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IMPACT OF FDI ON INDIAN ECONOMY

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SUMMARY

The impact of Foreign Direct Investment having greatly contribution in the Economic growth of India. The investment which is made by foreign organization to Domestic organization is known as Foreign Direct Investment. This study helps to find out how the FDI impacted in the economic growth of Indian economy.

In many countries and in many sectors, more companies are expanding abroad through direct investment and almost all sectors are trying to compete to attract multinational enterprises (MNCs). Therefore, world flows reached a peak of $340 billion in 1996.

INTROUCTION

Foreign direct investments, or FDI, are sums of money that a company or individual invests in another nation. It comprises starting businesses or investing in assets in foreign countries in an effort to take command of or a sizable amount .

Although foreign direct investments having positive as well as negative impact on the economy, they have also had some negative impacts on the Indian economy in the last few years. In countries with changing economies, foreign direct investment (FDI) flows into key sectors such as capital, management and technology are thought to play an important role.

In this context, it is argued that foreign direct investments can spread technology to many areas through knowledge diffusion and enable the growth of products used by increasing production in India.

It is also very helpful in contributing in the development of the Country where FDI happens .

Various investors from different countries invest their money in various sectors such as, telecommunication, transportation, IT sector which can be helpful in improving the overall infrastructure and development of the economy of the host country.

This is also due to recent political developments in India following the opening up of industries such as insurance and telecommunications and financial diversification of businesses. The private sector continues to expand. In particular, the left parties, the main partners of the current Indian government, do not accept the widening of the fiscal gap between the private sector and public sector businesses in insurance and telecommunications.

If FDI flows into key sectors have a positive impact on the Indian economy, empirical analysis can provide a basis for greater economic openness.

Foreign direct investment (FDI) in India is eligible for both automatic and government clearance. Under the automated approach, FDI can only be approved by the RBI because only the RBI has the power to do so.

On the other side, the government only approves foreign direct investment (FDI) when it has granted approval. Government action will be guided by the recommendations made by the Foreign Investment Promotion Board (FIPB).

FDI IN INDIA

An essential source of funding for India's economic expansion is foreign direct investment. To benefit from India's low wages and evolving economic environment, foreign corporations are making direct investments in rapidly expanding private companies. Since the commencement of economic liberalisation following the 1991 financial crisis, foreign direct investment in India has risen gradually, generating employment worth over one crore rupees (10 million).

On April 17, 2020, India revised its foreign direct investment (FDI) policy to safeguard Indian enterprises from "market disruptions" / business of Indian companies. Since the new FDI policy does not restrict enterprises, the Ministry of Industry and Trade will now examine the policy to enhance all FDI. According to the Financial Times, India became the biggest destination for foreign direct investments in 2015, leaving behind China and the USA.

In the first half of 2015, India received investments of 31 billion dollars, while China and the USA received investments of 28 billion dollars and 27 billion dollars, respectively.

Manmohan Singh, a backer of the Foreign Exchange Management Act (FEMA) in 1991, is credited with inspiring the concept of remote speculation.

India is ranked 12th among the world's top 20 trading partners. In the "Development Asia" region,

Under the automatic route, foreign investors or Indian companies do not need to seek prior approval from the Indian government. The automated method targets the business and resources with fewer restrictions.

Automatic FDI is allowed in all sectors and activities under the Comprehensive FDI Law. Another feature of the automatic method is that foreign investors are required to notify the RBI within thirty days of the investment entering the country and within thirty days of advertising the products.

According to the government's approach, foreign investors or Indian companies need to get prior approval from the Indian government or designated bodies.
Proposals are evaluated by the relevant authorities/departments or CCEA

REVIEW LITERATURE

According to Lipsey's (2002) research, there may be no impact on overall growth or production. This study concluded that depending on the economic sector—primary, manufacturing, or services.

This inflows generally have a negative effect on growth, but they have a beneficial effect on the manufacturing sector.

An study about the effect was studied by Hillman et al. (2005). The host countries were divided into developed and less developed groups by the study's author. The study's findings demonstrated that legislation had a positive and significant impact on foreign direct investment that was movable. Additionally, research demonstrated that foreign direct investment (FDI) in less developed countries was influenced by MNC opinions of the governance and regional predisposition for corrupt activities.

Jiang et al. (2010) looked into how Chinese culture was affected by foreign direct investment (FDI).

