ORIENTAL JOURNAL OF
COMPUTER SCIENCE & TECHNOLOGY
An International Open Free Access, Peer Reviewed Research Journal
Published By: **Oriental Scientific Publishing Co., India.**
www.computerscijournal.org

ISSN: 0974-6471
August 2016,
Vol. 9, No. (2):
Pgs. 133-139

Fdi (Foreign Direct Investment) in India ; the Major Monetary Source for Economic Development With Special Emphasis on Computer Sector

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http://dx.doi.org/10.13005/ojcst/9.02.09

(Received: March 05, 2016; Accepted: April 25, 2016)

ABSTRACT

Foreign direct investment (FDI) is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. The need for foreign capital for a developing country like India could arise on account of the following reasons reasons. Foreign capital is usually essential atleast as temporary measure during the period of development. Foreign capital usually brings with it with other scarce productive factors like technical know how. Domestic capital is inadequate for purpose of the economic growth and it is necessary to invite foreign capital as per the requirement. At many times, domestic capital and entrepreneurship may not flow into certain lines of production. Foreign capital can show the way for domestic capital. There can be potential savings in a developing economy like India but this may come forward only at a higher level of economic activity. Therefore it is necessary that foreign capital should help in speeding up economic activity in the initial phase of development.

Keywords: Fdi, Foreign Capital, Domestic Capital, Technical Know-how, Economic Growth, GDP.

INTRODUCTION

Since the time in memorable there are various countries, some of which were developed earlier by way of achieving the finances and technologies, while there are a number of countries which are called under developed and developing countries. Due to the lack of advanced technology monetary resources are suffering from low per capita income and are regarded as poor countries.

With the advancement of civilization and cooperation from international or other countries, the developed countries as in the light of the directions of UNO also have started giving financial support to under developed countries, Sometimes these financial support are given in the forms of loans while sometimes they are given as non refundable support.

As a result of which the concept of FDI started. FDI which is given to developing countries is utilized for a variety of purpose, in-order to boost the economy section of the countries.

The Cause of receiving FDI is that the countries accepting finances are incaple of development of the countries therefore the FDI received from the developing countries like India is utilized for the development of industries and infrastructure when the industries are already existing in the Countries. The FDI in utilized for the achievement of technical know how under to sun the activities of the industries (Production of the malarial in factories) which further helps in modernization and innovation like industries there are other sectors like health & medicine, irrigation and power supply etc. Ingrown the water resources of the countries in order to provide potable water for citizen.

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows, FDI provides a win-win situation to the host and the home countries, Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, the paucity of all types of resources viz. Financial, capital, entrepreneurship, technological know-who, skills and practices, access to markets-abroad-in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities, Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.

Fdi Inflows In India In Post Reform Era

India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favorite destinations for global FDI flows. According to A.T. Kearney, India ranks second in the world in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's[76] World Investment Report, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India. The FDI inflows flow at about 20 times since the opening up of the economy to foreign investment. India received maximum amount of FDI from developing economic . Net FDI flow in India was valued at US$ 33029.32 million in 2008. It is found that there is a huge gap in FDI approved and FDI realized . It is observed that realization of approved FDI into actual disbursements has been quite slow. The reason of this slow realization may be the nature and type of investment projects involved. Beside this increased FDI has stimulated both exports and imports, contributing to rising levels of international trade, India's merchandise trade turnover increased from US$ 95 bn in FY02 to US$91 bn in FY08 (CAGR of 27.8%).

India's exports increased from US$ 44 bn in FY02 to US$ 163 bn in FY)8 (CAGR of 24.5%). India's imports increased from US$ 51 bn in FY02 to US$ 251 bn in FY08 (CAGR of 30.3%) India ranked at 26th in world merchandise exports in 2007 with a share of 1.04 present.

Further, the explosive growth of FDI gives opportunities to Indian industry for technological up gradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global roduction chains which involves production by MNCs spread across locations all over the world. (Economic Survey 2003-04).[16]

Ojectives

The study covers the following objectives:-

1. To study the trends and patterns of flow of FDI.
2. To assess the determinants of FDI inflows.
3. To evaluate the impact of FDI on the Economy.

Trends And Patterns Of Fdi Flow In India

Economic reforms taken by Indian government in 1991 makes the country as one of the prominent performer of global economics by placing the country as the 4th largest and the 2nd fastest frowning economy in the world. India also ranks as the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower. Continued economic liberalization since 1991 and its overall direction remained the same over the years irrespective of the ruling party moved the economy towards a market based system from a closed economy characterized by extensive regulation, protectionism, public ownership which leads to pervasive corruption and slow growth from 1950 until 1990.

