



An Analytical Study on Role of Foreign Direct Investment in India

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ABSTRACT:

The development of any country's economy depends greatly on international economic integration. In order to encourage international economic integration, foreign direct investment is the one and only key tool available. Between investing and saving, it acts as a bridge. There is a savings gap in many developing nations, including India. With the aid of foreign direct investment, this issue can be resolved. A profitable sector like real estate, business services, and insurance is the flow of foreign investment, which is a driving force behind India's economic expansion. The purpose of the current study is to determine the level of foreign investment that India will need for the development of its economy and to examine the impact that FDI have unquestionably played in raising product quality and availability. Data was acquired for the analysis of all three goals from secondary sources, such as government and RBI publications and reports on foreign investment. It is possible to draw the conclusion that developed countries, as opposed to developing and underdeveloped nations, attract the majority of global foreign investment flows. In developing nations, particularly India, foreign investment flows are boosting the inadequate local investments. Further, this paper suggests that we should encourage foreign investment because it helps us achieve our desired goals, such as improving the balance of payments, accelerating economic growth, eliminating poverty, and reducing internal personal disparities in development. It is also very beneficial and advantageous for the Indian economy.

Key words: *Foreign Direct Investment, , Portfolio Investment Policy, Balance of Payment*

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INTRODUCTION:

Every country's economy, including India's, benefits greatly from foreign investment. To entice foreign direct investment, several nations offer a variety of benefits (FDI). A country's need for FDI is influenced by its rate of investment and saving. In order to bridge the gap between

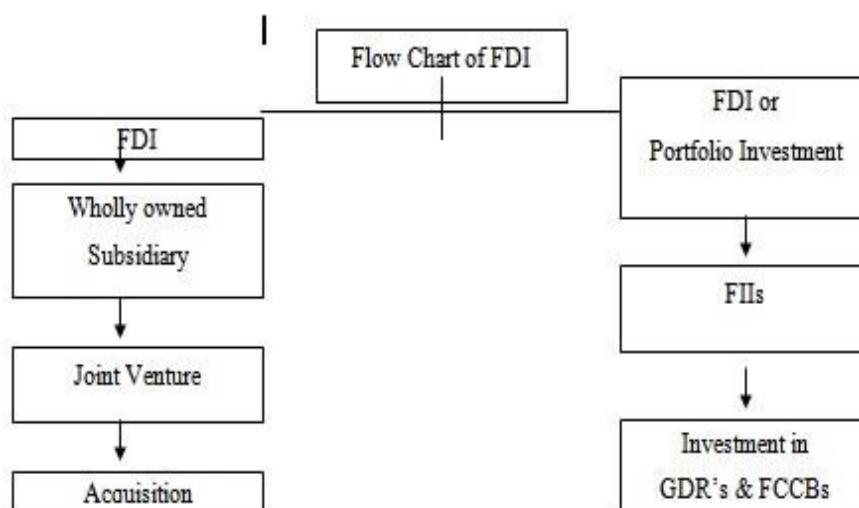
investment and saving, foreign direct investment is used. As a country's economy develops, foreign capital aids in bridging the gap created by domestic savings restrictions and grants access to cutting-edge technology that boosts the productivity and efficiency of the production capacity already in place while



also creating new opportunities for production.

FDI, often known as foreign direct investment, is one of the most important conduits for direct investments between nations. Unlike Foreign Portfolio Investments (FPIs), a foreign investor might own a controlling interest in any company or organisation in the country where the investment is made. Another important and informative indication of a nation's political and socioeconomic stability is foreign direct investment (FDI). This basically says that a country is more likely to have a dynamic and thriving economy if it regularly receives big sums of investment from foreign businesses.

Inflow of Foreign Investment Comes Through Various Routes:



Objectives of the Study:

1. To examine the Foreign Direct investment on the economic growth of the country.
2. To determine the role of FDI on various sectors of the country.

Research Methodology

The current study's goals include determining how much FDI is necessary

There are two ways to govern foreign direct investment made by a person or a business located abroad: automatic and approval route. Using automated mode Investments into different sector are less constrained under this strategy. The rules and regulations governing foreign direct investment have been simplified. Here, the Reserve Bank of India (RBI) or the Indian government's previous consent for the foreign investor or Indian enterprise is not necessary for investing into the nation. But in case of approval route the overseas investment are slightly restricted. Before making an investment, the foreign investor or the Indian company must obtain prior approval from the Reserve Bank of India (RBI) or the Indian government.



