ISSN No:-2456-2165

Impact of Foreign Direct Investment on Various Setors of the Economy

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Abstract:- With the inception of globalization, creating nations, especially those in Asia, are seeing a massive surge of FDI inflows during the previous twenty years. In spite of the fact that India has been a maverick to the FDI scene when contrasted with the other East Asian nations, its impressive market potential and a changed arrangement system has continued its fascination as a great objective for unfamiliar speculators. This examination plans to take a gander at the effect of FDI on the Indian economy, especially following 20 years of financial changes, and investigates the difficulties to situate itself well in the worldwide rivalry of FDI.

I. INTRODUCTION

Foreign Direct Investment (FDI)is the investment made by an individual or a firm in the business interests of a company located in another country. An investment into a foreign firm is considered as FDI if it has a lasting effect. A lasting effect refers to a minimum of 10 percent voting rights in the company. Control is the key element of FDI. The entity making the FDI should be having a control in the operations of the company. This is also the main difference between FDI and Foreign Institutional Investment wherein the investor has no voting rights. There are two types of FDI in India- Brownfield and Greenfield. Greenfield investments mean starting the business from scratch. The parent company has to start its operations in the host country from the ground. However, Brownfield investments refer to the cases when a parent company takes over an existing set up to start its operations in the host country.

The investor can use various methods like mergers and acquisitions, setting up a subsidiary in the host country, joint ventures or acquiring the voting stock of the host company to invest in a foreign company. The investor benefits from FDI in several ways such as market diversification, lower production costs and subsidies. The host country gets an access to new and modern technology, skills and management. It also gets an incredible amount of employment opportunities for its people. There are several economic benefits attached for the host country. However, there are a few disadvantages as well. FDI results in repatriation of profits and displacement of local businesses. FDI can enter India through either f the two available routes- the automatic route and the government route. Under the automatic route, the investor does not need to take permission from the RBI or the Government of India and can directly make the investment in India. Few sectors covered under the 100 percent automatic route are E-commerce activity and food processing. Under the government route, government approval is mandatory. The potential investor needs to submit an application with the Foreign Investment Facilitation Portal. The sectors covered under 'up to 100 percent government route' are Banking and public sector up to 20 percent and satellite up to 100 percent.

Impact of FDI on the host country can be massive depending on the inflows of foreign investment each year. India is highly dependent on FDI as a monetary source for development. FDI has gradually increased in India since the Liberalisation phase in 1991. Today, India is on the top 100 club of Ease of Doing Business. Globally, India also ranks number one in the Greenfield FDI investment. During the fiscal ended March 2019, India received the highest-ever FDI inflow of USD 64.37 billion. There are very few industries where FDI is prohibited.

II. BACKGROUND OF STUDY

The foreign direct investment in India dates back to the colonial period. The Malay Archipelago Company started its business in India as a far off direct investment. The correlation between economic process and FDI are often seen since then. consistent with (Mafruza Sultana, VidushiKagdiyal, Vishal M Goyal, SaiPratyushChakkala, RajeshriParmar, 2019), tries to gauge empirically, the connection between foreign direct investment (FDI) and economic process in India by using yearly data for a decade from 2006-07 to 2016-17.The study identified that the main factor influencing the inflow of FDI to India, which is poised of varied variables collected under FDI and Indian economy.

According to (Muthusamy, S. Sundararajan, 2019), the aftereffects of the Karl Pearson's relationship have indicated the outcomes that the association between the FDI and consequently the Industrial Growth has demonstrated a positive pattern among the sequential years. The serious speculation atmosphere in India has made the inflow of FDI into India, and consequently the serious atmosphere is that the reason for FDI to go into the economy and for the development of business potential. For improving the monetary foundation and to rise the inside absorptive limit there will shift key arrangement measures. For the FDI to be the higher inflow and to support with the financial cycle, advancing the nearby enterprise, stable macroeconomic conditions and to strengthen the system of advancement.

