



# Critical Analysis of FDI Inflow Specially in Madhya Pradesh, India

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**Abstract:** *The intention of this study is to look into the connection between Foreign Direct Investment (FDI) and Economic Growth in the state of Madhya Pradesh in India. The indirect impact of FDI is through economic expansion which results in the progress of living standards due to the increase in GDP, improvement of skill and output, as well as the economic environment. According to the DPIIT, FDI inflows in the state Madhya Pradesh, between April 2000 and March 2020 summed up to US\$ 1,512.65 million. The study highlights the major impact areas of FDI and its key findings suggest that we still have a long way to go to achieve its benefits. It would be important to ensure inter-state healthy competition in create a center of attention domestic and Foreign Direct Investment. For the intention of study secondary data and reports are being used which are collected by reports published by RBI, DPIIT & Fact sheet on foreign direct investment.*

**Research Implications:** This study undertaken will draw the attention of the Academicians, Policy Makers and Research Scholars. It will further highlight the role of FDI towards the Economic Growth from where it draws resources and society which gives it the human capital.

**Key Words:** *Foreign Direct Investment, Foreign Investment Promotion Board, Reserve Bank of India.*

## INTRODUCTION

Foreign Direct Investment is the venture made in production or business by the country in another country by either purchasing a company or getting higher its own business in the foreign country. FDI refers to the capital inflows from foreign countries that invest in the production capacity of an Economy and these inflows are usually preferred over other forms of external finance, because such inflows are non-obligation creating, non-fickle and their returns depend on the performance of the projects financed by the investors. Foreign Capital is an important source of Finance in the development of an economy. Foreign Capital has contributed to the process of Industrialization and Economic growth of the recipient economies. Therefore, the domestic resources may be supplemented with foreign capital to achieve the criticality

A continuous supply of trained labor force a nonviolent industrialized occupation environment, raw materials and a positive government have made Madhya Pradesh an attractive industrial alternative. Madhya Pradesh is the second largest and green state of India. Madhya Pradesh with a part of 308000 square kilometers, geographically, has more land for agriculture and industrial use. Agriculture is the mainstay of state's economy as 74.73% of the people are bucolic. As much as 49% of the total land is cultivable. The production of key crops like rice, wheat, pulses has also been high-quality. The national horticultural operation has been implemented in 31 districts. Industry and minerals-Madhya Pradesh has entered the area of high- tech industries such as electronics telecommunications, automobile, information expertise etc. The state produces ocular fiber for telecommunications. Many automobile industries have been well-known in Pithampur near Indore. The major industry in the public sector in the state are Bharat Heavy Electricals Ltd. (BHEL) at Bhopal, Security paper mill at Hoshangabad, Bank note press at Devas. The Government of India has set up a Special Economic Zone (SEZ) in Indore. FDI is being promoted by implementing the comprehensive Economic Development Policy. The State Government has announced an Industries Promotion Policy which offers attractive impetus for venture in the State. Madhya Pradesh is also a mineral rich State.

## TYPES OF FDI

- a. **Horizontal FDI** arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
- b. **Platform FDI** Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
- c. **Vertical FDI** takes place when a firm, through FDI, moves upstream or downstream in different value chains.

**Justification of Research Paper Topic:** In this Research Paper, the topic has been taken to analyze the concept of Economic Growth in Madhya Pradesh. The only concept of Growth is not enough. It is critical to cover up the trade gap and technological gap.

## REVIEW OF LITERATURE

**Meltem , Şengün Ucal (2014)** This study aims to investigate foreign capital and whether or not it reduces poverty in developing countries. **valuation of FDI and scarcity Relationship**Data investigation and comparison integrated in this section examine the relationship between FDI and scarcity. FDI in the host country may have direct and indirect effects on poverty reduction.

**Borensztein et Al., (1998)** in his paper studied that the effect of FDI on economic growth is mainly dependent on the person resources available in the host country and FDI is a vehicle for the adoption of new technologies. FDI would result from a combination of advanced management skills and modern technology. FDI may be the main feed through which highly developed technology is transferred to developing countries in a framework of cross- country regressions for 69 developing countries over the last decade.

**Campos and Kinoshita (2002)** investigated that there is no empirical evidence to test positive relationship between impacts of FDI with economic growth in the host country. The effects of FDI on 25 transitional economies of the earlier Soviet Bloc transition between 1990 and 1998 was studied and found that FDI is a noteworthy factor in economic enlargement.

**Nyatepe-Coo (1998)** also conducted a similar study on relationship between the contributions of FDI to economic expansion during the period 1963 to 1992 in Southeast Asia, Latin America and Sub-Saharan Africa following the work of **Borensztein et al., (1998)** .

**Wang (2002)** in his study conducted similar study on FDI inflows and economic enlargement by using data from 12 Asian economies over the period of 1987- 1997 and found that total FDI inflows in manufacturing sectors significantly affects the economic growth.

**Bhattacharyya Jita et Al. (2012)** studied that there was a extended-phrase association between FDI, merchandise, service trade and the economic expansion of India. Bi-directional causality is observed between commodities deal and economic enlargement, economic enlargement and services trade. Unidirectional causality is observed from FDI to economic expansion and FDI to commodities trade. A oneway causality is also observed from commodities trade to services trade.