The study concluded that levels of performance orientation, future orientation, and group collectivism are all significantly influenced by foreign direct investment (FDI) after gathering data from well-known Chinese cities. It was discovered that the level of performance orientation is significantly impacted negatively by foreign direct investment (FDI) from the USA, UK, Singapore, Japan, and other countries. The research findings indicate that there is a significant increase in the degree of in-group collectivism following foreign direct investment (FDI) from Singapore and Japan.

Another study was conducted on the impact of nation was carried out in 2013 by Renuka, Ganesan, and Durdamana, with a particular focus on the retail industry. The main purpose of the study were to find out the reasons for investment in India, investigate the impacts of this investment in various sectors, and pinpoint new trends in a number of Indian businesses. The gathering of data has been aided by secondary data. Foreign direct investment (FDI) has found it simpler to enter India's retail sector as a result of trade practices being liberalized and barriers to entry being removed. It was discovered that most foreign countries preferred to invest in the hardware, software, and building sectors as well as the service and software segments of IT industry.

OBJECTIVE OF THE RESEARCH

There are various objectives of the research. Here are some objectives:

1.To find out the impact of Foreign Direct Investment on the economy of India.

2. To know about the flow of investment in India.

3. To discuss the challanges and future prospects of the FDI in India

RESEARCH MEDTHOLOGY

This study is based on secondary data that simply means that the data is collected from various sources like Government of India economic journal, world bank report article, publication from ministry of commerce, reserve Bank of India report and various websites from internet.

DATA INTERPRETATION

To achieve the objectives of the study, In which we came to know that the growth of the GDP is almost 5.5% per year, for the past ten years, indicating a strong economic boom. With a booming stock market and a strong economy.

India, a country of 1.4 billion people, is poised to overtake the United States as the third-largest economy globally by 2030. Over the past ten years, these factors have helped India become the nation's top trading partner. These elements have given a country—which just surpassed China to take the top spot in the world population rankings—unprecedented growth prospects.

India's economic expansion is making it a significant player in the world economy, offering both businesses and investors a special opportunity. The nation is a desirable location for investment due to its particular features, which include its expansive consumer markets, supportive legislative environment, and innovative digital infrastructure.

Foreign direct investment (FDI) in India is expected to gain strength in 2024. Healthy Macroeconomic data: India's strong economic results lead to downward trend Good investment. Production linked incentive (PLI) programmes: These programs have started to bear fruit and attract foreign investors.

Despite the decline in foreign direct investment inflows in 2023, India continues to be a popular destination for foreign investors. The country's core features, such as ease of doing business, skilled workers, natural resources and large domestic market, continue to attract investment1. In 2023-24, total FDI inflow will reach $ 17.96 billion, of which $ 11.54 billion will be FDI inflow. Notably, Mauritius, Singapore, the United States, the Netherlands and Japan have emerged as the top five promoters of FDI in India.

In 2023-24, foreign direct investment continued to see healthy growth; Total inflows reached $17.96 billion, of which $11.54 billion came from foreign direct investment equity.

Attractive investment center. Experts agree that despite global competition, India's growth path makes it a tough choice for foreign funds in 2024.

Top Investing Countries' FDI Equity Inflow into India (US$ Million)					
Country	FY 2021	FY 2022	FY 2023	Cumulative equity inflow (April, 2000-March, 2023)	Percentage share
Mauritius	5,639	9,392	6,134	1,63,876	26%
Singapore	17,419	15,878	17,203	1,48,169	23%
USA	13,823	10,549	6,044	60,196	9%
Netherland	2,789	4,620	2,498	43,759	7%
Japan	1,950	1,494	1,798	38,740	6%
UK	2,116	1,657	1,738	33,875	5%
UAE	4,203	1,032	3,353	15,578	2%
Cayman Island	2,799	3,818	772	14,924	2%
Germany	667	728	547	14,138	2%
Cyprus	386	233	1,277	12,644	2%

According to the government's method, investments must be authorized in advance and approved by the relevant authorities. In the automatic method, investors do not need to get approval from the Indian government for their investments.

However, the Indian market is important for the global market as companies develop strategies to further popularize their products from China.

India's GDP growth has averaged 5.5% over the last decade, reflecting its growing economy.

Notably, at the just finished UP Global Investor's Summit 2023, investment proposals totaling US$400 billion were received, demonstrating Uttar Pradesh's (UP) emergence as a desirable destination for foreign direct investment.

- **SECTOR WISE FDI IN INDIA**

Similar to foreign direct investment flows, over the last five years, non-manufacturing industries have dominated growth in foreign direct investment inflows. The industrial sector continues to receive less foreign direct investment inflows, even if overall inflows have recently increased significantly.

