



साहित्य, शिक्षा, वाणिज्य, मानविकी विज्ञान एवं सभी विषयों की  
संस्कार चेतना

मूल्यांकित  
अन्तर्राष्ट्रीय शोध पत्रिका (मासिक)  
ISSN 2347 : 4041

वर्ष 8, अंक 8(ii),  
अप्रैल 2019

<b>प्रबन्धक:</b> समी हरिओम दास परिचालक वात्सल्य वाटिका कुरुक्षेत्र	श्री जय भगवान सिंगला लैखक एवं साहित्यकार कुरुक्षेत्र	डॉ. मुशीर कुमार, पूर्व निदेशक हरियाणा संस्कृत अकादमी पंजाब	डॉ. वृण बद्रहाण, पूर्व कुरुक्षेत्र विद्यालय, कुरुक्षेत्र	डॉ. रोहतश गुरु, पूर्वाध्यक्ष प्राणी शास्त्र विभाग, कु.वि.कुरुक्षेत्र	श्री प्रदीप शर्मा समाजसेवी दिल्ली
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# ਸ਼ੋਧ-ਆਲੋਖਾਨੁਕ्रਮ

ਸਮ्पादकੀय - ਡਾਂ. ਕੇਵਲ ਕੌਰ

## **Women in Graham Greene's Novels : A Study of *The Heart of the Matter* and *The Quiet American*, The Comedians**

Dr. Geetika Sandhu 11-14

Impact of Parental Involvement and Encouragement on E-learning of Students

Sonia Sharma 15-18

## **Psychological Wellbeing in Relation to Coping and Happiness among College Students**

Anju Rani 19-28

## **Textualizing Indian History in Rohinton Mistry's Novels**

Bhawna 29-34

## **Fictionalized Representation of Emerging Female Characters in Shashi Deshpande's *That Long Silence***

Pardeep Singh 35-38

1857 ਈ. ਕੀ ਕ੍ਰਾਂਤਿ ਪ੍ਰਥਮ ਸ਼ਵਤੰਤ੍ਰਤਾ ਆਂਦੋਲਨ ਯਾ ਸੈਨਿਕ ਵਿਦ੍ਰੋਹ : ਏਕ ਤੁਲਨਾਤਮਕ ਅਧਿਯਨ  
ਸਤੀਸ਼ ਕੁਮਾਰ 39-43

**ਸੁਖਵਿੰਦਰ ਸਿੰਘ ਵਿਰਕ ਰਚਿਤ 'ਪੰਜਾਬ ਦੇ ਲੋਕ-ਨਾਟ ਰੂਪ ਅਤੇ ਨਕਲਾਂ' ਦਾ ਮੁਲਾਂਕਣ**  
ਗਗਨਦੀਪ ਕੌਰ 44-48

**ਸਰਵਹਿਤਕਾਰੀ ਨੇਤਾ ਗੁਰੂ ਗੋਬਿੰਦ ਸਿੰਘ ਜੀ**  
ਸਰਬਵੀਰ ਸਿੰਘ 49-52

**ਜਸਵੰਤ ਸਿੰਘ ਕੰਵਲ ਦਾ ਪ੍ਰਗਤੀਵਾਦ ਅਤੇ ਸਮਕਾਲੀ ਪ੍ਰਗਤੀਵਾਦੀ ਪੰਜਾਬੀ ਨਾਵਲ ਚੇਤਨਾ**  
ਡਾ. ਅਮਰਜੀਤ ਕੌਰ ਵੱਡਿੰਗ 53-60

**ਮ੃ਣਮੂਰਿ ਕਲਾ : ਏਕ ਅਧਿਯਨ (ਹਫ਼ਤਾ ਕਾਲ ਸੇ ਕੁ਷ਾਣ ਕਾਲ ਤਕ)**  
ਸੁਰੇਸ਼ ਕੁਮਾਰ 61-68

**ਖ੍ਯਾਲ ਗਾਯਕੀ ਏਵਾਂ ਕਥਕ ਨ੃ਤ্য**  
ਵੀਰ ਵਿਕਾਸ 69-72

**Role of Foreign Direct Investment in Economic Growth of India**  
Navjyoti Prasher 73-80

**ਪ੍ਰਾਚੀਨ ਹਿੰਦੂ ਸਮਾਜ ਮੋਂ ਅਸਪੂਖਿਤਾ**  
ਅਮਿਤ ਕੁਮਾਰ 81-85

**Assessing Opinion of Teachers towards Inclusive Education System in Ambala City, Haryana, India**  
Kavita Sharma 86-93

