JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Analysing the Impact of Foreign Direct Investments in India

SIDDHARTH T

LLM Scholar

Christ Deemed to be University, Delhi NCR

Abstract

Globalization has led to a surge in foreign direct investment (FDI) in Asian developing countries in recent years. Despite being a latecomer to FDI compared to other East Asian nations, India's vast market potential and liberalized political environment have made it an attractive destination for foreign investors. This research paper aims to examine the impact of FDI on the Indian economy, especially after two decades of economic reforms, and analyses the challenges posed by the position in the global competition for FDI. The paper provides the main policy implications of this analysis, in addition to highlighting the complexities in interpreting India's FDI data. Foreign Direct Investment (FDI) has played a crucial role in fostering economic growth and development in India, garnering significant interest from politicians, investors, and researchers alike. This article provides a thorough examination of the diverse effects of Foreign Direct Investment (FDI) on the Indian economy. This study examines the impact of foreign direct investment (FDI) on key macroeconomic indicators, including GDP growth, employment, technology transfer, export competitiveness, and industrial development. It draws on a range of empirical studies, policy documents, and theoretical frameworks. Furthermore, it explores the specific dynamics of several sectors, analysing the impact of foreign direct investment (FDI) on industries such as manufacturing, services, and infrastructure. In addition, the essay examines the socio-economic consequences of foreign direct investment (FDI), investigating its effects on the distribution of income, the reduction of poverty, and the promotion of sustainable development. Moreover, it evaluates the influence of regulatory frameworks, institutional capacities, and government policies on the FDI landscape in India. This article enhances our awareness of the intricate connection between Foreign Direct Investment (FDI) and India's economic path by analysing existing literature and providing valuable insights. As a result, it can guide future policy choices and strategic investments in the country.

Introduction

When a firm controls another firm based abroad by borrowing more than 10% of its shares, it is called a "parent company". For a country attracting FDI inflows to strengthen connections with global trade networks and strengthen its development path. The significance of foreign direct investment in a country can be influenced by external factors from foreign owners, which play a crucial role in India's economic development. Various nations provide incentives to attract FDI. Significant FDI depends on savings and investments in a country. Foreign direct investment acts as a bridge to fill the gap between investment and savings. In the process of economic development, foreign capital helps cover domestic savings constraints and provides access to advanced technology that supports the efficiency and productivity of existing production capacity and creates new production opportunities.

Statement of Problem

India is always open for FDI, but there are certainly some challenges and areas for improvement. Until, these areas are made to perfection, India will not become the number one place for FDI. India is focusing on maximizing political and social stability along with a regulatory environment. Despite the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

• Resource challenge: India does have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

• Equity challenge: The Indian economy is in a much faster pace now than before but despite that it can be identified that developments have taken place unevenly. This means that although this has helped many urban areas, rural areas have not been seen. To get a complete picture of development, it is important to ensure that development occurs in rural block as much as in urban areas.

• Political Challenge: The support from the political structure must be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there must be a common ground between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.

• Federal Challenge: Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep implementing the policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

Literature Review

Many published articles are available on foreign direct investment. A review of relevant literature has been done.

- Bajpai and Dasgupta (2004) examines Multinational Companies and Foreign Direct Investment in China and India have inspected the FDI patterns over the years by the MNCs into these two developing nations and tried to find out the possibilities of attracting higher FDI inflows for India with the framing of suitable policies[1].

- Goswami and Saikiab (2012) studies about FDI and its relation with exports in India, status and prospect in north-east region have explored the trends of FDI in India and determined the association between FDI and exports during 1991 to 2011[2].

- Patil and Kadam (2014) have tried to ascertain the relevance of FDI in our country by observing its inflows as well as its effect on its economic development over the years 2000-2010[3].

[1] "Multinational Companies and Foreign Direct Investment in China and India", Columbia Earth Institute, Columbia University, Working Paper No. 2.

[2] FDI and its relation with exports in India, status, and prospect in north east region. Procedia - Social and Behavioural Sciences, 37, pp.123-132

[3] Effects of FDI on Indian Economy: A Critical Appraisal. Journal of Economics and Sustainable Development, 5(19).

