

A STUDY ON ROLE OF FDI IN INDIAN ECONOMIC DEVELOPMENT

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ABSTRACT

The economic development is the success of every country. The business is the important determinant of economic development. Without the existence of business, the economic development is impossible as the business is the major economic activity. To conduct business practices, the capital is the essential factor. The capital can be raised through different sources. But most of the businesses suffering from inadequacy of capital. FDI is an investment in one country by individual or organization from another country. Thus, the FDI ensures adequate capital in the economy to conduct business. India is a country which attracts millions of FDI by providing an investment friendly environment to the FDI. The FDI has a crucial role in the economic development of India. This study is an attempt to analyse the FDI inflows towards India and the major reasons why India attracts FDI.

Key words: Capital Formation, Economic Development, FDI, Indian economy, Liberalisation

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1. INTRODUCTION

The economic development is the ultimate aim of every country. The economic system is the determinant of the economic development. An economic system is the system of production, distribution and consumption of goods and services of the economy. Since there are so many elements are included to facilitate the economic system such as infrastructure, agriculture, capital investments, socio-cultural factors etc.

The business has a vital role in the economic development of any country. Even though, a country is rich with natural resources and human resources, it cannot achieve the economic development without business activities. Since, the capital is essential to do business,

different sectors of the Indian economy were suffering from lack of adequate capital investment.

During 1991-92, the globalisation, privatisation, and liberalisation were introduced. As a result, various transformations and economic reforms took place. The Foreign Direct Investment (FDI) was one of the major achievements. Hence the flow of capital crossed beyond boundaries from one country to another. Thus, the FDI has significantly contributed to the capital formation in Indian economy.

Among the world economies, Indian economy has a peak position in terms of FDI. This study is an attempt to analyse the reasons why India attracts FDI and the economic development of India through FDI.

2. REVIEW OF LITERATURE

AbhishekVijaykumarVyas(2015) [1] has described about the FDI in India. The flow of FDI and the areas where FDI is restricted is analysed. The study covered the FDI framework in India as pre-liberalisation period and post liberalisation period. The article was concentrated on effect FDI on retail trading sector and service sector. The author concludes the study by analysing statistical data amazing different countries.

Singh Kr. Arun and Agarwal P.K., (2012) [2] “Foreign direct investment: The big bang in Indian retail”. This article establishes the relation of foreign investment and Indian retail business. The study is based on, case studies and analysis of organised retail market. The author discusses the policy development for FDI in the two retail categories: single brand and multi brand. The paper studies the need of the retail community to invite FDI in retailing. The impact of FDI is analysed by dividing the retail industry into organised and unorganized area. The author concludes that FDI in multi brand retail should be considered, better technology and employment.

S Aggarwal et al (2012)[3] “FDI in India”. This article initially compares the FDI and FPI in India. Types of FDI investors, FDI instruments and its conditions are specified. The route of investment is classified into government approved route and automatic route. The author includes the case study of amazon, Flipkart and Shell regarding the FDI in these companies. The service sector is the major attraction of FDI. The study also describes about the permitted sectors and prohibited sectors of FDI and its volume in percentage. The author concludes the paper by a statistical analysis of country wise and state wise investments of FDI.

Rajan, R. S. et al (2008)[4] described the attracting factors of foreign direct investments to India. Among the Asian countries, India stands at second position in terms of FDI investment during this period. The author analysed the FDI equity inflow by region and sectoral wise FDI inflow to India. The factors that limits the FDI and drawbacks of relevant policies are also expressed. The estimated future FDI to India has also forecasted by using the present FDI data.

3. OBJECTIVES

- To identify the reasons of FDI in India
- To analyse the contribution of FDI in Indian economic development.

4. FOREIGN DIRECT INVESTMENT (FDI)

The FDI is the product of globalisation, liberalisation and privatisation. The investment in a country by individuals, organization or institutional investors of another country is termed as Foreign Direct Investment (FDI). The development of a sound economy is based on the business of every country. Since India is sufficient in natural resources and in terms of trained human resources, the major issue of Indian business was lack of adequate capital. Thus, many ventures were collapsed and resources were underutilised. The liberalisation policy attracted more foreign capital to Indian economy, as a result the business enterprises has significantly contributed to the economic development. In order to regulate the FDIs in India, two paths namely automatic route and approved routes are established. The core sectors are subjected to restrictions in investment and FDI is allowed only through approved route.

