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Review Of Research

" ROLE OF FOREIGN DIRECT INVESTMENT IN INDIAN ECONOMY``

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ABSTRACT :
India is the initiation of globalization , developing countries particularly those in Asia, The role of investment in promoting economic growth has received considerable attention in India .The Indian government differentiates cross-border capital inflows into various categories like foreign direct investment .Inflow of investment from other countries is encouraged since it complements domestic investments in capital-scarce economies of developing countries. India opened up to investments from abroad gradually over the past two decades, specially since the landmark economic liberalization of 1991. Apart from helping in creating additional economic activity and generating employment , foreign investment also facilitate flow of technology into the country and helps the industry to become more competitive. ***FDI*** *are equally connected to investment that a parent company builds in a foreign nation. It is with this aim an attempt has been made in this paper to test the correlation between foreign direct investment and the real economic growth in Indian over a period of the study period.*

KEYWORDS : *Foreign Direct Investment , saving, Inflows, MNCs, Gross Domestic Products, Infrastructure.*

INTRODUCTION :
India is a developing country .Investment or creation of capital, is an important determinant of economic growth . in general ,investment may lead to creation of physical capital – such as machines and equipment , Financial capital and human capital-such as health ,education, research & development activities . In combination with other factors of production & consumption of goods services . Investment consists of foreign investment and domestic investment. The foreign investments are complementary to economic growth and development in developing countries.

Foreign investment plays a significant role in development of Indian economy . Many countries provide many incentives for attracting the foreign direct investment(FDI). Foreign Direct Investment acts as a bridge to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promotes efficiency and productivity of the existing production capacity and generate new production opportunity.

OBJECTIVES OF THE STUDY:-

Following are the main objectives of the present research paper-

1. To study the overall concepts of FDI in India.
2. To review the FDI secured by the India.
3. To assess the determinants of FDI inflows in India.
4. To study the effect of FDI in Indian economy.
5. To investigate the direction of GDP with the economic growth in India.

METHODOLOGY OF THE STUDY:-

The data required for the study has been collected from various sources such as RBI Annual Reports, Journals, Edited Books Reports, Government Publications Magazines ,News Papers and Websites. The researcher has used the statistical tools as simple growth rate and standard deviation. This study covers a period of 2003-04 to 2012-13 years.

Concepts of Foreign Direct Investment (FDI) –

1. Foreign Direct Investment is that investment , which is made to serve the business interest of the investor in a company , which is in different national distinct from the investors country of origin.
2. Foreign Direct Investment means an investment through which the non –resident investor and foreign company can start anew company can acquire an effective share in an existing company in India with the specific objective of carrying on industrial activities or business in India.

Need for Foreign Investment:-

If backward underdeveloped countries are interested in rapid economic development , they will have to import machinery , technical know-how, entrepreneurship and foreign investment. One of the methods of paying for the imports is to set up exports or second alternative is getting foreign technology and equipment and it also depends upon foreign assistance in some forms or the other . The need for foreign capital for a developing country, like India can arise on account of the following reasons-

i. Domestic capital is inadequate for purpose of economic growth and it is necessary to invite foreign capital.
ii. For want of experience, domestic capital and entrepreneurship may not flow into certain lines of production . Foreign capital can show the way for domestic capital.
iii. There may be potential savings in a developing economy like India but this may come forward only at higher level of economic activity . It is ,therefore, necessary that foreign capital should help in speeding up economic activity in the initial phase of development.
iv. It may be difficult to mobilize domestic savings for the financing of projects that are badly needed for economic development, the capital market is in the process of development ,foreign capital is essential as a temporary measure.
v. Foreign capital brings with it other scarce productive factors , such as technical know-how, business experience and knowledge which are equally essential for economic development.

Foreign investment consists of private foreign capital and public foreign capital .Public foreign capital is otherwise known as foreign aid whereas private foreign capital consists of either foreign direct investment . Foreign investments may be classified as follows-

a) Foreign Direct Investment :-

Foreign Direct Investment happens in a foreign country where the investor retains control over the investment. It typically takes the form of sharing a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country . Direct investment and management of the firm concerned normally go together.

b) Foreign Portfolio Investment :-

Foreign Port-folio Investment is an investment in the share and debt securities of companies abroad in the secondary market nearly for sake of returns and not in the interests of the management of a company .the portfolio investment has been encouraged to attract more capital flows in the economy . In India mainly there are three routes for such investments-

i) Foreign Institutional Investors(FIIs)

ii) Global Depository Receipts (GDRs)

iii) Foreign Currency Convertible Bonds (FCCBs)

GDRs and FCCBs are investments issued by Indian companies in the European markets for mobilizing foreign capital by facilitating portfolio investments by foreigner in Indian securities.

FOREIGN DIRECT INVESTMENT IN INDIA :-

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain . 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 . Further , after independence issues relating to foreign capital , operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI 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 the critical face of Indian economy the government if India with the help of World Bank and IMF introduced the macro- economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. A recent UNCTAD survey projected India as the second most important FDI destination (after China) 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 . India has received total foreign investment of US$306.88 billion since 2000with 94% of the amount coming during the last nine years . During 2012-13 . India attracted FDI worth US$22.42 billion, Tourism, Pharmaceuticals, Services, Chemicals and construction were among the biggest beneficiaries.

