

## **Productive Foreign Direct Investment transforms Indian Software and Industrial Exports**

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### **ABSTRACT**

*The gross capital formation in 1950 is just 10.8. It increased to 25.9 in 2000. Today it is around 36.83 percent in 2017. It is a new LPG policy introduced in 1991 which is a magnetic factor to fetch huge FDI to increase the gross capital formation. 100 percent FDI in the industrial sector and in retail marketing initiated a process of industrial revolution 4.0 in the 21<sup>st</sup> century. FDI in developing countries grew more than six fold between 1990 and 2000 faster than either GDP or trade (mody 2004). It is now the largest source of external finance for developing countries (UNCTAD - 2000). FDI contributes directly and indirectly in building national capabilities. It is considered the best complement to domestic investment to bridge a gap between the investment needs of the country and its saving. FDI has long term and substantial development impact on the Indian economy. It helps in transfer and update of technology, improves skills and managerial capabilities. It provides competitive edge to the country's exports, improves efficiency and quality of services and goods. It also helps to create additional employment. The study analysed the productiveness and effectiveness of FDI in stimulation of Indian exports especially software and industrial exports. It is found that FDI exports fetched huge international reserves in the present decades of growth and development. It also focused the growth of MSME with a substantial investment of FDI. FDI acts as a catalyst and stimulant to transform and strengthen developing countries like India in its growth and development. For a country like India, where human capital is abundant and productive, it is note-worthy to attract FDI to create stiff competition among producers and sellers to attain maximum productivity, efficiency and social justice. The future successive growth behind the Industrial revolution 4.0 lies ahead in the hands of FDI investors.*

*Keywords: FDI, Capital formation, Industrial Revolution, software exports, IT industry, MSME, industrial exports, international reserves.*

### **INTRODUCTION**

Foreign Direct Investment, a non debt capital inflow is a leading source of external financing, especially for a developing country like India. It not only brings in capital and technical know - how but also increases the competitiveness of the economy. Overall it supplements domestic investment much required for sustaining the high growth rate of the country. Since 2000, significant changes have been made in the FDI policy regime by the government to ensure that India becomes an increasingly attractive and investor friendly destination.

FDI contributes directly and indirectly in building national capabilities. It is considered the best complement to domestic investment to bridge the gap between the investment needs of the country and its savings. FDI has a long term and substantial developmental impact on the country's economy. FDI helps transfer and upgrade technology; Improves skills and Managerial capabilities; provides competitive edge to country's exports; improves efficiency and quality of services and goods; and helps create additional jobs. The present study focused and analysed the impact of growth of FDI in stimulating and promoting the exports especially software and industrial and engineering goods in particular. FDI in India is a great boon since exports increased manifold and fetched huge foreign reserves. Imports of capital goods also play an active role in the development of industrial sector to a larger extent. Hence the study focuses the role played by FDI in shaping the economy to withstand world competition.

## **Salient features of FDI policy**

India has put in place a liberal, transparent and an investor - friendly FDI policy, wherein FDI up to 100 percent is allowed on the automatic route in most of the sectors. Automatic route involves notifying the RBI within 30 days of the inward remittance receipt and filling required documents within 30 days of issue of shares to foreign investors. Proposals not falling on the automatic route are considered by the Foreign Investment Promotion board in a high - bound and transparent manner. Foreign corporate and individual investment in India termed collectively as FDI, takes two routes to control and get ownership of a company in India.

1. Automatic route or automatic approval.
2. FIFB Approval

## **Modified recent FDI policy to attract huge investment**

1. Foreign investment in multi brand retail trading.
2. 100 per cent foreign investment in single brand product in retail trading.
3. 100 per cent FDI in pharmaceutical sector.
4. FDI in small scale sector and now in MSME sector.
5. Government liberalises FDI limits in 12 sectors including telecom.
6. Mayaram panel recommends 9 sectors for 49 per cent FDI.
7. FDI norms further relaxed in the 12<sup>th</sup> plan.

## **NON - permitted FDI sectors in India**

1. Agriculture and plantations
2. Real estate business
3. Lottery, betting and gambling business
4. Security services
5. Atomic energy

## **Impressive growth of FDI in the 21<sup>st</sup> century**

Industrial policy of 1991 favoured foreign investment for modernisation, technology upgradation and industrial development of India. Initially 51 per cent foreign equity was allowed in 34 high priority industries. In 1977, limit was raised to 74 per cent for foreign investors and 100 per cent for NRIs. An industry wise analysis of the distribution of foreign collaborations approval reveals that electrical and electronics including telecommunications, accounted for 22 per cent of the total approvals, indicating highest priority to this sector followed by industrial machinery 15.5 percent. Chemicals share third in getting more approvals and investment. Totally 70 percent approvals are received in the priority sectors. According to the analysis of data from 2001 to 2015, highest FDI inflows is recorded in service sector 17 percent, followed by construction activities 7 per cent, computer software and hardware 7 per cent, and telecommunications 7 percent. Mauritius, followed by Singapore recorded highest FDI investment of 35 per cent and 14 percent respectively in India. It all shows that FDI plays an important role in enhancing capital formation and hence in turn boost the exports and imports of our country to greater heights.

