REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 7 | APRIL - 2019

INDIA'S MOVE TOWARD FOREIGN DIRECT INVESTMENT: OPPORTUNITIES AND CHALLENGES

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ABSTRACT:

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide an organization, new markets and marketing channels, cheaper production facilities, access to new technology, product skills and financing. It reduce the gap between farm price and retail prices and give best management practices from all over the world, it makes markets intelligent and also provide good understanding and practical knowledge to domestic retailers. To achieve expected growth in GDP: India is targeting for its GDP to grow by 8 to 10 per cent per year. This requires raising the rate of investment as well as generating demand for the increased goods and services produced. FDI can provide an aid to Indian agriculture to become lowest cost source of farm produce and bring trade balance and to increase liquidity by the way of foreign exchange reserves.

KEYWORDS: *FDI, Economic Growth, Government Policies.*

INTRODUCTION

India's next phase of reform attempted privatization of its large public sector with the intent to attract FDI to targeted critical public utility projects to revamp the inefficient infrastructure. But the initial projects received little interest from investors, due to the minimal revenue generated by the power plants and port projects. Now, with incentives to support the growing industrial sectors and an increase in ownership, foreign investment in infrastructure projects is increasing, along with the changes in policy regarding participation mostly in the BOO (build-own-operate) and BOT (build-own-transfer) agreements. Now, most of the public sector has been privatized or open to FDI participation with limitations other than atomic energy and railway public projects.

Policy changes that minimize bureaucratic processes have been emended with a new "automatic route" that reduces licensing time for corporations by eliminating the requirement to obtain prior governmental authorization except in sectors where an industrial license is required, which include areas in manufacturing of alcohol, tobacco, defense equipment, and pharmaceuticals. In addition to the "automatic route," the Foreign Investment Implementation Authority (FIIA), along with the Fast Track Committee from 30 federal departments, assist foreign investors in the application process and resolution of grievances.

Despite opening of many sectors, policies continue to limit foreign ownership of corporations to 51%. Still protective of small and medium enterprises (SMEs), particularly the textile, arts and crafts, cottage industries, and small retail shops that employ 70% of the working population, India's central government continues to restrict FDI in those sectors in response to the protests of local businesses and as protectionist support for villages. However, retail is slowly opening up, allowing 51% majority ownership in single-brand name stores, such as Nike or Starbucks. The recent joint-venture between

Wal-Mart and the Indian telecom company Bharti Enterprises Ltd. makes Wal-Mart the first foreign retail chain store.

India's central government continues to reform policies that enhance the country's attraction in the global market as a mechanism for obtaining needed capital for funding improvements. Particular reforms have more significance on capital formation than others. The Secretariat of Industrial Assistance, an arm of the Ministry of Finance, initiated changes in their real estate policies that now allow up to 100% ownership in large real estate development projects. The chance to invest in real estate, coupled with reforms regarding ownership in financial institutions, should significantly boost the region's progress.

The noteworthy emergence of liberalization of India stock exchanges, which includes allowing limited ownership of the exchange and loosens restrictions on foreign institutional investors, also could be a significant stimulus for not only rapid transformation of India's financial industry but for the country's entire economy. Further policy changes are under consideration for the commodity institutions and also hedge funds. However, foreign venture capital investors still find being restricted to investing in only publicly listed companies as a deterrent to the region.

Each successful project increases India's move toward an open market and an integrated global player as the potential for substantial opportunities for foreign investors pressures government policies. Strong domestic economic growth also forces reforms in the public sector, as exemplified by the much debated decision by India's NIC to allow privatization of the Mumbai and Delhi airports. The demands of increasing air traffic and forbidding costs of airport construction necessitated the government to solicit private investors for these two major airports. In its preliminary Policy on Airport Infrastructure, the Ministry of Civil Aviation states that "looking at the quantum of investment required, the answer to all the problems lies in the infusion of private (including foreign), investment in this sector." The NIC also proposes upping foreign equity participation to 74%, with automatic approvals and up to 100% with special permission.[13]

With government initiatives such as the "power for all by 2012," and upgrades for cruise terminals, foreign investors will likely fuel the construction of most of the major infrastructure upgrades essential in shaping the region's development process.

Foreign Direct investment (FDI) is considered to be the prime mover of the faster economic growth of developing countries. FDI can have a dominant role in the host economy by offering access to new technologies, management competence and gainful employment and thus can raise the level of economic growth. However, it may be noted that a large number of factors that may promote growth and FDI are largely common and, therefore, FDI and development may go together in promoting the economic welfare of a country. There are a number of empirical studies which show that FDI has contributed positively to the economic development of developing countries. Some of these studies have focused on the countries which are receiving increasing amount of FDI.

