

## Foreign Direct Investment in India: Prospects and Challenges

**S. K. Khatik**

Professor & Head, Department of Commerce,  
Dean, Faculty of Commerce, Barkatullah University, Bhopal, MP, India.

**CITATION:** Khatik, S. K. (2014), "Foreign Direct Investment in India: Prospects and Challenges", *MERC Global's International Journal of Social Science & Management*, Vol. 1, Issue 1, pp. 45-58.

**ARTICLE HISTORY:** Submitted: November 23, 2013, Revision received: December 26, 2013, Accepted: January 22, 2014

**ARTICLE TYPE:** Review paper

### ABSTRACT

*Foreign direct investment is not a new concept for the Indian economy. In a general sense, FDI means direct investment of foreign capital or funds to enhance the production capacity of the economy. Basically, there are two types of foreign investment i.e. foreign direct investment and portfolio investment. Portfolio investment means investing the capital in buying equities, bonds, or other securities aboard. FDI plays a vital role as in the form of management technology or as a source of capital in the economic development of the economy. Furthermore, it enhances the production capacity or helps in transfer of latest technologies, strengthening infrastructure, generating employment opportunities, it improves the living standard of people by introducing new products in the market, and it will expand the infrastructure of the country. Now, the question arises whether FDI is beneficial for maintaining economic stability or worthwhile for the Indian economy. Therefore, a detailed discussion of the studies on FDI has been presented in this paper. Consequently, FDI is not beneficial for the developing countries. As, it has failed to generate employment opportunity, the elimination of poverty and also has a negative impact on balance of payment. Contribution in GDP of agriculture, industrial sectors have been continuously decreasing due to competition through the FDI. Overall, FDI has an adverse impact on Indian economy.*

**KEYWORDS:** FDI, FII, FI, Poverty, Employment, Balance of Payment, Imports & Exports.

### REFERENCES

1. Vaishnawguptaswami (2010), *Economic and business environment*, Jaipur publications.
2. Ministry of Finance (2003-04), Report of the economic survey, Government of India, New Delhi.
3. Basu, P.; Nayak, N. C. and Vani, A. (2007), "Foreign Direct Investment in India: Emerging Horizon", *Indian Economic Review*, 25, 255-266,

4. Anitha and Dr. K. Maran (2011), "Recent trends in Foreign Direct Investment", *International Journal of Research in Commerce & Management*, Vol. 2, Issue 8 (Aug.), pp. 28-34.
5. Nayak, D. N. (1999), "Canadian Foreign Direct Investment in India some observations", *Political Economy Journal of India*, 8, 51-56.
6. Reserve Bank of India (2011), Handbook of Statistics on Indian Economy, India.
7. International Monetary Fund (2000), International financial Statistics (CD ROM) Washington D.C.
8. Kumar (1994), *Multinational Enterprises & Industrial Organization: The Case of India*, Sage Publication, New Delhi.
9. UNCTAD (2008-09), World Investment Report 2008, Retrieved March 10.
10. Agrawal, A. N. (2012), Indian Economy, *Problems of Development and Planning*, pp. 133-153.
11. Akinlo, A. E. (2004), "Foreign Direct Investment and Growth in Nigeria", *Journal of Policy Modelling*, 26, pp. 627-639.
12. Anyanwu, J. C. (1998), "An Econometric Investigation of the Determinant of FDI", *Nigerian Journal of Economic and Social Studies*, Selected Paper for 1998 Annual Conference, pp. 218-240.
13. Balasubramanyam, V. N. (1996) "Foreign Direct Investment and Growth in EP and IS countries", *The Economic Journal of Development Studies*, Vol. 106, pp. 92-106.
14. Balassa, B. (1988), Exports and Economic Growth Further Evidence", *Journal of Developing Economics*, Vol. 5, pp. 181-189.
15. Bhagwati, J. N. (1973), "The Theory of Immiserizing Growth: Further Applications", in M. B. Conolly and A. K. Swoboda, eds, *International Trade and Money*, University of Toronto Press, pp. 45-54.
16. Blomstrom, M. (1992), "What Explains Developing Country growth", *NBER Working Paper* No 4132.
17. Borensztein, E. (1998), "How Does Foreign Direct Investment Affect Economic growth?" *Journal of International economics*, Vol. 45, pp. 115-135.
18. Bornchier, V. (1978), "Cross-national Evidence of the Effects of Foreign Investment and Aid on Economic growth and Inequality: a Survey of Findings and a Reanalysis", *American Journal of Sociology*, Vol. 84, No. 3, pp. 651-683.
19. Brewer, T. L. (1991), "Foreign Direct Investment in Developing Countries: Pattern, Policies and Prospects", World Bank Policy Research, Working Paper No. 712.
20. Carkovic, M. and Levine, R. (2002), "Does Foreign Direct Investment Accelerate Economic Growth?", University of Minnesota, MN 55455; *Rlevine @ Scom, Umn. Edu*.Minneapolis. CBN Statistical Bulletin 2001 and 2006.
21. Chenery, H. B. and Strout, A. M. (1966), "Foreign Assistance and Economic Developments", *American Review*, 56.
22. Chete, L. N. (1998), "Determinants of Foreign Direct Investment in Nigeria", *The Nigerian Journal of Economics and Social Studies*, Vol. 1. No.1.
23. De Mello, L. R. and Luiz, R. (1997), "FDI in Developing Countries and Growth", *The Journal of Development Studies*, Vol. 34, No. 1, pp. 1-34.
24. De Mello, L. R. Jr. (1999), "Direct Foreign Investment – Led Growth: Evidence from Time Series Panel Data", *Oxford Economic Paper*, Vol. 51, pp. 133-151.
25. Digiovanni, J. (2005), "What Drives Capital Flows? The Case of Cross-border MPA, Activity and Financial Deepening", *Journal of International Economics*, pp. 65.
26. Dutt, A. K. (1996), "Direct Foreign Investment and North-South Trade: Unoven Development or Convergent Growth?" in *Development Economics and Policy*, eds. J. Chen and D. Sapsford, Macmillan, London.
27. Dutt, A. K. (1997), "The Pattern of Direct Foreign Investment and Economic Growth", *World Development*, Vol. 25, No. 11, pp. 1925-1936.