- Azhar and Marimuthu (2012) examine the Overview of Foreign Direct Investment in India have focused on the need, sources, and determinants of FDI, its year-wise and sector-wise examination and causes thereof[4].

Hypothesis

For the past few years, reports have shown that foreign direct investment in India has been inconsistent. It has been reported that India has seen variation in the inflows of foreign direct investment across different sectors and countries over the past three decades.

Research Questions

- Whether there is a significant trend of FDI inflow in India?
- Whether India was having the country wise flow of FDI?
- Whether there was any sector wise distribution for the FDI in India?

Research Objectives

- Investigate the patterns of foreign direct investment (FDI) coming into India.
- Determine which countries are contributing to FDI inflows in India.
- Analyse how FDI inflows are distributed across different sectors in India.

Scope of the Research

- We gathered data from 2000-01 to 2018-19 to analyse the patterns of Foreign Direct Investment (FDI) coming into India.
- Our research also involved collecting data for the same time period to examine how FDI flows from different countries and sectors have been distributed within India.

Research Methodology

- Data Collection

This study is based on secondary data. This database is constructed by pooling information and data from various reliable sources like National Statistical Office, Department of Industrial Policy, and Promotion (DIPP), Reserve Bank of India, statisticstimes.com amongst many other. Online database of Indian economy, articles, journals, newspapers, etc. have also been referred.

- Statistical Tool To evaluate the trend of FDI inflows into India, CAGR (Compound Annual Growth Rate) and percentage have been used. To study the country-wise flow of FDI and its sector-wise distribution in India, simple calculation using Percentage has been done for easy understanding.

Foreign direct investment in India

The historical background of FDI in India can be traced back to the establishment of Britain's East India Company. British capital came to India during Britain's colonial era in India. After World War II, Japanese companies entered the Indian market and increased their trade with India, but the United Kingdom remained the most dominant investor in India. Furthermore, following the independence issues regarding foreign capital, the operations of MNCs gained the attention of policy makers. With national interests in mind, policymakers have proposed a foreign direct investment policy that aims at foreign direct investment as a means of acquiring advanced technology and mobilizing foreign exchange resources. Over

[4] An Overview of Foreign Direct Investment in India. EXCEL International Journal of Multidisciplinary Management Studies,

time and according to economic and political regimes, there have also been changes in foreign direct investment policy. The Industrial Policy of 1965 allowed MNCs to enter technical cooperation in India. The government therefore took a liberal stance and allowed for more frequent justice. FIPB under the new FIP regime after the Government of India initiated a policy of economic stability and structural reforms with the help of World Bank and IMF With these reforms, India opened its doors to FDI and adopted foreign policy a it gives a lot of freedom Starting from a baseline of less than US$1 billion in 1990, India will become the second most important FDI destination (after China) for MNCs by 2010, according to a recent UNCTAD study -In 2012 Shas, Singapore, USA , and UK are among the main sources of FDI.

Starting from a baseline of less than US$1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for MNCs in 2010-2012. The sectors that attracted higher inflows were services, telecommunications, construction activities and computer software and hardware, according to the data. Mauritius, Singapore, the US and the UK were among the main sources of foreign direct investment into the country.

The current trends in Foreign Direct Investments

The foremost share of FDI comes from the developed world, with nations in superior economies accounting for 83.0% of the sector total in 2005. Similarly, developed countries remain the principal goals of FDI, accounting for fifty-nine.2% of the entire volume of FDI. Globally, even though the percentage destined for transition and growing nations is developing: sixfold in 1990-98 and from 18% of global FDI flows in the mid-Eighties to 42% in 1998 (World Bank, 1999); fluctuating among 27% and 37% for the duration of the period 2001-5. Furthermore, FDI inflows may be enormous for developing nations, several of which record excessive degrees of FDI while taken into consideration relative to the scale of the home economic system. However, the distribution of foreign direct investment among developing and transition economies could be very choppy. For example, in spite of an boom in volume, overseas direct investment in Africa and Latin America in 2001 represents a smaller share of the sector general than in the mid-1990s (Morisset, 2000; World Investment Report, 2001. In recent years, multinational businesses have improved their stage of outsourcing, even when this frequently entails subcontracting parts, additives, and services to a smaller quantity of key suppliers with whom they develop cooperative arrangements. While this procedure of consolidation may additionally cause MNCs taking the first MNCs with them. Opportunities may additionally exist in transition and developing nations for neighbourhood SMEs at the level of 2d or third tier suppliers.

