
Foreign Direct Investment
(FDI) Trends and Impact on
Indian Economy



Foreign Direct Investment

Introduction:

- ❧ The role of Foreign Direct Investment (FDI) plays a significant role in development of Indian economy.
- ❧ Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving.
- ❧ In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promotes efficiency and productivity of the existing production capacity and generate new production opportunity.

Importance of Foreign Capital (fons'kh HkkaMoykps egRo)

☞ Sustaining high level of investment (गुंतवणूकीची उच्च पातळी टिकवणे)

LCD → *industrialisation* → require high level of saving/invst.

☞ The technological gap (तांत्रिक दरी)

Low level of equilibrium of trap → necessity of importing technology → helps in filling up technological gap through

1. provision of expert services 2. training of personnel of the underdeveloped countries, 3. establishment of educational, research & training institutions.

❧ Uses of natural resources (नैसर्गिक साधनांचा उपयोग)

❧ Undertaking the initial risk (सुरुवातीची जोखीम पत्करणे)

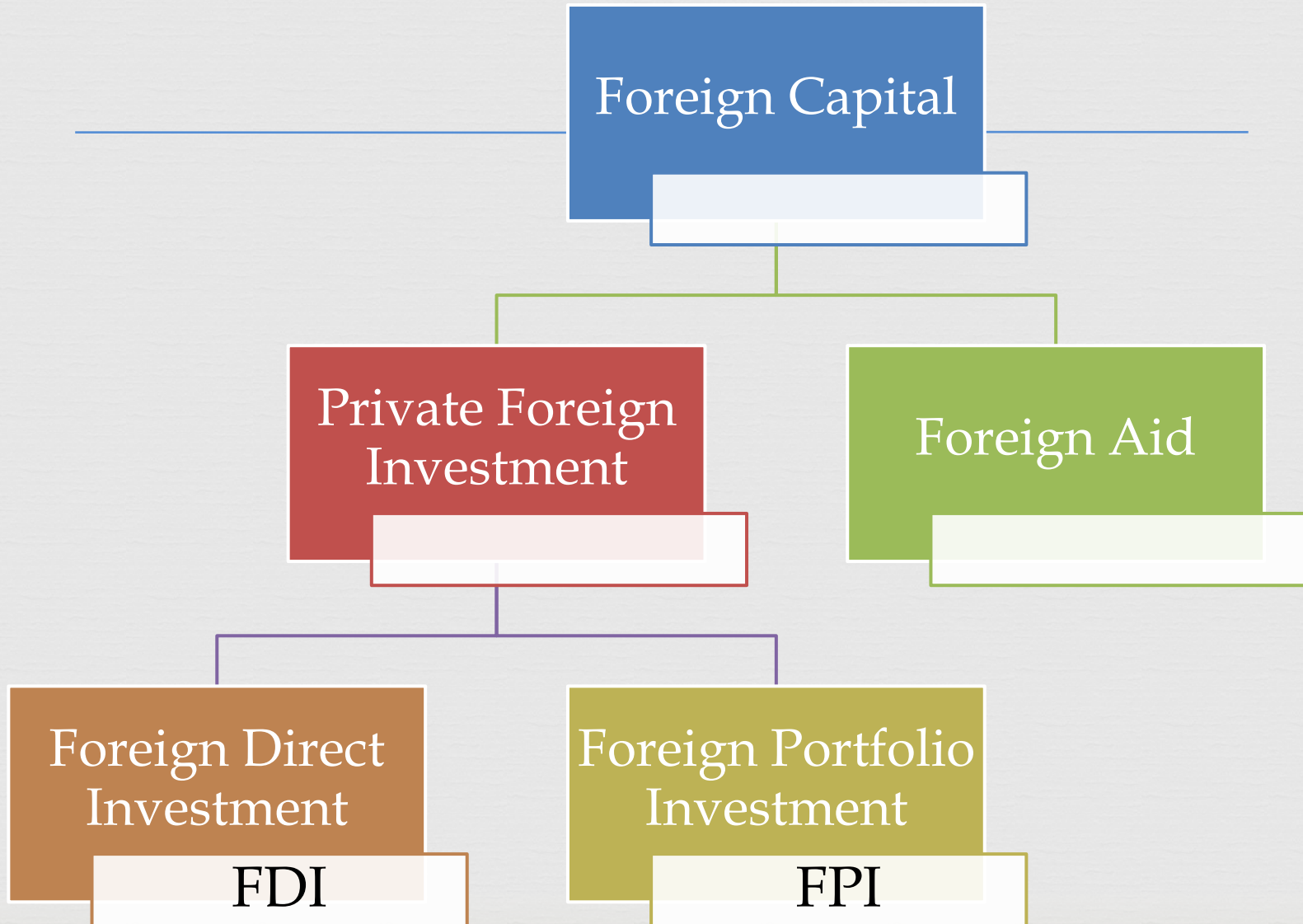
Once industrialization started → initiative of foreign capital → domestic industrial activity started

