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FOREIGN DIRECT INVESTMENT IN INDIA: A STUDY

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ABSTRACT **DOI No: 10.36713/epra21307** **Article DOI: https://doi.org/10.36713/epra21307**

Foreign Direct Investment serves as the foundation for the economic progress of many nations. It involves foreign capital bridging the gap between domestic savings and investment, contributing to the convergence of diverse economic aspects within a country. Through FDI, capital is invested across sectors such as service, manufacturing, transport, technology, productivity, and hospitality, playing a crucial role in India's economic development. Various factors, including economic stability, regulatory environment, sectoral policies, political stability, and infrastructure, influence FDI. Despite both merits and demerits, Indian FDI is noteworthy. This study primarily focuses on analyzing the trends and patterns of FDI inflow into India, aiming to provide an overview of FDI in India. The study also concentrates on identifying the determinants of FDI and understanding the necessity for FDI in India, incorporating sector-wise and year- wise analyses of FDI in the country.

KEYWORDS: ***FDI, RBI, GDP, SEBI, IRDA, FEMA***

INTRODUCTION

Foreign direct investment plays an important role in economic development of a country. Foreign investors strengthening infrastructure, increasing productivity, creating employment opportunities, helps acquire advanced technology, boosting export and mobilizing foreign exchange resources of host country by their capital inflow. Moreover, it supplements the deficit between the deficit between the domestic savings and domestic investment. Competition has increased due to liberalization, globalization, deregulation, and competitive disintermediation, leading everyone to aspire for self-reliance and self-sufficiency. As a result, there is a growing demand for financial resources.

India's economic landscape is significantly influenced by Foreign Direct Investment (FDI). According to the United Nations Conference on Trade and Development (UNCTD), India remains a preferred choice for global investors. To address economic demands, social-political competition, complexities, population growth, and unforeseen challenges while maximizing macroeconomic environmental opportunities, the Government of India (GOI) has implemented continuous structural reforms in the Indian macroeconomic system. This includes the introduction of financial sector policies that have led to a revolutionary and drastic change.

Most foreign investments in India are regulated by the Foreign Exchange Management Act of 1999. The Reserve Bank of India (RBI) has issued the Foreign Exchange Management Regulations 2000 and Foreign Exchange Management (Transfer or Issue of Security by a person resident Outside India) Regulations 2017 under FEMA to oversee foreign investments. Additionally, the Department of Promotion of Industry and Internal Trade has established a framework that consolidates the sectoral rules and conditions for foreign investors in Indian firms. The regulations, notifications, and circulars issued by the central Government and RBI regarding foreign investment in India are integral components of this framework. The present study tries to revels an overview of FDI and also mainly focused on identify the various determinants, need for FDI in India

and also tries to analyses the sector-wise, year- wise analysis of FDI's in India.

LITERATURE REVIEW

The vast literature on foreign direct investment and its impact on various sectors on Indian economy are essential for survey. In this direction some literature about this study are presenting here-in-under.

Dr.S.Shalini (2020) The analysis shows that service sector in India is the one of the sector in which foreign direct investment is consistent in couple of years, followed by which is the manufacturing and construction sector. Service Industry, telecommunication sector, construction activities followed by trading activities are major sectors which attracted higher inflows of FDI in India. Countries like Mauritius and Singapore were among the leading sources of FDI in India. The research paper also focused on studying influential effect of GDP contribution & growth rate on FDI inflows in India.

Dr. Shekhar Verma(2021) the study suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and steady liberalisation of the FDI policy as part of the cautious capital account liberalisation process. Even during the recent pandemic crisis, FDI inflows to India did not show as much moderation as was the case at the global level as well as in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained slow despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3%.

Dr. R S Ch Murthy Chodisetty (2022) examined the Impact of FDI in the Indian Economy with reference to Infrastructure sector. The study has implied the positive relationship between the FDI with Infrastructure sector and FDI with Gross domestic product. The study has found that positive effect of FDI has increased the infrastructure sector and positive effect of FDI with GDP. The study has concluded that there will be a future positive movement in the GDP with the effect of the foreign direct investment.

Sameer Shekhar (2022) reveals that FDI plays vital role in India's export and economic growth and is having strong association mutually. For the purpose of investigating structural changes in the economy caused by foreign direct investment, a basic regression model was developed having done the review of concerned literature. The coefficient validated the greater influence in growth indicator i.e., GDP caused by a unit change in FDI as compared to the influence of FDI on export of India. This clearly conclusive evidence that foreign investment act as driver for other economic activities economy and not just export. Thus, more FDI inflow will lead to more developmental activities and thus growth of the economy.

