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A study on the impact of FDI on the Indian economy

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ABSTRACT

Foreign direct investment is essential to the economic growth of any emerging nation. Over the past two decades, foreign direct investment (FDI) has become more critical to India's economy. Foreign direct investment bridges the gap between these two financial practices. Numerous nations in transition, including India, are struggling with lack of a savings surplus. In this case, FDI from outside is the key to success in addressing the issue. Investment from abroad helps lower the BOP gap and lays the groundwork for fast GDP expansion. Only secondary sources were used for this analysis. This research paper investigatesthe current state of foreign direct investment (FDI) and its effects on the Indian economy. To that end, we make some educated guesses based on actual data from 1991 to 2014 to draw thisconclusion. We employ helpful statistical methods like correlation and linear regressionanalysis to achieve this end. SPSS software was used for the analysis of the data. And therefore,we arrive to the conclusion that FDI has a considerable impact on India's GDP. The last two decades have seen a massive increase in foreign direct investment (FDI) into Asia.India has been a bit of a late bloomer when it comes to foreign direct investment (FDI), but the country's large market potential and liberalized regulatory system have kept it a popular choiceamong investors. The purpose of this article is to study the difficulties India has in attracting foreign direct investment (FDI) and to investigate the effects that FDI has had on the Indian economy in the last two decades. The study highlights the difficulty of understanding FDI statistics in India and discusses the primary policy implications from this research. Words to Remember: GDP, Economic Growth, and Foreign Direct Investment.

Keywords:- *Foreign Direct Investment (FDI), Foreign Investment, Indian Economy*

1. GENERAL INFORMATION

Foreign direct investment (FDI) is crucial to India's progress economically. Policies are craftedto encourage FDI inflows since both developed and developing countries recognize its importance to their development strategies. Indeed, FDI benefits both the host and home nations. Both nations have a vested interest in luring foreign direct investment (FDI) because of the many advantages it brings to their economies.

The "home" nations are eager to capitalize on the massive opportunities presented by the rise of industry. The "host" nations, however, are interested in boosting their own domestic savingsand foreign exchange as well as gaining access to new technology and managerial expertise. Further, developing nations accepted FDI as a sole visible panacea for all their scarcities due to the fact that they lacked a variety of resources necessary for economic development, including money, capital, entrepreneurial spirit, technological know-how, skills and practices,and access to markets outside of their home country. There is a positive perception of a nationwith a lot of foreign direct investment.

This is especially true for many third-world nations like India. Having to rely so much on foreign sources of finance has left India short on resources and stunted its capacity to generatenew capital. As a corollary, domestic resources are completely insufficient to implement development plans. When a business from one nation invests in another business in another country, this is known as FDI (Foreign Direct Investment). As the most advantageous and steady kind of foreign investment for an economy, FDI is frequently favoured above Foreign Institutional Investments (FII).

The impact of foreign direct investment (FDI) on a country's economy is multifaceted. It's a fresh injection of funds that may result in improved productivity via increased innovation andproductivity. Foreign direct investment (FDI) has had both beneficial and bad effects on the Indian economy during the last several years. This report makes an effort to examine recent patterns of foreign direct investment (FDI) into the Indian economy. The article also examineshow FDI flows are related to macroeconomic variables. The paper concludes by attempting ananalysis of FDI's effect on the Indian economy.

2. ABOUT THE COMPANY / INDUSTRY / SECTOR

Industry Profile:-

The "parent enterprise" (or "investor") is the business with the majority stake in the "foreign affiliate," which is another business situated outside of the parent's country. Foreign direct investment (FDI) is money given to a nation so that it may further its economic growth and improve its position within global trade networks.

However, large amounts of FDI made by one nation might render the receiving country vulnerable to the influence of its foreign owners. The contribution of foreign investment to India's economic growth has been substantial. When trying to entice FDI, several governmentsuse a wide variety of incentives (FDI). Foreign direct investment requirements are mostly determined by a country's savings and investment rate.

The gap between investment and saving is closed by FDI from outside. Foreign investment andexports assist alleviate the domestic saving restriction and spur economic growth.

