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Foreign Direct Investment In India & Indian Economy

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ABSTRACT

Foreign direct investment (FDI) refers to investment in a foreign country where the investor retains control over the investment. Developing nations look at FDI as a source of filling the savings, foreign exchange reserves, revenue, trade deficit, management and technological gaps. FDI is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. The Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. The Government has put in place a policy framework on Foreign Direct Investment, which is transparent, predictable and easily comprehensible.

Keywords : Foreign Direct Investment, Foreign Investment Promotion Board, Purchasing Power Parity,

FOREIGN DIRECT INVESTMENT IN INDIA & INDIAN ECONOMY

INTRODUCTION

Foreign direct investment (FDI) refers to investment in a foreign country where the investor retains control over the investment. Foreign direct investment (FDI), which includes three aspects of capital flows i. e. equity capital, reinvestment earnings (retained earnings of FDI companies) and other direct capital (inter-company debt transactions) in line with internationally accepted standards. In India, now days as per the rules of liberalization, FDI comes through five routes.

- (A) Government (SIA –secretariat and industrial assistance/ FIPB – foreign investment promotion board),
- (B) Reserve Bank of India (RBI),
- (C) Non Residential Indian (NRI) investment,
- (D) Acquisition of shares,
- (E) Equity shares of incorporate bodies.

Developed economies consider FDI as an engine of market access in developing and less developed countries vis-à-vis for their own technological progress and in maintaining their own economic growth and development. Developing nations look at FDI as a source of filling the savings, foreign exchange reserves, revenue, trade deficit, management and technological gaps. FDI is considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets. The impact of FDI depends on the country's domestic policy and foreign policy. As a result FDI has a wide range of impact on the country's economic policy.

ABOUT INDIAN ECONOMY

India remains one of the fastest growing economies of the world as all major countries including the fast growing emerging economies are seeing a significant slowdown. Indian economy is estimated to grow by 6.9% in 2011-12. The economy of India is the 11th largest in the world by nominal GDP and the third largest by purchasing power parity (PPP). The country is one of the G-20 major economies and a member of BRICS. The foreign exchange reserves increased from US \$ 279 billion at end March 2010 to US \$ 305 billion at end March 2011. Reserves varied from an all-time peak of US\$ 322.2 billion at end August, 2011 and a low of US \$ 292.8 billion at end-January, 2012. In 2011, the country's per capita income stood at \$3,694 IMF, 129th in the world. India recorded the highest growth rates

in the mid-2000s, and is one of the fastest-growing economies in the world. India is the nineteenth largest exporter and tenth largest importer in the world. India's trade and business sector has grown fast. In the year 2010-11 India's total merchandise trade (counting exports and imports) stands at \$ 606.7 billion and is currently the 9th largest in the world. During 2011-12, India's foreign trade grew by an impressive 30.6% to reach \$ 792.3 billion (Exports-38.33% & Imports-61.67%). Invisibles trade surplus is \$ 86.2 billion or 5.0% of the GDP in 2010-11 and projected at \$100.0 billion or 5.0% in 2011-12. Economic growth rate stood at around 6.5% for the 2011-12 fiscal year. By 2008, India had established itself as one of the world's fastest growing economies. Growth significantly slowed to 6.8% in 2008-09, but subsequently recovered to 7.4% in 2009-10, while the fiscal deficit rose from 5.9% to a high 6.5% during the same period. India's current account deficit surged to 4.1% of GDP during Q2 FY11 against 3.2% the previous quarter. As of 2011, India's public debt stood at 62.43% of GDP which is highest among the emerging economies. Inflation remains stubbornly high with 7.55% in May 2012. The services sector continues to be a star performer as its share in GDP has climbed from 58% in 2010-11 to 59% in 2011-12 with a growth rate of 9.4%. Similarly, agriculture and allied sectors are estimated to achieve a growth rate of 2.5% in 2011-12 with food grains production likely to cross 250.42 million tonnes owing to increase in the production of rice in some States. The industrial sector has performed poorly, retreating to a 27% share of the GDP. Overall growth during April-December 2011 reached 3.6% compared to 8.3% in the corresponding period of the previous year.

FDI POLICY

The Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. The Government has put in place a policy framework on Foreign Direct Investment, which is transparent, predictable and easily comprehensible. This framework is embodied in the Circular on Consolidated FDI Policy, which may be updated every year, to capture and keep pace with the regulatory changes, effected in the interregnum. The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India made FDI policy. The present consolidation subsumes and supersedes all Press Notes/Press Releases/Clarifications/Circulars issued by DIPP, which were in force as on April 09, 2012, and reflects the FDI Policy as on April 10, 2012.