**Table-1.1: Relative comparison of FDI with imports and exports**

Year	FDI (in million USD)	Imports (in million USD)	Exports (in million USD)
1997-98	5385	41484	35006
1998-99	2401	42389	33219
1999-00	5181	49671	36822
2000-01	6789	50536	44560
2001-02	5151	51413	43827
2002-03	6014	61412	52719
2003-04	15699	78149	63843
2004-05	15366	111517	83536
2005-06	21453	149107	103092
2006-07	29829	185735	126414
2007-08	62106	251654	162132
2008-09	23983	303696	185295
2009-10	70139	288373	178751
2010-11	58495	369769	251136
2011-12	63724	489737	305964
2012-13	64630	490737	300401
2013-14	41075	450314	314416
2014-15	85214	447548	310534

Source: RBI, Handbook of statistics on the Indian Economy 2014 - 15

**Table-1.2: Capital goods imports**

Year	Total imports of India (in Crores)	Imports of Capital Goods (in crores)	Percentage share of Capital goods to total imports
1960-61	1112	356	32.01
1980-81	12550	1910	15.22
2000-01	230870	25280	10.95
2012-13	2673113	497577	18.61
2013-14	2718182	484222	17.82
Annual Compound Growth Rate			
1980 - 81 to 1990 - 91	1990 - 91 to 2000 - 01	2000 - 01 to 2013 - 14	
18.5	14.6	21.5	

Source: RBI, Handbook of statistics on the Indian Economy 2014 - 15

### **Impact of FDI on exports and imports (balance of trade)**

The significant increase of FDI since 2000 witnessed a boom in the exports as well as in the quantum of imports. FDI played a dual role of stimulating exports with the help of capital intensive imports. Table 1.1 shows that imports are more in volume and value compared to exports since 2000 to 2014. Imports are justified by the government since it plays an active role in stimulation of exports. Hence FDI boosted major exports and at the same time increased huge imports for capital formation and employment. FDI is a motivating factor for both exports and imports to be strengthened at greater speeds. Exports also increased since 2000 to fetch huge international reserves. It is FDI which creates stiff cut-road competition between India and Foreign producers in the Indian commercial market.

### **Indirect effect of FDI on imports of capital goods/machineries/equipments**

FDI in various sectors attracts not only money and technical know - how but also play an active role in physical capital inflows in the form of imports of capital goods. The imports of capital goods stimulate to activate the manufacturing sector especially MSME, engineering goods and industrial goods. Hence, FDI

also help in attracting more of capital goods to promote exports of engineering goods. As in table 1.2 it shows that around 20 percent of capital goods imports contribute to the total imports of India.

### **Effectiveness of FDI in enhancing software exports**

The information technology sector contributed around Rs. 32070 crores in 1997 - 98, after seven years of post liberalisation period. It increased its momentum of growth to a maximum production of Rs. 933550 crores in 2014 - 15. It reflects the effectiveness and productiveness of FDI in stimulating the growth of IT sector. Exports of software increased from Rs. 6530 crores in 1997 - 98 to Rs. 612144 crores in 2014 - 15. In 2014 - 15, around 65.57 per cent of IT software production has been exported to foreign countries. It is a great achievement and record maintenance with the help of FDI. FDI employed all the educated skilled youth in software industries to produce output in the software industry. Hence FDI investment fetched not only foreign reserves, but also provided huge employment opportunities to the educated masses.

**Table-1.3: Exports of software to total IT production (In crores)**

<b>Year</b>	<b>Production of IT sector</b>	<b>Exports of software Services</b>	<b>Percentage share of Software exports to IT Production</b>
1997-98	32070	6530	20.36
1998-99	41140	10940	26.59
1999-00	52450	17150	32.69
2000-01	68450	28350	41.42
2001-02	80124	36500	45.55
2002-03	97000	46420	47.79
2003-04	118290	55990	47.33
2004-05	148290	79404	53.54
2005-06	186260	146320	78.55
2006-07	244000	141356	57.93
2007-08	295820	161968	54.75
2008-09	372450	212877	57.16
2009-10	415520	237000	57.03
2010-11	476180	269630	56.62
2011-12	567835	332769	65.22
2012-13	692900	410836	29.29
2013-14	822530	527292	64.11
2014-15	933550	612144	65.57

Source: RBI, *Handbook of statistics on the Indian Economy 2014 - 15*

### **Contribution of software exports to total software production**

As seen in table 1.4, software exports increased from Rs. 237000 crores to Rs. 612144 crores in 2014 - 15. About 60 per cent of software production to total IT production is exported to fetch foreign reserves. In the same manner 75 to 85 per cent of software exports are exported out of total software production. Hence it all reflects the spontaneous investment rendered by FDI in shaping the economy to greater heights.

