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Impact of FDI on economic development of India

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Abstract
FDI is better than Foreign Institutional Investment (FII) or hot money which is volatile in nature and moves to the stock and bond markets. Because of FDI, there is solid growth in the companies and hence stock market rallies and attracts more capital which raises more funds for the businesses. In FDI there is technology transfer or the movement of technical knowhow to the domestic country due to which skill development takes place and together with higher capital this raises productivity and profitability. FDI in multi-brand retail has been allowed up to 51 per cent. The minimum requirement for the FDI is US$ 100 million, of which at least 50 per cent must be invested in 'backend infrastructure' within three years following the initiation of the FDI. FDI limit in single-brand retail has been increased to 100 per cent; 49 per cent will be under the automatic route and the rest through the FIPB route.

Keywords: FDI growth, technology productivity and profitability

Introduction

The economic policy of government of India takes place in 1991.In 1991 LPG polices were takes place. The LPG polices in India had moved our economy in positive direction. By analyzing some school of thoughts FDI inflows in India moves economy in positive direction. The investments made from past 10 decades the economy is moving in positive direction due to investments through FDI. Foreign Direct Investments are essential for the progress for every nation. The investments should be in a systematic manner. In India there are three sectors like Agricultural sector, Industrial sector, service sector etc.., India is majorly Agricultural dependent country, majority of the people are depending on agricultural sector, the investment made through FDI, it should be beneficial when invested on Agricultural sector. In India major investments are happening in Service sector, this explains about investments are happening via FDI, on priority basis. Investments in retail sector, there are single branded retail and multi branded retail sector the investments should be happen which does not harm on Indian economy. Through this FDI there are many advantages like Technology transformation, skill transformation, knowledge transformation, finance inflow, labour transformation is possible from one country to another country.

Foreign Direct Investment (FDI) leads to the long term growth of the economy. FDI strengthens the balance sheet as it raises the assets of the companies. Profits of the businesses increase and labor productivity too increases. Per capita income increases and consumption improves. Tax revenues increase and government spending rises. GDP increases and there is also a lagged effect due to which subsequent years GDP too increases. Furthermore investment has gestation period and returns increase after few years. FDI puts the companies and hence the economy on higher growth mode and the right process of FDI is selection of the strategic sectors in the economy that generate highest RoI.

Balanced and unbalanced growth theories of Development economics too harp on this. FDI also acts as a solid complement to domestic stock of investment which is low (About 32%) in India because of low savings. This investment raises competitiveness among the businesses, breeds innovation and efficiency and increases standard of living through better products and services in the market. FDI is better than Foreign Institutional Investment (FII) or hot money which is volatile in nature and moves to the stock and bond markets. Because of FDI, there is solid growth in the companies and hence stock market rallies and attracts more capital which raises more funds for the businesses.

In FDI there is technology transfer or the movement of technical knowhow to the domestic country due to which skill development takes place and together with higher capital this raises productivity and profitability.

Gross Domestic Product

The Gross Domestic Product of the country would gradually increase because, investments made through FDI, which facilitates to start new organizations, industries, enterprises, will increase income for a nation.

Per capita Income

The number of industries are gradually increased, the employment opportunities gradually increase, which leads to earning would gradually increase, consequently the standard of living would gradually increase, which leads to per capita income of the country would gradually increase.

Exchange Rate

The appreciation and/or depreciation of the currency are depends on imports and exports of the country. A exchange value sometimes host currency value might increase, sometimes home currency value might increase, this depends on market forces.

Technology

The Western and Japanese technologies can be possible where investments can be made in the form of FDI. Not only investments but also technology can be transformed from one nation to another nation. This facilitates a nation to become technologically strong. Because in this competitive world the companies should stand in the international competition, for that there should be technological up-gradations should happen in every country.

Exports

Every country should increase exports, for this country should be strong enough in technology wise, skill wise, knowledge wise, these things can be possible where investments can be made in the form of FDI.

Human Capital

The labour transformations also possible through FDI, where very skilled labour can move from one nation to another nation, inthe collaborative business world. This human Capital Transformation from country to another country, facilitates business stronger because skill, knowledge transformation from one nation to another nation. Because, different country people are strong enough in different skills, knowledge's, talents, and these things can be shared globally.

Importance of study

Economic growth is essential for every nation, the economic growth of the country is depends up on monitory policy and its tools, financial services, financial instruments, and FDI (Foreign Direct Investments) in that country. When a country economically progressing well, the standard of living of the people would automatically increase. That is reason why there is a huge importance for foreign direct investments in India. Currently, India is taking huge investments in the form of FDI, in India. Investments made in the form of FDI, it is restricted to priority sector like service sector, Infrastructure and Telecommunication. There is a huge Importance, to develop remaining sectors like Pharmaceuticals, Drugs & chemicals, Agriculture, and Industrial sector in India. That is reason why there is a importance for FDI in India.

FDI Inflow in India

The FDI inflow and GDP in India from the year 1991-92 to 2011-2012. India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than 210 times during the study period because the FDI Inflow has been increased from Rs. 409 crore in 1991-92 to Rs. 173947 crore in 20011-2012. 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 highest amount of FDI was received in the year 2011-2012, amounting to Rs. 173947crore. The highest growth rate of FDI inflow is in the year 2006-07 i.e., 186.9622 percent. FDI as a percentage of GDP was less than one until 2005-06 after then it is increasing year after year. Future Outlook India is estimated to require around US$ 1 trillion during the 12th Five-Year Plan period (2012–17), to fund infrastructure in sectors such as roads, airports and ports.