Effect of FDI on Indian Economy ;-For Host Country:-

i) Improve balance of payment position by crediting the inflow of investment to capital account. Also current account improves as FDI aids import substitution promotion . Export gets a boost through the expertise of foreign investors possessing export market intelligence and their mechanism. Updates technology of producing world standard goods at low cost are available to the host country . Expert credits from the cheapest source in the international market can be availed of quite easily.

ii) Foreign investor by investing in economic infrastructure , financial market and marketing system helps the host country to develop a support base essential for quick industrialization .The presence of foreign investors creates a multiplier effect leading to the emergence of a sound support system.

iii) Foreign firms foster forward and backward economic linkages. Demand for various inputs gives rise to the development of the supplying industries which through employment of labour force raise their income and increase the demand for domestic industrial production

iv) The living standard of the domestic consumers improves as quality products at competitive prices are available in this contest.

v) Foreign investors are a boon to govt. to revenue with regard to the generation of additional income tax . Also they pay tariff on their imports. Govt. expenditure requirements are greatly reduces through supplementing govts. investment activities in a big way there by lessening the burden on national budget.

vi) FDI aids to maintain a proper balance amongst the factors of production by the supply of scarce resources thereby accelerating economic growth . Capital brought in by FDI supplements domestic capital as the savings rate at home is very low to augment heavy investment.

vii) FDIs bring in skilled labour force to perform jobs which he local workers are unable to carry out .There is a also fear of imposition of alien culture being imposed on the local labour force.

viii) Foreign investors make available key raw material along with updated technology to the host country . Such a practice helps the host country to obtain access to continued updation of R & D work of the investing company.

The home country gets the benefit of the supply of raw materials if FDI helps in its exploitation , BOP improves due to the parent company getting dividend , royalty, technical service fees and also form its increased export to the subsidiary. Also there is employment generation and the parent company enters in to newer financial markets by its investment outside. The govt. of the home country increases its revenue income of the parent organization , imposition of tariff on import of the parent company from its foreign subsidiary.FDI helps to develop closer political relationship between the home and the host country which is advantageous to both.

IMPACT ON INDIAN ECONOMY:-

There are following impact of foreign direct investment on Indian economy-

i) Good relation between two countries.
ii) Creates employment opportunity for domestic country.
iii) Modern technology creates.
iv) To provide the goods and services at best suitable price.
v) Inflow of foreign funds in Indian economy.
vi) Indian company get chance to work professional body.
vii) It creates the competition among the domestic company and MNC in this way domestic can increase their efficiency.
viii) Creating good capital market in India.
ix) Indian company get chance to work with world market Leader Company.
x) Govt. earns in the form of licenses fees, registration fees, taxes which is spend for public expenditure.

Table No- 01
Year-wise Inflow of FDI and GDP (Rs. in Cr.)

Sr. No.	Years	FDI Inflows	% of Growth	GDP	% of Growth
01	2003-04	19,879.47	--	26,25,819	--
02	2004-05	27,544.15	38.56	29,71,464	13.16
03	2005-06	39,764.44	44.37	33,90,503	14.10
04	2006-07	103036.56	59.12	3953276	16.60
05	2007-08	139856.32	35.73	4582086	15.91
06	2008-09	190488.65	36.20	5303567	15.75
07	2009-10	179885.12	-5.57	6108903	15.18
08	2010-11	158595.67	-11.84	7266967	18.96
09	2011-12	218915.62	38.03	8353495	14.95
10	2012-13	200393.08	-8.46	89461013	13.26

Source : Various issues of RBI Bulletin.

This table shows that the relationship between foreign direct investment and the real economic growth in India over a period 2003-04 to 2012-13.

Table No. 02
Correlation Between FDI and GDP-

Years	FDI (in Cr.) (x)	Deviation (dx)	Standard Deviation	GDP (fc) (y)	Deviation (dy)	Standard Deviation	dxdy
2003-04	19879	-107956.43	1165730496	2625819	-5139127.4	2641063043897	5547995944
2004-05	27544	-100291.75	1005848526	2971464	-2430245.3	5906092218748	2437317013
2005-06	39764	-88071.46	7756501041	3390503	-2011206.3	4044950781737	1771289236
2006-07	103036	-24799.34	614990401	3953276	-1448933.3	2097959024549	3591968997
2007-08	139856	-12020.42	144480400	4582086	-819623.3	67178235398	9851868460
2008-09	190488	-62652.75	3925398409	5303567	-98142.3	9631911049	6148792584
2009-10	179885	52049.22	2709098401	6108603	707193.7	5001229293	3680868846
2010-11	158595	30759.77	945624001	7266967	1865257.7	3479186287870	5737344006
2011-12	218915	91079.72	8293927041	8353495	2951785.7	8713038819357	268845626
2012-13	200393	72557.18	5264518249	9461013	-4059303.7	1647794653975	2945308478
Total	1278359.08	00	19623516204	54017093	00	28612896305873	41981589190

CONCLUSION -

India FDI Policy has been gradually liberalized to make the market more investor friendly . The results have been encouraging . On the basis of above discussion and data analysis , it is clear that the FDI are influencing the economic development to a great r extent .FDI is preferred are foreign Institutional Investor investments since it is considered to be the most beneficial form of foreign investment for the economy as a whole . Direct investment targets a specific enterprise, with the aim of increasing its capacity or changing its management control . Direct investment to create for augment capacity ensures that the capital inflow translates in to additional production.

In the case of FDI that flows in for the purpose of acquiring an existing asset , no addition to production capacity takes place as a direct result of the FDI inflow . Just like in the case of FII inflows , in this case too, addition to production capacity does not result from the action of the foreign investor , the domestic seller has to invest the proceeds of the sale in a manner that augments capacity for the foreign capital inflow to boost domestic production .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 . The above data analysis the Karl Pearson correlation is found to be +0.757726686 .It means that there is high degree positive correlation between FDI and Gross Domestic Product.

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