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FDI AND ITS IMPACT IN INDIA

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Introduction

Present Status of FDI, Sectoral and National Significance FDI is a key driver of economic development, especially in developing countries like India. It is investments from foreign sources directly into Indian business units that include the creation of new facilities, the reinforcement of current operations, or the purchase of an interest in Indian corporations. FDI is different from portfolio investment because it entails substantial levels of control and long-term concern with the domestic venture.

FDI has been instrumental in making India the way it is today in terms of its economic profile, industrial growth, technology transfer, and generation of jobs. Foreign capital inflow bridges the investment-saving gap, offers access to high-tech technologies, enhances management practices, and supports export competitiveness. These investments are essential for infrastructure creation, industrial development, and overall economic upgradation.

The present FDI position in India reflects a strong rising trend. India has received a provisional FDI inflow of USD 81.04 billion during FY 2024–25, which is up by 14% from USD 71.28 billion during FY 2023–24. This large-scale growth reflects the rising attraction of India as an investment hub for the world. India has attracted a total FDI inflow of USD 1,072.36 billion during the last 25 years. The number of source countries for FDI has also increased, growing from 89 in FY 2013–14 to 112 in FY 2024–25, further emphasizing its international appeal.

The domestic relevance of FDI is derived from its many interconnected advantages.
It supports capital accumulation, enhances industrial production, encourages technology and innovation, and improves the balance of payment of the country. FDI also assists in technology transfer and managerial skills, resulting in enhanced productivity and international competitiveness. The Indian government has courted an investor-friendly FDI policy by liberalizing regulations for major sectors to invite increased foreign investment.

Literature Review

Foreign Direct Investment (FDI) has emerged as a key driver of economic development in emerging countries such as India. When foreign investors directly invest in Indian companies, it entails a great deal of control over the business. This review considers the various facets of the impact of FDI on the Indian economy.

Many studies show a direct positive link between FDI inflows and GDP growth in India. This money injection is a stimulator, triggering domestic capital creation and promoting overall economic growth. FDI also ensures the passing on of new technologies and technology-related knowledge from foreign companies to Indian businesses. The spillover of such knowledge increases the technological strength of India, which results in technology-based innovation and enhanced product quality. The establishment of new businesses and business expansion opportunities as a result of FDI result in higher employment opportunities for the Indian population. Moreover, foreign investment could be instrumental in modernizing India's infrastructure, especially in areas such as telecommunication, power, and transport. This enhanced infrastructure creates more economic activity. The entry of offshore players also heightens competition within the Indian market, putting pressure on Indian firms to enhance efficiency, product quality, and cost savings, ultimately serving consumers.

But the possibility of challenges related to FDI cannot be ignored. While FDI generates employment opportunities, there's always a danger of some skillsets becoming outdated, and hence resulting in job losses in some of the industries. There can be overdependence on FDI, which exposes the Indian economy to external fluctuations, and some of the FDI ventures may pose ecological threats if appropriate regulations are not enforced.

The Need of the Study

The simultaneous process of rapid globalization and economic liberalization across the globe has made Foreign Direct Investment (FDI) an unavoidable element of national economic policy. For a developing nation like India, knowledge of the dynamics and consequences of FDI is essential for long-term economic development and growth. There are various key factors that necessitate this study: For starters, FDI is a non-debt generating source of financing, and this is especially useful for economies that want to finance ambitious development schemes without taking on huge debt charges. Assessing its impact aids in making effective financial policy. Secondly, the FDI allows for the transmission of technology, managerial skills, and best practices from developed to developing economies. The transmission of knowledge is significant to improve the domestic industries' productivity, efficiency, and competitiveness.

