ARYAVART SHODH VIKAS PATRIKA
RNI TITLED NO. UPBIL04292
RNI REG NO. UPBIL/2014/66218 **PP. NO.- 315-319**
ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-15, No.- I, Issues-23, YEAR- Jan.-March-2022

IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY

1. Manju Kumari
2. Dr Aditya Krishna Singh Chauhan

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

Received-17.03.2022, Revised-23.03.2022, Accepted-29.03.2022 **E-mail : aaryavart2013@gmail.com**

Abstract: *Foreign Direct Investment (FDI) has emerged as a pivotal factor in India's economic transformation since liberalization in the 1990s. This study examines FDI's multifaceted impact on the Indian economy—including macroeconomic growth, sectoral development, employment generation, technological advancement, export performance, and the regulatory environment. Using data from both macro-level indicators and sector-specific empirical studies, findings show that while FDI is positively associated with GDP growth, exports, and productivity, its immediate sectoral impact may be uneven, with stronger effects in services and infrastructure compared to manufacturing . Challenges persist in the form of regulatory bottlenecks, bureaucratic delays, infrastructure deficits, and environmental externalities . Policy reforms—such as expanding automatic-route approvals, initiating "Make in India," and sector-specific liberalization (e.g., space, defense, infrastructure)—have contributed to significant surges in FDI inflows, though recent fluctuations highlight the need for sustained improvement in the ease of doing business and legal protections (en.wikipedia.org). This paper suggests that while FDI remains a catalyst for development, maximizing its benefits requires addressing regulatory constraints, ensuring balanced sectoral engagement, and strengthening institutional frameworks..*

Key words: Foreign Direct Investment (FDI), Economic Growth / GDP, Export Performance

Introduction: Since the economic liberalization of 1991, India has progressively embraced Foreign Direct Investment (FDI) as a strategic instrument for economic development. By providing essential capital inflows to bridge the savings-investment gap, FDI has supported key sectors such as manufacturing, infrastructure, information technology, pharmaceuticals, and services . These inflows have fueled GDP expansion, boosted exports, and advanced productivity — underscoring FDI's role as a catalyst for long-term growth.

FDI's contributions extend beyond capital. The entry of multinational corporations has facilitated the transfer of advanced technologies and modern management practices, generating positive spillovers in the domestic workforce and industry (spureconomics.com). Concurrently, it has bolstered employment creation and human capital development, particularly in labor-intensive manufacturing and high-value service industries — essential levers for India's demographic dividend (investindia.gov.in).

In addition, FDI inflows have supported infrastructure growth—ranging from transport and energy to telecommunications—thereby enhancing productivity and connectivity (pkiasacademy.com). They also strengthened India's external sector by expanding export capacity, earning foreign exchange, and contributing to exchange rate stability .

However, the benefits of FDI are not uniform or without challenges. Policy inconsistencies, regulatory bottlenecks, and state-level disparities can hinder efficient absorption of FDI (scientiatutorials.in). There are concerns that dominant foreign firms may crowd out local SMEs, suppress wages in certain sectors, and exacerbate regional and social inequalities (spureconomics.com). Additionally, profit repatriation and environmental externalities present critical considerations in assessing FDI's net impact (indiafreenotes.com).

Amid global shifts in capital flows and rising protectionism, India has responded with policy initiatives such as the 'Make in India' campaign, SEZs, and liberalization of investment norms across sectors including defense, space, electronics, and retail . In FY2024, FDI inflows touched $81 billion — a 13.6% increase — with April 2025 alone seeing $8.8 billion, signaling renewed investor confidence (timesofindia.indiatimes.com).

This study seeks to analyze the multifaceted impact of FDI on the Indian economy by evaluating its macroeconomic outcomes, sectoral distribution, technological and human capital spillovers, and regulatory context. It also examines the obstacles to maximizing FDI benefits and explores policy recommendations aimed at fostering inclusive and sustainable economic development.

