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Role of F.D.I in building India for 21 century

Dr. Stuti Tripathi[1]
Associate professor, Head of department (BBA),
Bora Institute of Management sciences,
Lucknow – India

Prof. (Dr). V.B. Singh[2]
Additional Director,
Aryakul Group of Colleges,
India

***Abstract:** With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy especially the services sector. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. India has been attracting foreign direct investment especially during post reforms period. The sectors like telecommunication, construction activities and computer software and hardware have been the major sectors for FDI inflows in India. The Indian economy as a whole, we find that FDI stocks and output are Co-integrated in tshe long run. FDI is unlikely to work wonders if only remaining regulations were relaxed and still more industries opened up to FDI. Our present focus is on the FDI trends and consequences during the last decade in India. We also study the effects of FDI investment across various sectors during the same period.*

***Keywords:** Economy, FDI, FII, Reforms, Services.*

I. INTRODUCTION

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as, ***Liberalization, Privatization and Globalization*** (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy especially the services sector. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. Indian has been attracting foreign direct investment especially during post reforms period. The sectors like telecommunication, construction activities and computer software and hardware have been the major sectors for Foreign Direct Investment (FDI) inflows in India.

II. METHODOLOGY

Our present focus is on the FDI trends and consequences during the last decade across various sectors in India. We also study the flow, distribution and future projections of FDI within India and its effects on Indian economy especially by time of 2008 world crisis using secondary information sources.

III. FDI INFLOWS IN INDIA IN POST REFORM ERA

India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. According to A.T. Kearney1, India ranks second in the World in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's76 World

Investment Report, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India1.

IV. Trends and patterns of FDI flow in the world

Trends in World FDI flows show that developing countries makes their presence felt by receiving a considerable chunk of FDI inflows. Developing economies share in total FDI inflows rose from 26% in 1980 to 40% in 1997.However, the share during 1998 to 2003 fell considerably but rose in 2004, again in 2006 and 2007 it reduces to 29% to 27% due to global economic meltdown. Specifically, developing Asia received 16 %, Latin America and the Caribbean 8.7 %, and Africa 2 %. On the other hand, developed economies show an increasing upward trend of FDI inflows, while developing economies show a downward trend of FDI inflows after 19952.

However, India shows a steady pattern of FDI inflows during 1991-2007. The annual growth rate of developed economies was 33%, developing economies was 21% and India was 17% in 2007 over 2006. During 1991-2007 the compound annual growth rate registered by developed economies was 16%, developing economies was merely 2%, and that of India was 41%.

Major sectors attracting FDI: The major sectors attracting FDI inflows in India have been Services and Electrical & Electronics amounting to US$ 30,421millions or 32 % of total FDI. Service sector tops the chart of FDI inflows in 2008 with India emerged as a top destination for FDI in services sector. International Journal of Scientific and Research Publications, Volume 2, Issue 12, December 2012 2 ISSN 2250-3153 www.ijsrp.org

Distribution of FDI within India:

FDI inflows in India are heavily concentrated around two cities, Mumbai (US$ 26899.57 million) and Delhi (US$ 12683.24 million). Bangalore, Ahmadabad and Chennai are also receiving significant amount of FDI inflows. These five cities together account for 69 per cent of total FDI inflows to India. Mumbai and Delhi together received 50 per cent of total FDI inflows to India during 2000 to 20084.

Global foreign direct investment:

The United Nations Conference on Trade and Development reported that there was no significant growth of Global FDI in 2010. In 2010 was $1,122 billion and in 2009 was $1,114 billion. The figure was 25 percent below the pre-crisis average between 2005 & 2007.

V. Indian FDI Projections

United Nations Conference on Trade and Development (UNCTAD) survey projection on FDI: Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. Services, telecommunication, construction activities, computer software and hardware were attracted higher inflows. Mauritius, Singapore, the US and the UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2010 was $44.8 billion, and in 2011 experienced an increase of 25% to $50.8 billion. The world's largest retailer Wal-Mart has termed India's decision to allow 51% FDI in multi-brand retail as a "first important step" and said it will study the finer details of the new policy to determine the impact on its ability to do business in India. However this decision of the government is currently under suspension due to opposition from multiple political quarters. FDI in India to rise 66% to $80 billion in two years: A leading global investment bank has forecast a 66.6 per cent jump in foreign direct investment (FDI) in India. Though India still does not rank highly as an FDI destination, the country is likely to receive FDI of $80 billion in the next 12-24 month as compared with $48 billion in the last two-year period. Morgan Stanley noted that 20 per cent of the firms covered in the survey have plans to invest in India over the coming 12-24 months. As per the survey, India still does not rank highly as an FDI destination amongst global investors due to infrastructure concerns and thus India isn't considered as a top FDI destination. Morgan Stanley anticipates that India could attract FDI worth as much as US$ 80 billion in next 1-2 years while KPMG officials believe that FDI in 2011-12 may cross the US$ 35 billion mark6.

Economic Survey 2012:

The total foreign direct investment flows into major infrastructure sectors during April-December 2011 were up 23.6 percent from a year ago. The power sector was the biggest gainer (43.6 percent of FDI), followed by non-conventional energy (33.8 percent) and telecommunications (49.9 percent). In order to boost economic growth in the country, the Planning Commission has projected an investment of Rs 45 lakh crores (about $1 trillion) during the Twelfth Plan (2012-17) **7**.

Current Foreign Direct Investment:

- FDI inflows rose by 36 per cent to US$ 23.69 billion during January-October 2011, while the cumulative amount of FDI equity inflows from April 2000 to October 2011 stood at US$ 226.05 billion, according to the latest data released by the Department of Industrial Policy and Promotion (DIPP).
- The services (including financial and non-financial) sectors attracted highest FDI equity inflows during April-October 2011-12 at US$ 3.43 billion.
- India received maximum FDI from countries like Mauritius, Singapore, and the US at US$ 61.2 billion, US$ 15.2 billion and US$ 10 billion, respectively, during April 2000-October 2011.
- According to the weekly statistical supplement of the Reserve Bank of India (RBI), India's foreign exchange reserves (forex) stood at US$ 293.54 billion for the week ended January 6, 2018.

VI. FINDINGS

The study finds that there is a positive relationship between foreign direct investment and economic growth. Also it is found that economic growth granger cause, FDI in case of India in the post liberalization phase. During 1992-93, several additional measures were taken by the government to encourage investment flows: foreign direct investment, portfolio investment, NRI investment and deposit and investment in global depository receipts.

Indian economy has reached in the orbit of high rate of economic growth. She is being widely acclaimed and recognized as an emerging global economic power. The rate of growth recorded during the period 1950-51 to 2004-05 clearly showed a tendency of steady upward trend. However, the decade of eighties emerged as a beginning of the high rate of economic growth or at least a dramatic departure from the past growth performance. This tendency had continued in the 1990s and further growth stimulus has occurred in the early 21st century. FDI inflows to India remained sluggish, when global FDI flows to EMEs had recovered in 2010-11, despite sound domestic economic performance ahead of global recovery.

VII. CONCLUSIONS

An analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process.

Inward FDI has boomed in post-reform India. At the same time, the composition and type of FDI has changed considerably. The services sector accounted for a steeply rising share of FDI stocks in India since the mid-1990s. The Indian economy as a whole, we find that FDI stocks and output are Co-integrated in the long run. FDI is unlikely to work wonders if only remaining regulations were relaxed and still more industries opened up to FDI.

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