

AN ANALYSIS OF IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY

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Abstract

Foreign direct investment has been playing an important role in the economic development of the countries. It aims at assisting in transferring of financial resources, technology, management techniques and ideas. Due to the initiation of globalization, developing countries especially Asian nations, have been witnessing an immense surge in the flow of FDI during the last three decades. Although India has been a latecomer in the matter of FDI as compared to other East Asian countries, it has immense market potential and hence it is one of the most favourable market for FDI. This research paper is an attempt to study the impact of FDI on Indian Economy and challenges it has brought to the nation along with other forces of globalization.

Keywords : Foreign Direct Investment, Gross Domestic product, Indian Economy, Finance and Productivity etc.

Introduction:

Foreign direct investment is amongst the major development due to growing economic globalization. Investment has always been a cause of concern for the growing economies such as India. The world has been globalizing and all the countries are heading towards liberalizing their policies for welcoming investment from countries who has abundance of capital resources. The countries which are developed are focusing on new markets where there availability of abundant labour, scope for new products and hence high profit can be achieved. The objective behind allowing FDI is to complement and supplement domestic investment for achieving a higher level of economic development and providing opportunities for technological upgradation as well as access to global managerial skills and practices. South Asian countries such as China have implemented open door policies during 1980's but has liberalized its foreign policy in 1991 before this liberalization, India followed conservative policies to protect the indigenous investors.

FDI has helped India to attain financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic situation of the country on one hand and on the other hand there are critics who named the government for ousting the domestic inflows. After liberalization of trade policies in India, there has been a positive growth of Gross Domestic product (GDP). It has helped the government in generating employment, tax revenues in the term of tax and income, financial stability to the government, development of infrastructure, background and forward linkages due to support of foreign supply of raw material and other things. It helps in generation of employment and also in the reduction of poverty.

Foreign investment mean both foreign portfolio investments and foreign direct investment. FDI brings better technology and management, marketing networks and offers competition. Alongside opening up of the FDI regime, steps are taken to allow foreign

portfolio investments into the Indian Stock Market. The objective was not only to facilitate non-debt creating foreign capital inflows but also to develop the stock market in India, lowering the cost of capital for Indian enterprises and indirectly improving corporate governance structures. On their part, large Indian companies have been allowed to raise capital directly from international capital markets through commercial borrowings and depository receipts.

Routes Of Foreign Direct Investment

1. **Automatic Route** : FDI in certain sectors have been permitted to an extent that it does not require any prior approval either of the government or the Reserve Bank of India.
2. **Government Route** :- FDI in activities which are not covered under the automatic route requires prior approval of the government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance.

DETERMINANTS OF FDI

The determinants of FDI varies from one country to another, due to the uniqueness of their economies and opportunities for the potential investors. In specific, the following are the determinants of FDI in India:

- Stable Economic and Social Policies.
- Economic factors like tax relaxation, grants and subsidies.
- Availability of cheap and skilled labour.
- Special economic zones where good infrastructure like roads, effective transportation and communication facilities are provided.
- Being the largest popular country, India has large market which is complexed and hence can be tapped by investors.
- India has been blessed with large volume of natural resources such as coal, iron ore, natural gas etc.

NEED FOR FDI IN INDIA

As India is a developing country, capital has been one of the scarce resources that is repaired for economic development. Capital supply is limited in the country and there are many issues such as health, poverty, employment, research and development, education, technology and global competition. The flow of FDI in India from across the world will help in acquiring the funds at cheaper cost and would lead to better technology, employment generation and upgraded technology, linkages and spillovers to the domestic firms.

The following arguments are advanced in favour of need of foreign capital in India :

- For sustaining a high level of investment as the country has less savings due to low GDP.
- To fulfill the technological gap by ensuring supply of foreign investment, expert services, training and investment.

- To exploit the natural resources such as coal, iron and steel by foreign collaboration.
- For understanding the initial risk of exploiting the resources.
- Development of basic economic infrastructure for development of firms.
- Improvement in the position of balance of payments by increasing the exports.
- Foreign firms to increase the level of competition by provision of better technology, process and innovations.

CONCLUSION

Hence, it is concluded that foreign direct investment has been playing an important role in the economic development of the world. Asian nations, especially are witnessing a huge increase in the FDI because of their immense market potential. India is one of the leading developing nation of the world which is witnessing an immense increase in the need of foreign direct investment due to technological upgradation, huge market potential and employment opportunities. There is an urgent need that government should provide suitable environment as well as infrastructure facilities to the countries and the business houses who are interested in investing their funds as FDI.

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