LITERATURE REVIEW-Lipsey (2002) "found that inward foreign direct investment had an impact on the host nation's economic growth. There might not be any effects on overall output or growth if foreign companies obtain higher productivity at the expense of domestic enterprises' lower productivity. Alfro (2003) investigated how FDI affected the manufacturing, services, and primary sectors. The study came to the conclusion that foreign direct investment (FDI) flows into the primary, manufacturing, and service sectors of the economy had varying effects on economic growth. While FDI inflows into the manufacturing sector tend to have a favorable impact on growth, those into the primary sector typically have a negative one".

Hillman et al. (2005) "examined how a nation's regulations affected foreign direct investment inflows. The author of this study separated the host nations into two categories: developed and less developed. According to the study's findings, laws significantly and favorably influenced mobile foreign direct investment. It was also shown that MNCs' perceptions of the governance and the local propensity for corrupt practices in less developed nations have an impact on foreign direct investment (FDI) in those nations".

Jiang et al. (2010) "carried out research to determine how FDI affected Chinese culture. The degree of future orientation, performance orientation, and group collectivism are all significantly impacted by foreign direct investment (FDI), according to data gathered from key Chinese cities. The degree of performance orientation was found to be strongly impacted negatively by foreign direct investment (FDI) from the United States, Singapore, Japan, and the United Kingdom. According to the study's findings, FDI from Singapore and Japan considerably raises the level of in-group collectivism".

Renuka, Ganesan, and Durgamani (2013) "studied the effects of foreign direct investment (FDI) on the Indian economy, specifically focusing on the country's retail industry. The study's goals were to determine the benefits of investing in India, examine the effects of foreign direct investment on the country's retail industry, and identify trends across various Indian industries. Secondary data has been used to help collect the data. Foreign direct investment (FDI) in India's retail industry is now simple thanks to trade policy liberalization and fewer limitations and hurdles. Because these industries generate more profits than others, it was discovered that the majority of foreign nations preferred to invest in the service sector, construction industry, telecommunications, and computer software and hardware. FDI in the retail sector contributes to the introduction of new technologies in India, the enhancement of rural infrastructure, the reduction of agricultural produce waste, etc".

Ramasamy and Yeung (2010) "investigated the connection between Chinese productivity, wages, and foreign direct investment. Data was gathered over a 20-year period (1988-2007) from a panel of provinces. Provinces were separated into inland and coastal provinces for the purpose of data analysis. It was discovered that FDI inflow had an impact on pay rates and increased productivity".

Andraz and Rodrigues (2009) "determine whether exports or inward foreign direct investment are the main drivers of Portugal's economic growth. The potential causal links between Portugal's exports, inward foreign investment, and economic growth have been

ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-15, No.- I, Issues-23, YEAR- Jan.-March-2022

examined, along with their direction, using a three-stage process. In the short term, there is a univariate association between FDI and exports and a biodirectional casual relationship between FDI and growth, but in the long term, there is a relationship between FDI and exports".

Hausmann and Fernandez-Arias (2000) "investigated the restrictions associated with foreign direct investment. According to the report, foreign corporations would offer as little new technology as possible since they are afraid of being accepted and don't want their technology to be leaked".

Yuan et al. (2010) "noted the connection between the host nation's FDI influx and the size of its government. Data from 81 nations between 2002 and 2006 has been collected in order to accomplish this goal. It was discovered that FDI inflows and government size are positively correlated. In developing nations, this effect is considerably more pronounced. According to the report, in order to draw in foreign investors, the government needs boost consumption and build infrastructure that would create a pleasant environment and a favorable legal environment".

"The impact of several conditions on foreign direct investment in small island developing states was examined by Read (2007). The population size and medium income group were found to have a negative but negligible link with FDI inflows, according to the study. Location and trade openness were found to have a favorable and significant link with FDI inflows".

RESEARCH METHODOLOGY- Data was gathered from secondary sources between 2000 and 2017 in order to fulfill the study's objectives. The information is mostly gathered from a number of websites, annual publications, World Bank reports, research studies, foreign direct investment fact sheets, Indian government press releases, FDI databases, etc. The data is analyzed using a statistical method called percentage.

