & Dharwal M at el. (2013) in his research paper entitled "Role of foreign direct investment in the development of Indian economy" stated that FDI plays a crucial role in the development of Indian economy & due to the liberalization era of the FDI policy regime in India and it brought about a structural breakthrough in the volume of the FDI inflows into the economy maintained a fluctuating and unsteady trend during the study period. It might be interest to note that more than 50 percent of the total FDI inflows received in India come from Mauritius, Singapore and the USA. The main reason for higher levels of investment from Mauritius was that the fact that India entered into a double taxation avoidance agreement (DTAA) with Mauritius were protected from taxation in India. Among the different sectors, the service sector had received the larger proportion followed by computer software and hardware sector and then telecommunication sector

4. Malhotra bhaya (2014) in his research paper entitled "foreign direct Investment: impact on Indian economy", stated that attracting an inflow of FDI strengthen the connection to world trade networks and finance its development path. This papers also evaluates the role of FDI & GDP in India during (1991-92 to 2011-12) & showed that FDI inflow has been increased by more than 210 times. For Indian economy which has a tremendous potential, FDI has a positive impact

5. Khan M & Khan Amir (2015) in their research paper entitled "FDI & Indian economy: issues, challenges & prospects in India." The researcher examines that Indian economy has tremendous potential & it is ranked among the top three global investment destinations by all international bodies, FDI has a positive effect & it is also said that FDI is the most important driver of growth to the host country. The researcher concludes that only FDI is not only the tool to remove poverty, unemployment etc. India needs a massive investment to achieve the goals of vision 20-20. policy makers need to ensure transparency and consistency in policy making along with comprehensive long term development.

6. Tamilselvan M & Manikandan S (2015) in their research paper entitled "A study on impact of foreign direct investment on gross domestic production in India" investigated the impact of FDI on GDP from 1991 to 2104 by using the statistical tool of regression & found the existence of the linear relationship between the dependent & independent variables having addressed the issues of OLS assumptions except serial correlation. He concludes that there is a positive correlation between foreign direct investment & gross domestic production in India.

OBJECTIVES OF THE STUDY

1. 1.To analyse the impact of foreign direct investment on gross domestic product of India
2. 2.To access the country wise and sector wise foreign direct investment in India.

RESEARCH METHODOLOGY

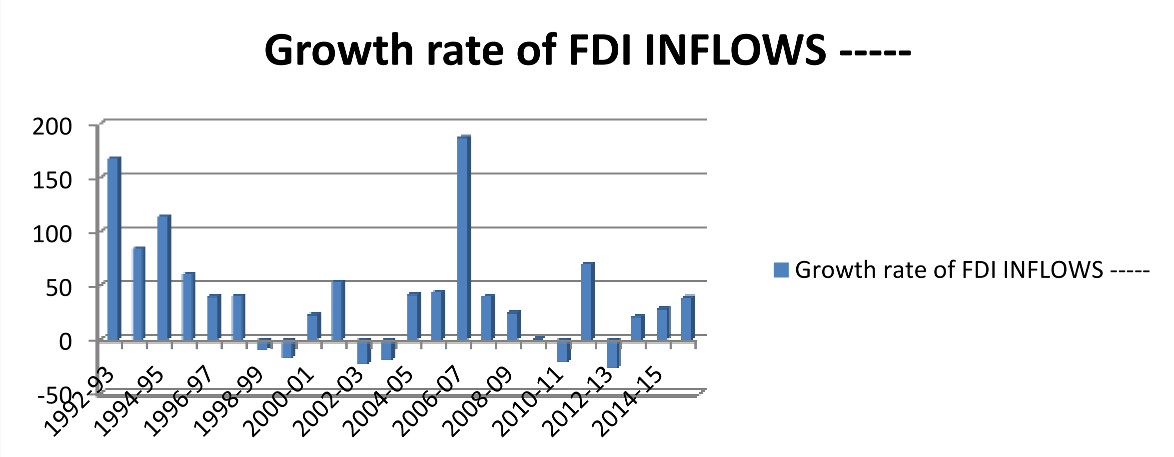
Keeping in view the objectives the present studies is analytical nature and make use of secondary data. The required and relevant secondary data are collected from various publications of Reserve bank of India (RBI), United Nations conference for trade and development (UNCTAD), secretariat for industrial assistance (SIA), centre statistical organisation (CSO) and economic survey of Government of India. The time series data and the relevant data has been collected for the period 1991-2016

