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THE IMPACT OF FOREIGN DIRECT INVESTMENT ON THE INDIAN ECONOMY

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Abstract

Foreign direct investment (FDI) started to become important to the world economy after the Second World War. Theoretical research on foreign direct investment has advanced our knowledge of the economic mechanism and the behaviour of economic agents at both the micro and macro levels, opening up a new area of economic theory study. Since the implementation of the liberalisation strategy under Dr. Manmohan Singh's finance ministry in 1991, India has experienced a change in the volume and direction of foreign direct investment (FDI) into the country. Economic growth over the long term is facilitated by foreign direct investment (FDI). MNCs aid domestic companies in the transfer of technology. Within the business, there is organic growth or expansion. Because FDI is less erratic and flows to the stock and bond markets, it is preferred over FII, sometimes known as "hot money." The stock market expands and draws in more capital as a result of the strong economic growth brought on by FDI, which also assists businesses by helping them to raise more money.

India has attracted a lot of foreign attention in terms of financial investments from the beginning. This is because India has developed into a global market centre for opportunities ever since our government opened up the country's economy in 1991 and started the liberalised investment policies, along with many other efforts that were carried out over the years.FDI in India, the country's main source of funding, makes a substantial contribution to India's economic expansion. We facilitate direct foreign investment in privately held Indian enterprises and act as a liaison between Indian entrepreneurs seeking foreign funding and potential foreign investors. Foreign investment is attracted by a variety of benefits, such as educated labour with reduced wages and adjustments to their business climate. Through our platforms, we actively link foreign investors from more than 15 countries, which helps keep the Indian economy financially stable. The goal of this research is to analyse the trend of FDI inflow into the nation.

Key words: Capital, FDI, Economy, Liberalisation Policy, and Economic Mechanism

Introduction:

Investments made by a firm or individual from one country into another are referred to as Foreign Direct Investments (FDI). It may have numerous and divergent positive as well as negative effects in the Indian economy.

First of all, FDI provides the nation with much-needed capital. This funding can be used to enhance the nation's overall economic growth; to finance the infrastructural improvements and increase manufacturing capacity. Capital injection from FDI can assist in boosting productivity, opening up job prospects, and raising average income levels among the populace.

Furthermore, FDI frequently includes sophisticated managerial skills and technology. This technological transfer has the potential to raise production quality, efficiency, and productivity across a range of economic sectors. As foreign investors frequently teach local staff to use and maintain new technologies, it can also help to expand the workforce's entire skill set.

The impact of FDI on commerce and exports can also be favourable. When international businesses invest in India, they frequently set up local production facilities and supply networks. This boosts domestic production while also encouraging exports. In order to further integrate Indian enterprises into global value chains and boost export competitiveness, foreign companies are permitted to import raw materials and intermediate products from their home countries.

Additionally, FDI may have a large effect on the balance of payments. Foreign exchange reserves and exchange rate stability are both aided by the foreign currency that international investors invest in India with. These reserves can be used as a buffer against external shocks, to pay off external obligations, and to finance imports.