This is true even though the policy's main goal is to increase the manufacturing sector in India's capability and competitiveness. The only manufacturing sectors that draw more FDI than overall FDI inflows are electronics and automobiles.

Along with communications, commerce, and computer hardware and software (with software being the main product), there are cities and other things. cooperation. The manufacturing sectors of machinery, electronics, food, and metallurgy are among the top 20 profitable ones.

However, according to the 2023 Economic Survey, foreign direct investment is expected to return. This includes the Production Linked Incentive (PLI) system.

Second (27.9%) is the business sector, followed by negative energy (20.6%), computer hardware and software (24.5%), information and media (18.3%), electronics (17.3%), medical facilities and labs (18%), communication (16.9%), and counseling (15.4%). Cars (14.4%), hotels and tourism (14.1%), and services (14.1%) are some other notable industries that are witnessing FDI inflows and growth at a rate faster than overall FDI growth.

RESULTS AND DISCUSSION

The economy gains money from foreign direct investment, which raises demand for jobs and boosts overall economic revenue. It contributes to the budget expansion required to raise government income and enable local governments to provide public services.

As China has demonstrated, the demand for local currency can raise purchasing power to the point where, in many situations, people's money is worthless and they are unable to work or receive benefits on schedule.

FUTURE PROSPECTIVE OF FDI

FDI is very necessary for the economic development of any country . The global commodity market has seen both tremendous expansion and a recession in the last two years. The decade leading up to 2030 is probably going to be one in which global value chains change, changing the global investment and economic landscape.

Three things have changed as a result of the pandemic: supply, demand, and policy. International value chains and direct foreign trade are significantly impacted. In 2021, I anticipate that there will still be disruptions in many global value chains and a drop in foreign direct investment globally. If the worldwide foreign direct investment market is viewed in a U-shape, the recovery won't start until 2022.

In the long run, the pandemic has accelerated the rise of numerous ideas that were already in existence, boosting competition and creating opportunities for investment and expansion. Even though the pandemic might not stop very soon, investing strategies will gradually improve as we describe the recovery path.

ADVANTAGES OF FDI :

Following are the advantages of FDI

Economic Boost: Foreign Direct Investment (FDI) generates employment opportunities and stimulates economic growth by bringing in capital, technology, and knowledge.

Development of Domestic Business: Foreign Direct Investment (FDI) stimulates competition, opens up new markets, and adopts managerial methods that make domestic businesses more competitive and expand faster.

Transfer of Technology: Foreign direct investment (FDI) offers cutting-edge technology and expertise to the host nation, augmenting its industrial capacities and competitiveness.

Human Capital Development: Training and skill development are provided by FDI, which raises the level of knowledge and proficiency within the local labor force.

International Integration: FDI allows a country to become a part of global value chains, creating chances for businesses focused on exports and diversification.
Poverty Reduction: Foreign Direct Investment (FDI) lowers poverty rates by promoting economic expansion, job creation, and higher earnings.

DISADVANTAGES OF FDI :

Following are the disadvantages of FDI

Hiking Local Investment: Foreign Direct Investment (FDI) has the potential to impede the growth of local investments by taking resources away from them.

Exchange rate manipulation: FDI has the potential to cause exchange rates to be manipulated in a way that favors one nation while negatively impacting another.

Capital Intensity and Risk: FDI is frequently associated with large capital investments, which makes it high-risk and possibly not economically feasible in some circumstances.

CONCLUSION

This study's primary goal is to examine the pattern of FDI equity inflows in various industries and regional offices. Based on the findings, it is determined that there significant fluctuation in FDI equity inflows. Additionally, the outcomes showed that the maximum 18% of foreign direct investment (FDI) inflows into the service sector and Maharashtra, With 31% of the total inflows.

The government will benefit from this study's careful planning to oversee and increase the amount of foreign direct investment.

India has long prioritized reforms in order to draw foreign capital and boost domestic industry. The global economy has undergone changes due to the trade war and the COVID-19 pandemic.

Numerous businesses are reevaluating their risks and looking into new opportunities in light of the extraordinary business climate. India is the most sought-after travel destination, drawing interest from many nations; domestic records were shattered.

In conclusion, more money will be invested in the economy via foreign direct investment, which will raise wages and create jobs.

Although the government directly benefits from this position, there may occasionally be worries that because the economy is a copy capital incentive, foreign investors will use the nation's natural resources and create less jobs.

For the past two years, the majority of developing nations have built their industrialization and development strategies around the promotion of export-oriented economic activity. The amount of money invested in producing goods, resources, and low-paying jobs is increasing, yet it is still not enough.

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