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Impact of Foreign Direct Investment on Indian Economic Growth-Post Financial Crisis

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ABSTRACT
Foreign Direct Investment (FDI), which brings in money, technology, and experience, is essential for promoting economic progress. By evaluating FDI inflows both nationally and by industry, this study aims to understand how FDI affected India's economic growth after the crisis. It examines the key nations investing in India and their contribution to economic expansion. Additionally, the research evaluates the distribution of FDI across various sectors, highlighting its role in industrial development, employment generation, and technological advancement. By providing a comparative analysis of FDI trends, this study offers insights into how foreign investments have shaped India's post-crisis economic trajectory. The findings will help policymakers and investors understand the effectiveness of FDI policies and identify growth opportunities in key sectors.

Keywords: Foreign Direct Investment (FDI), Economic Growth, Capital Inflows, Industrial Development, Employment Generation.

INTRODUCTION
Foreign Direct Investment is an investment made by a company or a person from one country into companies in another country. Foreign Direct Investment is an ownership stake in a Foreign company or project established by a Government, corporation or other organization. Foreign Direct Investment is a large, continuous investment made by a government or corporate in a foreign business. FDI investors typically assume leadership positions and actively manage domestic businesses or joint ventures. China and the United States have profited most from foreign direct investment in recent years. FDI encompasses more than just financial inflows; it also includes the entrance of technology, expertise, knowledge, and skills. The entry of foreign enterprises has introduced advanced technologies and management practices, fostering innovation and improving productivity across various sectors. FDI has also played a pivotal role in employment generation, creating numerous job opportunities and contributing to skill development among the Indian workforce. India had a sharp rise in foreign direct investment (FDI) inflows after the global financial crisis of 2007–2008, which was essential in helping to fund its current account deficit. In order increase economic activity and enhance the general infrastructure, foreign investors may put money into industries including urban development, energy, transportation, and telecommunications. This paper aims to provide a comparative analysis of India's FDI performance and assessment of FDI trends.

Source: www.thebalancemoney.com

OBJECTIVES

1. To determine the country-by-country FDI inflow into India after the financial crisis.
2. To evaluate sector wise FDI inflows in India after financial crisis.

REVIEW OF LITERATURE

Mushkaanbanu Shaikh and Rajesh Kumar Pandey (2024) examined how COVID-19 affected foreign direct investment in India by contrasting pre- and post-pandemic patterns. Their analysis revealed that although COVID-19 had little effect on foreign direct investment (FDI), supply chain interruptions and the Russia-Ukraine conflict caused a 16% drop in FDI in 2022–2023. Nonetheless, it is anticipated that India's tenacity and strategic actions will aid in the recovery of FDI and economic growth.

The factors determining foreign direct investment in real estate (FDIRE) in India were investigated by Niharika Mehta et al., in 2024.They discovered that infrastructure, GDP, and tourism are the main drivers of FDIRE, while high interest rates serve as a deterrent, using Johansen cointegration tests and vector error correction models. The study emphasizes how foreign investment can help close financial gaps, particularly when other financing options are restricted.

Noureddine Kaddouri and Mohamed Benelbar (2024) have analysed the Short and Long term relationships between Foreign Direct Investment and Economic Growth in Algeria using time series data from 1990–2023. An ARDL model was used in the study, and the Phillips-Perron and Augmented Dickey-Fuller Unit Root Tests were used for analysis. The results show a cointegrated relationship, demonstrating how Foreign Direct Investment promotes Economic Growth. The importance of Foreign Direct Investment to Algeria's Economic Development is emphasized in this study. It suggests that governments required to improve the business environment in order to attract more FDI.

RESEARCH GAP

Even though a lot of study has been done on how foreign direct investment affects economic growth in India, there might still be a few unanswered questions. By examining the influx of foreign direct investment (FDI) into India by country and sector, the current study seeks to close the research gap. The small number of previous research that have explicitly addressed these elements in the Indian context is acknowledged in this study.