Sushma Thummalapalli (2022) examine that India is a developing country that has managed to maintain a positive GDP growth rate even throughout the recession. It has outperformed the global GDP growth rate on a comparative basis. "If the situation continues to improve," UNCTAD writes in its World Investment Report 2010, "India is anticipated to be among the most promising investor-home nations in 2010-12, as well as the third highest economy for FDI in 2010-12." India possesses all of the necessary factors, including excellent infrastructure, viable markets, ample labour, natural resource availability, and, last but not least, pro-FDI economic and trade laws. India is now the world's second-most popular FDI destination, after China, but it is believed that this may change in the future.

OBJECTIVES OF THE STUDY

The following are the main objectives of the present study

- To identify the various determinants of FDI.
- To understand the merits and demerits for FDI in India.
- To exhibit the sector-wise and year-wise analysis of FDI's in India.
- To analyses the country-wise flow of FDI into India.

RESEARCH METHODOLOGY

This research paper is a descriptive work. The primary data was not collected due to paucity of time but the justice is done through the secondary data. Collected from various journals, magazines, and websites, especially from the Department of Industrial Policy and Promotion (DIPP) within the Ministry of Commerce and Industry, India stat, the secondary data pertains to the timeframe spanning 2000-2024. To illustrate the sector-specific and annual FDI analysis rate in India, straightforward percentages were employed. Tables and Graphs were utilized as needed to represent the statistical data of FDI throughout the study period.

Determinants of FDI in India

Foreign Direct Investment (FDI) in India is influenced by a variety of factors that affect the decision-making of foreign investors. Below are some of the key determinants of FDI in India:

1. **Market Size and Growth Prospects**
   - **Large Consumer Market**: India has a population of over 1.4 billion people, offering a huge market for goods and services. This presents a major attraction for foreign investors, particularly in sectors such as retail, e-commerce, and consumer goods.
   - **Economic Growth**: India's economic growth rate has been relatively strong over the past few decades. A growing GDP attracts foreign investors looking to benefit from expanding market opportunities.
2. **Government Policies and Regulatory Environment**
   - **FDI Policies**: The Indian government has liberalized FDI policies over time, allowing foreign investors to have a higher stake in various sectors, such as retail, insurance, and defense. The government provides incentives in the form of tax holidays, subsidies, and relaxed regulations in certain areas.
   - **Ease of Doing Business**: Reforms such as the Goods and Services Tax (GST) and the implementation of the Insolvency and Bankruptcy Code (IBC) have improved the ease of doing business in India, which encourages FDI.
   - **Foreign Exchange Regulations**: The Reserve Bank of India (RBI) regulates FDI flows through the Foreign Exchange Management Act (FEMA), ensuring stability in foreign investments.
3. **Infrastructure Development**
   - **Transport and Logistics**: Investment in infrastructure like roads, railways, ports, and airports improves connectivity, making it easier for foreign firms to enter the Indian market.
   - **Energy and Telecommunications**: India's infrastructure in power generation, distribution, and telecommunications has significantly improved, making the environment more conducive for business operations.
4. **Labor Costs and Availability**
   - **Competitive Labor Costs**: India has a large, youthful, and cost-effective labor force, which appeals to foreign companies looking to cut operational costs.
   - **Skilled Labor**: India has a growing pool of skilled labor in sectors like IT, engineering, and pharmaceuticals, which is attractive to foreign investors in these industries.
5. **Political Stability and Governance**
   - **Political Environment**: Stable political conditions and effective governance structures help create a favorable business environment. Political stability reduces uncertainty, which is crucial for long-term investments.
   - **Anti-Corruption Measures**: Government efforts to reduce corruption and enhance transparency through measures like the Digital India initiative are making India a more attractive destination for FDI.
6. **Trade and Investment Agreements**
   - **Bilateral and Multilateral Trade Agreements**: India's participation in trade agreements (such as the Regional Comprehensive Economic Partnership, RCEP, and other bilateral deals) promotes trade and investment, as foreign investors can access the Indian market with fewer trade barriers.
   - **Free Trade Zones**: The existence of Special Economic Zones (SEZs) and Industrial Corridors encourages FDI by offering tax benefits, infrastructure, and ease of setting up operations.
7. **Financial and Capital Markets**
   - **Robust Financial System**: India's financial markets and banking system are relatively well-developed, which provides the necessary capital and credit facilities to foreign investors.
   - **Stock Market Performance**: A growing stock market, with increasing IPOs and foreign institutional investors, increases investor confidence in the Indian economy.
8. **Sector-Specific Drivers**
   - **Information Technology (IT) and Business Process Outsourcing (BPO)**: India has been a global leader in IT and BPO services, with a large, educated, and English-speaking workforce, which attracts foreign investments.
   - **Automobile Industry**: India is a major hub for automobile manufacturing, with foreign companies investing in setting up production units to cater to both domestic and international markets.
   - **Pharmaceuticals and Biotechnology**: India is a leading exporter of generic drugs, and foreign investors are attracted to its growing pharmaceutical and biotechnology industries.
9. **Macroeconomic Stability**
   - **Inflation and Interest Rates**: A stable inflation rate and lower interest rates are

favorable for FDI because they create a predictable business environment.

