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Impact of FDI on Indian Economy

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Abstract:
FDI in India encompasses a vital role in the economic process and development of India. FDI in Asian country innumerous sectors will achieve intensification in economy through formation of jobs. In this paper the study examines the major features of FDI and also checks the impact of various economic indicators which help to pull the inflow of FDI in Indian economy. The purpose of the study is to find out the status of inflows of FDI in post and pre Liberalized period.
"For Indians FDI is a responsibility, it means to First Develop India, for global investors FDI is an opportunity in the form of Foreign Direct Investment. (Source: "Fdi As Drivers Of Growth In Economic sectors,2015"

Keywords: *FDI, Economic Indicators, Indian Economy, Sectoral Analysis.*

1. Introduction

India is the world largest democratic country with a population of 1.2 billion. Indian Economy has shown impressive growth over the liberalization period. With the help of economic indicators, growth and development of the country have been measured. In India FDI has started in the colonial era of British's when the east India Company had been established. And also some of the Japanese and UK based companies had entered India after the Second World War, which turns the Indian trade towards new heights. And after independence Indian markets seek the attention of various foreign investors also government of India has also having liberal attitude this time.

Phase 1.	**Phase 2**	**Phase 3**	**Phase 4**
1950-67	**1968-80**	**1981-90**	**1991 onwards**
Receptive Attitude and cautions welcome	**Restrictive Attitude**	**Gradual Liberalization**	**Open door Policy**
Non discriminatory Treatment to FDI	Restriction FDI without Technology	Higher foreign equity in export oriented units allowed	Liberal policies relating to technology collaboration, foreign trade & foreign exchange
No restriction on and dividend. Remittance to profits	Above 40% stake has not allowed, if allowed only in priority area	Procedures for remittance of royalty and technical fees	Encouraging FDI in core and infrastructure Industries
Ownership & control with Indians	FDI controlled by FERA	Liberalized	FERA replaced FEMA
	Discriminating power in sanctioning projects	Fast channels for FDI clearance	Transparent Procedures FDI through M&A FDI in services and financial Sectors

Table 1: Major features of Indian FDI during four phases
Source: Jeromi P.D., 2002

The above Table gives Indian FDI policy which is showing liberalization of FDI policies phase wise in India over a period of time. Today, India is having largest economy in Asia and is also a sought destination for FDI. This has lead to India's services sector boom. Now Indian economy has strengthened in IT sector and other major areas such as auto Pharmaceuticals, Chemicals, Automation, and Retail etc. Indian economy is having a large pool of technical expertise and skilled man power and of middle class population has exceeded 300 million which represents a dominant consumer market

2. FDI Inflows in India (For the era of Pre Liberalization and Post Liberalization Period)
In the annexure Table 1. We have shown the FDI inflows from 1980-81 to 2014-15. In the initial stage the inflows of FDI in India is very low due to some restrictions, government policies like 'inward looking Strategy' and dependency on the foreign debts was one of the reason of this declining trend. This period is called as Pre Liberalization era. After 1990 inflow of FDI has been increasing due to awareness of FDI policies, introduction of LPG policies by government. This time period is called post liberalization era. Because the Indian economy realized the power of FDI inflows into the country there is continues boost in FDI inflows during the post liberalize period.
India has always been considered an attractive segment by global investors, but its unbending FDI policies were a significant hindrance in this regard. For this a series of economic reforms has been made to stimulate the foreign investment, so that India has placed itself in the race of quickly emergent regions Asia Pacific region. Foreign investments are welcomed by the government which would cause the industrial development in terms of bringing advantages of technology transfer, making expertise, introduction of managerial techniques and new possibilities for promotion of exports. These changes have been made due to change in the government policies and removing the ceilings on foreign equity imposed by FERA. FDI is becoming popular because it is not creating debt on Indian economy but it is a source of external private finance. FDI's intention is not only focusing on augmenting the domestic savings for investment but also to bring managerial skills and technology which will bring development in country. That is why government of India allowed Foreign Direct investment into various new sectors to develop the country. Many foreign investors are grasping the Indian markets through collaborations and joint ventures.

