International Journal on Arts, Management and Humanities **3**(1): 49-52(2014)

ISSN No. (Online): 2319 – 5231

Economy Effects of FDI on Indian Economy

Dilip Kumar Jha
Asst. Professor, Department of Economics,
Guru Ghasidas Vishwavidyalaya, (A Central University)
Koni, Bilaspur, (CG), India

(Received 03 May, 2014 Accepted 15 May, 2014)

ABSTRACT: International Economic integration plays a vital role for the economic development of developing countries like India. Foreign Direct Investment is one and only substantial instrument of attracting foreign capital for the development of any economy. It supports investment to the developing countries like India, where saving rate is low. It also helps to reduce the deficit occurred in BOP of a country. This study has undertaken to know the current situation of FDI in Indian Economy through different perspective. After analyzing all the facts, it may be concluded that the Indian Govt. has to work on various issues in order to attract more and more FDI for the development of the economy.

Key Words: FDI, CONCEPT, TYPES, CONSTRAINTS.

INTRODUCTION

In India rate of savings is very low compared to other developed countries. As a result of this, the economic development is not achieved as rapid as Chinas. Most of Indian finances are diverted to non-development expenditure, which has led to the low capital in the country. To answer this problem, foreign direct investment (FDI) inflow into India is the best solution. Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year. Thus, all this make this topic very relevant to the current time.

Concept of FDI

Foreign direct investment is a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment and organization. It does not include foreign investment in the stock markets. Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially "hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go badly or well. The definition of FDI has been revised in India, which includes three aspects of capital flows i.e equity capital, reinvestments earnings and other direct capital in line with internationally accepted standards. Now days FDI may come in India by four routes: 1) RBI 2) Government 3) NRI (Non Residential Indian) investment and acquisition of shares.

Types of FDI

1. **Horizontal FDI:** It arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. **Platform FDI:** It arises when Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. **Vertical FDI:** It takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

OBJECTIVES OF THE STUDY

The broad objectives of the study are as follows:

(i) To know the trends in FDI inflows in India.

(ii) To understand the country wise FDI inflows in India.
(iii) To study the effects of FDI inflows in India.
(iv) To identify the constraints in FDI inflows in India.

METHODOLOGY

The present data is based on the secondary data only. These secondary data has been collected from various sources such as RBI Bulletin, Central statistical organization and economic times.

DATA ANALYSIS

Year wise FDI inflows in India:

Table-1 indicates that the rate of growth of FDI inflow is positive from 2003-04 up to 2006-07. But in it has been sharply declined during 2007-08 to 2010-11 because of the world economic slowdown and a kind of instability in central government in the respective years.

Table 1: Year wise FDI flows in India.

YEAR	TOTAL FDI (US $ Million)
2003-04	17,138
2005-06	24,613
2006-07	70,630
2007-08	26,470
2008-09	22,697
2009-10	22,461
2010-11	14,939
2011-12 P	23,473
2012-13 P	18,286

Source: RBI Annual Report

Effects of FDI in Indian economy:

Table 2 indicates that the FDI share in India's GDP was 0.70 in 2003 which has not increased up to the expected level. It is still 1.3 in 2012 after a gap of around 10 years, which means a lot has to do by the central govt. in this respect.

Table 2: FDI share in India's GDP.

YEAR	FDI at % of GDP
2003	0.70
2004	0.80
2005	0.87
2006	2.11
2007	2.04
2008	3.55
2009	2.61
2010	1.55
2011	1.72
2012	1.3

Source: World Bank Report

FDI inflows country wise:

In the terms of country wise break up of FDI inflows shows that the Mauritius country has topped in FDI inflows in India. This is due to special concession to Mauritius.

Table 3: Top 10 countries investors in India.

COUNTRY	Country-Wise Inflows (2012-13)P(US $ Million)
Mauritius	8059
Netherland	1700
Singapore	1605
Japan	1340
UK	1022
France	547
US	478
Germany	467
Cyprus	415
Switzerland	268

Source: RBI Annual Report

Table 3 indicates that Mauritius country has been topped in sharing of FDI in India. This is because this country is getting more concessions regarding taxes. As a result of this, FDI inflows is maximum or highest from Mauritius 8059 US $ Million and a very least from Switzerland i.e 268 US $ Million. United States and Germany has more or less same FDI share in India.

CONSTRAINTS OF FDI INFLOWS IN INDIA

Defective policy: Most of areas are covered by FDI in India. But the policy of FDI is not much liberalized as it is in China. In case of tariff policy though duties have been reduced but still in the context of protection, tariffs are very high n the context of protection. China has more business oriented and more FDI friendly policies than in India.

Infrastructure: Inadequate infrastructural facilities are not only constraints for the economic development and economic growth. It is necessary to have more infrastructure facilities, which will surely help to boost the FDI inflows in India.

laws: Rigid labor laws are impediment not only for economic development.

CONCLUSION

India has received many benefits through FDI, but still is not as good as good as China's FDI inflows. To be one of the top ten in FDI flows, then it is necessary for Indian government to have the friendly FDI policy, better infrastructure, reforms in labour laws, lower level of fiscal deficit and higher purchasing power etc. should be adopted to attract more FDI in India.

REFERENCES

[1]. Globalisation Trend and Issues - T.K.Velayudham, Page 3, 66.
[2]. Globalisation and India - Lecture : Prof .Sagar Jain, University of N.Carolina.
[3]. Repositioning India in the Globalised World - Lecture : V.N.Rai.
[4]. Globalisation and India's Business prospectives - Lecture - Ravi Kastia.
[5]. "Globalisation and Liberalisation" Prospects of New World Order - Dr.A.K.Ojha, Third Concept - An International Journal of Ideas, Aug 2002.
[6]. The Indian and Global Business - Jan 2004, Page 30.
[7]. Globalisation: Imperatives, Challenges and the Strategies, Page 39.
[8]. "Economic Review" Foreign Invest flows to India – RBI Annual report 2005-06 (September).
[9]. Foreign Direct Invert in the Financial Sector of emerging market economics "CGFS publication No.22".
[10]. FDI in Financial Sector - CGFS publication No.25.

[11]. IMF's study on India - Business Line.
[12]. Insurance FDI : Left to oppose like-Business Line, RBI guidelines for FDI in Banking Sector- Dr. P.K. Shrivastava.