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GROWTH OF FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT IN INDIA

Dr.P.Balasubramanian
Associate Professor in Economics, PG and Research Department of Economics
Saraswathi Narayanan College, Madurai – 625022.

S.Thangamayan
Ph.D., Research Scholar in Economics, PG and Research Department of Economics,
Saraswathi Narayanan College, Madurai -625022.

Abstract

India is the second popular country in the world after China. It is an essential for a country like India to attract more FDI for every sector of the economy. The Government of India in consultation with the RBI decided to follow more liberal attitude towards FDI in core sectors excepts defense sector. Country like India depends on borrowing powers, development assistance grant from international agencies, like IMF, IBRD and ADB just to fulfill the need of foreign exchange and to fill up the gap due to paucity of credits. All these components compelled the government to adopt more and more liberal attitude towards FDI inflows in India. Of late, globalization and liberalization have become most sought after economic approach to accelerate the pace of economic developing in the development (country) world. Hence, in order to make the economy globally integrated, four vital facts are of essential nature namely, capital, technology, advanced management techniques and modern innovative marketing techniques. These vital components of globalization could only be available when a country like India would open up its economy to foreign investors.

***Keywords**: FDI, defense sector, globalization, IMF, foreign exchange natural, Economic Growth*

At a glance assessment of data relating to India's major economic indicators suggest that India's economic performance has improved considerably during the last 16 years of liberalization era and much has been left to be achieved in the years to come. FDI usually brings along with it the most vital needed components from Indian point of view: that is technology inputs and the latest know-how. While undoubtedly, technology can be purchased and licensed, Often firms are not prepared to release up to date information and also have little interest in follow up and adoption.

Besides technology, FDI brings another vital fact of today's global business that is advanced management expertise, a new manufacturing culture and emphasis on cost and quality control. Components often come as a single package, which makes for convenience. Often Indian industries are deficient in these vital aspects. Plant and equipments can usually be financed out by FDI, and a cost effective choice can be made in the light of the parent company's knowledge and experience thus resulting into and effective functioning which is also of paramount significance form Indian companies point of views.

FDI can usually open up export markets because of the parent company's contracts and marketing outlets. It may even be possible to ensure that exports from Indian venture would suffice to meet the continuing cost of imports of plant and equipment, spares and raw materials and thus, to achieve the goal of being at least foreign exchange natural.

Relationship Between FDI and Economic Growth

The gains from FDI inflows are unquestionable because it contributes to economic growth through an increase in productivity by providing new investment, better, technologies and managerial skills to the host countries, However, the effect of FDI on domestic investment is an issue of concern because there is a possibility of displacement of domestic capital due to competition from foreign investors with their superior technologies and skills. Thus, the ultimate impact of FDI as efficiently as possible. Similarly, trade liberalization may facilitate economic growth through efficiency in production by utilising the abundant factors of production more effectively and absorbing better technologies from advanced countries on the one hand, it may harm the growth process on the other through various forms of macroeconomic instability such as terms of trade deterioration and balance of payments crisis. Thus, it is a challenge for developing countries to find out the appropriate direction of the role of FDI and trade liberalization in economic growth.

As part of development countries, South Asian economies were also concerned with issues pertaining to foreign private capital inflows and trade liberalisation initially. However, they later moved to liberalise their trade and investment policies to include various investment incentives, particularly, for foreign investors. Along with these, South Asian countries have maintained high and steady economic growth, single-digit inflation rate: they have a growing domestic market, a large number of low-paid workers with growing number of skilled personnel and a more favorable investment climate. As a consequence, South Asia, as a group, has been successful in attracting a significant amount of FDI and raising its volume of trade (export plus import) as percentage of GDP during the last two decades. The question which naturally arises here is whether the increase in growth is brought about by FDI inflows. Therefore, it is important to explore the impact of FDI on the growth process, quantitatively, in South Asian economies for a better understanding about the linkages among FDI and economic growth.

