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Foreign Dirct Investment FDI Versus Swadeshi in India: A Viable Answer for Economic Progress

KEYWORDS: Swadeshi, FDI Inflow, Economic Growth

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ABSTRACT *In the recent scenario, 'Swadeshi' does not meant to be opposing each and every thing which comes from outside India, but it meant to be becoming self-reliant. No doubt, foreign Direct Investment (FDI) plays very significant role in the developing world as it has considered a growth enhancing factor in any developing economy including India. The relationship between Foreign Direct Investment and economic growth has long been an issue of great interest. Presently, we are facing highly competitive world so we need both inflow and outflow FDI for accelerating the growth on one hand and to remove poverty and unemployment or to generate employment, we cannot ignore the importance of 'Swadeshi' on the other hand. Keeping in above backdrop, the present paper tries to analyse that is FDI or Swadeshi or both are viable options for the economic development of a country like India.*

INTRODUCTION

The concept of 'Swadeshi' was enhanced by Mahatma Gandhi for the revitalization and expansion of Indian economy and to put an end to the British colonialism through non-violent. He described 'Swadeshi' as a free India's confederacy of self-governing, self-reliant, self-employed peoples living in the village, deriving their right livelihood from their homemade products. The best meaning of 'Swadeshi can be a set of policies that are best for the economic development of the country, not for some sections of India. But in present globalization scenario, we cannot confine Foreign Direct Investment (FDI) flows as it plays very significant role in the developing world as it has considered a growth enhancing factor in any country including India. It is mostly preferred source of external finance for the reason that they are not debt creating as well as non-volatile in nature and their returns relay on the projects financed by the investor. Healthy flow of direct investments reflects increasing incorporation of an economy with the world. It is a matter of still controversy that India or Indian industry needs FDI to speed up economic and industrial growth or not. Keeping in the view, the present paper is a humble attempt to analyse that whether FDI or Swadeshi or both are viable option (s) for the economic progress of a country like India or not.

LITERATURE REVIEW

There is no dearth of literature on the present issue that whether 'Swadeshi' or FDI (Videshi) is relevant for Indian economy. Many researchers has studied the Gandhian economic thought and found these are still relevant in the present globalization era.

Govindu V. M. & Malghan D. (2009) concludes that Economic Swadeshi is not a form of knee-jerk isolationism but an approach designed to ensure the well-being of every individual. **Bothra Neha (2013)** described that Gandhi was inspired by a vision of Swaraj (Self-government) and Swadeshi. Swaraj is political and economic independence. It is liberation of the human being from all systems and ideologies which would undermine human dignity. **Malviya (2015)** analyzed the spiritual economic thoughts of Mahatma Gandhi and examines his views on Swadeshi, decentralization of economics. Gandhi's main focus was on the self-sufficient village economy to attain economic self-sufficiency of the nation.

On the same time, review of various studies available on FDI reveals that foreign investment is still a matter of debate. **V.N Balasubsramanyam et al. (2003)** in their study conclude that FDI is a very good means for the transfer of technology and knowhow to the developing countries. **Herzer et al. (2007)** has argued that with 28 developing countries data there is no long-term & short-term effect of FDI on growth; in fact, there is not a single country having positive unidirectional long-term effect from FDI to GDP. **Ali Raza et al. (2012)** in their study empirically analyze the role of foreign direct investment in developing countries like Pakistan stock markets and examine whether they are related or not. The results disclose a positive impact of foreign direct investment along with other explanatory variables in developing Stock markets of Pakistan.

It is also evident from the above literature that both FDI and Swadeshi are win-win strategy for economic growth in any country particularly developing economies like India.

OBJECTIVES & RESEARCH METHODOLOGY

The specific objectives of the study can be enumerated as follows:

- To analyse the government policies regarding 'FDI' or 'Swadeshi' after post-independence era in India.
- To analyse the growth trend, country wise as well as sector-wise FDI inflows in India.

The present study is of analytical in nature and exclusively based on Secondary data that has been collected from the various issues of Handbook of Statistics on the Indian Economy and RBI Bulletins. The study considers the time period from the year 2000 onwards. To examine the FDI in India, the available data have been processed and presented in form of suitable tables and graphs and percentage growth rate of FDI is computed.

IV. GOVERNMENT POLICIES TOWARDS FDI IN POST INDEPENDENCE ERA

The attitude of the government of India has been chang-

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ing towards FDI in post-independence era. To study this, we have divided the time period into four phases:

Gradual Liberalization Phase (1948-1967): The Industrial Policy Resolution (April, 1948) considered the role of foreign capital for rapid industrialization for the country. With this, the regulation on foreign capital was taken. In April 1956, the new Industrial Resolution was set up with the goal to keep maximum number of important industries with public sector and reduces scope of private domestic as well as foreign sector.