Table1. Growth rate of FDI Inflows and GDP at factor cost.

Year	FDI inflow (Rs. crores)	Growth rate of FDI INFLOWS	GDP at factor cost	Growth rate of GDP	FDI as a % of GDP
1991-92	409	-----	1099072	---	0.037
1992-93	1094	167.48	1158025	5.36	0.094
1993-94	2018	84.46	1223816	5.68	0.164
1994-95	4312	113.68	1302076	6.39	0.331
1995-96	6916	60.39	1396974	7.28	0.495
1996-97	9654	39.59	1508378	7.97	.640
1997-98	13548	40.34	1573263	4.30	0.861
1998-99	12343	-8.89	1678410	6.68	0.735
1999-2000	10311	-16.46	1786525	6.44	0.577
2000-01	12645	22.64	1864301	4.35	0.678
2001-02	19361	53.11	1972606	5.80	0.981
2002-03	14932	-22.88	2048286	3.84	0.729
2003-04	12117	-18.85	2222758	8.52	0.545
2004-05	17138	41.44	2388768	7.47	0.717
2005-06	24618	43.62	3254216	36.23	0.756
2006-07	70630	186.96	3566011	9.58	1.980
2007-08	98664	39.69	3898958	9.34	2.530
2008-09	122919	24.58	4162509	6.76	2.953
2009-10	123378	0.37	4493743	7.96	2.745
2010-11	97320	-21.12	4877842	7.87	1.995
2011-12	165146	69.69	5202514	5.78	3.174
2012-13	121907	-26.18	5503476	4.33	2.215
2013-14	147518	21.08	5741791	4.9	2.569
2014-15	189107	28.19	6023138	5.9	3.13
2015-16	262322	39.00	-----	--	----

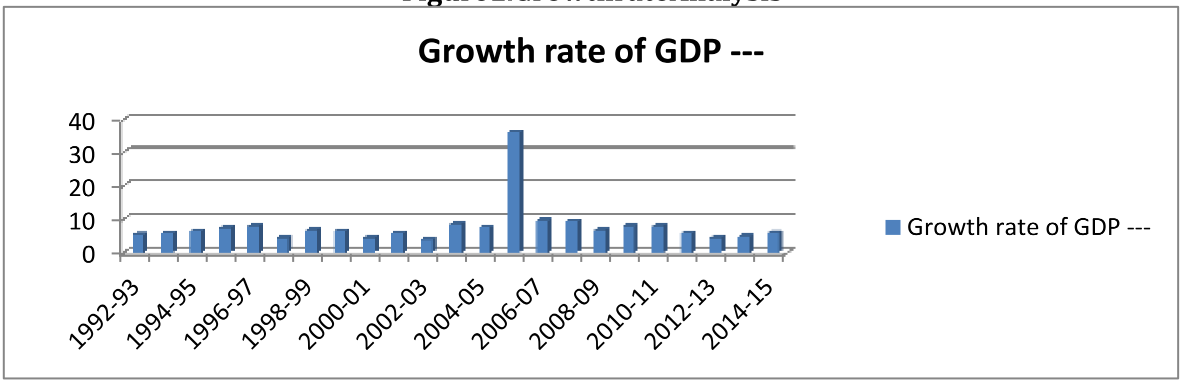
***Sources**: Various issues of SIA Bulletins and Various issues of RBI bulletin*