REVIEW OF LITERATURE

Banga and Goldar (2007)[1] estimate the contribution of service to output growth and productivity in Indian manufacturing using the capital-labour-energy-materials-services production function. Panel data estimations are undertaken for 148 three-digit level industries for 18 years, 1980-81 to 199798 and sources of growth are analyzed. The results show that the contribution of service input to output and productivity growth in manufacturing (organized) has increased substantially in the 1090s. One of the major causes for this is found to be the trade reforms undertaken in the post-1990s period.

[1] Banga , Rashmi and Bishwanath Goldar ,(2007), 'Contribution of Services to Output Growth and Productivity in Indian Manufacturing - Pre & Post Reforms', *Economic and Political Weekly,* June,30. Pp. 2769-2777.

Bhattacharya, Chen and Pradeep (2008)[2] examine spillovers from foreign direct investment (FDI), research and development (R&D) and exporting activities on productivity both for foreign and domestic manufacturing firms. The data for the study in obtained from PROWESS database provides by Centre for Monitoring Indian Economy (CMIE). Balanced panel of over 1000 manufacturing firms in India during 1994-2006 are considered for empirical analysis. Findings indicates that foreign presence has a significant spillover effect on the productivity on the Indian manufacturing firms compared to the alternative spillovers such as from R&D and export initiatives.

Ray and Venair (2010)[3] analyze the impact of FDI on research and exports in India and explain that the contribution of Multinational Corporations in the form of exports and royalties is significantly lower than that to local firms. Insufficient attention to local subsidiary interests may undermine the motivation of advantage for the Multinational Corporations. It may also discourage subsidiary country governments from offering incentives to Multinational Corporations for inward foreign direct investment.

The study done by Vadlamannati (2017)[4] examines the impact of FDI on industrial productivity for India during 2002-2005. The main findings of the-studies are (a) foreign investment has significant positive effect on productivity of domestic firms. However, the coefficient values of FDI are smaller, suggesting that the positive effect is marginal. (b) When FDI inflows are controlled for in the cross-section productivity regression, the relationship between the share of foreign technical collaborations and productivity of domestic firms increases significantly. This supports the argument that foreign technical collaborations increase productivity in part through its effect on the FDI inflows. (c) There is no strong evidence to show that this positive effect is state-heterogeneous.

OBJECTIVES

To examine trends and economic growth by foreign Direct Investment flows in India.

METHODOLOGY AND DATA SOURCES

The proposed research intends to examine the determinants of FDI inflows; their growth, regional pattern and sectoral composition. The study will be based on secondary data collected from various national and international published sources. The major sources of data of FDI for all India level will be taken from UNCTAD Statistical Database which provides data on various aspects of FDI inflows and outflows of different countries. Apart from this source, data will be collected from World Investment Report, Economic Survey, RBI database, Government of India concerned ministries, indiastst.com, CMIE publications, etc. Data will be been gathered from the individual states from their statistical department especially related to infrastructure. The collected data will be transformed before making any meaningful analysis. However, interstate disparity in the distribution of FDI flows will be examined by collected the data from the states. The collected information on various aspects related to the FDI flows will be analyzed with the help of suitable statistical techniques, fitting trends in the FDI flows, estimated the sectoral share of FDI and analyses the correlation between FDI and its determinants.

[2] Bhattacharya, Mita, Chen, John-Rong and Pradeep, V. (2008) *"Productivity Spillovers in Indian Manufacturing Firms",* Department of Economics, Manash University, Australia, 1SSN 1441-S429, Discussion paper- 30/08.

[3] Ray, Pradeep. K. and Sunil Venaik (2010), 'Foreign Ownership and Subsidiary Performance: Impact on Research and Exports?', *Economic and Political Weekly,* Sep.27.pp.57-65

[4] Vadlamannti , Krishna Chaitanya (2017), , *Impact of Foreign Direct Investments on Industrial Productivity: A Sub national Study of India,* Munich Personal Archive, MRPA Paper no. S13851.

