International Journal of Scientific Research in Modern Science and Technology
ISSN: 2583 -7605 (Online)
© IJSRMST \ Vol. 2 \ Issue 6 \ June 2023
Available online at: www.ijsrmst.com

Foreign Direct Investment in India and its impact on balance of payment position analysis: An overview

Dr. R. Rajesh Kanna

Assistant Professor, Department Of Economics,

Vels Institute of Science, Technology and Advanced Studies, Pallavaram, Chennai, Tamil Nadu, India – 600117.

E-mail: dr.rajeshkanna73@gmail.com

Abstract:

The development of the Indian economy has benefited greatly from foreign direct investment (FDI). In many ways, it has helped India attain some level of financial stability and prosperity. It has also all owed India to concentrate on the areas that required economic attention and deal with a number of problems that the nation continues to face given that it has the fourth largest economy in the world, India offers numerous opportunities for foreign direct investment across numerous industries. The Indian government has deregulated the economy and provided enticing possibilities in an effort to draw foreign direct investment in to the nation after realising the potential the nation held for such investments. Since 1991, the Indian government has been implementing liberalised economic reforms. Always seeking to create prospects for foreign direct investment that are regulated leniently the efforts undertaken by the national Government over a period of time have led to an increase in FDI in India.

Key Note: FDI, Industrial growth performance, Circular economy, Productivity

1. Introduction:

The development of the Indian economy has benefited greatly from foreign direct investment (FDI). In many ways, it has helped India attain some level of financial stability and prosperity. It has also all owed India to concentrate on the areas that required economic attention and deal with a number of problems that the nation continues to face. Given that it has the fourth largest economy in the world. India offers numerous opportunities for foreign direct investment across numerous industries. Indian government has deregulated the economy and provided enticing possibilities in an effort to draw foreign direct investment into the nation after realising the potential the nation held for such investments. Since 1991, the Indian government has been implementing liberalised economic reforms. Always seeking to create prospects for foreign direct investment that are regulated leniently the efforts undertaken by the national Government over a period of time have led to an increase in foreign direct investment in India.

2. FDI in India

The economy of India has benefited greatly from the increased flow of FDI thus actions should be done to ensure that this trend continues. India has traditionally aimed to entice FDI from significant

international investors. Actually Man Mohan sing the finance minister was the driving force behind the foreign Exchange Management Act (FEMA), which was passed in 1991. This has been one of sigh's main political concerns in India since he was elected prime minister. 100 per cent FDI is allowed, according to the gazette notification modifying the Foreign Exchange Management Regulations 2000. In single brand product retailing 100% FDI is allowed and in multi branded retail equity is capped at 51%. Investments by FDI are allowed through joint ventures, private equity or preferential allocations financial partnerships and the capital markets in the form of Euro issues. The nuclear railroad, armaments coal and lignite or mining industries do not allow foreign direct investment.

There are prospects for foreign investors in a number of projects that have been announced in sectors like distribution and transmission electricity production and the construction of roads and highways. With a cap on foreign equity of INR 1,500 crores (about $ 352.5 million) the Indian national Government has also given FDIs authority to provide up to 100 per cent of the funding required for the building of bridges and tunnels. FDI is currently permitted in financial services including the expanding credit card industry. The non-banking financial Services industry is one of these services as well. Up to 51 per cent of the shares in private Banks may be purchased by foreign investors but only if the banks are global financial institutions Up to 45% of the shares you can also buy shares of businesses in the Global Mobile Personal Communication by Satellite Services (GMPCSS) industry.

3. Conceptional Problems

In order to obtain a long term managerial interest in a business operating in an economy other than the investors foreign direct investment (FDI) is defined as the net inflow of investment (inflow minus outflow). A corporation from another country makes a direct investment in the production or business of the target country by either purchasing a company there or by expanding the activities of an already established company there.

4. FDI classification

Foreign Direct investment is FDI. Domestic and foreign direct investments are the two different category of direct investment. While FDI brings in foreign exchange DDI is conducted in home currency (In India rupees). There are just three places to get foreign currency 1) Goods and Services export 2) Foreign aid and NRO 3) Bank accounts were accepted as assets.

5. Goals for the Paper/ Objectives

The following are the paper's primary goals

1) To comprehend how FDI affects the Indian economy.
2) To assess the benefits and drawbacks of FDI for the economy.
3) To make recommendations on methods to safeguard the home economy.