Restrictive Phase (1968-1979): In 1968, Foreign Investment Board (FIB) was set up to deal with all cases of foreign investment excluding those in which it exceed rupees 20 million or in which foreign equity exceeded 40 per cent.

Opening up and Cautious Deregulation Phase (The 1980's): It was observed that Indian goods were poor in international market due to old technology and high cost. So government of India has decided to liberalize import of capital goods and technology, government assigned greater role to multinational companies in promoting export oriented units.

Liberalization and Globalization Phase (The 1990's): New Industrial Policy was announced in form of Liberalization, Privatization and Globalization (LPG) in 1991. In 34 high priority industries FDI up to 51 per cent was approved automatically if certain norms are satisfied. Thus after 1991 liberalized approach was adopted towards foreign capital.

It is evident from the policies that before 1991 restricted approach were adopted towards FDI by the government but after 1991 liberal approach was replaced for FDI.

V. ECONOMIC URGE & RATIONALE FOR 'SWADESHI'

The term 'Swadeshi' consists to promote as well as stimulate domestic industries like small scale and cottage industry of Khadi, Handloom spinning and weaving mills. Gandhiji believed that small scale and cottage industry in India would be beneficial to Indian economy as these industries are based on less capital investment and family labour. Raw material is easily available for these industries. He believed that large-scale industries are capital intensive which would concentrate wealth in the hands of few, on the other hand small scale industries are a source of employment generation.

The New Economic Policy (NEP) has promoted the culture of wasteful consumption without any breaks and ignored the concept of welfare state. Globalization made our economy highly dependent on the global financial institutions like World Bank, IMF and MNCs without making it vibrant and progressive. Liberalization of the economy has taken our economy into the situation of distress. India becomes a major importer of iron, chemicals, fertilizers, edible oils, plastic, pulp, animal fats, leather and other industry related goods. Now consumption pattern started changing towards luxury. The imports of luxurious items (gold, silver, pearls, jewellery, ready-made garments, precious stones, fabrics & cotton yarn, electronics, Transport equipment's) are higher than essential items (crude oil and petroleum products). This has made deficits in our current account. Many local industries are taken over by multinational companies (MNCs) through merger and acquisition and now all prominent Indian brands have a multinational tag. All this indicates that due to LPG policy, our domestic products and domestic producers suffered a lot and to save their interest we need to move towards 'Swadeshi'.

VI. GROWTH & TREND OF FDI INFLOWS IN INDIA

With the introduction of economic reforms (1991), there has been a paradigm shift in FDI inflows in India as well as many macroeconomic indicators showed improvement. There are many advantages (i.e. single digit inflation, better human capital, developed physical and social infrastructure) for potential foreign investors to offer in India. FDI is essential in India for infrastructural development, for BoP equilibrium, for foreign exchange and this is the source of finance which is non-debt creating. FDI inflow in India from the year 2000-01 has been shown in the table 1. It was US $ 4029 Million in 2000-01 and increased to US $ 392,262 million in September 2015. Percentage growth over previous year is also shown in table 1. It was highest in year 2006-07.

TABLE 1: FDI INFLOWS IN INDIA FINANCIAL YEAR WISE (FROM APRIL 2000 TO SEPTEMBER 2015)

FINANCIAL YEAR	AMOUNT (US $ Million)	% GROWTH
2000-01	4029	…...
2001-02	6130	52.1
2002-03	5035	-17.86
2003-04	4322	-14.16
2004-05	6051	40
2005-06	8961	48.1
2006-07	22826	155
2007-08	34843	52.6
2008-09	41873	20.2
2009-10	37745	-9.858
2010-11	34847	-7.678
2011-12	46553	33.6
2012-13	30824	-33.79
2013-14	36049	16.95
2014-15	44,291	22.86
2015-16 (P) (April – Sept 2015)	24,409	
Cumulative Total (From April, 2000 to Sept. 2015)	392,262	
Cumulative Amount of FDI Equity Inflows (Excluding, amount remitted through RBI's-+NRI Schemes)	265,143	

Source: RBI Bulletin Nov. 2015, (Table No: 34 FOREIGN INVESTMENT INFLOWS).

