ARYAVART SHODH VIKAS PATRIKA
RNI TITLED NO. UPBIL04292
RNI REG. NO. UPBIL/2014/66218
PP. NO.- 377-381

ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-13, No.-III, Issues-18, YEAR- Dec. -2020

Impact Of Foreign Direct Investment (Fdi) On Indian Economy

1. Manju Kumari1
2. DR. Aditya Krishna Singh Chauhan

Email :aaryvart2013@gmail.com

Received- 27.10.2020, Revised- 01.11.2020, Accepted - 04.11.2020

***Abstract:** Since the beginning of globalization, developing nations, particularly those in Asia, have been witnessing an enormous increase in the amount of foreign direct investment (FDI) that is being invested in their economies during the past two decades. Even though India was a latecomer to the FDI scene in comparison to other East Asian countries, its considerable market potential and a liberalized policy regime has sustained its attraction as a favorable destination for foreign investors. This research paper will explore the problems that India has in order to position itself favorably in the global competition for foreign direct investment (FDI), as well as examine the influence that FDI has had on the Indian economy, particularly after two decades of economic reforms. In addition to bringing attention to the complications involved in understanding FDI data in India, this article presents the primary policy implications that stem from the aforementioned study.*

Key words-Foreign direct investment, global competition.

1. Research Scholar 2. Associate Professor Department of Economics, J.S. University, Shikohabad, Firozabad, (U.P.), India

Corresponding Author

When one company controls (or has a strong say in) another company that is headquartered overseas, for example by owing more than 10 percent of its equity, the first company is referred to as the "parent enterprise" (or "investor") and the second company is referred to as the "foreign affiliate." A nation can expand its connectivity to global trade networks and finance its path toward progress by increasing the flow of foreign direct investment (FDI) into the country. On the other hand, considerable unilateral FDI into a country can make that country dependent on the external pressure that its foreign owners might apply to it. The growth of the Indian economy is significantly aided by contributions from outside investors. Numerous nations offer a wide variety of inducements in the form of tax breaks and other benefits to entice foreign direct investment (FDI). The need for foreign direct investment is directly proportional to a country's rate of saving and investment. The gap that exists between saving and investing can be closed with the help of investments made through direct foreign investment. During the process of economic development, the contribution of foreign capital helps to cover the constraint of domestic savings and provides access to superior technology, both of which promote the efficiency and productivity of the existing production capacity as well as generate new production opportunities.

Foreign direct investment in India- FDI and Economic Growth The origins of foreign direct investment (FDI) in India may be traced all the way back to the time when the British East India Company was established. During the time that Britain had colonial control over India, British capital began to flow into India. Despite the fact that Japanese firms entered the Indian market and increased their trading with India after the Second World War, the United Kingdom continued to be the most dominating investor in India. In addition, after the country acquired its independence, questions concerning the operations of multinational corporations and foreign capital came to the attention of those who decide policy. The Foreign Direct Investment (FDI) policy was created by policymakers with the national interests in mind. The policymakers envisioned FDI as a means of acquiring cutting-edge technology and of mobilizing resources in foreign currency. Changes in the FDI policy have taken place over the course of time, as well as in response to shifts in economic and political regimes. The industrial policy of 1965 made it possible for multinational corporations to enter the Indian market through the use of technological collaboration. As a result, the government took a more permissive stance and started approving equity transactions more frequently.

In light of the precarious state of the Indian economy, the government of India, with the assistance of the World Bank and the International Monetary Fund, initiated a program to achieve macroeconomic stability and

ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-13, No.-III, Issues-18, YEAR- Dec. -2020

structural reform. As a direct consequence of these reforms, India opened its doors to foreign direct investment (FDI) inflows and implemented a more flexible foreign policy in order to win back the confidence of international investors. Additionally, in accordance with the new foreign investment policy, the Government of India established the International Investment Promotion Board (FIPB), whose primary responsibility was to promote and encourage foreign investment.

From a starting point of less than one billion US dollars in 1990, a recent survey conducted by the UNCTAD anticipated that India would be the second most important foreign direct investment destination (behind China) for multinational firms over the period of 2010-2012. According to the findings, the industries that were most successful in luring new capital were those relating to services, telecommunications, activities related to building, and both computer software and hardware. Foreign direct investment (FDI) into the country came primarily from Mauritius, Singapore, the United States, and the United Kingdom.

