



IMPACT OF FDI ON INDIAN ECONOMY

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ABSTRACT

The Govt. of India (GoI) with strong and clear vision of future India, has opened-up all sectors of Indian market with an eye on boosting the Indian economy, employment revenues and competition. The GoI has ambiguous plans and incentives to attract overseas investors. FDI's are permitted through techno-commercial tie-ups, private equity or preferential allotments, by way of capital markets through Euro issues, prominent sectors viz :- Defense, Railways, Mining and Nuclear sectors of India have not been permitted. Most developing countries today consider FDI is an important channel for obtaining access to resources for development and India is no exception to that. It is however difficult to measure precisely the economic effects of FDI. In other terms, it can be a sources for accruing external finances and is the key component of national development strategies. FDI's can be considered to be the most attractive type of capital flow for emerging economics as it can bring updated technologies and enhance production capacities for the economy.

Key Words : Indian Foreign Direct Investment Economy.

INTRODUCTION

Indian being a signatory of world trade organization has open the door for all segments of the trade market and industry. FDI's in India one of the most prominent change in recent decades. The GoI having amended its policies extended the upper limit up to 49% to increase the inflow of foreign direct investments. In India certain degree of financial stability, growth and development has been achieved owing to these investments. The FDI inflow supplements

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domestic capital, incorporation of latest and updated technology and are also a good potential of support for new entrants. FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors for the overall development of the economy. It is beneficial for the global economy, investors and the recipients., developing countries like India can gain wider access globally. Make in India initiative has drawn attentions of developed countries such as Japan, United States, Netherland, Singapore, Mauritius as an area of great potential. Equity flow of India through FDI has prominently been in states of Maharashtra, Delhi, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh. Economist suggest that FDI can have a positive effect on the economy as the output in an economy influences FDI flows.

Objective :

- To review the trends and flow of FDI.
- To ascertain the requirement of foreign Direct investment by India, for its economy.
- To study the inflow of investment in India.

FDI & Growth in Economy :

India has since pre independence era been a important hub of high potential in various segments of the industry, but during the post-independence period economy was a crucial factor hindering developmental activities, owing to witch India had to rely upon World Bank & IMF. This became a reason for the MNC to create platform in India. Taking a serious note of this, the GoI mooted and drafted the policies for FDI in India to safeguard the interest of the nation. It aimed at to acquire updated technology and create foreign exchange reserve. Over the passage of time and the changes in the governance, there has been a constant improvisation in the FDI policies. The Govt. of India further constituted foreign investment promotion Board. (FIPB) for inviting and facilitating, foreign, investments. This step saw visible significant investment in sectors such as Telecommunication, Construction, Computer Software to quote a few. These investments were from United States, Singapore, France etc. Thereby giving a steady and gradual increase to the economy. The opened up market in term gave a thrust to the Indian export industry thereby garnering foreign exchange earning to the nation.

Impact on Indian Economy :

Undoubtly India has gained through FDI certain level of stability through investment in different sectors. It has boosted the economic life of India. The liberlisation policy of trade in India has been another factor in ensuring positive growth rate of GDP. Foreign direct investment helps in developing the economy by generating revenues in the form of tax and incomes, development of infrastructure, etc. FDI inflows play a pivotal role in bridging the

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gap between domestic savings and investment at the same time maintaining a sustainable growth in economy.

This can be evidently traced back to the period between post-independence and the late 80's. During this period, major MNC's were operating and contributing their parts towards the Indian economy but, the main areas of functioning was the FMCG sector. However they were also seen in the sectors such as Textile, Heavy Industries, etc. Even these sectors had a substantial numbers of employment that was generated through their presence the employment generated were through direct, indirect and subsidiaries.

Trend & flow of FDI :

The stabilisation process of India's political stability economy and the market started introspecting the advantage and the disadvantage of the MNC's functioning and operating patterns.

Certain observations of the analysis being as under.

- The technology of MNC's were designed for global profit maximization but not for the development requirements of the poor.
- The MNC's destroy competition and acquire monopoly power.
- The MNC's retard growth of employment in the long process.
- The MNC's follow uncontrolled pattern of utilization of natural resources.
- The MNC's transfer pricing thereby affecting the tax revenues, which increases in gap between rich and poor.

This compelled for serious retrospection of prevailing situation and the need to draft new policies at the same time being liberal. The liberalization of trade, capital market, crossing the business barriers, technological upgradation over the past few decades across the globe has opened new economic revenues. Consequently, with vast domestic market, low labour cost, skilled and trained labour, high returns to investment in India now makes significant impact on the economy.

FDI in India has frayed and covered all major sectors prominent being as under:

- Information & Technology – This sector has made its presence in Maharashtra, Andhra Pradesh, Karnataka.
- Automobiles – This sector has made its presence in Madhya Pradesh, Tamil Nadu, Haryana, Gujarat, etc.



- Airways - Though its operation have been across the major cities, the main hub for the aviation maintenance being upcoming is at Maharashtra.
- Pharmaceuticals & Chemicals – Concentration of these Sectors are in the states of Gujarat, Kerala, Karnataka, etc.
- Banking and Insurance – This sectors are prominently operating in all state capitals apart from few major B-Class cities.
- Real Estate – The major states of attracting FDI in India are New Delhi, Maharashtra, Karnataka, Tamil Nadu to name a few.

The above sectors have opened up jobs and career opportunities, directly to the individuals and also created opportunities for small and medium scale organization apart from giving a trust to the nation's economy.

CONCLUSION :

FDI in India has been given access through financial collaborations, technical tie-ups, Joint Ventures and capital Market through Euro Issues. This has also opened up avenues for more transparent, broad and effective policy, production levels and employment opportunities further development. The presence of FDI in India has seen a vast change on the economic life of the society at large. The effects of FDI have been a positive step in transformation as has been with the policies being well drafted and relevant.

The prominent spheres of changes can be quoted here in as :

- It has helped in transfer of technical know how and also enhancing technological developments.
- It has helped green field ventures, has introduced technological development and contemporary techniques of management in India, which was previously lacked.
- International brands are now occupying position in the Indian market through joint ventures.
- Foreign direct investment have opened a wide spectrum of opportunities in the trading of goods and services in India both, in terms of Imports and Exports.



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