

Role of FDI on Construction Industry in India

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Abstract: *This study examines the role of Foreign Direct Investment on construction industry. Foreign direct investments (FDI) have get significant attention in both national and international contexts, recognized as crucial to economic development, particularly in developing nations. It can take in important amounts of capital, technology, and expertise to a country, leading to increased economic growth, employment opportunities, and improved productivity. FDI can also stimulate innovation and competition, which can benefit domestic firms and consumers. The study adopts both exploratory and descriptive research designs and is based on primary data collected from Secondary data were sourced from journals, books, and reports. Statistical tools such as percentage analysis and ANOVA were used to analyse the data. The study highlights To know conceptual background of Foreign Direct Investment and Construction Industry in India. To understand the Role of FDI in the Construction Industry in India. the study suggests the need for economic, financial, support to construction industry in India.*

Keywords: FDI, Indian Economy, Economic Growth, Role, Trend, Sectors

I. INTRODUCTION

Foreign Direct Investment (FDI) has been a fundamental driver of India's economic growth. Recognized as a key catalyst for development in many emerging economies, India has actively promoted FDI through various policy measures, resulting in a substantial rise in inflows in recent years. FDI serves as a vital source of capital, technology, and employment, contributing positively to the host country's economy. India has become one of the most attractive FDI destinations globally. The government's initiatives to attract foreign investment have significantly boosted economic activities across sectors. FDI has fostered entrepreneurship and innovation, created new jobs, enhanced productivity, and increased competitiveness within the Indian market. Additionally, it has strengthened India's balance of payments by augmenting foreign exchange reserves.

Key sectors such as infrastructure, manufacturing, and services have greatly benefited from FDI. Investments have financed critical infrastructure projects including highways, airports, and ports. The manufacturing sector has seen growth through job creation and increased exports, while the service sector—including IT, healthcare, and tourism—has also thrived due to FDI. Moreover, FDI has facilitated the transfer of advanced technologies and management practices to Indian firms, improving product and service quality and making Indian businesses more competitive globally. In conclusion, FDI has played a pivotal role in India's economic development, driving entrepreneurship, innovation, and sectoral growth while enhancing the country's global economic standing. FDI has significantly contributed to innovation, job creation, productivity enhancement, and the promotion of competitiveness within the Indian economy. To sustain and accelerate this growth, the Government of India should continue implementing policies and initiatives aimed at attracting and increasing FDI inflows. The role of FDI in the development of the Indian economy.

II. REVIEW OF LITERATURE

Kamalakanthan and Laurenceson (2005) in their paper —How Important is Foreign Capital to Income Growth in China and India? I suspected that the FDI could not reasonably be considered an important driver of economic growth in India because its contribution to gross fixed capital formation had remained small. Moreover, some observers doubted that



the economic reform went far enough to change the character of the FDI in India and thus, resulted in types of FDI that might have more favorable growth effects

Schneider, Fredrich and Frey (1985) in their paper titled —Economic and Political Determinant of Direct Investment, analyzed the determinants of the FDI in eighty less developed countries. They analyzed four different models (Economic, Political, Politico-economic and Amalgamated) explaining the flow of the FDI which were econometrically estimated and compared with export forecasts. Among the four, the politico- economic model was found to be the best

Das (1987) in his paper titled —Externalities and Technology Transfer Through Multinational Corporation: A Theoretical Analysis utilized a price leadership model from oligopoly theory to analyze the transfer of technology from the parent firm to its subsidiary abroad. This analysis recognized that the domestic firms learn from the MNCs and become more efficient. This increase in efficiency among the domestic firms is assumed to be exogenous and therefore costless to them. It is also assumed that the rate of increase in efficiency of the native firms is positively related to the level of activities of the MNCs subsidiary. The larger the scale of operations, the greater the opportunities for the native firm to learn from it. The author concludes that the more benefits from the technology transfer from its parent company in spite of the leakage of knowledge in the host country, and host country benefits unambiguously. Thus, in spite of the free insights competing domestic firms gain, it is still worthwhile for the MNC to import better technology

Aradhna Aggarwal (2008) in their paper titled —Regional Economic Integration and FDI in South Asia: Prospects and Problems found that, the regional integration has the potential to promote the economic development in individual countries irrespective of the size and the level of the growth. This potential can be exploited only through a deeper form of cooperation. Regional cooperation, by promoting cross border investment, will offer in terms of size and capabilities to compete globally. Furthermore, it can help in raising efficiency and industrial restructuring. It is opportunities to firms, especially from the a big stride forward to forge deeper integration.