FDI has traditionally been taken into consideration the hold of huge companies, both in evolved and developing international locations. However, there is increasing proof of changes in FDI patterns that consist of a much broader variety of source and destination nations and the growing involvement of SMEs as overseas traders, in addition to large corporations and multinationals. Unfortunately, most legitimate investment reviews do not separately pick out FDI hobby by using funding corporation length. However, there is evidence that a growing wide variety of medium-sized corporations are internationalizing their operations as a strategic response to growing aggressive stress. In this context, internationalization represents a means of reducing prices in addition to growing new market possibilities that allow them to combine more flexibility with fee discount.

The importance of FDI in global appearance

The simple answer is that FDI enables companies to accomplish several tasks:

1. Avoiding foreign government pressure on local production.

2. Bypassing trade barriers, hidden or otherwise.

3. Transfer from domestic export sales to local national sales office.

4. Ability to increase overall production capacity.

5. Opportunities for co-production, joint ventures with local partners, joint marketing arrangements, licensing, etc.

A more complete answer might address the issue of global trade partnerships very generally. while it's nice that many business writers are fond of the phrase "think globally, act locally," this oft-used cliché doesn't really mean much to the average manager in mid-sized and small companies. MNCs are almost always concerned with global production capacity and proximity to major markets. SMEs are usually more concerned with selling their products in overseas markets. FDI has traditionally been considered the preserve of large firms, both in developed and developing countries. However, there is increasing evidence of changes in FDI patterns that include a wider range of source and destination countries and the increasing involvement of SMEs as foreign investors, as well as larger firms and multinationals. Unfortunately, most official investment reports do not separately identify FDI activity by investment firm size. However, there is evidence that a growing number of medium-sized firms are internationalizing their operations as a strategic response to increasing competitive pressure. In this context, internationalization is a means of reducing costs and opening up new market opportunities, allowing them to combine greater flexibility with cost reduction.

The basic requirements for Foreign Direct Investments

Depending on the industry and type of business, foreign direct investment can be an attractive and viable option. With the rapid globalization of many industries and rapid vertical integration on a global level, a company must at least keep up with global trends in its field. From a competitive perspective, it is important to be aware of whether and how a company's competitors are expanding into a foreign market. At the same time, it is also important to monitor how globalization affects the domestic clientele. It often becomes necessary to monitor the overseas expansion of key clients if an active relationship is to be maintained. New market access is another major reason to invest abroad. At some point, the export of a product or service reaches a critical mass of quantity and cost, where foreign production or location becomes more cost-effective. Any investment decision is therefore a combination of several key factors, including:

a) Assessment of internal resources

b) Competitiveness

c) Market analysis

d) Market expectations.

Key statistics in FDI inflows

FDI inflows rose 36 percent to $23.69 billion during January-October 2011, while the cumulative amount of FDI equity inflows from April 2000 to October 2011 was $226.05 billion, according to the latest data released by the Ministry of Industry. Policy and Promotion (DIPP). Services sectors (including financial and non-financial) attracted the highest FDI capital inflow during April-October 2011-12 at USD 3.43 billion. India received maximum FDI from countries like Mauritius, Singapore and the US at US$ 61.2 billion, US$ 15.2 billion and US$ 10 billion respectively during April 2000 to October 2011.