28. Feenstra, R. C. and Markusen, J. P. (1994), "Accounting for Growth with New Inputs", *International Economic Review*, 35, pp. 429-447.
29. Findlay, R. (1978), "Relative Backwardness, Direct Foreign Investment and the Transfer of Technology: a Simple Dynamic Model", *Quarterly Journal of Economics* Vol. 92, pp. 1-16.
30. Graham, E. M. (1995), "Foreign Direct Investment in the World Economy, *IMF World Economic and Financial Survey*, pp. 120-135.
31. Ibrahim, W. and Omoniyi, B. B. (2009), "Determinants of FDI, Political Factor Effect Re-visited", *The Journal of Social Science*.
32. Jhingan, M. L. (2002), "Macroeconomics Theory" 10<sup>th</sup> Edition, Vrinda, Delhi.
33. Lahiri, S. and Ono, Y. (1990), "Foreign Direct Investments Local Content Requirement and Profit Taxation", *The Economic Journal*, Vol. 10, pp. 444-457.
34. Langley, K. M. (1968), "The External Resource Factor in Nigeria's Economic Development", *NIES*, Vol. 10, No. 2.
35. Martin, P. and Ottaviano, G. I. P. (1999), "Growing Location in a Model of Endogenous Growth", *European Economic Review*.
36. Mieir, G. M. (1964) *Leading Issues in Economic Development*, Oxford University Press, London.
37. Oloyede, J. A. and Obamuyi, T. M. (2000), "The Impact of Direct Investment on the Nigerian Economy", *Nigerian Journal of Banking and Financial Issues*, Vol. 3. No. 1, pp. 1-21.
38. Ibrahim, W. and Omoniyi, B. B. (2009), "Determinants of Foreign Direct Investment in Nigeria: Political Factor Effect revisited", *Journal of Economics and Social Studies*, University of Ado-Ekiti, Nigeria, Vol. 6, pp. 55-67
39. Oseghale, B. D. and Amenkhienan, F. E. (1987), "Foreign Debt, Oil Exports and Direct Foreign Investment and Economic Performance" *Nigerian Journal of Economic Studies* Vol. . No.3.
40. Ram, R. (1985), "Export and Economic Growth: Some Additional Evidence", *Economic Development and Cultural Change*.
41. Todaro, M. P. (1985), *Economic Development in the Third World*, 3<sup>rd</sup> Edition, Longman Publisher.
42. Todaro, M. P. and Smith, S. C. (2003), *Economic Development*, 8<sup>th</sup> Edition, Pearson Education Asia.
43. Tyler, W. G. (1981), "Growth and Exports Expansion in Developing Countries", *Journal of Development Economics*, 9.
44. World Bank (1996), *World Debt Table External Finance for Developing Countries*, Vol. 1, Washington D.C.
45. World Bank (2003), "Financial Flows and the Developing Countries", *A World Bank Business Quarterly*, Quarter 3.

## ABOUT THE AUTHOR (S)

### Dr. S. K. Khatik

He is Professor & Head, Department of Commerce, Barkatullah University, and Dean, Faculty of Commerce, Barkatullah University, Bhopal, Madhya Pradesh, India. He is the chairman of the Board of Studies (Commerce), Barkatullah University and can be reached at [shankhla2003@yahoo.com](mailto:shankhla2003@yahoo.com).