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AN OVERVIEW OF FDI IN INDIA

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ABSTRACT

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, US$

1 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.

2 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.

Shaikh Aftab (2017) examined the various trends in FDI in India and impact of FDI on private sector banks. FDI made impact over new trends in private banking sector. Further it highlights that FDI increase the money circulation in employment generation to local people. The study finally concludes that FDI and private sector bank leads to raise in the industrial growth in India.

Jpnardankoner, Dipayan Roy and Avinash Purander (2018) in their study they focused on the FDI on the growth of the Indian economy. They find raise in FDI after liberalization. Further they discussed about the impact of direct and indirect FDI on the economy. Important impacts on domestic income, employment, price level, productivity, efficiency, and export growth are created by direct foreign direct investment (FDI) inflows. The spillover effects of FDI account for the indirect impact of FDI. They study concludes that FDI inflow has positive impact on GDP and it is beneficiary to policy maker to made strategies to target GDP based on the inflow of the FDI.

Ravi .B `and V. Benchali (2018) study taken with the objective analysed with the advantages of FDI for an emerging market like India. Finally it was conclude that it had more merits than demerits attached to FDI and the Indian Government must go for it if it wants India to progress further and become a super power.

Shalini D. D. (2020) uncovered the significance of Foreign Direct Investment (FDI) in India. FDI plays a crucial role in uniting diverse aspects of the country's economy by injecting capital into sectors such as manufacturing, infrastructure, transportation, technology, productivity, and hospitality. The study also examined the FDI trends and foreign investment patterns in India. The conclusion emphasizes that FDI is minimally affected by the GDP contribution and growth rates of FDI industries.

3 Objectives Of The Study

- ❖ To identify the various determinants of FDI.
- ❖ To understand the need and 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.

4. 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 different 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 2013-2023. To illustrate the sector-specific and annual FDI analysis rate in India, straightforward percentages were employed. Graphs and tables were utilized as needed to represent the statistical data of FDI throughout the study period.

Determinants of FDI

The factor varies from nation to nation to its distinctive qualities and opportunities for potential investors. FDI in India is influenced by the following factors;

- ❖ Economic Factors: Interest Rates, Tax Benefits, Grants, and Subsidies: These are significant economic incentives that attract foreign investors. Offering favorable loan terms, tax breaks, and financial support can make India more appealing for FDI.
- ❖ Cheap and Skilled Labor: The availability of both cheap and skilled labor is a key factor attracting foreign investors. India's workforce, with its mix of skilled and unskilled individuals, provides a cost advantage that foreign corporations can leverage.
- ❖ Basic Infrastructure: The development of necessary infrastructure in SEZs, including roads, transportation, communication networks, power,

and legal systems, creates a conducive environment for effective business operations. A robust legal framework and modern infrastructure are vital for the efficient distribution of goods and services.

- ❖ Unexplored Markets: Market Potential: India's vast and diverse market offers a significant opportunity for investors. The existence of underexplored or untapped markets, especially in sectors like Business Process Outsourcing (BPO), provides a chance for foreign investors to enter and cater to a large middle-income population.
- ❖ Natural Resources Availability: India rich in natural resources such as iron ore, coal, and natural gas is an attractive feature for foreign investors. These resources can be utilized in various industrial operations, contributing to the production processes or mining activities.

These determinants collectively create an environment that makes India an attractive destination for FDI. The government's efforts in providing economic incentives, investing in infrastructure, and recognizing the potential of unexplored markets contribute to India's appeal for foreign investors. It's essential for policymakers to continue addressing these factors to sustain and enhance the FDI inflow for long-term economic development.

5 Need For FDI

- ❖ Industrialization and Development: Underdeveloped and developing countries often face the challenge of insufficient domestic savings. FDI becomes crucial in bridging the gap between income and savings, helping sustain a higher level of investment needed for industrialization and overall economic development.
- ❖ Technical Assistance and Expertise: FDI plays a vital role in providing technical assistance, expert services, and training for Indian personnel. Collaborations with foreign entities bring in technological advancements, benefiting industries and educational and research institutions.

- Foreign Collaboration for Resource Extraction: Despite having abundant natural resources, collaboration with foreign partners is often required for efficient extraction and utilization. FDI facilitates the necessary collaboration and investment in resource-intensive projects.
- Mitigating High-Risk Ventures: In developing countries, where capital is scarce, the risk associated with new ventures or industrial projects can be high. Foreign capital helps mitigate these risks by providing the necessary financial support for investments in projects that might be considered high-risk.
- Capital for Infrastructure Development: FDI contributes to the development of basic economic infrastructure by establishing firms in different parts of the country. This infusion of foreign capital aids in building essential infrastructure, such as transportation, communication networks, and power supply.
- Export Enhancement: FDI can enhance the balance of payments by promoting exports. Foreign firms, attracted by lower production costs, may produce goods in India for export to other countries. This helps boost exports and improve the overall balance of payments position.
- Technological Innovation and Competition: Foreign firms often bring in better technology, processes, and innovations. This competition stimulates domestic firms to improve their efficiency and innovate, fostering a more dynamic and competitive business environment.

