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“Impact of Fdi on Smes – A Study of Andhra Pradesh”



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Abstract

Impact of fdi on andhra pradesh economy has been phenomenal. The state has been going through a developmental spree in the past few years. Hyderabad is a favorite investment destination among foreign investors. But from the last 3 years the fdi and number of smes, its investment and employment are in declining trend. The main purpose of the study is to investigate the impact of foreign direct investment (fdi) on number of enterprises established, investments on small and medium enterprises (smes) and employment in andhra pradesh; to know the relationship between fdi and number of enterprises established, fdi and investments on smes and fdi and employment andhra pradesh. The present study is used secondary data. This paper concludes that fdi is a source to create employment not only in the country but also in andhra pradesh and also support the smes also and helps country to put an impression on the world wide level through liberalization and globalization.

Keywords: *Fdi, Economic Growth, Impact On Smes, Andhra Pradesh.*

Introduction

Foreign direct investment (fdi) is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. The effectiveness and efficiency depends upon the investors perception, if investment with the purpose of long term then it is contributes positively towards economy on the other hand if it is for short term for the purpose of making profit then it may be less significant. Depending on the industry sector and type of business, a foreign direct investment may be an attractive and viable option. Any decision on investing is thus a combination of an assessment of internal resources, competitiveness, and market analysis and market expectations.

The fdi may also affect due to the government trade barriers and policies for the foreign investments and leads to less or more effective towards contribution in economy as well as gdp of the economy. The studies try to find out the implications which affect the economic scenario and also measure the level of predominance by the factors for economic contribution to India.

Contextual Background

After independence in india 1947, fdi gained attention of the policy makers for acquiring advanced technology and to mobilize foreign exchange resources. In order to boost the fdi inflows in the country indian government allowing frequent equity participation to foreign enterprises apart from provides many incentives such as tax concessions, simplification of licensing procedures and de-reserving some industries like drugs, fertilizers, aluminum etc. But due to significant outflow of foreign reserve in the form of remittances of dividends, profits, royalties etc in 1973 government of india set up foreign investment board and enacted foreign exchange regulation act in order to regulate flow of fdi to india. Further government of india set up foreign investment promotion board (fipb) for processing of fdi proposals in india. The board is the apex inter-ministerial body of the central government that deals with proposals relating to fdi into india for projects or sectors that do not qualify for automatic approval by the reserve bank of india (rbi) or are outside the parameters of the existing fdi policy.

It could be observed that there has been a steady build up in the actual fdi inflows in the pre-liberalization period. But measures introduced by the government to liberalize provisions relating to fdi in 1991 increased fdi rs.2,705 crore in 1990 to rs.1,23,378 crore in 2010. The list of investing countries to india reached to 150 in 2010 as compared to 29 countries in 1991. Nevertheless, still a lion's share of fdi comes from only a few countries.

The existing policy, allows for 100 per cent foreign direct investment (fdi), in single-brand trade, subject to the condition that in respect of proposals involving fdi beyond 51 per cent, sourcing of 30 per cent of the value of goods purchased, will be done from india, preferably from micro, small & medium enterprise (msmes), village and cottage industries, artisans and craftsmen, in all sectors as per circular 1 of 2012 – consolidated fdi policy of dipp.

Fdi complements and supplements domestic investment. The small and medium enterprises (smes) would be benefited through fdi, by way of enhanced access to supplementary capital & state-of-the-art technologies, exposure to global managerial practices and technologies as well as opportunities for integration into global markets. "the government's decision of mandatory sourcing of a minimum of 30 per cent from indian micro and small industry will help smes to achieve higher growth in sales, size of the industry, capacity addition, increased orders, qualitative improvements and branding of the products, technology upgradation, employment etc," said the survey on the impact of fdi in retail on smes.

According to the survey, mandatory sourcing will provide for expansion of the scales of production facilitating domestic value addition in manufacturing, thereby creating a multiplier effect on employment, technology upgradation and income generation, demand and further investment.