3. FDI and Indian Economy Factors
The impact of FDI on the Indian economy has been phenomenal as per the economic factors-GDP, Currency, Stock Market, Foreign Exchange Reserves, Interest Rate, Current Account, Exports, Imports, and Unemployment Rate. Our country is getting the top rank among three global investment destinations (UN reports). It has a tremendous potential to adapt FDI and inflows of technology and skills**.**

3.1. Market Size (Gross Domestic Product)
Gross Domestic Product shows the potential market size of economy. GDP draws FDI inflow into Indian Economy. As we know if the market size of the country is large it will attract higher FDI and vice versa. There is positive correlation between GDP and FDI which is matched with the objective to achieve higher growth in terms of GDP and FDI.

3.2. Availability of Human Resources (Wages Paid)
Availability of human resources is the another factor which has impacted Indian economy. It is noted there is positive correlation between Wages paid and FDI inflow, it mean if there is 1% change in wage rate it causes positive changes in FDI too.

3.3. Economic Stability (Deficit Balance of Payment)
The negative elasticity coefficient between FDI and Deficit in Balance of Position reveals that one percent increase in the deficit level in the Balance of Payment causes a reduction in percentages of FDI inflows to the country. So Deficit Balance of Payment is one of the pull factors of FDI inflow in India.

3.4. Government Policies (Trade Openness)
Government policies are one of the major factors which determine the flow of FDI in Countries. If there is higher degree of openness in trade then the FDI inflow is more effective. Degree of trade openness means ratio of total trade to real GDP of Economy. As the government policies are liberal the more inflow of FDI into the country. The tax rates also influence the policy FDI inflows. Lower the tax rates higher the inflow of FDI inflow in country.

3.5. Exchange Rates
Exchange rate shows positive impact on Indian economy. This could be recognized to the admiration of Indian Rupee in international market which encourages the foreign investors firms to obtain the specific assets required at cheap rates and gain higher profits.

3.6. Inflation
An economy is considered to be stable if the inflation rate is low and opposite to this if the high inflation rates implies incapability of the Determinants government to balance its budget and failure of the central bank to conduct appropriate monetary policy. Any changes in inflation rates of home country and foreign country are probably alter the most favorable investment decisions and returns of the MNEs. It is likely to give negative impact on FDI.

4. Sectors Attracting Highest FDI Equity Inflows (Refer Table 2)
The incursion of FDI in service sectors, construction, aviation sector and development sector, etc from April, 2000 to March, 2015 earned substantial sustained economic growth in the economy of India. After liberalization foreign direct investment is a key area which is considered a developing indicator in Indian economy. Today India is developing economy and attracts many retail investments and got fifth rank (Kearney's Annual Global Retail Development Index (GRDI) for the year 2012). In 2013 from January

to November there are various mergers and acquisitions deals are of worth US $ 26.76.(Grant Thornton-tax advisory firm) If we are doing sectorial analysis (Table 2.) of FDI has done its shows that FDI inflows are in service sectors which include Financial, Banking, insurance Sectors, NBFC etc is 17.03, which is high as compare to other sectors and total collective amount is US $ 373,163 million from April 2000-April 2015.the total inflow in Telecommunications 6.77 %, Computer , Software & Hardware is 6.24% and Drugs & Pharmaceuticals sector is 5.21. FDI inflow to Automobile Industry, Power, Metallurgical Industries and Hotel & Tourism sector are 5.17%, 3.83%, 3.40%, 3.37%, 3.16 % respectively.

During this period FDI inflow to sectors namely Petroleum & Natural Gas ,Trading Information & Broadcasting (Including Print Media) , Electrical Equipment ,Cement and Gypsum Products , Non-Conventional Energy , Miscellaneous Mechanical & Engineering Industries , Industrial Machinery ,Consultancy Services and Construction(Infrastructure) is approximately 1%-3% only. While in to the other sectors the FDI inflows were less than one percentage.

4.1. Inflows of FDI in Various Cities of India (2000-15) (Refer Table 3)

The total inflow of FDI in India is Rs. 1,255,624 Cr. (252,116 US millions $), among these Mumbai is the first preferred destination which is attracting inward FDI inflow in terms of capital of Investment, i.e. 29% of the total inflow of FDI. New Delhi is the second preferred and Chennai is the third preferred cities which are attracting FDI in India. Besides these Bangalore, Ahmadabad, Hyderabad, Kolkata, Chandigarh, Jaipur, Panaji, Kanpur, Bhubaneshwar, Guwahati, Patna, Jammu are also contributing their shares from 7% to 0.01%.

