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FDI AND ECONOMIC DEVELOPMENT OF INDIA

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ABSTRACT

FDI refers to Capital inflows from aboard that are invested to enhance the production capacity, better education, and better employment opportunities of the economy. It is one of the important sources for the development of any country. After the announcement of new industries policy 1991 and the current polices India has been experiencing acceleration in the flow of FDI into the country. FDI triggers technology spillovers, contributors to International trade, integration, helps to create a more competitive business environment and enhance enterprise development. All these contribute to higher economic development. The main purpose of this paper is to investigate the impact of FDI on economic growth of India since LPG Policy.

KEYWORDS: FDI, Human Capital Formation, LPG Policy, Technology Spillovers

INTRODUCTION

India is one of the fastest growing economies in the world today. The economic reforms implemented in the country since the early 1990s have helped India grow at 6 plus percent on an average 1992-93. We believe that this growth is still below India's potential of around 8 to 9 % per annum. In India the manufacturing sector is much more consistent engine of growth as compare to agriculture sector and it is likely to play growing role in the Indian economy in the years ahead. One of the biggest challenges for India is to thinks through & injects fresh growth in its rural economy. Among other things this would entail raising agriculture productivity, promoting agro based industries in the rural areas, improving infrastructure. The scale of the challenge is, of course immense but so too is India's capacity. In this direction FDI can play an important role. And now days it is considered as an important source of investible resources. Developing and emerging economics and countries in transition increasingly see FDI as a source of economic development, modernization, employment generation and accordingly they have liberalized their FDI regimes as so as to attract investment. It is known to us that in order to reap the maximum benefits from FDI, there is a need to establish transparent, broad & effective FDI inflows

OBJECTIVES

- To evaluate the role of FDI on the Indian Economy.
- To know the FDI Inflows.
- To suggest concrete steps and strategy to fit best in global environment.

Collection of Data

The study is based upon the secondary data and it has been collected from various sources i.e. world investment reports UNCTAD, various bulletins of RBI, periodicals, economic survey, newspapers and websites.

Statistical Technique

After collection of data, it is classified and tabulated. Thereafter necessary statistical techniques were applied to process the data and draw concise and accurate inferences.

Hypothesis

The present study has been designated to test the following hypothesis – Economic development of an economy depends upon the FDI inflows.

FDI in India

India is second important FDI destination according to UNCTAD survey. To Order to accelerate growth and combating the problem of BOP in India, there is an urgent need to increase the role of FDI. India adopted the controlled trade policy, licensing system and import restrictions etc. which has led to corruption, delays & harbouring of backward technology. This situation is quite alarming for the country and attracted the attention of Govt. to make suitable change in the trade policy considering the importance of FDI, the Govt. of India has put in place a liberal, transparent & investor friendly FDI policy, where in FDI upto 100% is allowed under automatic route for most the sectors and activities, where the investor does not require any prior approval. Only notification to the RBI within 30 days of inward remittance or issue of shares to nonresident is required. At present FDI policy of India is considered as one of the most liberal, with very few barriers. The Govt. of India has allowed FDI in the areas of transport, communications, electronics, energy oil & gas exploration, chemicals, fertilizers, biotechnology, telecommunication, Civil aviation, industrial, agricultural and electrical machinery. The global competitiveness report 2003-04, by the world economic forum ranked India at 40st place on barrier to foreign ownership. India is considered as the 3rd most favoured destination, next only to China & United States and also superior manufacturing location than even the US. In India there are two approving authorities for determining the volume, nature and proportion of foreign investment into the county.

- RBI (Reserve bank of India)
- Dept. of Industrial development in the ministry of Industry, Govt. of India.

Besides FIPB (foreign Investment Promotion Board) & FEMA (Foreign exchange Managent Act) are also playing a responsible role in promoting the light kind of FDI in India.

WHY FDI IN INDIA

- Better employment opportunity
- Economic growth
- Trade
- Technique
- Capital formation
- Financial recourses and stability.

