

# FOREIGN DIRECT INVESTMENT AND FUTURE OF INDIAN ECONOMY

## Abstract

Foreign direct investment (FDI) is the key source for the inflow of foreign currencies in India. After the adoption of LPG policies with opening the door of Indian economy for foreign trade by the year 1991, India is growing year by year in this segment. FDI provides opportunities to domestic companies for the growth of their business and product diversification. Domestic companies can get advantages in terms of technological advancement. Job creation as well as global integration is the core outcomes because of foreign direct investment. Present chapter will regard as to show the relationship between foreign direct investment (FDI) and the development of Indian economy. However government's role is significant for the development of FDI in the country. Few evidences in form of FDI flows in Indian economy will be the part of present chapter. Few sectors such as Education, research & development (111.1%), Computer services (51.4%), Transport (41.7%), Electricity and Other Energy Generation, Distribution & Transmission (26.9%), Manufacturing (17.7%) and Retail & Wholesale Trade (8.2%) are showing positive results. Few countries as Cyprus (333.3%), UAE (277.8%), US (93.5%), Luxembourg (66.7%), Canada (33.3%) and UK (21.4%) are full with FDI for Indian economy. Foreign direct investment (FDI) is full with lot of benefits for India in form of jobs creation, global market reach, investment opportunities, business diversification, economic growth and increase in the foreign currency reserve. However FDI is problematic because FDI increase foreign intervention, increase competition for domestic companies and not in the favor of poor people. Besides all Foreign direct investment (FDI) is the need of present era in the globalised business activities. Indian economy is the fastest developing economy can avail more opportunities for the pace of growth & development with FDI.

**Keywords:** Foreign direct investment (FDI), foreign direct investment–Some Evidences from Indian Economy, Merits of FDI, and Demerits of FDI.

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## I. INTRODUCTION

Foreign direct investment (FDI) is the method of putting money into Indian businesses and projects, which has become progressively important in the beneficial factor of India's economic growth. In this chapter, "Future Trends in Management", we will consider the relationship between FDI and the future of India. It will be an adventure to appreciate the impact of foreign investment on the Indian economy and the management of businesses. We will start by explaining the concept of FDI, examining its differentiating features, and analyzing its relationship to the Indian economy. Finally, we will have a look back at the responsibility of FDI in India's economic development. We will also have a discussion of the benefits of FDI, such as the introduction of new technology and the creation of employment, which have always been contributed to India's global strength. However, there are two sides to every story. We will also have a look at the demerits and disadvantages associated with Foreign Direct Investment (FDI), as well as the processes that need to be taken in account for FDI to effectively contribute to India's development.

## II. FOREIGN DIRECT INVESTMENT – MEANING

A form of financial cooperation between countries, is known as Foreign Direct Investment. It includes companies from one country beginning an existence in another country, such as a factory or office, in respect to invest in the economy of that country. This concept is not same as the lending money or purchasing stocks within a foreign country, instead the foreign company's ambition to exist in a different country, in respect to become a part of the local business world. Both the companies which are involved here are benefited, as it gives them with the opportunity to increase their profits. More, it leads to growing employment, the development of new technologies, and a more successful economy for the host country.

Foreign direct investment (FDI) can be seen as a important facilitator of India's economic future, giving a roadmap to comfort the country to reach its desired stop more quickly. There are three main drivers: Fuelling Growth, Technology Transfer, and Infrastructure Development. FDI gives India with the financial assets to fuel its economic engines, allowing it to develop at a faster rate than if it were to rely solely on its own assets. Technology Transfer is the transfer of contemporary technologies to Indian companies, allowing them to become more technologically improved and efficient. Job Creation is achieved through the accommodating of local people by foreign companies, towards a future in which more people have the access of quality employment and the power to provide for their families. Global Integration, which is the integration of India into the global economy, is achieved through FDI, allowing Indian companies to access the largest global marketplace.

## III. FEATURES OF FOREIGN DIRECT INVESTMENT

What makes FDI emerge from other investment and economic development models?

- 1. Ownership and Control:** Foreign direct investment (FDI) emerges because foreign individuals or companies have both ownership and control over a company in another country, having the similarity of a stake in a local business.

2. **Long-Term Commitment:** Quick profits are never the factor of FDI; foreign investors have their commitment into the long-term growth and collaboration, which helps to make sure the stable economic development.
3. **Money and Technology:** Only cash are not bought by foreign investors; expertise and technology also come along with them, which can be included while suggesting advanced equipment, developing management methods, or guiding research and development to upscale local businesses.
4. **Job Creation:** New branches in another country have been invested by foreign investors and they also hire local workers, which produces more job openings for the host country's economy.
5. **Risk and Reward Sharing:** They involve a cooperative effort, rather than a unfair.
6. **Global Connections:** The host country's relationship has been strengthened by FDI with the global economy by allowing access to foreign markets, trade networks and partnerships, thus expanding the host country's global existence.
7. **Government Rules and Policies:** Governments often develop and implement specific rules and policies for attracting and managing FDI. These may include tax incentives, intellectual property rights protection, and profit repatriation guarantees.
8. **Sectors Focus:** FDI often focuses on specific industries based on host countries' strengths and priorities, such as technology, manufacturing and infrastructure in India.
9. **Economic Impact:** FDI has a significant impact on the host country's economy, leading to higher GDP growth, increased exports and a wider range of sectors.
10. **Sustainability Impact:** Many foreign investors prioritize sustainable practices, which mean that FDI can help promote environmental and social conscience in the host country.