Various studies have projected India among top five favoured destinations for FDI. Figure 1 presents the share of major investing countries in India. It is evident that Mauritius emerged as one of the largest foreign investors in India. India's 86 per cent of FDI inflows are contributed by these ten countries while remaining 14 per cent by rest of the world up to September 2015. Country wise FDI inflows to India are dominated by Mauritius (34%), followed by Singapore (15%), U.K. (9%), Japan (7%), Netherlands and U.S.A. (6%), Germany and Cyprus (3%), France (2%), UAE (1%). It needs to be pointed out that the FDI inflows from Mauritius to India are misleading. This is so because Mauri-

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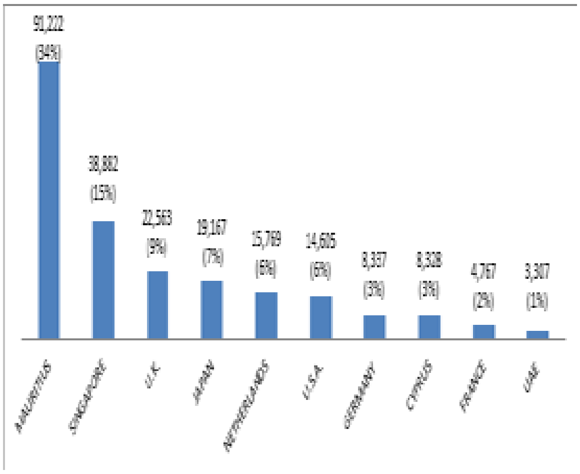
tius has low rates of taxation and agreements between India on double tax avoidance regime.

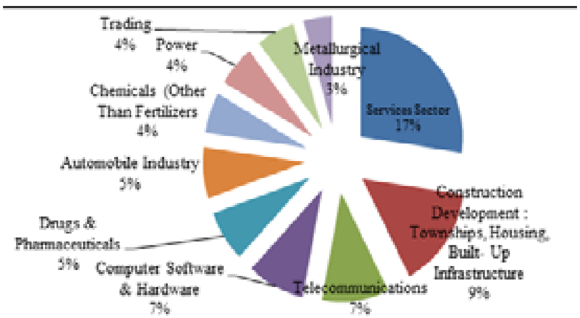
FIGURE 1: COUNTRYWISE FDI INFLOW IN INDIA APRIL 2000 TO SEPT 2015 (US $ MILLION)



Source: RBI Bulletin Nov. 2015

In order to understand the structure and direction of FDI in India in a better way, Sectoral classification of FDI inflows is essential. In this regard figure 2 presents the comparative picture of FDI inflows in various sectors of Indian economy.

FIGURE 2: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS (APRIL 2000 TO SEPTEMBER 2015)



Source: RBI Bulletin November 2015

Based upon the data there are 63 sectors in which FDI inflows are seen but it is found that top ten industries attract almost 72 per cent of FDI inflows. However, from April 2000 to September 2015, service sector has been the highest contributor of FDI inflows to India (17%), followed by construction development (9%) , Telecommunication (7%), Computer software & hardware (7%), Drugs & Pharmaceuticals (5%), Automobile Industry (5%), Chemicals (other than fertilizers (4%), Power (4%), Trading (4%), Metallurgical industries (3%).

VII. CONCLUSION WITH POLICY IMPLICATIONS

In brief, Gandhian concept of 'Swadeshi' is very much relevant to make India self-reliance and self-sufficient in all contexts, but still FDI is needed to finance our manufacturing sector and infrastructure. The paper also explores the government policies towards FDI before 1991 and after 1991. To get rid from all the problems of Indian economy viz. poverty, unemployment, poor standard of living there is rational to promote FDI on one hand and to make India manufacturing hub or to realise the dream of 'Make in India', 'Swadeshi' is justified on the other hand. There should be restriction on FDI in those consumer goods industries where there are sufficient Indian firms. By making proper regulatory policies, FDI prove to be the engine of economic growth. It enable us to accomplish our cherish goal like making favourable the balance of payment, rapid economic development. Government must introduce policies that can correlate with the principles of 'Swadeshi' and which includes reviving the investment cycle within the country, sustaining reform action, combating inflation, creating skilled jobs and enhancing labour productivity, removing infrastructure bottlenecks. Now days our government is trying to improve our 'ease of doing business' rank to attract more FDI that's why India's rank has already improved from 142nd rank to 130th. In the era of globalization we cannot stop FDI inflow but we should take care of our own producers. In this context FDI should be made Swadeshi by making strict policy towards it then it can solve our economic problems and it will be helpful for India to enhance overall economic progress.

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