THE REPERCUSSIONS OF FOREIGN DIRECT INVESTMENTS ON THE INDIAN ECONOMY

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Abstract

It is essential for India to have foreign direct investment (FDI) as a strategic component of investment if it is to carry out economic reforms and keep up the current rate of economic growth and development that it is experiencing. Initially, the regulatory framework in India resulted in a sluggish rate of foreign direct investment (FDI) flows into the country; however, ever since 2005, investment flows have greatly grown as a consequence of the emergence of new policies. This is due to the fact that the regulatory framework has been replaced. This is because of changes that have been made to the regulatory system, which have resulted in less stringent guidelines. The purpose of this research is to investigate the method in which foreign direct investment contributes to economic development, greater creation of human capital, and the sharing of technical know-how. The primary focus of the research that is going to be conducted as part of this study project is going to be on the effect that direct investment from other countries has had on the economy of India. Bar charts are often used since they are able to graphically present the information that has been gathered from a diverse range of sources.

Key words: Economy development, foreign investments, Exports& Imports, Growth of the nation, Investment Policies.

Introduction

Foreign Direct Investment (FDI) is the flow of funds between countries.Countries that can pass through in the form of inflows or outflowsYou can get some return on your investment, while you get another returnIncrease your productivity and seize opportunities to findImprove your position through performance. Effectiveness andEfficiency depend on investor perception when investedpositive long-term contributionOn the other hand, in the short term, towards the economy.Foreign companies'Direct investment can be an attractive and viable option. An investment decision is therefore a combination of the following assessments:internal resources, competitiveness, market analysis,market expectations.Foreign direct investment may also be affected by government trade barriers,Foreign Investment Guidelines and Less or More

LeadsEffective contribution to economy and GDPwork. The advantage of FDI to the foreign countries is to expand their business all over the world and having some benefits from the government. FDI can also promote competition in domestic input markets. Recipients of foreign direct investment often receive staff training during the operation of the new business, contributing to the development of the host country's human capital. Profits from foreign direct investment contribute to the corporate tax revenues of the host country. Research is trying to find meaning to influence. We also measure levels with economic scenarios Predominance of economic contributory factors to India.

Economic Growth: FDI has played a crucial role in boosting India's economic growth. It has helped to increase capital inflows, create jobs, enhance productivity, and promote overall economic development. FDI has contributed to higher GDP growth rates, especially in sectors like manufacturing, services, and infrastructure.

Employment Generation: FDI has been a major driver of job creation in India. It has led to the establishment of new businesses, expansion of existing enterprises, and the introduction of new technologies and processes. This has resulted in increased employment opportunities for the Indian workforce, reducing unemployment and poverty levels.

Technology Transfer: Foreign companies bring advanced technologies, management practices, and technical know-how to the Indian market through FDI. This transfer of technology has helped in improving the competitiveness of domestic industries, enhancing productivity, and promoting innovation and research and development (R&D) activities in India.

Increased Trade and Exports: FDI has facilitated greater integration of the Indian economy with the global market. Foreign companies often use India as a base for production and export activities, which has led to an increase in trade and export volumes. This has resulted in a favorable balance of trade for India, contributing to foreign exchange earnings and improving the current account balance.

Infrastructure Development: FDI has played a significant role in the development of infrastructure in India. Foreign companies have invested in sectors like telecommunications, power, transportation, and real estate, which has led to the creation of modern infrastructure facilities. This has not only improved the overall quality of infrastructure but has also attracted further investment and boosted economic activities.

Fiscal Benefits: FDI brings in foreign capital, which helps in bridging the savings-investment gap in the Indian economy. It contributes to the expansion of the tax base, increased tax revenues, and the development of financial markets. The government can utilize these additional resources for public welfare programs, infrastructure development, and social sector spending.

