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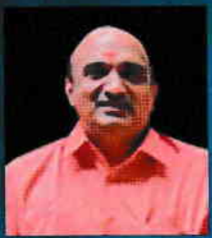

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CHAPTER 9

FOREIGN DIRECT INVESTMENT

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Abstract

Foreign investment is widely regarded as a future accelerator for economic progress. Foreign investment comes in many forms, with foreign direct investment being one of the most prevalent. FDI determines the flow of capital across national borders in a manner that generates the investor control over the assets acquired. India seems to be another emerging country that relies on FDI for economic growth and advancement. This chapter investigates the notion of foreign direct investment, its ups and downs, and India's FDI strategy.

Keywords: Foreign Direct Investment, Economic Development

Introduction

Savings and investment are the soul of a country's economic development. Savings and investment may be domestic or imported. Overseas money serves as a spur for industrialization and economic development in underdeveloped countries. Both the home country and the host country benefit from foreign capital flows. It generates wealth for the home country by increasing commercial activities globally, while it stimulates production activities and domestic exports in the host country, ultimately leading to economic progress. For India's economic development, foreign direct investment is the most important source of non-debt financial resource. The steady influx of FDI into India, which is now permitted across a wide range of industries, demonstrates the confidence that foreign investors have in the country's economy. The Indian government has built a conducive trade environment and has efficient business policy tools in place to ensure an uninterrupted intake of FDI.

Foreign Direct Investment

"Foreign Direct Investment" is an expression used to designate an investment ma by a foreign individual or company in the industrial capacity of another country. F refers to the flow of funds across national borders in a way that the investor prese control over the assets secured. The flow of foreign direct investment is stro linked to a country's economic conditions. If the country's economy is in good sh FDI inflows will be higher, and if the economy is in bad shape, FDI inflows wil lower. FDI is defined as an investment made in order to gain a stable and long- interest in businesses that operate outside of the investor's economy. It is a fi cial investment as well as a technological, managerial, and intellectual compe investment. If an investment in a foreign enterprise generates a long-term inter is considered FDI. When an investor secures at least 10% of a company's voting po a permanent interest is developed. All sources of foreign capital, apart from FDI, h proven to be unsustainable and erratic. As a result, FDI outperforms other ty foreign capital.

Types of Foreign Direct Investment

Horizontal FDI

Horizontal FDI comprises funds invested in the same industry but in a foreign co try. The investment will be undertaken in a foreign firm that manufactures ide goods in this case. For instance, Nike, a US-based company, may buy Puma, a Ge company. Both of these organizations are in the sportswear sector. As a resul known as horizontal Foreign Direct Investment.

Vertical FDI

The investment will be made in the supply chain rather than in a similar ind this circumstance. Vertical FDI is when a foreign company invests in a compa it may supply or sell to. Forward vertical FDI and backward vertical FDI are tw of FDI. In the case of forward vertical FDI, the company will invest in anothe try's manufacturing facilities. Toyota, for example, purchased a car logistics co ny in the United Kingdom. The company will be closer to the market as a re forward FDI. Backward vertical FDI, on the other hand, occurs when a compa a supplier or a potential supplier. For example, Hershey's, a chocolate compa ed in the United States, may consider investing in cocoa farmers in Brazil.

Conglomerate FDI:

Conglomerate FDI involves investments in a variety of different indus up the possibility of expanding and diversifying into new sectors. Typically, occurs when demand for their core business begins to dwindle, forcing them to invest in new endeavours in order to stay afloat. Walmart, a US store, may, for example, invest in Mercedes-Benz, a German automaker.

Foreign Direct investment Policy of India (Effective from May 12, 2015):

In 2015 the Indian government launched a special and amended foreign direct investment policy. The Indian government's goal is to obtain and maximize FDI's developmental impact and spin-offs. While the government seeks massive FDI inflows for infrastructure development, technological up gradation of Indian industry through greenfield manufacturing investments, and projects with both the potential to create large-scale employment opportunities, On March 31st, 2010, the government released a circular that streamlined all foreign direct investment policies. In most sectors, FDI of up to 100 percent is permitted through the automatic route (which does not necessitate prior government approval).Foreign investors who want to open branches, liaisons, or project offices would be subject to the Foreign Exchange Management Act's special rules. In India, FDI is forbidden in some categories such as the lottery, gambling and betting, chit funds, Nidhi firms, and cigar, cheroot, and tobacco industries, among many others.

Table 1: Foreign Direct Investment flows to India: Country-Wise (US$ million)

Source Industry	2015-16	2016-17	2017-18	2018-19	2019-20
Total FDI	36,068	36,317	37,366	38,744	42,629
Country-wise Inflows					
Singapore	12,479	6,529	9,273	14,632	12,612
Mauritius	7,452	13,383	13,415	6,570	7,498
Netherlands	2,330	3,234	2,677	2,519	5,295
Cayman Islands	440	49	1,140	863	3,496
U.S.A.	4,124	2,138	1,973	2,823	3,401
Japan	1,818	4,237	1,313	2,745	2,308
France	392	487	403	375	1,167
United Kingdom	842	1,301	716	1,211	1,125
South Korea	241	466	293	982	777
Hong Kong	344	134	1,044	598	678

Source: https://m.rbi.org.in

Benefits of Foreign Direct Investment:

Economic growth:

One of the most essential features of FDI is that it helps a country expand eco cally. India's economy has benefited from a significant influx of foreign direct ment (FDI) into various manufacturing sectors.

Business:

Foreign direct investment (FDI) has opened up a wide range of prospects in trade of products and services, both in terms of import and export production result of increased FDI inflows, numerous industries are producing higher products.

Employment and skill levels:

FDI has helped to create a number of job possibilities in India by assisting establishment of industrial units in a variety of industries.

Technology diffusion and knowledge transfer:

FDI appears to aid in the outsourcing of knowledge from India, particularly IT sector. It contributes to the development of India's know-how process in technological improvement.

Linkage and spill over to domestic enterprises:

Through joint ventures and collaboration concerns, various international now occupying a position in the Indian market.

Consumer Benefits:

As a result of increasing FDI, consumers will be able to save 5 to 10% on their es because items will be available at a lower cost and of superior quality.

Constraints of Foreign Direct Investment

Investment in profitable area: Foreign investors only invest in profitable reg is one of the most significant constraints of FDI. FDI somehow doesn't boost the other priority sectors.

Short term investment: With the expansion of technology, financial markets ally connected and funds can shift with the blink of an eyeto take advantage est rate differentials between countries, the majority of investments have short-term, which causes a reduction in the confidence of local people.

Exploitation of poor countries: Foreign investment has frequently been associated with the exploitation of underdeveloped countries, as well as a destination for dumb-ing down obsolete technologies and equipment. It also has an impact on the host country's autonomy and control.

Social and Cultural implications: Foreign investors contribute not just capital, but also their culture, values, habits, and way of life. The people of the host country gradually become slaves to outsiders' socio-cultural values.

Conclusion

FDI has gained notoriety as one of the most efficient techniques of attracting funds from outside sources. The most potential advantages of FDI implementation are increased aggregate productivity, increased employment possibilities, increased exports, and the transmission of technological advances between the investor and the country. India's economy is one of the world's most promising emerging markets. Through the New Economic Policy in 1991, India began the process of soliciting foreign investment, and during2000s, India scaled unprecedented levels in terms of FDI. The augmentation of domestic capital and the enhancement of efficiency through the transfer of new technology, marketing and managerial skills, innovation, and best practice are two major ways that FDI helps with the economic development of the host country.

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