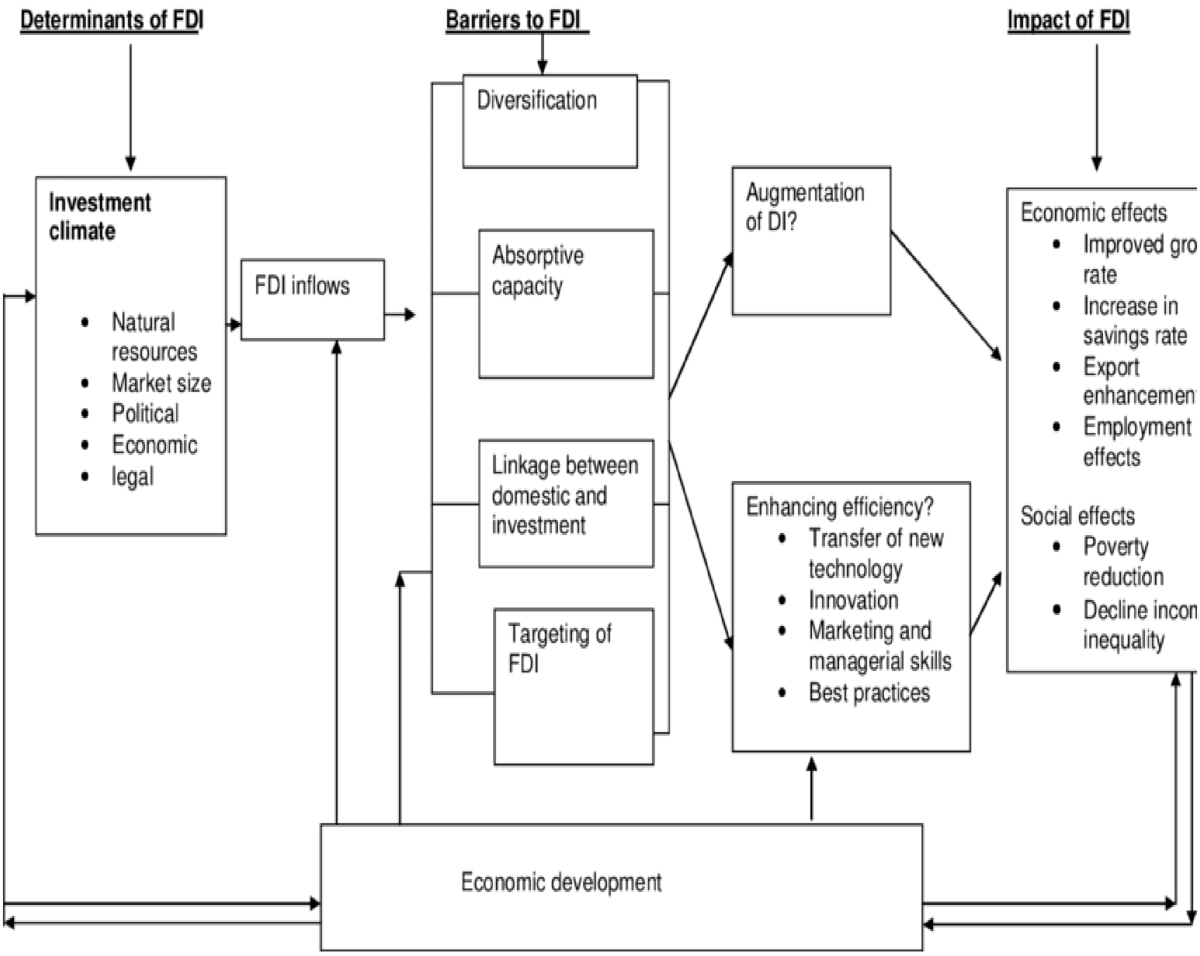
FDI, however, also presents difficulties and the possibility of damaging effects on the Indian economy. One of the worries is the potential for capital flight, in which investors may sell their holdings during periods of economic unpredictability, causing a capital outflow and jeopardising the stability of financial markets. Additionally, there is a chance that foreign firms will dominate some industries, which could have an impact on domestic enterprises and jobs.

As a result of the Indian government's decision to permit complete foreign ownership of single-brand retail firms, multinational corporations like Starbucks, IKEA, and ADIDAS are now able to operate freely in the nation without the requirement for local partners. Even though other international brands, like Marks & Spencer and Mother Care, have already established joint ventures there, the foreign investment promotion board (FIPB), according to the Indian government, has approved Christian Louboutin's request to establish retail chains in the nation. About four weeks after allies and congress leaders pushed the government to postpone its intentions to open the market to large international retail chains like Wall-Mart and Carrefour, and six weeks after the union cabinet endorsed the concept, the news was spread. Foreign retailers must get 30% of their products from artisanal cottage industries and small Indian communities in order to invest for more than 51%. Small industries are those with equipment and plant capital expenditures under $1 million USD.

According to the updated rules for this industry, single-brand retail sales can now be conducted with up to 100% government approval. Only single-brand products must be sold, all products must be marketed during industrialisation under a single brand, the foreign shareholder must own the brand, and proposals linking FDI beyond 51% must be admired. These requirements must all be met. The government submits a proposal to allow FDI in the retail trade of single brand items to the secretariat for industrial aid within the department of industrial policy and development. A minimum of 30% of the marketable goods' worth must come from independent Indian small enterprises, cottage industries, and artists and craftspeople. The application would specifically describe the product(s) or product categories intended for sale under a single brand and would require fresh government approval. Prior to the FIBP considering the request for government approval, the department of industrial strategy and promotion would evaluate it to make sure the proposed items to be marketed adhere to the informed guideline.