- **Balance of Payments**: A healthy balance of payments situation, with sustainable foreign exchange reserves, builds confidence in foreign investors.

10. Global Economic Trends

- **Globalization**: As global trade and investment networks expand, India becomes a more attractive destination for FDI, especially as companies seek to diversify their supply chains and reach new markets.
- **Technological Advancements**: The adoption of new technologies in India, such as digital payments, artificial intelligence (AI), and fintech, also plays a key role in attracting FDI from technology-driven companies.

11. Social and Cultural Factors

- **Cultural Diversity**: The diversity in language, religion, and traditions can influence the way foreign companies approach the Indian market. However, it also offers opportunities for companies to create tailored products and services for different regions.
- **Consumer Behavior**: Changes in consumer behavior, such as a shift toward online shopping or demand for sustainable products, create new opportunities for foreign investment.

Advantages and Disadvantages of FDI in India

Foreign Direct Investment (FDI) in India has both advantages and disadvantages. Here's an overview:

Advantages of FDI in India:

1. **Boosts Economic Growth:** FDI brings in capital, which helps in boosting the economic growth of India. The investments help build infrastructure, create jobs, and increase productivity.
2. **Technology Transfer:** Foreign companies often bring new technologies and processes. This results in the transfer of advanced technology and know-how, improving India's industrial capabilities and competitiveness.
3. **Job Creation:** FDI contributes to the creation of new jobs, both directly and indirectly. This helps reduce unemployment and improve standards of living for many people.
4. **Improved Infrastructure:** FDI helps in the development of better infrastructure, including roads, ports, and communication systems, which boosts overall productivity.
5. **Increased Exports:** Many foreign investments focus on export-oriented industries, which can lead to an increase in India's exports. This strengthens the country's foreign exchange reserves and balances trade.
6. **Improved Skills and Human Capital:** FDI leads to skill development in the workforce. Employees working with foreign companies often learn new skills and gain exposure to global business practices.
7. **Access to Global Markets:** Foreign companies can help Indian businesses access global markets by establishing supply chains and offering Indian products to foreign consumers.

Disadvantages of FDI in India:

1. Overdependence on Foreign Capital: Relying too much on FDI can make India vulnerable to global economic fluctuations. A sudden withdrawal of foreign capital can negatively impact the economy.
2. Crowding Out Domestic Investment: FDI may sometimes crowd out domestic investment. Indian companies may struggle to compete with large multinational corporations that have better technology and financial resources.
3. Control over Domestic Industries: FDI in key sectors might lead to foreign control over vital industries, potentially harming India's self-sufficiency and sovereignty in strategic sectors.
4. Profit Repatriation: Foreign investors might repatriate a significant portion of their profits to their home country, reducing the benefits of FDI in terms of reinvestment into the Indian economy.
5. Negative Impact on Local Businesses: Local businesses may struggle to compete with the strong financial and technological advantages of foreign multinational corporations. This could lead to a loss of market share and closure of small businesses.
6. **Environmental Concerns:** In some cases, FDI may lead to practices that harm the environment. Foreign firms, looking to reduce costs, might neglect environmental regulations or choose locations that can negatively affect the ecosystem.
7. **Cultural Erosion:** An influx of foreign companies can also introduce new cultural influences, which could erode traditional values and practices over time. This might affect local customs, lifestyle, and values.