In fact, India's economy has been growing at a rate of more then 9% for three running years and has seen a decade of 7 plus per cent growth. The exports in 2008 were $175.7 bn and imports were $287.5 bn. India's export has been consistently rising, covering 81.3% of its imports in 2008, up from 66.2% in 1990-91. Since independence, India's BOP on its current account has been negative. Since 1996-97, its overall BOP has been positive, largely on account of increased FDI and deposits from Non-Resident Indians (NRIs), and commercial borrowings. The fiscal deficit has come down from 4.5 per cent in 2003-04 to 2.7 per cent in 2007-08 and revenue deficit from 3.6 per cent to 1.1 per cent in 2007-08.

Sources of Fdi In India

India has broadened the sources of FDI in the period of reforms. There were 120 countries investing in India in 2008 as compared to 15 countries in 1991. Thus the number of countries investing in India increased after reforms. After liberalization of economy Mauritius, South Korea, Malaysia, Cayman Islands and many more countries predominantly appears on the list of major investors apart from U.S., U.K., Germany, Japan, Italy, and France which are not only the major investor now but during

pre- liberalizations era also. The analysis in (Table-1) presents the major investing countries in India during 1991-2008. Mauritius is the largest investor in India during 1991-2008. FDI inflows from Mauritius constitute about 39.9% of the total FDI in India and enjoying the top position on India's FDI map from 1995. This dominance of Mauritius is because of the Double Taxation Treaty i.e. DTAA- Double Taxation Avoidance Agreement between the two countries, which favours routing of investment through this country. This (DTAA) type of; taxation treaty has been made out with Singapore also.

Fdi Of Indian Economy In Various Sectors

Developed economies consider FDI as an engine of market access in developing and less developed countries vis-à-vis for their own technological progress and in maintaining their own economic growth and development. Developing nations looks at FDI as a source of filling the savings, foreign exchange reserves, revenue, trade deficit, management and technological gaps. FDI is considered as an instrument of international economic integration as it brings a package of

Table 1: Major Sources of Fdi in India

Mauritius	USA	Singapore	UK	Netherlands	Japan	Germany	Cyprus	France	Switzerland
39.9	8.8	7.2	6.1	4.4	3.4	2.9	2.1	1.5	1.1

Source: compiled & computed from the various issues of Economic Survey, RBI Bulletin, Ministry of Commerce assets including capital, technology, managerial skills and capacity and access to foreign markets. The impact of FDI depends on the country's domestic policy and foreign policy. As a result FDI has a wide range of impact on the country's economic policy. In order to study the impact of foreign direct investment on economic growth, two models were framed and fitted. The foreign direct investment model shows the factors influencing the foreign direct investment in India. The economic growth model depicts the contribution of foreign direct investment to economic growth.

In the Economic Growth Model (Table — 4), estimated coefficient on foreign direct investment has a positive relationship with Gross Domestic Product growth (GDPG) It is revealed from the analysis that FDI is a significant factor influencing the level of economic growth in India. The coefficient of determination, i.e. the value of R2 explains 95.6% level of economic growth by foreign direct investment in India. The F-statistics value also explains the significant relationship between the level of economic growth and FDI inflows in India. D-W statistic value is found 1.0128 which confirms that there is no autocorrelation problem in the analysis.

Thus, the findings of the economic growth model show that FDI is a vital and significant factor influencing the level of growth in India.

Further, the actual inflows of FDI through various routes in India are described. The FIPB route — represents larger projects which require bulk of inflows and account for government's discretionary approval. Although, the share of FIPB route is declining somewhat as compared to RBI's automatic route and acquisition of existing shares route. Automatic approval route via RBI shows an upward trend of FDI inflows since 1995. This route is meant for smaller sized investment projects. Acquisition of existing shares route and external commercial borrowing route gained prominence (in 1999 and 2003) and shows an upward increasing trend. However, FDI inflows through NRI's route show a sharp declining trend. It is found that India was not able to attract substantial amount of FDI inflow from 1991-99. FDI inflows were US$ 144.45 million in 1991 after that the inflows reached to its peak to US$ 3621.34 million in 1997. Subsequently, these inflows touched a low of US $2205.64 million in 1999 but then shot up in 2001. Except in 2003, which shows a slight decline in FDI inflows, FDI has been picking up since 2004 and rose to an appreciable level of US$ 33029.32 million in 2008. The annual growth rate was 107% in 2008 over 2007, and compound annual growth rate registered was 40% on an annualized basis during 1991-2008. The increase in FDI inflows during 2008 is due to increased economic growth and sustained developmental process of the country which restore foreign investor's confidence in Indian economy despite global economic crisis. However, the pace of FDI inflows in India has definitely been slower than China, Singapore, Russian Federation, and Brazil.