RESEARCH METHODOLOGY

Data Sources: The main data sources of this study are:

- Department for Promotion of Industry and Internal Trade (DPIIT): Previously named the Department of Industrial Policy and Promotion (DIPP), this government agency is a central source of FDI inflows into India. DPIIT releases fact sheets and press notes providing FDI statistics by industry, country, and region and describing the current FDI policy.
- Reserve Bank of India (RBI): The RBI, as the Indian central bank, has a significant role in overseeing and monitoring the foreign exchange transactions such as FDI. RBI offers a large amount of data on FDI inflows and outflows, repatriation of dividends, and other associated financial figures, usually in its bulletins or yearly reports. The primary report also discusses www.rbi.org.in as a source.
- National Statistical Office (NSO): Although not directly noted in the methodology of the original report for FDI, the NSO (Ministry of Statistics and Programmed Implementation) is a critical source for industrial production figures, macroeconomic indicators, and national accounts that serve to put the influence of FDI on the overall economy into context.

Research Design

Objectives of the Research:

To analyze the patterns and trends in the movement of Foreign Direct Investment (FDI) in India. To evaluate how FDI impacts the overall growth and development of the Indian economy.

Methodology and Data Collection:
Aim:
The primary aim is to analyze the impact of FDI on the growth trends of the Indian economy.
Primary Source:
Not applicable, as this research does not require primary data collection. Secondary Source:

This is secondary data study. The information has been collected from authentic sources like reports presented by the Ministry of Commerce and Industry (Government of India), the Centre for Monitoring Indian Economy (CMIE), the Reserve Bank of India (RBI), and the World Investment Report.
The study employs the span of time from 2007 to 2018 to observe FDI trends and patterns.

Scope of the Study

- To comprehend how FDI enters the Indian economy.
- To realize the reasons for fluctuation in FDI inflows.
- To see how FDI impacts different sectors of the economy.

Limitations of the Study:

- FDI is just one of the various drivers of economic growth; other influences like Foreign Institutional Investment (FII), the policies of the government, and monetary policy also contribute significantly.
- FDI data is volatile and tends to change rapidly, which can influence the uniformity of analysis.

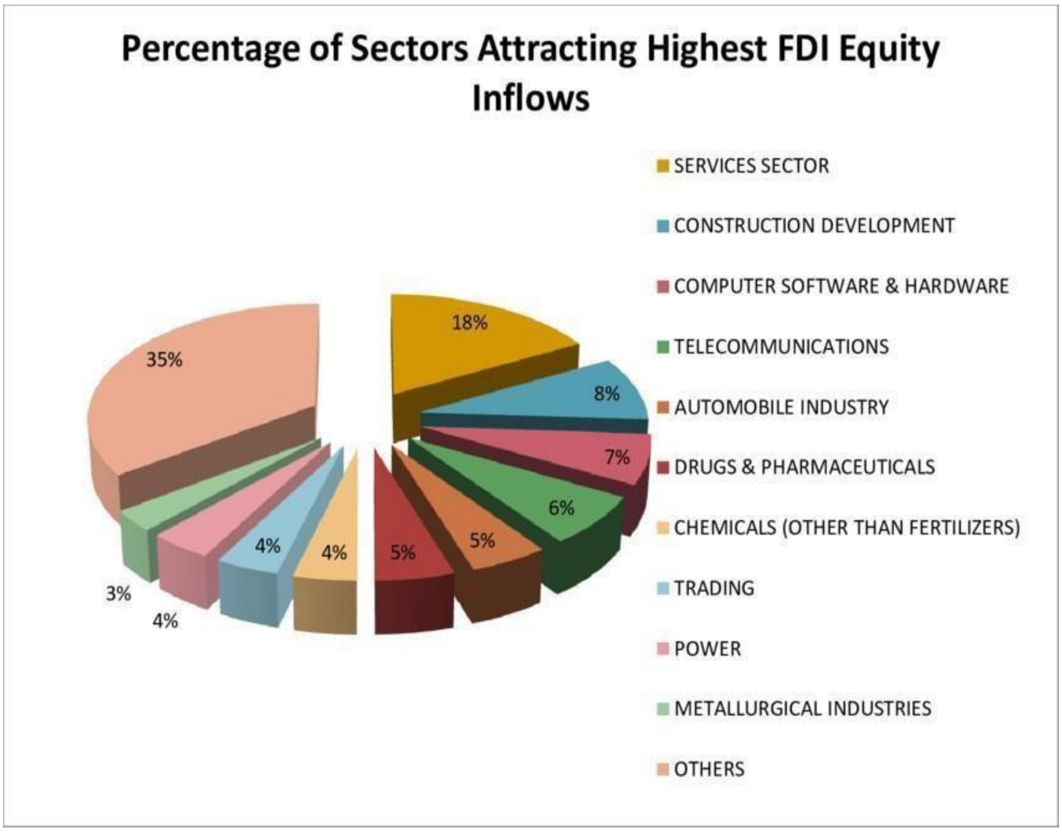
Sector wise FDI inflows analysis in India

