ISSN: 2278-3369
International Journal of Advances in Management and Economics
Available online at www.managementjournal.info

RESEARCH ARTICLE

Role of Foreign Direct Investment (FDI) in Different Sectors

Sharma Reetu[1], Khurana Nikita [2]

[1]*Directorate of Distance Education, Kurukshetra University, Kurukshetra (Haryana), India.*

[2]*University College, Kurukshetra University,Kurukshetra (Haryana), India.*

Corresponding Author: Email: ***reetu.reetuu@rediffmail.com***

Abstract

India has been a most important recipient of foreign direct investment in the greater part of its different sectors. It also plays an important role in the development of a country. The objective of the present paper is to provide a broad outline on foreign direct investment with the context of different sectors. It also point out the sector-wise distribution of FDI inflow to know about which has concerned with the chief share. The present study is based on secondary data and the secondary data have been collected from different sources i.e., fact sheets on foreign direct investment, Annual reports of Reserve Bank of India, the web site of UNCTAD and different journals. The study used a data from 1991-92 to 2011-2012 (post-liberalization period). The present paper also discusses the various problems about the foreign direct investment and suggests the some recommendations for the same. In the present study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

Keywords: *Different sectors, Economic growth, Foreign direct investment (FDI).*

Introduction

Indian philosophy is the ray to the world for its transformation. Our great father of the nation who taught the lesson of peace and non violence and the power of civil disobedience to the whole world was certainly not his own idea but he learnt it from the various Hindu scriptures. Indian Philosophy also taught the concept of "Universe is one family". If we want to bring change in the world then we should first change ourselves, our economic policies, and our social structure and transform the traditional knowledge to bring innovations. The equitable benefit sharing for the research done on the biodiversity includes the FDI but it is not compulsory for the foreign investor to always agree for FDI. It has other option to give benefit to the government. However, the question here is when our biodiversity and traditional knowledge of our indigenous people are being used for research, then why should we be in a compromising position. We have adopted the critical method to pen down the various issues and challenges with regards to biodiversity and FDI. This article gives you insight to readers and the environmental thinkers to appreciate the new thought to make transformation more sustainable.

India is the country of potentiality and that is the One of the most prominent and striking feature for today's globalised world. But have a scarcity of resources .When scarcity meet with resources (FDI) then scope of growth and development emerged. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spillovers of technology, skills, increased innovative capacity, and domestic competition. Now a day, FDI has become an instrument of international economic integration. Located in South Asia, India is the 7th largest, and the 2nd most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of an English – speaking populace with an increasing disposable income and its burgeoning market has all combined to enable India emerge as a viable partner to global industry.

Recently, investment opportunities in India are at a peak. With the initiation of new economic policy in 1991 and subsequent reforms process, India has witnessed a change in the flow and direction of foreign direct investment (FDI) into the country. This is mainly due to the removal of restrictive and regulated practices. Foreign direct investment in India increased from US $ 129 millions in 1991-92 to US $ 40,885 million in March, 2005, and US$ above 1, 00,000 million in 2010 an increase of about 1026 times. However, the country is far behind in comparison to some of the developing countries like China. In so far as growth trend of FDI is concerned, there has been quite impressive growth of FDI inflow into the country during this period. However, negative growth rate is noticed during the period 1998-2000 primarily due to falling share of major investor countries, steep fall of approval by 55.7% in 1998 compared to 1997 and slackening of fresh equity. However, traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipments, etc. In this paper analyze the FDI flows in the country and also is discussed the direct proportionate of the economic growth of the country.

Literature Review

Agarwal and Khan conducted the study on “Impact of FDI on GDP: A Comparative Study of China and India”, the study found that 1% increase in FDI would result in 0.07%increase in GDP of China and 0.02% increase in GDP of India. We also found that China’s growth is more affected by FDI, than India’s growth [1].

Kumar and Karthika found out in their study on “Sectoral Performance through Inflows of Foreign Direct Investment (FDI)”, that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country [2].

Singh stated in their study that foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The paper highlighted the trend of FDI in India after the economic reforms, sector-wise and country-wise share of FDI, the manner in which FDI has affected the growth of Indian states [3].