Sectoral Advancements: FDI has had a transformative impact on specific sectors in India. For example, in the automobile sector, FDI has facilitated the establishment of manufacturing plants, leading to increased production, employment, and exports. Similarly, in the IT and IT-enabled services sector, FDI has played a crucial role in the growth of software exports and the emergence of India as a global hub for outsourcing.

Objectives

- “To analyse the impact of foreign direct investments (FDI) on Indian Economy”.
- To study the trends of FDI in India in the last twenty years.

Review of literature

A recent research by Kumar and Karthika found that "Foreign Direct Investment (FDI) Inflow" significantly contributed to the growth of the host country's economy. largely In order to speed up their economic development, several countries welcome foreign investment and technology. Foreign Direct Investment to the Tune of Billions In advanced economies, national economic development is reflected in rising levels of domestic capital, output, and employment.Balasubramanyam and Sapsford claim in their essay that India receives just 0.1 percent as much foreign direct investment as China does. The study also pointed out that human capital and land contributions would effectively split FDI packages, and that India's structure and composition may not need an expansion in FDI in the industrial and services sectors. He reasoned that his capital requirements may be met by FDI from other sources.

Agarwal and Khan, who studied the effect of FDI on GDP, found the following. However, research conducted in China and India reveals that FDI has grown by 1%. Both China's and India's GDP increased by 0.07% and 0.02% respectively. The growth in China was also more sensitive to her FDI than the rise in India was.Bajpai and Jeffrey, the report claims, were going to release a study on FDI. The existing Foreign Direct Investment (FDI) policy in India, as well as other reasons contributing to India's unattractiveness as an investment destination, are among the problems that "India: "Issues and Issues" seeks to uncover. India has a lot to offer: a sizable domestic market, an effective legal system, cheap labor, and a stable government. Its record of success in luring FDI from outside has been dismal. The research concludes that India's high import tariffs, exit restrictions for enterprises, harsh labor rules, inadequate infrastructure, centralized decision-making procedures, and relatively restricted export processing zones hinder the country's economic potential.Dr Naveen Prasadula (2021) state that foreign direct investment (FDI) has a negative or null impact on economic development because it displaces native capital. Furthermore, some research contend that causation may be inverted, with the search for FDI often helping developing economies. Multinational corporations, likewise, want expanding and prosperous economies. Due to the two-way nature of FDI and GDP growth, there is potential for simultaneity distortions. In addition, one might argue that exports cause growth in GDP and vice versa. Two intriguing hypotheses are the export-led growth hypothesis and the output-driven growth hypothesis. Finally, the export nexus and inward FDI both have their proponents and detractors. Hsiao and Hsiao (2006) state that exports boost FDI by providing necessary background research about the host nation and therefore lowering investment risks. expenses incurred during a transaction. The establishment of industrial facilities in foreign markets via foreign direct investment might also restrict exports.

Methodology

The data analysis used in this study is secondary data analysis.

