

AN INTRINSIC LOOK INTO THE INDUSTRIAL GROWTH IN INDIA BY VIRTUE OF “FDI”

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ABSTRACT

Foreign direct investment (FDI) in India during the era of globalization, high inflation and liberalization have, without any doubt, emerged as one of the most significant source and contributor of external inflow of resources for capital formation. The term FDI is closely associated with structured industrial growth and dynamics of the business environment in India. FDI in the context of industrial growth refers to the bundle of resources that usually flow into a country including capital, production technology, global managerial skills, innovative marketing strategies and access to new markets. In this paper, efforts are made to provide a comprehensive picture of the foreign direct investment ranging from its conception to the factors responsible for making India industrially progressive. A cumulative and an exhaustive study of the overall scenario of FDI in this country will allow having a lucid idea about the utility of the perception, the causes for low flow of FDI and the mechanisms that can be used to make this country attractive enough for foreign investors. It is high time for the government to intensify efforts in the form of reformed legislation to further liberalize the economy so that India can be the most preferred FDI destination in the world to facilitate high rate of Industrialization. This study entirely relies on secondary data collected having concrete references to various websites, textbooks, journals, newspapers, and magazines.

Keywords: FDI, Globalization, Liberalization, Reformed Legislation, External inflow

INTRODUCTION

India has come across a huge change in the approach to foreign direct investment since 1991 as it commenced its economic reforms taking into account all sectors of the economy. With an intention of becoming self-reliant, India has got dual nature of policy making such as FDI through which foreign collaboration is encouraged in the areas of advanced technology and high prioritized industries and discouraged in low technology areas to nurture domestic industries. It is believed that FDI would increase the total volume of investment in the country to improve productivity and access to global market. This would also allow the affiliate industries in the economy to grow and sustain without hurdling for capital mobilization. Post-liberalization period has put much emphasis on legislation process to formulate moderate industrial policies to eliminate barriers for foreign investors to invest in this country becoming permanent collaborative partners with affiliate industries on the Indian Industrial turf. A foreign company planning to set up business operations in India may incorporate a company under Companies Act, 1956 as a joint venture or wholly owned subsidiary or set up a liaison office/project office/branch office which can undertake business/economic activities permitted under foreign exchange management regulations, 2000.

FDI can stimulate the additional resources to boost the domestic industries to get converted into MNC/MNE (Multinational companies/Multinational Enterprises) and act as a complementary tool for domestic enterprises. FDI creates opportunities for small and medium size companies to be more active in international business activities. India's economic reforms have contributed a lot to Indian business to be dynamic and have enhanced compactness of the industry. Therefore, the quest for galloping returns in Indian economy induced this study to drill down the theoretical and empirical relationship between FDI and industrial growth.

OBJECTIVES

The paper has the following objectives:

- a) To study the significance of FDI policy of the Government of India in favour of industrialization.
- b) To know the contributions of investing countries in Indian business climate to strengthen industrial growth process.
- c) To study the role of FDI in improving quality and accessibility of input goods.
- d) To study how IEM (Industrial Entrepreneur Memorandum) allows industrial undertakings to be exempted from Industrial license.

