



Impact of FDI on Indian Economy

¹ Dr. B.M.Hiremath, ² Smt. Roopali Patil,

¹ Associate Professor, ² Assistant Professor,

¹ Department of Commerce,

KLE's SSMS College Athani, Dist: Belagavi State: Karnataka

Abstract: Smoothly operating financial markets play a significant role in contributing to the wellbeing and efficiency of an economy. There is a well-built positive relationship between financial market development and economic growth. Foreign investment adds a great deal to India's economy the continuous inflow of FDI. Which is now authorized across numerous industries clearly shows the faith that overseas investors have in the country's economy. In this paper we study the effects of FDI, With respect to India and its economy. We try to analyze the merits and demerits of the foreign direct investment, and also *evaluate the role of FDI in economic development of India*. So this paper helps us to study about the present FDI status, and how FDI relates economic development and some suggestions and so on.

Index Terms - Impact, FDI, Indian, Economy

1.1 Introduction:

Is it FDI is the result of globalization? What about the FDI in Indian context? Simply answer is in our history. In early 1498 when a Portuguese Vaskodigama arrived at Calicut he saw the pros parity in whole world. Later on people started to visit India. Portuguese, Dutch, British and French they established their premises in India and started to do business with Indian citizens.

Sir Tomas roe was the first British emperor and get the permission of trading in Mughal India. After this they shaped the East India Company and started their business. It was the first form of FDI in India. Later it got many transform according to the world's financial status and become more popular word as foreign direct investment and the more simple word called foreign institutional investors (FII).

FDI in India can be approved through automatic route and government approval, in the automatic route FDI can be done through the consent of RBI, as RBI has the power to do the the same. While on the other hand FDI though government approval is done with the acceptance of government and while giving such type of acceptance. Government will act according to the recommendation of the FIPB (Foreign investment promotion board).

FDI is the sum of some of equity capital other long term and short term capital. It usually involves participation of in management, joint venture, transfer of technology and expertise. There are mainly two types of FDI Inward FDI and Outward FDI.

1.2 Objectives of the paper:

- To study the trends and patterns of flow of FDI
- To evaluate the impact of FDI on the Indian economy
- To know the flow of investment in India.

1.3 Research Methodology:

In order to fulfilment the above objectives of the study; basically the research paper is conceptual in nature and by the qualitative data collected from secondary source. The data collected from newspaper, books, journals and internet have been used to as support the work. The study examines how FDI impact on Indian economy. Based on study it is clearly observed that FDI is involved in our economy very largely and it benefited to country very effectively.

1.4 FDI Means:

FDI is a procedure of investment in which a foreign investor, invest his money in other country by establishing his own business and also run it with its own existence.

1.5 Reasons why FDI need to India:

- Better investment in technology
- Better and improved lifestyle
- Improvement in man power and skills
- Tourism development
- Long term benefits
- Improved competition
- Better exports
- Development of different small and medium industries
- New employment opportunities
- Foreign exchange earning

1.6 FDI facts in India:

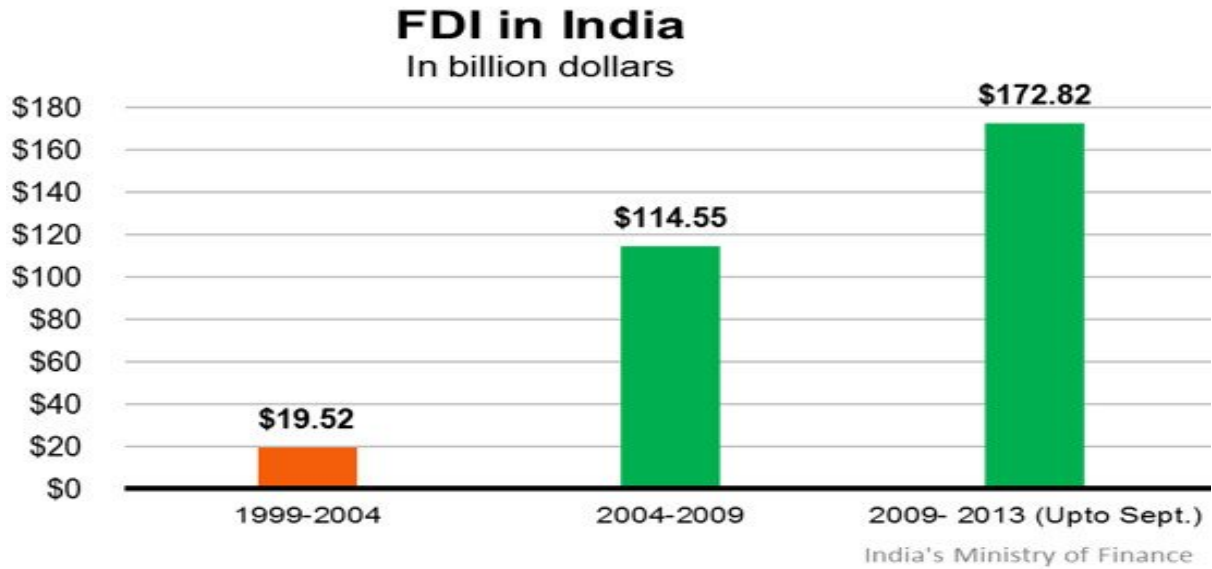
India is a developing country and the part of these global villages, its growing rate is immensely good since last decade. Whole world is keep watching us on our developing strength, here are many sectors which require vast investment for same. India will require around US \$ 1 trillion in the 12th five year plan (2012-2017), to fund for infrastructure growth covering sectors such as highways, ports and airways. This requires the support in terms of FDI. FDI inflows to India increased 17% in 2013 to reach US \$ 28 billion, as per United Nations (UN) report.