The current FDI norms impose a cap of 24 per cent on FDI for companies in the SSI sector, i.e. small units with capital investment in plant and machinery not exceeding Rs. 50,000,000 ($1,250,000). Further, SSI units with foreign investment exceeding the notified sectoral ceiling may lose their status as SSI units. In view of the liberalization of the SSI sector and the expansion of economic activity in the country, it has been announced that FDI norms governing SSI will be relaxed and a notification to Parliament is likely to be tabled to allow for an increase in FDI limits in the SSI sector. If such a notification is accepted, SSIs would be eligible to raise foreign capital in accordance with the limits governed by the sectors in which they operate, thereby improving their access to technology and capital and helping the growth and modernization of the sector.

Conclusion

Small and medium-sized enterprises around the world are undergoing fundamental changes in response to the diverse imperatives of globalization. The potential of neo-localism has been much emphasized and SMEs in developing countries have often been divided between national strategies and objectives to support this vital and most promising sector and the demands of a globalizing business environment. In India, the historic role of SMEs in creating large-scale employment opportunities for the accumulating millions has become secondary in the face of new strategies to ensure outward orientation, achieve manufacturing competitiveness and create a major global player. While we acknowledge the relative advantages and disadvantages of participating in a passionate global market, it is equally important to assess the underlying reality that points to poor and inadequate infrastructure for SMEs; this situation is particularly worse in rural areas and even in small towns where a large proportion of SMEs operate. Among the most fundamental infrastructure barriers, access to adequate, reliable and reasonably priced infrastructure remains a challenge to the progress and competitiveness of SMEs. A poor transport network (be it roads, railways or ports) has proven to be an important obstacle to the dynamic development of SMEs. Despite decades of small industry policy-making, even during the reform period, there has been a definite decline in access to credit by small businesses (and within it the so-called small sectors). There is no shortage of capital, but serious implementation challenges remain, including complex and unhelpful procedural requirements that ultimately lead to reduced access to credit financing. The situation is similar for the intractable policy of product reservation Given the extensive attempts to promote industrial clusters in the SME sector, it must be emphasized that despite the potential for neo-localism, cluster promotion in the Indian context needs to move beyond "sector linkage; a comprehensive regional development strategy needs to be incorporated into the cluster development policy. The external orientation and global outlook for the SME sector must first address the persistent fundamental constraints facing the sector. In fact, SMEs in India as Indian SMEs are looking forward to a newer and larger market space with numerous advantages of skills, raw materials and also a large domestic market, networking with various stakeholders within and outside the countries.

References

1. Basu P., Nayak N.C, Archana (2007): "Foreign Direct Investment in India: Emerging Horizon", Indian Economic Review, Vol. XXXXII. No.2, pp. 255-266.

2. Economic Survey, (2009-10): Ministry of Finance, Government of India, New Delhi.

3. Gazioglou S. and McCausland W.D. (1999): "An International Economic Analysis of FDI and International Indebtedness", The Indian Economic Journal, Vol. 48, No. 4, pp. 82-91.

4. Lisa De Propis and Nigel Driffield (2005): "The Importance of Cluster for Spillovers from Foreign Direct Investment and Technology Sourcing", Cambridge Journal of Economics, pp. 277-291.

5. NagaRaj R (2003): "Foreign Direct Investment in India in the 1990s: Trends and Issues", Economic and Political Weekly, pp.1701-1712.

6. Basu P., Nayak N.C, Archana (2007): "Foreign Direct Investment in India: Emerging

7. Horizon", Indian Economic Review, Vol. XXXXII. No.2.

8. Ms. Sapna hooda (2011) a study of FDI and Indian Economy;Doctor of philosophy from national institute of technology(deemed university) Haryana.

9. Bhandari, L.S Gokara. A. Tandon (2002), „Background paper: Reforms and foreign direct investment in India" DRC working paper: Reforms and foreign direct.

10. Balasubramanyam V.N, Sapsford David (2007): "Does India need a lot more FDI", Economic and Political Weekly. [6] www.google.co.in [7] www.wikipedia.org

11.. NirupamBajpai and Jeffrey D. Sachs (2006): "Foreign Direct Investment in India: Issues and Problems", Harvard Institute of International Development, Development Discussion Paper No. 759, March.

12. http://www.economywatch.com/foreign-direct-investment/definition.html

13. http://en.wikipedia.org/wiki/Foreign_direct_investment#Foreign_direct_investment_in_India