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GROWTH OF INDIAN ECONOMY AND IMPACT OF FOREIGN DIRECT INVESTMENT

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ABSTRACT

Foreign direct investment (FDI) is currently used by global investors as an important tool in international markets to enter the economy. This is an important factor in supporting and accelerating the economic growth of the host economy. With the growing interest in FDI around the world in recent years, the literature on FDI is also expanding exponentially. This review seeks to provide insights into past empirical studies to analyze and explore the determinants that play a key role in attracting investors. Studies have shown that the explanatory currencies that determine FDI inflows have similarities, differences, importance, insignificance and ambiguity.

KEYWORDS: *Foreign Direct Investment, Economic Determination, Socio Economic*

INTRODUCTION

Foreign direct investment (FDI) is a major source of funding for capital-intensive projects worldwide. Developing countries like India have made significant progress as the Asia-Pacific most competitive host for foreign capital. Direct investment initiatives are widely studied in international business research. There are numerous factors including economic, social, political, etc. that any international organization has to consider before entering a new market. The material available on foreign investment is primarily rooted in economics and is very broad. Classic Location Theory and International Trade Theory are often referred to as early contributors. However, the work done by Hymer in the study of FDI is always considered important. We all know that foreign direct investment has many effects on the economy of the host country. There are many factors that motivate investment and it is more complicated when investment comes from a developed country to a developing economy like India. But the rapidly changing investment climate is providing opportunities for foreign investors and as a result is emerging as an important means of productivity in developing countries. Transition and developing economies are thus becoming primary FDI destinations as evidenced by the UNCTAD (United Nations Conference on Trade and Development) Global Investment Trends Monitor Report 2015, where more than half of global FDI flows to developing and transition economies for the first time.

However, one needs to understand that the host country absorbs these resources and generates growth successfully, especially in the context of its policies. This has made these FDI determinants chaotic and misleading. A careful review of the literature of the past makes it clear that emerging countries have various determinants of foreign direct investment that play an important role in attracting foreign investment and require frequent evaluation due to their dynamic and critical nature.

Foreign direct investment (FDI) is generally considered a key component of economic growth. There is a lot of scientific literature covering FDI and economic growth, especially in transition countries, covering various aspects of the relationship. Foreign direct investment in India has grown rapidly since the policy liberalization in the early nineties. Yet they are calculated as the ratio of GDP or total investment. In other

words, they play a very small role in the development of the economy. This is in stark contrast to the critical role that FDI has played in the economic development of fast-growing Asian economies such as ASEAN and China. The so-called "FDI-export" model has boosted the high growth rates of Singapore, Thailand, Malaysia, Indonesia and China over the last two or three decades. The reason for the very low rate of FDI in India compared to these countries is due to both external and internal factors. On the one hand, the prevailing literature organization emphasizes the importance of FDI as an important source for increasing productivity, efficiency, growth and management. Knowing how, another group of researchers has criticized the flow of foreign direct investment into the Indian economy and expressed concern over its adverse effects, calling them a weapon of economic exploitation of developing countries. Thus it is imperative to analyze the role of FDI in the growth of the Indian economy. The impact of FDI on the economy can be divided into direct and indirect. Under direct influence, it appears that foreign direct investment has a significant impact on the level of domestic income, employment, price levels, productivity, efficiency and export growth. The indirect effect of foreign direct investment can be due to the leakage of foreign direct investment. The special quality of foreign direct investment and especially the types of incentives offered to foreign companies in practice have been questioned. Driving this discussion means that the empirical evidence that generates a positive spillover of FDI for host countries is unclear at both the micro and macro levels. The influx of foreign players into the competitive domestic market resulted in leaks from the FDI account, increased productivity and improved quality and other business processes.