**Singh J. (2010)** studied the context of increasing competition among different countries to attract FDI. This work also analyzed the emerging trends and patterns of FDI inflow into India in response to various policy measures announces by the Government of India since mid-1980s and later. The empirical analysis suggested that the FDI inflows, in general, show an increasing trend during the post-reform period.

**Banga, Rashmi (2009)** studied the collision of financial incentives offered, elimination of restrictions and signing of bilateral and regional investment agreements with developing and developed countries on the inflows of foreign investments. financial incentives were not found to have any significant impact on combined FDI. On the other hand, elimination of boundaries attracts aggregate FDI. However, FDI from developed and developing countries are to different selective policies. the main finding of the study is that FDI has to various degree lead to diversification of exports for Indian states .

**Kumar N. (2007)** in his paper Investigated that the pointed increase in FDI since 1991 has been accompanied by a move in the physical and sectoral center of Indian investments. Enterprises which are previously occupied in exporting are more probable to be external investors. automatically, the policy liberalization of the 1990s has optimistic Indian enterprises to business enterprise out of the country

**Pradhan ,Prakash J. et Al. (2004)** studied the service and earnings sound effects of FDI in Indian industrialized. The conclusion recommend that overseas firms do not have any adverse things on the developed service in India as compared to their domestic defy parts while they appreciably pay comparatively advanced to their human resources. Therefore, this study tends to involve that labor in fact had benefited from foreign venture in India.

**Srivastava S. (2004)** Studied and investigated the contact on FDI inflows in the direction of India as a consequence of growing completion from another major emerging market economy, i.e. China in the come around of its succession to the WTO.

### **OBJECTIVE OF THE STUDY**

In the light of the abovementioned discussion, the objective of present study can be stated as follows:

- 1) To study the Impact of Foreign Direct Investment on Economic Growth in the state of Madhya Pradesh, India
- 2) To give the suggestions based on the Findings of the study.

**Limitation of the study:** Every Research have their own constraints and pains in these lights this research study also have some limitations which given as follows:

- (i) Non availability of Sufficient Literature and Data's.
- (ii) The Reliability and Authenticity of Data only depends on audits.
- (iii) This study has been carried out basis of secondary data.
- (iv) This study has been covered limited time period and also limited area of Madhya Pradesh.

**The importance of FDI:** FDI as a strategic component of investment is needed by Madhya Pradesh for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short term and long term project in the field of healthcare, Education, Research and Development etc. FDI plays a very important role in the development of an economy due to number of reasons, some of which are listed below:-

1. FDI presents greater opportunities for co-production, joint ventures with local marketing arrangements licensing, etc.
2. With the help of FDI Good manufacturing and outsource hub can generate.
3. FDI can helps in increasing the total production capacity.
4. FDI increased competition and improve human resources.
5. FDI helps in integration into the global economy.
6. FDI Improves in Domestic Financial Institutions and Banks
7. Foreign capital may enable the State to increase its exports and reduce import requirements.

## **RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH OF MADHYA PRADESH**

Economic Growth with Development is a set of policies and action designed to improve the performance of spatially defined economy for the benefit of all residents. The government of Madhya Pradesh has taken initiatives & has announced several industrial policies with a view to attract new investment in the state. These policies provide a framework for guiding the investors regarding the potential investment opportunities in the state. These industrial policies were announced with an aim to motivate investors worldwide to invest in the state by creating a favourable business environment. There are number of private companies which are pharmaceutical to cement industry. Some of the key industrial sectors in Madhya Pradesh that have competitive strength and have the potential to attract new foreign investments are food processing and cement industry. There is a great scope for investment in the mining sector and textile industry.

According to Prof. Nurkse, “Economic development has a lot to do with human endowments, social attitudes, political conditions and historical accidents. Capital is essential but not a sufficient condition.”

## FUTURE OUTLOOK:

Madhya Pradesh is well-off in instinctive capital - fuels, raw resources, agricultural and biodiversity. It is also the sole diamond producing state in the country. The government of Madhya Pradesh has taken various initiatives and has announced several industrial policies with a outlook to attract new funds in the state and contribute to the growth and to the overall economic contraction of the State. These policies provide a outline for guide the investors concerning the budding venture opportunities in Madhya Pradesh. The government has produced the policies with a observation to make available attractive Performance and Reward to the investors and to make advance funds. These industrial policies were announced with an aim to encourage investors wide-reaching to devote in the state by creating a admiring big business upbringing Some of the key industrial sectors in the state having spirited strength and the budding to attract new foreign investments are food processing industry and the cement industry. There is also a enormous capacity for venture in the textile industry and mining sector. In most of the states, poverty is still considered a huge problem. Proper planning and collective efforts are needed to battle poverty. To do so, states need adequate investment for job creation, workforce training (in order to increase productivity and improve human capital), and education and health improvements. These states often lack sufficient investment due to low state savings therefore; there is an imperative need to attract foreign investment.

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