The Impact Of The Foreign Direct Investment In India

G. Vijayakumar
Research scholar
T.M.V. Pune
EmailID: drvijayakumar7@gmail.com

Abstract:

In developing countries the foreign direct investment (FDI) plays a very crucial role in the economic development. The problem of economical stability or deficit of saving can be solved with the help of foreign direct investment. The present article deals to find out the merits and demerits of foreign direct investment in India and FDI impact in India. The main objective of the article focussed on determinants of foreign direct investment and emphasizes the area of challenges of foreign investors along with concerns about employment losses, competition among big and small retailers and distortion of culture etc.

Keywords: *Foreign Direct Investment, Economic Development*

Introduction:

The basic purpose of the FDI is to help developing countries to attain a financial stability and economic growth with the help of investments in different sectors. FDI will give boost to the poor economic condition so that it can rise for develop[1]. The FDI helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for the financial system. After the introduction of Liberalization, Privatization, and Globalization (LPG) in India, there has been a positive GDP growth rate in Indian economy. The main objective behind allowing FDI is to investment for achieving a higher level of economic development and providing opportunities for up gradation.

The Basic Concept of the FDI: The FDI is a direct investment into production or business in a country which can be by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. The FDI is investment which is a passive investment in the securities of another country such as stocks and bonds. The foreign investments provide the much-needed impetus for the growth of the economy. Despite recent problems with the economy, foreign direct investments (FDI) have continued to roll in, across several industries and sectors, proving that investors believe in the strength of India's markets. Size of Indian retail sector is growing at a very fast rate. The current size of Indian retail market is around 28

[1] Mete Feridun, "Impact of FDI on Economic Development: A Causality Analysis for Singapore, 1976 – 2002", International Journal of Economic Sciences and Applied Research, Volume 4 Issue1: 7-17.

billion dollars which is expected to reach the level of around 260 billion dollars in 2020[2]. The Government of India's policy regime and a positive business environment have also played significant roles to ensure that foreign capital keeps flowing into the country.

Objectives of the Study:

The present article aims at as follows:

1) To find out the advantages of foreign direct investment
2) To focus on the challenges of the larger FDI.
3) To discuss the demerits of FDI in India.

Advantages:

One of the advantages of FDI is that it will increase the savings of Indian consumer as he will get good quality products at much cheaper rates. Consumer savings are likely to increase 5 to 10% from FDI. And the FDI will help a lot in improving the miserable condition of Indian farmers who are committing suicides on daily basis because of lesser return from their agricultural produce. But FDI will certain help a lot in improving their conditions as the farmers are going to get 10 to 30 % higher remuneration because of FDI. The FDI is certainly going to increase the employment opportunities in India by providing around 3 to 4 million new jobs. Not only will this it add another 4 to 6 million jobs to be created in logistics, labour etc. because of FDI.

Government revenues are certainly going to increase a lot because of FDI. Government revenues will increase by 25 to 30 billion dollars which is a really big amount. This government revenue can help a lot in the development of Indian economy.

The challenges of the larger FDI: The new Modi government is committed to improving the foreign direct investments in India, particularly in the areas of defense, insurance and infrastructure. The companies which are considering in investing in India will look at several parameters. Some of them are discussed here.

1. The bureaucracy, corruption, labour and land acquisition laws are frighteningly complicated and slow down the entire process of setting up a business.
2. Taxation that is applicable to the corporate profits. The global tax landscape has seen considerable changes in the recent. In the context of India, the total amount of revenues collected thru the various taxes and duties falls extremely short of the requirements. Each country uses a particular tax rate which depends upon a number of factors including the historical baggage it carries. In the current state of the economy large amounts of money is required for socio-economic development and subsidies, etc. Currently, our Indian corporate tax for a domestic companies stands at 33.99% when the net income exceed 10 crores. We are presenting a table of corporate tax rates for other countries for comparison.

Name of the country	Tax rate
France	33%
Belgium	33.99%
Venezuela	34%
Argentina	35%
Zambia	35%
Japan	35.64%

[2] Research Journal of Management Sciences ISSN 2319–1171 Vol. 1(2), September 2012

US	40%
Brazil	34%
South Africa	28%
Hong Kong	16.5%
Singapore	17%
Australia	30%
Philippines	30%
China	25%
Malayasia	25%
Indonesia	25%
UK	21%
Canada	26.5%
Germany	29.58%
Italy	35.4%
Switzerland	17.92%
Taiwan	17%
Kuwait	15%
Ireland	12.5%
Bulgaria	10%
Qatar	10%

From this table, one can observe that India has one of the highest corporate tax rates. Unfortunately for India the tax collected from individuals is limited since less than 3% of the population pay income tax at all. India continues to be a welfare state and most of the costs associated with welfare are borne through deficits. The budget deficit in India is a nightmare and the accumulated deficits (debt) are around 77% of the GDP.

Disadvantages:

Although FDI brings with it a ,lot of advantages, but it is not free from disadvantages as well. Following are some of its demerits:

The fear from FDI is that it is likely to destroy the small entrepreneurs or small selling shops as they will not be able to withstand the tough competition of big entrepreneurs as these entrepreneurs are going to provide all the goods to the consumers at much lesser prices. Many critics of FDI are of the view that the entry of big foreign chains like Wal-Mart, Carrefour etc. are not going to generate any jobs in reality in India. At best the jobs will move from unorganized sector to organized sector while their number will remain the same or lesser but not more. Critics of FDI are also of the view that it is a fallacy that the farmers are going to benefit in any way because of the entry of foreign chains in India rather it will make the Indian farmers a slave of these big chains & the farmers will entirely be on their mercy. Thus, FDI is only going to deteriorate the already miserable conditions of Indian farmers.

Conclusion:

After taking into consideration both advantages and disadvantages of FDI one can safely say that although there are certain apprehensions about FDI in India but all these fears are unfounded. There is hardly any truth in the fact that it would destroy the small entrepreneurs in India rather it will be beneficial for both the consumers and farmers of India. So, the future of India lies in FDI and the government must proceed in that direction if it wants to make the Indian economy a developed economy.

When one country wants to attract foreign capital, then it should make it attractive for them to earn a reasonable rate of return from their investments. If taxes take away bulk of their earnings, then the amount they can distribute to the share-holders gets much smaller. The foreign investment also faces currency value changes and this makes it even more difficult for foreign companies to set up shops in India. While in India.

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