Review of Literature

It is universally acknowledged that fdi inflow offers many benefits to an economy. Unctad (1999) reported that transnational corporations (tncs) can complement local development efforts by (i) increasing financial resources for development; (ii) boost export competitiveness; (iii) generate employment and strengthening the skill base; (iv) protecting the environment to fulfill commitment towards social responsibility; and (v) enhancing technological capabilities through transfer, diffusion and generation. However, te velde, (1999) has rightly reported that in the absence of pro-active government policies there are risk that tncs may actually inhibit technological development in a host country. Borensztein, et. Al. (1998) reveals that fdi has a net crowding in effect on domestic private and public investment thus advancing overall economics growth. Crowding in effects of fdi varies with regions. There has been strong evidence of crowding-in in asia and strong net crowding out effect in latin america (agosin and mayer, 2000). By and large, studies have found a positive links between fdi and growth. However, fdi has comparatively lesser positive links in least developed economies, thereby suggesting existence of "threshold level of development" (blomstrom and kokka, 2003 and blomstrom et. Al., 1994). Athreye and kapur (2001) emphasized that since the contribution of fdi to domestic capital is quite small, growth-led fdi is more likely than fdi-led growth. Dua and rasheed (1998) indicted that the industrial production in india had a unidirectional positive granger-casual impact on inward fdi flows. They also concluded that economics activity is an important determinant of fdi inflows in india and not vice-versa. Tseng and zebregs (2002) reported that even in case of china causality between market size/growth and magnitude of fdi holds true. There is global race for attracting fdi, but how much it would contribute to host country's economic development is to be assessed. Developing countries

need to have reached a certain level of educational, technological and infrastructure development before being able to benefit from a foreign presence in their markets. Blomstrom et. Al., (1994) have rightly observed that, the host country must be capable of absorbing the new technology manifested in fdi. An additional factor that may prevent a country from reaping the full benefits of fdi is imperfect and underdeveloped financial markets (oecd 2002). India appears to be well placed in terms of reaping benefits because it has relatively well developed financial sector, strong industrial base and critical mass of well educated workers (rajan et. Al., 2008).

Andhra pradesh has emerged as the second most favoured investment destination for overseas investors in india with around 19% share in the total foreign direct investment (fdi) proposed in 2011-12, according to trade and industry body the associated chambers of commerce and industry of india (assoacham).

Impact of fdi on andhra pradesh economy has been phenomenal. The state has been going through a developmental spree in the past few years. Hyderabad is a favorite investment destination among foreign investors. But from the last 3 years the fdi and number of smes, its investment and employment are in declining trend.

Objectives of the Study

- The following are the objectives of the present study area.
- To know the impact of foreign direct investment (fdi) on number of enterprises established, investments on small and medium enterprises (smes) and employment in andhra pradesh;
 - To know the relationship between fdi and number of enterprises established, fdi and investments on smes and fdi and employment andhra pradesh.

Research Methodology

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the department of industrial policy & promotion, daily news papers, ministry of commerce and industry etc. The study is based on the time period from 2004-05 to 2010-11. Graphs and tables have also been used where ever required to depict statistical data of fdi during the study period.