Governmental actions to boost FDI in India:

Government programmes like the production-linked incentive (PLI) plan for electronics manufacturing in 2020 have been introduced in an effort to entice international investment. The government boosted FDI intake by revising the FDI Policy 2017 to permit 100% FDI through an automatic route in coal mining activities starting in 2019. However, the government made it clear in 2019 that, as long as they are done through a legitimate contract, investments in Indian companies engaged in contract manufacturing are likewise permitted via the 100% automatic way. Under this strategy, FDI in the manufacturing sector was already approved. Additionally, the government permitted 26% FDI in the digital sectors. The sector has an extraordinarily high return potential in India because of its favourable demographics, strong mobile and internet penetration, large spending, and adoption of new technology. International investors have a large market opportunity because of this. In order to facilitate foreign direct investment (FDI), the Government of India engages with investors online through a single point of contact known as the Foreign Investment Facilitation Portal (FIFP). Its administration falls under the purview of the Ministry of Commerce and Industry's Department for Promotion of Industry and Internal Trade.



Need of the study:

Foreign direct investment (FDI) has been a significant non-debt financial resource for India's economic development in addition to being a key contributor to economic growth. In order to benefit from India's special investment advantages, like reduced taxes and cheaper wages, foreign businesses invest there. This helps India advance its technological knowledge and create jobs, among other benefits. These investments have come to India thanks to the government's friendly policy environment, thriving business climate, rising global competitiveness, and economic impact.

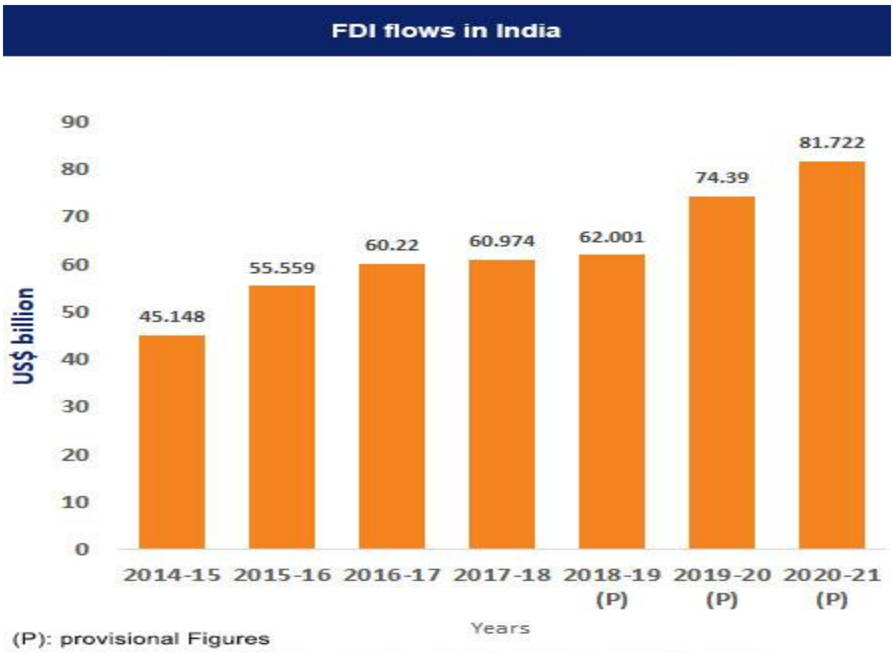
Due to altered economic strategies, the concept of FDI gained traction significantly more frequently in the Indian context after 1991. It turned out that the year's adoption of more realistic and scientific economic development patterns and strategies was a breakthrough, almost completely revolutionising the country's economic condition by granting it access to the global market. Our country continues to be distinguished by its agricultural sector, which fifty years ago accounted for nearly half of the GDP. The contributions of the primary sectors, industrial sectors, and services have changed over time, and they now account for the lion's share of the economy. Our economy has an abundance of natural, commercial, and human resources, but they must be managed perfectly and skilfully in order to enhance productivity and further boost economic success. This requires skilled administration, planning, execution, and funding. FDI planned for all of these criteria to exist. The financial crisis that hit the U.S. economy in 2008 had impacts that went beyond national boundaries as a result of several countries lifting their restrictions on various sectors. FDI influx was considerably impacted even though experts claimed that the Indian economy wouldn't be significantly affected. The financial crisis unquestionably had a huge detrimental influence on the Indian economy, industries, infrastructure growth, services sectors, education, health, and tourism sectors, among other things.

FDI and Economic Development

FDI in India increased by a factor of 20 between 2000-01 and 2021-22. Between April 2000 and June 2022, India received a total of US$ 871.01 billion in FDI, according to the Department for Promotion of Industry and Internal Trade (DPIIT). The government's measures to ease company operations and remove FDI laws are mostly to blame for this. A total of US$ 22.03 billion in foreign direct investment (FDI) and US$ 15.59 billion in FDI equity were invested in India between January and March 2022.