According to IMF (institutional monetary fund) the total capital of 10% or more of foreign company or people is considered as FDI, under this limit is only as shareholdings. The key factor of FDI is “money makes money” it is very true that no one will invest without gain accepts. Highest FDI was recorded in the services, telecommunication, constitution activities and computed head was and software and hospitality sectors. Few sectors all not permitted for FDI like atomic energy, railways, stock markets, real estates and mining of coal and metal. Now a days, India govt is opening its door of market for many investors in various sectors like telecom-100%, insurance-49%, retail single brand -100% and retail multibrand-51% etc. Many companies shows their interest like Ikea (Netherland), Wal-mart (USA), Damini (Italy) etc.

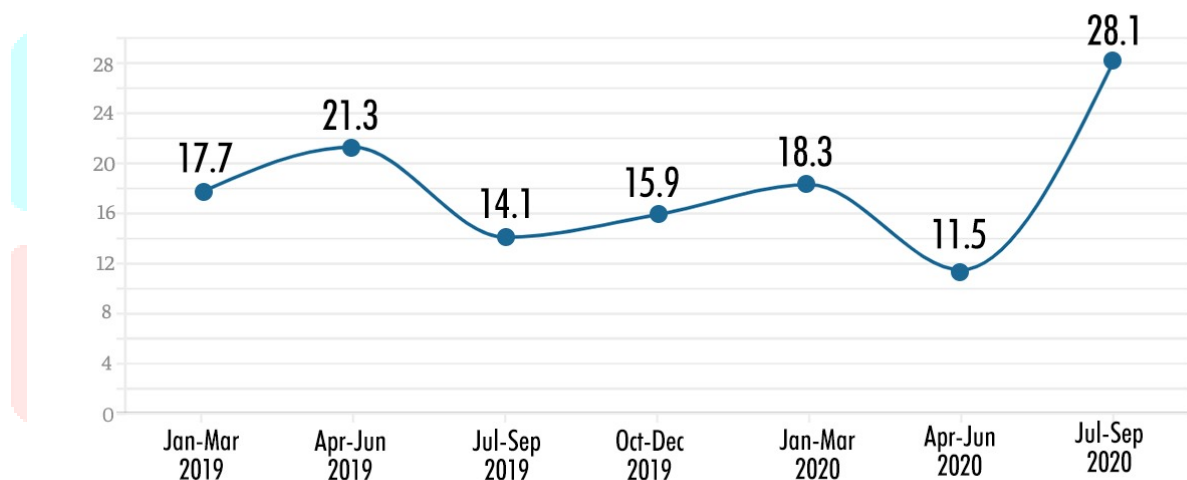
1.7 Top investing countries:

1. Mauritius
2. Singapore
3. USA
4. UK
5. Netherland
6. Japan
7. Germany
8. France

FDI flow in India:



FDI into India hit a record high in Q2 2020-21 (in \$ billion)



*FDI into India=FDI Equity inflows+ reinvested earnings

ThePrint

1.8 Some positive points:

- Helps in capital formation by bringing fresh capital.
- Adequate flow of capital towards development in various sectors as well as contemporary world.
- Employment creation and increase in production.
- Improvement in technology and skill which reduces the cost and increase the efficiency of working procedure.
- Standard life style: Increase in job opportunities in many sectors, resulted as uplifting in their life style and acceptability.
- Growth is possible: Social and economic growth in schools, collages, constitutional body and information technology etc which is possible from FDI.
- The healthy competition: Due to FDI in countryside competition will be increase in between domestic and foreign companies, so at the end customer will be in profit.

- Helps in convey of new technologies, management skills, and intellectual property.
- Increases competition inside the local market and this brings higher efficiencies.
- Helps in increasing exports and also Increases tax revenues.