#### IV. FOREIGN DIRECT INVESTMENT–SOME EVIDENCES FROM INDIAN ECONOMY

Since in last few years' foreign direct investment is playing vital role. In this regard few observations have keenly studied to check sector wise inflow of foreign direct investment in India and country wise inflow of foreign direct investment in India. Followings are the significant explanations.

Below shown table 1 is all about to explore sector wise foreign direct investment in India. Data from 2018 to 2023 significantly included to find some notable observations. Some sectors are showing positive results in terms of increasing FDI in the country as Education, research & development (111.1%), Computer services (51.4%), Transport (41.7%), Electricity and Other Energy Generation, Distribution & Transmission (26.9%), Manufacturing (17.7%) and Retail & Wholesale Trade (8.2%). On the other hand mostly sectors are not as attractive to FDI inflow in the country as Restaurants and Hotels (-75%), Real Estate Activities (-50%), Construction (-39.1%), Communication Services (-30.8%), Business Services (-28.6%) and Financial Services (-5.6%). Hence it is noted that higher

inflow can be seen in Education, research & development (111.1%) and Restaurants & Hotels (-75%) showed least inflow of FDI in the country.

**Table 1: Sector-Wise Analysis for Foreign Direct Investment Flows To India (Us\$ Billion)**

Source: Reserve Bank of India Annual Report (2022-23)

Sectors	2018-19 (a)	2019-20 (b)	2020-21 (c)	2021-22 (d)	2022-23** (e)	Average Inflows (f)	Absolute Change (g) = (e) - (a)	% Change (h) = (g)/(a) *100
Manufacturing	9.6	9.6	9.3	16.3	11.3	47.1	1.7	17.7
Financial Services	7.2	5.7	3.5	4.7	6.8	22.5	-0.4	-5.6
Computer Services	3.7	5.1	23.8	9.0	5.6	42.7	1.9	51.4
Retail & Wholesale Trade	4.9	5.1	3.9	5.1	5.3	20.1	0.4	8.2
Communication Services	6.5	7.8	2.9	6.4	4.5	24.5	-2.0	-30.8
Electricity and Other Energy Generation, Distribution & Transmission	2.6	2.8	1.3	2.2	3.3	9.6	0.7	26.9
Business Services	2.8	3.8	1.8	2.5	2.0	11.3	-0.8	-28.6
Education, Research & Development	0.9	0.8	1.3	3.6	1.9	7.0	1.0	111.1
Transport	1.2	2.4	7.9	3.3	1.7	15.1	0.5	41.7
Construction	2.3	2.0	1.8	3.2	1.4	9.6	-0.9	-39.1
Miscellaneous Services	1.4	1.1	0.9	1.0	1.2	4.6	-0.2	-14.3
Restaurants and Hotels	0.8	2.7	0.3	0.7	0.2	4.5	-0.6	-75.0
Mining	0.3	0.3	0.2	0.4	0.2	1.2	-0.1	-33.3
Real Estate Activities	0.2	0.6	0.4	0.1	0.1	1.3	-0.1	-50.0
Trading	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
Others	0.1	0.2	0.2	0.4	0.5	1.0	0.4	400.0

**\*\*:** Data are provisional.

**Table 2: Country-Wise Analysis for Foreign Direct Investment Flows To India (US\$ billions)**

Countries	2018-19 (a)	2019-20 (b)	2020-21 (c)	2021-22 (d)	2022-23** (e)	Average Inflows (f)	Absolute Change (g) = (e) - (a)	% Change (h) = (g)/(a) *100
Singapore	16.2	14.7	17.4	15.9	17.2	67.6	1.0	6.2
Mauritius	8.1	8.2	5.6	9.4	6.1	32.5	-2.0	-24.7

US	3.1	4.1	13.8	10.5	6.0	32.7	2.9	93.5
UAE	0.9	0.3	4.2	1.0	3.4	7.1	2.5	277.8
Netherlands	3.9	6.5	2.8	4.6	2.5	18.3	-1.4	-35.9
Japan	3.0	3.2	1.9	1.5	1.8	10.0	-1.2	-40.0
UK	1.4	1.3	2.0	1.6	1.7	6.6	0.3	21.4
Cyprus	0.3	0.9	0.4	0.2	1.3	2.1	1.0	333.3
Canada	0.6	0.2	0.0	0.5	0.8	1.5	0.2	33.3
Cayman Islands	1.0	3.7	2.8	3.8	0.8	11.5	-0.2	-20.0
Germany	0.9	0.5	0.7	0.7	0.5	2.9	-0.4	-44.4
Luxembourg	0.3	0.3	0.3	0.5	0.5	1.5	0.2	66.7
Switzerland	0.3	0.2	0.2	4.3	0.4	5.1	0.1	33.3
France	0.4	1.9	1.3	0.3	0.4	4.0	0.0	0.0
South Korea	1.0	0.8	0.4	0.3	0.3	2.6	-0.7	-70.0
Others	3.1	3.2	5.7	3.4	2.3	15.9	-0.8	-25.8
**: Data are provisional.								

