

ROLE OF FDI ON ECONOMIC GROWTH IN INDIA

Sandhya Kumari

Research Scholar

Department of Economics

B.R.A, Bihar University Muzaffarpur

ABSTRACT:-

If a backward and under developed country is interested in rapid economic development, it will have to import machinery, technical knowhow. Spare parts and even raw materials on method of paying for the imports is to step up exports. This is possible, if the government is prepared to curtail consumption drastically and export more this is otherwise known as foreign direct investment (FDI) Russia, china and other had adopted this method after the establishment of communist governments in these countries. A foreign direct investment FDI is controlling ownership in business enterprises in one country by an entity based in another country. In developing countries like India it is an opportunity to make the economy balance position or make it even better one. It's clear what India next step should be to achieve growth make foreign direct investment a top priority. If India has to grow the economy faster, then it is important recognize the necessity of FDI.

IndexTerms - Investment, Balance, Economy, Method

INTRODUCTION:-

FDI (Foreign direct investment) has been a major non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages special investment privileges like tax exemptions etc. For a country where foreign investment is being made; it also means achieving technical know-how and generating employment, foreign direct investment is a major monetary source for economic development in India. Economic liberalisation started in India in the 1991 economic crisis and since then FDI has steadily increased in India. Which subsequently generated more than one crore (10 million) jobs. FDI is always contributing in the positive growth towards the economy of one country due to the investment by another country or country's personnel's. The FDI may be affected due to the governmental trade barriers and policies for the foreign investments and leads to less or more effective contribution in economy as well as GDP and GNP of the country.

FDI seen as an important catalyst for economic growth in the developing countries, it affects the economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries.

FDI and foreign sector Reforms in India.

In India, all transactions that include foreign exchange were regulated by Foreign Exchange Regulation Act (FERA) 1973. The main objective of FERA was conservation and proper utilisation the foreign exchange resource of the country. It also sought to control certain aspects of the conduct of business outside the country by Indian companies and in India by foreign companies. It was criminal legislation which meant that its violation would lead to imprisonment and payment of heavy fine. It had many restrictive clauses which deterred foreign investments.

In the light of economic reforms and the liberalised scenario, FERA was replaced by a new Act called the Foreign Exchange management Act (FEMA) 1999. The act applies to all branches, offices and agencies outside India, owned or controlled by a person resident in India. FEMA emerged as an investor friendly legislation which is purely a civil legislation in the sense that its violation implies only payment of monetary penalties and fines. However, under it a person will be liable civil imprisonment only if he does not pay the prescribed fine within 90 days from the dated of notice but that too happens after formalities of show cause notice and personal hearing. FEMA also provide for a two year sunset clause for offences committed under FERA which may be taken as the transition period granted for moving from one harsh law to the other industry friendly legislation. Foreign investment is investment in an enterprise by a Non-Resident irrespective of

Whether this involves new equity capital or re-investment of earnings.

Foreign investment is of two kinds (I) Foreign Direct investment (FDI) and (II) Foreign portfolio investment FDI is defined as 'Investment FDI is defined as 'Investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. It refers to capital inflow from abroad, it a form of long terms international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm. International monetary fund (IMF) and organization for economic cooperation and Development (OECD) define FDI similarly as a category of cross border investment made by a resident is one economy with the objective of establishing lasting interest, in an enterprise that is resident in an economy other than that of the direct investor. After following inward oriented policies for nearly four decades India marched on the path of liberalization in July 1991. The destructions in FDI, Were gradually reduced the sect oral caps were raised and FDI was allowed through automatic route in most sectors accepts a few sectors which are of strategic importance. Many new sectors were opened up for FDI like defence, power, insurance etc. To enhance India's potential to become an attractive FDI destination.

THE NEED FOR FOREIGN CAPITAL -

There are many ways in which FDI benefits the recipient nation:-

1. Increased Employment and Economic Growth.
2. Human Resource Development.
3. Development of Backward Areas.
4. Provision of Finance & Technology.
5. Increase in Exports.
6. Exchange Rate Stability.
7. Stimulation of Economic Development.
8. Improved Capital Flow.
9. Creation of a Competitive Market.

THE IMPACT OF FOREIGN CAPITAL ON INDIA'S ECONOMIC DEVELOPMENT.

1. Foreign Capital has helped to raise the level of investment.
2. Capital used to stabilise food prices and import raw materials.
3. Foreign Capital used for enlargement of irrigation and power potential.
4. Capital for improving transport.
5. Capital used for buildings UP Steel industry.
6. Capital used to develop Petro-Chemical and electronic industry.
7. Capital used to enlarge technical resources.

Conclusion

Foreign direct investment (FDI) is an appealing concept through which companies progress and enter into new market as a result of globalization. None the less; there is any array of factors that might influence a company is decision to enter into a new market such as the availability of resource the political stability of the identified country.

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