**ਮਾਲਵੇ ਦੇ ਮੇਲਿਆਂ ਦਾ ਸਰਵੇਖਣ**  
ਬਿੰਦਰ ਕੌਰ 94-98

**Role of Foreign Direct Investment in Economic Growth of India**

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Kurukshetra University, Kurukshetra  
(Haryana)**Abstract**

Modern world is world of specialization. Every consumer across the world wants to satisfy needs and wants. Consumer satisfaction enhances standard of living which leads to economic development of a nation. For the development of nation various steps are being taken by government. But international Economic Integration plays a vital role in Economic Development of any country. Foreign Direct Investment is one and only major instrument of attracting International Economic Integration in any economy. It serves as a link between investment and saving. Country like India, which is facing the deficit of savings, can solve this problem with the help of Foreign Direct Investment. Foreign investment helps in reducing the defect of Balance Of Payments. The flow of foreign direct investment is serving as a catalyst for the growth of economy in India. The present study is based on the objective to analyze the trend and role of FDI in improving the quality and availability of goods has been beyond doubt. To analyze all these objectives, data has been gathered through secondary sources like reports and publication of Govt. and RBI relating to foreign Investment. After analyzing all the facts it may be concluded that maximum global foreign investment's flows are attracted by the India. Foreign investment flows are supplementing the scarce domestic investments in developing countries particularly in India. Further this paper recommends that we should welcome the inflow of foreign investment because it enable us to achieve our cherished goal like making favorable the balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development and also it is very much convenient and favorable for Indian economy.

**Key-Words :** Foreign Direct Investment (F D I), Smart India.**Introduction**

Foreign investment has played a crucial role in global economic integration in last century and 21<sup>st</sup> century too. Foreign investment has worked as engine of economic growth. Foreign investment attributes to significant changes in technologies, greater liberalization of trade and investment regimes, and privatization of markets in many countries including India. Only through foreign investment domestic saving and investment can be supplemented. Moreover foreign investment is non-debt source of additional external finances. In country like India which is developing in stage, foreign investment is tool to boost output, technology, skill levels, em-

ployment which contributes in economic development. Foreign capital refers to investment of capital by foreign government, institution, private individual in a country. Foreign capital includes foreign aid, commercial borrowings, and foreign investment. Foreign aid contributes to economy development but at present times its availability has shrunken. Commercial borrowings create a problem of debt servicing i.e. interest payment. Among all tools of foreign investment foreign investment is being considered as best tool of economic integration at global level. Foreign direct investment refers to investment by foreign investors in forms of mergers, acquisition of Indian companies.

### **Foreign Direct Investment**

Foreign direct investment is investment of foreign assets and capital into domestic structures, equipments and organizations in order to establish wholly owned companies in another country and to manage them. The foreign direct investment can take any route or form to enter into any nation.

According to International Monetary Fund, "Foreign direct investment is defined as investment that is made to acquire lasting interest in an enterprise operating in economy other than that of investor. The investor's purpose is being to have an effective voice in management of enterprise."

The three principal forms of FDI in India are

1. Establishing wholly owned subsidiary companies.
2. Acquisition by purchasing shares.
3. Foreign collaborations.

Foreign collaboration can be further divided into following types:

1. Collaboration between Indian and foreign private companies.
2. Collaborations between Indian government and foreign private companies.
3. Collaboration between Indian government and foreign government.

### **Entry Routes of Foreign Direct Investment**

For entry of foreign investment there are two routes in India. These are:

1. Automatic route: Under automatic route, investor doesn't require any approval from government or RBI for investment.
2. Government route: under government route, approval of foreign investment promotion board is required.

In order to attract more foreign investment, government of India had liberalized many sectors to boost economic reforms. Mostly sectors are being liberalized. The table shows various sectors in which foreign investment is allowed:

### **Sector wise FDI Limit in India**

<b><i>Sr. No.</i></b>	<b><i>Sector</i></b>	<b><i>Percentage of Limit</i></b>
1.	Advertising and Films	100%
2.	Green Field Airports Projects	100%
3.	Health and Medical Services	100%
4.	Hotels and Tourism	100%
5.	Industrial Parks	100%
6.	Non- Banking Finance Companies	100%
7.	Venture Capital Fund's	100%
8.	Oil and natural gas corporation	100%
9.	Storage and warehouse services	100%
10.	Couriers services	100%
11.	Wholesale trading	100%
12.	Single brand retailing	100%
13.	E-commerce	100%
14.	Transport services	100%
15.	Telecom services	100%
16.	Internet service providers	74%
17.	Insurance	49%
18.	Power generation and distribution	100%
19.	Floriculture, Horticulture	100%

Almost all sectors being de-reserved by government of India in order attract more foreign investment. However, lottery business, gambling, betting, casinos are being prohibited of foreign direct investment in India.