Source: Reserve Bank of India Annual Report (2022-23)

Inflow of Foreign Direct Investment in India and country wise analysis is shown in table 2. Data from 2018 to 2023 significantly used to draw remarkable explanations. Some countries are showing positive interest in terms of increasing FDI from them in the country as Cyprus (333.3%), UAE (277.8%), US (93.5%), Luxembourg (66.7%), Canada (33.3%) and UK (21.4%). On the other hand few countries are not as attractive towards FDI inflow in the country as South Korea (-70.0%), Germany (-44.4%), Japan (-40%), Netherlands (35.9%), Mauritius (-24.7%) and Cayman Islands (-20%). Hence it is noted that higher inflow can be seen from Cyprus (333.3%) and South Korea (-70.0%) showed least inflow of FDI in the country.

Except education, research and development all other sectors cannot said well in terms of FDI in the country. Therefore government should undertake proper steps for more inflow in other sectors too. Like as few develop countries Japan, Germany, South Korea are also in declining trend for FDI in India. Here also government need to put attention so future of the country will go on brighter side in terms of FDI in the country.

## V. FOREIGN DIRECT INVESTMENT - MERITS

**Foreign Direct Investment (FDI)** is a great way for India and foreign investors to benefit from each other. Let's look at some of the main benefits of FDI:

- 1. Economic Growth:** FDI injects huge amounts of money into the Indian economy, which helps boost production, consumption and overall economic growth. This usually leads to a higher GDP growth rate.
- 2. Jobs:** FDI is an excellent way to create jobs. Foreign companies that set up shop in India hire local talent, which helps reduce unemployment and poverty.

3. **Transferring Technology:** FDI often brings in advanced technologies, skills and management practices to India, which helps boost productivity and competitiveness in local industries.
4. **Exports:** FDI boosts India's export potential. When foreign companies make products in India, this helps boost the country's export earnings, which is good for the trade balance.
5. **Developing Infrastructure:** The FDI projects especially in infrastructure and real estate sectors help in developing India's infrastructure. This makes it more charming for future investments.
6. **Global Market Access:** India has been linked by FDI to the global market. They enable Indian companies to enter into global markets and supply chains to hike exports and increase their reach beyond the country's borders.
7. **Stable Investment:** FDI also offers a stable and long-term source of capital to India. Foreign investors also have a commitment for a long period of time, which gives India a sense of security.
8. **Diversification of Industries:** Various industries' growth have been supported by FDI in India, which decreases the dependence on one industry. This makes the economy more flexible and stronger to economic shocks.
9. **Boosting Foreign Exchange Reserves:** FDI can help build India's external reserves, which are essential for sustaining the stability of the currency's value in the global market.

## VI. FOREIGN DIRECT INVESTMENT – DEMERITS

Foreign direct investment (FDI) can also have some drawbacks. For example, it can mean that bigger share of local businesses is with the FDI, which can lead to absence of control over important industries and assets. On the other hand, depending too much on foreign investors can make a country vulnerable to economic instability if they decide to or reduce their investment. Plus, the benefits of FDI can be haphazardly spread across the country, with cities getting more of the perks than rural areas, which could lead to economic discrepancy and social tension. Finally, it can be delicate for host countries to make sure that foreign investors are following moral and environmental rules, as some investors could take the leverage of lax regulations and destroy the environment or exploit workers. Foreign direct investment (FDI) can sometimes clash local cultures, as foreign companies offer different work practices or cultural norms. Host countries that rely heavily on FDI may be vulnerable to economic downturns in their home countries. Foreign investors may decrease their investments or drop out altogether when their home countries experience financial crises. Foreign direct investment can also lead to trade shortcoming, as FDI can grow their exports of automation and equipment, which can lead to trade shortfalls if not managed carefully. FDI can also lead to job movement, as in some cases, the foreign company may bring in its own experienced workforce, or use more automation to fill the jobs of local workers. Host governments also have to deal with complicated legal and managerial frameworks, which can be time exhausting and resource-intensive.

## VII. CONCLUSION

Foreign direct investment (FDI) is a key element in India's advancement towards a brighter future. FDI is alike to when foreign individuals or companies invest their money into Indian businesses and projects, and serves as a powerful tool for India's growth. We have noted that FDI provides an area of benefits, such as creating jobs, transferring technology, and stimulating economic growth. It is like giving an extra addition to a car, deepening its acceleration. Furthermore, FDI links India to the world market, supplying a bridge to the biggest market in the world. However, there are also threats to be faced, such as a possible loss of control over key industries, and the possible for unequal circulation of benefits. FDI is a double-edged sword, and India must attentively manage its merits and demerits in respect to reap the full benefits. Recent FDI patterns in India announce that some sectors are operating well, while others need more attention. To sum up, FDI is a valuable resource, similar to a treasure chest.

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