According to (BhavyaMalhotra, 2014), India's Foreign Direct Investment (FDI) policy has been gradually liberalized to form the market more investor friendly. The outcomes are empowering. Recently, the nation is reliably positioned among the most noteworthy three worldwide venture objections by every single global body, including the planet Bank, steady with a United Nations (UN) report. For Indian economy which has gigantic potential, FDI has had a positive effect. FDI inflow supplements homegrown capital, additionally as innovation and aptitudes of existing organizations. It likewise assists with deciding new organizations. Those add to monetary cycle of the Indian Economy.

➢ *Objectives of the Study*

This study aims to analyze the impact of Foreign Direct Investment on various sectors of the Indian economy. The four sectors which receive the highest FDI inflows namely services, computer software and hardware, telecommunications and trading have been studied in detail. The study aims to assess the determinants of FDI inflows. The study lastly has an objective to know the flow of investment in India.

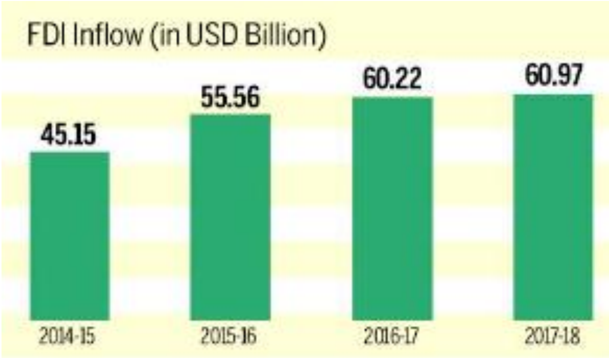

Fig 1

III. FINDINGS

Country	2017-18 April-March	2018-19 April-March	2019-20 April-March	Cumulative Inflows April 2000-March 2020
Mauritius	15	8	7	141
Singapore	12	16	11	94
Japan	1	2	2	33
Netherlands	2	3	3	30
U.S.A.	2	3	2	28
U.K.	0.8	1	1	27
Germany	1	0.8	0.3	12
Cyprus	0.4	0.2	0.2	10
France	0.5	0.4	0.4	7
UAE	1	0.8	0.2	6
Total FDI Inflows from all countries	44	44	36	456

Table 1:- Share of top investing countries FDI Inflows in USD billion (approx)

Sectors	2017-18 April-March	2018-19 April-March	2019-20 April-March	Cumulative Inflows April 2000-March 2020
Services	6	9	6	80
Computer Software and Hardware	6	6	6	43
Telecommunications	6	2	4	37
Trading	4	4	3	26
Construction Development	0.5	0.2	0.3	25
Automobile Industry	2	2	2	23
Chemicals(other than fertilizers)	1	1	0.8	17
Drugs and Pharmaceuticals	1	0.2	0.4	16
Construction(Infrastructure) Activities	2	2	1	16
Power	1	1	0.3	14

Table 2:- Sectors attracting highest FDI Inflows in USD billion (approx)

IV. IMPACT OF FDI ON THE MAJOR SECTORS

➢ *Service sector*

According to the Department for Promotion of Industry and Internal Trade, the FDI in service sector grew by 36.5% to USD 9.15 billion in 2018-19.Approximately 18 percent of the total FDI received between April 2000 and March 2019 is attributed to the service sector. The service sector is not only dominant in India's GDP but also has the highest inflow of FDI. The sector provides a huge number of employment opportunities and also has significant exports. The service sector has been the largest recipient of the FDI inflow from April 2000 to December 2019.

The Government of India perceives the significance of advancing development in administrations segments and gives a few motivating forces in wide assortment of segments, for example, medicinal services, the travel industry, instruction, building, correspondences, transportation, data innovation, banking, fund, the executives, among others. The Government of India has embraced a couple of activities in the ongoing past. A portion of these are as per the following:

Administration of India has propelled the National Broadband Mission with intent to give Broadband access to all towns by 2022.

Under the Mid-Term Review of Foreign Trade Policy (2015-20), the Central Government expanded motivating forces offered under Types of assistance Exports from India Scheme (SEIS) by two percent.

Administration of India is attempting to evacuate many exchange hindrances to administrations and postponed a draft legitimate content on Trade Facilitation in Services to the WTO in 2017.