Between April 2021 and March 2022, the computer software and hardware sector in India attracted the most FDI equity inflow of US$14.46 billion, followed by the automobile industry ($6.99 billion), trading ($4.53 billion), and construction ($3.37 billion).

India also benefited from a sizeable amount of Foreign Direct Investment (FDI) from the US ($10.54 billion), Mauritius ($9.39 billion), the Netherlands ($4.62 billion), and Singapore ($15.87 billion), following these nations. Out of the total FDI during this time, Karnataka received the most FDI. Maharashtra ($15.43 billion), Delhi ($8.18 billion), Gujarat ($2.70 billion), and Haryana ($2.7 billion) came in behind in terms of FDI receipts. In 2022, India received 811 proposals for industrial investments totaling Rs. 352,697 crores (US$ 42.78 billion).



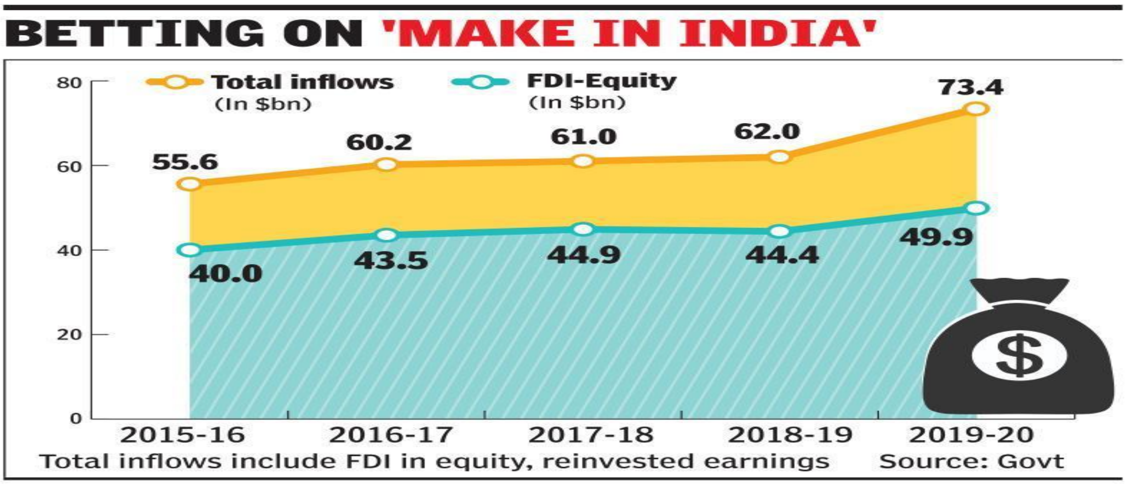
FDI Developments and Investments in India:

Between April and June 2022, FDI investments of $3,427 million were made in the Indian software and hardware industry. India's defence manufacturing sector received FDI investments worth Rs. 494 crore (US$ 61.91 million) in May 2022. KoinBasket, a startup investing in cryptocurrencies with a theme, raised $2 million in a pre-seed investment round in May 2022. Amansa Capital, Jungle Ventures, and Nexus Venture Partners organised a Series E investment round in May 2022 that brought in US$ 120 million for Invictus Insurance Broking Services Pvt. Ltd., the business responsible for running Turtlemint Insurance Services Pvt. Ltd.

The online platform Woodenstreet.com, situated in Jaipur, raised close to $30 million in a Series B financing round headed by West Bridge Capital in May 2022. The B2B cross-border digital platform Geniemode underwent a US$ 28 million Series B financing round in May 2022, which was organised by Tiger Global and Info Edge Ventures. Google announced a $1 billion investment in Indian telecom company Bharti Airtel in January 2022. This amount is made up of a US$ 700 million equity investment for a 1.28% stake in the business and a US$ 300 million contingent investment for potential future investments in networks, the cloud, and smartphone access. India received R&D investments totalling Rs. 343.64 million ($4.35 million) in 2021, a 516 percent increase over the previous year. One97 Communications (Paytm), Zomato, FSN E-Commerce Ventures (Nykaa), and PB Fintech raised Rs. 1,200 crore (US$ 160.49 million) as an anchor investment in their respective IPOs. For the first half of FY2021-22, foreign direct investment in India's renewable energy sector was US$1.03 billion.

