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"IMPACT OF FOREIGN DIRECT INVESTMENT ON DEVELOPING COUNTRIES LIKE INDIA."

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ABSTRACT:

The present study is limited to assess the determinants of Foreign Direct Investment flows and its impact on Indian economy. It is concluded that the Government should design the FDI policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states so that they can attract FDI inflows at their own level. FDI can help to raise the output, production and export at the sectoral level of the Indian economy. It is advisable to open up the export oriented sectors and higher growth of economy could be achieved through the growth of these sectors.

KEY WORDS: *FDI, LDCs, DPIIT, DEA, FEMA, RBI, FIPB, FIPC and FIIA etc.*

INTRODUCTION:

Investment provides the base and pre-requisite for economic growth and development. Apart from a nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, magnitude and quality of foreign investment are 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. FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI because they benefit a lot from such type of investment. There is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. FDI is a predominant and vital factor in influencing the contemporary process of global economic development. This study is entirely based on secondary data.

OBJECTIVES OF THE STUDY:

- To study the FDI policies relating to FDI
- To study the trends in FDI
- To know the benefits achieved by Indian companies by FDI
- To find the problems in FDI norms
- To solve the economic problems of the nation.

METHODOLOGY:

The study is descriptive in nature and therefore the information presented is based on secondary data. Secondary information has been collected from various documents such as books, newsletters, reports, magazines, journals, newspapers and websites related to Foreign Direct Investment (FDI).

LITERATURE REVIEW:

- **Singer, 1950**; Griffin, 1970; Weisskof, 1972, The main argument of these studies was that FDI flows to Less Developing Countries (LDCs) were mainly directed towards the primary sector, which basically promoted the less market value of this sector. Since these primary products are exported to the developed countries and are processed for import, it receives a lower price for its primary product. This could create a base for the negative impact of FDI flows in the economy.
- **Caves, 1974; Kokko, 1994; Markusen, 1995; Carves, 1996**; Sahoo, Mathiyazhagan and Parida 2001, Foreign Direct Investment (FDI) inflow into the core sectors is assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It implies that FDI can have positive effects on a host economy's development effort.
- **Kumar and Pardhan, 2001, Foreign Direct Investment (FDI)** has emerged as the most important source of external financial resource for developing countries and has become a significant part of economy in the developing.
- The Government has put in place a policy framework on FDI, which is transparent, predictable and easily comprehensible. This framework is embodied in the Circular on Consolidated FDI Policy, which may be updated on an annual basis, to capture and keep pace with the regulatory changes, effected in the interregnum. The Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry, Government of India makes policy pronouncements on FDI through Consolidated FDI Policy Circular/Press Notes/Press Releases which are notified by the Department of Economic Affairs (DEA), Ministry of Finance, Government of India as amendments to the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 under the Foreign Exchange Management Act, 1999 (42 of 1999) (FEMA). These notifications take effect from the date of issue of Press Notes/ Press Releases, unless specified otherwise therein. In case of any conflict, the relevant Notification under Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 will prevail. The payment of inward remittance and reporting requirements are stipulated under the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, 2019 issued by the Reserve Bank of India (RBI). The regulatory framework, over a period of time, thus, consists of FEMA and Rules/Regulations thereunder, Consolidated FDI Policy Circular, Press Notes, Press Releases, Clarifications, etc.
- The present consolidation subsumes and supersedes all Press Notes/Press Releases/Clarifications/Circulars issued by the DPIIT, which were in force as on October 15, 2020 and reflects the FDI Policy as on October 15, 2020. This Circular accordingly will take effect from October 15, 2020 and will remain in force until superseded in totality or in part thereof. Reference to any statute or legislation made in this Circular shall include modifications, amendments or re-enactments thereof.

Major Bodies to FDI:

- **1991 Foreign Investment Promotion Board (FIPB)**: consider and recommend Foreign Direct Investment (FDI) proposals, which do not come under the automatic route. It is chaired by Secretary Industry (Department of Industrial Policy & Promotion).
- **1996 Foreign Investment Promotion Council (FIPC):** constituted under the chairmanship of Chairman ICICI, to undertake vigorous investment promotion and marketing activities. The Presidents of the three apex business associations such as ASSOCHAM, CII and FICCI are members of the Council.

- **1999 Foreign Investment Implementation Authority (FIIA):** functions for assisting the FDI approval holders in obtaining various approvals and resolving their operational difficulties. FIIA has been interacting periodically with the FDI approval holders and following up their difficulties for resolution with the concerned Administrative Ministries and State Governments.
- **2004 Investment Commission :** Headed by Ratan Tata, this commission seeks meetings and visits industrial groups and houses in India and large companies abroad in sectors where there was dire need for investment.