Foreign direct investment (FDI) in India dates back to the early modern era, namely to the founding of the British East India Company. During the time when Britain was colonizing India, it flooded the country with financial resources. Japanese firms were the most prominentforeign investors in India for decades after the end of World War II, when they joined the Indian market and expanded their commerce with the country.

Furthermore, following independence, policymakers began to pay more attention to concerns about foreign wealth and the activities of multinational corporations. The government's FDI strategy, which uses FDI to acquire cutting-edge technology and to mobilize foreign currencyresources, was crafted with the nation's best interests in mind. Changes in foreign direct investment (FDI) policies have occurred throughout time and in response to changes in economic and political regimes.

Thanks to India's liberal industrial policy in 1965, foreign corporations may enter the country via technological partnership. The government became more lenient as a result, allowing for equity to be distributed at more regular intervals.

As the Indian economy faces a crucial juncture, India's government initiated the macro- economic stabilization and structural adjustment program with the support of the World Bankand the International Monetary Fund. As a consequence of these changes, India has become more welcoming to foreign direct investment (FDI) and has embraced a more liberal foreign policy. Additionally, the Government of India established FIPB (Foreign Investment Promotion Board) under the new FDI policy with the primary objective of attracting and facilitating FDI. To what extent does globalization cause FDI? What are your thoughts on FDIin India? The solution may be found by just looking back at our past. A Portuguese Vaskodigama landed in Calicut in 1498 and saw global prosperity and equality for the first time. Travel to India began in earnest later on. A number of European countries, including the Portuguese, Dutch, British, and French, set up shop in India and began trading with locals.

Overview Of Indian Market:-

In the previous two decades, FDI has become one of the most spectacular changes. A wider definition of FDI is any long-term investment made by a non-domiciled firm in the host nation.Long-term financial investment in the host nation by a foreign firm. They put money in at thestart, and then they keep putting money in as the needs and requirements of the host country change and evolve. This could mean access to better (and cheaper) resources, the ability to enter a consumer market, or the ability to network with talent that is unique to the host country.Both the investor and the host nation benefit from this long-term partnership.

Foreign direct investment (FDI) is often seen as more advantageous for the host nation since itdirectly includes infrastructure development, more job prospects, enhanced logistic and supply chain system, and much more. Technology transfer, better management, and leadershiptechniques are also brought in. Because of the discrepancy between the amount of money on hand and how much is needed, foreign direct investment is seen as a potentially game-changingfactor in the economies of emerging and underdeveloped nations.

Foreign direct investment (FDI) is thought to close this gap by providing much-needed infusions of capital, in addition to the transfer of expertise and technology. Professional skillsare bolstered, infrastructure is fortified, access to internationally renowned brands is ensured, living standards are raised, new jobs are created, and international trade barriers are broken down.

Foreign direct investment (FDI) is seen as a useful instrument toward the goal of national andsectoral self-sufficiency. India has always been a popular choice as a location for internationalbusinesses due to its large consumer market, stable government, and ready availability of trained labour.

One of the most recent trends in FDI in India is the Make in India initiative. It is designed to entice foreign investors to pump up India's manufacturing industry. The program's goals are tomake the nation a global leader in manufacturing by embracing new technologies, raising the bar on employee skills, and protecting intellectual property.

Make in India is an initiative with the goal of putting to use the country's current pool of talentedworkers in order to boost the economy via the expansion of secondary and tertiary industries. This policy's regulations were drafted with the goals of streamlining current procedures, preventing the creation of unnecessary rules and regulations, increasing system transparency, and making the government more accessible and accountable to its citizens.

3. ABOUT MAJOR COMPANIES IN THE INDUSTRY

A country receiving FDI may expect to see its economy grow as a result of the investment, while a country sending FDI abroad can expect to see its economy thrive as a result of the money flowing in and out of the country. Potential benefits of FDI on the host economy includethe introduction of contemporary management and marketing practices, the application of newtechnology, and the increased utilization of local raw resources.

Our paper aims to investigate the impact of rising foreign direct investment on the Indian economy, where such investment is seen as a crucial component. There are arguments that show FDI is bad for the economy from one set of experts, and that it is good for the economy from another. In 1991, the Indian government established a new economic strategy. The LPG policies were implemented in 1991. The Indian government's LPG policies helped steer the country's economy in the right path. According to the findings of a few schools of thought, FDIinflows into India's economy have a net beneficial effect on the country's GDP. Foreign directinvestment (FDI) during the last decade has helped propel the economy forward.