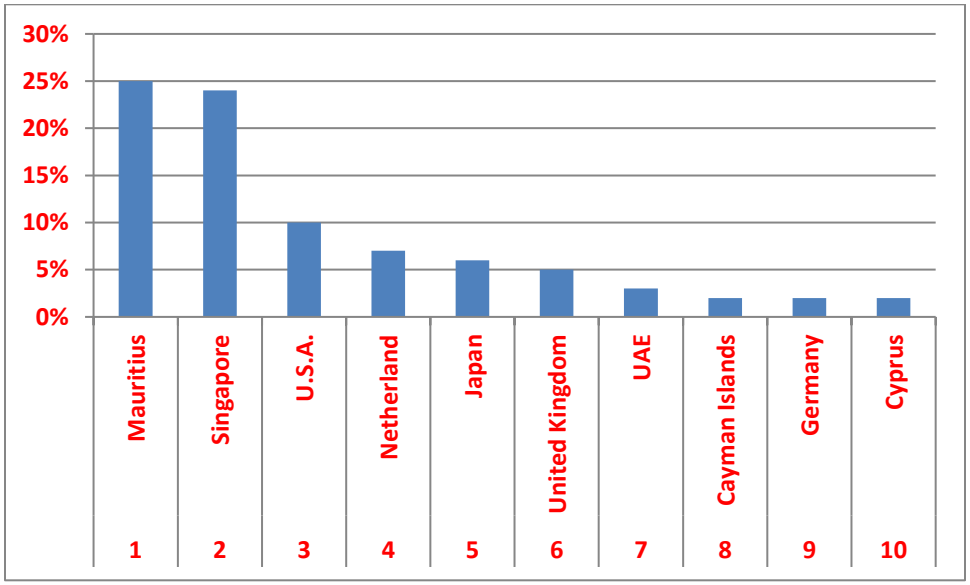
FDI can significantly contribute to India's development by promoting growth, technology transfer, and employment; it also brings challenges such as potential environmental harm, economic dependence, and the erosion of local businesses and culture. Balancing these factors is key to making FDI a force for positive change.

ANALYSIS AND INTERPRETATION

Table 1: Top Ten Countries Attracting FDI

Rank	Country	2022-23 (April-March)	2023-24 (April-March)	2024-25 (April - Dec.)	Cumulative Equity Inflow (April, 2000-December, 2024)	%age out of total FDI Equity inflow (in terms of USD)
1	Mauritius	48,895	66,147	58,363	1,080,953	
		6,134	7,970	6,964	178,810	25%
2	Singapore	137,374	97,475	100,577	1,192,450	
		17,203	11,774	11,979	171,922	24%
3	U.S.A.	48,666	41,403	31,330	478,647	
		6,044	4,998	3,738	68,932	10%
4	Netherland	19,855	40,733	34,040	358,222	
		2,498	4,924	4,070	52,753	7%
5	Japan	14,328	26,243	11,423	273,727	
		1,798	3,177	1,365	43,283	6%
6	United Kingdom	13,994	10,061	4,747	208,042	
		1,738	1,216	564	35,656	5%
7	UAE	26,315	24,262	34,767	165,988	
		3,353	2,924	4,145	22,647	3%
8	Cayman Islands	6,069	2,835	2,473	110,388	
		772	342	296	15,562	2%
9	Germany	4,417	4,181	2,731	90,605	
		547	505	326	14,969	2%
10	Cyprus	10,184	6,705	9,900	89,356	
		1,277	806	1,182	14,632	2%
TOTAL FDI EQUITY INFLOW FROM ALL COUNTRIES		**367,435**	**367,899**	**340,962**	**4,687,963**	
		46,034	**44,423**	**40,672**	**719,536**	-

Source: FDI Fact Sheet



Graph 1: Top ten countries attracting FDI

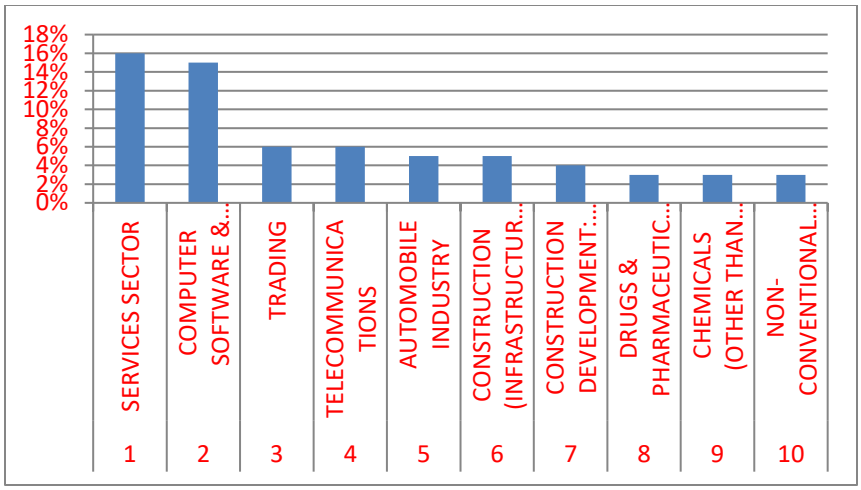
The above table and graph presented above illustrates the foreign direct investment (FDI) inflows from the leading investing countries for the financial years 2022-23, 2023-24, and 2024-25. In the financial year 2022-23, Mauritius invested Rs 48,895 crores, followed by an increase to Rs 66,147 crores in 2023-24. For the financial year 2024-25, Mauritius is to invest Rs 58,363 crores. Cumulatively, from April 2000 to December