OBJECTIVES

- To understand India's FDI influx trend.
- To research the trends of foreign direct investment inflows into India's various industries.
- To research equity inflows into different Indian states.
- To research the proportion of FDI equity inflows from the top investment nations.

ANALYSIS AND INTERPRETATION- We conduct an analysis based on the data gathered in order to accomplish the goals of this study. The following are the findings based on secondary data:

Table 1. India's total F.D.I. inflows between April 2000 and March 2017.

(Amount US$ in Millions)

F.Y. (APRIL-MARCH)	TOTAL INVESTMENT INFLOWS FROM APRIL 2000 TO MARCH 2017	PERCENTAGE GROWTH IN SALES
2001-2002	6130	+52
2002-2003	5035	-18
2003-2004	4322	-14
2004-2005	6051	+40
2005-2006	8961	+48
2006-2007	22826	+155
2007-2008	34843	+53
2008-2009	41873	+20
2009-2010	37745	-10
2010-2011	34847	-08
2011-2012	46556	+34
2012-2013	34298	-26
2013-2014	36046	+5
2014-2015	45148	+25
2015-2016	55559	+23
2016-2017	60082	+8

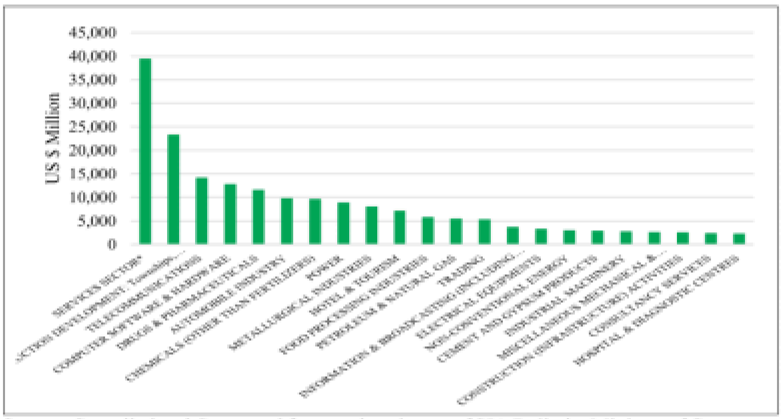
ISSN NO.-2347-2944 (Print)
e-ISSN NO.-2582-2454 (Online)
Vol.-15, No.- I, Issues-23, YEAR- Jan.-March-2022

Source: RBI Report-

INTERPRETATION- Table 1 shows the foreign direct investment inflows from April 2000 to March 2017. The findings indicate that the pattern of FDI inflows varies significantly. A number of factors, including the high demand from Indian consumers, the liberalization of government policies, and the availability of communications facilities, contributed to the "positive increase in the value of FDI inflows in 2001–2002". However, the value of FDI declined following this time. The value of foreign direct investment (FDI) rose between 2004 and 2008, but then fell as a result of the rupee's declining value.

Fig. 1. Sectors wise FDI inflows

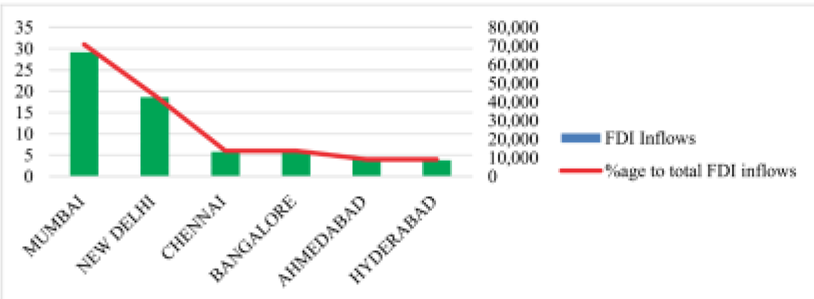
Sector Wise Foreign Direct Investment Inflows



Source: Compiled and Computed from various issues of SIA Bulletin, Ministry of Commerce, GOI, 2000-2014

INTERPRETATION-A total of US$ 59,992 million, or 24.65 percent of total FDI, has been invested in India's services and telecom industries, which are shown in Chart-1.4 as the primary sectors drawing foreign direct investment. In 2008, foreign direct investment inflows were led mostly by the service sector. Since then, India has been the most popular destination for FDI in the services industry. The exportation of services also accounts for a significant portion of total exports. India has been opening its doors to a variety of foreign companies in anticipation of an increase in the wage level in the service sector as a result of the growing proportion of the economy that is devoted to service-related activities. This is being done in response to the growing demand for low-skilled workers and services.