Sector	2020-21 (April-March)	2021-22 (April-March)	2022-23 (April-March)	2023-24 April-March)	2024 (April- sep)	Cumulative Inflows (April 2007 - Dec. 11)	% age to total Inflows (In terms of US$)
SERVICE SECTOR (financial & non-financial)	6640.24	8706.93	7131.44	5060.22	7852.96	35391.8	24.07 %
COMPUTER SOFTWARE & HARDWARE	7972.79	9394.22	14461.35	26144.69	7673.32	65646.4	44.64 %
TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services	281.66	712.95	668.14	392.11	4445.16	6500.02	4.42%
HOUSING & REAL ESTATE	254.65	146.62	124.99	422.09	616.54	1564.89	1.06%
CONSTRUCTION ACTIVITIES (including roads & highways)	4232.16	1703.40	3247.51	7874.54	2041.72	19099.3	12.99 %
POWER	1701.50	697.92	525.66	373.63	672.16	3970.87	2.70%
AUTOMOBILE INDUSTRY	1524.22	1902.21	6993.55	1637.44	2824.03	14881.5	10.12 %
METALLURGICAL INDUSTRIES	1313.23	444.82	1029.21	586.81	185.34	3559.41	2.26%
PETROLEUM & NATURAL GAS	34.61	21.06	200.75	147.16	12.06	415.63	0.26%
DRUGS & PHARMACEUTICALS	1326.23	1348.65	2058.46	1291.68	512.6	6537.62	4.15%

Ranking of catogery wise FDI inflows in India from April 2007- Sep 2024

Industrial Sector	Rank
Service Sector	1
Construction Development	2
Computer software and hardware	3
Telecommunication	4
Automobile Industry	5
Drugs and Pharmaceuticals	6
Chemical other than fertilizers	7
Trading	8
Power	9
Metallurgical industries	10

Pie chart showing % of total FDI inflow in various sector



Discussion & Conclusion in Various Sectors

The examination of FDI inflows into India identifies unique patterns and effects in different important sectors. The preliminary FY 2024-25 data, in conjunction with past trends, paints a full picture of how foreign investment is redefining India's industrial scene.
a. Service Sector

The services industry has always been the largest recipient of FDI in India, with the highest equity inflows. In Financial year 2024–25, it stood at 19% of overall FDI equity inflows, at USD 9.35 billion, showing a huge growth of 40.77% from the last year. The reason for this domination is India's robust service capabilities, human skills, and rising domestic demand. The industry comprises financial services, banking, insurance, IT-enabled services, and other business services.

b. Computer Hardware and software

The computer hardware and software industry has been among the bosting industries of India's economy, with considerable FDI inflows. During FY 2024–25, this industry was the second-largest sector of FDI inflows, capturing 16% of the total inflows. This indicates India's status as a global

IT destination and its expanding digital economy. FDI within this industry has driven innovation, enabled the creation of new technologies, and established several high-skilled employment opportunities.

c. Telecommunication

The telecommunication industry too has been a major beneficiary of FDI, driving its speedy growth and modernization. Although the initial report suggests that the industry received considerable investment, more recent information continues to reflect steady interest, albeit its position compared to other industries may change from year to year.
The telecommunications industry has experienced enormous investments in terms of infrastructure upgrades, network build-out, and the implementation of cutting-edge technologies such as 5G.

a) Housing and Real Estate

FDI in the housing and real estate sector has played a vital role in urban development and infrastructure growth. While subject to specific regulations and conditions, foreign investment has contributed to the development of residential, commercial, and retail spaces. The original report highlights the importance of this sector in attracting foreign capital for large-scale projects. FDI helps in financing large construction projects, introducing modern building techniques, and creating integrated townships, catering to the growing demand for housing and commercial infrastructure in India's rapidly urbanizing landscape.

b) Construction Activities

The construction activities sector, closely linked with real estate and infrastructure development, has also attracted significant FDI. This includes investment in roads, bridges, ports, airports, and other essential infrastructure projects. FDI in construction has been instrumental in upgrading India's infrastructure, which is crucial for overall economic development and attracting further investment.

