IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

FOREIGN DIRECT INVESTMENTS IN INDIA (SOME MAJOR IMPACTS ON INDIAN ECONOMY)

Dr. Kattamuri Satish
Professor, Department of Management Studies, Godavari Institute of Engineering & Technology, Rajahmundry.

Abstract
Foreign direct investment (FDI) is direct investment by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country. Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive for investment or to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. The study takes a closer look at the structure of Foreign Direct Investments into India. It traces the development of India's economic policy regarding FDI and the resulting changes. The expansion of FDI in India has been followed by a rapid economic growth and an increasing openness to the rest of the world.

Introduction
It is commonly known that capital flows in developing economies like India have risen sharply and has, therefore become a self propelling and dynamic factor in the accelerated growth of economies. The impassioned advocacy of increased FDI flows is based on the well worn arguments that FDI is a rich source of technology and know how; it can stimulate the labour oriented export industries of India, promote technological change in the industries and put India on a higher growth path. The excitement of FDI needs to be based on analytical review of India's needs, requirements and potential to participate in huge investment flows.

The practical literature on the relationship between FDI and development is mixed. Despite a number of studies and seeming contradictions, two consistent issues that repeatedly arise are:
What are the motivations for FDI flows into India?
What are the economic and social implications of FDI flows in India?

A detailed study of FDI in India requires an examination of the determinants and the impact of FDI on Indian Economy. Studying FDI flows will help to assess the nature and the true extent to which the Indian Economy has globalised.

The study takes a closer look at the structure of Foreign Direct Investments into India. It traces the development of India's economic policy regarding FDI and the resulting changes. The expansion of FDI in India has been followed by a rapid economic growth and an increasing openness to the rest of the world. It is equally important to understand why India has become one of the important beneficiaries of FDI in the world and what drives the more recent progress of India towards FDI.

Objectives of the Study
Keeping in view the importance of FDI in the development of economies and the dynamic nature of the topic, the present study focuses on the following objectives.

The primary objective of this study is to review why India has been a preferred destination for FDI and study the impact of FDI on the Indian economy.
The sub objectives of the study are
- To review the major reasons for attracting FDI;
- To analyze the investment strategies in selecting the right investment projects;
- To study if the FDI investments have contributed to the positive growth in the standard of living;
- To study the impact of FDI investments on the culture of the country.

Literature Review
Nayak D.N (2004) in his Paper "Canadian Foreign Direct Investment in India
Some Observations", analyse the patterns and trends of Canadian FDI in India. He finds out that India does not figure very much in the investment plans of Canadian firms. The reasons for the same is the indifferent attitude of Canadians towards India and lack of information of investment opportunities in India are the important contributing factor for such an unhealthy trends in economic relation between India and Canada. He suggested

some measures such as publishing of regular documents like newsletter that would highlight opportunities in India and a detailed focus on India's area of strength so that

Canadian firms could come forward and discuss their areas of expertise would got long way in enhancing Canadian FDI in India.

Balasubramanyam V.N Sapsford David (2007) in their article "Does India need a lot more FDI" compares the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also finds that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital. The requirements of managerial and organizational skills of these industries are much lower than that of labour intensive industries such as those in China. Also, India has a large pool of well – Trained engineers and scientists capable of adapting and restructuring imported know – how to suit local factor and product market condition all of these factors promote effective spillovers of technology and know- how from foreign firms to locally own firms. The optimum level of FDI, which generates substantial spill overs, enhances learning on the job, and contributes to the growth of productivity, is likely to be much lower in India than in other developing countries including China. The country may need much larger volumes of FDI than it currently attracts if it were to attain growth rates in excess of 10 per cent per annum. Finally, they conclude that the country is now in a position to unbundle the FDI package effectively and rely on sources other than FDI for its requirements of capital.

Naga Raj R (2003) in his article "Foreign Direct Investment in India in the 1990s: Trends and Issues" discusses the trends in FDI in India in the 1990s and compare them with China. The study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy.