Tsai and Huang (2008) in their study titled —Openness, Growth and Poverty: The Case of Taiwan, examined how the economic growth, openness and the role of government contribute to poverty alleviation in Taiwan using time series data during 1964-2003. The result revealed that the openness to foreign trade helps the poor through a direct distribution effect as well as indirect growth effect, in both long and short term. While inward FDI has no significant impact on the mean income of the poor, outward FDI from Taiwan in the past two decades seems to have had an adverse effect on the poorest 20% of the population.

OBJECTIVES:

- To know conceptual background of Foreign Direct Investment and Construction Industry in India.
- To understand the Role of FDI in the Construction Industry in India.

BACKGROUD OF THE STUDY

Foreign Direct Investment (FDI) in India's construction industry is a key driver of economic growth, infrastructure development, and technology transfer. The sector, which includes townships, housing, and built-up infrastructure, allows 100% FDI under the automatic route. This inflow of investment supplies critical capital for urban development, creates employment opportunities, and attracts foreign expertise, thereby boosting productivity and efficiency within the industry.

Conceptual Background of FDI in India's Construction Sector

Definition & Scope: FDI in construction refers to foreign investors taking a long-term stake in Indian infrastructure development projects, including townships, housing, and commercial properties.

Policy Liberalization: Since 1991, India has progressively liberalized its policies, now allowing 100% FDI under the automatic route, eliminating the need for prior government approval, to attract greater investment in infrastructure.

Economic Rationale: FDI plays a crucial role in driving economic development by facilitating technological advancements, generating employment, and enhancing management efficiency.



Key Trends: The construction and development sector is a significant recipient of FDI, with cumulative equity inflows exceeding USD 26 billion from 2000 to 2024.

Construction Industry Context in India

Key Sectors: The industry comprises sub-sectors such as residential townships, housing projects, and infrastructure facilities.

Investment Route: Most investment comes via the automatic route, but some projects require governmental approval, particularly regarding land acquisition and environmental clearances.

Impact of "Make in India": The "Make in India" initiative enhanced FDI inflows by simplifying regulations

III. POSITIVE ROLES OF FDI IN GROWTH OF INDIAN ECONOMY

Investments made by foreign companies or individuals in the businesses and industries of another country. In India, FDI has been a major catalyst for accelerating economic growth, particularly following the economic liberalization reforms of 1991.

Key Contributions of FDI to India's Economy:

Increase in Capital Formation

FDI brings in foreign capital, helping India finance large industrial and infrastructure projects. This capital supplements domestic savings and supports overall economic development.

Employment Generation

Foreign companies establish industries, factories, IT parks, and service centers in India, creating millions of direct and indirect jobs across sectors like automobiles, telecommunications, retail, and information technology.

Transfer of Technology and Skills

FDI introduces advanced technologies, modern production methods, and managerial expertise. This enhances the technical knowledge and professional skills of Indian workers and firms, boosting productivity and efficiency.

Development of Infrastructure

FDI plays a crucial role in developing essential infrastructure, including roads, ports, airports, power generation, and telecommunications, all of which are vital for sustained economic growth.

Growth of Exports

Many foreign companies use India as a manufacturing and export base, increasing exports, earning foreign exchange, and improving the country's balance of payments.

Boost to Industrial Development

FDI promotes the growth of key sectors such as automobiles, pharmaceuticals, electronics, banking, and e-commerce, expanding production capacity and encouraging industrial diversification.

Increase in Competition

The entry of foreign firms enhances competition in the domestic market, prompting Indian companies to improve product quality, reduce costs, and innovate to remain competitive.

Rise in Government Revenue

Increased economic activity from FDI leads to higher tax revenues through corporate taxes, GST, customs duties, and income taxes from employees.

Integration with the Global Economy

FDI helps India integrate into global markets via international trade, global supply chains, and business partnerships, strengthening India's position in the global economy.

Improvement in Standard of Living

Access to better products, services, technologies, and employment opportunities enhances consumer choices and raises the overall standard of living.



IV. NEGATIVE ROLES OF FDI IN GROWTH OF INDIAN ECONOMY

Foreign Direct Investment (FDI) has contributed significantly to India's development, it also has certain negative effects on the economy and society.