❧ Development of basic economic infrastructure (आर्थिक पायाभूत संरचनेचा विकास)

Road & Transportation, electricity, irrigation etc.

❧ To solve BoP Problem (व्यवहारशेषातील प्रतिकूलता कमी करण्यासाठी)

Components of Foreign Capital



Components of Foreign Capital (fons'kh HkkaaMoykps ekxZ)

∞ *Foreign Direct Investment (FDI)* (fons'kh izR;{k xqaro.kwd) '

means investment by non-resident entity/person resident outside India in the capital of an Indian company

∞ *Foreign Portfolio Investment (FPI)* (fons'kh Hkkx HkkaaMoy xqaro.kwd)

Foreign Portfolio Investment is the entry of funds into a country where foreigners deposit money in a country's bank or make purchases in the country's stock and bond markets, sometimes for speculation.

∞ **Foreign Aid** (fons'kh lgk;)

money, food, or other resources given or lent by one country to another.

Trends in FDI Inflows to India:

Table 1: Equity FDI Inflows to India

Sectors	2006-07	2007-08	2008-09	2009-10	2010-11
Sectoral shares (Percent)					
Manufactures	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction, Real estate and mining	15.5	22.4	18.6	26.6	17.6
Others	9.9	17.2	15.2	17.7	20.1
Total	100.0	100.0	100.0	100.0	100.0
Equity Inflows (US\$ billion)					
Manufactures	1.6	3.7	4.8	5.1	4.8
Services	5.3	8.0	10.2	7.4	4.5
Construction, Real estate and mining	1.4	4.3	4.2	6.0	2.6
Others	0.9	3.3	3.4	4.0	3.0
Total Equity FDI	9.3	19.4	22.7	22.5	14.9

