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Direct and Indirect Impact of Foreign Direct Investment (FDI) on Domestic Investment (DI) in India

N. Prasanna

Department of Economics, Bharathidasan University, Khajamalai Campus,
Tiruchirappalli 620 023, Tamil Nadu, India
E-mail: nprassii@hotmail.com

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ABSTRACT In recent years a much optimistic view on the role of Foreign Direct Investment (FDI) on Domestic Investment (DI) in the host country has evolved. Empirical studies reveal that the increase in DI due to FDI inflows would be greater than the amount of the FDI inflows in the host country and that this effect would be direct and indirect. Viewing the increasing trend of FDI inflows into India, this study explores the impact of FDI inflows on the DI in India. This study finds that the direct impact of FDI inflows on DI in India is positive but the indirect impact is 'neutral' on the DI in the long run. The study finds no evidence that the increase in DI due to FDI inflows is greater than the amount of the FDI inflows in India.