Governmental FDI-Related Projects:

Numerous policies and programmes that India has developed have helped to increase FDI. These initiatives have boosted FDI in India, especially in developing sectors like real estate, research and development, and the manufacture of weapons. Major government initiatives include: In the defence industry, the Indian government increased FDI by increasing it to 74% via the automated route and 100% via the government route. The government has altered the Foreign Exchange Management Act (FEMA) regulations to allow up to 20% FDI in insurance sector LIC via the automatic route. The government is considering lowering its evaluation of a small number of FDIs from countries that border India. Due to the implementation of initiatives such PM Gati Shakti, single window clearance, and GIS-mapped land banks, FDI inflows are predicted to rise in 2022. The government is anticipated to introduce the Space Activity Bill in at least three different forms in 2022. This law's goal is to provide a clear definition of FDI in the Indian space sector. The Union Cabinet announced in September 2021 that it will permit 100% FDI via the automated method, up from the previous 49%, in order to support the telecom sector. In September 2021, India and the UK decided to increase investment in order to strengthen their bilateral relationships and create a "enhanced trade partnership." The Foreign Exchange Management (non-debt instruments) Rules, 2019, were updated by the government in August 2021 to allow the 74% increase in the FDI quota in the insurance sector.



Source: RBI,Bulletin,2021

An investment made by a foreign corporation or individual with the intention of starting business activities or purchasing assets is known as a foreign direct investment (FDI).

India's economy has been significantly shaped and influenced by FDI in this situation. FDI has resulted in some of the following positive effects on the Indian economy:

Economic expansion: FDI has aided India's overall economic expansion by supplying capital, technology, and management expertise. It has contributed to the growth of industries including manufacturing, infrastructure, and services, resulting in higher productivity and more job possibilities.

Employment creation: In India FDI has been a significant generator of new jobs. By establishing new businesses or growing existing ones, foreign corporations have given the local populace countless job possibilities, lowering unemployment rates and raising living standards.

Transfer of knowledge and technology: FDI brings with it cutting-edge technological expertise and methods, which can aid in modernising indigenous industry. This knowledge and technology exchange boosts production and efficiency across a range of industries, creating a competent workforce and raising competitiveness.

Integration into the global market: FDI gives Indian businesses access to foreign markets and connections to global supply networks. This integration into the world market aids in increasing commerce, diversifying exports, and luring in more FDI.

Infrastructure development: FDI was essential to India's infrastructure development. Foreign investments have aided in filling infrastructure gaps and boosting connectivity throughout the nation in industries including telecommunications, transportation, power, and real estate.

Tax revenue and foreign exchange gains: Through corporate taxes and other levies, FDI inflows help the government generate tax income. Additionally, FDI aids in increasing foreign exchange reserves, strengthening India's capacity to fulfil its obligations to other countries and maintain the stability of its currency.

Conclusion

Finding out how foreign direct investment affects the growth of the Indian economy is the article's main objective. The study's conclusions suggest that government spending, FDI, and domestic investment have all had an effect on economic growth. Trade openness appears to be a minor contribution, but the integrated variable of FDI and human capital has the biggest impact. These results demonstrate that FDI, which accelerates the rate of economic expansion, brings in capital through both domestic and foreign money. India has recently become a prominent global centre for FDI. Nearly 80% of respondents from around the world intended to invest in India, one of the top three overseas locations for FDI. Additionally, India significantly modernised its labour laws and drastically reduced business taxes. The country has also reduced its FDI restrictions, which over the previous 16 years have decreased from 0.42 to 0.21. India has remained a popular market for international investment due to its potential in the short and long terms. The low-skill manufacturing sector in India is one of the FDI industries with the biggest potential. The efficiency of India's government has also increased. The state's relatively steady finances (despite challenges brought on by COVID) and the positive attitude among Indian business stakeholders towards the funding and subsidies supplied by the government to private enterprises are largely responsible for its advances in public sector efficiency. It is crucial to remember that the effect of FDI on the economy might change based on the industry, the scale of the investment, and the regulatory environment. In order to maximise the benefits of FDI while minimising potential risks, the government's policies and regulations governing its attraction and regulation are also quite important.

In summary, Foreign Direct Investment (FDI) has the potential to completely change the Indian economy. It offers crucial financial resources, technological advancements, and managerial know-how that can foster economic growth, increase productivity, and increase exports. However, to achieve sustained and inclusive growth, it is crucial to strike a balance between luring in foreign investment and protecting the interests of home companies.

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