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"ROLE OF FOREIGN INVESTMENT IN GROWTH OF INDIAN ECONOMY"

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Abstract : Investment, or creation of capital, is an important determinant of economic growth. In general, investment may lead to creation of physical capital, financial capital and human capital. In combination with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Other things being the same, less investment leads to lower economic growth with attendant consequences on reduction in income, consumption and employment. Foreign capital investment can reduce domestic savings gap. Hence, notwithstanding the domestic savings gap, economic growth can be increased in an open economy with inflow of foreign investment. The foreign investment in India would stimulate the domestic investments. The foreign investments are complementary to economic growth and development in developing countries like India. Investment in an economy raises output and improves standard of living of the people. Keeping this end in view, both developed and developing countries are trying their best to undertake investment programmes. Since the availability of capital is scarce in many countries due to low rate of domestic savings, hence the importance of foreign investment is ever rising. Foreign capital consists of private foreign capital and public foreign capital. Public foreign capital is otherwise financial foreign aid where as private foreign capital consists of either foreign direct investment or indirect foreign investment. In case of foreign direct investment (FDI), the private foreign investor either sets up a branch or a subsidiary in the recipient country. In the liberalized environment as economics become increasingly open, and trade between countries expand, financial transactions become global through financing trade of goods and services. Capital is the engine of economic development and this statement is gaining importance in the recent times. This paper highlights the main area from where the sources of revenue can be generated how the procurement of sources for the development of country can be done effectively. Emerging economies are characterized by an increasing market orientation and an expanding economic foundation. The success of many of these economies is such that they are rapidly becoming major economic forces in the world. The financial system is possibly the most important institutional and functional vehicle for economic transformation. It includes different markets, institutions, instruments, services and mechanisms which influence the generation of savings, investment, capital formation and growth.

Key words:foreign investment , Indian Economy , economic growth.

INTRODUCTION

Capital is the life blood of any production and distribution activity and it plays an important role among the factors of production. Overall progress in various sectors of the Indian economy such as employment position, standard of living, infrastructure development, health and hygiene, Gross Domestic Product and National Domestic Product is due to foreign capital inflows in India.

Foreign Capital Before Liberalisation

India's post-independence economic policy combined a vigorous private sector with state planning and control, treating foreign investment as a necessary evil. In the period ending with the 1980s, India maintained a selective approach towards foreign direct investment. The selectivity in approach was governed principally by the then objective of technology transfer and export promotion that the policy makers expected the foreign capital to meet.

Foreign Capital after Liberalisation

Indian Government liberalised the inflow norm of foreign direct investment. Government allows the foreign institutional investors to invest in Indian capital market. Government provides many incentives to NRIs for investing in India. Indian companies are allowed to procure capital from foreign countries through 'Euro Issues' and 'Global Deposit Receipts'. India has opened its pharmaceutical sector to 100 per cent foreign direct investment via the automatic approval route in 2002.

Present Scenario of Foreign Capital

Presently foreign direct investment is allowed in automatic route, except for a small list. 100 per cent FDI has been permitted in Special Economic Zones with certain conditions. 26 per cent foreign equity participation is allowed in insurance sector subject to license of Insurance Regulatory and Development Authority (IRDA). 100 per cent FDI is allowed in e–commerce and telecom sector. At present, FDI is allowed up to 51 per cent only in single brand retail and 100 per cent in the wholesale cash-and-carry segment.

Need for Foreign Capital

Domestic capital is inadequate for purposes of economic growth and it is necessary to invite foreign capital. For want of experience, domestic capital and entrepreneurship may not flow into certain lines of production. Foreign capital can show the way for domestic capital. Foreign capital has helped in speeding up economic activity in the initial phase of development. Foreign capital has also been instrumental in filling the gap between domestic saving and the capital needed for development. Foreign capital has helped the country in supplying the much needed foreign exchange thereby filling the foreign exchange gap to a considerable extent. The foreign exchange gap equals the difference between imports and exports which can be filled by net capital inflow.

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Foreign Capital and Economic Development

Foreign capital has a major role to play in the economic development of the host country. Over the

years, foreign capital has helped the economies of the host countries to obtain a launching pad from where they can make further improvements. This trend has manifested itself in the last twenty years. Any form of foreign capital pumps in a lot of capital, knowledge and technological resources into the economy of a country. This helps in taking the particular host economy ahead. The foreign investors have been able to play a 9 important role vis-à-vis the economic development of the recipient countries. This has been due to the fact that these countries have changed their economic stances and have allowed the foreign investors to come in and improve their economies.

Gains From International Capital Flows

Production and distribution of goods and services have been globalised on an unprecedented scale during the preceding four decades. (Along with the emergence of the Multi National Corporations, other contractual arrangements such as joint ventures, licensing, management contracts and R & D alliances have made this possible.)

Foreign Direct Investment and GDP

FDI as a share of GDP has grown rapidly becoming the largest source of capital moving from developed nations to developing one.FDI in India has had a positive relationship with GDP of India and has fuelled the GDP growth of India. GDP rallied closely with the FDI flow in the initial years of economic reform; however it has mainly grown in leaps and bounds over and above FDI flow in India. Hence we can assume that FDI has somewhat fuelled the GDP growth in India.

Foreign Direct Investment in India

Foreign direct investment is a form of investment that earns interest in enterprises which function outside the domestic territory of the investor. Foreign direct investment is a component of a country's national financial account. Foreign direct investment is a lead driver for economic growth and brings certain benefits to national economies. It can contribute to Gross Domestic Product (GDP), Gross Fixed Capital Formation (total investment in a host economy) and Balance of Payments.

CONCLUSION

This study intends to throw some light on the important components of foreign capital. Foreign capital plays a significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth. Capital flows contribute in filling the resource gap in countries where domestic savings are inadequate to finance investment. Capital inflows are necessary for macroeconomic stability as capital inflows affect a wide range of macroeconomic variables such as exchange rates, interest rates, foreign exchange reserves, domestic monetary conditions as well as saving and investments.

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