Morris Sebastian (1999) in his study "Foreign Direct Investment from India: 1964-83" studied the features of Indian FDI and the nature and mode of control exercised by Indians and firms abroad, the causal factors that underlie Indian FDI and their specific strengths and weaknesses using data from government files. To this effect, 14 case studies of firms in the textiles, paper, light machinery, consumer durables and oil industry in Kenya and South East Asia are presented. This study concludes that the indigenous private corporate sector is the major source of investments. The current regime of tariff and narrow export policy are other reasons that have motivated market seeking FDI.

Kulwinder Singh38 (2005) in his study "Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005" explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Nirupam Bajpai and Jeffrey D. Sachs (2006) in their paper "Foreign Direct Investment in India: Issues and Problems", attempted to identify the issues and problems associated with India's current FDI regimes, and more importantly the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location.

Chandan Chakraborty, Peter Nunnenkamp (2004) in their study "Economic Reforms, FDI and its Economic Effects in India" assess the growth implications of FDI in India by subjecting industry – specific FDI and output data to Granger causality tests within a panel co -integration framework. It turns out that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. In sharp contrast, any causal relationship is absent in the primary sector. Most strikingly, the study finds only transitory effects of FDI on output in the service sector, which attracted the bulk of FDI in the post – reform era. These differences in the FDI – Growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up o FDI.

Basu P., Nayak N.C, Vani Archana (2007) in their paper "Foreign Direct Investment in India: Emerging Horizon", intends to study the qualitative shift in the FDI inflows in India in – depth in the last fourteen odd years as the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI. It reveals that the

country is not only cost – effective but also hot destination for R&D activities. The study also finds out that R&D as a significant determining factor for FDI inflows for most of the industries in India.

The software industry is showing intensive R&D activity, which has to be channelized in the form of export promotion for penetration in the new markets. The study also reveals strong negative influence of corporate tax on FDI inflows.

To sum up, it can be said that large domestic market, cheap labour, human capital, are the main determinants of FDI inflows to India, however, its stringent labour laws, poor quality infrastructure, centralize decision making processes, and a vary limited numbers of SEZs make India an unattractive investment location.

Some of the Major Impacts on Indian Economy Include

1. FDI leads to Generation of Employment Opportunities:
The effect of FDI on Employment generation is an indirect phenomenon. Owing to large amount of FDI inflow leads to high capital formation at cheaper rates. This in turn leads to establishment of new business units or expansion of existing ones. Technological transformations and human resource mobility leads to emergence of many business undertakings. This leads to employment opportunities. In India the employment generation is growing at positive trend.

2. FDI growth in India leads to increasing the trends of gross capital formation:
The capital is the life and blood of every business or every production activity. Whether it is production of goods or service capital is must. The gross capital formation comprises of generation of capital by different production sectors. It comprises capital generated by both public and private sectors. In the private sector the lot of capital generated in the form of fixed asset would consists of Foreign Direct Investments. Therefore the growth of inflow of FDI would lead to positive growth of Gross capital formation. The Gross Capital formation in India is having increasing trend in India owing to increasing trends in FDI growth.

Effect of FDI on India's GDP

The gross domestic product is the major indicator of economic growth. It is developing at an increasing rate in India. The gross domestic product (GDP) is one the primary indicators used to gauge the health of a country's economy. It represents the total money value of all goods and services produced over a specific time period. The fact that the service sector now accounts for more than half the GDP is a milestone in India's economic history and takes it closer to the fundamentals of a developed economy. At the time of independence agriculture occupied the major share of GDP while the contribution of services was relatively very less. Since liberalization policy in India the GDP is growing at an increasing rate. The growth of Indian GDP is largely influenced by FDI.