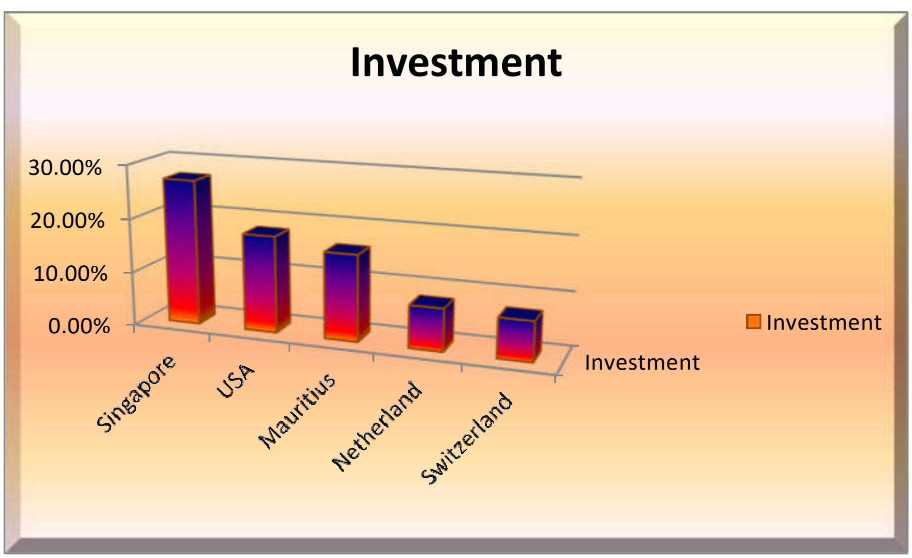
Sources of the Data

This study is based on secondary data. Data have been collected from various sources including macro trends, economics survey reports. This study considers last 20 years data i.e., from 2000-2020.

DATA ANALYSIS AND INTERPRETATION:

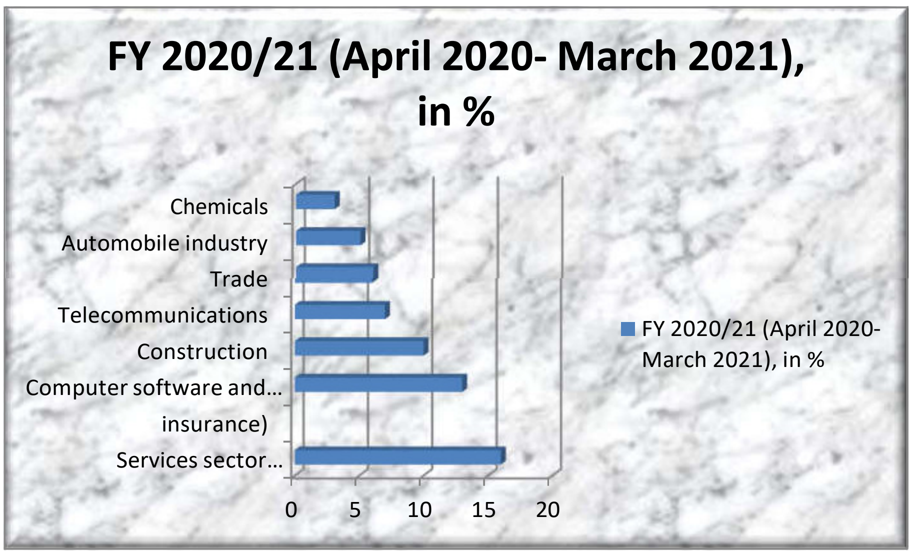
5 Largest investors of FDI in in India. In the FY 2021-22.

Country	Investment
Singapore	27.01%
USA	17.94%
Mauritius	15.98%
Netherland	7.86%
Switzerland	7.31%



FDI in major sectors:

Main Invested Sectors	FY 2020/21 (April 2020- March 2021), in %
Services sector (including financial, banking and insurance)	16
Computer software and hardware	13
Construction	10
Telecommunications	7
Trade	6
Automobile industry	5
Chemicals	3



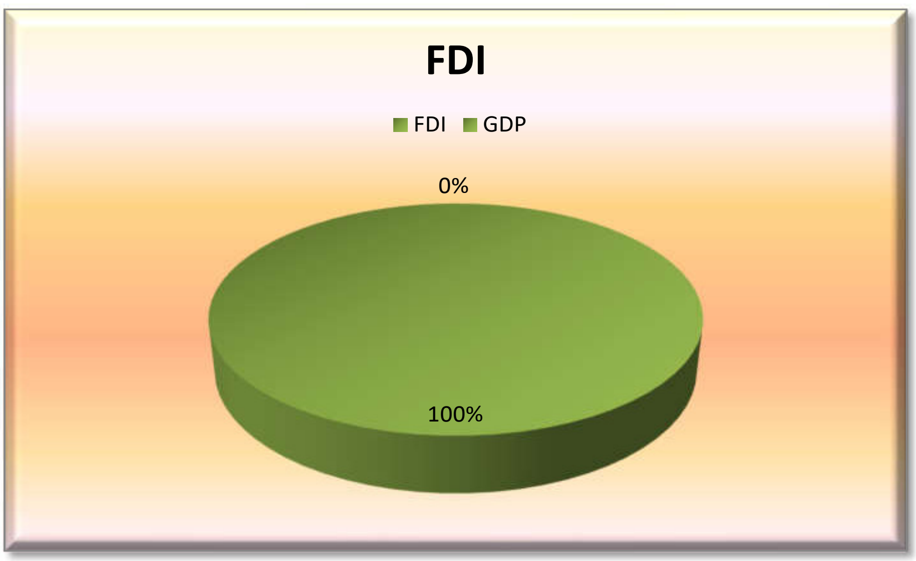
India Foreign Direct Investment - Historical Data from 2000-2022

