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ROLE OF FOREIGN DIRECT INVESTMENT (FDI) TO BOOST UP INDIAN ECONOMY

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ABSTRACT

The Indian economy is one of the largest receivers of FDI, but it wasn't always in the same situation. After gaining its Independence in 1947, the Government took certain measures and formulated National Five Year Plans for planning its growth path. Even though the Government's trade policies at that time promoted exports, some of the policies of import substitution and infant industry argument tried to protect the domestic industries from facing competition against foreign industries. A combination of factors like quotas, licenses and permits restricted the trade to a certain extent. Private sector played a limited role in the economy and the conditions prevailing in the economy were not favourable for foreign investment. Consequently, because of restricted policies, the inflow from FDI in India was small. By the end of financial year in March 1991, it was only US$ 73 million. Other countries like Pakistan and China were ahead of India in attracting inflow from FDI that time, net inflow of both being US$ 258 million and US$ 4.36 billion respectively.

KEYWORDS*: Indian economy, FDI, Trade Policies, Domestic Industries, Foreign Investment.*

Introduction

When it comes to assessing the unremitting growth of Indian economy over the years, it is imperative to say that Foreign Direct Investment has an important part to play. Throwing some more light upon FDI, when any individual or business firm belonging to one country takes interest into business opportunities based in some other country and makes an investment for the same in that foreign country, it refers to Foreign Direct Investment. This involves establishing business operations in any foreign country, acquiring foreign assets to establish ownership or hold controlling rights in any foreign business organization.

Coming back to FDI's importance in the growth of Indian economy; it definitely plays a pivotal role because at times domestic savings are not enough for generation of funds for any capital investment. Apart from supplementing the required investments of an economy, it brings about dynamic and new technology, expertise in the sector of management and builds up the foreign exchange reserves. FDI inflow proves to be of more benefit to emerging and developing countries in particular compared to the developed countries. Before 1980's economic theories did not broadly explore the Multi-lateral Enterprises (MNE's) and Foreign Direct Investments. But in the last three decades, almost every country while formulating its economic policies has been taking the globalization that took place in that period, into consideration. One of the most important characteristics of globalization is that the inflow of FDI takes place to host countries from home countries. Although there is no particular rule that specifies that a home country is always a developed country and host country is always a developing one, but in most cases, the inflow has been taking place form developed countries to emerging or developing countries. Of-late, there has been observed a rising competition among the emerging and developing countries to entice FDI. India also isn't much behind in this aspect.

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In 1991 was more than 3.5 times of FDI inward in India. FDI worth USD 239 billion in the last 5 years on account of stable and predictable regulatory regime growing economy and strong fundamentals.

It is a very distinguished point that the BOP (Balance of Payments) and the crisis of currency in the year 1991 opened doors for economic reforms in the country. It held supreme importance in Indian economy's history. Subsequently, because of the reform, the Indian Government adopted Globalization, Liberalization and Privatization, as a part of the NEP (New Economic Policies). Later, the new policies turned out to be a major driving force and escalated the participation of foreign companies and private sector in the country.

Several reforms that were brought about from 1991 to 2000 resulted in increasing the share of India from 0.05% in 1992 to 2.2% in 1997, in the world FDI inflow. Majorly, the inflow occurred in service sector comprising of telecommunications and information technology (IT) and also in other industries like power and construction, pharmaceutical, etc. As soon as the 'Make in India' movement was launched in 2014, it gave permission for 100% FDI in 25 sectors and the inflow in 2013-2015 rose by 46%, as a result of which the gap between savings and investment reduced, expanding the domestic market. India's growing GDP in the period after reforms also contributed to increasing FDI inward. To improve inflow FDI India needs to improve up on all the problems creating hurdles in business environment, easing out the procedure for FDI, opening up of the economy for foreign investors, reducing complexity of procedures, streamlining policies and facilitating investors on fast track basis can help in increasing actual FDI in India.

Increasing FDI inflow in the country has benefitted several areas of concern like:

- **Employment Opportunities**: FDI has somewhere positively impacted the employment rate in India, reducing the unemployment in the private sector to a major extent. Indian service sector has successfully been able to attract a good share of FDI, as it comprises of a big workforce of highly skilled and educated people.
- **Impact on the Exports:** FDI and exports go hand in hand. FDI is responsible for bringing in foreign capital which in turn improves the productivity in factories, improve managerial skills and provides access to the world market. Indian exports have considerably increased since 1991 reflecting a long run and stable relationship between exports and FDI.
- **Impact on the Inflation Rate**: Inflation and output growth have been positively related as per the theory of aggregate supply and aggregate demand. Rising inflation rate in the longer run is good for the economy as it clearly reflects increasing demand. FDI impacts inflation by affecting the output growth in the longer run.
- **Impact on the Total Factor Productivity of India**: FDI adds on to the capital stock, improves managerial skills using technical know-how and results in enhanced productivity of the labour by bringing about innovative technological changes, eventually increasing productive capacity and factor productivity.
- **Impact on GDP**: FDI plays a good role in technological progress, capital formation, Management and skill development. By technology transfer and technological spill over, FDI increases returns and causes growth.
- **Increase Foreign Reserve**: Foreign reserve play a significant role in maintaining the value of the currency, in controlling inflation regulating the current account defecit and playing a very important role of national trend in terms of export and import. Oct.2018- 392 billion dollar June 2019 foreign exchange reserve hits record high of 426.42 billion dollar. The rise in thereserve was on account of increase in foreign currency asset, which is a major component of the overall foreign exchange reserves.
- **Infrastructure Development:** FDI play a vital role in infrastructure sector also USD 19 Billion on infrastructure development between 2012-2017 Road– USD 3.8 billion outlay planned for highways, 5.23million km. of roads and highways. Railway – fourth largest rail fright carrier in the world and 100%FDI under automatic route is permitted for most area. Port- over 7500 km of coastline having 12major and about 200 non major ports, cargo traffic2422 million MT of cargo handling capacity required by 2021-22.

- **Growing Consumer Market**: FDI bring ideas and help in exchange in culture values. FDI help develop skills and promote talent in the host country which helps in selling of product. FDI makethe market more competitive and incentivize nation to develop.
- **E-commerce:** Because of FDI flesh sales and big deal sales are increased. Huge amount of investment is possible in e-commerce consumer get the good kind of good.vender is in the position to compete with other vender.

Looking at the broader picture, one can say that, FDI immensely fosters the growth of the Indian economic system. India's geographical proximity to OECD countries and low rate of inflation resulting in cheap labour is making it possible for India to attract more FDI inward compared to other countries. The morale of foreign investors is boosted more after new FDI policies formulated by the Department of Industrial Policy and Promotion (DIPP) in 2017. To conclude, it can be said that FDI has definitely uplifted the Indian economy in the previous years and will continue to do so as it is expected to increase more in the forth-coming years and boost the economy to the higher level because of FDI.

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