The Impact of FDI on Various Macro Economic Variables

In this section an attempt has been to assess the impact of FDI separately on various macro economic variables. As we all by now known, FDI involves the transfer managerial resources to the host country. There have been disagreements about the costs borne and the benefits enjoy by host and recipient country between pro-liberalization and anti-liberalization/anti-market views. One country losses need not necessarily be another country gains. Kindelberger argues that the relationship arising from the FDI process is not a zero sum game. Ex-ante, both countries must believe that the expected benefits to them must be greater than the costs to be borne by them, because an agreement would not otherwise be reached and the under lying project would not be initiated. However, believing in something ex-ante is not guarantee that it materializes ex-post. The impact of FDI on host country can be classified into economic, political, and social effects. The main intention at heart of every MNC is profitability and hence they invest where the returns are high, buy raw materials including cheap labour where it is relatively cheap. MNCs succeed because of market imperfections and cast doubts on it as claim on welfare of host country. The conventional wisdom that FDI is always improving is no longer a conventional wisdom. The economic effect of FDI can be classified into micro and macro effects.

Micro Effects

The micro effects of FDI reflect on structural changes in the economic and industrial organization. An important issue is whether FDI is conducive to the creations of competitive environment in the host country. Markusen and Venables put forward two simple analysis channels to find the micro effect of FDI. They are

1. Product Market Competition.
2. Linkage Effect

Product Market Competition (PMC)

Through PMC the MNCs will be substituting the products of domestic firms in host country.

Linkage Effect

MNCs may work as complimentary firms to domestic firms in host country where it is possible for FDI to act as a catalyst leading to the development of local industry. FDI may have benefits, but it will not come without costs. The decade of liberalization and the impact of the FDI on macro economic factors in India have to be found in this study. To assess the impact of FDI on various relevant macro-economic variables namely exports, private final consumption expenditure, Forex, Gross Domestic Investment, gross domestic savings, trade balance, balance of payments.

2014 – Month Wise FDIs

Month	FDI Inflows (US$ Million)
January 2014	2,189
February 2014	2,017
March 2014	3,533
April 2014	1,705
May 2014	3,604
June 2014	1,927
July 2014	3,500
August 2014	1,278
September 2014	2,458
Year Upto September 2014	22,211
Year Upto 2013	18,072
%age growth over last year	(+)23%

Over the last one year, May 2014 witnessed the maximum FDI inflows of US$ 3,604 followed by 3,533 in March 2014. The year ended on a least FDI inflows of us$1,278 in August 2014.

Year Wise FDI Inflows in India through FIPB Route/ RBI's Automatic Route/ Acquisition Route

FDI Inflows In India From 2000-2014		
Financial Year (April – March)	**Capital Inflow (US$ Million)**	**%age Growth Over Previous Year**
2000 – 2001	4,029	-
2001 – 2002	6,130	+52%
2002 – 2003	5,035	-18%
2003 – 2004	4,322	-14%
2004 – 2005	6,051	+40%
2005 – 2006	8,961	+48%
2006 – 2007	22,826	+146%
2007 – 2008	34,843	+53%
2008 – 2009	41,873	+20%
2009 – 2010	37,745	-10%
2010 – 2011	34,847	-8%
2011 – 2012	46,556	+34%
2012 – 2013	34,298	-26%
2013 – 2014	36,046	+5%
2014 – 2015 (Six Months)	21,511	-
Total	**3,45,073**	
Source: Nic.in		

For the financial year (FY) 2013-2014 (April 2013 - March 2014), India's FDI inflow amounted to US$36.04 billion, up by 5% from US$34.29 billion of the FY2012-2013. The inflow for the first six months of FY2014-2015 is US$21.511 billion.

Share of Top Investing Countries - FDI Equity Inflows in India

FDI Investments By Country In India (US$ Million) – 2000 -2014						
		Financial Year				
Rank	**Country**	**2012-13 (April-March)**	**2013-14 (April-March)**	**2014-15 (for April– Sep ’14)**	**Cumulative Inflows (April ’00 – Sep ’14)**	**%age to total Inflows (in terms of US $)**
1	Mauritius	9,497	4,859	4,193	82,717	36%
2	Singapore	2,308	5,985	2,414	27,860	12%
3	U.K.	1,080	3,215	842	21,605	9%
4	Japan	2,237	1,718	937	17,205	7%
5	The Netherlands	1,856	2,270	1,971	13,207	6%
6	USA	557	806	1190	13118	6%
7	Cyprus	490	557	388	7,835	3%
8	Germany	860	1,038	382	6,900	3%
9	France	646	305	377	4,256	2%
10	Switzerland	180	341	144	2,851	1%
*** Total FDI Inflows**		**22,423**	**24,299**	**14,472**	**232,054**	**-**
Source: Nic.in ** Includes inflows under NRI Schemes of RBI.*						