#### **Objectives**

The objectives of this study are as follows:

- 1) To study the significance of foreign investment in context of Indian economy.
- 2) To study trends of foreign direct investment route wise.
- 3) To study foreign investment inflow sector-wise.

#### **Methodology**

As study is based upon analysis of trends of foreign investment in various aspects i.e. foreign direct investment and portfolio investment. Hence data is collected from secondary sources. These sources are economic surveys, government of India, various issues, handbook of statistics on Indian economy RBI, various issues, data from central statistics organization (C S O), department of industrial policy and promotion. Data, thus, generated has been analyzed with help of percentage.

#### **Analysis**

India is suffering from scarcity of domestic resources which are inadequate to carry developed programs in our economy. Moreover, following reasons are being mentioned through which it is being clearly know why foreign investment is needed in India. These are:

### **1. Foreign investment as supplement to reduce the gap between saving & investment.**

In order to reduce the gap between saving and investment rate foreign investment is necessary. Since economic reforms of 1991, as more and more foreign investment is being attracted, a tremendous growth in saving and investment is being noticed.

The table saving- investment rates in India depicts the clear picture.

**Table: 1 Saving-Investment Rates in India**

	Investment (in %)	Saving (in %)	Deficit (in %)
<b>1990-91</b>	<b>23.4</b>	<b>22.9</b>	<b>- 0.5</b>
<b>1991-92</b>	<b>23.9</b>	<b>21.3</b>	<b>- 2.6</b>
<b>1993-94</b>	<b>26.9</b>	<b>21.7</b>	<b>- 5.2</b>
<b>1999-00</b>	<b>24.8</b>	<b>25.7</b>	<b>0.9</b>
<b>2004-05</b>	<b>31.1</b>	<b>32.4</b>	<b>1.3</b>
<b>2007-08</b>	<b>36.4</b>	<b>36.8</b>	<b>0.4</b>

(source : surveys of economic times, various issues)

The table showing saving- investment rates of India shows saving rate is more in year 1999-00, 2004-05& 2007-08. This is all due to increased foreign investment in order to supplement domestic saving.

### **2. Foreign exchange reserve of India.**

Foreign investment also plays a vital role in enhancing foreign exchange reserves of India. Due to foreign exchange international payments can be made easily.

**Table: 2 foreign exchange reserves in India**

(In us dollars)

Year	FCA (in Billion)	Gold (in billions)	SDRs (in billions)	Others	Total (in billions)
2001-02	51.09	3.05	0.01	-	54.15
2002-03	71.08	3.73	0.00	0.67	75.47
2003-04	106.13	4.19	0.00	1.31	111.62
2004-05	135.09	4.38	0.01	1.44	140.91
2005-06	145.11	5.76	0.00	0.76	151.62
2006-07	191.92	6.78	0.00	0.47	199.18
2007-08	299.15	9.56	0.02	0.44	309.16
2009-10	252.76	22.14	4.99	1.38	277.04
2010-11	273.70	27.02	5.23	2.41	303.48
2011-12	260.07	26.29	4.47	2.84	294.40
2012-13	259.73	20.98	4.33	2.30	292.65
2013-14	276.41	18.99	4.46	1.83	303.67

Sources: Report of RBI 2014

Foreign exchange reserves consists of foreign currency assets (FCA), gold, special drawing rights (SDRs). Foreign exchange reserves has played crucial role in enhancing economic development of country as payments can be easily in worldwide accepted currency i.e. US dollar.

Trends depict huge increment in foreign exchange reserves of India which is due to foreign direct investment, yet more addition is to be needed in reserves in order to get more stabilized in making payments on time.

**Table: 3 Route-Wise Foreign Investment in India**

Financial Year	FIPB/RBIs Automatic route/ Acquisition route	Equity capital of unincorporated bodies	Re-invested earnings	Other capital	Total FDI flows	%age growth over previous year	Investment by FIIs( foreign institutional investors
2000-01	2339	61	1350	279	4029	-	1847
2001-02	3904	191	1645	390	6130	+52 %	1505
2002-03	2574	190	1833	438	5035	-18%	377
2003-04	2197	32	1460	633	4322	-14%	10918
2004-05	3250	528	1904	369	6051	+40%	8686
2005-06	5540	435	2760	226	8961	+48%	9926
2006-07	15585	896	5828	517	22826	+146%	3225
2007-08	24573	2291	7679	300	34843	+53%	20328
2008-09	31364	702	9030	777	41873	+20%	-15017
2009-10	25606	1540	6668	1931	37745	-10%	29048
2010-11	21376	874	11939	658	34847	-8%	29422
2011-12	34833	1022	8206	2495	46556	+34%	16812
2012-13	21825	1059	9880	1534	34298	-34%	27582
2013-14	24299	984	9047	2066	36396	+6%	5010

