A study on impact foreign direct investment on Indian economy

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Abstract : The role of foreign direct investment in the growth process has been a burning topic of debate in several countries including India. This paper tries to analyze the foreign direct investment and who it impacted on our Indian economy. It is an descriptive analysis using secondary data. Foreign Direct Investment plays an important role in the growth and development of an economy. It is more important where domestic savings is not sufficient to generate funds for capital investment .Not only brings fund into your country but also it brings new technology, managerial expertise and adds to foreign exchange reserves. FDI inflow is more beneficial particularly to developing and emerging countries than the developed ones. The main objective of this paper is to find out the impact of foreign direct investment on Indian economy.

Key words:- foreign direct investment,impact,positive,negative.

I. INTRODUCTION

FDI stands for foreign direct investment i.e. investment made by the foreign companies or foreign government in India. It is mainly dealing with monetary matters. FDI is a popular mode of entering in another country's economy. It is made by foreign countries in order to establish wholly owned companies or to manage them or to purchase shares of companies in another country. FDI means "cross-border investment by a resident entity in one economy with the objective of obtaining a lasting interest in an enterprise resident in another economy". Or 'capital inflows from abroad that is invested in or to enhance the production capacity of the economy'. FDI is considered to be the life blood for developing nations. It provides opportunity for technological transfer and up gradation and others. It helps in broaden the market accessibility for both host and home countries. It helps in invention and innovation of international markets.

II. REVIEW OF LITERATURE

- **Sarbapriya Ray(2012)**

The role of FDI in the growth process has been a burning topic of debate in several countries including India. This paper is an attempt to analyze the causal relationship between Foreign Direct Investment (FDI) and economic growth in India and tries to analyze and empirically estimate the effect of FDI on economic growth in India, using the cointegration approach for the period, 1990-91 to2010-11. The empirical analysis on basis of ordinary Least Square Method suggests that there is positive relationship between foreign direct investment(FDI)investment and GDP and vice versa. The unit root test clarified that both economic growth and foreign direct investment were found to be integrated of order one using the Kwiatkowski, Phillips, Schmidt and Shinn (KPSS) test for unit root only. The cointegration test confirmed an existence of long run equilibrium relationship between the two as confirmed by the Johansen cointegration test results.

- **Chandana Chakraborty & Parantap Basu (2002)**

The two-way link between foreign direct investment and growth for India is explored using a structural cointegration model with vector error correction mechanism. The existence of two cointegrating vectors between GDP, FDI, the unit labour cost and the share of import duty in tax revenue is found, which captures the long run relationship between FDI and GDP. A parsimonious vector error correction model (VECM) is then estimated to find the short run dynamics of FDI and growth.

III. OBJECTIVES OF THE STUDY

- To analyze the impact of foreign direct investment

IV. RESEARCH METHODOLOGY

The research is purely based on secondary data, data collected from various scholarly books, articles, websites and others.

IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY

Positive Impact of FDI:

- Foreign direct investment in the economy of a country helps to make it more competitive and it provides employments to people and helps in increase in GDP.
- Our country is lacking in generation of huge capital investment for construction of infrastructure so foreign direct investment brings funds into our country.
- The countries with are rich in resources they invest in the other countries with are lacking in funds.
- By inviting other companies into our country can eliminate monopoly of home companies and it is benefited to customers to have more choices.
- Moreover, it will force the companies to chart out the business strategy and deliver customer-centric services.
- Foreign companies trains the employees to enhance their skills and bridge gap between education and their employability.it also enhances the productivity.
- Our country has a great advantage in technology transfer from foreign countries.

- Our county has great tax benefit.
- It improves the economy apart from becoming major exports destinations.
- Organization with FDI uses the local employees because they are cost effective and provide quality output.

Negative Impact of FDI:

- It leads to exploitation of works by paying low salaries with high work pressure
- Foreign companies will shift their manufacturing unit from high expensive counties to low expensive countries.
- In spite of foreign direct investment coming into the country by the company is basically deployed to earn profits from the native customers therefore, the net amount earned is transferred to the parent nation
- In addition, the human resources are forced to work for long hours with the absence of health insurance.
- International corporations bringing in FDI are low with funds compared to the local companies.

CONCLUSION

Foreign Direct Investment (FDI) is an appealing concept through which companies progress and enter into new markets as a result of globalization. Nonetheless, there are an array of factors that might influence a company's decision to enter into a new market such as the availability of resources, the political stability of the identified country, and the nation's openness to regional and international trade. In short the overall impact of Foreign Direct Investment is positive because there are very less negative points and it is beneficial to country in establishment of new technology and more amount of fund also.

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