- 1. Threat to Domestic Industries:** Large foreign companies often have greater financial strength, advanced technology, and strong global brands. Small and medium Indian enterprises may find it difficult to compete, leading to losses or closure of local businesses.
- 2. Profit Repatriation:** Foreign companies send a large part of their profits back to their home countries. This can reduce the long-term availability of foreign exchange in India.
- 3. Economic Dependence:** Excessive dependence on foreign investment may make the Indian economy vulnerable to decisions made by multinational corporations and foreign governments.
- 4. Exploitation of Natural Resources:** Some foreign companies may excessively exploit India's natural resources for profit, leading to environmental degradation and depletion of resources.
- 5. Unequal Regional Development:** FDI is mostly concentrated in developed states and urban areas such as Maharashtra, Karnataka, Tamil Nadu, and Delhi. Backward and rural regions may not receive equal benefits, increasing regional inequality.
- 6. Adverse Impact on Traditional Industries:** Foreign companies and modern retail chains can negatively affect traditional industries, local artisans, and small traders who cannot compete with large-scale operations.
- 7. Possibility of Monopolies:** Large multinational corporations may dominate certain sectors, reducing market competition over time and creating monopolistic practices.
- 8. Cultural Influence:** Foreign firms often promote western lifestyles, products, and consumer culture, which may weaken traditional Indian culture and values.
- 9. Job Insecurity:** While FDI creates jobs, some foreign companies may prefer contract-based or temporary employment, leading to job insecurity for workers.
- 10. Environmental Concerns:** Certain industries funded by FDI may cause pollution and environmental damage if environmental regulations are weak or poorly enforced.

FDI towards India Infrastructure:

Roadways Inroads: For the road, bridge, and Public-Private Partnership (PPP) sector in India, a study reported that **100% Foreign Direct Investment (FDI) is permitted**, with the PPP share by value in roads and bridges being approximately **46%**, amounting to INR 1,767.2 billion (around US\$32.45 billion) for a specific period (India Briefing). Additionally, road sector assets, such as highways, are increasingly being monetized, attracting foreign investors through models like TOT (Toll-Operate-Transfer), where investors participate via toll-operating mechanisms. This inflow of foreign capital into road infrastructure results in increased contracts, equipment demand, and construction activity, which directly fuels growth in the construction sector.

Railways: Although detailed collection is limited, policy documents indicate that **100% FDI under the automatic route is permitted in railway infrastructure**. The government's push for rail infrastructure development, including initiatives like doubling lines and creating freight corridors, is driving significant construction activity. While this growth is not solely attributed to FDI, the favorable environment created by FDI policies acts as an important helpful factor. The expansion of railway infrastructure, combined with supportive foreign investment norms, enables construction firms to secure larger contracts, thereby boosting growth in the sector□

Seaports (Ports & Shipping): India's ports and shipping sector allows **100% FDI under the automatic route**. According to a market report, India has a coastline of approximately **7,517 km**, with **13 major ports and over 200 non-major ports**. Significant investments are being driven through initiatives like the **Sagarmala Programme**, which focuses on port-led development and creates substantial construction demand for port terminals and connectivity infrastructure. The combination of enhanced foreign investment and government development programs generates growth opportunities for construction activities in port infrastructure, gateways, and logistic nodes.



V. CONCLUSION

Foreign Direct Investment (FDI) significantly impacts the construction sector by injecting capital, introducing advanced technologies, and creating a multiplier effect on related industries like infrastructure, railway, roadways and seaports. This influx of funds and expertise improves project efficiency, enabling timely completion and potentially reducing costs, contributing to the sector vital role in national progress. Key impacts of FDI include capital infusion, technological advancement, economic multiplier effect, improved project execution, job creation, enhanced infrastructure development, and knowledge transfer. Factors contributing to FDI inflows in the construction sector include liberalized economic policies, growing demand, and ease of doing business. Governments often liberalize policies to attract foreign investment by reducing barriers to entry and providing a stable investment environment. FDI is one of the key sources of a country and GDP and has been found to contribute to economic growth and poverty reduction. However, financial crises can impede the flow of FDI and reduce productive investment opportunities in construction. To address this issue, it is essential to consider the impact of FDI on the construction sector and the need for more effective policies and strategies to attract foreign investment

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