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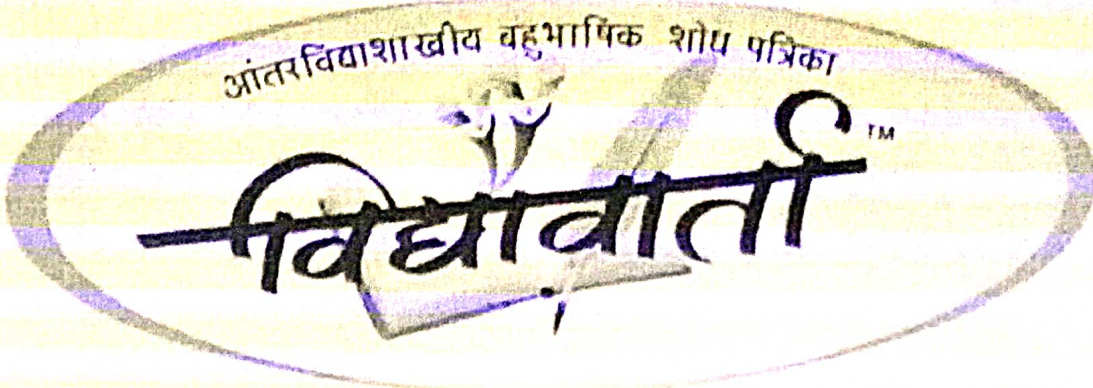
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विनमिना शुद्ध खचने, दुवत अनर्थ फल अधियन कने
-महात्मा ज्ञानीश्वर फुले

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06

FDI Trends and Its Effect on India Economy

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Abstract- With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy especially the services sector. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. India has been attracting foreign direct investment especially during post reforms period. The sectors like telecommunication, construction activities and computer software and hardware have been the major sectors for FDI inflows in India. The Indian economy as a whole, we find that FDI stocks and output are Co-integrated in the long run. FDI is unlikely to work wonders if only remaining regulations were relaxed and still more industries opened up to FDI. Our present focus is on the FDI trends and consequences during the last decade in India. We also study the effects of FDI investment across various sectors during the same period.

Index Terms- Economy, FDI, FII, Reforms, Services.

1. Introduction

Indian economy had experienced major policy changes in early 1990s. The new economic reform, popularly known as,

Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy especially the services sector. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. India has been attracting foreign direct investment especially during post reforms period. The sectors like telecommunication, construction activities and computer software and hardware have been the major sectors for Foreign Direct Investment (FDI) inflows in India.

2. RESEARCH ELABORATIONS

2.1 Methodology:

Our present focus is on the FDI trends and consequences during the last decade across various sectors in India. We also study the flow, distribution and future projections of FDI within India and its effects on Indian economy especially by time of 2008 world crisis using secondary information sources

2.2 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 1, 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 World Investment Report, 2005

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 India¹.

2.3 Trends and patterns of FDI flow in the world:

Trends in World FDI flows show that developing countries makes their presence felt by receiving a considerable chunk of FDI inflows. Developing economies share in total FDI inflows rose from 26% in 1980 to 40% in 1997. However, the share during 1998 to 2003 fell considerably but rose in 2004, again in 2006 and 2007 it reduces to 29% to 27% due to global economic meltdown. Specifically, developing Asia received 16 %, Latin America and the Caribbean 8.7 %, and Africa 2 %. On the other hand, developed economies show an increasing upward trend of FDI inflows, while developing economies show a downward trend of FDI inflows after 1995².

However, India shows a steady pattern of FDI inflows during 1991-2007. The annual growth rate of developed economies was 33%, developing economies was 21% and India was 17% in 2007 over 2006. During 1991-2007 the compound annual growth rate registered by developed economies was 16%, developing economies was merely 2%, and that of India was 41%.

2.4 Major sectors attracting FDI:

The major sectors attracting FDI inflows in India have been Services and Electrical & Electronics amounting to US\$ 30,421 millions or 32 % of total FDI. Service sector tops the chart of FDI inflows in 2008 with India emerged as a top destination for FDI in services sector³.

2.5 Distribution of FDI within India:

FDI inflows in India are heavily concentrated around two cities, Mumbai (US\$ 26899.57 million) and Delhi (US\$ 12683.24 million). Bangalore, Ahmadabad 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 2008⁴.

2.6 FDI in India dropped in 2010:

India has dropped six places in the global trade body's 2010 rankings of highest foreign direct investment (FDI) compared to the 2009 list.

- India's ranking has dropped to 14th place in 2010 from 8th position in 2009. India attracted FDI worth \$25 billion last year, much lower than the inflows of \$36 billion seen in 2009.

- FDI to South Asia declined to \$32 billion, reflecting a 31 percent slide in inflows to India and a 14 percent drop in flows to Pakistan. But inflows to Bangladesh increased by nearly 30 percent to \$913 million.

- While inflows to India slowed down, FDI in China has increased in 2010⁵.

2.7 Global foreign direct investment:

The United Nations Conference on Trade and Development reported that there was no significant growth of Global FDI in 2010. In 2010 was \$1,122 billion and in 2009 was \$1,114 billion. The figure was 25 percent below the pre- crisis average between 2005 & 2007.

2.8 Indian FDI projections:

2.8.1 United Nations Conference on Trade and Development

(UNCTAD) survey projection on FDI:

Starting from a baseline of less than \$1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. Services, telecommunication, construction activities, computer software and hardware were attracted higher inflows. Mauritius, Singapore, the US and the UK were among the leading sources of FDI. According to Ernst and Young, foreign direct investment in India in 2010 was \$44.8 billion, and in 2011 experienced an