Over the last decade, Mauritius is the largest contributor to this mainly because most of the investors want to take advantage of the double taxation avoidance agreement between Mauritius and India, and Mauritius-based investors do not have to pay capital gains tax in India. For the FY2013-2014 (April 2013 - March 2014), India's FDI inflow was primarily from Singapore with US$5.98 billion compared to US$2.30 billion in FY2012-2013. For the first 6 months of 2013 – 2014, the FD inflows from Mauritius are US$4.19 billion. Mauritius has been the single largest source of FDI into the country in the first 12 years of the new millennium. As much as $82 billion worth of money has been invested in India after being routed through Mauritius. This is 36% of the total FDI in the country in the past decade.

During the same period, 2000 – 2014, Singapore stood second with US$27.86 billion, denoting 12%; followed by UK with US$21.60 billion, representing 9%. Investments from U.S.A. witnessed a declining trend, as the county is facing the credit crunch from the past few years.

Sectors Attracting Highest FDI Equity Inflows - India

FDI Investments By Sector In India (US$ Million) – 2000 -2014						
		Financial Year				
Rank	**Sector**	**2012-13 (April-March)**	**2013-14 (April-March)**	**2014-14 (for April– Sep ‘2014)**	**Cumulative Inflows (April ’00 - Sep ’14)**	**%age to total Inflows (in terms of US $)**
1	Services	4,833	2,225	1,225	40,685	18%
2	Construction	1,332	1,226	568	23,874	10%
3	Telecommunications	304	1,307	2,465	16,628	7%
4	Computer Software & Hardware	486	1,126	421	13,239	6%
5	Drugs & Pharma	1,123	1,279	1,091	12,689	5%
6.	Automobile	1,537	1,517	1,035	10,847	5%
7.	Chemicals	292	878	414	10,081	4%
8.	Power	536	1,066	410	9,310	4%
9.	Metallurgical	1,466	568	197	8,271	4%
10	Hotel & Tourism	3,259	486	415	7,532	3%
Source: Nic.in						

The services sector in India, which includes financial and non-financial services, attracted the majority of the FDIs from investors during the financial period April 2000 - September 2014. The sector attracted US$40.685 billion representing 18%

of total inflows into the country. In second place, Construction sector attracted US$23.874 billion, followed by Telecom sector with US$16.628 billion during the period April 2000 – September 2014.
India's economic policies are designed in such a way that it attracts significant capital inflows into the country on a sustained basis, thereby encouraging technology collaboration between Indian and foreign firms. Almost all sectors are opened to foreign investment with varying percentage of foreign ownership allowed, except for atomic energy, lottery business, gambling and betting, and some forms of retail trading.

Suggestions

1. It is important to consider whether the FDI that is attracted is beneficial to the economy. There is already a substantial body of research into the effects of FDI generally and the factors that can make FDI more or less beneficial.
2. FDI can make a positive contribution to economic growth, by providing additional capital and facilitating technology transfers.
3. A further potential advantage of FDI is the possibility of technology spillovers, which can potentially enable the recipient country to benefit from advanced technologies developed overseas.
4. To pursue a growth of around 7 percent in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 percent on the whole.
5. The savings of the country stood at 24 percent. The gap formed between intended investment and the actual savings of the country was lifted up by portfolio investments by Foreign Institutional Investors, loans by foreign banks and other places, and foreign direct investments. Among these three forms of financial assistance, India prefers as well as possesses the maximum amount of Foreign Direct Investments.
6. As largely debated FDI has both positive and negative factors. These factors should be properly studied before allowing any FDI into a particular sector or the country.