Source: Department of industrial policy and Promotion: FDI statistic

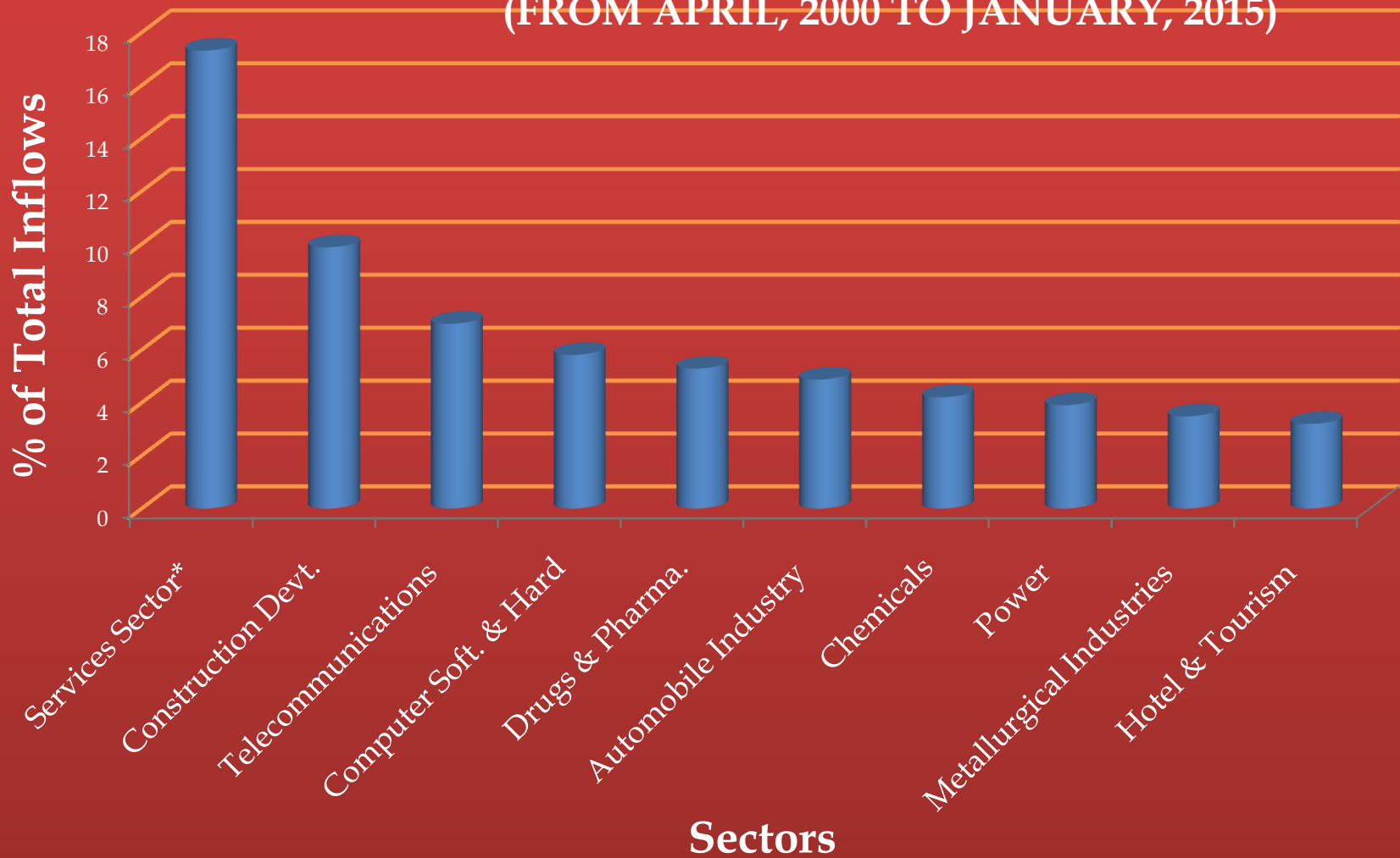
Table no.2
SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS
(FROM APRIL, 2000 TO JANUARY, 2015)

Sr.No	Sector	Amount of FDI Inflows		% of Total Inflows
		(In Rs. crore)	(In US\$ million)	
1	Services Sector*		42,101.98	17.32
2	Construction Development: Townships, Housing, Built-Up Infrastructure And Construction-Development Projects	112,916.36	24,028.19	9.88
3	Telecommunications	83,697.07	16,994.68	6.99
4	Computer Software & Hardware	67,693.78	14,125.19	5.81
5	Drugs & Pharmaceuticals	63,629.47	12,856.02	5.29
6	Automobile Industry	60,725.08	11,857.11	4.88
7	Chemicals (Other Than Fertilizers)	48,641.77	10,229.69	4.21
8	Power	46,358.87	9,512.02	3.91
9	Metallurgical Industries	40,737.61	8,480.90	3.49
10	Hotel & Tourism	40,198.41	7,774.03	3.20

Source: Department of industrial policy and Promotion: FDI statistic

Chart No.1

SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS (FROM APRIL, 2000 TO JANUARY, 2015)



Advantages of FDI (Qk;ns)

∞ Economic growth of the country.

∞ huge amount of domestic capital, → production level ↑
and employment opportunities ↑

∞ Spread of modern technology

by MNCs → transfer technology → domestic ind.

∞ Induce more domestic investment

∞ Opened a wide spectrum of opportunities

both in terms of import and export

∞ Superior quality products

∞ Employment and skill levels increases

Disadvantages of FDI (rksVs)

- ❧ Special concessions to the foreign investors (विदेशी गंतवणूकदारांना विशेष सवलत)
- ❧ Payment of dividends and royalty (लाभांश व रॉयल्टी स्वरूपात देणे)
- ❧ Distortion of economic structure (आर्थिक रचनेचे विकृतीकरण)
suppression of domestic entrepreneurship → extension of oligopolistic practices → neoimperialism and exploitation
- ❧ Political Interference (राजकीय प्रभाव)
immense of financial & technical power → influence on decision making process
- ❧ Defense of a country has faced risks (संरक्षणाच्या दृष्टीकोणातून धोक्याचे)

Conclusion: (fu"d"kZ)

∞ The FDI trend in Indian Economy is moving in upward direction that too with the good speed.



∞ Indian economy is one of the most promising investment destination for most of the developed and developing nations.

∞ some extent FDI is essential for developing countries for their development