



CURRENT SCENARIO OF FOREIGN DIRECT INVESTMENT (FDI) IN INDIA: A MULTIFACETED APPROACH

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ABSTRACT

One of the basic factors that contributes the most in the development and growth of a nation is foreign direct investment (FDI). Most significantly it is even more important in times when the domestically available capital is not adequate enough for the overall development of a country. The gap between domestic savings and investment is filled in through foreign investments. Like most other countries India also aims to attract foreign investments and it has started doing that in a more rigorous manner in the last few years. The present study also aims to focus on the latest trends of the FDI flow in India. The Indian economy reforms also have a major weakness that though it is growing day by day but the jobless growth seems never ending. No doubt, liberalization policy has come up with great employment opportunities but it is not at all close to the set targets. In 2015 India had left China and US behind as one of the most desired destinations for FDI. The changing business environment in India and the ongoing policy reforms have given a hope to the new businesses to step in and compete. A report by World Bank says that in 2018-19 the private investments in India will grow by 8.8 percent which is a positive sign.

Keywords: Foreign Direct Investment, Economy, Policies, Liberalization, Employment.

I. INTRODUCTION

The improved economic growth and development due to FDI has started a battle among all the countries to attract FDI. This surely has to be the result when FDI offers numerous benefits which include introduction of new technology and markets that eventually results in employment opportunities resulting in the growth of nation. We can also not deny that one of the major contributions of FDI is the growth of economic globalization. Investment especially in developing countries have always been a major concern and when such is the case the developing nations always welcome foreign investors that are ready to take a risk as it serves the purpose along with a long term mutually beneficial association. In the same manner the developed countries always keep looking for new markets where they can sell their products. In return they not only make investments and provide employment opportunities with a promise of mutually beneficial relationship. In developing countries the manpower is mostly available that proves to be another advantage. Considering all these factors the FDI has been one of the major concerns for most countries.

The Indian government has also reformed the policies so that to make sure the foreign investors get a business environment that is favorable to them which is an attempt to attract FDI. FDI reforms specifically in stock exchange and the defence sector have a direct link.

Department of Industrial Policy and Promotion (DIPP) say that these efforts to promote FDI have already started paying off as there has been an increase of 6-8 percent on-year-year basis.

India no doubt has proved to the world that it has an economy that has a rapid growth and that is ready for the future challenges as well. The Indian government has taken an initiative to encourage new sectors and it has also started making required changes in FDI policies simply to promote FDI. FDI policy reforms have also been made just to facilitate the foreign investments in India.

II. REVIEW OF RELATED LITERATURE

According to Agrawal and Shahani (2005) as compare to the quantity the quality of FDI plays a vital role in a country like India. Enderwick (2005) opined that FDI has to be quality based especially if it is based on exports and comes along with an advantage of introducing foreign technology in the country.

Chakraborty and Basu (2002) found out that there is a direct link between FDI and GDP. They found a positive correlation between FDI and GDP which is an advantage. Moura, Rui & Forte (2009) reported that FDI and GDP have a direct relation. Makki & Somwaru (2004) found out that FDI boosts up the trade which in results affects the economic growth of the country as well.

Foreign direct investment is one of the most important factors in the economic growth and development of a country (Singh, 2009). In India FDI has in one way or another become a necessity as the employment opportunities and developments depend upon it and it eventually affects the healthcare facilities, education sector and the overall development (Devajit, 2012).

Dixon & Boswell (1996) argued that there is no doubt that FDI positively affects the growth of the country but at the same time dependence upon FDI in the long run always proves to have detrimental effects such as the issues like unequal distribution of money and urbanization to a greater extent. Infrastructure also plays an important role for the countries in attracting FDI (Kumar, 2001).

It has also been reported that as compare to their counterparts the rich economies has more advantage when it comes to FDI (Blomstrom, Lipsey & Zejan, 1992; Beugelsdijk, Smeets, & Zwinkels (2008). Poor countries have more of negative impacts of FDI rather than having an advantage (Gallagher, Kevin and Zarsky, 2006). Borensztein et al. (1998) also found out that in countries that have low level of human capital FDI hardly proves to be an advantage.