1.9 Some other positive effect of FDI:

1. **Increased Competition:** One of the most visible effects is the improved quality of products due to global competition. Customer service and the 'customer is the king' approach to production have led to improved quality of products and services, Because of global education. As domestic companies have to struggle with foreign competition, they are required to raise their standards and customer satisfaction levels in order to survive in the market. In addition, when a global brand enters a new country, it comes in riding on some goodwill, which it has to live up to. This generates competition in the market and a 'survival of the fittest' situation.
2. **Employment:** Because of FDI, the developing countries able to gave global education to youths and hence generated large employment opportunity. It has given an chance to invest in the emerging markets and knock the talent which is available there. In developing countries, there is a lot a lack of capital which hinders the growth of domestic companies and hence, employment too. In such cases, due to global nature of the businesses, people of developing countries too can acquire gainful service opportunities.
3. **Investment and Capital Flows:** A lot of companies have directly invested in education system and also business. Developing countries like Brazil and India by starting manufacture units, but what we also need to see is the amount of Foreign Direct Investment (FDI) that flows into the developing countries. Companies which present well attract a lot of foreign investment and thus move forwards the reserve of foreign exchange.
4. **Foreign Trade:** While discussing the effects of FDI on economy, how can we forget about the impact of foreign trade on an economic development? Comparative advantage has always been a aspect, even in during old period. Even as trade originated in the times of early kingdoms, it has been institutionalized due to globalization. Formerly, people had to resort to unfair means and demolition of kingdoms and countries to get what they wanted.
5. **Spread of Technical Know-How:** While it is usually assumed that all the innovations happen in the Western world, the know-how also comes into developing countries due to impact of globalization and FDI. Without it, the knowledge of new inventions and medicines would remain cooped up in the countries that came up with them and no one else would benefit. The spread of know-how can also be stretched out to include economic and political knowledge, which too has increase far and wide. The most clear example of the spread of knowledge is that the Western world today is waking up to the benefits of Ayurveda and Yoga - habitual Indian practices, while the Western antibiotics are flooding the Indian markets and getting better the quality of life of people in India.

6. **Spread of Culture:** Not all good practices were born in single civilization. The world that we live in today is a result of numerous cultures coming together. People of one culture, if friendly, tend to see the flaws in their culture and pick up values that are more correct or in tune with the times. Societies have become larger as they have welcomed people of other civilizations and backgrounds and shaped whole new traditions of their own. Cooking styles, languages, and traditions have spread with FDI. The same can be said about movies, musical styles, and other talent forms. They too have moved from one nation to another, leaving an idea on a culture which has adopted them.
7. **Spread of Education:** One of the most powerful effects of FDI is the spread not only money but also education. Today, you can search the best educational facilities in the world wherever available, without any hindrance. A person living in U.S. can go to another continent for a new knowledge which he may not find in his home country. A good example of that is how the American managers went to Japan to learn the best practices in the field of mass production and included that knowledge in their own production units.

1.10 Negative points:

- Not only capital inflow but also followed by capital outflow plus profit.
- Domestic industries all seeking due to outflow of cheap products and monopoly which makes them uncomfortable to services.
- Inflation is high due to low value of money we have to pay high due to lack of money in the market because it is shifting to FDI companies.
- Our foreign dependency will be increased so it will affect our all development in technology, actual, production etc.
- Unethical behaviour like corruption and selfishness is increasing day by day because of money matter.

1.11 Suggestions:

- The issues relating to FDI will be enough prosperity to carry on the next generation.
- Adequate and strong policy which should be prepared according to every aspects of FDI, including its pros and cons.
- Govt should be providing supervision is required for each and every steps and proper action is must.
- Promote such laws or rules which will definitely increase the strength of Indian market.

1.12 Conclusion:

As per analysis FDI have many positive and negative points, But it can turn out to be either good or bad, depending on the point of view you wish to see it from, and also it have their own importance in global world. We are in the 21st century and we can't ignore the universal trends easily. India has 121 corer people, just assume if all the people are skilled and contributing something to our economy than India will shine in the corporate world, for this FDI helps in their own way. Corruption is the major problem to India,

if everything is done in proper manner and with right attitude than there is no doubt India will be a developed country in a few days.

1.13 Reference:

1. Financial Markets and Services, Gordon, Natarajan, Himalaya Publishing House, 4th revised edition, 2007.
2. Indian economy, Ruddar data and K.P.M Sundaram, S Chand & company Ltd.61th fully revised edition.
3. <https://www.investindia.gov.in/foreign-direct-investment>
4. https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513
5. Reserve bank of India: report on economic development.
6. Google, Wikipedia
7. News paper and journals.