Each country needs FDI to thrive. Investing should be done in a methodical manner. While there are a variety of industries in India, including agriculture, manufacturing, and services, thevast majority of the country's population relies on the agricultural sector, so it stands to reasonthat any foreign direct investment (FDI) in India would see the greatest return by going there.

Investing in the service sector is a top priority for the Indian government, which explains whyFDI is so prevalent in the country. There should be investments in the retail industry that are beneficial to the Indian economy, whether it be in the single-brand or multi-brand retail sector.Foreign direct investment (FDI) allows for the transfer of capital and other resources (such as technology, skills, knowledge, and even human labour) between countries.

Product Profile

At now, India's market is among the most exciting and promising worldwide. Human resources,both technical and skilled, are among the best in the world. India's vibrant and optimistic economy is driven by the private sector. India's middle class outnumbers both the United Statesand the European Union, giving the country an advantage in global markets. India's new economic strategy fosters a climate that is welcoming to FDI, and partnerships from across theworld. Global economic conditions shifted in the wake of the 1991 financial crisis.

A new economic strategy was implemented in India in July 1991 as a result of the country's recognition of the need for cutting-edge technologies in research and industry. The new economic strategy emphasized the need of attracting foreign investment for India to achieve sustained international competitiveness. Foreign direct investment (FDI) is crucial to India's economic progress.

The term "Foreign Direct Investment" (FDI) refers to the movement of money from one country to another with the purpose of making a profit or gaining a competitive advantage. Potential benefits of FDI on the host economy include the introduction of contemporary management and marketing strategies, as well as the easier adoption of cutting-edge technology.

Apart from being a crucial engine of economic growth, foreign direct investment (FDI) is a significant source of non-debt financial resource for the economic development of India.

Companies from other countries want to set up shop in India because the country offers enticingtax breaks and other incentives to attract foreign investment. When a nation attracts foreign investment, it increases its chances of developing its infrastructure, learning new skills, and creating new jobs

4. INTRODUCTION OF THE STUDY

Foreign direct investment (FDI) in India dates back to the early 1800s, when the British established the East India Company. During the time when Britain was occupying India, it flooded the country with capital. However, because to a lack of extensive and accurate data, scholars were unable to provide a whole picture of the development of FDI in India. Most of the FDI in the years before independence came from British firms.

British businesses have established operations in the mining industry and elsewhere when doing so serves their financial and commercial interests. Despite the fact that the joined the Indian market and commerce with India was boosted after WWII, the United Kingdom remained the country's most significant investor. After Independence, policymakers alsobecame concerned with concerns like foreign investment and the activities of multinational corporations. The FDI policy was crafted by policymakers with the national interest in mind.

To further increase FDI inflows, the government offers several incentives, including tax reductions, the streamlining of licensing processes, and the de-reserving of certain sectors, including pharmaceuticals, aluminium, heavy electrical equipment, fertilizers, and so on. Investment from the United States, Japan, Germany, and other developed nations is attracted by the government's openness to attracting international money.

However, in the 1970s, the government had to implement a strict foreign policy owing to the huge outflow of foreign reserves in the form of remittances of dividends, earnings, royalties, etc. During this time, the government established a very selective and restricted foreign policytoward foreign investment, foreign direct investment, and foreign ownership of domestic firms.Foreign Direct Investment (FDI) and foreign currency inflows into India are governed.

by the Foreign Exchange Regulation Act and the Foreign Investment Board. The government was compelled to adopt adjustments in foreign policy in the 1980s due to rising oil prices, persistently poor exports, and a worsening Balance of Payment situation. During this time, thegovernment actively promotes foreign direct investment.

5. LITERATURE REVIEW

Some schools of thought characterize FDI as a strategic instrument that helps a country's economy grow by funding research and development (R&D) to bring in new methods,processes, techniques, and products/services, hence creating new employment and expanding current manufacturing businesses.

The government should implement policies to ensure the steady flow of foreign direct investment (FDI) and its equitable distribution across all economic sectors. The country's exports would rise steadily if the money were distributed regularly. It is possible to prevent balance of payment crises by increasing exports. Investments should be made in a way that helps boost the country's exports, since this is the best use of capital.