Limitation - Data Changes, Time Constraints

This research, though thorough, is naturally hindered by some aspects, mainly the fluidity of data and the temporal nature of the research.
Data Revisions: FDI statistics, especially those from government and international organizations, are subject to repeated revisions and updating. Projections are usually released first, followed by updated data as more exhaustive data are received. This can cause discrepancies between data released at different points in time. The study is based on the latest available information as of the time of preparation, but subsequent updates may change some particular numbers or patterns. The report itself does notice this limitation by acknowledging that "data changes time constraints.".

Time Limitations: The breadth and depth of the study are also limited by the amount of time at the disposal of its completion.
A larger study can include primary data collection, more extensive qualitative analysis, and extended comparative analysis with other emerging economies. But in the available time span, the study has concentrated on consolidating secondary data to furnish a sound overview of FDI in India.
This constraint also impacts the capacity for real-time analysis of quick-moving policy developments or market trends.

Conclusion

In the current era of globalization, FDI serves as a significant participant in economic growth, primarily in a fastest developing nation like India.
FDI not only introduces capital but also latest technology and skilled professionals, thereby increasing the growth of the nation at a rapid rate.
India, over the last few years, has experienced growth in FDI inflows, with both positive and contradictory effects. On the one hand, these foreign investments contributed to the financial needs of the country and created many jobs.
FDI also provides a vehicle for technology and knowledge transfer. Foreign companies have exposed India to better management practices, advanced production systems, and innovative business models. This exposure makes Indian industry more competitive and innovative in a globalized world.
In addition to this, it adds to the infrastructure for growth. Upgradation of electricity supply, transport networks, and communications brought about by foreign investment fosters economic growth in the long run.
But there are also threats to FDI. Overdependence on foreign investment can stifle local enterprise and innovation. Moreover, earnings by foreign firms are usually repatriated back to their home country, which can restrict reinvestment in India. Increased automation and global competitive pressures can also pose a threat to jobs in certain industries.
In order to reap the maximum gains from FDI and reduce its disadvantages, India must pursue a carefully defined and balanced policy framework that boosts foreign investment while not derailing local growth and development.

Recommendation

• Ongoing Policy Reforms and Streamlining: The government must also keep ongoing reforms aimed at streamlining and simplifying the FDI policy framework. This involves further liberalization of entry conditions, minimization of bureaucratic obstacles, and greater transparency and predictability in regulations. While there are already a large number of sectors under the automatic route, ongoing review and widening of this route, where possible, can enhance investor confidence.

•\tInfrastructure Support: Increased investment in key infrastructure segments like power, transportation (roads, railways, ports, airports), and digital connectivity is essential. A strong base of infrastructure lowers the cost of operations for industry and makes India a more appealing investment destination for long-term investors.

•\tEmphasis on Research & Development (R&D) and Innovation: In order to entice high-value FDI that entails cutting-edge technology, the government must offer more incentives for R&D efforts and intellectual property development. These include tax concessions, grants, and collaborative platforms between foreign investors and indigenous research centers.

•\tHuman Capital Development: Prioritizing skill development, education, and vocational training schemes is necessary to make a skilled human resource base available that is capable of absorbing new technology and management methods brought in by foreign companies. This enhances India's absorptive capacity for the transfer of technology.

REFERENCE

The necessary data were collected through following websites- www.rbi.org.in
www.worldbank.org.in
www.dipp.nic.in http://indiahighcom- mauritius.org www.docs.google.com www.imf.org www.uscc.gov