Year	FDI Inflows, US $ in billions	% of GDP
2020	64.36	2.41%
2019	50.61	1.79%
2018	42.12	1.56%
2017	39.97	1.51%
2016	44.46	1.94%
2015	44.01	2.09%
2014	34.58	1.70%
2013	28.15	1.52%
2012	24.00	1.31%
2011	36.50	2.00%
2010	27.40	1.64%
2009	35.58	2.65%

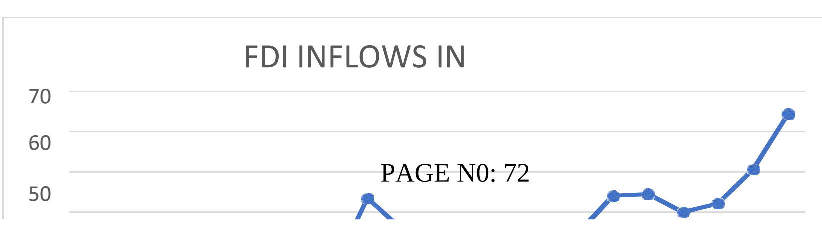
2008	43.41	3.62%
2007	25.23	2.07%
2006	20.03	2.13%
2005	7.27	0.89%
2004	5.43	0.77%
2003	3.68	0.61%
2002	5.21	1.01%
2001	5.13	1.06%
2000	3.58	0.77%

Correlation between FDI & GDP

	FDI	GDP
FDI	1	.729***
GDP	.729***	1

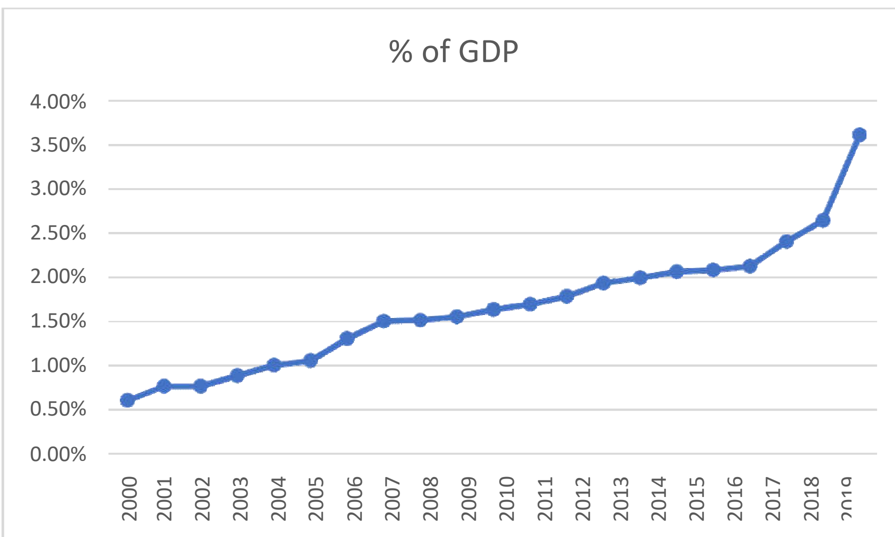


The correlation between the two variables i.e., FDI and GDP are **strong positive** correlation.



