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OPPORTUNITIES AND CHALLENGES OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT:

FDI plays a vital role in India's economic development as it helps bring the country's various economies closer by investing in various sectors such as manufacturing, infrastructure, transportation, technology, productivity and hospitality. Foreign capital is seen. As a tool to bridge the gap between domestic savings and investment. It is a matter of pride for India to attract record levels of foreign investment. There is a fair mix of openness and opportunity in India between the size of the market, the improvement in investment and the rate of economic growth. Nevertheless, India faces many constraints and challenges in opening up the market to fully universal investors. Some of the major challenges in the field of FDI are: political instability, infrastructure, tax policies, corruption, government regulations and so on.

KEY WORDS: *Foreign Direct Investment, Business Environment.*

INTRODUCTION

Foreign direct investment (FDI) is the scattering and optimization of resource packages by multinational enterprises (MNEs) in the host country where the company from another country seeks business activities. Resource packages are a combination of human, financial, knowledge, material and prestigious resources. MNE's goal is to conduct business and maintain strategic control in the host country. Host countries are located in another country, have high business potential. MNE fulfills stakeholder aspirations by working across craft values and national borders. In general, host countries are historically well aware of the needs of local stakeholders. Accordingly, while operating across national borders, MNE is in a disadvantaged position compared to companies in the host country. MNEs engage themselves in foreign direct investment (FDI) if the host country discusses local benefits in relation to their country. Value planning policy on foreign activities should be more noticeable for MNEs than domestic value addition. The following key motivating factors influence MNEs to perform various activities in host countries.

Foreign Direct Investment (FDI) has contributed to economic stability, growth and positive growth in India's GDP. India needs FDI as a planned component of investment to achieve economic recovery. The government should formulate FDI policy in such a way that FDI inflows can be used as a tool to improve domestic production, savings and exports through equitable distribution among the states. The impact of foreign direct investment in India has been significant in recent years. The huge increase in global FDI around the world makes it an essential factor for the development of developed and developing nations. Both domestic and host countries are interested in reaping the benefits of FDI from market openness, technological advancement, managerial skills and growth in foreign exchange. The effects of globalization have prompted India to open up the country's market to foreign investment. He allowed FDI in India by making necessary changes in economic policy. Trade barriers were removed, and Indian industry flourished in all sectors. As a result, India has improved a lot in terms of technological development, exports and imports.

Table 1.1 Financial and Non-Financial FDI Companies: Foreign Equity Participation (Amount in Billion)

Category	Companies (Numbers)	Equity and Debt	Equity Amount (Resident and Non-Resident)	Equity under FDI	% of share Equity under FDI
Finance Com	984	1133.8	1027.9	882.5	65.7
Non- Financial Com	19,348	5,952.3	5,440.6	5,461.7	78.0
Total	**20,332**	**7086.1**	**6468.5**	**6344.2**	**76.0**

Source: FIPB

Table 1.2 Foreign Direct Investment Flows to India: Country-wise and Industry-wise

(US$ million)

Source/Industry	2016-17	2017-18	2018-19	2019-20	2020-21 (P)
1	**2**	**3**	**4**	**5**	**6**
Total FDI	36,317	37,366	38,744	42,629	52,545
Country-wise Inflows					
Singapore	6,529	9,273	14,632	12,612	15,908
US	2,138	1,973	2,823	3,401	13,204
Mauritius	13,383	13,415	6,570	7,498	4,491
UAE	645	408	853	323	4,071
Saudi Arabia	12	125	27	89	2,815
Cayman Islands	49	1,140	863	3,496	2,558
Netherlands	3,234	2,677	2,519	5,295	2,138
Japan	4,237	1,313	2,745	2,308	1,794
France	487	403	375	1,167	810
UK	1,301	716	1,211	1,125	779
Germany	845	1,095	817	443	626
Spain	213	243	109	83	425
South Korea	466	293	982	777	400
Luxembourg	99	243	251	252	267
Belgium	172	213	56	388	246
Taiwan	12	112	24	44	219
Switzerland	502	506	280	140	188
Others	1,993	3,218	3,607	3,188	1,604
Sector-wise Inflows					
Computer Services	1,937	3,173	3,453	4,104	23,050
Transport	891	1,267	1,019	2,333	7,584
Manufacturing	11,972	7,066	7,919	8,153	6,739
Retail & Wholesale Trade	2,771	4,478	4,311	4,914	2,960