- Improving skills.
- Poverty reduction.

DISADVANTAGES

- Loss of control
- Conflicts of laws
- Effect on local culture
- Domestic market suffers.
- Risk
- Inflation
- No guarantee of reasonable prices
- Effect on natural resources.

PERFORMANCE & MAJOR INITIATIVES TO ATTRACT FDI IN INDIA

FDI has been improving gradually. In 2001, FDI performed satisfactory with 36% of the FDI investment units making profits & 25% of the FDI units have reached break even points. This has been revealed from the survey 2002. The survey includes 385 foreign investors operating in India with turnovers ranging between Rs. 100 crore & Rs. 850 crore. In Jan 2004 guidelines in equity cap on FDI were revised as follows:-

- 100% FDI is permitted in printing scientific and technical magazines, periodicals and journals with the prior approval of the Govt.
- 100% FDI is permitted through automatic route for petroleum product marketing and oil exploration in both small and medium sized fields/; LNG pipelines/ Natural Gas with prior Govt. approval.
- 100% FDI in construction Industry.
- 100% FDI in single brand retail outlets & 51% FDI in Multi brand retail outlets.

Table 1

Mining titanium	100%
Automobile Industry	100%
Coal and lignite mining	10%
Coal processing	10%
Energy sector	100%
Biotechnology	100%
Internet based service	74%
Petroleum & natural gas	10%
Refining sector	26%
Single brand retail	100%
Multi brand retail	5%

ROLE OF FDI IN INDIA

Major Sources of FDI in India

Table 2

Mauritius	-1
USA	-2
Japan	-3
Netherland	-4
UK	-5
Germany	-6
France	-7
South Korea	-8
Singapore	-9
Switzerland	-10

Source: FDI data cell, ministry of commerce & Industry. Dept. of Industrial policy & promotion.

Share of Top Investing Countries in FDI Inflows from Aug. 1991 to Nov. 2004

Table 3

Rank	Country	Total Inflows	Amount in Rs. % of Total	Millions of US$ Inflows
1	Mauritius	37551 (88898)	34.49	
2	USA	17811(4389)	17.08	
3	Japan	7897 (1891)	7.33	
4	Netherland	7845(1847)	7.16	
5	UK	7009 (1692)	6.56	
6	Germany	5066 (1254)	4.86	
7	France	2822 (679)	2.63	.
8	South Korea	2601 (682)	2.64	
9	Singapore	2573 (639)	2.48	
10	Switzerland	2130 (525)	2.04	