FDI inflows from last 20 years i.e., 2000-2022

The investments made by the other countries into India (FDI) are gradually increased from the last 20 years that indicates the country receiving the foreign direct investment leads to growth of the economy that is import of technology employability and Government receive taxes from the investments.



GDP % from the last 20 years i.e., 2000-2020

We know that GDP means the total final value of goods and services produced in a country in a year. FDI affects the Indian economy. This will help foreign countries to invest in India through the implementation of policies and help to continuously improve economic growth over the past two decades.

Findings:

- The FDI inflows in to the country has shown an increasing trend during the period under study i.e., between 2000 to 2020.
- There is strong positive correlation between FDI and GDP growth of the country.

- The Indian GDP is increasing accordingly.

Suggestions:

- Indian government needs to bring political and social stability in the economy.
- Indian government need to reduce economic barriers.
- There should be stringent land reform laws for the FDI.

Economic Growth: FDI inflows can contribute to higher economic growth rates by boosting investment, increasing productivity, and creating employment opportunities. FDI brings in new technologies, managerial expertise, and capital, which can enhance the productivity and competitiveness of domestic industries.

Increased Capital Inflows: FDI inflows result in an increase in capital flows into the country, which helps bridge the investment gap in key sectors. It provides a stable source of long-term capital, reducing dependence on volatile short-term capital flows.

Technology Transfer: FDI brings advanced technologies and managerial practices from foreign companies to domestic firms. This helps in upgrading the technological capabilities of local industries, improving productivity, and fostering innovation.

Employment Generation: FDI can create job opportunities in various sectors, including manufacturing, services, and infrastructure. Foreign companies establish subsidiaries or joint ventures in India, leading to direct and indirect employment generation.

Export Promotion: FDI can contribute to increased exports by integrating domestic industries into global value chains. Foreign investors often establish export-oriented units, leading to higher exports of goods and services from India.

Infrastructure Development: FDI inflows play a crucial role in the development of infrastructure sectors such as telecommunications, power, transport, and logistics. Foreign investors bring in expertise and capital for the construction and modernization of infrastructure projects.

Boost to Domestic Industries: FDI can enhance the competitiveness of domestic industries by exposing them to international best practices, quality standards, and market competition. This can lead to improved efficiency and innovation among domestic firms.

Balance of Payments: FDI inflows contribute to a positive balance of payments position by increasing foreign exchange reserves and reducing the current account deficit. It helps finance the import requirements of the country and improves its external financial stability.

Fiscal Revenues: FDI can generate fiscal revenues for the government through taxes, royalties, and dividends. This additional revenue can be utilized for public investment, social welfare programs, and infrastructure development.

Regional Development: FDI has the potential to promote regional development by attracting investment in backward regions or sectors. It can help reduce regional disparities and promote inclusive growth across different parts of the country.

However, it is important to note that the extent and nature of the repercussions of FDI on the Indian economy can vary depending on factors such as the sector of investment, the quality of institutions, the regulatory framework, and the overall business environment. It is essential for policymakers to create an enabling environment that encourages FDI while safeguarding the interests of domestic industries and addressing any potential negative effects.

Conclusion

India is currently liberalizing its Foreign Direct Investment (FDI) policy to make the market more investor-friendly.According to the latest reports, today the country is consistently ranked among the top five investment destinations in the world by all international organizations. The new government has allowed foreign investment of over 49% and up to 100% of her through the government's defence licensing route, allowing access to the country's latest technology. Recent policy revisions include 100% foreign direct investment under government approval The road to government approval continues above 74% of FDI and up to 100% for such brownfield firms. That means most sectors are automatically approved, making India one of the world's most open economies to foreign direct investment. the purpose of this study was to analyse the impact of FDI inflows on the Indian economy. The results of the study conclude that the country's GDP and stock market movements are highly dependent on FDI inflows into the country.

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