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Role of FDI on the Growth of Indian Economic System

Sanjeev Kumar Singh[1]

[1] [1]Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi, U.P. India, 221005

Abstract

Foreign Direct Investment (FDI) plays an important role in the growth of the Indian economic system. It is important where domestic savings is not sufficient to generate funds for capital investment. As a huge amount of capital comes in through these investments more and more industries are set up. Not only capital requirement but also it brings new technology, managerial expertise, raising productivity, generating new employment opportunities and helps in foreign exchange reserves. FDI inflow is important particularly in developing and emerging countries. FDI flows into the Indian economy have grown rapidly since the liberalisation of the policy. In the direct impact of the FDI inflows create a significant impact of the levels of domestic income, employment, price level, productivity, efficiency and export growth. The present paper is an attempt to study the trends of FDI flow in Indian Economic system and examines the major inflow of FDI and also checks the role of FDI in economic growth.

Keywords- *Foreign Direct Investment, Indian Economy, Economic Growth, Gross Domestic Product, Development*.

1. Introduction

Foreign Direct Investment (FDI) inflow into the primary sectors is assumed to play a dynamic role as a source of capital, management, productivity and technology in countries of transition economies. Foreign Direct Investment (FDI) is one of the most remarkable developments in the past two decades. Foreign Direct Investment (FDI) in a broader sense is any long-term investment by a foreigner entity. In the recent past foreign direct investment (FDI) has played an important role in the economic growth of emerging economies, and these developing economies are able to attract a substantial amount of FDI [1]. FDI can bring technological transmission to the sectors through knowledge spill over and enhances a faster rate of growth of output via increased labour productivity in India [9]. There were also few examples that demonstrate the long-run relationship between Gross Domestic Product, FDI and export in India. India is also opened up its economy and allowed in the core sectors such as Transport, Chemicals, Power and Fuels, Electrical Equipment, Food Processing, Metallurgical, Drugs and Pharmaceuticals, Textiles, as a part of transformation process started in the beginning of 1990s [8]. FDI is also motivated by recent political developments in India following the opening of sectors like insurance and telecommunication with an increased financial gap for private players.

FDI is also considered as a tool in attaining self-sufficiency and profession of the country as a whole and certain sectors in particular. Considering its massive size of the market, sound economic policies and abundant and skilled human resources, India has always been an attractive destination for foreign investment entities [7]. Indian Economy has shown impressive growth over the liberalization period. With the help of economic indicators, growth and development of the country have been measured. A recent initiative of Make in India is one of the latest developments in Foreign Direct Investment in India. It is implemented to attract more investments from abroad to reinforce India's industrial sector [10].

2. Objectives of the Study

1. To study the trends and pattern of FDI inflow in India.
2. To study the flow of investment in India.
3. To study the role of FDI on economic growth in India.
4. To study the Government initiative in the implementation of FDI.

3. Methodology

The present study is based on descriptive in nature and this study is based on secondary data. Secondary information has been collected from various documents such as journals, books, newsletters, reports, magazines, daily newspaper, and

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Government website related to foreign direct Investment.

4. FDI Inflows in India

Foreign Direct Investment in India increased by 1898 USD Million (trading economics by Reserve bank of India) in August of 2018 [2].

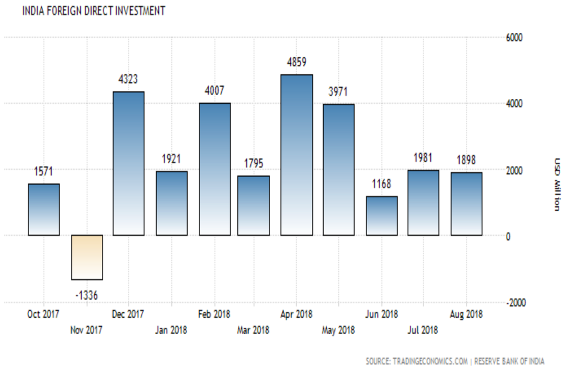

Fig. 1 Foreign Direct Investment in India
Source-Tradingeconomics.com | Reserve Bank of India

5. India GDP Annual Growth Rate

The growth of Indian is 8.2 percent year-on-year in the second quarter of 2018, above 7.7 percent in the previous three months and beating market expectations of 7.6 percent. It is the highest growth rate since the first quarter of 2016. Gross domestic product annual Growth Rate in India averaged 6.16 percent from 1951 until 2018, reaching an all-time high of 11.40 percent in the first quarter of 2010 and a record low of -5.20 percent in the last quarter of 1979.

