FDI AND ITS IMPACT ON INDIAN ECONOMY AFTER NEW ECONOMIC POLICY (1991)

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Introduction : It is today accepted that FDI is important to accelerate economic growth in less developed and developing countries. FDI is seen as an important mechanism for economic growth in developing countries. It affects the economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries. Because of scarcity of capital and modern technology underdeveloped and developing countries could not utilize resources and human capital optimally. So it is suggested that to open the door for FDI in developing countries. With the initiation of globalization an immense inflows of FDI have been witnessing in India. It affected not only Indian economy but all the sectors of the society. Keeping in this view the present paper an attempt has been made to critically analyze the Foreign Direct Investment in the context of Indian economy.

Objectives of the Study

1. To study the historical background of FDI in India
2. To study the statistical progress of FDI in India
3. To critically analyze the impact of the FDI on Indian economy

FDI and Economic Growth

In India, The historical background of FDI can be traced back with the establishment of East India Company of England. British capital came to India during the colonial period. British industrialists invest their capital in different economic sectors in India, viz. railway, cotton, jute, tea, coffee, mining industries. After independence issues relating to foreign capital and MNCs had gain attention of policy maker. In first and second five year plan, Prime Minister Pt. Jawaharlal Neharu welcomed German, Russia and England capital for iron and steel industry and dam construction sector. Keeping in mind the national interests the policy makers designed the

The aim of FDI Policy's is as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity. In 1991 the government of India introduced structural adjustment program. As a result of these reforms India open it door to foreign investor and adopted more liberal policy to FDI inflows. Under the new economic policy Government of India constituted Foreign Investment Promotion Board (FITB). Main function of this board was to invite and facilitate to foreign investors. A recent UNCTAD survey projected India is second most important country for transnational corporation during 2010-12. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI to the country. In 2013, the government relaxed FDI norms in several sectors, including telecom, defense, PSU oil refineries, power exchanges and stock exchanges, among others. In retail, UK-based Tesco submitted its application to initially invest US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia-based Air Asia and Singapore Airlines teamed up with Tata Group to launch two new airline services. In the year 1014, Modi Government made pact with Japan and China's Government to invest in India's bullet train.

Statistical Progress of FDI in India

Table shows that steadily growth of foreign investment in India from 1948 to 2014

Amount of FDI	In Crore
Mid 1948	256
March 1964	265.5
March 1974	916
March 1990	2705
March 2000	18486
March 2010	123378

Source: *Research Journal of Management Sciences* Vol. 1(2), 29-31, September (2012)

Impact of FDI on Indian Economy : Investment in the economy plays a very important role in the development of the nation. It is very much vital especially in the underdeveloped and developing countries. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In underdeveloped and developing country, it is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy. In such cases, foreign direct investment plays an important role of bridging the gap between the available resources or funds and the required resources or funds. Because of less capital formation, in India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy.

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 investors apart from provides many incentives such as tax concessions, simplification of licensing procedures and de-reserving some industries like drugs, fertilizers, aluminum 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.

After liberalization and globalization, Indian Government open the doors to the foreign investors, it is help massive increase in the flow of foreign direct investment. It helps to bridge the gap between intended investment and actual savings. To pursue a growth of around 7 percent in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 percent on the whole. But the savings of the country stood only at 24 percent. The gap formed between intended investment and the actual savings of the country was lifted up by Foreign Institutional Investors, loans by foreign banks and other places, and foreign direct investments. Among these three forms of financial assistance, India prefers as well as possesses the maximum amount of Foreign Direct Investments. Hence FDI is considered as a developmental tool for growth and development of the country. FDI ensures a huge amount of domestic capital, production level, and employment opportunities in India, which is a major step towards the economic growth of the country. The effects of FDI are by and large transformative.

Due to continued reforms about FDI norms since 1991, India has seen a decade of 7 plus percent of economic growth. In fact, India`s economy has been growing more than 7 percent in last decade (2001 to 2010) which make country proficient performer among global economies. At present India is 4th largest and 2nd second fastest growing economy in the world. It is the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower. India has considerably decreased its fiscal deficit form 4.3% in 2002-03 to 2.7% in 2007- 08 and 1.15 in year 2009-11. Different studies are shows that there is co-relation between FDI and Economic growth. FDI plays a crucial role in enhancing the economic growth and development of the country. Moreover, FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining the pace of growth and development of the economy.