4.2. Conclusion

FDI incorporates an important role within the economic progression and development of India. FDI in India in numerous sectors will attain sustained economic growth and development through creation of jobs, growth of existing producing industries. There are various economic factors which affect the inflows of FDI. Even despite the fact that of many factors Indian economy has succeeded to attract FDI inflows. India due to variability and many FDI caps provided by the government and other factors hoard and providing opportunities to many foreign investor countries. The invasion of FDI in service sectors and construction and development sector, from April, 2000 to March, 2015 earned substantial, sustained economic progression through creation of jobs in Indian economy. Foreign Direct Investors are also showing attention towards Computer, code & Hardware and medicines & prescribed drugs sector, but in other sectors Foreign Direct Investors' interest actually quite poor.

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Annexure

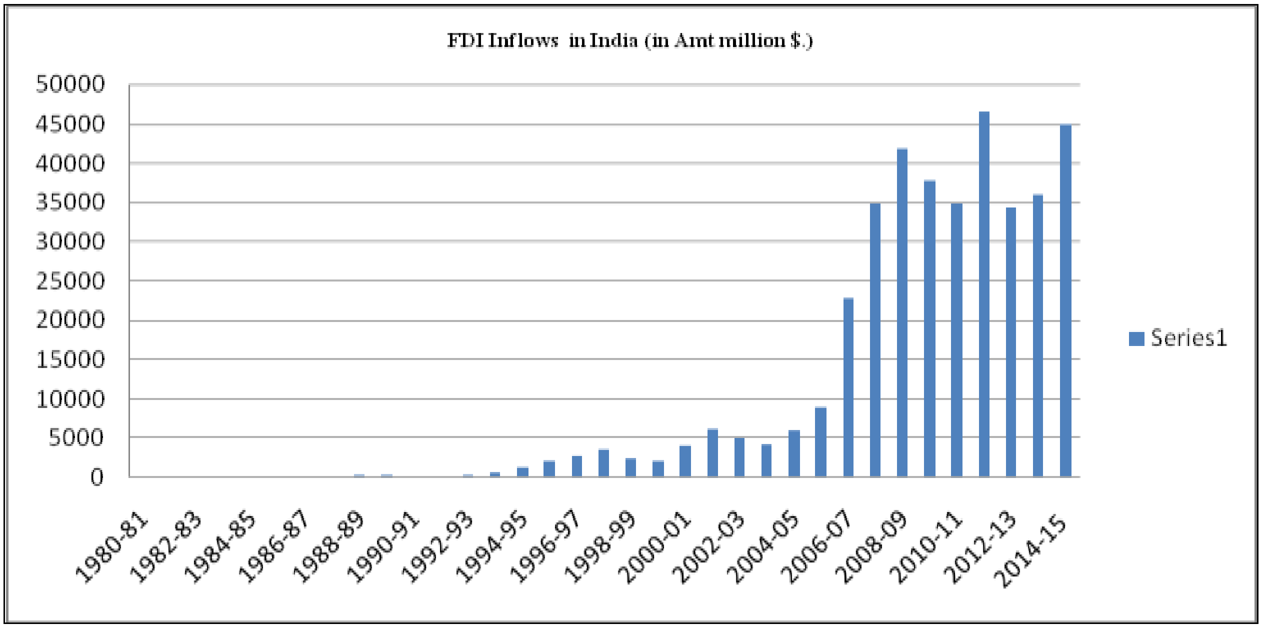

Table 1: FDI Inflows in India (1980-15) (Financial years)
(Source: RBI Reports, 2015)