Figure1. Growth Rate of FDI inflows in India



Sources: *Various issues of SIA Bulletins and Various issues of RBI bulletin*

Figure1.GrowthrateAnalysis



Sources: *Various issues of SIA Bulletins and Various issues of RBI bulletin*

The data set out in Table 1 reveals that the FDI inflows in India have increased at a higher rate from Rs.409 crores in the year1919-92 to Rs 262322 Crores in the year 2015-16. While, the growth rate of FDI inflows indicates some-times fluctuating situation and some-times negative situation. These fluctuations may be due to instability of government, political environment, lack of will and policies of the present government. The highest growth rate was recorded in the year 2006-07 i.e. 186.96% and lowest in the year 2009-10 i.e. 0.37%. The above table also shows that during the period under review i.e. 27Yeras, in these years, 6 years have shown negative growth of FDI inflows. The growth rate of GDP has been recorded between 3.84% (lowest) in the year 2002 – 03 and 9.58% (Highest) in the year 2006-07. The FDI as percentage of GDP was recorded 0.037% in the year 1991-92, which has increased to 3.13% in the year 2014-15. It shows a continuous rise in FDI as percentage of GDP.

Table 2: country wise FDI inflows in India.

S. N	Country	2011-12	2012-13	2013-14	2014-15	2015-16	Cumulative inflows	%age
1	**Mauritius**	46710 9942	51564 9497	29360 4859	55172 9030	54706 8355	480363 95910	33%
2	**Singapore**	24712 5257	12594 2308	35625 5985	41350 6742	89510 13692	256667 45880	**16%**
3	**U. K**	36428 7874	5797 1080	20426 3215	8769 1447	5938 898	115592 23108	**8%**
4	**Japan**	14089 2972	12243 2237	10550 1718	12752 2084	17275 2614	110671 20966	**7%**
5	**U.S. A**	5347 1115	3033 557	4807 806	11150 1824	27695 4192	94575 17943	**6%**
6	**Netherland**	6698 1409	10054 1856	13920 2270	20960 3436	17275 2643	94533 17314	**6%**
7	**Germany**	7452 1622	4684 860	6093 1038	6904 1125	6361 986	44870 8629	**3%**
8	**Cyprus**	7722 1587	2658 490	3401 557	3634 598	3317 508	42681 8552	**3%**
9	**France**	3110 663	3487 646	1842 305	3881 635	3937 598	26525 5111	**2%**
10	**Switzerland**	1728 353	987 180	2084 341	2251 367	6528 985	21648 4030	**1%**
Total		**153996 32974**	**19711**	**147518 24299**	**189107 30931**	**262322 40001**	**1495859 288634**	**-**

includes inflows under NRI schemes of RBI

Note:(i) cumulative country- wise to FDI inflows from (April,2000 To march ,2016) are at annexure 'A'

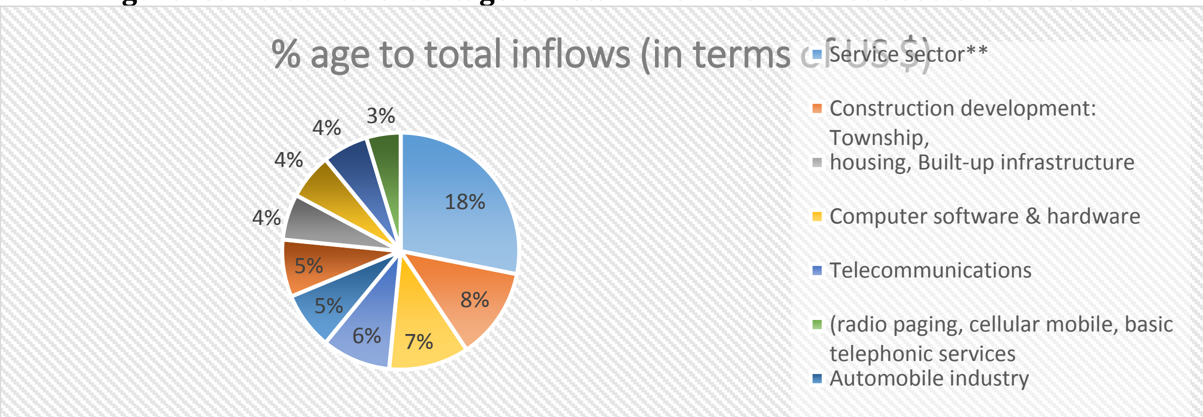
The above table Shows the top ten countries investing in India. Mauritius stood in first position in terms of FDI inflows in India during the study period. The main reason for higher levels of investment from Mauritius was the fact India entered into a double taxation Avoidance agreements (DDTA) with Mauritius and were protected from taxations in India. Singapore and U. K. equally invest (16 & 8%per cent) in India during the study period. Japan and U.S.A. following countries 7 per cent and 8 per cent respectively.

