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Foreign Direct Investment in flows and Their Impact on Indian Economy

Dr Krishan Lal Grover

Associate Professor, Department of Commerce, Sri Guru Hari Singh College, Sri Jiwan Nagar (Sirsa), Haryana, India

ABSTRACT: The paper analysed data from 2010 to 2020 and observed a relationship between economic growth and foreign direct investment. FDI encourages technical transfer, hands-on learning, and labour training, as well as spillovers of human skills and technology in general. FDI has boosted the Indian economy, which has enormous growth potential in the coming years. Foreign direct investment has supplemented domestic capital as well as the country's current enterprises' technology and competencies. All of these elements have boosted India's economic development. In order to attract global investment, India, on the other hand, must prioritise political and social stability, as well as a favourable regulatory environment.

KEYWORDS: Foreign Direct Investment, Indian Economy, High-performing Sectors

I.INTRODUCTION

Foreign Direct Investment (FDI) Inflows into key sectors are expected to be critical sources of financing, management, and technology in transition economies. Foreign investment is defined as the movement of capital from one country to another through investing in assets or purchasing shares in another country's companies. Individuals, firms, and corporations all have the option to invest, but companies are more inclined to do so in order to increase their worldwide market share.

Investing in other nations may be done in two ways: directly or indirectly. FDIs are investments made physically or through the establishment of plants, the purchasing of machinery and equipment, and so forth. Foreign corporations invest directly in India's fast-growing private firms to take advantage of lower labour and the country's changing environment. Different investors, such as corporations, private investors, and financial institutions, invest in interests in foreign enterprises through foreign indirect investments.However, these investments are less attractive since domestic companies often sell them within a few days of acquisition. The data of cross-border transactions relating to direct investments is recorded in FDI flows for a certain time period (usually a quarter or a year). Foreign direct investment (FDI) inflows are investments made by foreigners in domestic companies, whereas FDI outflows are investments made in external economies. Inflows of foreign direct investment (FDI) enhance a country's economic growth. In light of the fact that many developing nations are suffering from a lack of financial resources, as well as a lack of technology and expertise. Foreign direct investment (FDI) is a critical component of long-term alleviating poverty. The expansion of the economy as a result of FDI inflow is a good measure of economic growth since it boosts job possibilities and hence employment. According to the United Nations Conference on Trade and Development (UNCTAD), India moved up to ninth place in terms of FDI received in 2016, at a time when worldwide FDI was falling.

The major indicator that indicates the country's health is the gross domestic product (GDP). It measures the total value of all goods and services generated during a certain time period. If foreign-owned enterprises are located within a country's borders, the government counts the production as part of the country's GDP. GDP is an independent variable. Gross Domestic Product (GDP) is computed at both market and factor costs. GDP at Market Prices is the total of all resident producers' gross value added at market prices plus taxes less import subsidies.

Types of FDI

Mergers and Acquisitions: The most common form of FDI is mergers & acquisitions. This occurs when existing assets are transferred from local enterprises to foreign firms. When the assets and operations of companies from various countries are united to form a new legal entity, this is known as a cross-border merger. Cross-border acquisitions take

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place when a local firm's assets and activities are transferred to a foreign corporation, and the local company becomes an affiliate of the foreign company. Acquisitions have no long-term economic advantages for the local economy since, in most cases, the local business's owners are compensated in stock by the acquiring firm, which means that the proceeds of the transaction will never reach the local economy.

Greenfield investment: Direct investment in new facilities or the development of existing ones is known as greenfield investment. They can lead to new production capacity and jobs, as well as technology and know-how transfer and worldwide market connections. As a result, they are the primary focus of a host country's promotional efforts. Multinational corporations are able to create items at a lower cost due to sophisticated technology and efficient procedures, but also use resources such as labour, intermediate goods, and so on, which can drown out local industry. Another disadvantage of Greenfield investment is that manufacturing revenues go to the multinational's home economy rather than the local one.