Fig. 2 GDP Growth of India
Source-Tradingeconomics.com | Ministry of Statistics and Programme Implementation

6. Contribution of Top Investing Countries FDI Equity Inflows

Mauritius is the top source of foreign direct investment into India in 2017-18 followed by Singapore, whereas total FDI stood at USD 37.36 billion in the financial year. Countries like Singapore and Japan were the next two sources of foreign direct investment [3].

Cumulative Inflows April, 2000 - March, 2018, (%age to total Inflows in terms of US $)

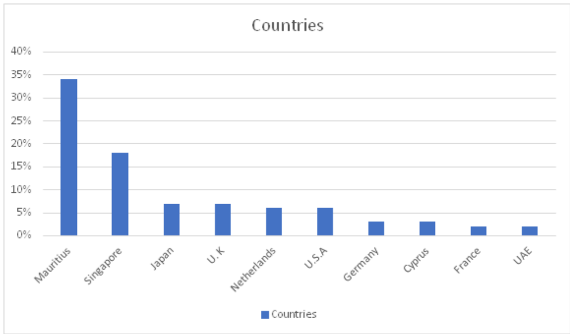

Fig. 3 Top FDI Investing Countries in India
Sources- Department of Industrial Policy & Promotion

7. Role of FDI in Accelerating the Rate of Economy Growth

1. **FDI provides Capital:** Foreign Direct Investment is expected to bring needed capital to developing countries. The developing countries like India need higher investment to achieve increased targets of growth in national income. As they cannot normally have adequate savings, there is a need to supplement the savings of these countries from foreign savings. It can be done either through external borrowings or through permitting and encouraging Foreign Direct Investment [4].
2. **FDI removes Balance of Payments Constraint:** FDI provides an inflow of foreign exchange resource and removes the constraints on the balance of payment. It can be observed that a large number of developing countries suffer from the balance of payments deficits for their demand for foreign exchange which is normally far in excess of their ability to earn [11].
3. **FDI brings Technology, Management and Marketing Skills:** FDI brings along with it assets which are crucially either missing or scarce in developing countries.

These assets are technology, management and marketing skills without which development cannot take place at any cost. This is the most important advantage of FDI. This advantage is more important than brings capital, which perhaps can be had from the international capital markets and the governments.

4. **FDI promotes Exports of Host Developing Country:** Foreign direct investment promotes exports. Foreign organisations with their global network of marketing, possessing marketing information are in a unique position to exploit these strengths to promote the exports of developing countries [12].
5. **FDI provides Increased Employment:** Foreign enterprises by employing the nationals of developing countries provide employment. In the absence of this investment opportunities, these employment opportunities would not have been available to many developing countries. Further, these employment opportunities are expected to be in relative higher skill areas. FDI not only maintain direct employment opportunities but also through backward and forward linkages, it is able to generate indirect employment opportunities as well.
6. **FDI generates Competitive Environment in Host Country:** Entry of foreign enterprises in the domestic market creates a competitive environment compelling national enterprises to compete with the foreign enterprises operating in the domestic market. This creates higher efficiency and better products and services. The Consumer may have a wider choice.

8. Government Initiatives

1. The government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.
2. In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval.
3. No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.
4. In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.
5. The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of the Department of Revenue [5].
6. The Government of India is in talks with all the stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49%, in order to give a boost to the Make in India initiative and to generate employment.
7. In January 2018, Government of India allowed 100 per cent FDI in single-brand retail through automatic route [6].

9. Conclusion

FDI is a significant element that which is influencing the level of economic growth in India. It provides a conducive environment for economic growth and development by enhancing the financial position of the country. India has liberal and transparent policies on FDI among the emerging economies. India has a major recipient of FDI Inflows in the majority of sectors. There is the progressive effect of FDI inflows on economic growth in developing economies. India can increase its economic performance and can achieve its target of double-digit economic growth rate by creating a more conducive environment for investment. For this, the policy makers should make sure optimum utilization of funds and timely execution of projects.

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