2024, the total inflows amount to Rs 10,80,953 crores, representing 25% of the total FDI inflows in US dollars. Mauritius ranks as the leading country for FDI in India. Following Mauritius, Singapore has invested Rs 1,37,374 crores in 2022-23, Rs 97,475 crores in 2023-24, and is to invest Rs 1,00,577 crores in 2024-25. The cumulative inflows from Singapore during the same period total Rs 11,92,450 crores, accounting for 24% of the FDI inflows in US dollars. The United States ranks next, with investments of Rs 48,666 crores in 2022-23, Rs 41,403 crores in 2023-24, and Rs 31,330 crores in 2024-25. The total FDI inflows from these countries for the years 2022-23, 2023-24, and 2024-25 are Rs 3,67,435 crores, Rs 3,67,899 crores, and Rs 3,40,962 crores, respectively. The data clearly indicates that Mauritius is the foremost country globally in terms of foreign direct investment in India

Table 2: Sectors Attracting Highest FDI Equity Inflows

Rank	Sector	2022-23 (April-March)	2023-24 (April-March)	2024-25 (April-Dec.)	Cumulative Equity Inflow * (April, 2000-Dec, 2024)	%age out of total FDI Equity inflow (in terms of USD)
1	SERVICES SECTOR	69,852	54,894	60,534	747,413	
		8,707	6,640	7,227	116,723	16%
2	COMPUTER SOFTWARE & HARDWARE	74,718	66,090	46,214	765,083	
		9,394	7,973	5,519	108,403	15%
3	TRADING	38,060	32,080	27,959	327,217	
		4,792	3,865	3,335	46,731	6%
4	TELECOMMUNICATIONS	5,469	2,318	5,938	240,778	
		713	282	710	40,036	6%
5	AUTOMOBILE INDUSTRY	15,184	12,622	10,484	245,771	
		1,902	1,524	1,250	37,518	5%
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	13,588	35,076	15,077	254,631	
		1,703	4,232	1,797	35,715	5%
7	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development projects	1,196	2,113	2,382	133,703	
		147	255	283	26,894	4%
8	DRUGS & PHARMACEUTICALS	16,654	8,844	6,705	141,586	
		2,058	1,064	800	23,328	3%
9	CHEMICALS (OTHER THAN FERTILIZERS)	14,662	6,985	6,707	140,411	
		1,850	844	802	22,949	3%
10	NON-CONVENTIONAL ENERGY	19,977	31,188	28,909	155,070	
		2,500	3,764	3,448	21,335	3%

Source: FDI Fact Sheet



Graph 2: Sectors attracting highest FDI equity inflows

The above table and graph presented above indicates the sectors that are receiving the highest levels of equity inflows. Notably, the service sector accounts for 16% of foreign direct investment equity inflows in comparison to other sectors in India. The financial figures for the years 2022-23, 2023-24, and 2024-25 are Rs 69,852 Crores, Rs 54,894 Crores, and Rs 60,534 Crores, respectively. Other sectors attracting foreign direct investment include Construction and Development at 5%, Computer Software and Hardware at 15%, Telecommunications at 6%, the Automobile Industry at 5%, Drugs and Pharmaceuticals at 3%, and Chemicals (excluding fertilizers) at 3%. This data suggests that certain sectors, such as the automobile industry, drugs and pharmaceuticals, chemicals (excluding fertilizers), power, trading, and metallurgical industries, are in need of additional funding.

CONCLUSION

India has recently become a major global hub for FDIs. According to World Investment Report 2023, India was among the top 10 global FDI destinations. In the recent past, India has provided huge corporate tax cuts and simplified labour laws. Additionally, India has remained an attractive market for international investors in terms of short- and long-term prospects. India's cost-efficient manufacturing sector is one of the most promising sectors to attract FDI. Over the past decade, India has also developed excellent government efficiency, leading to enhancement of FDI inflow in the country. Both economic and financial point of view it is proved that FDI has a beneficial impact on developing countries like India. Policy recommendations for developing countries shared focused on improving the investment climate for all kinds of capital domestic as well as foreign. At the end it is concluded that FDI is a beneficial to nation to grow and prosper.

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