A comparative analysis of FDI approvals and inflows reveals that there is a huge gap between the amount of FDI approved and its realization into actual disbursements. A difference of almost 40 per cent is observed between investment committed and actual inflows during the year 2005-06. All this depends on various factors, namely regulatory, procedural, government clearances, lack of sufficient infrastructural facilities, delay in implementation of projects, and non- cooperation from the state government etc.

Table 2: Model Economic Growth Model Gdpg = F [Fdic]

Variable	Coefficient	Standard Error	t- Statistic
Constant	.060322925	0.00007393156391	815.92
FDIG	0.039174416	.020661633	1.8959

R2= 0.959 Adjusted R2= 0.956
D-W Statistic = 1.0128, F-ratio = 28.076
Note: * = Significant at 1%

Infact, many long term projects under foreign collaborations get delayed considerably, or) in some cases, they may even be denied in the absence of proper and sufficient growth is well known. FDI and trade are engines of growth as technological diffusion through international trade and inward FDI stimulates economic growth. Knowledge and technological spillovers (between firms, within industries and between industries etc.) contributes to growth via increasing productivity level. Economic growth, whether in the form of export promoting or import substituting strategy, can significantly affect trade flows. Export led growth leads to expansion of exports which in turn promote economic growth by expanding the market size for developing countries.

India prefers export 'Stimulating FDI inflows, that is, FDI inflows which boost the demand of export in the international market are preferred by the country as it nullifies the gap between exports and imports (Economic Survey 2009-10)[17]. Stock of foreign exchange reserves shows a country's financial strength. India's foreign exchange reserves have grown significantly since 1991 . The reserves, which stood at Rs. 23850 crores at end march 1991, increased gradually to Rs. 361470 crores by the end of March 2002, after which rose steadily reaching a level of Rs. 1237985 crores in March 2007. The reserves stood at Rs. 1283865 crores as on March 2008 (Table-14).

Further, an adequate FDI inflow adds foreign reserves by exchange reserves which put the economy in better position in international market. It not only allows the Indian government to manipulate exchange rates, commodity prices, credit risks, market risks, liquidity risks and operational risks but it also helps the country to defend itself from speculative attacks on the domestic currency. Adequate foreign reserves of India.

Distribution of Fdi Within India in Various Sectors

FDI inflows in India are heavily concentrated around two cities, Mumbai (US$ 26899.57 million) and Delhi (US$ 12683.24 million). Bangalore, Ahmedabad and Chennai are also receiving significant amount of FDI inflows. These five cities together account for 69 per cent of total FDI inflows to India. Mumbai and Delhi together received 50 per cent of total FDI inflows to India during 2000 to 2008.

Mumbai received heavy investment from Mauritius (29%), apart from U.K. (17%), USA (10%), Singapore (9%) and Germany (4%).The key sectors attracting FDI inflows to Mumbai are services (30%), computer software and hardware (12%), power (7%), metallurgical industry (5%) and automobile industry (4%). Mumbai received 1371 numbers of technical collaborations during 1991-2008. Delhi received maximum investment from Mauritius (58%), apart from Japan (10%), Netherlands (9%), and UK (3%),While the key industries attracting FDI inflows to Delhi region are telecommunications (19%), services (18%), housing and real estate (11%), automobile industry (8%) and computer software and hardware (6%). As far as technical collaborations are concerned Delhi received 315 numbers of technical collaborations during 1991- 2008.

Heavy investment in Bangalore came from Mauritius (40%) alone. The other major investing countries in Bangalore are USA (15%), Netherlands (10%), Germany (6%), and UK (5%). Top sectors reported the FDI inflows are computer software and hardware (22%), services (11%), housing and real estate (10%), telecommunications (5%), and fermentation industries (4%). Bangalore received 516 numbers of technical collaborations during 1991-2008. Chennai received FDI inflows from Mauritius (37%), Bermuda (14%), USA (13%), Singapore (9%) and Germany (4%). The key sectors attracting FDI inflows are construction activities (21%), telecommunications (10%), services (10%), computer software and hardware (7%), automobile industry (7%), As far as technical collaborations are concerned, Chennai received 660 numbers of technical collaborations during 1991-2008.

India has encouraged FDI in infrastructure sector from the very initiation of its economic reforms, but the demand for it is still not being fulfilled. In fact, investment is heavily concentrated in consumer durables sector rather than in long —

term investment projects such as power generation, maintaining roads, water management and on modernizing the basic infrastructure. Maitra[41] (2003) reveals that the shortage of power is estimated at about 10% of the total electrical energy and approximately 20% of peak capacity requirement.