Table3. Sectors wise FDI inflows in India *Amount in RS. crores (US $ in million)*

Ranks	Sectors	2013-14 (April-March)	2014-15 (April-March)	2015-16 (April-March	Cumulative Inflows (April '00-16'	% age to total inflows (in terms of US $)
1.	Service sector**	13294 (2225)	27369 (4443)	45415 (6889)	258354 (50792)	18%
2.	Construction development: Township, housing, Built-up infrastructure	7508 (1226)	4652 (769)	727 (113)	113936 (24188)	8%
3.	Computer software & hardware	6896 (1126)	14162 (2296)	38351 (5904)	112184 (21018)	7%
4.	Telecommunications (radio paging, cellular mobile, basic telephonic services	7987 (1307)	17372 (2895)	8637 (1324)	92729 (18382)	6%
5.	Automobile industry	9027 (1517)	16760 (2726)	16437 (2527)	81394 (15065)	5%
6.	Drugs & pharmaceuticals	7191 (1279)	9052 (1498)	4975 (754)	70097 (13849)	5%
7.	Chemicals (other than fertilizers)	4738 (878)	4658 (763)	9664 (1470)	59555 (11900)	4%
8.	Trading	8191 (1343)	16755 (2728)	25244 (3845)	68837 (11872)	4%
9.	Power	6519 (1066)	4296 (707)	5662 (869)	52613 (10476)	4%
10.	Hotel & tourism	2949 (486)	4740 (777)	8761 (1333)	49710 (9227)	3%

Note:1. ** service sector includes financial, banking, insurance, Non -financial /business, outsourcing, R & D, courier, Tech. testing and analysis

Figure: Cumulative Percentage of Total inflow from various sectors in India



Source: DIPP, Federal Ministry of Commerce & Industry, Government of India

Table 3 clearly indicates the FDI inflows in different sector for the period of April 2000 To March 2016 out of the total FDI inflows from different sectors service sector enjoy the lion share of 18% of cumulative FDI Inflows. This signifies the importance of the service sector in the development of Indian economy.

CONCLUSION

FDI has a significant role in the economic growth and development of India. FDI is also a growth enhancing factor through capital accumulation & incorporation of new inputs and technology in the production function of the recipient economy. FDI can be potential source of productivity gains via knowledge spill overs to domestic firms. The technological advanced countries which came in the form of FDI help in changing the features of production from old domestically produced goods into new FDI related products. The tables and statistical tools used by the researcher also indicate that the results of foreign direct investment have been encouraging. As a result, India is consistently ranked among the top three global investment destinations by all international bodies including the World Bank, as per the reports of United Nations but There are also many restrictions like high import tariffs, exit barriers for firms, stringent labour laws; poor quality infrastructure, centralized decision making process and a very limited scale of export processing zones make India as an unattractive investment location in many sectors. The government began to ease restrictions on FDI and increasingly offer incentives in an effort to attract more investment & achieve the goals of vision 20-20.

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