Abstract

Investment, or creation of capital, is an important determinant of economic growth. In general, investment may lead to creation of physical capital, financial capital and human capital. In combination with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Other things being the same, less investment leads to lower economic growth with attendant consequences on reduction in income, consumption and employment. Foreign investment can reduce domestic savings gap. Hence, notwithstanding the domestic savings gap, economic growth can be increased in an open economy with inflow of foreign investment. The foreign investment in India would stimulate the domestic investments. The foreign investments are complementary to economic growth and development in developing countries like India. Investment in an economy raises output and improves standard of living of the people. Keeping this end in view, both developed and developing countries are trying their best to undertake investment programmes. Since the availability of capital is scarce in many countries due to low rate of domestic savings, hence the importance of foreign investment is ever rising. Foreign capital consists of private foreign capital and public foreign capital. Public foreign capital is otherwise financial foreign aid where as private foreign capital consists of either foreign direct investment or indirect foreign investment. In case of foreign direct investment (FDI), the private foreign investor either sets up a branch or a subsidiary in the recipient country. In the liberalized environment as economics become increasingly open, and trade between countries expand, financial transactions become global through financing trade of goods and services. Capital is the engine of economic development and this statement is gaining importance in the recent times. In today’s scenario, where official development, assistance flows are steadily declining, high bank interest rates and portfolio investment involve risks. Foreign Direct Investment is considered to be a major source of funds which may contribute in increasing the economic growth rate of the developing countries. Foreign direct investment helps to overtake the problem of low capital, low growth rate, untapped natural and human resources, high rate of inflation, unemployment, balance of payment and other structural and administrative rigidities.

Objectives of the Study

• To examine the policy framework of India in relation to foreign direct investment.
• To analyse the trends and patterns of foreign direct investment in India and to assess the present position of FDI in India.
• To study the impact of FDI on Gross Domestic Product, Balance of Payment, Gross Fixed Capital Formation, Export, Forex Reserve among various sectors in India.
• To study the challenges faced by Indian industries to attract more FDI.
• To suggest the strategies to attract more FDI in India based on the findings of the research.

Hypotheses of the Study

• It is hypothesized that there is no significant difference in routes of FDI.
• It is hypothesized that there is no relationship between FDI and exports.
• It is hypothesized that there is no relationship between FDI and forex reserves.
It is hypothesized that there is no relationship between FDI and balance of payment position in India.

In the present study, mainly exploratory research design has been adopted as the main purpose of this study is to gain familiarity with the various aspects of foreign direct investment and industrial development in India and to achieve new insights into it. Further the study formulates more precise research problem by developing hypotheses. Since the scope of the study is very vast, the present study also represents some characteristics of descriptive research design. Since the major objective of present study is to study the impact of FDI on industrial development in India. The study is based on sample taken from among the Indian companies and managers. Multistage sampling have been used for this purpose. Three cities of India i.e. Delhi, Noida and Gurgaon have been selected.

For analyzing the data, both simple and advanced statistical tools have been used. In some cases simple statistics like average, percentage, CAGR and mean score have been applied. Exploratory research require some advanced tools; therefore to test the various hypothesis of the study, ANOVA, non-parametric statistical tests based on Chi-square have been used. The test was conducted at 95 percent confidence level (or 5 percent level of significance). The calculated chi-square values were compared with the table values of chi-square at a given degree of freedom. A five point Likert scale was also used to measure the intensity of the managers attitudes towards the selected attributes. The respondents were asked to rate the variables, using five point Likert scale, which ranged from strongly agree to strongly disagree. The weighted average score were also calculated at the appropriate places where the respondents were asked to rank/rate different statements, either according to degree of their importance or according to the extent they agree with the statement as may be. Likert scale is qualitative in nature. A scoring system was adopted to quantify them. Score of 5.4.3.2 and 1 were allotted to (1) to (5) respectively.

- It emerges from the forgone analysis that overall inflow of foreign direct investment in India witnessed an increasing trends during the study period. Compound and annual growth rate of foreign direct investment inflow and foreign investment are 36.56 percent and 32.58 percent respectively during the whole period under study.
- The country wise analysis found that Mauritius has been the largest direct investor in India. Mauritius has low rates of taxation and an agreement with India on double tax avoidance.
- It is also found in the study that control / ownership decision of management is most challenges identified for attracting FDI, whereas each of physical infrastructure is least challenges identified for attracting FDI.
- Among the various reasons, skilled labour and India’s image are identified for attracting FDI. Next important reason which ranked at number 3 is labour law.

Chapter I: Introduction
Chapter II: Policies, Trends and Patterns of FDI in India: An Analysis
Chapter III: Impact of FDI on Industrial Development of India
Chapter IV: Foreign Direct Investment and Its Challenges: An Analysis
Chapter V: Findings, Conclusions and Suggestions