According to GYANPRATHA - ACCMAN (Journal of Management, Volume 5 Issue 1, 2013), the amount of foreign direct investment (FDI) that was brought in during the 2009-10 fiscal year was $25.88 billion, which is a decrease of five percent from the US$ 27.33 billion that was brought in during the 2008-09 fiscal year. According to data that was issued by the industry department in August, foreign direct investment plummeted by around 60 percent to approximately US$ 34 billion, marking the year's all-time low. Foreign direct investment (FDI) into India reached an all-time high of $7.78 billion during the first two months of the 2010-11 fiscal year, which is a 77 percent increase over the $4.4 billion that was invested during the same time period in the previous year.

In 2013, the government loosened restrictions on foreign direct investment (FDI) in a number of industries, including the telecommunications and defense industries, as well as public sector oil refineries, power exchanges, and stock exchanges, among others. In the field of retail, the United Kingdom-based company Tesco has put in an application to initially invest US$ 110 million to launch a supermarket chain in partnership with the Trent division of the Tata Group. Air Asia, based in Malaysia, and Singapore Airlines, based in Singapore, partnered with Tata Group to launch two new airline services in the realm of civil aviation. Additionally, Etihad, which is headquartered in Abu Dhabi, purchased a 24 percent ownership in Jet Airways for more than Rs 2,000 crore (about US$ 319.39 million). Since the year 2000, India has been the recipient of a total of US$ 306.88 billion in foreign direct investment, with 94% of that sum coming over the most recent nine years.

During the years 1999-2004, India was the recipient of foreign investment totaling 19.52 billion US dollars. During the years 2004-2009, the total amount of foreign investment in the country reached 114.55 billion dollars, and it increased even higher, reaching 172.82 billion dollars between 2009 and September of 2013.

India was successful in luring foreign direct investment (FDI) totaling US$ 22.42 billion during the fiscal year 2012-2013. Construction, tourism, medicines, and other services as well as chemical manufacturing were among the industries that benefited the most.

According to a survey conducted by the tax consultancy firm Grant Thornton, the months of January through November 2013 saw mergers and acquisitions deals in India that were worth a combined total of US $ 26.76 billion.

Recent Developments- To strengthen its presence in the education sector in India, New Zealand is exploring the possibility of opening an office in the city of Mumbai. Within the New Zealand Consulate General in Mumbai, they intend to establish a role for the promotion of education as well as the development of markets. In 2013, there was an increase of more than 10 percent in the number of student visas that were awarded to Indian nationals. As a result, India is now one of the student markets in New Zealand that is growing at the fastest rate.

The Korean South-East Power Company (KOSEP), which is a subsidiary of the state-owned power generator Korea Electric Power Corporation in South Korea, recently signed an initial agreement with the Jinbhuvish Group in Mumbai for the provision of technical support for a project in Maharashtra that is estimated to cost Rs 3,450 crore (US$ 549.31 million). It is anticipated that the 600 megawatt (mw) power plant that will be constructed in the Yavatmal area would be put into operation in the year 2016.

The United Arab Emirates and India have reached an agreement to strengthen collaboration in the field of renewable energy, with a

PIF-7.500 *ASVS Reg. No. AZM 561/2013-14*

ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-13, No.-III, Issues-18, YEAR- Dec. -2020

particular emphasis on wind power and solar energy. The signing of a Memorandum of Understanding (MoU) took place on January 18, 2014 in Abu Dhabi between the Minister of New and Renewable Energy of India, Dr. Farooq Abdullah, and the Minister of State of the United Arab Emirates, Dr. Sultan Ahmed Al Jaber.

The Swiss company Jaeger-LeCoultre has applied to enter the Indian retail sector as a 100% single brand, and the application was submitted recently. As a result, it was the very first luxury company to submit an application for FDI via this channel. The application was submitted to the Department of Industrial Policy and Promotion by Richemont SA, situated in Geneva. Richemont SA is the owner of the luxury brand (DIPP).

Tirumala Milk Products, situated in Hyderabad, will most likely be acquired by Lactalis, the largest dairy products firm in the world, for a price ranging between \$275 and \$300 million in the United States. Lactalis generates around \$21 billion in revenue each year across all of its businesses. For the fiscal year 2012-2013, Tirumala had a revenue of 1,424 crore, which is equivalent to \$226.71 million USD. The Hyderabad-based company began operations in 1998 and produces a variety of dairy goods, including ice cream, chocolates, flavored milk, and curd, among other things.