6. Methodology

The current paper is supported by secondary information. For a thorough examination secondary data were gathered from books journals periodicals government publication census reports economic

surveys and news articles. The main and introductory information about FDI in India is provided in the paper.

7. Discussion and Analysis

The Indian economy is now an open or market economy rather a mixed economy. The Indian government made several adjustments to the national's economic policies towards the beginning of the 1990s. This aided in the economic liberalisation and deregulation of India. Due to the significant Quantity of foreign direct investment that entered India through international business Non Resident Indians (NRIs) and other foreign investors the country's marketplaces were also opened to this. Types of investment. India's economy grew as a result of this. Investment in India has been authorised based on the recommendations of the Foreign Direct Investment Promotion Board (FIPB). In 2001 India Received approximately $42.3 billion in FDI overall. The investment climbed to US$113 billion in 2004 from US$54.1 billion in 2002 US$75.4 billion in 2003 and US$113 billion in 2004. This suggests that during the past few years the flow of foreign direct investment into India has increased significantly. Various types of foreign investment including investments in Indian commercial banks NRI deposits, and investments in the debt and stock markets of the nation.

8. The benefits of FDI in India

Some of the presumptive benefits of FDI in India included increased capital flow better technology Management expertise and access to international markets the creation of employment opportunities better education higher per capita income better products and services at more affordable prices improved trade and benefits for small businessmen's profits in the economy. These advantages are offered by FDI in India. Politicians and policy makers anticipated that Indian retail traders might take advantage of these benefits. Politicians driven by hidden agents speak a language all their own for obvious reason. They frequently lack the expertise necessary to comprehend the long-term effects of the populist initiatives and policies they enact. A some of the rules although many people believe that FDI is good for India, the Indian economy really suffers as a result.

9. FDI's Effects on the Indian economy

FDI is only necessary in two circumstances. When DDI is insufficient or when foreign exchange is needed respectively. The situation as it stands in our nation on the DDI front is fairly stable. The domestic savings rate is among the highest in the world market capitalization which is always rising creates investable money and domestic investments have enormous unutilized funds waiting to be put in feasible projects. Banks are flush with cash. Everything is full with zeal. Therefore there is no shortage of investing dollars domestically. Consumerism Culture Monoculture high spending attitudes etc. Were all cited in favour of FDI. Indians tastes and behaviours are affected by it when. The investor is able to recoup its initial investment the small vendor's domestic market and long term balance of payment position of the Indian economy are all put at risk.

A debt in flow of portable foreign currency is an FDI. Why? Simply because foreign currency will need to be used to repatriate the profits or returns it generates. Second all future imports of labour supplies and goods will need payments in foreign currency. Finally the proceeds will flow out of the country in foreign currency at the point of winding up or selling off. It's important to realise that all of his will result in a much large outflow of foreign exchange than the initial inflow. Therefore every FDI is a blatant example of foreign exchange liabilities. It causes resource depletion and places India once more in foreign hands. Consequently interest from foreign investors is shown in increase in the investment in various Indian economic sectors.

They claim that without FDI a number of industries including banking telecommunications aviation and the car industry would not have attained international standards. I believe the nation should have utilised foreign cash to simply import technology if necessary and establish the same business with domestic capital rather than allowing foreign capital to set up shop here. We are in a win position since there is no risk of foreign exchange no profits lowing the nation domestic consumers receive the same products and domestic business not foreign ones, benefit from exports. But this approach demonstrates that the government is dishonestly serving the interests of special interests rather than the economy.

10. Retail Sector FDI

According to the most recent National Sample Survey (NSS) 2009- 2010 the retail industry in India employs about 4 crore (40 Million) people, It has become the second largest employer in the country after agriculture. Small unorganised or independent retailers make up the majority of these as they are unable to obtain productive employment in other economic Sector. India's unorganised sector controls the majority of the country's retails trade. Large mega markets Department stores and upscale shopping malls have only recently begun to appear in several major cities. Although some international merchants have gained a backdoor entry through franchises and export focused wholesale operations these are owned and operated by Indian promoter. The pattern of rising unemployment in India has been verified by NSS 2009- 2010 withstanding the hype surrounding the country's high GDP growth from 2000 to 2005 the yearly growth rate of all jobs was roughly 2.7 present from 2005 to 2010 it was only 0.8 percent. Employment growth outside of agriculture decreased from 4.65 percent to 2.53 percent. At the national level over 51 percent of all workers are self-employed about 33.5 percent are engaged in "casual Labour, and only 15.6 percent are salaried workers who received a regular pay check approximately 10 to 11% of India's GDP comes from retails trade which also provides jobs for over 4 crore people at the moment 96% of all retail trade is carried out in an unorganised manner. The majority of this sector is made up of traditional low – cost retail trade, including owner operated neighbourhood business, general stores handcraft vendors and street vendors. Since less than 18% of all workers in India are employed in the organised sector and millions are called to find out work in the unorganised sector retail trade which requires little start – up money and infrastructures serves as a sort of social safety net and a source of income for the unemployed. In the perspective of small business owners there are grave concerns that FDI will impact their business. They believe that FDI poses a