Horizontal Foreign Direct Investment (HFDI): It involves investment in the same sector as a company's home industry.

Vertical Foreign Direct Investment: There are two forms of vertical foreign direct investment:

1) *Backward vertical FDI:* when an industry in another country supplies inputs to a company's domestic manufacturing process.

2) *Forward vertical FDI:* when an industry in another country sells the products of a company's domestic manufacturing operations.

FDI IN INDIA

India is a favorable investment destination for foreign investors given its relatively lower wages and special investment privileges in the form of tax exemptions etc. The country is now a member of the Ease of Doing Business (EoDB) top 100 club and ranks first in the world for greenfield FDI. In recent years, the government has made a number of steps, including loosening FDI restrictions in areas like as military, PSU oil refineries, telecommunications, electricity exchanges, and stock exchanges, among others.

Market size

According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows into India totaled US$ 456.79 billion from April 2000 to December 2019, demonstrating that the government's efforts to increase ease of doing business and loosen FDI regulations have paid off.

From April to December 2019, FDI equity inflows into India totaled US$ 36.79 billion. The service industry got the most FDI equity inflows in 2019-20, at US$ 6.52 billion, followed by computer software and hardware at US$ 6.34 billion, telecommunications at US$ 4.29 billion, and trade at US$ 3.52 billion.

Singapore (US$ 11.65 billion) attracted the most FDI equity inflows in 2019-20, followed by Mauritius (US$ 7.45 billion), the Netherlands (US$ 3.53 billion), Japan (US$ 2.80 billion), and the United States (US$ 2.79 billion).

II. REVIEW OF LITERATURE

With regard to FDI spillover, Ramaswamy et al. (2017) examine regional productivity across 28 Indian states from 1993 to 2013. Using panel data, they discovered that, aside from the technology gap, variables like as research and development, technology import, human capital, and other FDI parameters had a significant impact on regional productivity in India.

Kumar and Karthika (2010) discovered that FDI has a significant impact in the economic growth of the host nation. Foreign investment and foreign technology have been used by the majority of countries to enhance their economic progress. In developing nations, FDI assures a large quantity of local capital, production level, and job prospects, which is a crucial step toward the country's economic progress.

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Anitha(2012)argued about the function of FDI in the growth of emerging and impoverished countries in his study "Foreign Direct Investment and Economic Growth in India." FDI fills the gap between available and necessary financial resources in such nations. FDI inflow patterns in the nation from 2010 to 2015 is analysed in the study. Political instability, weak infrastructure, tariff regulations, and labour laws, among other factors are cited as reasons for India's poor record in attracting FDI inflows.India's worldwide share of FDI is quite low in comparison to other emerging countries, however, FDI flows are increasing.

Singh et al. (2012) revealed that FDI has a vital part in attracting International Economic Integration in every economy. The real estate and commercial sectors, as well as the insurance industry, were the main areas where money was flowing. The study's goal was to determine the amount of foreign investment necessary for the development and to examine its trajectory. There are two types of FDI inflows: automatic (liberalized) and government (controlled) (or approval route). They also discussed how policy framework, international agreements, trade policies, norms for entrance and operations, and other factors influenced FDI (a) in host countries. (b) Economic factors such as market size, market structure, labour, and technology, among others. Mauritius contributed the most money to India, 6878 billion dollars.

Mora and Singh (2013)investigated the influence of FDI in manufacturing sector and its impact on trade productivity and fragmentation in 10 Asian nations using empirical data. The findings show a favourable relationship between FDI and exports and imports. Imported intermediate items have a higher level of trade fragmentation. Exports and intermediate imports, on the other hand, show a positive relationship with per capita GDP.

Malhotra (2014)studied the issues which India faces in placing itself positively at a global level in the context of FDI, as well as the influence of FDI on the Indian economy. The government should spend equally in rural and urban regions. To make markets more investor friendly, the government should liberalise FDI policy.