FDI Approvals And Actual Inflows

Table 1, explains the approvals and inflow of foreign direct investment during the period from 1991 to 2005. There is an increasing trend in the approvals from 1991-92 to

1996-97. The approvals started declining from 1997-98 and with fluctuations it has come down to 1475 in 2004-05 from 11484 in 1996-97 and it touched 1987 in 2010.

Table 1 Foreign Direct Investment approvals and inflows (1991-2010)

YEAR	Amount (US$ in Million)	
	Approvals	Inflows
1991-1992	527	165
1992-1993	1976	393
1993-1994	2428	654
1994-1995	3178	1374
1995-1996	11439	2141
1996-1997	11484	2770
1997-1998	10984	3682
1998-1999	7532	3083
1999-2000	4266	2439
2000-2001	5754	2908
2001-2002	3160	4222
2002-2003	1654	3134
2003-2004	1353	2776
2004-2005	1475	2549
2005-2006	1556	2879
2006-2007	1632	2985
2007-2008	1789	3214
2008-2009	1810	3467
2009-2010	1987	3876

Source: Economic Department, Ministry of Finance and company affairs, various Issues of Economic survey, New Delhi.

Sectors Attracting Highest FDI Equity Inflows (1991-2010)

Table 2 depicts the sector – wise distribution of FDI during the period form 1991 to 2010. The highest FDI equity inflows during the period 1991-2010 (17.03 per cent of cent of investment) have gone to the sector. which produces electrical equipments (which include computer software), Next to this sector 16.96 per cent is invested in service sectors, which include financial and non-financial sectors. Investment in communication sectors comes in the third place with 9.32 per cent and it has attracted 8.44 per cent of FDI. Power has received 6.67 per cent , and oil refineries chemical and other fertilizer companies have received 5.21 per cent. Drugs producing sector has received 2.83 per cent.

Food processing has received 2.77 per cent. Cement production industries has received 2.35 per cent and 1.97 of investment goes to metallurgical industry.

TABLE 2 Sector-Wise Distribution of FDI (1991-2010)

Ranks	Sector	Cumulative inflow (from August 1991 to Dec 2010) (Rs.in Crores)	Cumulative inflow (from August 1991 to Dec 2010) (US millions of Dollars)	Per cent of with total inflow (Interms of Rs.)
1	Electrical equipments (including computer software electronics)	30256	6923	17.03
2	Service sector (Fincancial & non-financial)	30133	6911	16.96
3	Telecommunications (Radio, Paging, Cellular phone, Basic Telephone services)	16554	3861	9.32
4	Transportation Industry	14992	3548	8.44
5	Fuels (Power + Oil refinery)	11849	2773	6.67
6	Chemical (Other then Fertilizer)	9252	2290	5.21
7	Drugs and Pharmaceuticals	5026	1165	2.83
8	Food processing Industry	4924	1227	2.77
9	Cement & Gypsum Products	4183	956	2.35
10	Metallurgical industries	3494	803	1.97

Source: Hand book of industrial policy & statistics (2010)

State-Wise Inflows Of FDI

Table 3 shows the state – wise inflows of FDI in India during the period form August 2004. The data pertaining to approval of foreign direct investment reveals that more than half of the total approved investments are in the five states namely Maharashtra, Delhi, Tamilnadu, Karnataka and Gujarat.

Maharashtra with 4972 projects (19.80 per cent) worth of Rs.36602.4 crores has accounted for the first position in the total approval of foreign direct investment. Delhi with 2763 projects (11 per cent) and with a value of Rs.30303.8 crores comes in the second position. Tamilnadu with 2656 projects (10.58 per cent) worth of Rs. 22582 crores stands in the third rank. Karnataka with 2586 projects (10.30 per cent) worth of Rs.18818.4 crores is in the fourth place. Gujarat with 1224 projects (4.87 per cent) worth of Rs.11176.5 crores stands in the fifth position. Madhya Pradesh has received 234 projects (0.97 per cent) and West Bengal has received 679 projects (2.70 per cent) worth of Rs.7789 crores, Haryana has received 874 projects (3.48 per cent) worth of Rs.3875 crores, and Rajasthan has received 343 projects (1.37 per cent) worth of Rs.2911 crores.

