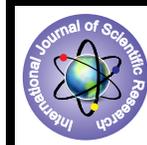


Impact of Fdi in Indian Economy – A Study on The Sustainability After 2008 -09 Economic Crises



Management

KEYWORDS : Foreign direct investment, GDP, Trend analysis

Dr. Puja Archana Sahu Associate Professor , IASMS

ABSTRACT

Foreign direct investment occurs when individuals or companies in one country purchase ownership of assets in other country. In this study the researcher has studied the various sources of FDI and its uses to the host country. The researcher has used trend analysis to study the pattern of the investment flows pre & post economic crises & its overall effect on the Indian economy.

FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are “usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.” It is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependant on the policies of the host government) ...triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use

Review of Literature

It is universally acknowledged that FDI inflow offers many benefits to an economy.

UNCTAD (1999) reported that Transnational Corporations (TNCs) can complement local development efforts by (i) increasing financial resources for development; (ii) boost export competitiveness; (iii) generate employment and strengthening the skill base; (iv) protecting the environment to fulfill commitment towards social responsibility; and (v) enhancing technological capabilities through transfer, diffusion and generation. Borensztein, ET. al. (1998) reveals that FDI has a net crowding in effect on domestic private and public investment thus advancing overall economic growth. Crowding in effects of FDI varies with regions. By and large, studies have found a positive links between FDI and growth. India appears to be well placed in terms of reaping benefits because it has relatively well developed financial sector, strong industrial base and critical mass of well educated workers (Rajan et. al., 2008)

Klaus E Meyer (2003) in his paper “Foreign Direct investment in Emerging Economies” focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate.

John Andreas (2004) in his work “The Effects of FDI Inflows on Host Country Economic Growth” discusses the potential of FDI inflows to affect host country economic growth. The paper argues that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. Performing both cross – section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications that FDI inflows enhance economic

Growth in developing economies but not in developed economies.

Tomsaz Mickiewicz, Slavo Rasosevic and Urmaz Varblane (2005), in their Study, “The Value of Diversity: Foreign Direct Investment and Employment in Central Europe during Economic Recovery”, examine the role of FDI in job creation and job preservation as well as their role in changing the structure of employment. The paper also find out that the increasing differences in sectoral distribution of FDI employment across countries are closely relates to FDI inflows per capita.

Khan A.Q. and Siddiqui Ahmad Taufeeque (2011), studied the impact of FDI on Indian economy and a comparison with China & USA. The paper have also been ventured into carving out set of strategies to deal with the issues & problems in attracting FDI for promotion & growth of international trade. The double log model has been used to find elasticity between different factors in this paper. They also highlight the impact of FDI on employment. In this research paper, the discussion between FDI and GDP as to asses that FDI helps in boosting growth of a country.

Bhanagade D.B, Shah A. Pallavi (2011), they said in their paper that the impact of FDI on Indian Economy where they also emphasize on the investments, sectors attracting highest FDI inflows and FDI leads to Generation of Employment opportunities. Therefore the growth of inflow of FDI would lead to positive growth of Gross capital formation. In India, the growth of GDP is largely influenced by FDI.

Chaturvedi Ila (2011), In this paper, analyze the FDI inflows with special reference to sector wise inflows in India. This paper also explore the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India. And to find out the correlation between FDI and Economic Development, It reveals that there is high degree of significance between FDI and economic development.

Objectives of the study

To study the importance of foreign direct investment in Indian economy

To find out the correlation between FDI and GDP of our country

Methodology

In order to achieve the objectives the researcher has used descriptive research design. The data for the research has been collected through secondary sources only. The researcher has taken the data for 10 years for the purpose of the study. The tools used for this study are trend analysis & correlation analysis

Analysis & interpretation**Table 1 : FDI inflows to India**

Year	FDI Inflows	Trend %
2004-05	6,051	100
2005-06	8,961	148
2006-07	22,826	377
2007-08	34,843	576
2008-09	41,873	692
2009-10	37,745	624
2010-11	34,847	576
2011-12	46,556	769
2012-13	34,298	566
2013-14	36,046	596

Source : RBI's Bulletin January, 2015 dt. 09.01.2015 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).

Table 2 : Annual GDP growth of India

Year	GDP	Trend %
2004-05	7.9	100
2005-06	9.3	118
2006-07	9.3	118
2007-08	9.8	124
2008-09	3.9	49
2009-10	8.5	108
2010-11	10.3	130
2011-12	6.6	84
2012-13	5.1	65
2013-14	6.9	87

Source: World development Indicators

There is an increasing trend of FDI inflows until 2012-13.the government initiatives for attracting FDI through FBIP route really paid off. The effect of financial crises was seen in the various succeeding years where the FDI inflows have reduced. The exports dropped consistently but through FBIP, RBI's Automatic Route/ Acquisition Route, reinvestments & other sources the trend percentage continued to rise until 2012-13.thee was a slight dip in 2012-13 but it soo picked up the pace on 2013-14. The overall GDP growth published by the World Bank showed a consistent increase until 2006-07 but took a large dip in 2008-09. The various sectors especially the manufacturing sector took the hit due to the crises & the exports reached all-time low . It gained momentum in 2009-10 & 2010-11but again slumped in the succeeding years. The government has tried to increase GDP through various measures & it has tried to control inflation so there is a slight growth in GDP in 2013-14.

Conclusion

FDI inflows are into the primary market and do not include foreign investments into the stock markets. It is a long-term investment and is used by the developing countries as a source of their economic development, productivity growth, to improve the balance of payments and employment generation. Its aim is to increase the productivity by utilizing the resources to their maximum efficiency. Exit is relatively difficult in this phenomenon. So therefore the government should try harder to attract FDI & make our country a prosperous one .

REFERENCES

1. Blomström, M., R. Lipsey and M. Zejan (1994). "Host Country Competition and Technology Transfer by Multinationals", *Weltwirtschaftliches Archiv*, 130,p.521-533
2. Foreign Direct Investment Policy (2015), department of Industrial policy and promotion, Ministry of Commerce and Industry, Government of India.
3. Rajan, R.S., R. Kumar and N. Vargill, eds. (2008) "New Dimensions of Economic Globalization: Surge of Outward FDI from Asia", World Scientific Press.
4. UNCTAD (1999). *World Investment Report 1999*, New York and Geneva: Oxford University Press.

5. Borensztein, E., J. De Gregorio and J. Lee (1995). "How does Foreign Direct Investment Affect Growth", *Journal of International Economics*, 45, pp. 115-135.
6. Dua, P. and A.I. Rasheed (1998). "Foreign Direct Investment and Economic Activity in India", *Indian Economic Review*, 33, pp. 153-168.
7. Blomström, M. and A. Kokko (2003). "The Economics of Foreign Direct Investment Incentives", Working. Paper No. 9489, NBER.
8. Titarenko, D. (2006). "The Influence of Foreign Direct Investment on Domestic Investment Processes in Latvia", *Transport and Telecommunication Institute, Transport and Telecommunication*, Vol.7, No 1, pp. 76-83.