

Diagnosing the impact of foreign direct investment on the economic development of India

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ABSTRACT

Capital is the life blood of any production and distribution activity. And also capital can be a limiting factor for starting, expansion and diversification of a venture when in short supply. So, same is the importance of foreign capital for any country especially the developing countries. As a result of continuous efforts by the Govt. of India, there has been a steady rise in the inflow of foreign capital on one hand and overall progress in the various sectors of Indian economy as well. There has been tremendous progress in the various sectors of Indian economy due to the inflow of foreign capital. The GDP growth rate has crossed 9 per cent due to the boom in manufacturing and service industries. Further the sensex points in stock market have crossed 21000 in Nov., 2010. Foreign, exchange reserves have also crossed \$300bn. In addition there has been improvement in employment position, standard of living, infrastructure development, health and hygiene. The present study examines and diagnoses the year wise, sector wise FDI inflows in India and observes analyses the impact of FDI on the growth of GDP, employment, inflation and stock market in India.

Key words : Diagnosis, Impact, Foreign Direct Investment (FDI)

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Foreign Direct Investment (FDI) is defined as an investment made by an investor of the country to acquire an asset in another country with the intent to manage that asset, however the growth enhancing impact of FDI seems to vary from country to country depending upon the liberalization, their governance environment, resource availability etc. Developing countries are interested in attracting FDI because of perceived benefits in terms of injection of capital, technology and knowledge. India, today being considered as one of the important destinations of FDI

has made efforts in post liberalization period to attract the maximum foreign capital. The impact of the foreign direct investment on Indian economy has been diagnosed in two facets – the micro effect *i.e.* the favourable environment from the investors point of view and macro effect on the major variables of economic growth.

Two facets of foreign direct investment – Macro view and micro view:

Macro view sees FDI as the flow of capital across national borders from home countries to host countries measured in BOP statistics whereas the micro-view studies, the motivation for investment in controlled foreign operations from the viewpoint of investors. So, for diagnosing the impact of FDI on economic growth the motives for investing in a particular country have to be studied. These motives can be market availability, resource availability, efficient workforce, infrastructure, financial markets, governance factors of Govt. etc. These motives attract the individual or institutional investors towards a particular country affecting the economic

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