Orissa, Punjab, Kerala and Bihar, Goa accounted for 1 to 3 per cent of the investment each, while the share of Chattisgarh, Himachal Pradesh and Pondicherry is below 1 per cent each.

Table 3 State Wise Inflows of FDI In India During August 1991 To August 2010

(amount Rupees in Crores)

States	No.of Projects	Per cent share of Projects	Amount of FDI
Maharashtra	4972	19.80	36602.4
Delhi	2763	11.00	30303.8
Tamilnadu	2656	10.58	22582.6
Karnataka	2586	10.30	18818.4
Andra Pradesh	1276	5.08	11609.1
Gujarat	1224	4.87	11176.5
Madhya Pradesh	234	0.97	9271.4
Orissa	141	0.56	8229.3
West Bengal	679	2.70	7789.8
Haryana	874	3.48	3875.2
Rajasthan	343	1.37	2911.2
Punjab	201	0.80	2124.2
Kerala	332	1.32	1780.6
Pondicherry	130	0.53	1286.2
Himachal Pradesh	99	0.39	1174.1
Goa	276	1.09	997.7
Bihar	49	0.19	739.7
Chattisgarh	48	0.19	639.7
Others	6225	24.78	75755.8
Total	25117	100.00	247664.3

Source: SIA Newsletter, September 2004.

Origin – Wise FDI

Table 4 shows the country wise break-up of foreign direct investment during the pre-liberalization period. USA made the highest investment during the pre-liberalization period (i.e., 25.33 per cent of total FDI). The second place was taken by FRG with 17.5 per cent and the next place was taken over by the Japan with 8.43 per cent. NRI's was in the fourth place (8.09), UK shared (7.05 per cent), Italy shared (4.69 per cent), France shared (3.46 per cent) and Switzerland shared (3.17 per cent). The rest of the countries shared 21.78 per cent of the total FDI.

Table 4 Pre-Liberalization Period (1981-90) Country Wise Break-Up of FDI

(Rupees In Crores)

Country	Investment Approvals	Share in Total investment
USA	322.71	25.33
FRG	218.51	17.15
Japan	107.39	8.43
UK	90.29	7.05
Italy	59.80	4.69
France	44.09	3.46
Switzerland	40.33	3.17
NRI's	113.37	8.09
Others	227.53	21.78
Total	1274.02	100.00

Source: Economic survey various issues.

Table 5 depicts the top 10 countries from which India receive FDI since Liberalisation. By investing a total amount of Rs. 47433 crores (37.2 per cent) Mauritius captured the first position in FDI inflows of India, USA comes in the second place and the of FDI which India received from USA is Rs.20118 crores (15.8 per cent) Japan, Netherlands and UK share around 6 per cent of FDI. Germany share 4.27 per cent and Singapore shares 3.14 per cent. Share of France is 2.55 per cent and the share of South Korea is 2.28 per cent. Switzerland comes in the last rank with 1.98 per cent.

Table 5 Origin-Wise FDI During The Period 1991-2010

(Rupees In Crores)

Ranks	Country	Cumulative inflows	Percentage with inflows
1	Mauritius	47433	37.2
2	USA	20118	15.8
3	Japan	8645	6.79
4	Netherlands	8468	6.65
5	UK	7971	6.26
6	Germany	5443	4.27
7	Singapore	3998	3.14
8	France	5253	2.55
9	South Korea	2900	2.28
10	Switzerland	2524	1.98

Source: Economic Survey Reports and www.dipp.gov.in/

Conclusion

The finding of the study that FDI has not been established as a significant determining factor for the economic growth of India. The FDI policy should be formulated in such a way that causes attraction of more foreign potential direct investors and NRIs to invest in the country in those sectors which create employment and income in a larger scale. The country needs more FDI to the priority sectors, so that country get immediate yields from the investment. Investment in infrastructures and export-led manufacturing sectors can contribute more and FDI is imperative in this case.

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