Devajit conducted the study to find out the impact of foreign direct investments on Indian economy and concluded that Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development [4].

Sharma stated in his article “FDI in Higher Education: OfficialVision Needs Corrections”, raised four issues which need critical attention: the objectives of higher education, its contextual relevance, the prevailing financial situation and the viability of alternatives to FDI. The conclusion of the article is that higher education needs long – term objectives and a broad vision in tune with the projected future of the country and the world. Higher education will require an investment of Rs. 20,000 to 25,000 crore over the next five or more years to expand capacity and improve access. For such a huge amount the paper argues, we can look to Foreign Direct Investment [5].

Balasubramanyam and Sapsford stated in their article “Does India need a lot more FDI” compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also concluded that India may not require increased FDI because of the structure and composition of India’s manufacturing, service sectors and her endowments of human capital and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements [6].

Bajpai and Jeffrey stated attempted the paper on “Foreign Direct Investment in India: Issues and Problems”, to identify the issues and problems associated with India’s current FDI regimes, and also the other associated factors responsible for India’s unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location [7].

Singh stated in his study "Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005" examined the uneven beginnings of FDI, in India and examined the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concluded that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link [3].

Chien and Zhang focused in their study the problems related to FDI in the North Central Area and South Central Area of Vietnam in the period 2000-2010. The paper found out that FDI and GDP have close relationship with each other. Both FDI and GDP have contributed impor-tantly and positively in the interpretation of each other in the provinces having extremely difficult socio-economic conditions, but this is especially true in localities with better socio-economic conditions [8].

Objectives of the Study

- To study the sector-wise role of foreign direct investment in India.
- To discusses the various problems about the foreign direct investment in India
- To suggest some recommendations with reference to foreign direct investment in India.

FDI and Economic Growth

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. But due to significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties etc, and the government has to adopt stringent foreign policy in 1970s. During this period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned. Government setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow to India. The soaring oil prices continued low exports and deterioration in Balance of Payment position during 1980s forced the government to make necessary changes in the foreign policy and this resulting in the partial liberalization of Indian Economy. The government introduces reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable, pragmatic and non-discriminatory policy for FDI flow.

In this critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office.

The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. As it is the well known fact that increasing GDP shows the picture of progress as well increasing share of service sector response for the same .That's why we have taken in consideration the data of GDP and FDI in various sectors to analyze the position of economic growth.

Evaluation of FDI and GDP in India during (1991-92 to 2011-2012)

Now, it is a time to see the impact of FDI on GDP as well as on different sectors of the economy. As table 1 depicts the picture of FDI inflow and its impact on GDP

Table 1: FDI inflow, GDP and FDI/GDP ratio in India (1991-92 to 2011-2012)

Years	FDI Inflow (in rupees crore)	Growth rate of FDI inflow (%)	GDP	Growth rate of GDP (%)	FDI as a percentage of GDP
1991-92	409	-	1099072	-	0.037213
1992-93	1094	167.4817	1158025	5.363889	0.094471
1993-94	2018	84.46069	1223816	5.681311	0.164894
1994-95	4312	113.6769	1302076	6.394752	0.331163
1995-96	6916	60.38961	1396974	7.288207	0.49507
1996-97	9654	39.58936	1508378	7.974665	0.640025
1997-98	13548	40.33561	1573263	4.301641	0.86114
1998-99	12343	-8.8943	1678410	6.683371	0.735398
1999-00	10311	-16.4628	1786525	6.441513	0.577154
2000-01	12645	22.63602	1864301	4.35348	0.67827
2001-02	19361	53.1119	1972606	5.809416	0.981494
2002-03	14932	-22.8759	2048286	3.836549	0.729
2003-04	12117	-18.8521	2222758	8.517951	0.545134
2004-05	17138	41.43765	2388768	7.468649	0.717441
2005-06	24613	43.61652	3254216	36.22989	0.756342
2006-07	70630	186.9622	3566011	9.581263	1.980644
2007-08	98664	39.69135	3898958	9.336679	2.530522
2008-09	122919	24.58343	4162509	6.759524	2.953003
2009-10	123378	0.373417	4493743	7.957556	2.745551
2010-11	88502	-28.2676			
2011-12	173947	96.5458			
Total	577002		42598695		