FDI INFLOWS INTO INDIA**TABLE-I FDI INFLOWS IN TO INDIA (US\$ million)**

Sr No.	Financial Year	Total FDI Flows	% growth over previous year
1	2004-05	6,051	+ 40%
2	2005-06	8,961	+ 48%
3	2006-07	22,826	+ 146%
4	2007-08	34,835	+ 53%
5	2008-09	41,874	+ 20%
6	2009-10	37,745	- 10%
7	2010-11	32,901	- 13%
8	2011-12(January)	38,346	-

Table-I indicates that the rate of growth of FDI inflows is positive except for the year 2009-10 and 2010-11. The negative percentage growth rate was experienced during certain period. This is due to global recession for the respective years.

TABLE-II**TOP 10 COUNTRIES INVESTORS IN INDIA**

(from April – 2000 to January 2012)

Sr. no.	Country	FDI inflows (in Rs. Crore)	FDI inflows (in US\$ million)	% with total FDI inflows
1	Mauritius	284381.33	63145.87	39.47
2	Singapore	72896.07	16202.66	10.13
3	Japan	56768.89	12095.41	7.56
4	U. S. A.	46879.97	10361.87	6.48
5	U. K.	41916.29	9388.69	5.87
6	Netherlands	31113.64	6867.47	4.29
7	Cyprus	28325.75	6129.98	3.83
8	Germany	20048.46	4463.87	2.79
9	France	12447.23	2738.71	1.71
10	U. A. E.	10206.48	2219.77	1.39

Table-II indicates that Mauritius country has been topped in sharing of FDI in India from April – 2000 to January – 2012. This is because Mauritius country has got many concessions regarding taxes. As a result of this, FDI inflows was maximum from Mauritius 39.47% and a very least from UAE. i.e. 1.39% during April – 2000 to January – 2012.

TABLE-III SECTOR-WISE FDI INFLOWS (From April-2000 to January-2012)

Sr. No.	Sectors	FDI inflows (in Rs. Crore)	FDI inflows (in US\$ million)	% with total FDI inflows
1	Service	143878.44	31970.85	19.99
2	Telecommunications	57049.95	12546.54	7.84
3	Computer Software & Hardware	49626.45	11106.50	6.94
4	Housing & Real Estate	49024.58	10972.67	6.86
5	Construction Activities	48524.33s	10867.24	6.79
6	Drug & Pharmaceuticals	42745.26	9170.24	5.73
7	Power	32798.25	7214.83	4.51
8	Automobile Industry	29354.31	6469.53	4.04
9	Metallurgical Industries	26287.48	5909.42	3.69
10	Petroleum & Natural Gas	14611.84	3338.75	2.09

Table-III shows that the most important sectors are service, telecommunications, computer software & hardware, housing & real estate and construction activities have accounted about 48% of FDI inflows.

IMPACT OF FDI ON INDIAN ECONOMY

Any Nations' progress and prosperity is reflected by the pace of its sustained economic growth and development. 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 is 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.

- The FDI share (net capital flows) in India's GDP was 4.5% in first half of 2011-12.
- The most important sectors are service, telecommunications, computer software & hardware, housing & real estate and construction activities have accounted about 50% of FDI inflows.
- The FDI inflows from various countries show that the Mauritius country has topped in FDI inflows in India. This is due to special relaxations to Mauritius.
- Foreign exchange resources are to the extent of US\$ 279 billion at the end of March 2010. The FDI has been made to the extent of US\$ 292.8 billion at the end of January 2012 in India.
- The average interest rate was 16.3% in 1990-91 and it came down up to 8.5% in the end of March 2012.
- The average inflation rate was 10.3% in 1990-91 and it was declined to 7.5% by March end 2012.
- Net capital flows at US\$ 41.1 billion (4.5% of GDP) in the first half of 2011-12 remained higher as compared with US\$ 38.9 billion in the first half of 2010-11.

CONCLUSION

India has received many benefits though FDI. FDI plays a significant role in the process of economic development of India. The FDI of India accounted 6051 millions of US\$ in 2004-05 to 38346 millions of US\$ in 2011-12 (January). The service sector has attracted highest 19.99% FDI inflows, then telecommunication sector 7.84%, computer software & hardware 6.94% during April-2000 to January – 2012. Mauritius (39.47% of total inflows of FDI) has been largest investor in India, followed by Singapore (10.13%) during April-2000 to January – 2012 among top ten countries It is well known that FDI can complement local development efforts in a number of ways, including boosting export competitiveness; generating employment and strengthening the skills base; enhancing technological capabilities (transfer, diffusion and generation of technology); and increasing financial resources for development. It can also help plug a country in the international trading system as well as promote a more competitive business environment.

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