In summary, the need for FDI in India extends beyond mere capital infusion; it encompasses technological advancements, risk mitigation, resource utilization, and overall economic and industrial development. It plays a crucial role in positioning the country on a path of sustained growth and competitiveness in the global market.

6 Advantages And Disadvantages Of FDI

ADVANTAGES

- Infrastructure Development: FDI can stimulate investment in critical areas like infrastructure, leading to increased production of capital goods like investment in power generation can support industrial growth.

- ❖ Technological Innovation: FDI brings in new technologies that may not have been adopted domestically. This influx of technology, as seen in the communications sector, can lead to significant advancements.
- ❖ Boost to Key Sectors: FDI promotes capital inflow, particularly in key sectors. This addresses the shortage of both financial and material capital, fostering speedy economic growth.
- ❖ Economic Zones and Export Promotion: With the help of FDI export increased through creation of economic zones and the promotion of export-oriented units.This can lead to a change in the composition and direction of exports.
- ❖ Service Sector Growth: FDI in developing countries often stimulates growth in the service sector, leading to changes in advertising and marketing technologies and creating more and more employment opportunities.

DISADVANTAGES

- ❖ Market Dominance: Products from FDIs can lead to the decline or disappearance of products from cottage and small-scale industries, impacting local markets.
- ❖ Transfer of Polluting Industries: Developed countries may shift pollution-intensive industries to developing countries, contributing to environmental issues. For instance, the automobile industry may relocate to countries with less stringent environmental regulations.
- ❖ Currency Instability: FDIs can contribute to currency crises, as witnessed in Southeast Asian countries in 2000. Inflation, exports decline, and the subsequent fall in the domestic currency value may result in exchange-related challenges.
- ❖ Impact on Local Culture: The entry of FDIs may lead to a cultural shock, with local cultures experiencing erosion or setbacks.

Changes in family structure, social setups, and value systems are potential consequences.

❖ Influence on Political Setup: FDIs, in some instances, may engage in corrupt practices to capture foreign markets or influence political setups for personal gains. Instances of political corruption, as seen in the Lockheed scandal in Japan, can be a concern.

FDIs offer numerous advantages such as economic growth, technological progress, and employment opportunities, the potential disadvantages include market disruptions, environmental concerns, currency instability, cultural changes, and risks of political corruption. Policymakers must carefully balance the benefits and drawbacks to ensure sustainable and inclusive development.

FDI INFLOW IN INDIA

Table No. 1: Year-wise FDI inflow data in India (Amount in US $ Millions)

Sl.No.	Year	Total FDI inflow	% growth over previous year (in USD terms)
1	2013-14	36,046	(+)5
2	2014-15	45,148	(+)25
3	2015-16	55,457	(+)23
4	2016-17	60,220	(+)8
5	2017-18	60,974	(+)1
6	2018-19	62,001	(+)2
7	2019-20	74,391	(+)20
8	2020-21	81,973	(+)10
9	2021-22	84,835	(+)3
10	2022-23	70,970	(-)16

***Source**: Factsheet*

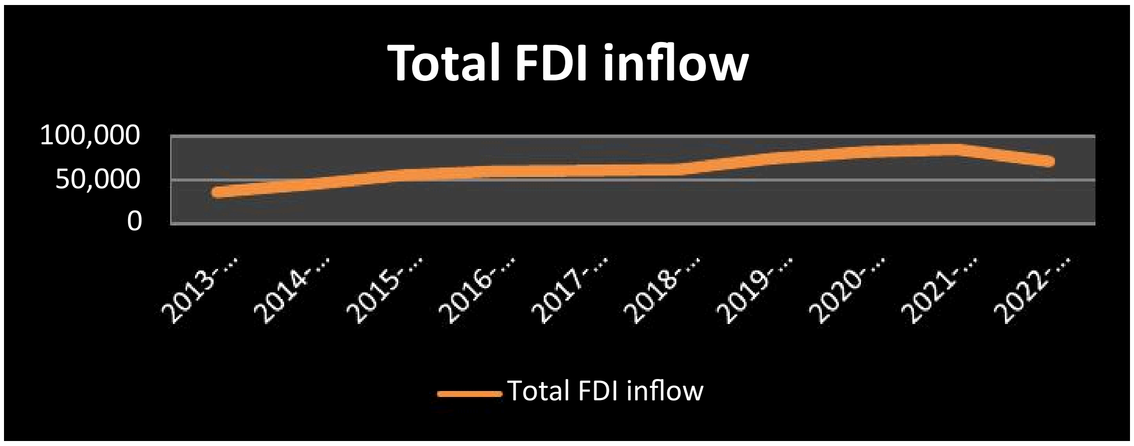

Fig. 1: Year-wise FDI inflow data in India (Amount in US $millions)