LITERATURE REVIEW

It is well examined and experimented in Indian market economy that FDI inflow provides a plethora of benefits to domestic industry partners as well as it also paved the ways for foreign investors to become 100% stakeholder of an enterprise. So, that decision-making process cannot be constrained at any point of requirement. The much-authenticated publications are sincerely referred to get a deeper sense of the concept and the development of Industry segment of India. Salisu (2004) analyzed the determinants and impact of Foreign Direct Investment on economic Growth with reference to Industrialization in developing Countries. Balasubramanyam et al. (1996) have shown prominent results favouring the assumption that FDI is pivotal for industrial growth by encouraging export promotion than importing substituting countries. Chakraborty and Parantap (2002), "FDI and growth in India: a co-integration approach" explained about the long run relationship between FDI and GDP. Jongsoo (2004), "Korean Perspective on FDI in India: Hyundai Motors Industrial Cluster" suggested increasing growth rate in Industrialization took place in India through joint ventures and Greenfield investments. Bose and Tarun (2012), "An advantages and disadvantages of FDI in China and India" opined that India and China have been a hotspot for foreign investment on account of their unsaturated market conditions, consumer behavior, low cost of labour, and demographic factors. Babar and Khandare (2012), "Structure of FDI during Globalization period", has given an empathetic overview of country wise foreign inflow to India till 2010. Consolidated FDI Policy of Government of India, 2013, affirmed that qualified foreign investors are allowed to invest through SEBI registered Depository participants (DPs) only in equity shares of listed Indian companies through recognized brokers on recognized stock exchanges in India as well as in equity shares of Indian companies which are offered to public in India in terms of the relevant and applicable guidelines/regulations.

METHODOLOGY

This paper is based on the objectives like how foreign investment flow is to be encouraged for India's industrial growth in terms of employment generation, decline in inflation rate, GDP growth, creation of subsidiary industries, technological upgrading, promotion of export services, urbanization, facilitating service sector to cater the queries immediately, boosting elements of social benefit and etc. It also analyzes the trend of FDI in India. For the said purpose, data have been collected from secondary sources such as reports of the Government of India, Journals, books, magazines, internet, etc.

DISCUSSION

Foreign Direct Investment has to bring industrial growth in India. The prosperity of the

country is reflected by the pace of its sustained economic growth and development. A progressive nation needs moderate investment in the industrial, social and agricultural sector. Investment provides the base and pre-requisite for economic development. Apart from a nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, a large quantity of foreign investment is required for the betterment of the country. Developing nations, India in particular, consider FDI as the modest source of international capital flows among all the available sources of external finance. To many scholars and economists, FDI is viewed as a critical driver of industrial growth in India considering the belief that foreign investors invest in India to get the benefit of low cost of labour, special privileges like tax exemption and SEZ. But the continuous inflow of FDI to various sectors of industry in India prominently shows the trust and confidence of foreign investors.

After realizing the importance of foreign investment, the Government of India keeps on issuing a consolidated FDI policy circular every year on 31st March since 2010 explaining the policy and the process of FDI in Indian context. Pro-growth policies of India during the financial year 2014-15 laid a foundation of inducing the external investors to invest on Indian Industries. Net FDI inflow in the current financial year is about US \$ 14.1 billion dollars in the first half. 33.5 percent increase in FDI is realized during the specified period as compared to the previous financial year 2013-14. The present FDI policy of the Government of India has opened up the doors for allied investors to invest as much as US \$ 14.65 billion dollars (Rs. 90,300 crores) in India's Rail infrastructure through the FDI route except operation. The Industrial policy of 1991 (Amended from time to time) has vehemently vouched for 51% FDI share in the multi-brand retail under Government route and has allowed 100% FDI share in single-brand retailing. In order to bring voluminous investments into debt and equity markets, RBI has designed a structural framework which allows foreign portfolio investors (FPIs) to be a party in open offers, buy back of securities and disinvestment of shares by the Government of India and State Government.

Indian reformed industrial policy has brought the notion of IEM by reducing the complexity of industrial licensing requirement. It has removed restrictions and facilitated smooth access to foreign technology and foreign direct investment. Industrial undertakings are exempted from industrial licensing and required to file information in the prescribed form for Industrial Entrepreneur Memorandum with the Secretariat of Industrial Assistance (SIA), department of Industrial policy and promotion, Government of India for obtaining an acknowledgment.