severe danger to their company. One thing is policy. Another problem is apprehension. We have observed that small merchants are driven out of the market when large traders lower their prices. But eventually they raise the costs. If large corporations engage in unfair trade practises and drive down prices it will have an impact on India's small business owners.

Table-1

Growth of FDI in India (US $ billion)

Sl.No	Financial year	As per International Practice*	Growth level	FDI Equity Inflows#	Growth level
1	2003-04	4.32	(-)14%	2.19	(-)19%
2	2004-05	6.05	(+)40%	3.22	(+)47%
3	2005-06	8.96	(+)48%	5.54	(+)72%
4	2006-07	22.83	(+)146%	12.49	(+)125%
5	2007-08	34.84	(+)53%	24.58	(+)97%
6	2008-09	41.87	(+)20%	27.33	(+)11%
7	2009-10	37.75	(-)10%	25.83	(-)05%
8	2010-11	32.90	(-)13%	19.43	(-)20%
9	2011-12	35.35	-	24.19	
10	**Total**	**240.06**	**-**	**157.97**	

Source: Office of the Economic Adviser, DIPP

Note: *As per Reserve Bank of India (RBI) estimates

As per DIPP estimates

The increase of foreign direct investment in India is depicted in the table above. The total amount of foreign direct investment FDI inflows from to 2011 was UD$ 240 billion of which US $ 157.97 billion came through FDI equity inflows. Global FDI inflows decreased in 2009 and 2010. India was able to substantially withstand the fall in international inflows in 2009 – 2010. In 2010 – 2011 FDI flows slowed. It is essential to maintain the stability of India's FDI inflows if it hopes to keep up its GDP growth momentum in 2011 FDI inflows increased to US $24.10 billion. A growth of 51.8% over the equivalent time in the period year.

11. Increases in Unemployment

Massive employment losses would result from the displacement of many small retailers due to a substantial rise in the share of organised retail led by the multinational merchants. This will lead to widespread unrest due to the already dire employment situation. According to the Commerce Minister, 4 million (40 lakh) employment will be produced Directly through FDI in retail over the course of three years with the remaining jobs being created in backend logistics. The top 4 MNC retailer's global store count and employee numbers are listed below.

Table-2

World-Wide Big Business Centres

Name of the Shops	Number of Stores	Total Number of Employees	Average Employees per-store
Wal-Mart	9826	21,00,000	214
Carrefour	15937	4,71,755	030
Metro	2131	2,83,280	133
Tesco	5380	4,92,714	092

Source: Group Websites.

The global big business centres at the globe in 2010 – 2011 are listed in the table above even Wall - Mart which has the highest average number of employees per show will need to open more than 18,600 super markets in India if 4 million jobs are to be produced there in only three years 4 million people would need to be employed in 3 years or 644 super market in each of the 53 cities if the average of the four largest worldwide retailers 117 employers per store were used. Can the commerce Minister's ridiculous assertions be taken seriously?

Furthermore, according to our estimation the unorganised retail sector in India will lose almost 17 jobs for every supermarket position that is created. Therefore the entire domestic retail sector in India (40 Million +) will be completely eliminated if 4 million employment are created in super markets during the next three years. One retailer in particular which has received a lot of attention is known for its poor working conditions gender discriminations inadequate health benefits and involvement in numerous illicit activities

12. **Increases in Food Grain Prices**

FDI stores charge more for fruits vegetables and other staple items than do local markets. Even though supermarkets can offer low costs low income households may still pay more for food because they live distant from supermarkets and because supermarkets in low income areas charge higher prices. Therefore there is no clear link between modern retail and lower food prices and consequently with the consumers food security. Therefore the argument for FDI in the food retail sector to reduce inflation is unfounded. Public procurements are hampered by a lack of suitable storage infrastructure which also results in significant food grain loss. The cost of items will go up (no guarantee of reasonable price)As a result India's food grain inflation rate rises.