SIGNIFICANCE OF RESEARCH

Research on how foreign direct investment affects economic growth in India is crucial for a number of reasons. Policymakers can formulate strategies and regulations designed to attract and encourage foreign investment by having a thorough understanding of how FDI affects India's economic growth. Politicians can create focused policies to promote investment in such regions by determining which industries and nations account for the majority of FDI inflows. This study may provide insight into the legislative actions needed to increase foreign direct investment inflows and their positive impact on economic expansion. FDI is essential for promoting economic growth in host countries. It is easier to figure out how FDI supports many aspects of development, like raising capital investment, generating employment opportunities, transferring technology and skills, and increasing productivity, when the effect of FDI on Indian economic growth is investigated. This information can help policymakers create an environment that will allow FDI to maximize its benefits for development. The study offers significant insights into the particular industries that draw foreign investment because of its emphasis on sector-wise analysis of FDI. Governments can prioritize investment and enact focused policies to support growth in certain sectors by identifying the industries with the highest FDI inflows and their impact on economic growth.

LIMITATIONS

A number of restrictions should be considered while performing this study using secondary data. The reliability and accuracy of secondary data sources may differ. Ensuring that the information gathered from newspapers, journals, and websites comes from authentic and authoritative sources is essential. The reliability of the findings from the research may be impacted by instances of stereotypes, inaccuracies, or inconsistencies in the data.

FDI ROUTES IN INDIA

India may obtain foreign direct investment in three distinct ways. The following table provides a description of them:

Category 1	**Category 2**	**Category 3**
Through the **Automatic Route,** 100% of FDI is permitted.	100% FDI is allowed through the **Government Route.**	100% FDI is allowed using both the **Government and Automatic Routes.**

FDI AUTOMATIC ROUTE

The Foreign entity doesn't need the RBI or the government's prior consent while using the automatic route.

Examples:

- Medical equipment: 100%

- Thermal power: 100%
- Insurance: 49%
- Civil aviation services are organizations that provide maintenance and repair services.
- Infrastructure company registered on a stock exchange: 49%
- Ports and Harbours
- Development of Railway infrastructure
- Pension: 49%
- Power exchanges: 49%
- Petroleum Refining by Public Sector Units :49%

FDI GOVERNMENT ROUTE

The foreign entity must get the Government's approval before proceeding through the Government approach. For single-window clearance, it should apply through the Foreign Investment Facilitation Portal. The relevant ministry or department will decide whether to approve or reject the application form after discussing with the DPIIT.

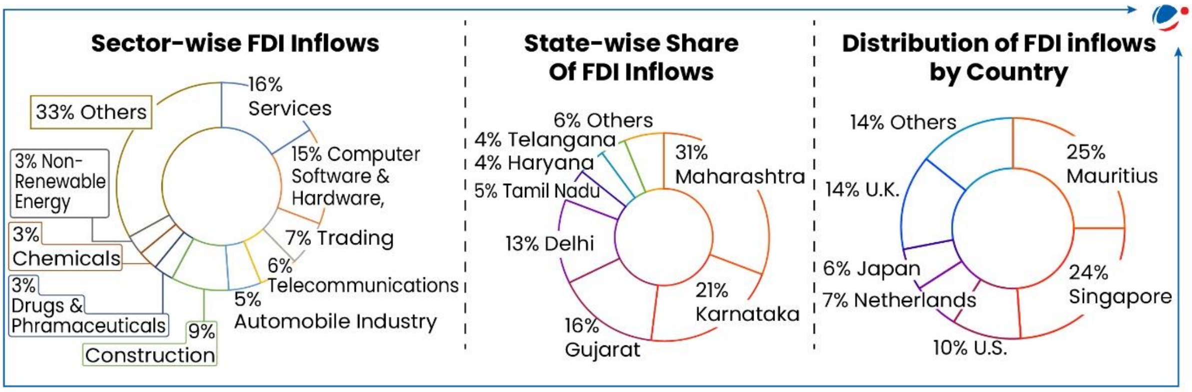
Examples:

- Services for Broadcasting : 49%
- Banking sector: 20%
- Food Products:100%
- Investment firm:100%
- Commercial Exchange: 51%
- Mining and mineral separatio of ores and minerals containing titanium: 100%
- Printing media, such as publishing and printing periodicals, specialist journals, scientific and technical publications, and international newspapers in facsimile: 100%
- Satellite operations up to 100%
- Printing media, which includes the publication of newspapers, magazines, and Indian versions of international publications that focus on current events and news: 26%

SECTORS WHERE FDI IS PROHIBITED

In certain industries, foreign direct investment is strictly forbidden. They are mentioned as follows,

- Activities related to agriculture or planting (but there are a lot of exceptions, such as fisheries, horticulture, tea plantation, animal husbandry, etc.)
- Atomic Energy
- The Nidhi Company
- Lotteries (private, public, internet, etc.).
- The Chit Funds Investment
- Investment in TDR’s
- Gambling
- Cigarettes, cigars, or other tobacco-related products
- Real Estate



Source:https://d2av8kbir6lh9m.cloudfront.net/uploads/GnDrt2uMyK2mBFN1uCjokWtRqxs27KOP5KBCv349.jpg

STEPS TAKEN FOR PROMOTING FDI INFLOWS

- **Schemes Implemented by the Government:**

According to Atmanirbhar India, initiatives such PM Gati Shakti, Make in India, Start-up India, National Industrial Corridor Program, and Production Linked Incentive Scheme have encouraged Foreign Direct Investment (FDI) inflows into India.

- **Promoting Ease of Doing Business (EoDB):**

Government to Business (G2B) and Citizen Interface programs simplifies, rationalize, digitize and decriminalize includes the reduction of compliance load, India Industrial Land Bank, Project Monitoring Group (PMG) and Liberalization of Foreign Direct Investment (FDI) policy in India.

For instance, the Jan Vishwas (Amendment of laws) Act, 2023, has decriminalized over 3,800 laws and decreased over 42,000 compliances.

- **Project Development Cells (PDCs):**

An institutional structure to expedite investments in all relevant Ministries and Departments.

- **Technological interventions:**

The Foreign Investment Facilitation Portal (FIFP) is an online interface designed to promote Foreign Direct Investment (FDI), while the National Single Window System (NSWS) streamlines FDI approvals.

- **State Investment Summits**:

States that have hosted Global Investment Summits, displayed their economic potential, and drawn Foreign Direct Investment include Gujarat and Uttar Pradesh.
For instance, the Vibrant Gujarat Global Summit contributed to the USD 55 billion in foreign direct investment (2002–22).

FDI RELATED CHALLENGES FACED BY INDIAN ECONOMY

- **Foreign Capital Dependency:**

It might lead to economic instability and uncertainty in India, which could impact growth objectives.

For instance, a decline in FDI inflows in 2023 was caused by a number of factors, including protectionist policies in some areas, worries about a worldwide recession, and the economic slump associated with the conflict between Russia and Ukraine.

Economic downturns have an effect on investor confidence and lead to capital flight, which puts pressure on the country's currency stability and balance of payments.

- **Development vs. Environment:**

Negative externalities from environmental degradation can affect local ecosystems and communities as a result of poorly managed foreign direct investment. For instance, campaigners opposed the mining operations of UK-based Vedanta Resources in the Niyamgiri Hills.

- **Intellectual Property concerns:**

The host country may not be able to fully utilize the experience that foreign businesses bring with them if technology transfer and intellectual property transfer are not managed effectively. E.g., Bio-piracy in Pharmaceutical sector.