The government is in the process of liberalising FDI norms in construction activities and railways, which could bring in investments to meet the target. The government is also relaxing FDI norms in other sectors for foreign investors to invest. FDI in multi-brand retail has been allowed up to 51 per cent. The minimum requirement for the FDI is US$ 100 million, of which at least 50 per cent must be invested in 'backend infrastructure' within three years following the initiation of the FDI. FDI limit in single-brand retail has been increased to 100 per cent; 49 per cent will be under the automatic route and the rest through the FIPB route.

Review of Literature

Review of related literature is an important research effort as it provides comprehensive understanding of what is already known about the topic.

Chowdhury and Mavrotas (2005) [4] proven their results as mixed in the direction of causal relationship between Foreign Direct Investment and economic growth. Moreover Pais in his paper has stated that "Foreign Direct Investment: Impact on Indian Economy" there is a positive impact on Indian economy by Foreign Direct Investments. In addition to that Pradeep (Foreign Direct Investment and industrial Development in India) in the thesis that there is a high coefficient of correlation between Foreign Direct Investments approvals and actual inflows.

Balasubramanyam and Sapsford (2007) [6]: stated in their article "Does India need a lot more FDI" compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also concluded that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements.

Malhotra (2014) [5] inspect the impact of FDI on Indian Economy. Particularly after two decades of economic reforms also analyses the challenges to position itself favourably in the global competition of Foreign Direct Investments.

Methodology
The method used in this paper is descriptive-evaluative method. The study is mainly review based. It is purely supported by secondary source of data, i.e. books, journals, papers and articles and internet.

Objectives of study
- To know the impact of FDI in Indian economy.
- To know the impact of investments made in the form of FDI, on the exports of the country.
- To know the investments made in the form FDI, in Different sectors.

Results and Discussions
India is gradually increasing, the FDI which increase from 2002-2003 to 2009-2010, which giving positive results, to Indian economy, in the form of employment opportunities, Knowhow, Skill of the labour, starting up of different companies in India, where investments required. When investments are gradually increase, the exports from the country is gradually increasing, which helps to gain Host currency to the nation. Majorly these investments are happen in service sector, Telecommunication, Construction. The investments in the form of FDI should be in Agricultural sector also. Because, India is labour intensive country, most of the people are depending on Agricultural sector. If investments are increased in Agricultural sector, people can earn more knowledge and money, Consequently the GDP of the country would gradually increase. Per Capita Income of the country would increase, and also people and their standard of living.
The investments through FDI is high majorly in service sector, Construction, and telecommunication whereas FDI investments are less, in other areas like Computers, Drugs & Chemicals, Power, Automobiles, Hotel & Tourism.
Where ever investments are, that sector and it’s growth rate is high, In India, dependents in Agricultural sector is high, because most of the people will depends on Agricultural sector, I would suggest that FDI, investments should be high in Agricultural sector, then automatically economy of the country flourish. Because from agricultural sector the GDP is less, whereas depends are high.
India is in Considerable State, among those countries which receive investments in the form of FDI. In developing economies, India is in second position those countries which receives investments the it is clear that India GDP is high, because India is getting huge amounts in the form of FDI. When Investments are made in the form of FDI, that country and its GDP will also increase.
Whenever FDI, are increased we will have some advantages like Investments, Technology, Skill, Knowledge, Labors, can be transformed from one nation to other nation. When FDI are increased production and productivity levels of the manufacturing organizations would gradually increase. Whenever production increases regarding different products, these products should export to different countries. When exports are increased the balance of payment problem between countries will be gradually decrease. The Value of the Rupee also would, gradually increase.
Majority of the investments are happen in Mumbai, and then after New Delhi, that has been given positive results, investments also should increase in under developed areas also based on the strengths of location, which kind of industries are suitable and what makes to provide employment opportunities and which helps the standard of living of the people. The investments in Bhopal and Panaji is less, government should plan in such a manner, to develop even underdeveloped areas also.

There are quite a few challenges facing larger FDIs in India, such as
• **Resource challenge:** India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The Foreign Direct Investment: Impact on Indian Economy 23 resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

• **Equity challenge:** India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.

• **Political Challenge**: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

• **Federal Challenge**: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.
• India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

Findings and suggestions
- From 2002-2003 and 2009-2010, the investments made in the form of FDI, is gradually increased.
- Investments Made in the form of FDI, it is prioritized to certain areas only like Service, Infrastructure, and
- Telecommunication.
- When foreign Direct Investments are increasing, the GDP of the Country is also increasing gradually.
- When FDI, increasing from 2002-2003 to 2009-2010 the exports also increased.

- Inflation rate also increasing, the current rupee Value gradually decreased.

The investments made in the form of FDI; it was happen in certain areas only. That is why those areas only developed, whereas remaining areas like Agriculture, Drugs & Chemicals, Power, Automobile, and Hotel & Tourism still in underdeveloped sectors. These Sectors also plays a prominent in the economies like India. There should be considerable, investments in Agricultural sector. When FDI, increasing the exports of the country should gradually increase. Nation should be free from balance of payment problem. This can be eradicated through decreasing imports and increasing exports.

Conclusion

India's Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy. Current Challenges and Improvement Areas India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until, these areas are honed to perfection, India will not become the number one place for FDI. India is focusing on maximizing political and social stability along with a regulatory environment.

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