Table 1 The top countries in Indian FDI

COUNTRY WISE FDI IN INDIA FROM 2012-2017					
Country-wise Inflows	2012-13 (US \$ million)	2013-14 (US \$ million)	2014-15 (US \$ million)	2015-16 (US \$ million)	2016-17 (US \$ million)
Mauritius	8059	3695	5878	7452	13383
Singapore	1605	4415	5137	12479	6529
Japan	1340	1795	219	1818	4237
Netherlands	1700	1157	2154	2330	3234
U.S.A.	478	617	1981	4124	2138
United Kingdom	1022	111	1891	842	1301
Germany	467	650	942	927	845
U.A.E.	173	239	327	961	645
Switzerland	268	356	292	195	502
France	547	229	347	392	487
South Korea	224	189	138	241	466
Italy	63	185	167	279	364
Cyprus	415	546	737	488	282
Spain	348	181	401	141	213
British Virgin Islands	3	0	30	203	212
China	148	121	505	461	198
Belgium	33	66	47	57	172
Others	1394	1501	1754	2677	1109
Total FDI	18286	16054	24748	36068	36317

(Source: rbi.org.in)

Interpretation

Table 1 indicates that, the Mauritius is the number one country in terms of FDI in India. During 2013-14 and 2015-16, Singapore invested than other countries. The pattern of investment behaviour is dynamic and frequently fluctuating due to the government policies and changes in the business and economic environment. The aggregate FDI inflow in India was very less during 2013-14. China also makes investments in India even though it is the dominating Asian country in terms of investments. India attracts FDI mostly from other than Asian countries. The rate of variation in amount of investment is comparatively less except some countries during the subsequent years. Generally, the FDI inflow in India shows an upward increasing trend in every year. The growth rate of FDI is doubled from 2012-13 to 2016-17.

Table 2 The major areas where FDI attracted in India

Sector	2012-13(US \$ million)	2013-14(US \$ million)	2014-15(US \$ million)	2015-16(US \$ million)	2016-17(US \$ million)
METALLURGICAL INDUSTRIES	1466.23	567.63	359.34	456.31	1440.18
MINING	57.89	12.73	684.39	520.67	55.75
POWER	535.68	1066.08	707.04	868.8	1112.98
NON-CONVENTIONAL ENERGY	1106.52	414.25	615.95	776.51	783.57
CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	283.89	485.37	870.25	4510.71	1860.73
PETROLEUM & NATURAL GAS	214.8	112.23	1079.02	103.02	180.4
CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development projects	1332.49	1226.05	769.14	112.55	105.14
DRUGS & PHARMACEUTICALS	1123.46	1279.34	1497.74	754.26	857.39
ELECTRICAL EQUIPMENTS	195.87	134.31	574.83	444.88	2230.69
COMPUTER SOFTWARE & HARDWARE	485.96	1126.27	2296.04	5904.36	3651.71
SERVICES SECTOR (Financial: Banking, Insurance /Non-Financial Business: Outsourcing, R&D, Courier, Tech. Testing and Analysis, Other)	4832.98	2225.1	4443.26	6889.46	8684.07
TELECOMMUNICATIONS	303.87	1306.95	2894.94	1324.4	5563.69
INFORMATION & BROADCASTING (INCLUDING PRINT MEDIA)	404.04	428.52	254.96	1009.34	1516.68
AUTOMOBILE INDUSTRY	1537.28	1517.28	2725.64	2526.82	1609.32
SEA TRANSPORT	64.62	20.49	333.22	429.3	735.06
HOTEL & TOURISM	3259.05	486.38	777.01	1332.69	916.13
RAILWAY RELATED COMPONENTS	29.85	236.93	129.73	73.99	87.57
INDUSTRIAL MACHINERY	503.83	477.38	716.79	568.26	329.3
HOSPITAL & DIAGNOSTIC CENTRES	256.86	684.58	567.85	742.35	747.38
TRADING	717.8	1343.39	2727.96	3845.32	2338.4
CHEMICALS (OTHER THAN FERTILIZERS)	292.16	786.76	762.76	1469.95	1392.8
MISCELLANEOUS MECHANICAL & ENGINEERING INDUSTRIES	89.45	288.13	186.69	274.57	245.24
TEXTILES (INCLUDING DYED, PRINTED)	103.89	198.86	197.42	230.13	618.95
Others	3225.11	7874.32	4758.53	4832.33	6415.14
Grand Total	22423.58	24299.33	30930.5	40000.98	43478.27

(Source: rbi.org.in)

Interpretation

The table 2 shows that Indian service sector has a dominant role in attracting FDI. The service sector consisting of financial and non-financial services such as banking, insurance, business outsourcing, research and development etc. The automobile industry, chemicals industry, textiles industry, sea transport, computer software and hardware etc. shows an increasing trend. Investment in hotel and tourism industry and construction industry shows a decreasing trend. The FDI inflow is more attracted in areas where automatic route of investment is allowed. Telecommunication industry has shown a tremendous hike in attraction of foreign capital Majority of the sectors are showing a fluctuating trend, but it has a positive effect on total FDI.

5. THE MAJOR REASONS WHY INDIA ATTRACTS FDI

There are plenty of reasons to select India as a place for FDI. The Indian heritage was rich and sound with abundant resources. The history reveals that India was one of the major country engaged in international transaction. Still, India is considered as an avenue for investment. The major reasons of FDI in India are as follows.

Availability of skilled and trained Human resources

The majority of the workers in top companies in the world are Indians. As the Indian human resources can be hired at cheap cost while comparing with other human resources. The Indian human resources are skilled and trained in different sectors. Hence, the business can easily recruit the right person for them at minimum cost.

Abundant sources of natural resources

The Indian economy is blessed with varieties of scarce natural resources. Since the cost of procuring resources is also cheaper while comparing with other countries. The resources are easily accessible, the ventures can be started. Coal, oil natural gas, metallic and non-metallic minerals, nuclear reserves etc. are the major natural resources of India.