In their study, Lenoid et al. (2014) found that FDI has a large and favourable impact on the economic growth of host nations. According to the findings, FDI is related positively with an increase in a region's growth rate. Well-developed financial and institutional sectors are important sources of GDP growth and foreign direct investment inflows.

Rahaman and Chakraborty (2015)conducted empirical study in Bangladesh to investigate the link between foreign direct investment and GDP. Foreign direct investment (FDI) is a key tool for boosting economic growth. FDI has a favourable influence on economic growth since it leads to the development of human resources and the introduction of advanced technology into the nation. They concluded that foreign investment inflows into Bangladesh (as a developing country) are very low, and that the government must take steps to improve this situation, such as developing labour skills, developing infrastructure, and addressing the power shortage problem, as well as creating an investment-friendly environment.

Sharma and Singh (2016)looked at the key characteristics of FDI and their influence on the Indian economy before and after liberalisation. When FERA took over from FEMA, attitudes shifted dramatically from restricted to welcoming. Following World War II, Indian trade reached unprecedented heights. They also discussed economic issues that influence India's growth and development, such as GDP, currency, stock market, and foreign exchange reserve, among others. India acknowledged the strength and significance of foreign investments as a source of external private money after 1990. They recommended the primary sectors where foreign investment prospects existed, such as service industries, building and development etc.

With regard to FDI spillover, Ramaswamy et al. (2017) examine regional productivity across 28 Indian states from 1993 to 2013. Using panel data, they discovered that, aside from the technology gap, variables like research and development, technology import, human capital, and other FDI parameters had a significant impact on regional productivity in India.

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III. OBJECTIVE OF THE STUDY

To determine the relationship between FDI and rising trends in the Indian economy.

IV. METHODOLOGY AND DATA COLLECTION

The relevant data has been collected from the annual report on FDI, Government websites, commerce and industry, reserve bank of India, world investment report. It is a time-series data set, with relevant data gathered during 2010 through 2020.

V. DATA ANALYSIS AND INTERPRETATION

Table-1:Total FDI inflows in India

S.NO	Financial Year	Total FDI inflows	% Growth in previous year
1.	2009-2010	37745	---
2.	2010-2011	34847	(-) 7
3.	2011-2012	46556	(+) 33
4	2012-2013	34298	(-) 26
5.	2013-2014	36046	(+) 5
6.	2014-2015	45148	(+) 26
7.	2015-2016	55559	(+) 23
8.	2016-2017	60220	(+) 8
9.	2017-2018	60974	(+) 1
10.	2018-2019	62001	(+) 2
11.	2019-2020	**74390**	(+)20
12.	2020-2021	**81722**	(+)10

(Source-Author's Compilation)

The FDI inflow for the financial year (FY) 2009-10 was $37,745 million, and FDI inflows have steadily increased throughout the next decade. Inflows were $62,001 million in FY 2018-2019, which was 64.26 percent greater than the yearly inflows in 2009-10. It demonstrated a substantial increase in tread throughout the COVID 19 timeframe. FDI climbed by 20% from the previous year in 2019-2020, whereas it increased by 31.81 percent for the COVID period.
Only two times did FDI inflows fall short of the previous year, in FY 2010-11 and FY 2012-13, when they dropped by 8% and a whopping 26%, respectively. It can be noted that the year between these two, FY 2011-12, have seen the largest yearly rise during the decade, with FDI inflows increasing by 34% on an annual basis. Despite the lack of FDI reforms at the time, a few big-ticket agreements in the oil and gas sectors were reported to have contributed to the increasing FDI inflow.

After a meteoric rise in 2014-15 and 2015-16, FDI inflows have barely climbed by a few percentage points yearly over the previous three years (8 percent, 1 percent, and 6 percent respectively between 2016-17 and 2018-19).