In Chinese economy, imperial production methods and trade networks were strong and vibrant with the support of low cost of labour. Hence Chinese economy reached an equilibrium point where supply and demand were well balanced and thus allowed the country to be an emerging global player in investing abroad. In contrast, India's empirical methods of production had been failing to bring moderate growth in per capita income. Low levels of per capita income do not encourage much savings and investment on the home turf. This has

been the trend in India for several decades but with the emergence of economic reform era from 1991, the country plunged into the action of attracting foreign investment in huge quantity in terms of FDI. Thus, FDI has become the true instrument of wriggling out the low-level equilibrium trap.

Fluctuations in exchange rates refer to currency appreciation and depreciation. During appreciation importers, benefit and exporters are adversely affected. The current sharp appreciation of rupee has increased the dollar price of Indian commodities and services in the global market. In order to minimize the risk associated with long-term exchange rate fluctuation, FDI as a pacifying financial tool has been used from time to time in India since 1991 and has proved useful. Vendor development Model is playing key roles in India specifically in IT segment. This model believes in liberal facilitation by host authorities rather than regulations that obliged MNCs to form joint ventures with the supplier firms.

The information contained in the following tables give a deep insight into the role of investing countries in enhancing industrial growth and creating opportunities for both domestic and international companies to be diversified in terms shifting from one sector to another sector and also operating in multiple sectors in India.

Table 1: SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS

Ranks	Country	Financial year 2011-12 (In terms of rupees & US dollar in millions)	Financial year 2012-13 (In terms of rupees & US dollar in millions)	Financial year 2013-14 (In terms of rupees & US dollar in millions)	Cumulative Inflows (In terms of rupees & dollar in millions)	% to Total Inflows (In terms of US \$)
1	MARITIUS	46,710 (9,942)	51,654 (9,497)	27,104 (4,489)	368,229 (78,155)	37%
2	SINGAPORE	24,712 (5,257)	12,594 (2,308)	22,982 (3,913)	113,164 (23,373)	11%
3	U.K	36,428 (7,874)	5,797 (1,080)	20,399 (3,211)	100,857 (20,759)	10%
4	JAPAN	14,089 (2,972)	12,243 (2,237)	8,723 (1,418)	78,817 (15,969)	7%
5	U.S.A	5,347 (1,115)	3,033 (557)	4,632 (778)	55,554 (11,899)	6%
6	NETHERLANDS	6,698 (1,409)	10,054 (1,856)	13,523 (2,205)	55,901 (11,171)	5%
7	CYPRUS	7,722 (1,587)	2,658 (409)	2,880 (471)	35,209 (7,361)	3%
8	GERMANY	7,452 (1,622)	4,684 (860)	5,864 (1,001)	31,376 (6,481)	3%
9	FRANCE	3,110	3,487	1,790	18,654	2%

		(663)	(646)	(297)	(3,870)	
10	UAE	1,728 (353)	987 (180)	1,472 (240)	12,779 (2,663)	1%
TOTAL FDI INFLOWS FROM ALL COUNTRIES		165,146 (35,121)	121,907 (22,423)	125,960 (20,766)	1,022,872 (214,170)	-

Source: Compiled from different sources

The above table states that Mauritius has emerged as the largest contributor of FDI in India contributing 37 percent of FDI inflows to India followed by Singapore and UK, each contributing 11 and 10 percent respectively. The financial year 2013-14 shows an increase in foreign investment inflows in India mostly by the developed countries. It is therefore assumed that there will be a rapid flow of allied investment in all industrial sectors in days to come.