Table No.1 and figure 1 represents FDI inflow in India of 10 years that is from 2013 to 2023 has been shown in the. The FDI which was merely US$ 36,046 million in 2013-14 increased to US$ 45,148 million in 2014-15. Followed by US$ 55,457million,US$ 60,220million, US$ 60,974million,US$ 74,391million and US$ 81,973million in the year 2016-17, 2017-18,2018-19, 2019-20 and 2020-21 correspondingly. This shows the upward movement in FDI inflow in India. In 2021-22 reaches the maximum inflow of FDI that is US$ 84,835millionbut in the year 2022-23 inflow decreased to 16 percent US$ 70,970 million. In 2023, there was a decrease in foreign direct investment (FDI) coming into India. This drop was influenced by several factors, such as the ongoing Russia-Ukraine conflict, shifts in US monetary policy, and various global uncertainties.

Here year-wise FDI inflow gives the vague and rough estimation of outlay. So, sector-wise inflow of FDI is essential to fill-up the sector-wise loopholes hence sector-wise data is given in the nextparagraph.

SECTOR-WISE FDI EQUITY INFLOW DATA IN INDIA

As mentioned above sector-wise data gives clarity over inflowof funds and graphs to be filled. Hence its data are given in the table form.

Table No. 2: Sector-wise equity inflow data in India (Amount in US *$Millions).*

Sl. No.	Sector	FDI equity inflow	% of total FDI Equity inflow (in USD terms)
1	Services Sector	102.9	16.2
2	Computer Software & Hardware	94.9	14.1
3	Trading	39.5	6.2
4	Telecommunications	39.0	6.2
5	Automobile industry	34.7	5.5
6	Construction (infrastructure) Activities	29.7	4.7
7	Construction Development	26.4	4.2
8	Drugs & Pharmaceuticals	21.5	3.4
9	Chemicals (other than fertilizers)	21.3	3.4
10	Metallurgical Industries	17.2	2.7

Source: *Factsheet*

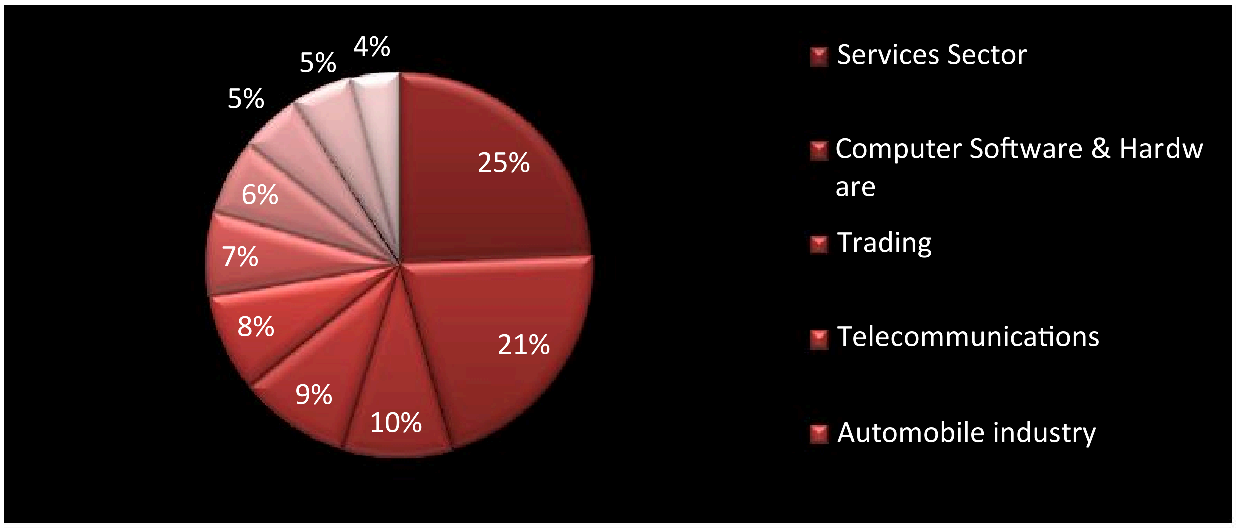

Fig. 2: Sector-wise FDI equity inflow data in India (Amount in US$ millions)