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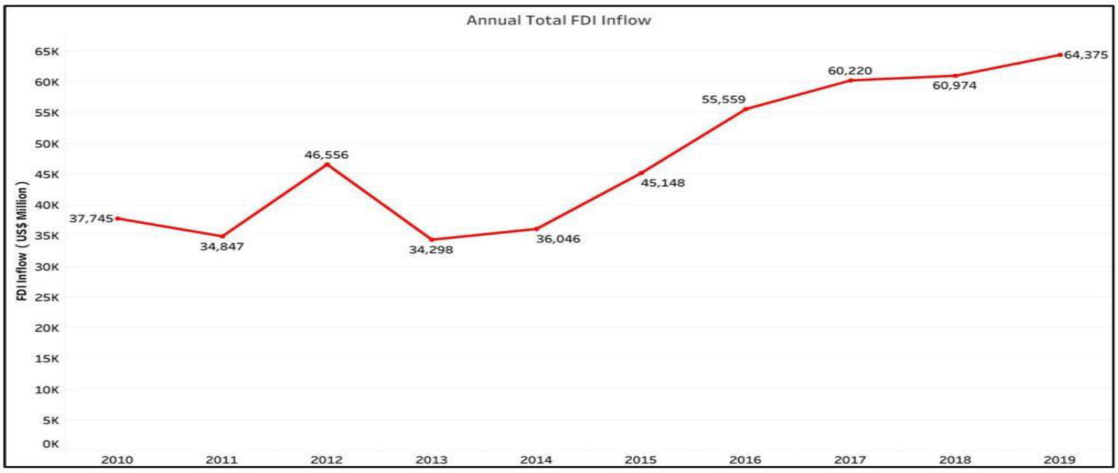
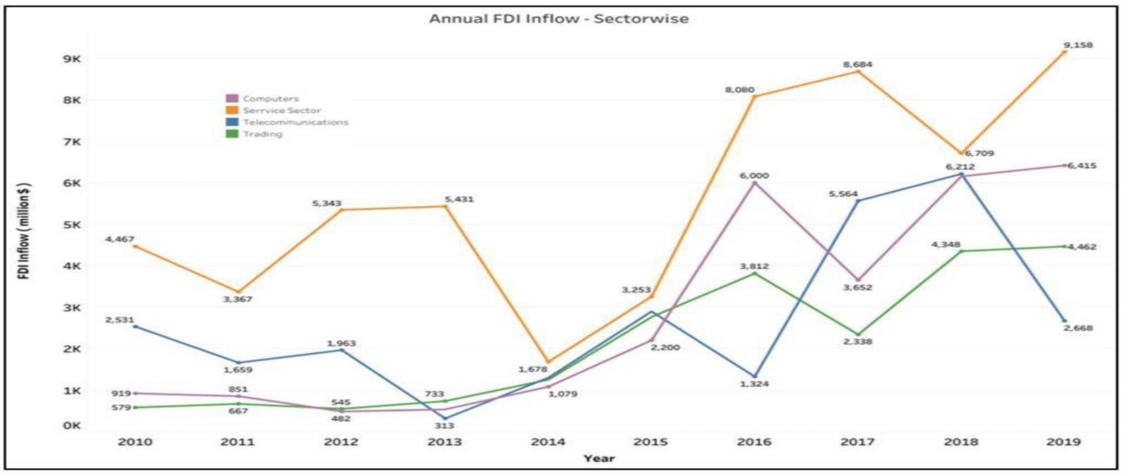


High-performing sectors- the service sector, hardware and software, trading, and automobiles.