Impact of FDI on Economic Growth of India:

Foreign direct investment (FDI), which contributes comparatively more to growth than domestic investment, is a key mechanism for the transfer of technology. But FDI's better productivity is only true when the host nation possesses a certain minimum level of human capital. Additionally, FDI has the effect of raising total investment in the economy more than one to one, indicating the predominance of complementarity effects with domestic enterprises.

In India, the business environment has greatly improved since the economy was opened to international investment in 1991. Over the past 22 years (April 2000 to March 2022), the inflow of FDI into the nation is \$847 billion; nevertheless, more than 40% of that sum was obtained in the last 8 years (April 2014 to March 2022).

Overseas direct equity inflows are the total amount of inbound direct investments made into a country by non-resident or foreign investors. A corporation making a foreign direct investment must not have a physical presence in the country where the investment is being made.

Table 1: Year-wise FDI EQUITY INFLOW:

B. DPIIT's – FINANCIAL YEAR-WISE FDI EQUITY INFLOW:
 (As per DPIIT's FDI data base – equity capital components only).

S. No.	Financial Year (April – March)	Amount of FDI Equity inflow		% age growth over previous year (in terms of USD)
		In INR Crores	In USD Million	
FINANCIAL YEAR 2000-01 TO 2022-23				
1	2000-01	10,733	2,463	-
2	2001-02	18,654	4,065	(+)65 %
3	2002-03	12,871	2,705	(-)33 %
4	2003-04	10,064	2,188	(-)19 %
5	2004-05	14,653	3,219	(+)47 %
6	2005-06	24,584	5,540	(+)72 %
7	2006-07	56,390	12,402	(+)125 %
8	2007-08	90,642	24,575	(+)97 %
9	2008-09	1,42,829	31,396	(+)28 %
10	2009-10	1,23,120	25,834	(-)18 %
11	2010-11	97,320	21,303	(-)17 %
12	2011-12 ^A	1,65,146	35,121	(+)64 %
13	2012-13	1,21,907	22,423	(-)36 %
14	2013-14	1,47,510	24,299	(+)8%
15	2014-15	1,81,682	29,737	(+)22%
16	2015-16	2,62,322	40,001	(+)35%
17	2016-17	2,91,696	43,478	(+)9%
18	2017-18	2,88,089	44,857	(+)3%
19	2018-19	3,09,867	44,366	(-)1%
20	2019-20	3,53,558	49,977	(+)13%
21	2020-21	4,42,509	59,636	(+)19%
22	2021-22	4,37,188	58,773	(-)1%
23	2022-23 (up to September, 2022)	2,10,156	26,910	
CUMULATIVE TOTAL (from April, 2000 to September, 2022)		38,72,358	6,15,438	

Note: ⁱ including amount remitted through RBI's-NRI Schemes (2000-2002).

ⁱⁱ FEDAI (Foreign Exchange Dealers Association of India) conversion rate from rupee to US dollar applied, on the basis of monthly average rate provided by RBI (DIEPR), Mumbai inflow for the month of March, 2012 are as reported by RBI, consequent to the adjustment made in the figures of March, '11, August, '11 and October, '11.

Source: www.dpiit.gov.in



FDI is not just limited to cross-border capital transfers. The international mobility of factors that provides capital, including as talents, procedures, management, technology, etc., are the various benefits received by the recipient country.

Employment opportunities and Economic Growth: Employment growth is FDI's most obvious advantage. For a nation, especially one that is developing, it is also one of the most important elements in its decision to seek FDI. The benefits of greater FDI extend to both the manufacturing and service sectors. As a result, more jobs are created and unemployment rates for both skilled and unskilled labourers as well as the nation's educated youth are reduced. The population's purchasing power increases as a result of increased employment and better salaries. This helps to enhance the nation's economy.

Development of Human Resources: This is one of the less apparent advantages of FDI. As a result, it is typically understated. The word "human capital" refers to the skill and knowledge of the worker. The abilities developed and acquired via training and experience raise the nation's level of education and human capital. Once developed, human capital is transportable. It might train human resources in other companies, with cascade effects.

Development of Regressive Areas: This is one of the key benefits of FDI for a developing country. Thanks to FDI, less developed regions of a nation can emerge

into industrial centres. The local social economy is strengthened as a result.

Finance and technology provision: The most cutting-edge financial instruments, technologies, and management strategies are available to businesses that get finance. Newer, better technology and methods gradually permeate the local economy, increasing the industry's efficiency and effectiveness.

Growth in exports: Not all FDI-produced goods are created with domestic consumption in consideration. These products are sold all over the world. The creation of 100% export-oriented units and economic zones has contributed to an increase in FDI investors' exports to other countries.

