

Impact Of Foreign Direct Investment In Indian Economy

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Abstract:

The aim of this paper is that examine the impact of foreign direct investment in Indian economy. It has established the fact that foreign direct investments has long term impact on Indian economy and FDI is the most important key to economic development of India. The paper has presented data from 2000-01 to 2019-20 to evaluate the pattern and trends of FDI on Indian economy.

Keyword: Foreign Direct Investment, Impact, Indian Economy

1. INTRODUCTION

Foreign direct investment (FDI) is a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over an enterprise resident in another economy. FDI is a key element in international economic integration because it creates stable and long-lasting links between economies. FDI is an important way for the transfer of technology between countries, promotes international trade through access to foreign markets, and can be an important way for economic development. Heavy capital inflow of FDI helps to rising the level of investment, improvement of domestic technology, improvement of balance of payment, development in export competitiveness, create employment opportunities etc. India has so far received healthy foreign direct investment (FDI) in 2022. As per the latest figures of the government, India has registered its highest-ever total FDI inflows of \$84.84 billion in 2021-22

2. OBJECTIVE OF THE STUDY

- a) To analyze the impact of FDI in Indian economy.
- b) To study the trends of FDI inflows in India.
- c) To analyze the sources of FDI in India

3. METHODOLOGY

The study is mainly based on the secondary data collected from related Literature published in the journals, websites, newspaper, books, Statements, reports. The nature of study is primarily descriptive, quantitative and analytical.

4. LITERATURE REVIEW

Mohammad zain khan and dr. Rana zehra masood (2022) in his paper aims to examine the impact of foreign direct investment and foreign institutional investment on the indian economy. The author observed that fdi has more deep rooted and long term impact on the economy and it proves to be more essential for economic growth of the country. The paper concludes that both FDI and FII are essential for the economy. But FDI is more crucial for the economy and is therefore called as ' engine of growth'.

Bikhipta saikia (2021) stated that FDI plays an important role in the overall economic development of a country through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. Again, he observed that FDI plays a pivotal role in bridging the gap between the available resources and the required resources. FDI is considered as a development tool in India which helps in attaining self-reliance in various sectors and also in the overall development of the economy. In addition to this the author tries to find out the difficulties face by FDI in the country and suggest measures to attract more foreign capital in various sectors of the economy.

Dr. Maathai k. Mathiyazhagan(2005) in his paper tries to examine the long-run relationship of FDI with gross output, export and labour productivity in the Indian economy at the sectoral level. Author uses the panel co- integration (PCONT) test and the results demonstrate that the flow of FDI into the sectors has helped to raise the output, labour productivity and export in some sectors but a better role of FDI at the sectoral level is still expected. The author also observed that there is no significant co-integrating relationship among the variables like FDI, gross output, export and labour productivity on core sectors of the economy. Thus he concluded that the advent of FDI has not helped to wield a positive impact on the indian economy at the sectoral level.

Dr. P. C. Reddy, A. M mahaboob basha, Dr. R.V.S.S Nagabhushana Rao, Dr. M. Vijaya bhaskar reddy observed that the inflow of investments will facilitate to invest on different sectors like, agricultural, industrial and service sector, by foreign direct investments there are different types of advantages to country like investments, employment, technology, know-how, labour, skill, knowledge, abilities can be transformed from one nation to other nation, besides to this environmental pollution Co2 emissions is also increasing due to industrialization

5. TRENDS AND PATTERNS OF FLOW OF FDI

Year	Total investment	GDP	FDI Growth rate in %
	□ Crore	□ Crore	
2000-01	26744	2177413	
2001-02	31920	2355845	19.35
2002-03	20098	2536327	-37
2003-04	62842	2841503	212.7
2004-05	58057	3242209	-7.61
2005-06	68782	3693369	18.47
2006-07	66791	4294706	-2.89
2007-08	174395	4987090	161.1
2008-09	35061	5630063	-79.9
2009-10	239951	6477827	584.4
2010-11	193482	7784115	-19.4
2011-12	188738	8736039	-2.45
2012-13	254653	9944013	34.92
2013-14	159650	11233522	-37.3
2014-15	449072	12467959	181.3
2015-16	208579	13771874	-53.6
2016-17	289394	15391669	38.74
2017-18	337684	17090042	16.68
2018-19	212179	18899668	-37.2
2019-20	312215	20074856	47.14

Source: Handbook Of Statistics On Indian Economy, 2021-22

Table1: Above table shows that the FDI inflows in India have raised at a very high rate from Rs.26744 crores (2000-01) to Rs.312215 (2019-20)crores. The highest growth rate was recorded in the year 2014-15 ,which is Rs.449072 crores. The table also shows that the GDP have increased at a faster rate.