Source: FDI data cell Dept of Industrial Policy & Promotion

No. of FDI Projects in India

Table 4

Year	No
2007	738
2008	1024
2009	763
2010	774
2011	932

Source: FDI intelligence

FDI in India

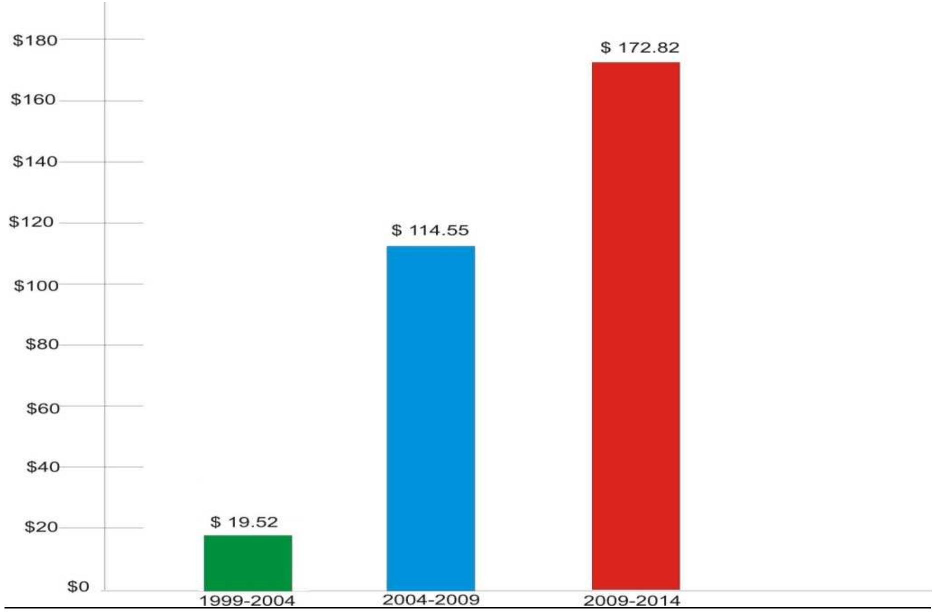

Figure 1

Sectors Attracted Highest FDI Inflows

Table 5: (April to Oct 2012-13)

Textiles	19%
Power	12%
Chamicals	13%
Food products	6%
Non metallic minerals	3%
Metal & Metal products	20%
Machinery & equipments	3%
Ruber plastic & Petroleum products	8%
Transport equipments	12%
others manufacturing	3%

Ranking of Sector Wise FDI Inflows in India since April 200-11

Table 6

Industrial & Sector Service	-1
Computer hardware & software	-2
Telecommunication	-3
Housing & Real Estate	-4
Construction	-5
Power	-6
Automobile Industry	-7
Metallurgical	-8
Petroleum & gas	-9
Chemicals	-10

Source: Economic Survey, RBI Bulletin

Sector Wise FDI Flows into Industry & Infrastructure

Table 7

	1991-2000	2000-10	2010-11	2011-12	2011-12	2012-13
Food Products	707.4	1237.3	246.9	239.7	122.3	368.4
Textiles	241.8	828.6	129.8	164.7	74.3	91.3
Fermentation industries	24.0	770.1	57.7	69.7	53.1	43.7
Wood products	0.0	18.8	1.6	29.6	8.1	28.7
Paper	250.5	716.9	44.0	454.7	29.6	3.1
Leather	33.5	42.6	9.3	8.3	5.6	34.7
Rubber, Plastic & Petroleum products	90.3	2953.6	573.6	2217.4	2097.8	476.3
Non Metallic materials	261.1	2263.6	657.3	310.0	203.4	189.7
Metals & Metal Products	186.2	3143.2	1098.1	1786.1	1436.9	1215.1
Machinery & equipments	2043.1	15670.4	1836.3	1447.5	2894.2	1171.2
Transport equipments	0	4603.2	1299.4	923.0	563.7	743.2
Other Manufacturing	1761.6	5705.6	1495.6	850.5	625.7	206.3
Mining	0	730.9	79.5	142.7	135.0	15.9
Power	1038.9	5220.9	1486.2	2104.6	1440.8	771.0
Telecommunication	1089.9	8915.9	1664.5	1997.2	1964.1	48.4
Total	**9208.7**	**57267.7**	**13369.9**	**22979.7**	**18662.0**	**6196.4**

Source: office of the Economic advisor DIPP,

SUGGESTIONS

- Policy makers should design policies where FDI can be utilized as means of enhancing saving & exports, domestic production, medium of technology learning & diffusion, providing access to the external markets.
- Govt. should push for the speedy improvement of infrastructure sector's requirement which are important for diversification of business activities.

CONCLUSIONS

The liberalization process that started in the early 1990s has continued during the period under review, the Govt. initiated reforms& raised the limit on FDI in certain sectors resulting in continued growth in annual FDI inflows. Inward FDI has been particularly robust in the electronics and electrical equipment sector, mainly due to I T enabled services and business process out sourcing (BPO) growth. This is manifested in services sector growth, as is telecommunication sectors growth, which has also been a large recipient of FDI. The financial & automobile sectors have also been liberlised, thereby attracting increased FDI inflows. Mauritius remains the largest source of FDI. This may be the result of tax treaty between India and Mauritius which may induce investors to route their investment through Mauritius to take advantage of the preferential provisions*.

- The main benefit is that investor is exempt from capital gains tax.

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