Fig 2

➢ *Computer software and hardware*

Computer software and hardware is the second most important sector in India in relation to FDI. This sector receives the second highest amount of FDI inflows after the services sector. Approximately USD 6 billion was received in April 2018 to March 2019. This number significantly increased in April 2019 to March 2020 to USD 7 billion. This sector backs a 9 percent share in the FDI inflows. There has been a total inflow of USD 38.5 billion in computer software and hardware from April 2000 to June 2019.

India has over 17000 IT firms out of which 1000 are large firms and deliver to more than 50 locations. The country's cost competitive IT sector is roughly 3-4 times cheaper than the IT sector of the US. This is the unique selling proposition of the Indian IT sector and hence receives the current FDI inflow. This sector employs roughly 4.1 million people and hence is the largest employer in the private sector. This industry also amounts to 8 percent share in the country's GDP.

Up to 100 percent FDI is allowed in data processing, software development and computer consultancy services, software supply services, business and management consultancy services, market research services, technical testing and analysis services under automatic route.

100 percent FDI is permitted in the IT sector in B2B Ecommerce.

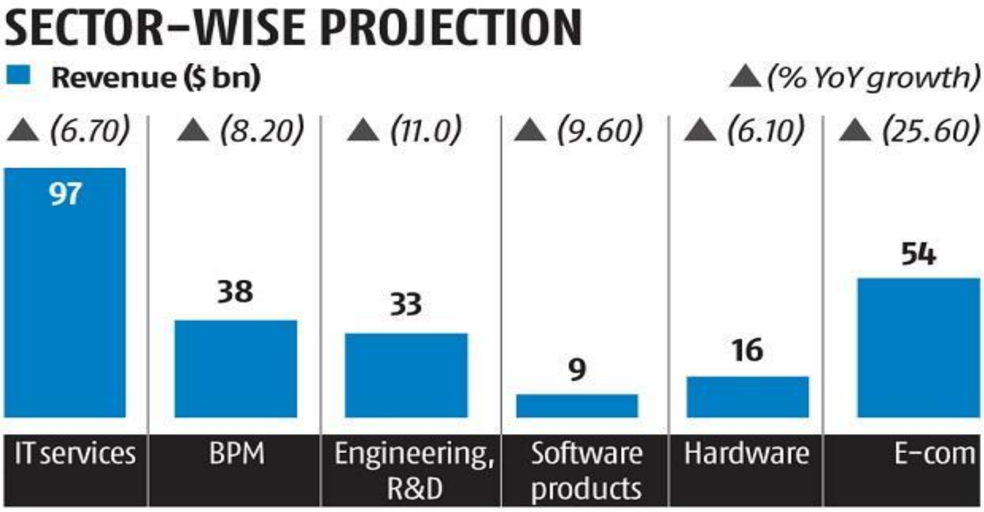

Fig 3:- **www.business-standard.com**

➢ *Telecommunications*

India is the second biggest media communications market on the planet with over 1.2 billion clients. India has enlisted a significant development in the previous fifteen years. The liberation of Foreign Direct Investment (FDI) standards has made the division one of the quickest developing and a best five work opportunity generator in the nation. The FDI inflows in the broadcast communications segment were more than USD 4 billion in the year April 2019 to March 2020. The inflows were near USD 2.6 billion of every 2018-19.

The Government of India permitted 100% FDI in BhartiAirtel in January 2020. FDI top in the telecom segment has been expanded to 100 percent from 74 percent; out of 100 percent, 49 percent will be done through programmed course and the rest will be done through the FIPB endorsement course.

100% FDI in telecommunications sector is allowed in the Telecom, wherein up to 49% is allowed through the automatic route and beyond 49% FDI in telecom sector under government route.