Table No. 2 and fig. 2 shows the FDI inflow into india in various sectors. Among all the major sectors, service sector attracted the highest FDI equity inflow of 16.2% followed by computer software and hardware 15% followed by the computer software and hardware industry at 15%, trading at 6%, telecommunications at 6%, and automobile industry at 5% are stands into 5 sectors. Followed by construction (infrastructure) activities, construction contracts, chemicals (other than fertilizers) 3.4% and metallurgical industries 2.7% are the next 5 sectors.

COUNTRY-WISE FDI EQUITY INFLOW

Table No. 3: Country-wise FDI equity inflow *(Amount in US $Millions)*.

Sl. No.	Country	Inflow	% of share
1	Mauritius	163.87	26%
2	Singapore	148.16	23%
3	USA	60.19	9%
4	Netherlands	43.75	7%
5	Japan	38.74	6%
6	UAE	15.6	2%
7	Cayman Island	14.1	2%
8	Cyprus	12.6	2%
Total		**634.6**	-

Source: *Factsheet*

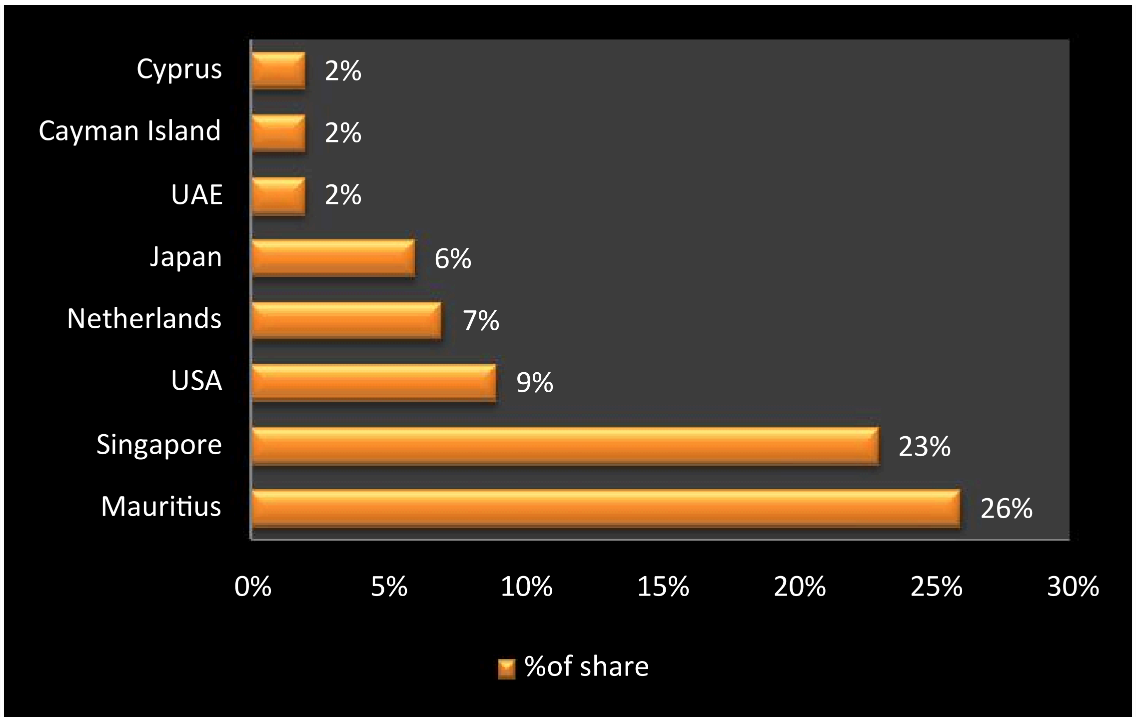

Fig. 3: Country-wise FDI equity inflow

Table No. 3 and Fig.3 represents the country-wise FDI equity inflow. India also had major FDI inflows in the year 2023, coming from Mauritius with a total share of 26% (US$ 163.87 billion), followed by Singapore at 23% (US$ 148.16 billion), the USA at 9%, (US$ 60.19 billion), Netherlands at 7% (US$ 43.75 billion), Japan 6% (US$ 38.74 billion), UAE at 2% (US$ 15.6), Cayman Island at 2% (US$ 14.1) and Cypurs at 2% (US$ 12.6).

7. Conclusion

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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