Table 2: SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Ranks	Sector	Financial year 2011-12 (In terms of rupees & US dollar in millions)	Financial year 2012-13 (In terms of rupees & US dollar in millions)	Financial year 2013-14 (In terms of rupees & US dollar in millions)	Cumulative Inflows (In terms of rupees & dollar in millions)	% to Total Inflows (In terms of US \$)
1	SERVICES SECTOR	24,656 (5,216)	26,306 (4,833)	10,680 (1,804)	182,955 (39,039)	18 %
2	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	15,236 (3,141)	7,248 (1,332)	5,914 (966)	106,963 (23,047)	11%
3	TELECOMMUNICATIONS	9,012 (1,997)	1,654 (304)	1,063 (172)	59,796 (13,028)	6%
4	COMPUTER SOFTWARE & HARDWARE	3,804 (796)	2,656 (486)	6,230 (1,020)	59,796 (13,028)	6%
5	DRUGS & PHARMACEUTICALS	14,605 (3,232)	6,011 (1,123)	7,128 (1,269)	56,008 (12,711)	5%
6	CHEMICALS (OTHER THAN FERTILIZERS)	18,422 (4,041)	1,596 (292)	2,950 (496)	43,446 (9,376)	4%
7	AUTOMOBILE INDUSTRY	4,347 (923)	8,384 (1,537)	6,144 (1,050)	45,314 (9,344)	4%
8	POWER	7,678 (1,652)	2,923 (536)	4,281 (704)	40,418 (8,538)	4%
9	METALLURGICAL INDUSTRIES	8,348 (1,786)	7,878 (1,466)	2,599 (432)	37,413 (7,939)	4%
10	HOTEL & TOURISM	4,754 (993)	17,777 (3,259)	2,306 (382)	35,566 (7,013)	3%

Source: compiled from different sources

Table 2 indicates that the service sector has received phenomenal FDI inflows followed by construction and Infrastructure, and telecommunications. The service sector in India has emerged as a potential business entity to attract FDI. Its FDI inflows contribution is about 18 percent at the present scenario. Construction and Infrastructure sector contributes only 6% FDI inflows to the Indian economy. 100 percent FDI is allowed under FIPB in Service sector and construction sector whereas 49 percent FDI under automatic route and 74 percent FDI under FIPB allowed in Telecommunication industry although it contributes 6% FDI inflows.

The present Indian government validates the use of FDI in a host of new sectors. The Finance Minister has indicated government's willingness to hike the FDI cap in defense manufacturing to 100 percent from 26 percent currently. The NDA-led Government has become very liberal in the process of inviting eye-catching FDI irrespective of saffronised swadeshi awakening movement. There is a plan on the part of the Indian government to allow FDI in Indian Railway sector excluding railway operation and more inflow to infrastructure, telecommunication, and retailing sectors to create more jobs and stabilizing the economy. Thus, the government has moved towards "Pragmatic Economics" which means "Do whatever is good for the nation".

The following dynamics dramatized the FDI inflows to India and send a green signal to external investors to invest in new industrial sectors:

- a. Fiscal Reforms
- b. Market Deregulation
- c. International Financial Liberalization
- d. Trade Openness
- e. Privatization
- f. Neo-Swadeshinomics
- g. Effective Governance
- h. Growing Consumer Market
- i. Macroeconomic stability
- j. Vendor development model.

CONCLUSION

This paper vividly and vehemently concludes that the policy on Foreign Direct Investment of Government of India has been reviewed successfully with many more references and inferences. The present study is of the opinion that economic reforms in India have deregulated the Indian economy and stimulated domestic and foreign investment considering India as the radical destination for investors. To materialize effectiveness of FDI and Industrial growth, India has to put accelerating efforts by institutionalizing government regulation efficiency and ensuring that the domestic corporate giants must adhere to industrial regulations. Data revealed herein affirm that the FDI inflows are expected to increase by more than two times in the coming two years and these inflows will be mostly hailed from UAS and European economies. A bulk of collaborative ventures will enter into Indian soil to boost the Industrialization process. Adherence to vendor development model smoothens the

sailing process of joint ventured companies to enhance the profit on both sides. This model is mostly used by IT and service oriented companies where skilled human resources are used extensively to cater the needs of those sectors. FDI helps in sharing of new technology and intellectual properties. It can also allow the local markets to be competitive which brings higher efficiency in all areas. The government of India's social benefits plan under FDI is also appreciated.

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