Financial Services	3,732	4,070	6,372	4,326	2,728
Communication Services	5,876	8,809	5,365	6,838	2,314
Business Services	2,684	3,005	2,597	3,684	1,750
Construction	1,564	1,281	2,009	1,937	1,746
Electricity and Other Energy Generation, Distribution & Transmission	1,722	1,870	2,427	1,906	989
Education, Research & Development	205	347	736	528	963
Miscellaneous Services	1,816	835	1,226	443	671
Real Estate Activities	105	405	213	564	401
Restaurants and Hotels	430	452	749	2,546	278
Mining	141	82	247	217	186
Trading	0	0	0	0	0
Others	470	226	102	137	187

Source: RBI

OPPORTUNITIES:

- Huge market and fast developing economy- At present the total population of India is around 1.2 billion. This large population base automatically gives business operators a large market, and a large portion of it can be considered as yet unserviceable or yet accessible.
- Benefits for the National Economy - FDI always brings some benefits to the national economy. It can contribute to GDP, total fixed capital formation and payment balance. There have been empirical studies showing a positive link between high GDP and FDI inflows. FDI debt servicing can also contribute to repayment, boost export markets and generate foreign exchange revenue.
- More Consumer Savings - The biggest benefit of FDI is that the savings of Indian consumers will increase as they will get better quality products at cheaper rates. Consumer savings from FDI are expected to increase by 5 to 10%.
- Availability of diverse resources and cheap labor force - these are also accompanied by the availability of extremely cheap labor force in almost every part of the country.
- Higher Compensation to Farmers - Another benefit of FDI is that it will go a long way in improving the plight of Indian farmers who are committing suicide every day due to low returns on their agricultural produce. But FDI will definitely help them to improve their situation as FDI will give farmers 10 to 30% more compensation.
- Growing Infrastructure Improvement - The Government of India has undertaken major projects in the transport and energy sectors to improve the situation. Road transport development projects are worth $ 90 billion, Railways has undertaken several projects worth $ 20 million each, and development projects for ports and airports are worth about $ 80 billion. This huge investment is changing the investment climate in the country and will be of great benefit to investors
- Increase in government revenue - Government revenue will definitely increase due to FDI. Government revenues will increase by ते 25 billion to 30 30 billion, which is a huge amount.
- Capital Infusion - This will allow cash-strapped domestic retailers to bridge the gap between required capital and raising. In fact, FDI is a major source of investment for a developing country like India in which multinational companies are expected to invest in the host country to improve the country's growth rate, create jobs, share their skills, back-end infrastructure and research and development. .
- Increase Healthy Competition and Curb Inflation - Proponents of FDI argue that the entry of many multinational corporations will create intense competition among the various companies offering their brands in specific product markets and will result in more variety, lower prices, and convenient distribution of marketing offers.