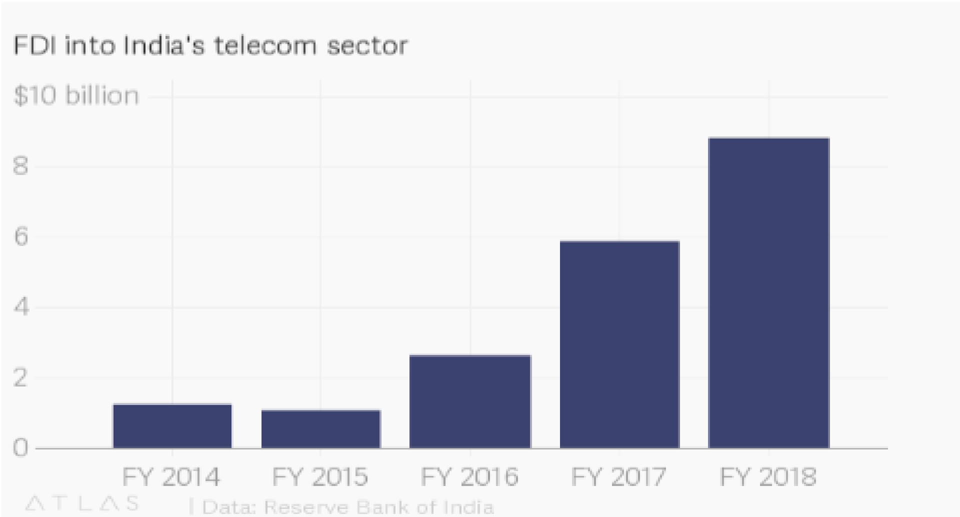

Fig 4

➢ *Trading*

The trading sector has attracted more than USD 4.5 billion from April 2019 to March 2020. The value was close in 2018-19 as the sector attracted USD 4.4 billion as FDI. The sector has been a recipient of total USD 27.5 billion from April 2000 to March 2020. The FDI inflows in this sector amount to roughly 6 percent of the overall FDI inflows.

The Indian retail industry has developed as one of the most unique and relentless enterprises because of the section of a few new players. Complete utilization use is required to reach almost USD 3600 billion by 2020 from USD 1824 billion of every 2017. It represents more than 10 percent of the nation's Gross Domestic Product (GDP) and around eight percent of the work. India is the world's fifth-biggest worldwide objective in the retail space. With assessments of having market infiltration of 12 percent by 2026 rather, the web based business market is set to develop at a CAGR of 30 percent for net product incentive to reach USD 200 billion by the very year.

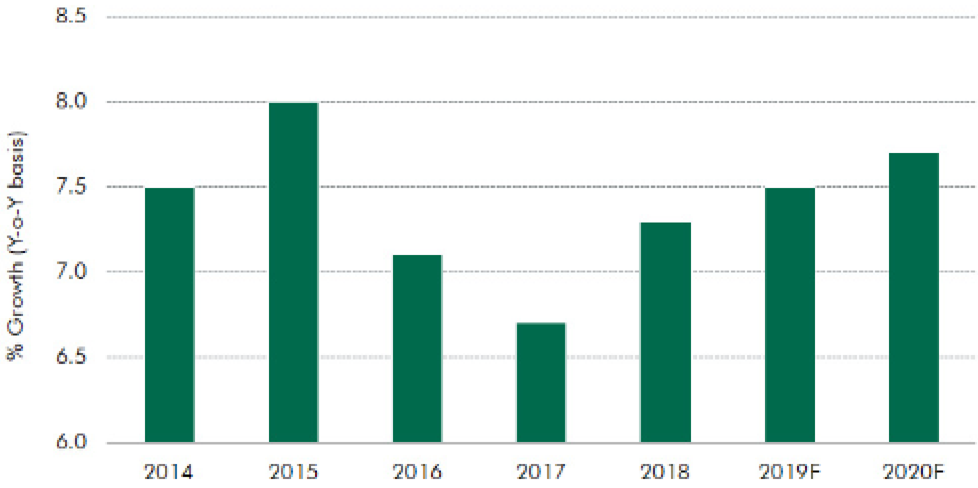

Fig 5

Recent policy changes allow 100% FDI in e-commerce under the automatic route for single-brand retail trading.

V. CONCLUSION

The FDI inflows into the Indian economy have been increasing year after year. There has been a major upward shift in the FDI investments in the previous decade. The government has eased FDI entry barriers and made it easier for the investors to enter the Indian economy. Hence, the investments have increased. Indian economy has a few sectors which are majorly dependent on foreign investments with approximately 25 percent investment is in the form of FDI.

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