13. Local trader are being driven out

Unfortunately these elements might not always prevent the multinational from driving a sizable number of local vendors or of the market. The multi-national might accomplish this by negotiating binding. Exclusive contract with the farmers. It is common knowledge that many interconnected contracts take place in India's rural markets. The goods market and the credit market frequently interact. A farmer often enters into an interconnected contract with the local moneylender who also does trade by receiving a production

loan with the condition that the farmer must sell all of his products to the trader – cum – lender would guarantee production efficiency by providing a loan at a lower interest rate than the farmer could get a loan at on his own and buy the product at the same time for a price that is far below the market prices. Now the multi-national can engage into a connected contract with the farmer through contract farming agreements in order to ensure production efficiency and guarantee an uninterrupted supply.

To ensure production efficiency & uninterrupted supply the multinational can now enter into an interlinked contract through the farmer via contract farming arrangements. Because the multi-national is more likely to have access to a cheaper source of funds they can drive out the local trader by offering farmers a lower interest rate. However this does not help the farmer, who will have to accept a lower price as well. His fate will simply shift from the grip of the local money lender to that of the multinational and The latter, like a local moneylender, would extract as much profit as possible from the farmer. However because the multinational has a better storage facility it is preferred. Interlinked contract farming is likely to fetch more produce from farmers as compared to interlinked contract farming taken up by local traders (who are now out of the market). As a result the net output lifted from the market through interconnected contracts is likely to increase following the entry of multinationals.

The open market price would simply rise as a result of this. As previously started a price increase would benefit net sellers in the open market while harming net buyers. The economic situation would hardly change for those under interconnected contracts. To summarise multinational corporations can source from the rural market in two ways. They can neither buy directly from the rural Market nor procure through interconnected contracts. We have argued that both would result in an increase in farm prices in the rural market which would benefit net sellers while harming net buyers. In a different light the price increase is likely to benefit the relatively wealthy while harming the relatively poor in the rural sector.

14. Implication for Policy

The regulatory framework for organised retail business must address the issues and challenges. Below are some policy suggestions to address those concerns.

- A Licensing system for organised retailers should be implemented.
- The authority to grant licences should be delegated to urban local governments.
- Penalties including licence revocation should be imposed on organised retailers who violate licence terms and conditions.
- A single large format retailer should not be allowed to dominate the market.
- Exiting retail chains in cooperative sectors should be encouraged to expand.
- The state government or municipal governments should be a VAT access on all goods sold by large format retails outlets.
- Neither the state nor the federal governments should provide tax breaks.
- Predatory pricing and below – cost sales by organised retailers should be prohibited.
- Contract farming of farmland to food retailers should be prohibited.

To protect farmer interest's contract farming should be regulated and monitored by the government.

14.1. Suggestions

Some of the most important recommendations are as follows:

- To establish a centralised information centre for various government agencies.
- The government should make it mandatory to obtain a No objection Certificate (NOC) from the domestic partner before entering into the same or related business independently in order protect the interests of Indian business. Governments should be required to implement people – friendly policies.
- The state should provide social protection and social justice to the society's business community and farmers.

15. Conclusion

The fundamental difference between FDI in retail and green field FDI in manufacturing must be emphasised. While the latter improves the economy's productive base advances technological capability and typically creates employment the entry of multinational retail chains has few positive spin off. In reality the alleged advantages flowing to the organised retail sector in terms of enhanced efficiency are outweighed by the negative impacts in terms of job loss and the displacement of small merchants and conventional supply chains due to the monopoly strength of the multinational retailers. Additionally India has no prior agreements with the WTO to open up the retail sector. As a result it does not appear that there is a rationale for allowing FDI into the retail sector. A new set of regulations for the corporate sectors which employ the majority of the Indian workfare are urgently needed. The UPA Government should seriously study the suggestions and act right away to develop a national policy in this area. Government should strive to pursue justice based growth rather than corny capitalism.

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Cite this Article

Dr. R. Rajesh Kanna "Foreign Direct Investment in India and its impact on balance of payment position analysis: An overview", *International Journal of Scientific Research in Modern Science and Technology (IJSRMST),*

ISSN: *2583-7605 (Online), Volume 2, Issue 6, pp. 49-56, June 2023.*

Journal URL: *https://ijsrmst.com/*