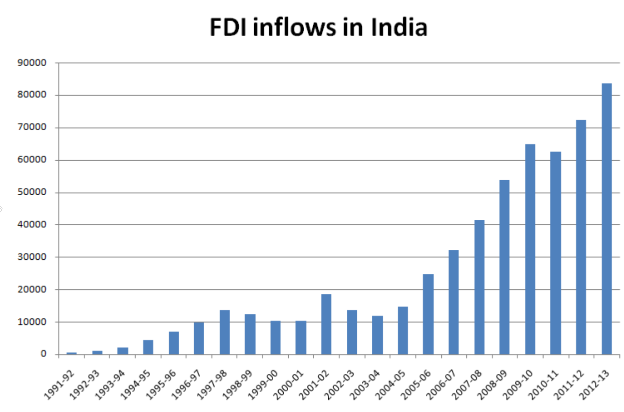
FDI INFLOW IN INDIA

Table – 1.1
(Amount in Rs. Crores)

Years	FDI inflows in India
1991-92	409
1992-93	1094
1993-94	2018
1994-95	4312
1995-96	6916
1996-97	9654
1997-98	13548
1998-99	12343
1999-00	10311
2000-01	10368
2001-02	18486
2002-03	13711
2003-04	11789
2004-05	14653
2005-06	24613
2006-07	32148
2007-08	41327
2008-09	53678
2009-10	64725
2010-11	62457
2011-12	72134
2012-13	83462

Source: various issues of SIA Bulletin from 1991-2013.

Chart-1.1
s(Amount in Rs. Crores)



The flow of FDI (Chart 1.1 and Table 1.1) is playing a significant and contributory role in the economic growth of the country. In 2005-06, India's FDI touched Rs. 24613 up 68% against Rs.14653 crores in 2004-05. As a result of India's economic reforms, the country's annual growth rate has averaged 5.9% during 1992-93 to 2012-13.It may be observed from the table.

Table: 1.2

SHARE OF INDIA IN WORLD FDI

(In US$ Millions)

Year	World FDI Inflow	India's Share in World FDI Inflows	%share in World FDI Inflows
1991	154072.70	75.00	0.05
1992	165880.80	252.00	0.15
1993	223316.30	532.00	0.24
1994	255999.20	374.00	0.38
1995	342798.60	2151.00	0.63
1996	390899.50	2525.00	0.65
1997	487853.50	3619.00	0.74
1998	706265.90	2633.00	0.37
1999	1091438.70	2168.00	0.20
2000	1400540.60	3588.00	0.26
2001	827617.30	5477.60	0.66
2002	627974.80	5629.70	0.90
2003	586956.40	4321.10	0.74
2004	744329.30	5777.80	0.78
2005	980727.10	7621.80	0.78
2006	1463351.20	20327.80	1.39
2007	1543260.25	23145.20	1.50
2008	1476859.50	24986.40	1.69
2009	1560456.00	26314.10	1.69
2010	1590134.80	28364.80	1.78
2011	1576894.10	34896.10	2.21
2012	1650468.30	40364.90	2.45
2013	1746583.60	38458.60	2.20

Source: Prepared by the Researcher

Table 1.2 presents FDI inflows share of India in the world that India's FDI increase 1991 to 2013 and its percentage share also be increase with its dramatically stage its percentage is only 0.05% in1991 which increase 2.20% in the year 2013.

CONCLUSIONS

Developing countries like India try to restrict and even resist foreign investment because of nationalist sentiments and concerns over foreign economy and political influences. Entry of Multi National Companies (MNC) super market and hypermarket chains would cause severe displacement of small and unorganized shopkeepers and traders. After all large giants of the world try to monopolize and take over the highly profitable sectors through FDI.

In my opinion FDI should be allowed in India only to a certain extent, because being a developing country it has to maintain good relations with some countries. But, it should be limited to only some sectors such as retail. Allowing FDI in retail sector will increase employment, competition, product quality and will decrease price of goods.

On the other hand, if we allow FDI policy in agriculture it will not be good for India. The reason behind this is most of the Indian people are farmers, foreign investors will do all the work with high technology machines, so farmers will lose their work and also most of them are not much qualified to either handle those machines or get other jobs. This aspect should also be considered.

We are in the 21st century and we can't ignore the universal trends easily. The co-operation is the key to success. FDI would lead to a more comprehensive integration of India into the world market where India can also make a strong position in global market by exporting their quality products and services. According to the World Bank, opening the retail sector to FDI would be beneficial for India in terms of price and availability of products. While FDI in India has been opposed by several in the past citing fears of loss of employment, adverse impact on traditional retail and rise in imports from cheaper sources like China, adherents of the same indicate increased transfer of technology, enhanced supply chain efficiencies and increased employment opportunities as the perceived benefits. Considering the inflation rise and economic recession in India, FDI looks like something that can put a check on this and provide some relief to the ailing economy.

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