**Table-1.4: Production of electronics and IT sectors (in crores)**

Year	Electronics and hardware production	Domestic software	Total software production	Total production of IT sector	Software for exports	% of software exports to IT production	% of software exports to total software production
2009-10	110720	67800	304800	415520	237000	57.03	77.75
2010-11	128870	78700	347310	478180	268610	56.41	77.34
2011-12	143300	91766	424535	567835	332769	58.60	78.38
2012-13	164172	104700	516891	681063	412191	60.52	79.97
2013-14	180454	114784	642076	822530	527292	64.10	82.12
2014-15	190366	131040	743184	933550	612144	65.57	82.24

Source: RBI, Handbook of statistics on the Indian Economy 2014 - 15

**Table-1.5: Exports of MSME**

Year	Production in SSI (MSME)	Exports of SSI products (MSME)	Percentage share of SSI exports to its production
1994-95	122154	29068	23.79
1995-96	147712	36470	24.69
1996-97	167805	39248	23.39
1997-98	187217	44442	23.73
1998-99	210454	48979	23.27
1999-00	233760	54200	23.18
2000-01	161297	69797	43.27
2001-02	282270	71244	25.23
2002-03	314850	86013	27.31
2003-04	364547	97644	26.78
2004-05	429796	124417	28.94
2005-06	497886	150242	30.18
2006-07	1198818	182538	15.22
2007-08	1322777	202017	15.27
2008-09	1375584	391159	28.43
2009-10	1488352	507739	34.11
2010-11	1653622	630105	38.10
2011-12	1788584	697318	38.98
2012-13	1809976	803941	44.41
2013-14	1925117	849573	44.13

Source: Ministry of Micro, Small and medium enterprises - annual reports 2012 - 13.

### **Productiveness of FDI in the promotion of MSME EXPORTS**

FDI in large scale industrial projects enhance the growth of contribution of MSME products. Production in MSME increased from Rs. 122154 crores in 1994 - 95 to Rs. 1925117 crores in 2013 - 14. As seen in table 1.5 exports of MSME increased from Rs. 29068 crores to Rs. 849573 crores in 2013 - 14. The share of MSME exports to total production of MSME is around 25 to 45 percent. It is increasingly its share each year since the introduction of FDI strategy. FDI fetches huge growth of MSME industries to support the other manufacturing products.

**Table-1.6: Exports of Engineering Goods (in crores)**

Year	Exports of engineering goods	Total Exports	Percentage share of engineering goods exports to total exports
1960-61	13	606	2.14
1970-71	130	1535	8.46
1980-81	727	6711	10.83
1990-91	3877	32556	11.90
2000-01	31150	203571	15.31
2012-13	355234	1635262	21.72
2013-14	418423	1894182	22.09

Source: Ministry of Micro, Small and medium enterprises - annual reports 2012 - 13.

### **FDI in promoting exports of engineering goods**

As seen in table 1.6 exports of engineering goods in 1960 - 61 was Rs. 13 crores. It increased to Rs. 418423 crores in 2013 - 14. Exports share which was just 2.14 percent in 1960 - 61 increased to 15.31 per cent in 1990 - 91 and it further increased to 22.09 per cent in 2013 - 14. FDI increased the production of engineering goods from Rs. 32558 crores in 1990 - 91 to Rs. 1894182 crores in 2013 - 14. It is a great boost to the Indian economy since most of the people are employed and getting better placement to sustain their standard of living.

### **FINDINGS OF THE STUDY**

1. The huge attraction of FDI in the industrial sector transformed and increased the software exports to a larger extent. It also activated and increased exports of MSME products along with engineering goods.
2. FDI boosted the flow of import of capital goods especially capital intensive goods for further production in MSME sectors. Indian imports exceed the exports in the present decade due to import of capital goods.
3. FDI in the retail marketing of consumer products activated the growth of industrial sector. It created a spark in the industrial sector and it spread to other prime sectors namely agricultural and service sector.

### **CONCLUSIONS**

1. FDI is a great boon to India in stimulating and activating huge export surplus in software services, MSME sectors and in engineering products.
2. It promotes and enhances the import flow of modern technical know - how of capital intensive goods, which in turn develops the manufacturing sector. Hence imports are relatively higher than exports.
3. FDI develops the Indian economy both internally and externally. It plays an active role since 2000 to uplift the economy as expected by the planners and economists.

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