The service sector has always accounted for a large portion of annual FDI inflows. With the exception of two lean years in 2013-14 and 2014-15, this sector has consistently accounted for at least 10% of total FDI received yearly. FDI in the service sector had a share of 14.5 percent, 14.4 percent, 11 percent, and 14.2 percent, respectively, in the four years after the lean period. FDI in the service sector has increased by 181 percent in the last four years. Specifically, revenue increased from $3252.97 million in 2014-15 to $9157.54 million in 2018-19. The service sector includes services such as banking, insurance, non-finance & business outsourcing, finance, R&D, technology, testing, and analysis.From $918.66 million in 2009-10 to $6415.21 million in 2018-19, FDI into the computer (hardware and software) sector has grown. Between 2014-15 and 2018-19, the yearly inflow has increased by more than 500 percent. Businesses in the trading sector deal with exports, bulk imports, cash & carry full sale trading, hi-tech products, medical & diagnostic items, etc. Last year's FDI inflows were $4,462 million, up from $578.61 million a decade before.The telecommunications sector has also attracted a steady stream of FDI each year. Although there was a decrease in FDI inflows last year (2018-2019), this was after two years of high FDIinflows.



In recent years, FDI inflows have increased in Education, Non-Conventional Energy, Hospital & Diagnostic sectors

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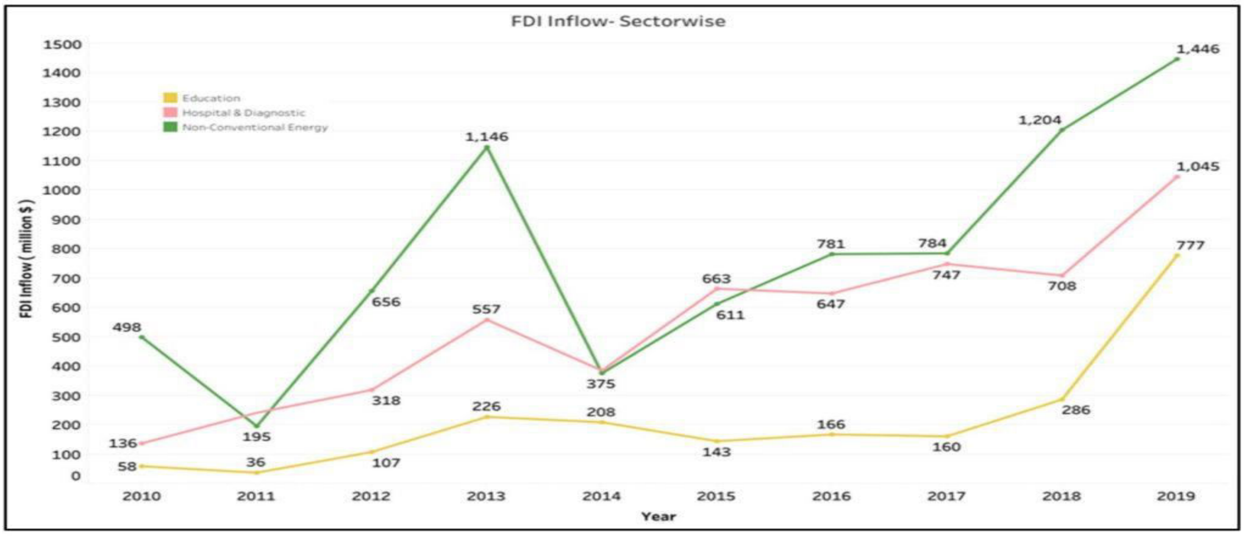
FDI into hospitals and diagnostic centres has been steadily increasing over the last decade. The yearly inflow was $135.91 million in 2009-2010, and it has steadily increased each year since then. With 47 percent greater FDI inflows in 2018-19 compared to 2017-18, it was the most significant rise in an annual year.

Over the last decade, the education sector has begun to receive more FDI, with a fall in inflows from 2013 to 2015. Last year, this sector had an exponential growth in FDI inflows, with $776.73 million compared to $285.75 million the year before. Regulations allow for 100 percent foreign direct investment in education. The majority of foreign investment goes to vocational and technical education.

Since 2014-15, annual FDI inflows into the non-conventional energy sector have increased by more than double. This sector received $1,146 million in FDI in 2012-13, which has only been surpassed in the previous two years, 2017-18 and 2018-19..