Fdi and no. of enterprises' growth rates and their relationship

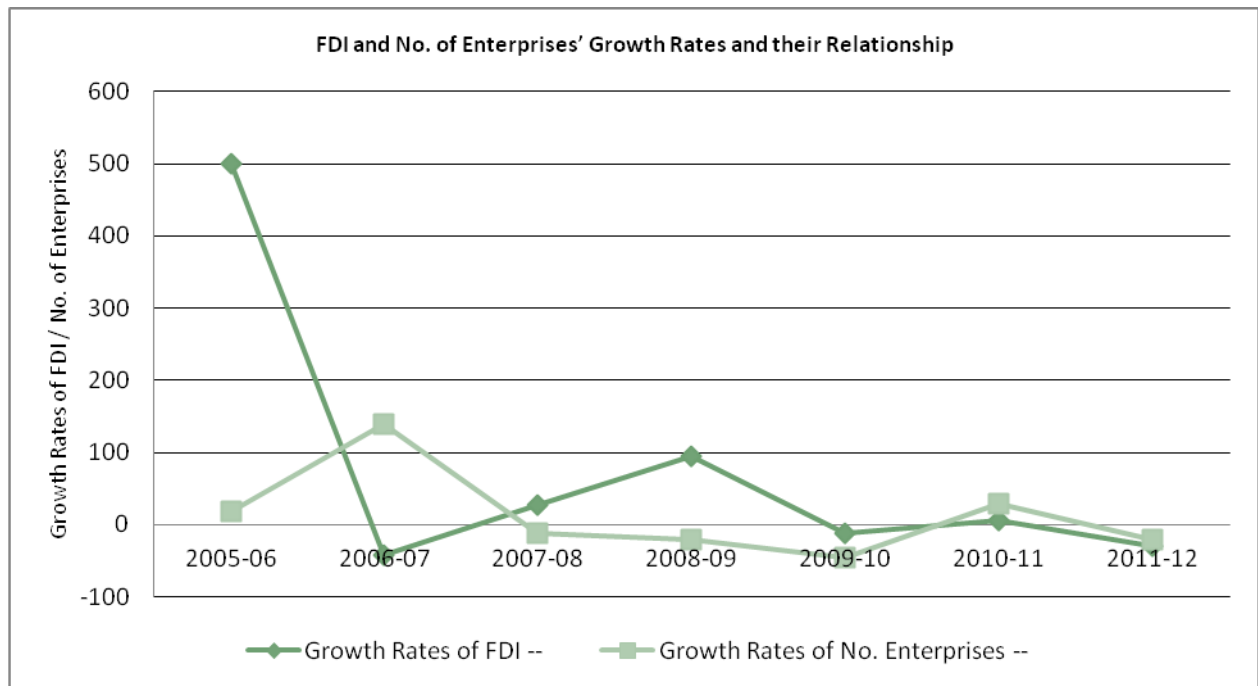
The following table presents the year-wise inflow of foreign direct investment and number of enterprises established in andhra pradesh, their growth rates and relationship

Fdi and no. Of enterprises' growth rates and their relationship

Year	Fdi		No. Of Enterprises Established	
	Amount (Rs. Cr.)	Growth Rates	No. Of Enterprises	Growth Rates
2004-05	735	--	68	--
2005-06	4412	500.27	81	19.12
2006-07	2518	-42.93	194	139.51
2007-08	3185	26.49	172	-11.34

2008-09	6203	94.76	135	-21.51
2009-10	5440	-12.30	74	-45.19
2010-11	5753	5.75	95	28.38
2011-12	4039	-29.79	75	-21.05
Rxy = - 0.11834				

Source: Eenadu Daily News Paper, March 19, 2013.



From the above table it is observed that there is a highest growth in number of enterprises established during 2006-07 because of increase in fdi during 2005-06. It is also observed that there is a highest negative growth in number of enterprises established due to decrease in fdi in the year 2009-10. It is also interesting to say that there is a more growth in number of enterprises established than the fdi growth during the year 2010-11. From the year 2009-10 both the fdi and number of enterprises are declining. On the whole there is a negative correlation between the fdi and number of enterprises established during the study period.