FDI Inflows and GDP in India during (1991-92 to 2009-10)

Year	FDI Inflow (in rupees in crore)	Growth rate of FDI inflow (%)	GDP	FDI as a percentage of GDP
1991-92	409		1099072	0.03
1995-96	6916	1590.95	1396974	0.49
2000-01	12645	82.86	1864301	0.67
2005-06	24613	94.64	3254216	0.71
2009-10	123378	401.27	4493743	2.74

The above table shows the FDI inflow and GDP in India from the year 1991-92 to 2011-2012(post-liberalization period). The table states that India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than 200 times during the 1991-92 to 2009-10 because the FDI Inflow has been increased from Rs. 409 crore in 1991-92 to Rs. 123378 crore in 2009-10. Due to technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward forward linkages and access to international quality goods and services the Indian Government has used many steps to attract more FDI. The table also shows that FDI as a percentage of GDP was less than one until 2005-06 after then it is increasing year after year.

Ranking of Sector wise FDI inflow in India (April 2000 to Dec 2010)

Rank	Sector	% of FDI inflow
1	Service Sector	32
2	Computer Hardware and Software	14
3	Telecommunication	12
4	Housing and Real Estate	11
5	Construction Activities	11
6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3
10	Chemicals	1

Table shows that service sector has received maximum FDI since 2000. After Service sector computer hardware and software, telecommunication, housing and real estate and Construction activities received Foreign Direct Investment. According to different studies FDI inflows into the primary sector tend to have a negative effect on growth, whereas FDI inflows in the manufacturing sector a positive one. Evidence from the foreign investments in the service sector is ambiguous. Sebastin Morris (2004) has discussed the determinants of FDI over the regions of a large economy like India. He argues that, for all investments it is the regions of metropolitan cities that attract the bulk of FDI. Analyzing the new findings, it is observed that India has some competitive advantages in attracting FDI inflows, like a large pool of high quality labour force which is an absolute advantage of India against other developing countries like China and Mexico. Chandana Chakraborty and Peter Nunnenkamp (2008) said that booming foreign direct investment in post-reform India is widely believed to promote economic growth. No doubt, FDI bridge the gap between intended investment and actual savings, it help to accelerate economic growth but it create some challenges before economy of the country. The foreign direct investment occurs mostly in case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of foreign direct investment is that the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment is negatively affected. The various disadvantages of foreign direct investment are understood where the host country has some sort of national secret – something that is not meant to be disclosed to the rest of the world. It has been observed that the defense of a country has faced risks as a result of the foreign direct investment in the country. At times it has been observed that certain foreign policies are adopted that are not appreciated by the workers of the recipient country. Several studies have been shown weak impact of FDI on growth in India. According to Kumar (2003: 27), linkages with the local economy have remained weak even in the software industry where foreign companies are said to operate as “export enclaves.” A more differentiated picture is portrayed by Kathuria (2002), who argues that only those domestic firms which invested in R&D, in order to make use of foreign technologies, benefited from spillovers. Athreye and Kapur (2001: 418) note that, according to surveys conducted in the early 1990s, almost half of foreign investors did not transfer up-to-date technology to their Indian subsidiaries or joint-venture partners as intellectual property protection was considered too weak. At the same time, Kumar and Agarwal (2000) show that local R&D intensity of foreign companies was lower than that of domestic companies, once other factors are controlled for. According to some scholar studies, FDI had no significant impact on the country’s export performance. Some studies argue that India has not been able to attract FDI in export oriented areas. Banga (2003) agrees that FDI has not played a significant role in export promotion, but points out that export effects differ between home countries of foreign investors and between traditional and non-traditional export industries.

It might be interest to note that more than 50 per cent 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. According to some scholars, black money of the country is laundering through Mauritius route.

Conclusion

No doubt FDI plays an important role in the long-term development of the country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. According to UNCTAD survey, India is second most important country for transnational corporation during 2010-12. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. But the other hand it creates the challenges before Indian economy. The foreign direct investment occurs mostly in case of matters related to operation, distribution of the profits made on the investment and the personnel. One of the most indirect disadvantages of foreign direct investment is that the economically backward section of the host country is always inconvenienced when the stream of foreign direct investment is negatively affected. Several studies have been shown weak impact of FDI on growth in India. According to some scholars, black money of the country is laundering through Mauritius route. So there is need to cautiously permit to Foreign Direct Investment in India. Government should give priority to FDI in rural and agricultural development. It will help to reduce economic and regional imbalance.

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