However, insufficient and poor conditions of India's infrastructure are the major factors to the slowdown in growth which reduces the trust and enthusiasm for FDI from investors and economic growth of the country. Further, insufficient power supply, inadequate and unmaintained roads, an over- burdened railway system, severely congested urban areas, may continue to plague the Indian economy in the coming years.

In India, FDI inflows in services sector are heavily concentrated around two major cities -Mumbai (33.77%) and Delhi (16.14%). Mauritius top the chart by investing 42.52% in services sector followed by UK (14.66%), Singapore (11.18%). The total number of approvals for services sector (financial non-financial) have been of the order of 1626 (5.78% of the total approvals) with an equity participation of US$ 8.7 bn, 10.28% of the total investment. Services sector ranks 3rd in the list of sectors in terms of cumulative FDI approved from August 1991 to Dec 2008. Out of 1626 numbers of foreign collaborations, 77 are technical and 1549 are financial in nature. Majority of collaborations in technology transfers are from USA (30) and UK (8).the leading Indian companies which received FDI inflows in services sector are: Cairn (I) Ltd, DSP Merrill Lynch Ltd, AAA Global Ventures Pvt. Ltd., Kappa Industries Ltd, Citi Financial Consumer Finance (I) Ltd, Blue Dart Express Ltd, Vyasa Bank Ltd, CRISIL Ltd, Associates India Holding Co. Pvt. Ltd, Housing Development Finance Corp. Ltd.

Technology transfers are concerned, total numbers of 20 technical and 1111 financial collaborations have been approved for Trading sector from 1991-2008. Maximum numbers of technology transfers are approved from USA (5), Japan (3) and Netherlands. The top five Indian companies which received FDI inflows are Multi Commodity Exchanges of India Ltd, Anchor Electricals, Multi Commodity Exchanges of India Ltd, Metro Cash and Carry India Pvt. Ltd, Essilor India Pvt. Ltd.

Computer Software and Technological Sector

Computer Software and Hardware sector received US$ 8.9 bn which constitute 11.43% of the total FDI inflows during the period Jan 2000 to Dec 2007, Computer Software and Hardware sector shows a continuous increasing trend of FDI inflows. Mauritius with an investment of US$ 4789 bn remained at the top among the investing countries in India in this Sector. Other major investing countries in this sector are USA (12.88%), Singapore (10.07%) etc. Among Indian locations Mumbai received 22.44% of investment followed by Bangalore (10.8%), and Chennai (9.90%).

Computer Software and Hardware industry fetched 3636 numbers of foreign collaborations. Out of 3636, 125 are technical and 3511 are financial in nature with an equity participation of US$ 3.0bn. Major technological transfers come from USA (43.2%) and Japan (10.4%). The top Indian companies which received FDI inflows in this sector are: I Flick Solutions Ltd, I Flex Solutions ltd, Tata Consultancy Services Ltd, Infrasoft Technologies Ltd, Mphasis BFL Ltd, I- Flex Solutions Ltd, Digital Global Soft Ltd, India Bulls Financials Services P. Ltd, IFLEX Solutions Ltd, Unitech Reality Projects Ltd.

Computer sector received US $8.9 billion of total FDI inflows during 2000 to Dec . 2007.This sector shows a continuous increasing trend of fdi inflows during Jan 2000 to Dec 2008. From 1991 to Dec 1999 computer software and technological sector was also part of electrical and electronic sector .

International Investment Agreements

India is the founding member of GATT (General Agreement on Trade and Tariffs). India is also a signatory member of South Asian Free Trade Agreement (SAFTA). India has signed BITs (Bilateral Investment Treaties) with both developed and developing nations. India has concluded 57 numbers (upto 2006) of BITs, out of which 27 are with developed nations and majority of them, are with developing countries of Asia (16), the Middle East

External debt of India refers to the total amount of external debts taken by India in a particular year, its repayments as well as the outstanding debts amounts, if any. India's external debts, as of march 2008 was Rs. 897955, recording an increase of Rs.1169575 crores in march 2009 mainly due to the increase in trade credits. Among the composition of external debt, the share of commercial borrowings was the highest at 27.3% on March 2009, followed by short — term debt (21.5%), NRI deposits (18%) and multilateral debt (17%).Due to arise in short — term trade credits, the share of short — term debt in the total debt increased to 21.5% in march 2009, from 20.9% in march 2008.

As a result the short — term debt accounted for 40.6% of the total external debt on March 2009. In 2007 India was rated the 5th most indebted country according to an international comparison of external debt of the twenty most indebted countries.

CONCLUSION

Thus we can see the growth in computer and technological sector and how it plays a very significant role in foreign direct investment of Indian economy as foreign capital is initiated and helps in the growth of the Indian economy .

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