Stable Exchange Rates: When FDI is continuously entering into a country, foreign exchange flows continuously. This helps to maintain a healthy level of foreign exchange reserves at the central bank of the country. This in turn ensures constant exchange rates.

Encouragement of Economic Growth: This is another important advantage of FDI. FDI is a source of foreign capital that boosts a country's income. Building factories involves at least some usage of local labour, materials, and equipment. After construction is complete, the factory will continue to use local goods and services while also employing some residents. The employees at these factories consequently have more money to spend. There is a consequent increase in employment.



Table 2: Year-wise FDI EQUITY INFLOW:

E. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOW:

Rank	Sector	Am't. in Rupees Crores/ Am't. in USD Million	2022-21 (April - March)	2021-22 (April - March)	2022-23 (April - September)	Cumulative inflow (April, 00 - September, 22)	% share to total inflow (In terms of USD)
1	SERVICES SECTOR **	Rupees Crores	37,542	53,165	32,460	5,94,897	16%
		USD Million	5,060	7,131	4,162	98,366	
2	COMPUTER SOFTWARE & HARDWARE	Rupees Crores	1,94,291	1,07,762	49,131	6,27,190	16%
		USD Million	26,145	14,401	6,202	91,799	
3	TELECOMMUNICATIONS	Rupees Crores	2,004	4,900	6,314	2,32,367	6%
		USD Million	302	668	894	30,025	
4	TRADING	Rupees Crores	19,349	33,779	25,520	2,54,752	6%
		USD Million	2,608	4,538	3,280	38,021	
5	AUTOMOBILE INDUSTRY	Rupees Crores	12,115	51,624	7,204	2,14,685	5%
		USD Million	1,637	6,994	932	33,774	
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	Rupees Crores	58,240	24,178	7,731	1,98,632	5%
		USD Million	7,875	3,240	990	20,969	
7	CONSTRUCTION DEVELOPMENT: Township, housing, built-up infrastructure and construction-development projects	Rupees Crores	3,117	932	223	1,28,235	4%
		USD Million	422	125	28	26,238	
8	CHEMICALS (OTHER THAN FERTILIZERS)	Rupees Crores	6,300	7,202	10,200	1,22,257	3%
		USD Million	847	956	1,307	20,759	
9	DRUGS & PHARMACEUTICALS	Rupees Crores	11,015	10,557	5,453	1,14,835	3%
		USD Million	1,490	1,414	699	20,104	
10	METAL LURGICAL INDUSTRIES	Rupees Crores	10,002	16,783	519	1,01,999	3%
		USD Million	1,340	2,272	79	17,094	

Note: (i) ** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech, Testing and Analysis, Other

(ii) Cumulative Sector wise FDI equity inflow (from April, 2000 to September, 2022) are at Annex D.

(iii) FDI Sectoral data has been consolidated / reconciled in line with the GRI, which reflects minor changes in the FDI figures (increases/decreases) as compared to the earlier published sectoral data.

(iv) Figures are provisional.

Foreign Direct investment inflows in various sectors of the economy as brought in an upliftment into those sectors. In India Service sector receives a highest percentage of FDI equity inflow during the period 2022-23. With nearly 59 billion dollars in the financial year 2022, total foreign direct investment into India set a record high. Since they expand the labour market, the technological knowledge base, and the availability of non-debt financial resources, FDIs play a significant role in a nation's economic growth. Foreign investors see the lower job wages and government tax exemptions in FDI to be an attractive offer for investments in a developing nation like India.

CONCLUSION:

Foreign capital inflow, in aggregate, combines and replaces domestic capital and accelerates economic growth in addition to a number of advantages for the host country, such as technology transfer, competitive management practises, job

possibilities, and economies of scale. These costs associated with large capital inflows include increases in asset prices, exchange rate increases, balance of payments imbalances, tax holidays, low corporate and income tax rates, concessions to other types of taxes, special economic zones, preferential tariffs, export processing zones, bond-stored warehouses, free lands or land subsidies, infrastructure subsidies, relocation and expatriation subsidies, and job training and employment subsidies.

Based on the study, government of India's policy changes and initiatives had produced positive and heartening effects that sped up the country's economic growth. Industrial production has increased thanks to FDI inflow at both the local and macro levels. The general level of prices in the economy has been impacted. The entrance of FDI has aided in increasing employment, domestic consumption, exports, output, and productivity in the relevant sectors. The



current government's wise policy choices to open up FDI inflow at the sectorial level have been praised by international investors in comparison to the previous year.

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