ISSN:0971-1260
Vol-22- Issue-14-December-2019

Impact On Foreign Direct Investment In India

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ABSTRACT

Most of the underdeveloped countries and emerging economies like India suffer from low level of income and low level of capital accumulation. Despite this shortage of capital, these countries have developed a strong urge for industrialization and economic development. India launched upon an ambitious programme of industrialization during the second plan. Since the domestic resources to carry out this programme of industrialization were insufficient the country had to depend on foreign capital. With the help of post liberalization policy India received more foreign direct investment from various countries. For improving infrastructure facilities, creating new Job opportunities and ,increasing exports ,India need more Foreign direct investment. But the real case for encouraging private foreign investment rests on whether it helps in raising productivity or not. If it does, the greater product must be shared with the others. India received FDI in almost all sectors; as a result it can able to achieve more growth with a short period of time. This paper tries to highlight the relevance of foreign direct investment to the growth and development of a country

NEED FOR FOREIGN DIRECT INVESTMENT

One of the important determinants of economic growth is capital formation. To fill up the gap between domestic savings and investment foreign direct investment (FDI) plays a complementary role in overall capital formation. Foreign direct investment (FDI) is a direct investment into manufacturing or sales in a country by a company in another country, either by purchasing a company in the target country or by expanding operations of an existing business in that country. In the eyes of the wealthy European as well as American investors, India is one of the most lucrative grounds for investing.

COUNTRY WISE FDI INFLOWS

The country wise FDI inflow in India during April 2000 -Nov 2013 indicates that large part of FDI to India was contributed by fifteen countries which was 185506.59 US $ million while remaining nearly 11 per cent by rest of the world. Mauritius contributed 77,083.47 US$ million of the total investment in the country.Singapore was second largest Investor of FDI.

The other major countries are U.K with a relative share 20,671.41 US$ million followed by Japan. The diagram represent the %age of total FDI inflow in India by different countries. 88.86percent total FDI inflow in the India by fifteen countries in which Mauritius contribute

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36.96 percentage of the total investment in country followed by Singapore, United Kingdom, Japan etc

T0 start with the historical background of FDI in India we need to go back with the establishment of East India company. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers as a result India introduced new economic reforms during 1990s. Prior to 1991, the FDI policy framework in India was highly regulated. The government aimed at exercising control over foreign exchange transaction

NUMBER OF FOREIGN DIRECT INVESTMENT COMPANIES IN INDIA

In the last twenty years contribution of FDI to the country's total investment was 7-8%.As on March 2016 total number of FDI companies stood at 6433 .

As on March 2016 FDI Companies in India

Manufacturing	Service	Computer
1820	4070	1202

Total number of Non-FDI companies stoods at 3,04,978,

Manufacturing	Service	Computers
78,337	1,75,926	18,040

From these tables we can analyze that in a market economy few big companies and many small companies will always be there. Big companies will be earning huge profits and contribute to the overall growth rate .Even though the large number of small companies earns profits at the marginal level, it forms the sheet-anchor of the economy as such. In terms of investment FDI companies had 40% of the paid –up capital and for non FDI companies60% of the capital needs are met through local resources. Capital adequacy can be find out through domestic savings and domestic capital formation.

IN 2014-15 GROSS DOMESTIC SAVINGS AND GROSS DOMESTIC CAPITAL FORMATION

Gross Domestic Savings	Gross Domestic Capital Formation	Net Domestic Savings	Net Domestic capital Formation
33%	34%	25%	26%

It is clearly seen that domestic savings and domestic capital formation are low and a fast growing economy needs 40% savings rate To attract more capital, from nonresident Indian the government has announced a number of tax concessions, lower rates of taxation for certain designated priority industries, tax holidays on profits for a certain period to new industrial undertakings. NRIs investing in India were allowed higher investment limits, priority allotment of items in short supply, permission to buy shares in Indian companies etc.

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FDI AND EMPLOYMENT OPPORTUNITIES

In the creation of Job opportunities even during 2009-10 agriculture shared 53%, manufacturing and non manufacturing shared 11% and 10.5%.Service sector contributed 25% respectively. To feed a population of 120, agriculture comes first even though the earning is low. The relation between employment generation and FDI is very significant. In India service sector received 17% of total FDI. Financial, banking, Insurance, non-financial business, outsourcing, R&D, and Couriers comes under service sector. Construction industry received 9% FDI inflows, Most of these industries are capital intensive and they can't show growth in labour employment.

Industrial Automobile sector received a FDI share of 4.96% and power sector received 3.88%.The overall contribution of industrial sector to the employment generation is18% in India. This sector received transfer of technology and knowledge through multinational companies. With this the productivity of Indian labour would be improved. The national manufacturing policy framed by the Indian government aims at 25% contribution to GDP and 100 million employment by 2022, with this strong optimism this sector is likely to increase its share of FDI as well. Agriculture sector received a small fraction of FDI i.e it has received about 0.16% in agriculture services and 0.16% in agriculture machinery of FDI.As the agriculture contributes 17% to GDP of India we can expect more flow of FDI in this sector. The productivity of labourin agriculture has decreasing to an alarming extent therefore to improve the living standard of people the country has to follow Arthur Lewis Labor surplus model. As number of people working in this sector is more ,it needs more foreign direct investment

FDI is actually a package which contains the following elements: Financial transfer in foreign exchange, production technology, management skills, physical resources like machinery, tools, equipments etc, Institutional systems ,training resources and trade channels. It builds new organizations in which product and process related abilities are developed.

Through implementing FDI reform measures India will become one of the world's largest recipients of foreign direct investment. These measures cemented India's reputation as one of the few bright spots in an otherwise grim global economy. India is not only among the world's fastest growing major economies, underpinned by a stable macro-economy with declining inflation and improving fiscal and external balances. It was one of the few economies enacting major structural reforms. Yet there is a gap between this reality of macro-economic stability and rapid growth, on the one hand and the perceptions of the rating agencies on the other.

FDI and opportunities for Exports

The government has identified 32 agri-export zones all over the country which seek to promote agricultural and agro based exports particularly in floriculture and horticulture sectors. These zones are identified by the state governments for comprehensive and complete development. The underlying concept has been to integrate various facilities of central and state governments and to provide a comprehensive package of services for effective delivery to the farmers, processors and exporters. The zones are expected to increase remuneration to farmers whose products are picked up by units in these zones for further processing and exporting. The country's performance in agricultural exports greatly depends on domestic availability of quality products, preservation technologies, price sensitivity of the products and nutritional content of the products. India can be considered as an emerging economic power and the contribution of FDI to its growth is huge, but

ISSN:0971-1260
Vol-22- Issue-14-December-2019

as far as the employment generation is considered there is yet to develop new methodology to establish a concrete relation between the two. For nearly 70 years India has been receiving foreign aid from the United Kingdom. From 2016 onwards India didn't received any aid from our former colonial masters. Now India stands proudly as an International donor as it was planning to provide $1.6 billion worth of economic assistance to poor nations. It reflects Indias growing stature in the world today.

CONCLUSION

The author tries to highlight how much amount of money India received in terms of FDI and in which sector it contributes more, where it can create more job opportunities. In the current scenario FDI will create Job opportunities, especially in the agriculture sector where more capital formation is required. It may help the farmers to improve their living standards and they could produce more quality products which enable them to fix a fair price for their product. In the case of manufacturing FDI will induce the local producers to produce competitive product, it also enables the small producers to sell their products in the international market.

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