It was stated by a researcher that FDI has a bidirectional impact. One is foreign direct investment (FDI) in India, and the other is pollution caused by the proliferation of new factoriesthat FDI encourages. The rate of pollution (C02) rises gradually as FDI rises. Because we livehere, it is important that the government strive to predict the long-term effects of letting FDI into the nation on the economy and the environment.

It is common knowledge that rising industrialization is increasing pollution levels. Foreign direct investment (FDI) should be considered together with its potential ecological effects.

Analytical result FDI, or foreign direct investment, may be seen as a strategic instrument that helps a nation strengthen its economy by creating jobs and boosting production via the adoptionof innovative processes and technologies. Investments in the manufacturing industry provide an opportunity to use cutting-edge Operations management technologies and practices. The government should craft an FDI policy that does more than just introduce the concept, but alsoensures that it is effectively implemented to maximize economic benefit. In order to prevent anegative balance of payments, the government should prioritize output that can be exported.

Nonetheless, it is clear that low levels of foreign direct investment (FDI) into India are havinga negative impact on both exports and productivity. Not all industries, especially those deemedessential, should get the same level of investment. Most Indians rely on agriculture for their livelihood, therefore a rise in agricultural investment might result in a significant increase in available jobs in the country. This would lead to a rise in the average income per person over time.

One may get information on single and multi-brand stores in India in the published literature. There are various studies, proves that permitting single brand and multi brand in India, wouldnot become a danger to Indian Kirana shops (Mom and pop) businesses.

The Indian government has to be careful while launching both single-brand and multi-brand retail establishments in the country so as to maximize the country's potential economic benefitsfrom forging strategic alliances with global firms.
Weisskopf, 1972; Singer, 1950; Griffin, 1970; According to the findings of these research, theprimary sector in LDCs received the lion's share of foreign direct investment (FDI), despite thefact that this kind of investment has been shown to have the lowest returns. Primary items aresold at a discount because they are sent to industrialized nations to be processed before being imported. As a result, the economy may be more vulnerable to the potentially harmful effects of foreign direct investment.

Foreign capital inflows have a positive influence on economic efficiency and development in emerging nations, according to the work of Roldan (1961), Chenery and Strout (1966), and others in the early 1960s.

Foreign direct investment (FDI) has been shown to increase economic activity, which may have a positive influence on growth in the near run.

6. OBJECTIVES OF THE STUDY

- For the purpose of researching the general tendencies and patterns of FDI flow.
- Identifying the factors that encourage or discourage foreign direct investment.
- Examining the results of foreign direct investment in India.
- Learning how money is invested in India is a priority.
- To learn how foreign direct investment (FDI) has affected the Indian economy.
- To learn how foreign direct investment (FDI) affects a country's ability to sell its goodsabroad.
- To learn about FDI investments across industries.

7. RESEARCH METHODOLOGY

METHODS FOR DATA COLLECTION & VARIABLES OF THE STUDY
Methods for data collection:-Secondary Information **Secondary Information**
Secondary data was gathered from Books Journals Magazines Web's logistics

Sampling
The sampling approach used for data collection is convenient sampling. The conveniencesampling technique is a non-probability

approach.

Sample size

The number of individuals to be polled is indicated by logistics. Although big samples providemore trustworthy findings than small samples, owing to time and financial constraints,

Analytical strategy

Graphs and charts are used to depict diagrams.

Following the use of the relevant statistical methods, logistical conclusions will be formed.Findings and recommendations will be provided to make the research more helpful.

8. CONCLUSION/SUGGESTIONS

It's no secret that India's economy is one of the world's quickest expanding. The World Bank has included it on a list of the top 10 most attractive investment destinations. It is becoming common practice for investors to approach India's legendary and endow with a professional license. The regulatory climate for international investment has been steadily relaxed since 1991. The government has made steps to encourage FDI by widening the scope of industries accessible to FDI, raising the ceiling on FDI in certain sectors, and otherwise streamlining theprocess. Foreign direct investment (FDI) policy revisions aim to make it simpler for companiesto operate in the nation and encourage more investment from outside.

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