Source: RBI Bulletins, Various issues

Table 1 shows the FDI inflow and GDP in India from the year 1991-92 to 2011-2012(post-liberalization period). The table states that India had showed a large amount of FDI inflow. It showed that FDI inflow has been increased by more than 210 times during the study period because the FDI Inflow has been increased from Rs. 409 crore in 1991-92 to Rs. 173947 crore in 20011-2012. Due to technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward forward linkages and access to international quality goods and services the Indian Government has used many steps to attract more FDI. The highest amount of FDI was received in the year 2011-2012, amounting to Rs. 173947crore. The highest growth rate of FDI inflow is in the year 2006-07 i.e., 186.9622 percent. The table also found that FDI as a percentage of GDP was less than one until 2005-06 after then it is increasing simultaneously.

Sector-wise approved investment of FDI inflow in India (2000-2012)

The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel and many others. The service sector is followed by the manufacturing sector in terms of FDI. High volumes of FDI take place in electronics and hardware, automobiles, pharmaceuticals, cement, metallurgical and other manufacturing industries. In 2010-11 table shows decreasing trend of FDI in every sector either it is service sector or construction, automobile etc. But in year 2011-12 every sector improves their position in context of FDI.

Positive Impact of FDI

Foreign corporations bring new technical know-how and managerial skills into target country.

Foreign corporations can help to change the economic structure of host country as governments can attract companies from promising and innovative sectors.

The foreign corporations often bring additional investors into the target country.

Foreign corporations improve the business environment of the target country.

Foreign corporations bring new clean technologies that help to improve the conditions,

Foreign corporations usually help increase the level of wages in the target economy.

Table 2: Sectors attracting highest fdi equity inflows (2000-2012)

Amount in Rs. crores (US$ in million) Ranks	Sector	2009-10 (April-March)	2010-11 (April-March)	2011-12 (April-March)	Cumulative Inflows (April "00 - March "12)	Rank	% age to total Inflows (In terms of US$)
1.	services sector (financial & non-financial)	19,945 (4,176)	15,053 (3,296)	24,656 (5,216)	145,764	1	19 %
2.	Telecommunications (radio paging, cellular mobile, basic telephone services)	12,270 (2,539)	7,542 (1,665)	9,012 (1,997)	57,078	2	7 %
3.	Construction activities (including roads & highways)	13,469 (2,852)	4,979 (1,103)	13,672 (2,796)	52,253	3	7 %
4.	Computer software & hardware	4,127 (872)	3,551 (780)	3,804 (796)	50,118	4	7 %
5.	Housing & real estate	14,027 (2,935)	5,600 (1,227)	3,443 (731)	49,717	5	7 %
6.	Chemicals (other than fertilizers)	1,726 (366)	1,812 (398)	36,227 (7,252)	47,904	6	6 %
7.	Drugs & pharmaceuticals	1,006 (213)	961 (209)	14,605 (3,232)	42,868	7	5 %
8.	power	6,138 (1,272)	5,796 (1,272)	7,678 (1,652)	33,214	8	4 %
9.	Automobile industry	5,893 (1,236)	5,864 (1,299)	4,347 (923)	30,785	9	4 %
10.	Metallurgical industries	1,999 (420)	5,023 (1,098)	8,348 (1,786)	26,936	10	4 %

Foreign corporations usually have positive effects on the trade balance.

Negative Implications

Here we have listed some negative impacts of FDI

Foreign corporations may buy a local company in order to shut it down and gain monopoly.
The Foreign corporations target the domestic market and sometimes the domestic corporations are not able to compete with these corporations.

- The working positions of host country are also affected because of privatizations deals or merger and acquisition transactions.
- Foreign corporations have a tendency to use their usual suppliers which can lead to increased imports and thus make negative impact on balance of payments.
- The high growth of wages in foreign corporations can influence a similar growth in the domestic corporations which are not able to cover this growth with the growth of productivity.
- There can be emerge the problem of dual economy because of a developed foreign sector and an underdeveloped host sector.
- There is negative effect on environment also.
- The United States welcomes foreign investment and seeks to accord foreign investors the same fair, equitable and non discriminatory treatment given to American investors [9-18].

