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Development and benefit of FDI in India

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Abstract: Foreign direct investment (FDI) is a key source of funds for India's economic development. Totake advantage of India's evolving economic climate and lower labour, foreign firms engage directly in fastgrowingprivate Indian enterprises. There are so many advantages of Foreign Direct Investments in Indialike Promotion of investment in key areas, New technologies, Increase in Capital inflow, Increase inExports, Promotion of Employment opportunities, Promotion of financial services, Exchange ratestability and development of backward areas. Foreign Direct Investment (FDI) is critical to a country'seconomic development. The entry of foreign cash has allowed India to improve its infrastructure,increase productivity, and increase employment. FDI also serves as a vehicle for acquiring sophisticatedtechnology and mobilizing foreign exchange reserves. This Article is an attempt to explore new benefitsof FDI for the economic growth of the nation.

Keywords: Indian Economy, Foreign Direct Investment (FDI), Indian Company, Foreign Company, Liberalization, Globalization, Privatization, Policies, Investment

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INTRODUCTION

FDI refers to capital inflows from abroad that are invested in or to enhance the production capacity of the economy. FDI and economic growth has long been a subject of great interest in the field of international growth. In the era of volatile flows of global capital, the stability of FDI emerges as an effective channel to faster growth in developing countries. It plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. India after liberalizing and globalizing the economy to the outside world in 1991, there was a massive increase in the flow of foreign direct investment. Foreign Direct Investment (FDI) is often seen as important catalysts for economic growth in the developing countries like India. FDI affects the economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries. The main purpose of this research study is to investigate the impact of FDI on the economic growth of India, from the period of 1990 to 2013. A Foreign Direct Investment (FDI) is the purchase of a stake in a firm by a corporation or investor based outside of the country. "In general, the word refers to a corporate decision to purchase a significant stake in a foreign company or to buy it altogether in order to expand its activities to a new territory. It is not commonly used to refer to a stock investment in a foreign company. Since 1948, India's attitude toward inviting FDI has been erratic. Its early supportive attitude toward international business was followed by a more restrictive era, and then a vigorous and welcome push to attract foreign investment."

In its **First Phase** of 1948-1969, "It consisted of a cautious welcoming of foreign investment with the hope that it would expedite the country's modernization as indicated in the 1948 Industrial Policy Statement. To safeguard the National interest, India made certain that regulation, ownership, and effective control remained in its hands. In the Second Five-Year Plan, emphasis was placed on the construction of heavy industry, and the government of India announced a list of industries where foreign investment was invited in the Third Five-Year Plan in 1961".

In the period of 1969-1991, which known as **Second Phase**, Infant industry protection was implemented to shield indigenous talents and capacities from competition. The payment of dividends, royalties, and technical fees overseas for FDI contributed and technology purchased had resulted in a massive outflow of foreign cash. As a result, the government was compelled to impose restrictions on the process of foreign collaboration approvals and to take a more restricted approach to FDI. "Thus, in order to deal with instances involving up to 40% foreign equity and above, a new agency, the Foreign Investment Board, was established in 1968, and further screening was done by a cabinet committee. There were more flexible FDI policies for technology transfer, but foreign collaboration renewals were more limited. The Foreign Exchange Regulation Act was passed in 1973. Foreign companies operating in India were required to register as Indian companies, and there was a limit for foreign equity in such companies, which limited the extent of foreign equity for Indian companies to 40%, but the limit could be raised to 74% for companies in high technology, export manufacturing, tea plantation, or high-priority companies, so there was some relaxation for such companies, and also if such companies did not exceed the licensable limit. Prior to 1991, FDI policy was characterized by de-licensing of various industrial rules, promotion of Indian manufacturing exports, and an emphasis on industrial modernization through liberalized imports of capital goods and technology".

In its **Third Phase** (1991-2000), The Indian government implemented important economic reforms in 1991. Policies of liberalization, globalization, and privatization were implemented. Between 1990 and 1992, India experienced repeated balance-of-payments crises, political instability, and a growth in its external debt. As a result, "India's credit rating in both long-term and short-term borrowing was reduced. India faced significant difficulties in borrowing from international markets, and there was an outflow of foreign currency accounts held in India by Non-Resident Indians (NRIs)". Because of the spike in gasoline costs, remittances from Indian laborers in the Gulf have virtually ceased. India's external payment liability continued to rise. As a result, "there was a necessity to get through the crisis. As part of the government's economic reforms programme, the third stage of evolution saw a welcoming FDI policy.