Inventors transform lives in India and around the world Impact Inventing', a form of innovation designed to change the lives of masses living in poverty around the world, found itself in the spotlight of the Lemelson Foundation's 20th anniversary conference held in Washington recently. Impact inventing is likely to be a key feature in future innovations which transform life in countries such as India. 'Impact Inventing,' as popularized by The Lemelson Foundation, will be a driving force in the world of innovation for emerging and third world countries in the future. It has 3 characteristics: positive social impact, environmental responsibility, and financial self-sustainment. Earlier this week, the Foundation released a study examining how to close gaps in the impact inventing ecosystem. Foreign direct investment (FDI) by Indian firms into the US has touched $11 billion making the Asian country the fourth fastest growing source of such investment in the North American nation, an official said here on Friday.

"India has become the fourth fastest growing source of FDI into the US with $11 billion of historical investment and counting," Indian FDI in the US grew from $5,995 million in 2010 to $10,706 million in 2014. However, the flow has decreased from $1,289 million in 2010 to $718 million in 2014. On the other hand, US FDI in India grew from $24,666 million in 2010 to touch $27,963 million in 2015 while the flow decreased from $3,069 million in 2010 to $2,623 million in 2015. Software and IT services, business services, financial services, pharmaceuticals, plastics and industrial machinery - as per Select USA - are the key interest areas for India.

"Indian firms also exported $2 billion worth of goods from US in 2012. Many such companies use the US as an export platform and benefit from free trade agreements," "Our operations are three-fold -- we provide the necessary information required to make the decisions, put investors in touch with the right people at the local level and act as ombudsman,"

Effects of Make In India on FDI

FDI up 48% in seven months of foreign direct investment (FDI) into the country has seen a 48 per cent growth in the seven-month period from the launch of 'Make in India' initiative in September till April 2015, an official statement said.

"The growth in FDI has been significant after the launch of 'Make in India' initiatives in September 2014, with 48 per cent increase in FDI equity inflows during October 2014 to April 2015 over the corresponding period last year," the commerce ministry statement said. India received the highest ever Foreign Direct Investments of over 67 billion US dollars for the first nine months of the last financial year. According to the Ministry of Commerce & Industry, trends are an endorsement of India's status as a preferred investment destination amongst global investors. FDI equity inflow grew by 40 percent as compared to the corresponding period in the last financial year and 22 percent higher as compared to the first nine months of the financial year 2019-20. This shows India's commitment towards the success of attracting foreign investments. FDI inflows grew up by 37% in the third quarter of 2020-21 compared to the corresponding quarter of the financial year 2019-20. FDI inflow has shown positive growth of 24% in December 2020 compared to December 2019. Measures were taken by the Government on the fronts of policy reforms; investment facilitation and ease of doing business have resulted in tremendous FDI inflows into the country.-

Share of Top Investing Countries FDI Equity Inflows (FinancialYears): Amount in Rupees Crores (in US$ Million)

Ranks	Country	2018-19 (April – March)	2019-20 (April – March)	2020-21 (April – March)	Cumulative Inflows (April, 00 - March,21)	% age to total Inflows (in terms of US $)
1.	MAURITIUS	57,139 (8,084)	57,785 (8,241)	41,661 (5,639)	837,602 (148,350)	28%
2.	SINGAPORE	112,362 (16,228)	103,615 (14,671)	129,227 (17,419)	738,789 (115,089)	22%
3.	U.S.A.	22,335 (3,139)	29,850 (4,223)	102,499 (13,823)	278,721 (43,602)	8%
4.	NETHERLANDS	27,036 (3,870)	46,071 (6,500)	20,830 (2,789)	229,152 (36,641)	7%
5.	JAPAN	20,556 (2,965)	22,774 (3,226)	14,441 (1,950)	210,546 (35,449)	7%
6.	U.K.	9,352 (1,351)	10,041 (1,422)	15,225 (2,043)	165,637 (30,254)	6%
7.	GERMANY	6,187 (886)	3,467 (488)	4,910 (667)	73,854 (12,863)	2%
8.	UAE	6,356 (898)	2,393 (339)	31,242 (4,203)	72,944 (11,193)	2%
9.	CYPRUS	2,134 (296)	6,449 (879)	2,839 (386)	60,833 (11,134)	2%
10.	CAYMAN ISLANDS	7,147 (1,008)	26,397 (3,702)	20,779 (2,799)	70,627 (10,335)	2%
TOTAL FDI EQUITY INFLOWS FROM ALL COUNTRIES *		309,867 (44,366)	353,558 (49,977)	442,569 (59,636)	3,175,013 (529,755)	-

Source: (i) RBI's Bulletin for May, 2021 dt.17.05.2021 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).
(ii) Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).
(iii) RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006.
(iv) Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.
(v) Figures updated by RBI up to March, 2021. Figures are provisional.
(vi) Data in respect of 'Re-invested earnings' & 'Other capital' are estimated as average of previous two years.