After World War II, Japanese companies entered the Indian market and expanded their trade with India, yet the United Kingdom (UK) remained the most influential investor in India. Further, issues related to foreign capital after independence, the work of MNCs, caught the attention of policy makers. Taking into account the national interest, policy makers have formulated FDI policy which aims to use FDI as a means to acquire advanced technology and consolidate foreign exchange resources. FDI policy has also changed over time and with economic and political regimes. The potential benefits of FDI on the host economy are that it facilitates the use and exploitation of local raw materials and introduces modern techniques of management and marketing. Good quality goods and services are made available to domestic consumers through FDI investments. The Industrial Policy of 1965 allowed MNCs to venture into India through technical cooperation. The government then adopted a more liberal approach, allowing more frequent equity investments. At a critical juncture in the Indian economy, the Government of India, with the help of the World Bank and the IMF, introduced a macro-economic stabilization and structural adjustment program. As a result of these reforms, India opened its doors to foreign direct investment and adopted a more liberal foreign policy to restore the confidence of foreign investors. Further, under the new Foreign Investment Policy, the Government of India established the FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment. Starting with a baseline of less than 1 1 billion in 1990, a recent UNCTAD survey has estimated Indiaas the second most important FDI destination for international companies (after China) during 2010-2012. According to statistics, services, telecommunications, construction and computer software and hardware were the areas that attracted the most revenue. Mauritius, Singapore, the United States and the UK were the major sources of direct FDI.

In 2013, the government relaxed FDI rules in many other areas, including telecommunications, defense, PSU oil refineries, power exchanges and stock exchanges. Over the past 15 years, the importance of foreign direct investment in the global economy has grown exponentially. Total reserves of FDI increased from 10% of global GDP in 1990 to 33% in 2006. Although large-scale FDI is taking place between OECD countries, the increase in FDI is particularly evident in developing countries, which is largely a reflection of integration,large emerging economies, the so-called BRICs (Brazil, Russia, India and China) in the global economythe growth of FDI in developing countries is spectacular. The share of non-OECD countries in global stocks of Inver FDI has increased from 25% in 1990 to 34% in 2005. As the recipient of FDI, China is by far the most important non-OECD country, accounting for one-third. However, the flow of FDI is large in many other emerging countries. Indeed, since the mid-1990s, internal FDI has become a major source of external financing for developing countries, more than double the official development assistance.

IMPORTANCE OF THE STUDY:

Economic growth is essential for every nation the economic growth of a country depends on monetary policy and its tools, financial services, financial instruments and foreign direct investment in that country. When a country progresses economically, the standard of living of the people will automatically increase. That is why foreign direct investment is so important in India. India is currently investing heavily in India in the form of FDI. Investments in the form of FDI are limited to priority sectors such as services, infrastructure and telecommunications. It is of great importance to develop the rest of the sector in India like pharmaceuticals, pharmaceuticals and chemicals, agriculture and industrial sector. That is why FDI is important in India.

FDI INFLOWS IN INDIA:

India is growing slowly, FDI is increasing from 2002-2003 to 2015-2016, which gives positive results, to the Indian economy, employment opportunities, knowledge, labor skills, start-up of various companies in India, where necessary investment. When investment grows slowly, exports from the country grow slowly, which helps the nation get a host currency. Most of these investments were in the service sector, telecommunications, construction. Investment in the form of FDI should also be in the agricultural sector. Because, India is a labor intensive country, most of the people are dependent on agriculture. If investment in agriculture is increased, people can earn more knowledge and money, resulting in a gradual increase in the country's GDP. The country's per capita income will increase, as well as the people and their living standards.

India is one of the countries to consider investing in the form of FDI. In developing economies, India ranks second among the countries which receive investment from the above graph. GDP will also increase. Whenever FDI increases we will get some benefits like investment, technology, skills, knowledge, labor, can be changed from one nation to another. When FDI increases, the productivity level of production and manufacturing organizations will gradually increase. Whenever production increases in terms of different products, these products should be exported to different countries. When exports increase, the payment balance problem between countries will gradually decrease. The rupee will also appreciate gradually.

The table above shows that most of the investment was in Mumbai and then New Delhi, which has given positive results, which developed industries are suitable and which location should also increase investment in developed areas based on strength. What provides employment opportunities and helps raise people's living standards.

CONCLUSION:

The study concluded that foreign direct investment had a positive effect on GDP. It will be beneficial for policy makers to formulate policies to target GDP based on the inflow of FDI. This study needs to be further developed considering other control variables affecting GDP. This model describes the overall effect of FDI on GDP, however the sector-wise impact needs to be further analysed before any conclusions can be drawn.

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