FINDINGS

1. Economic liberalization, regulatory changes, and increased investor confidence all contributed to India's increase in foreign direct investment inflows after the global financial crisis of 2008.
2. This expansion was facilitated by important reforms, including the easing of FDI restrictions in a number of industries.
3. With the Make in India campaign, FDI inflows shifted after the crisis to the manufacturing, IT, telecom, and services sectors.
4. Significant international investments were also drawn to green energy and infrastructure.
5. India's economic recovery was greatly aided by FDI, which increased capital creation, productivity, and job prospects.
6. States like Gujarat, Karnataka, and Maharashtra that received more foreign direct investment performed better economically.
7. Jobs were created by FDI-led industries, especially in the manufacturing and service sectors. Technology transfer was made easier by foreign investments, which raised worker productivity and skill levels.
8. Government programs like Make in India, Startup India, and the introduction of the GST increased corporate competitiveness and the investment climate and foreign investors were drawn to India as its standing in the Ease of Doing Business Index improved.
9. The distribution of FDI remained unequal despite the overall beneficial impact, with industrialized states and metro areas benefiting more than rural or less developed areas.
10. Policy uncertainty, infrastructure constraints, and bureaucratic roadblocks were obstacles to long-term FDI growth.
11. Even though FDI inflows were strong after the crisis, India's capacity to maintain foreign investment was put to the test by further global upheavals (such as the COVID-19 pandemic).

SUGGESTIONS

There are a number of techniques and initiatives that can be used to increase foreign direct investment (FDI) in India.

- Ease the rules and regulations, streamline and simplify bureaucratic procedures, and improve business operations' efficiency and transparency. FDI inflows can be increased by establishing a business-friendly environment through the implementation of policies that facilitates the setting up and running of firms in India.
- Investments must be made to develop the infrastructure, encompassing digital connectivity, energy, logistics, and transportation. Good infrastructure is essential for attracting the foreign investors

because it facilitates effective supply chains and creates a favourable atmosphere for business activities.

- Create tax laws that are transparent and reliable to reassure foreign investors. Simplify tax compliance and make tax rates more reasonable. Make sure that investment policies are consistent and predictable to further boost confidence among Foreign Investors.
- Strengthen the Educational system to generate a workforce with the necessary skills to satisfy the needs of Foreign Investors. To boost innovation and technology-driven growth, businesses and research institutions should collaborate and carry out research and development (R&D) operations.
- Identify key industries with utmost potential for growth, develop policies and incentives especially designed for attracting foreign direct investment. By providing sector-specific incentives like tax exemptions, grants and subsidies, Government may encourage investments in sectors like manufacturing, infrastructure, technology, renewable energy, and healthcare.
- Make sure that intellectual property rights are sufficiently safeguarded in order to protect the ideas of foreign investors and foster innovation and technology transfer. Increase the effectiveness of enforcement mechanisms and accelerate the acquisition and protection of intellectual property.
- Through PPPs, promote collaboration between the public and private sectors to optimize resources and expertise for infrastructure development projects. PPPs can ensure attractive investment opportunities and provides safe environment for Foreign Investors.
- Bilateral and multilateral trade agreements should be reinforced in order to protect investments and provide favourable market access. Negotiate the creation of Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs) with significant trading partners in order to attract cross-border investment flows.
- Use advertising campaigns and investment summits in order to promote India as a desirable place to invest. Emphasize the country's strengths, such as its large consumer base, highly skilled workforce, diverse market opportunities, and favourable demographics.
- To safeguard investors, strengthen institutional and legal frameworks and offer efficient dispute resolution processes. Make sure the legal system is transparent and efficient to Foreign Investors.
- These suggestions aims to create a welcoming environment that promotes Investment, remove barriers and creates trust in Foreign Investors. To implement these regulations, create an investment-friendly atmosphere, and represent India as a desirable destination for foreign direct investment, coordination across a wide range of government departments, regulatory agencies, and interested parties is required.

CONCLUSION

The economic expansion of India since the financial crisis has been greatly aided by Foreign Direct Investment (FDI), which has created jobs, capital formation, and technological breakthroughs. Important changes like the relaxation of FDI restrictions and programs like Startup India and Make in India have boosted investor confidence and drawn significant foreign investment. Long-term FDI growth is still hampered by issues like infrastructure limitations, regulatory complexity, and policy uncertainty. FDI inflows can be further increased by addressing these problems via sector-specific incentives, infrastructural expansion, and simplified regulations. To guarantee inclusive economic advantages, a balanced strategy concentrating on both urban and rural development is required. Despite global uncertainties, India remains a favourable FDI destination due to its large consumer market, skilled workforce, and strategic policy measures. By implementing consistent reforms and fostering investor-friendly policies, India can leverage FDI to achieve sustainable and equitable economic growth.

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