6. FDI ENTRY ROUTE IN INDIA:

Investment climate in India has improved considerably since the opening up of the economy in 1991.

a) This is primarily attributed to ease in FDI rules in India. India, today is a part of the top 100 clubs on Ease of Doing Business (EoDB). FDI inflows in India stood at \$45.15 billion in 2014-15 and have consistently increased since then. Moreover, total FDI inflow grew by 65.3%, i.e. from \$266.21 billion in 2007-14 to \$440.01 billion in 2014-21 and FDI equity inflow also increased by 68.6% from \$185.03 billion during 2007-14 to \$312.05 billion (2014-21).

b) India has attracted a total FDI inflow of \$27.37 billion during the first four months of F.Y. 2021-22 which is 62% higher as compared to the corresponding period of F.Y. 2020-21 (\$ 16.92 billion).

c) India received the highest annual FDI inflows of \$84,835 million in FY 21-22 overtaking last year's FDI by \$2.87 billion. Also, FDI equity inflow in FY 2021-22 were \$ 59,825 million.

d) FDI Equity inflow in Manufacturing Sectors have increased by 76% in FY 2021-22 (\$ 21.34 billion) compared to previous FY 2020-21 (\$ 12.09 billion).

e) Total FDI inflows in the country in the last 22 years (April 2000 - March 2022) are \$ 847 billion while the total FDI inflows received in the last 8 years (April 2014- March 2022) was \$ 523 billion which amounts to nearly 40% of total FDI inflow in last 22 years.

f) In FY 2014-15, FDI inflow in India stood at mere \$ 45.15 billion, which increased to \$ 60.22 billion in 2016-17 and further to the highest ever annual FDI inflow of \$ 83.57 billion reported during the FY 2021-22.

7. SOURCE OF FDI IN INDIA:

The total FDI inflow into India from January to March 2022 stood at US\$ 22.03 billion, while the FDI equity inflow for the same period was US\$ 15.59 billion. From April 2021-March 2022, India's computer software and hardware industry attracted the highest FDI equity inflow amounting to US\$ 14.46 billion, followed by the automobile industry at US\$ 6.99 billion, trading at US\$ 4.53 billion and construction activities at US\$ 3.37 billion. India also had major FDI flows coming from Singapore at US\$ 15.87 billion, followed by the US (US\$ 10.54 billion), Mauritius (US\$ 9.39 billion) and the Netherlands (US\$ 4.62 billion)

8. CHALLENGES

a) Adverse effects on the balance of payments, when foreign countries imports a substantial manner of the inputs from abroad.

b) Rised in inflation.

c) Domestic company fear that they may lose their ownership to overseas company.

d) Small enterprises fear that they may not able to compete with world large class company.

9. GOVERNMENT INITIATIVES

Some of the major government initiatives are:

- a) The Government of India raised FDI in the defence sector by increasing it to 74% through the automatic route and 100% through the government route.
- b) The government has amended rules of the Foreign Exchange Management Act (FEMA), allowing up to 20% FDI in insurance company LIC through the automatic route.
- c) The government is considering easing scrutiny on certain FDIs from countries that share a border with India.
- d) The implementation of measures such as PM Gati Shakti, single window clearance and GIS-mapped land bank are expected to push FDI inflows in 2022.
- e) The government is likely to introduce at least three policies as part of the Space Activity Bill in 2022. This bill is expected to clearly define the scope of FDI in the Indian space sector.
- f) In September 2021, India and the UK agreed for an investment boost to strengthen bilateral ties for an 'enhanced trade partnership'

10. CONCLUSION

FDI in India has a important role in theeconomic growth and development of India.India has recently become a major global hub for FDIs. In recent years, India has provided huge corporate tax cuts and simplified labour laws. India has remained an attractive market for international investors in terms of short- and long-term prospects. India has also developed excellent government efficiency. Its developments in government efficiency are primarily due to relatively stable public finances (despite COVID-induced challenges) and optimistic sentiment among Indian business stakeholders concerning the funding and subsidies offered by the government to private firms. All these factors together may help India attract FDI worth US\$ 120-160 billion per year by 2025.

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