- Public Private Partnership- Another important benefit that foreign investors are experiencing in India today is PPP or public private partnership opportunities in various important sectors like energy, transportation, mining, oil industry etc.
- Supply Chain Improvements- Improving supply chain / distribution efficiency, capacity building and introduction of modern technology will help prevent wastage.
- Improving Customer Satisfaction- Organized retail customers will have the opportunity to choose from a number of internationally renowned brands including a pleasant shopping environment, huge space for product display, cleanliness and good customer care.
- Improved technology and logistics- Improved technology in the field of goods processing, grading, handling and packaging and further technological developments in the field of electronic weighing, billing, barcode scanning etc. may have a direct effect on the opening of retail stores by foreign companies. India.
- Benefits for farmers - Most likely, the launch of multi-brand retail will also boost the food and packaging industry. Although India is the second largest producer of fruits and vegetables, it has very limited integrated cold chain infrastructure. Lack of adequate storage facilities results in huge losses to farmers, generally wasting quality and quantity of produce and especially fruits and vegetables. Also, farmers can take advantage of "farm-to-fork" initiatives with retailers that (i) help reduce intermediaries; (ii) Give good prices to farmers and (iii) Provide stability and economics which will benefit both farmers and consumers in the final analysis.
- Impact on Consumers - With liberalization, economic growth and changes in the demographic and economic profile of Indian consumers and their purchasing behavior, changes are taking place in the retail sector. Currently, foreign retailers operate in India in both store and non-store formats. In terms of Indian consumer purchases across various retail outlets, traditional outlets are preferred because customers can bargain while modern outlets are preferred because they add entertainment to the purchase. Shoppers at modern outlets report fresh stock of product quality, low prices, one stop shopping, selection of more brands and products, good shopping experience with family and some reasons for choosing outlet.
- IT Revolution and English Literacy - Today, modern India is considered as one of the world leaders in the field of IT. India has made tremendous progress in its IT sector in the last few years and to date many leading companies outsource their IT operations in India. At the same time Indian youth are enthusiastic and very proficient in English which is a must in running a modern business.

CHALLENGES OF FDI:

Although FDI has many benefits, it is not without its disadvantages. Some of its challenges are as follows:

- Dominance of organized retailers - FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will dominate the entire consumer market. This will lead to unfair competition and eventually lead to a mass exodus of domestic retailers, especially small family managed shops (local "mom and pop" stores).
- Jobs are declining - Many FDI critics believe that the entry of large foreign chains such as Wal-Mart, Carrefour, etc., will not actually create any jobs in India. Ideally, if the jobs move from the unorganized sector to the organized sector, their number will remain the same or less but not more.
- Lack of Self-Competitive Strength- The Indian retail sector, especially the organized retail, is still underdeveloped and in a new phase and hence companies cannot compete with the big global giants. If the existing companies cooperate with the big global companies, they will have to lose their own competitive strength and lose on the global front.
- The real estate price rises indirectly - it is obvious that foreign companies who come to India to open their malls and stores will definitely find a place in the heart of the city. The battle for space in such companies will begin. This will result in an increase in the price of real estate in cities which will affect the interest of the common people who want to buy houses within the city limits.

- Culture Distortion: Although FDI in Indian retail contributes indirectly or directly to the growth of tourism, hospitality and some other industries, the culture of the people of India will gradually change. Young people will easily assimilate some of the negative aspects of foreign culture and lifestyle and develop unfair consumption practices that are not conducive to their cultural environment.
- Impact on Farmers - Advocates for FDI in retail claim that elimination of intermediaries and direct purchase by multinational companies will bring better prices to farmers. The fact is that large retailers have more purchasing power than farmers through existing intermediaries. The entry of giant multinationals into agricultural procurement will only aggravate the problems of farmers. In the case of multinational companies, there will be only one buyer, as opposed to the "mandas" operating today, where many traders have to compete with each other to buy farmers' produce. This will make farmers dependent on multinational companies and fall victim to exploitation. FDI advocates, on the other hand, believe that FDI in agricultural retail will help improve the supply chain, infrastructure and ensure the financial security of farmers by eliminating middlemen in the country.
- Destruction of Small Entrepreneurs - The biggest fear of FDI is the possibility of small entrepreneurs or grocery stores collapsing as they will not be able to withstand the tough competition of big entrepreneurs as these entrepreneurs will supply them all the goods. Customers at a very low price.

CONCLUSION:

The analysis shows that the service sector in India is one of the sectors in which FDI has been steadily rising for two years, followed by manufacturing and construction. The service industry, telecommunications sector, construction activities followed by trade activities are the major sectors that attracted high inflows of FDI in India. Countries like Mauritius and Singapore were major sources of FDI in India. The research also focuses on the impact of GDP contribution and growth rate on FDI inflows in India. After studying the data on FDI inflows and GDP, detailed analysis was done using correlation and regression analysis which shows that there is not such a significant relationship between FDI inflows and GDP. Therefore, in conclusion, we can say that the inflow of FDI rarely affects the GDP contribution and the growth rate of the industry.

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