Sectors Attracting Highest FDI Equity Inflows:

Amount in Rs. Crores (in US$ Million)

Ranks	Sector	2018-19 (April – March)	2019-20 (April – March)	2020-21 (April – March)	Cumulative Inflows (April, 00-March, 21)	% age to total Inflows (In terms of US$)
1	SERVICES SECTOR **	63909	55429	37542	509272	0.16
		-9158	-7854	-5060	-87063	
2	COMPUTER SOFTWARE & HARDWARE	45297	54250	194291	470298	0.13
		-6415	-7673	-26145	-71056	
3	TELECOMMUNICATIONS	18337	30940	2884	222073	0.07
		-2668	-4445	-392	-37663	
4	TRADING	30963	32406	19349	195353	0.06
		-4462	-4574	-2608	-30203	
5	CONSTRUCTION DEVELOPMENT:	1503	4350	3117	127081	0.05
	Townships, housing, built-up infrastructure and construction- development projects	-213	-617	-422	-26084	
6	AUTOMOBILE INDUSTRY	18309	19753	12115	155857	0.05
		-2623	-2824	-1637	-25848	
7	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	15927	14510	58240	166622	0.05
		-2258	-2042	-7875	-24721	
8	CHEMICALS (OTHER THAN FERTILIZERS)	13685	7492	6300	104855	0.03
		-1981	-1058	-847	-18487	
9	DRUGS & PHARMACEUTICALS	1842	3650	11015	98830	0.03
		-266	-518	-1490	-17991	
10	HOTEL & TOURISM	7590	21060	2761	94540	0.03
		-1076	-2938	-369	-15658	

Source: (i) ** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other
(ii) Cumulative Sector- wise FDI equity inflows (from April, 2000 to March, 2021) are at - Annex-'B'.
(iii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.
(iv) Figures are provisional.

STATES/UTs Attracting Highest FDI Equity Inflows Amount in Rupees Crores (in US$ Million)

S. No.	STATE	2019-20	2020-21	Cumulative Inflows	%age to total Inflows
		(October – March)	(April – March)	(October,19- March,21)	(in terms of US$)
1	GUJARAT	18964 -2591	162830 -21890	181794 -24481	0.3
2	MAHARASHTRA	52073 -7263	119734 -16170	171807 -23432	0.28
3	KARNATAKA	30746 -4289	56884 -7670	87631 -11959	0.14
4	DELHI	28487 -3973	40464 -5471	68951 -9444	0.11
5	TAMIL NADU	7230 -1006	17208 -2323	24439 -3329	0.04
6	JHARKHAND	13208 -1852	5993 -792	19200 -2644	0.03
7	HARYANA	5198 -726	12559 -1697	17757 -2423	0.03
8	TELANGANA	4865 -680	8618 -1155	13483 -1835	0.02
9	PUNJAB	698 -97	4719 -644	5417 -741	0.01
10	UTTAR PRADESH	1738 -243	3123 -422	4861 -665	0.01

Source: (i) Cumulative State-wise/UT-wise FDI equity inflows (from October, 2019 to March, 2021) are at – Annex-'C'.
(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.
(iii) Figures are provisional.

FINDINGS:

- It is finding that the growth of FDI in India is not severely affected due to economic slowdown/recession.
- As the fourth-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI); India has strengths in telecommunication, information technology and other significant areas such as auto components, chemicals, apparels, pharmaceuticals, and jewelry.
- Foreign corporations may cut working positions (privatization deals or M&A transactions)
- Foreign corporations have a tendency to use their usual suppliers which can lead to increased imports (no problem if the production is export driven)
- Repatriation of the profits can be stressful on the balance of payments.
- Overutilization of resources of the developing country.

SUGGESTIONS:

- Foreign corporations can help to change the economic structure of the target country- With a good economic strategy governments can attract companies from promising and innovative sectors.
- Foreign corporations bring new "clean" technologies that help to improve the environmental conditions.
- Foreign corporations usually help increase the level of wages in the target economy.
- FDI helps to increase the standard of living of the society.

- FDI promotes regional development of the country.
- FDI Coordinates between domestic companies and foreign Companies.

CONCLUSIONS:

This paper analyses the necessary local conditions that enable FDI to generate welfare gains in host countries. The mix of these local conditions defines the absorptive capacity. The relationship between FDI and economic growth is shaped by absorptive capacities that consist of development of financial markets, endowment of human capital, trade openness, agricultural intensity and natural resources abundance. After the announcement of 'MAKE IN INDIA' Campaign it leads to decrease the amount of FDI to our country.

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