Table NO. 3. **Distribution of FDI within India**



Source: Compiled and Computed from various issues of SIA Bulletin, Ministry of Commerce, GOI, 2000-2014

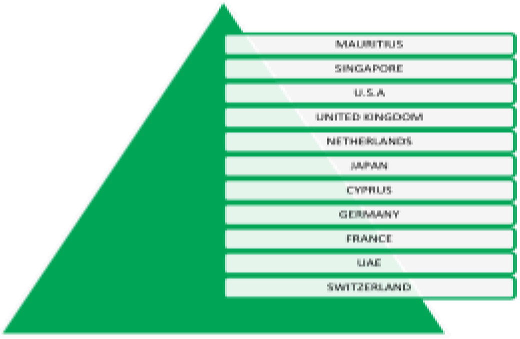
INTERPRETATION

Table NO.4. Top Investing Countries in FDI Equity Inflows in India

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.-15, No.- I, Issues-23, YEAR- Jan.-March-2022

Top countries in FDI inflows in India



Source: Compiled and Computed from various issues of SIA Bulletin, Ministry of Commerce, GOI, 2000-2014

The majority of FDI money coming into India is focused in and around two cities: Mumbai (US$ 66757 million) and Delhi (US$ 42535 million). The cities of Bangalore, Ahmedabad, Hyderabad, and Chennai are also major recipients of FDI. All told, these six cities (Chart-1.8) are responsible for 69 percent of India's total FDI. During the period 2000–2014, Mumbai and Delhi combined accounted for forty percent of India's total FDI inflows.

CONCLUSION-This study aims to conduct a thorough analysis of the trends in foreign direct investment equity inflows across various sectors and regional offices. The results indicate a significant variation in the inflows of FDI equity. The findings further indicated that the service sector accounted for the largest share of FDI inflows, comprising 18 percent, with Maharashtra, Dadra & Nagarhavali, and Daman & Diu receiving the most significant inflows, totaling 31 percent of the overall FDI. This study will assist the government in formulating astute strategies to effectively manage and enhance foreign direct investment.

REFERENCES

1. Andraz.J.M and Rodrigues.P.M. (2009).What Causes Economic Growth Portugal: Exorts or Inwar FDI. Journal of Economic Studies, 37 (3), pp. 267-287.
2. Hausmann, R. and E. Fernandez Arias.(2000).Foreign Direct Investment: Good Cholesterol.Inter-American Development Bank, mimeo, Working paper 417, Accesed from this site www.researchgate.net/ Foreign Direct Investment Good Choleste on 16 may. 2017.
3. Jiang, L., Chen, Q, and Liu, Y. (2010).FDI and the Change in the Chinese Culture: International Journal of Social Economies, 37 (2), pp. 101- 118.
4. Lipsey, R. E. (2002).Home and Host Country Effects of FDI: NBER Working Paper 9293, Accessed from this site www.nber.org/papers/w9293 on 17 june. 2017.
5. Ramasamy, B. and Yeung, M. (2010). A Casuality Analysis of FDI – Wages Productivity nexus in China. Journal of Chinese Economic and foreign Trade Studies, Vol. 3 (1), pp. 5-23.
6. Read, R. (2007). Foreign Direct Investment in Small Developing States", UNU WIDER Research Paper No 2007/28
7. Renuka, R., Ganesan M. and Durgamani M.K. (2013).Impact of FDI on Indian Economy with Reference to Retail Sector in India.Global Research Analysis, 2(1), pp. 22-24.
8. Yuan,Y., Chen,y. and wang, L. (2010).Size of Government and FDI: An Empirical Analysis based on the panal data of 81 countries: Journal of Technology Management,5 (2), pp. 176-184.

*****