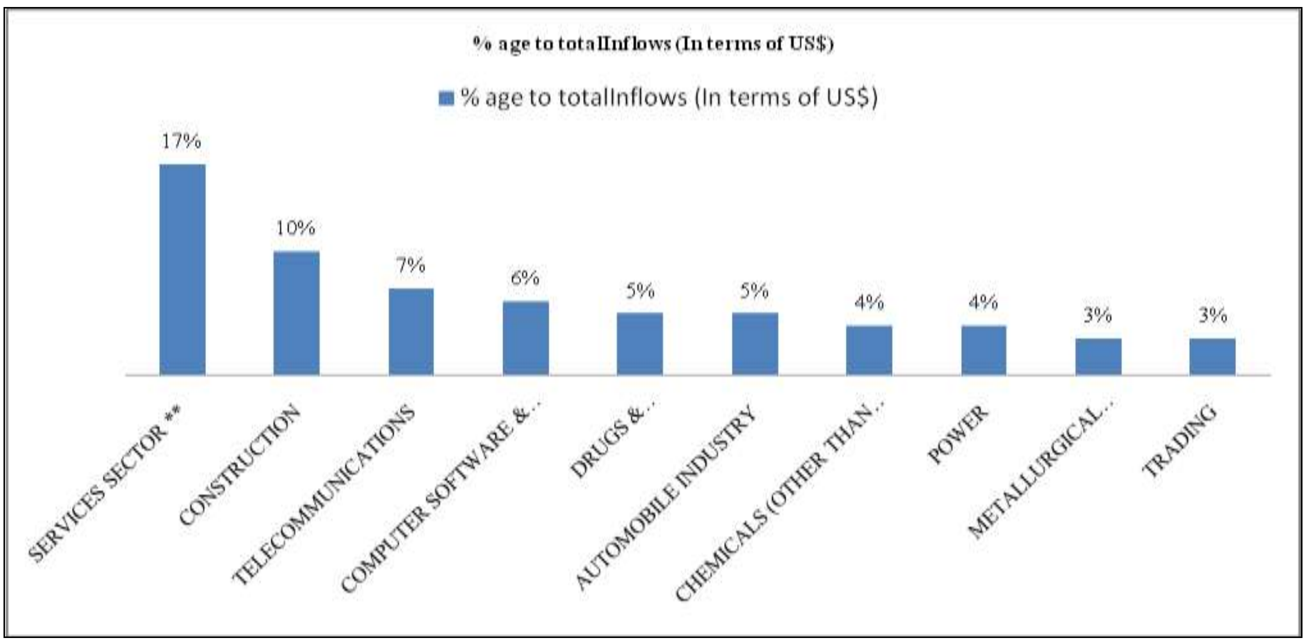

Table 2: Share of Top Investing Countries FDI Equity Inflows
Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce& Industry, Government of India. 2015.

Amount Rupees in crores (US$ in million)

S. No.	RBI's - Regional Office 2	State covered	Cumulative Inflows (April' 00 - April' 15)	%age to total Inflows (in terms of US$)
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	358,503	29
			-73,991	
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	253,230	20
			-50,081	
3	CHENNAI	TAMIL NADU, PONDICHERRY	92,644	7
			-17,632	
4	BANGALORE	KARNATAKA	86,832	7
			-16,871	
5	AHMEDABAD	GUJARAT	55,194	4
			-11,264	
6	HYDERABAD	ANDHRA PRADESH	50,115	4
			-10,154	
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	14,718	1
			-2,995	
8	CHANDIGARH`	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	6,361	1
			-1,331	
9	JAIPUR	RAJASTHAN	6,796	1
			-1,265	
10	BHOPAL	MADHYA PRADESH, CHATTISGARH	6,096	0.5
			-1,216	
11	KOCHI	KERALA, LAKSHADWEEP	6,156	0.5
			-1,212	
12	PANAJI	GOA	3,868	0.3
			-823	
13	KANPUR	UTTAR PRADESH, UTTRANCHAL	2,444	0.2
			-483	
14	BHUBANESHWAR	ORISSA	1,963	0.2
			-398	
15	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	418	0.04
			-89	
16	PATNA	BIHAR, JHARKHAND	311	0.02
			-57	
17	JAMMU	JAMMU & KASHMIR	26	0
			-4	
18	REGION NOT INDICATED3		309,951	24.7
			-62,252	
	SUB. TOTAL		1,255,624	100
			-252,116	
19	RBI'S-NRI SCHEMES		533	
	(2000-02)		-121	
Grand Total			1,256,158	
			-252,238	

Table 3: Statement on RBI's Regional Offices (With State Covered) Received FDI Equity Inflows (from April, 2000 to April, 2015): Source: RBI Reports, 2015