

Growth of FDI in Indian Economy

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Abstract

Foreign direct investment has taken its special place in Indian economy has provided foreign currency of many countries. FDI has helped government of India in improving balance o payment as from FDI there will be more inflow of foreign currency. FDI has been done in India in 1990 and that time there were no laws regarding this and many foreign companies had entered Indian market. But since then government of India has made many provisions and laws to control FDI in India. FDI has proved to be important tool to stabilise economy in any country therefore there are some liberal laws made by government of Indian regarding FDI. Cheap and skilled labour force in India and liberal taxation provisions with entry laws has attracted many countries for FDI. 2011-2012 has been proved to be greatest year in terms of FDI. Service sector and construction sector are two major sectors in which FDI had taken place most. Political stability and social stability is another outcome of FDI in India.

Introduction

Foreign direct investment has gained its importance in the global world and has affected economy of world as a whole. In 1990, India had experienced the FDI in its business industry and since then many changes and improvements have been undertaken. Following are different aspects and findings related to FDI in India. In this research paper inflow of FDI has been discussed and table has been prepared to show FDI from 2008-2009 to 2014-2015. There are various sectors under which FDI has been undertaken and has been analysed in this paper. Various sectors in which FDI has been used were listed in this paper and analysis of same has been made.

Key factors attracting FDI

As we all know that FDI in India has established its different tail in different sectors. This is possible because of various factors that affect FDI policy and attractiveness of India that influenced many foreign investors to invest in. In India there are many factors that together or individual proves to be beneficial for the foreign direct investors in Indian industry. Following are some factors that have attracted FDI in India:

Low wages and labour cost-India has low wages and labour cost that has proved to be cost saving attribute for foreign direct investors in India. Indian labour market is cheaper as compared to foreign market. Another reason that makes Indian labour market more attractive is the different in

currency value. Foreign investors have to invest less as there will be currency exchange benefit available with them.

Skilled work force-Another attractive point that foreign investor finds in Indian market is of skilled labour force that India has. Indians are more skilful and hard working as compared to other labour force in different countries. This makes valuable combination of skilled and at the same time cheap labour.

Dedicated law regarding FDI-Indian government has made dedicated laws and regulations regarding FDI that has removed ambiguity while making investment.

Huge market-India is one of the favourites among many other countries in terms of its huge market share. India has large GDP and potential market for investment under different sectors. This attracts more foreign investors to invest in.

FDI Inflow in India

Since inception of FDI in India it has been flowing in with tremendous speed and at regular intervals. Therefore government of India forced to develop separate law for FDI.

Table 1: Following table showing inflows of FDI in India

Year	FDI Inflow (\$ in millions)	Percentage change
2008-09	41873	-
2009-10	37745	20 %
2010-11	34837	(8 %)
2011-12	46556	34 %
2012-13	34298	(26 %)
2013-14	36046	5 %
2014-15	44291	23 %

From the above table it can be analysed that there has been consistency in terms of foreign direct investment. In the year 2011 – 2012, FDI has been increased to greatest level and has achieved the investment of \$ 46,556million. FDI has been showing increasing trend and this makes India a huge potential for FDI.

Major FDI Sectors in India

Table 2: Showing different sectors in India where FDI flows

Sector	Amount of FDI (in crores)	Percentage of total inflow
Services-Sector	205532	17.19%
Construction Development-Sector	113139	9.68%

Telecommunications-Sector	84091	6.86%
Computer Software & Hardware-Sector	73234	6.04%
Drugs & Pharmaceuticals-Sector	65281	5.28%
Automobile-Sector	63990	4.98%
Chemical-Sector	49310	4.16%
Power-Sector	46640	3.85%
Miscellaneous Sector	44060	3.72%

In India, there are liberal market policies and government of India has made FDI more liberal in terms of making investment. This has resulted in FDI in different sectors of market. India has been ranked in highest position in terms of investment from foreign countries in different sectors. Service sector has ranked first in terms of FDI as it has great potential in terms of foreign investment, and then followed by telecommunication sector, computer software & hardware sector, etc.

Conclusion

India has been proved to be most resourceful country when it comes to human resource, market resource and many other resources which business organisation needs. FDI in India has engraved its foot in last 1990 when many foreign investors and companies find India as profitable market place. Cheap and skilful labours are biggest attraction point for the foreign investors through FDI. Government of India has made separate and more liberal laws related to FDI inflow, taxation provisions has provided some rebate to FDI making companies, etc are some benefit points for FDI. Inflow of FDI has supplemented domestic market and capital involve in it. FDI also bring some intangible benefits like political stability and social stability that will lead to lower impact of external environment on companies.

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