Under the 1991 Statement on Industrial Policy, FDI was permitted up to 50% in 35 high-priority industries via the automatic route. Foreign technical alliances were also placed on the automatic route, although they were subject to certain requirements. Trading enterprises primarily engaged in export activities were also permitted to have 50% foreign shareholding. A new package was designed for 100% export-oriented projects and firms in EPZs. The Foreign Exchange Management Act of 1999 changed the law relating to foreign exchange with the goal of assisting external commerce and promoting the development and growth of India's foreign exchange market. However, the scope of foreign FDI expanded dramatically following the implementation of the FEMA in June 2000".

And its **Last Phase** is considered from 2000 to till date. Within the framework of FEMA, 1999, India's economy experienced significant internationalization. In the year 2000, there was a paradigm change in which, "aside from the negative list, all remaining activities were placed on the automatic path. Caps were finally raised in various sectors/activities. The NBFC Sector was placed on the automatic course. Defense and insurance sectors were opened up to a maximum of 26%". For the field of telecommunications services, the maximum was raised from 49% to 74%. Under the government approval method, 51 percent FDI was permitted in single brand retail. A significant development occurred in 2009, when the distinction between 'ownership' and 'control' was established for the purpose of determining total foreign investment-direct and indirect-in an Indian company.

BENEFITS OF FDI

The benefits of FDI includes a steady flow of capital into various industries for development and revenue production, Technological and skill advancements that lower costs and boost the efficiency of the work process, The expansion of job options in several Sectors has resulted in an improvement in their life style and acceptability, Infrastructure and administrative reforms that increase the nation's efficacy and accountability, Social and economic growth as a result of increased awareness from many sources such as Schools, Universities, Constitutional bodies, and Information technology, which is made possible by FDI, healthy competition will increase resulting in a profit for the customer. The other benefits of the FDI are as given below:

- "**More Consumer Savings**: One of the primary benefits of FDI is that it allows Indian consumers to save money by purchasing high-quality goods at lower prices. FDI is expected to enhance consumer savings by 5 to 10%.
- **Higher Remuneration for Farmers**: FDI will go a long way toward alleviating the plight of Indian farmers, who commit suicide on a daily basis due to low returns on their agricultural output. However, FDI will undoubtedly aid in improving their conditions, as farmers would receive 10 to 30% better remuneration as a result of FDI.
- **Increased Employment Chances**: FDI will very probably improve employment prospects in India by creating 3 to 4 million new jobs.
- **Enhance in Government Revenue**: FDI will undoubtedly increase government revenue significantly. Government revenues will rise by 25 to 30 billion dollars, which is a significant gain. This government money will be extremely beneficial to the development of the Indian economy".

DRAWBACKS OF FDI

Some drawback of FDI are like as; Domestic industries are attempting to survive due to an overabundance of low-cost items and monopolies, Political pressure is always used to try to regulate the flow of FDI in order to gain advantages, which creates a barrier to development, Inflation is high due to the decreasing worth of money; we must pay high prices due to a lack of money in the market as it shifts to FDI enterprises, Because of money issues, such as the Wal-Mart issue, unethical behaviour such as corruption, redtapism, and selfishness is on the rise, Our foreign dependency will expand, affecting our total development in technology, agriculture, and production, among other things.In spite of so many benefits it has few drawbacks too which are as follows:

- "**Small business destruction in the Retail Market**: The greatest fear of FDI is that it will eliminate small businesses or tiny kirana shops because they will not be able to compete with big entrepreneurs who will give all things to consumers at much lower costs.
- **Job Reductions:** Many FDI detractors believe that the advent of large multinational chains such as Wal-Mart, Carrefour, and others will not result in any job creation in India. At best, jobs will shift from the unorganized to the organized sectors, with the number remaining constant or decreasing, but not increasing.
- **No actual advantage to Farmers:** FDI critics argue that it is a folly to believe that the introduction of foreign chains into India will aid farmers in any way; rather, it will render Indian farmers slaves to these giant chains and the farmers will be fully at their mercy. Thus, FDI will only worsen the existing deplorable conditions of Indian farmers".

CONCLUSION

To summarize, as we live in "a more globalised economy, Foreign Direct Investment (FDI) is becoming a more accessible option, but one must balance the risk and reward of FDI (like China, one must develop indigenous industrial, agricultural sectors, and marketing strategies to capture the global market while also giving importance to FDI) by avoiding over foreign dependency, which will affect our overall development in technology, agriculture".

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