Recent policy initiatives- The plan to allow foreign direct investment (FDI) in railways has now been granted final clearance by the Ministry of Home Affairs. It is anticipated that the suggestion will be taken under consideration by the Cabinet Committee on Economic Affairs (CCEA). Construction and maintenance of railway projects are the only two areas in which foreign investors are permitted to invest in railway projects.

Mr. Manmohan Singh, Prime Minister of India, has inquired about increasing the amount of Japanese investment in the nation. The two nations are already investigating the potential for more substantial collaboration in a variety of domains, including production, research and development in the electronic industry, and the creation of technologies that are both energy efficient and energy conserving. After the annual summit level conference between Japan and India, Mr. Singh observed, "I believe there is enormous untapped potential in our commercial ties." (I believe there is enormous untapped potential in our business ties.) In 2013, the number of Japanese companies operating in India saw a 16% increase over the previous year.

The Andhra Pradesh State Investment Promotion Board has decided to go ahead and approve six significant investment proposals, which will result in a combined investment of Rs 6,500 crore (1.03 billion USD). PepsiCo, Cadbury, Colgate, Johnson & Johnson, Gerdau Steels, and ITC are just few of the global corporations that have contributed their ideas to the discussion. With an investment of Rs 1,200 crore (US\$ 191.06 million), the unit owned by PepsiCo will be the most extensive beverage manufacturing facility in India. In a similar fashion, Cadbury is investing Rs 2, 500 crore, which is equivalent to \$398.07 million in US dollars, in the construction of its facility in Sri City.

The Indian government has made an effort to increase the amount of capital that enters the country by opening up the storage and warehousing industry to one hundred percent foreign direct investment (FDI) via the automatic route. This opens the door for the refrigerated storage of agricultural products. Additionally, the government has established the National Centre for Cold Chain Development (NCCD), which would investigate various procedures and standards pertaining to cold chain infrastructure.

The Indian government has given its approval to five FDI projects, with a total value of about Rs 1133.41 crore (US\$ 180.16 million). This decision was taken in accordance with the recommendations provided by the Foreign Investment Promotion Board (FIPB) on December 30, 2013. It had authorized 12 requests for FDI on November 13, 2013, and the total value was about Rs 821.63 crore, which is equivalent to US\$ 130.73 million. The Foreign Investment Promotion Board (FIPB) has given its blessing to the proposal of the Swedish apparel giant Hennes & Mauritz (H&M) AB to open fifty outlets all throughout India. The investment will be close to Rs 720 crore, which is equivalent to approximately \$114.61 million USD.

Evaluation of FDI and GDP in India during (1991-92 to 2011-2012)- The influx of foreign direct investment and its effect on GDP are broken down in the following table.

The following table presents data on India's gross domestic product (GDP) and foreign direct investment (FDI) from 1991-1992 through 2011-2012. (post-liberalization period). According to the table, India had attracted a significant amount of foreign direct

ARYAVART SHODH VIKAS PATRIKA
RNI TITLED NO. UPBIL04292
RNI REG. NO. UPBIL/2014/66218
ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-13, No.-III, Issues-18, YEAR- Dec. -2020

investment (FDI). Because FDI inflow increased from Rs. 409 crore in 1991-1992 to Rs. 173947 crore in 20011-2012, the results of the study demonstrated that the amount of foreign direct investment (FDI) has increased by more than 210 times during the course of the study period. Upgrading of technology, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward and forward linkages, and increasing access to international quality goods and services are some of the many steps that the Indian government has taken in order to attract more foreign direct investment (FDI). The most Foreign Direct Investment (FDI) money ever brought in was 1.73 billion and 47 crore rupees in the fiscal year 2011-2012. The year 2006-2007 saw the highest growth rate of foreign direct investment (FDI), which was equal to 186.9622 percent. The table also reveals that foreign direct investment (FDI) was less than one as a proportion of GDP until 2005-2006, following which it has been steadily increasing year after year.