Hotel & Tourism, Construction, Drugs & Pharmaceuticals among the sectors receiving inconsistent FDIs annually.

Aside from government rules and policies, FDI inflows are impacted by a number of other factors. While favorable government acts and the climate may have an impact on sales, actual transactions might vary from year to year. This results in irregular yearly FDI inflows in a few industries.The hotel and tourism sector received the greatest FDI ($3336.68 million) in 2012-13, followed by 2018-19 ($1310.93 million). Annual inflows were quite low in 2010-11 ($320.73 million) and 2017-18 ($408.75 million).Because of the building industry's classification, the government's FDI figures have changed. It is referred to as Construction Activities, Housing & Real Estate, Construction Development, Construction (Infrastructure), and other titles. This industry contributed considerably to FDI inflows in 2009-10 (15%), 2011-12 (8%), and 2015-16 (8.3%), although with some poor years in between.

FDI into the cement and gypsum sectors has been particularly volatile during the last decade. It received $2,130 million in 2016-17, which was distributed across three years with lower FDI – 2015-16 ($19.78 million), 2017-18 ($19.44 million), and 2018-19 ($17.61 million).

Foreign direct investment (FDI) inflows into the medications and pharmaceuticals sector have also been variable throughout the years. Foreign direct investment was $7,311 million in 2011-12, followed by $2,115 million the following year.

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Table-2: Sector wise and Country wise FDI Inflow

Source/Industry	2014-15	2015-16	2016-17	2017-18	2018-19
1	2	3	4	5	6
Total FDI	24,748	36,068	36,317	37,366	38,744
COUNTRY WISE INFLOW					
Singapore	5,137	12,479	6,529	9,273	14,632
Mauritius	5,878	7,452	13,383	13,415	6,570
USA	1,981	4,124	2,138	1,973	2,823
Japan	2,019	1,818	4,237	1,313	2,745
Netherlands	2,154	2,330	3,234	2,677	2,519
United Kingdom	1,891	842	1,301	716	1,211
South Korea	138	241	466	293	982
Cayman Islands	72	440	49	1,140	863
UAE	327	961	645	408	853
Germany	942	927	845	1,095	817
Hong Kong	325	344	134	1,044	598
Canada	153	52	32	274	548
Ireland	11	8	12	108	427
France	347	392	487	403	375
British Virgin Islands	30	203	212	21	290
Switzerland	292	195	502	506	280
Luxembourg	204	784	99	243	251
Others	2,846	2,476	2,012	2,464	1,959
Sector wise inflow					
Manufacturing	9,613	8,439	11,972	7,066	7,919
Financial Services	3,075	3,547	3,732	4,070	6,372
Communication Services	1,075	2,638	5,876	8,809	5,365
Retail & Wholesale Trade	2,551	3,998	2,771	4,478	4,311
Computer Services	2,154	4,319	1,937	3,173	3,453
Business services	680	3,031	2,684	3,005	2,597
Electricity and other energy Generation, Distribution & Transmission	1,284	1,364	1,722	1,870	2,427
Construction	1,640	4,141	1,564	1,281	2,009
Miscellaneous Services	586	1,022	1,816	835	1,226
Transport	482	1,363	891	1,267	1,019
Restaurants and Hotels	686	889	430	452	749
Education, Research & Development	131	394	205	347	736
Mining	129	596	141	82	247
Real Estate Activities	202	112	105	405	213
Trading	228	0	0	0	0
Others	232	215	470	226	102

According to a research conducted by the United Nations Trade Organization, India garnered USD 51 billion in foreign investment in 2019 and ranked ninth in the world in terms of foreign direct investment (FDI). The United Nations Conference on Trade and Development (UNCTAD) indicated in a research issued on Monday that India's enormous market and decreased but robust economic growth in the post-COVID19 pandemic period will continue to attract market-seeking investments. According to the UNCTAD World Investment Report 2020, India was the ninth largest beneficiary of FDI in 2019, with 51 billion dollars in inflows, up from 42 billion dollars in 2018, when India was