Fdi and investment on smes' growth rates and their relationship

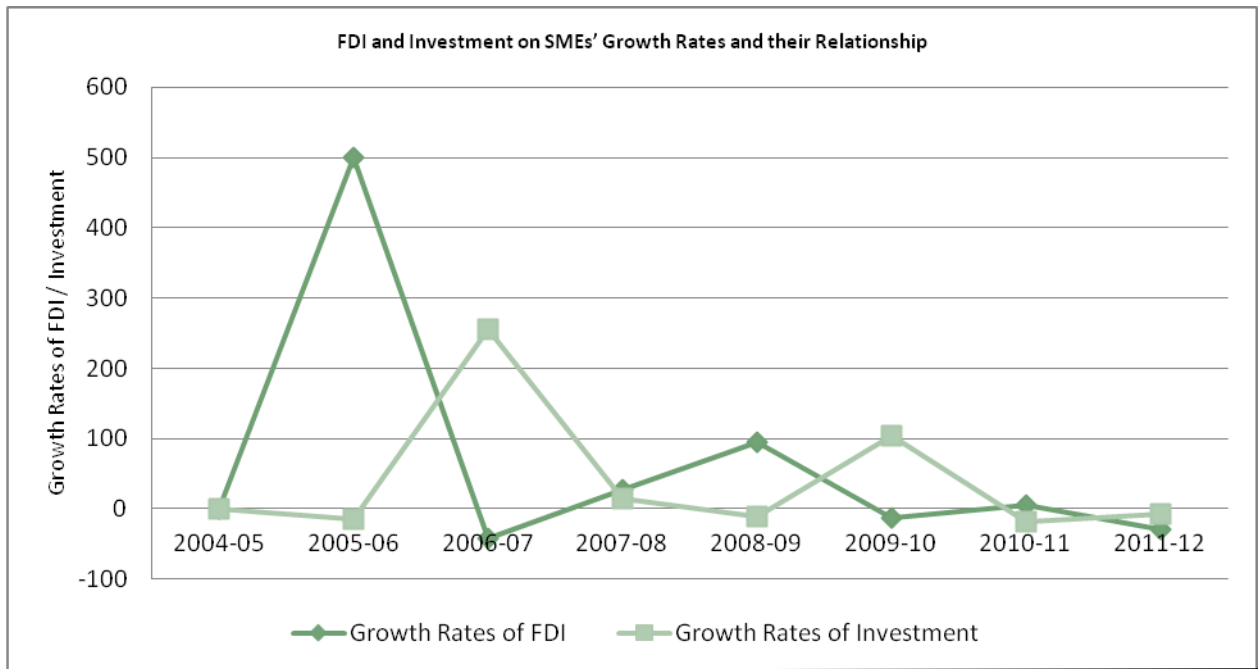
The following table presents the year-wise inflow of foreign direct investment and investment on smes in andhra pradesh, their growth rates and relationship

FDI and Investment on SMEs' Growth Rates and their Relationship

Year	FDI		Investment on SMEs	
	Amount (Rs. Crore)	Growth Rates	Amount (Rs. Crore)	Growth Rates
2004-05	735	--	1831	--
2005-06	4412	500.27	1550	-15.35
2006-07	2518	-42.93	5516	255.87

2007-08	3185	26.49	6320	14.58
2008-09	6203	94.76	5680	-10.13
2009-10	5440	-12.30	11610	104.40
2010-11	5753	5.75	9403	-19.01
2011-12	4039	-29.79	8707	-7.40
$R_{xy} = 0.563214$				

Source: Eenadu Daily News Paper, March 19, 2013.



From the above table it is observed that the fdi impact on smes investment is negative in the year 2005-06. In the year 2006-07 there is a highest growth in investment on smes during the study period. It is also observed that in the year 2009-10 the growth of investment on smes is 104.40, but in the same year the fdi recorded a negative growth. It is also interesting to say that both the fdi and investment on smes are recorded negative growth rates. The fdi decreases from the year 2009-10 and investment on smes decreases from the year 2010-11. On the whole there is a positive relationship between the fdi and investment on smes during the study period.