Future Outlook- To finance its infrastructure throughout the 12th Five-Year Plan period (2012-2017), which includes highways, airports, and ports, it is predicted that India will need approximately one trillion dollars (US) throughout this time period. In order to bring in investments necessary to reach the aim, the government is currently working to liberalize the standards governing foreign direct investment (FDI) in building activities and railways.

In addition to this, the government is easing up on FDI regulations in other industries so that foreign companies can invest. Up to 51 percent of Foreign Direct Investment (FDI) is now permitted in multi-brand retail. The initial foreign direct investment (FDI) must have a minimum amount of one hundred million United States dollars, of which at least fifty percent must be put in what is known as "backend infrastructure" during the first three years after the FDI has been initiated. The maximum amount of foreign direct investment that can be made in a single-brand retail establishment has been raised to 100 percent; of this total, 49 percent will fall under the automatic method, while the remaining 51 percent will go through the FIPB route.

A Brief Review of The Literature- Lall and Sharief (1983) conducted research "to determine the influence that FDI has on export performance. They came to the conclusion that there is a positive correlation between the two variables. Further investigation into the effects of FDI on exports and the creation of jobs in export processing zones in developing nations was conducted by Kumar (1987). It has been discovered that there is a positive association between foreign direct investment and the performance of exports, but that there is a negative relationship between FDI and employment".

Zhang (2004) conducted research to investigate "the effect that foreign direct investment has on the export performance of a host country. China is the nation under scrutiny in this particular scenario. Zhang utilized the technique of simple regression in order to comprehend the connection that existed between the FDI flows and the export performance in China from the years 1980 to 2004. According to the findings of the study, FDI plays a role in fostering economic expansion in the nations that receive it. According to the findings of the study, foreign direct investment also plays a significant role in increasing exports. The focus of the study is on the Chinese economy, and it reveals that foreign direct investment contributes to the growth of China's export industry. The impact of investment from overseas is far higher than that of investment from within the country. Additionally, the disadvantages are magnified in sectors that rely heavily on human labor. The author makes use of an export function model, which includes variables such as scale economies, foreign capital, domestic capital, wage rate, and foreign capital. Zhang also finds that national policies and the bargaining strength of the host government play crucial roles in the process of recruiting export-oriented FDI. The influence of FDI on trade and the expansion of the Chinese economy is not analyzed in this study; rather, the emphasis is placed on the part that FDI played in China's recent surge in exports".

Jayachandran's (2010) research investigates "how International Trade, FDI, and Economic Growth were Related in India from 1970-2007. Using the Granger causality test, the authors of this work investigate whether or not a causal relationship exists between economic growth rate, foreign direct investment, and exports in the context of India. According to the findings of the study, a unidirectional causal relationship exists between exports and growth rate, as well as between FDI and growth rate; however, there is no causal relationship between FDI and

PIF-7.500 *ASVS Reg. No. AZM 561/2013-14*

ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-13, No.-III, Issues-18, YEAR- Dec. -2020

exports or between FDI and growth rates. It is FDI and exports that drive economic growth in India; not the other way around".

Conclusion- The Foreign Direct Investment (FDI) policy of India has been steadily liberalized in order to make the market more user-friendly for investors. The findings have provided cause for optimism. According to a report published by the United Nations (UN), the nation currently has a position that is routinely placed among the top three global investment destinations by all international organisations, including the World Bank. Foreign direct investment has been beneficial to the Indian economy, which possesses a great deal of untapped potential. Foreign direct investment (FDI) helps current businesses improve their technology and capabilities while also supplementing their domestic resources. Additionally, it is useful in the formation of new businesses. All of these factors contribute, individually and collectively, to the expansion of the Indian economy.

REFERENCES

1. Basu P., Nayak N.C, Archana (2007): "Foreign Direct Investment in India:Emerging
2. Horizon", Indian Economic Review, Vol. XXXXII. No.2.
3. Ms. Sapna hooda (2011) a study of FDI and Indian Economy;Doctor of philosophy from national institute of technology(deemed university) Haryana.
4. Bhandari, L.S. Gokara. A. Tandon (2002), Background paper: Reforms and foreign direct investment in India DRC working paper: Reforms and foreign direct.
5. Balasubramanyam V.N, Sapsford David (2007): "Does India need a lot more FDI", Economic and Political Weekly.
6. www.google.co.in
7. www.wikipedia.org

*****