III. SIGNIFICANCE OF THE STUDY

The current study is a review of studies done in the field of foreign direct investment in developing countries specifically Indian setting and it also highlights the economic growth and development that takes place as a result of that. India no doubt for many reasons has been one of the first choices for the potential investors and the studies done in the field have proven that time and again.

IV. OBJECTIVES

The objectives of the present study include exploring the need of FDI in Indian settings along with identifying various factors that determine FDI. The objectives also include investigating the problems that eventually results in low inflow of FDI.

What are the various determinants of FDI in India?

Based on the global factors and the availability of resources the determinants of FDI vary in different countries. The potential investors always try to get the maximum output of their investments. If we talk about Indian settings there are countless determining factors of FDI.

The economic factors and stable policies in the country have attracted a lot of investors. If the economic factors and policies are favorable it always proves to be an advantage to the investors. The funds that get invested always require stable policies to generate profits. Taxes, Grants, subsidies and the favorable policies always attract investors to take a risk. Indian government also has certain policies that are specifically made to provide a healthy environment and favorable conditions that include exemptions of taxes and particular financial backing to the foreign investors. The government officials are well aware of the fact that eventually it is FDI helps in economic growth and development.

No doubt the availability of cheap and skilled labor attracts and helps foreign investors to invest. It is also true that foreign investors save a big amount of money using the cheap labor and India proves to be the best choice in that terms. One of the most suitable examples of that can be the business process outsourcing that has not only attracted a lot of international brands but has also proven to be mutually beneficial. The infrastructure in the geographical settings of the country where you are investing has to be up to the mark as it is something that proves to be one of the detrimental factors in the long run. Transportation facilities, legal policies, the means and ways of effective communication and technological development in the country are some of the factors that always play a role in the success or failure of a business. The developed countries that make their investments always carry out an intensive research before investing their funds in a developing country and the record says that India has been the first choice.

What necessitate FDI India?

In developing countries the capital is one of the major requirements of growth and development. It is a well aware fact that keeping all different issues in consideration the capital in India is limited. Apart from the issues that actually determines the growth of a country like education, technological development; employment and health there are certain other problems like poverty and improper distribution of money that require immediate attention. The FDI inflow directly contributes in employment generation, technological developments and scope for further investments.

For all the developed and under-developed countries it becomes a part of one of the strategies to increase investments. The gap between the income and savings can easily be increased by foreign direct investment and all the developing countries make efforts to do that. No doubt, when we talk about Indian settings there is an urgent need to get technical assistance from foreign source. With the help of foreign alliance we can think of using the natural resources

such as coal, steel and iron that are available in India. It is also true that there is high level of risk involved in making investments in new projects.

What has resulted in low flow of FDI in India?

One of the primary reasons of low inflow of FDI has to do with inadequate infrastructure. The rule stands still for India as well. The infrequent supply of electricity and persistent power failures usually cause a lot of new projects to think of different options to make investments. The interference of state governments in the work process of labor firms in India makes it difficult to run the new projects smoothly for a long period of time. There are certain laws that at times give shelter to the workers and that too when there are justifiable efforts to strengthen the new business firms. For example the moment an organization starts chunking out unnecessary workers the first biggest obstacles is to get an approval from both labor unions and state governments which makes it even harder. Corruption which seems to be all over the place has made it even harder for investors to start a new business.

V. CONCLUSION

Indian setting is not only favorable for foreign investors but it also provides conditions to make mutually benefits. If we make comparisons we would come to know that India has transparent policies and it adopts a liberal attitude towards FDI and it is one of the primary reasons why FDI inflow is quite satisfactory. It is also a noticeable fact that after liberalization India has attracted FDI to a great extent. We cannot deny the fact the considering the importance and the ongoing trend of FDI India as a country had made tremendous efforts and no doubt those efforts has paid off in the last few years. The economic reforms have resulted in an increase of the employment opportunities to a great extent but still the targeted ratio has not been achieved. FDI has helped India with the ongoing issues of unemployment, productivity and in strengthening Indian economy. The foreign exchange system in the country has developed as a result of FDI and it has also proved helpful to small scale industries. As a result of all these accomplishments India has been able to re-establish its identity in the world.

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