Growth rates of fdi and employment and their relationship

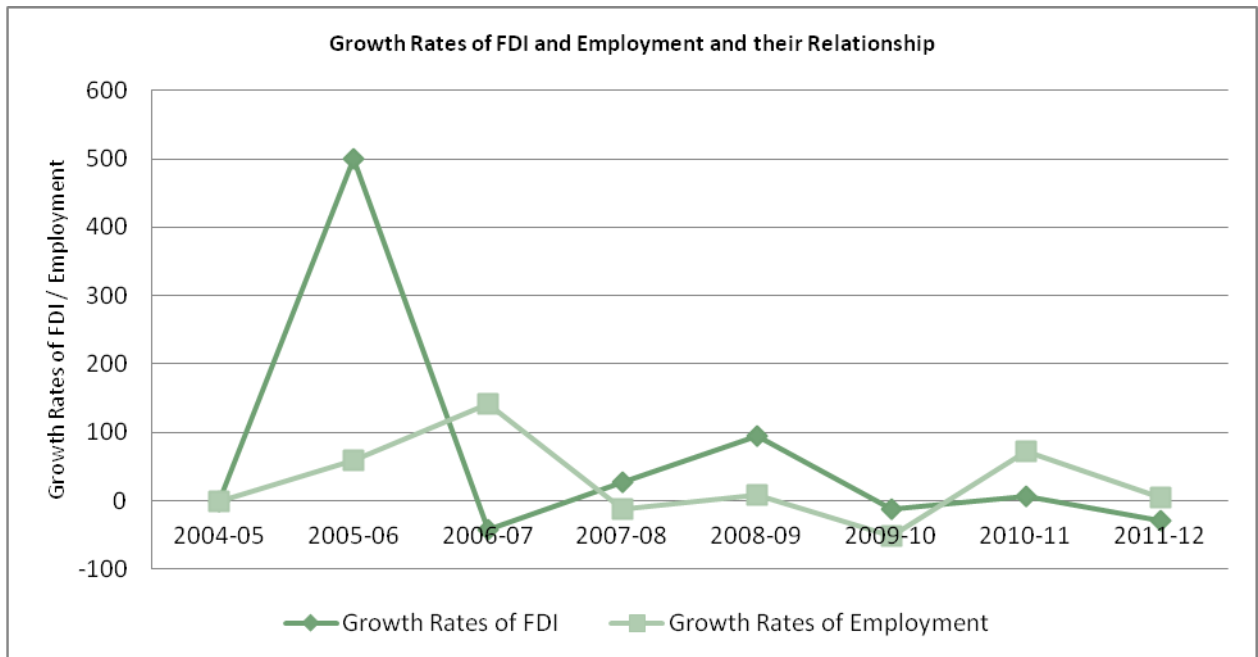
The following table presents the year-wise inflow of foreign direct investment and employment provided by smes in andhra pradesh, their growth rates and relationship

Year	Fdi		Employment Provided By Smes	
	Amount (Rs. Crore)	Growth Rates	No. Of Persons	Growth Rates
2004-05	735	--	6852	--
2005-06	4412	500.27	10875	58.71
2006-07	2518	-42.93	26193	140.86

2007-08	3185	26.49	23075	-11.90
2008-09	6203	94.76	25058	8.59
2009-10	5440	-12.30	11933	-52.38
2010-11	5753	5.75	20626	72.85
2011-12	4039	-29.79	21543	4.45

$R_{xy} = 0.304788$

Source: Eenadu Daily News Paper, March 19, 2013.



From the above table it is observed that there is a positive impact of the fdi on employment provided by the smes during the study period except in the year 2006-07, 2007-08 and 2011-12. In the year 2006-07 there is a highest growth in investment on smes during the study period. The fdi decreases from the year 2009-10 and employment provided by the smes decreased in the year 2009-10 only. On the whole there is a positive relationship between the fdi and employment provided by the smes during the study period.

Conclusion

It can be observed from the above analysis that almost there is a positive impact of fdi on smes establishment, investment on smes and employment provided by the smes. So it better to offer the fdi in india. It leads to provide employment, strengthen the indian economy, increase the gdp, etc. On the other side banking and insurance sector help in providing the strength to the indian economic condition and develop the foreign exchange system in country. So, we can conclude that fdi is always helps to create employment in the country and also support the smes also and helps country to put an impression on the world wide level through liberalization and globalization.

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