The economic structure of India

India is a mixed economy as a combination of capitalist economy and social economy. As a centrally planned economy India restrict private participation in some limited areas. Even though, India attracts private participation at various sectors as a capitalist economy. The Indian economy consists of primary sector, secondary sector and service sector. There are large number of investment opportunities are there in these areas.

Liberalised investment regulations

India restricts the foreign capital from independence to 1991. But during the liberalisation, the India accepted the foreign capital and gradually encouraged its volume. The India raised the percentage of FDI in different liberalisation policies. As per the liberalisation policy in 2005, up to 100% FDI can be invested in construction business.

High return on investment

The Indian corporate practices are more concentrated on wealth maximization rather than profit maximization. Since, the business provides higher return to its stakeholders. The Indian financial and non-financial sectors are the major attraction of FDI inflow and the investment in these sectors shows increasing trend as it provides ideal return to the investors. While comparing with other countries Indian business provides higher return to the investors.

Market for Indian products

“Made in India”, the label itself has a huge market in international markets. The products like textiles, food and beverages etc. has a dominant position in world-wide market. Cotton, iron and steel, pharmaceutical products, organic chemicals, mechanical appliances, minerals, plastic products etc are the major attractive products from India. In additions to these, the product of IT sector businesses are also dominating among the world market customers. Hence the investors are attracted to invest in such Indian products.

Infrastructure and location of business

As a developing country, Indian infrastructures are also developing. In India the rail, road, air, sea etc. transport systems are available. Information and communication technology got advanced methods to communicate. Now a day the transportation or movement of goods itself termed as a great business. A better infrastructure system in India helps to attract more foreign capital.

6. CONTRIBUTIONS OF FDI TO THE ECONOMIC DEVELOPMENT OF INDIA

Capital formation

Due to the inadequacy of capital, the economic conditions of India were poor before the introduction of liberalisation reforms. The FDI arrived as a remedy to the inadequacy of capital. While analysing the recent five-year trends, the FDI in India shows a growth between 10 to 15 percentages in subsequent years. During 2016-17, India attracted US \$ 36317 million, these funds stimulated the Indian economy to formulate capital.

Creation of employment opportunities

Unemployment was one of the weaknesses of Indian economy. The arrival of FDI in India encouraged different business to take place and that created various employment opportunities in the economy. It created more job opportunities in areas like insurance, banking, foreign exchange market, share trading, research and development etc.

Optimum utilisation of resource

India is a country with abundant natural resources. The capital has a significant role among factors of production as without capital land, labour and organisation cannot exist. Thus, the inadequacy of capital restricted the growth of business and the resources were underutilised. Since the FDI accelerated the business organisations, the resources were utilised on a better way.

Technological advancement and transfer of technology

The FDI resulted in innovations and technological advancements. By the forms of joint ventures and all, the conventional and innovative technologies of one country can be transferred to another. Thus, it ultimately results in efficient output. FDI helped India to use the intellectual property rights of various countries also.

Global competitiveness

The business environment is dynamic in nature. The business organisation has to take appropriate decisions in accordance with the changes in the business environment. These decisions may involve huge capital investment. The FDI helps the business to survive from these kinds of crisis by ensuring adequate availability of funds and proper measures to meet the competitions.

Market for Indian products

By expanding the business operations through FDI, the economies of large scale productions can be enjoyed. This will result in reduction of cost. The firms might be able to sell their product at high quality and affordable prices. There is huge scope for Indian herbal products and textile products at all-over the world. The FDI facilitates the firms to find global market for the products. Hence, along with the existing Indian dominating products, new products also got markets.

Market value of shares

The stock market shows a dancing trend in the whole world. While comparing with other stock markets, Indian market is more stable and investment friendly. A share investor is guaranteed with a normal return at minimum risk. Since the FDI will increase the market value of shares, both the domestic investors and foreign investors can enjoy benefits regarding the higher market value for shares.

Helps to increase the national income

The FDI ensures the optimum utilisation of both human and natural resources. This will increase the FDI of India. The per capita income and standard of living of the people may also

increase accordingly. The tax authorities are authorised to levy tax on the business financed through FDI. The FDI is a greater source of capital, the new ventures and development of existing ventures are also taken place. These all ultimately results in to the increase in national income

7. CONCLUSIONS

The FDI has a vital role in the economic development of India. Among the world, India has a dominant position and large number of investment avenues are there in India. The FDI has made different reforms in primary sector, secondary sector and service sector of the economy. While analysing the past trends, India attracts more FDI frequently, and the government liberalized regulations regarding FDI to attract more investments. Mauritius, Singapore, Japan, Netherlands and USA are the major sources of Indian FDI inflow. The service sector of the India including financial and non-financial sector accepts FDIs. The FDI in India shows a significant increasing trend even though some fluctuations are there. Indian economic structure, investment opportunities, market standing, skilled human resources and natural resources are the major catalysts of FDI. Through FDI, Indian economy enjoys so many advantages. And FDI ultimately contributes to the economic development of India.

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