Conclusion

The growth of FDI gives opportunities to Indian industry for technological up gradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency .FDI plays an important role in economic growth of an economy. Literature on factors determining FDI inflows into an economy shows that many factors influences inflows such as market size, inflation, trade openness, interest rate, wage rate, business environment, etc. The present study examined the sector wise FDI inflows in India during post reform period. The results of our analysis show that FDI is related positively with real GDP and previous period FDI inflow but inversely related with inflation. It showed that the macroeconomic instability in terms of inflation has been an important factor which influenced the inflow of FDI in India in the post reform period. Even though global economies are suffering with financial crisis and other economic hurdles,
India still stands as a global investment destination. Keeping in view of current requirements and

benefits of the nation the government of India comes up with new policies from time to time.

Finally, the study observes that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the country .Despite India offering a large domestic market and low labour costs due to restricted FDI regime, high imports tariffs, exit barriers for firms, stringent labour laws, poor quality infrastructure, centralized decision making processes and a very limited scale of export processing zones make India an unattractive investment location. However there have different views in this context. The new economic liberalization policy in 1991 the FDI inflow in India in-depth in the last fourteen years makes the country progress in both quantitative and qualitative way. According to 2005, United Nations Conference on Trade and Development report on world investment prospects India has been ranked at the third place in global foreign direct investments in 2009 and will continue to remain among the top five attractive destinations for international investors 2010-117.To sum up, it can be said that government should simplifying and relaxing entry barriers for business activities and providing investor friendly laws and tax system for foreign investors. Somewhere, a restriction related to the track record of Sub-Accounts is also to be made on the investors who withdraw money out of the Indian stock market. Similarly the laws should be such that it protects domestic investors and also promote trade in country through FDI.

References

1. Agarwal J, Khan MA (2011) Impact of FDI on GDP: A comparative study of China and India, Int. J. Business Management 6(10):71-79.
2. Kumar Gajendran Lenin, Karthika S (2010) Sectoral performance through inflows of foreign direct investment (FDI).
3. Singh, S (2009) Foreign direct investment (fdi) and growth of states of india. VISION 2020 - Managerial Strategies and Challenge, Wisdom Publications, Delhi.
4. Devajit Mahanta, (2012) Impact of foreign direct investments on indian economy, Research J. Management Sciences, **1(2):**29-31**.**
5. Sharma RK (2006) FDI in Higher Education: Official Vision Needs Corrections, Economic and Political Weekly, pp. 5036.
6. Balasubramanyam VN, Sapsford David (2007) Does India need a lot more FDI, Economic and Political Weekly, pp.1549-55.
7. Bajpai Nirupam, Jeffrey D Sachs (2006) Foreign Direct Investment in India: Issues and Problems, Harvard Institute of International Development, Development Discussion Paper No. 759.
8. Chien, Nguyen Dinh and Kezhong Zhang (2012) FDI of vietnam; two-way linkages between FDI and GDP, competition among provinces and effects of laws, iBusiness, 4:157-163.
9. Guruswamy Mohan, Sharma Kamal, Mohanty Jeevan Prakash, Korah Thomas J (2005) FDI in India's Retail Sector: More Bad than Good? Economic and Political Weekly, pp.619-623.
10. Kulwinder Singh (2005) Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005, papers.ssrn.com/sol3/papers.cfm_id_822584.
11. Ministry of Finance(2003-04) Report of the economic survey, Government of India, New Delhi
12. Weisskof TE (1972) The impact of foreign capital inflow on domestic savings in underdeveloped countries, J. Int. Economics, 25-38.
13. Sahoo D, Mathiyazhagan MK, Parida P(2002) Is foreign direct investment an engine of growth? Evidence from the Chinese economy, Savings and Development, 419-439
14. Nayak DN (**1999**) Canadian foreign direct investment in India: Some observations, Political Economy J. India, **8**:51-56
15. Srivastava S (2003)What is the true level of FDI flows to India?, Economic and Political Weekly, 1201-1209
16. www.imf.org
17. www.rbi.org
18. www.worldbank.org