The source of table is RBI bulletin which was published in 2014. The figures are shown in US million dollars. The table shows route wise inflow of foreign direct investment in India from year 2000-01 to 2013-14 in order to analyze. Table shows that FIPB, RBIs, automatic, acquisition have maximum contribution in total FDI in India. The share of Automatic and acquisition route remain more than 50%. When the components of FDI inflow are studied over a period of time, we find that the value of equity inflows of incorporate bodies declined in 2001-02 and 2003-04, but have been on uptrend thereafter. Inflows through reinvested earnings increased continuously through this period, with only 2003-04 as an exceptional year. Annual fluctuations were observed for the inflows under equity capital of unincorporated bodies. However, in nutshell the value of inflows in over all have strengthen during the period.

**Table: 4 sector-wise inflow of FDI in India**

Ranks	Sector	2011-12 (in US \$)	2012-13 (in US\$)	2013-14 (in US\$)	Cumulative inflows since 1991 (in US\$)	% age to total inflows
1	Services sector	5216	4833	2225	39460	18%
2	Construction development: township, housing, built-up infrastructure	3141	1332	1226	23306	11%
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	1997	304	1307	14183	7%
4	Computer software and hardware	796	486	1126	12817	6%
5	Drugs & pharmaceuticals	3232	1123	1279	11598	5%
6	Automobile industry	923	1537	1517	9812	5%
7	Chemicals (other than fertilizers)	4041	292	878	9668	4%
8	Power	1652	536	1066	8900	4%
9	Metallurgical industries	1786	1466	568	8075	4%
10	Hotel &tourism	993	3259	486	7118	3%

Service sector includes financial, insurance, non- financial/ business, outsourcing, R&D, courier, technology testing and analysis. Service sector is on top most in order to attract more foreign direct investment. But tremendous increase is being shown in telecommunication sector which is growing at fastest rate. Moreover construction sector is second ranked in order to attract foreign investment with 11% of total inflows of foreign investment. More sectors which attract foreign investment are telecommunications(7%), computer software and hardware (6%), drugs and pharmaceuticals (5%), automobile industry (5%) and chemicals, power, hotel and tourism.

#### **Foreign Investment Inflow Since May 2014**

Since sh. Modi government is formed in India a huge foreign direct investment is being promoted. The foreign investors show a great interest in initiatives launch by the current government in order to make a smart and sustainable India. The trends since May 2014 are hereby analyzed:

**Table: 5 FDI Inflows (Month –Wise) During Financial Year 2014-15**

S.no.	Financial Year 2014-15	Amount of FDI inflow (in US\$)
1.	May 2014	3604 million
2.	June 2014	1927 million
3.	July 2014	3500 million
4.	September 2014	2678 million
5.	October 2014	1237 million
6.	November 2014	1537 million
7.	December 2014	2161 million
8.	January 2014	4481 million
9.	March 2014	2117 million

A total of 30931 million US dollars foreign direct investment flows in India, which is 28% more than that of year 2013-14

Source: department of industrial policy and promotion, March 2015

The table depicts the true picture that foreign investors are showing a great interest in Indian market. A 28% increase over last year is analyzed with 30931 million dollars in total. It can be said that the initiatives taken by present government such as make in India, smart India and digital India are able to attract more foreign investment. Moreover till June 2015, 9508 million dollars are foreign direct investment inflows.

### **Findings of the Study**

The findings of present study are:

1. The trends reveal that domestic saving rate is still less as compared to investment rate.
2. The foreign investment inflow has increased in current government.
3. Acquisition and equity is important route of foreign direct investment.

### **Conclusion**

Keeping in mind the importance of foreign investment for India, more foreign investment inflow should be attracted by government for making smart India. Foreign investment flows are supplementing the scarce domestic investment in India. We should provide a better environment for attracting foreign investment and welcome foreign investment in such a way that it helps to build smart India so that cherish goal of rapid economic development can be achieved. Moreover, for smart India more and more foreign investment to be promoted in basic industry, infrastructure development, agriculture development so that it become more fruitful and increase growth in all sectors of economy. Foreign investment should be promoted in non-key sectors too so that rate of growth can be enhanced. In this order every possible effort must be taken by government of India to attract more and more foreign direct investment.

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