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ranked 12th among the world's top 20 host economies.In the "developing Asia" region, India was one of the top five FDI host economies. According to the research, global FDI flows are anticipated to decrease by up to 40% in 2020, from USD 1.54 trillion in 2019. This would be the first time since 2005 when global FDI has gone below USD 1 trillion. By 2020, foreign direct investments into Asia's emerging countries, which have been hit hard by the coronavirus epidemic, are predicted to fall by up to 45 percent. In South Asia, FDI is expected to drop significantly by 2020. "The number of greenfield investment announcements declined by 4% in the first quarter in India, the subregion's largest FDI host, with more than 70% of incoming stock," says the report. "Mergers and acquisitions plummeted by 58 percent." The country's economy, on the other hand, may turn out to be the most strong in the region." Over the years, FDI into India has gradually increased. According to the study, "India's enormous market and positive, though slower, economic development in the post-pandemic period will continue to attract market-seeking investors." According to the research, the magnitude of the logistical challenges during the lockdown and recovery remains a substantial downside risk for FDI in India in the medium term.

"The digital economy and real estate and property development, two sectors that drew growing FDI prior to the pandemic, may evolve in different directions," according to the report. While the digital economy will likely see continued investments, real estate and property development will face "significant pressures" from slowing demand and financing constraints. "India's most sought-after sectors, such as professional services and the digital economy, may experience a faster recovery if global venture capital companies and technology firms continue to exhibit an interest in India's market through acquisitions," the report said. According to the report, in the first quarter of 2020, investors signed deals worth more than $650 million, mostly in India's digital economy. FDI flows to South Asia increased by 10% to USD 57 billion in 2019, owing mostly to increased investment in India, which, in mid-2019, removed investment barriers (particularly in retail, insurance, and downstream coal processing). According to the survey, FDI to India, the largest receiver in South Asia, increased by 20% to USD 51 billion, continuing the country's upward trend in FDI. The building industry and information and communication technology received the majority of the investments.Many local and regional digital champions, particularly in e-commerce (such as Flipkart and Zomato), are attracting international investment, ICT investments in India have evolved from information technology services for global companies to the rapidly growing local digital ecosystem, with many local and regional digital champions, particularly in e-commerce (such as Flipkart and Zomato), attracting international investment. M&A activity was also boosted by a handful of megadeals. These included USD 2.7 billion in investments in online firms 14 and the USD 7 billion acquisition of Essar Steel (India) by a Japanese-Indian joint venture. Outflows from South Asia increased by 6%, owing to increased investment from India. Despite this, they remained insignificant, accounting for barely 1% of worldwide outflows. India's companies are the region's largest investors, accounting for more than 90% of outflows in 2019.Due to the impact of the pandemic, India's investments are likely to drop in 2020, with the major MNEs revising their earnings down by 25% in early 2020. According to the survey, supply chain disruptions will have a significant impact on flows to developing Asia, as will the weight of global value chains-intensive FDI in the area and global efforts to diversify manufacturing sites. Despite improvements in Southeast Asia, China, and India, FDI flows to the area fell 5% to USD 474 billion in 2019. The paper stated that as a result of the COVID-19 epidemic, global FDI flows will be severely impacted this year, falling considerably below the trough achieved during the global financial crisis and erasing the already sluggish rise in foreign investment over the previous decade. Flows to developing nations would be particularly heavily impacted since export-oriented and commodity-linked projects will be among the most hit. Mukhisa Kituyi, UNCTAD Secretary-General, said."The outlook is really gloomy. The future depends on how long the health crisis lasts and how effective measures are in mitigating the pandemic's economic impacts "

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Developments/investments

The following are some of the recent notable FDI announcements:

- Vista Equity Partners, a private equity fund, announced a 2.32 percent ownership in Jio Platforms in May 2020 for Rs 11,367 crore (US$ 1.61 billion).
- Silver Lake, a private equity investor, invested Rs 5,655.75 crore (US$ 802.35 million) in Jio Platforms in May 2020 for a 1.15 percent ownership.
- Facebook, Inc. announced in April 2020 that it will invest Rs 43,574 crore (US$ 6.23 billion) in Jio Platforms for a 9.99 percent interest.
- Amazon India announced a $1 billion investment in January 2020 to digitise small and medium companies and create one million employment by 2025.
- MasterCard stated in January 2020 that it will invest up to $1 billion in India over the next five years to quadruple its research and development efforts in the country.
- Total S.A., a French oil and gas company, bought a 37.4 percent interest in Adani Gas Ltd for Rs 5,662 crore (US$ 810 million) in October 2019, making it the largest foreign direct investment (FDI) in India's city gas distribution (CGD) industry.
- Reliance Industries (RIL) announced one of India's largest FDI agreements in August 2019, when Saudi Aramco agreed to purchase a 20% share in Reliance's oil-to-chemicals (OTC) business for US$ 75 billion.

Government Initiatives

- The government boosted FDI in defence industry under the automatic route from 49% to 74% in May 2020.
- The government revised its current consolidated FDI policy in April 2020 to prohibit opportunistic takeovers or acquisitions of Indian enterprises by neighbouring countries.
- In March 2020, the government allowed non-resident Indians (NRIs) to buy up to 100% of Air India.
- The government approved 26% FDI in digital sectors in December 2019.
- In August 2019, the government approved 100% FDI in coal mining for open sale under the automated process (as well as in developing allied infrastructure like washeries).
- The government of India recommended allowing FDI in the aviation, media (animation, AVGC), and insurance sectors in the Union Budget 2019-20, after consulting with all stakeholders.
- Insurance intermediaries are allowed 100 percent FDI, and the Indian government has been working on a road plan to reach its objective of US$ 100 billion in FDI inflow as of February 2019.
- The Indian government announced the Draft National E-Commerce Policy in February 2019 to stimulate foreign direct investment in the marketplace model of E-commerce. It further said that the E-commerce FDI regulation was created to maintain a level playing field for all players.
- To improve the sector and attract additional investors, the Indian government had planned to examine allowing 100 percent foreign direct investment in insurance intermediaries.
- The Indian government amended FDI laws for E-commerce in December 2018. In the marketplace-based paradigm of E-commerce, 100 percent FDI was authorised under the amended guidelines. Furthermore, any vendor's sales through an E-commerce marketplace company or its group firms were limited to 25% of the vendor's total sales.

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VI. FINDINGS AND CONCLUSION

India has liberalising its FDI policy in order to make the market more investor-friendly. The outcomes have been positive. The purpose of the study is to investigate the impact of foreign direct investment (FDI) on the Indian economy. The research looked at data from 2010 to 2020 and found a relationship between economic growth and foreign direct investment. FDI promotes technological transfer, hands-on learning, labour training, and, in general, results in spillovers of human skills and technology. The Indian economy, which has huge development potential in the next years, has benefited from FDI. Inflows of foreign direct investment have complemented domestic capital, as well as the technology and capabilities of the country's existing companies. All of these factors have contributed to India's economic growth. India, on the other hand, must focus on maximising political and social stability, as well as a favourable regulatory environment, in order to attract global investment.FDI inflows augment indigenous capital, as well as existing enterprises' technology and expertise. It also helps in the formation of new businesses. All of these factors contribute to India's economic growth.

VII. LIMITATIONS

FDI data keeps on changing.It's not only FDI effect on economy some other factors also considered such as FII, monetary policies and Government policies.Time limitation analysis and interpretations.Covid 19 gives a huge difference in data interpretation as compare to previous year.

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