

IS FDI FLOW SATISFACTORY?

Rachana B S¹, Dr. KUNDAN BASAVARAJ²

¹ Research Scholar, Kuvempu University's Sahyadri Commerce and Management College, Shimoga-577 203.

² Professor and Research Guide, Department of Commerce and Management, Sahyadri Commerce and Management College (Constituent college of Kuvempu University) Shimoga-577 203.

ABSTRACT: FDI play a vital role in the growth and development of the country. When country faces capital insufficiency for overall development of the nation, foreign capital is the way to fill the gaps between the domestic capital and investment. India has emerged as a significant global hub for FDI, positioning itself among the top 10 FDI destinations, as noted in the World Investment Report 2023. The country has made substantial strides to attract foreign investment through significant corporate tax cuts and the simplification of labor laws. The Present study objective is to perceive the FDI inflow is satisfactory in India.

Key words: FDI, Growth and Capital, Savings, Investment

1. INTRODUCTION

Foreign Direct Investment (FDI) is one of the significant key factors for economic development of the nation. FDI refers to an investment by a company or individual in one country in business interests in another country. This typically involves establishing business operations, acquiring assets or expanding existing facilities. FDI is a critical component of global economic integration and plays a vital role in international trade.

FDI in India has emerged as a major driver of economic growth and development. Since liberalizing its economy in the early 1990's, India has actively encouraged FDI as a means to boost capital inflow, enhance technology transfer and create jobs. In pre-liberalization era, FDI was heavily regulated, with strict controls and a limited foreign presence in the Indian economy. After economic liberalization, FDI India opened its economy and easing restrictions on FDI. And also government introduced reforms, allowing foreign companies to invest in various sectors under certain conditions. In 2000 FDI inflows was increased due continued relax regulations and promote investment through initiatives like the Foreign Investment Promotion Board (FIPB).

FDI us a vital driver of India's economic growth, serving as a significant non-debt financial resource for development. International corporations are increasingly investing in India, attracted by unique incentives such as tax benefits and competitive labor costs. This investment not only rings technological expertise but also generates employment and other ancillary advantages. The surge in FDI is largely due to the government's proactive policy framework, a vibrant business environment, and India's growing global economic influence.

To bolster FDI the Indian government has introduced several initiatives including the "Make in India" campaign which aims to simplify processes and create a conducive investment atmosphere. Key liberalizations in FDI policies, especially in sectors like, retail, defense and insurance have been pivotal. Additionally, the implementation of the Goods and Services Tax (GST) has enhanced transparency, while Special Economic Zones (SEZs) offer targeted tax incentives.

Significant investments in technology and healthcare have led to strategic partnerships between multinational companies (MNCs) and domestic firms, fiving a remarkable 83% increase in cross-border Mergers and acquisitions (M&A) to US\$27 billion in 2020. According to the World Investment Report 2023, India emerged as an FDI powerhouse, ranking third in terms of investment in greenfield projects. From April 2014 to June 2024, India attracted a total of US\$ 725.96 billion in FDI from 170 countries, spanning 33 states and union territories across 63 sectors.

2. REVIEW OF LITERATURE

For the study purpose some articles are studied and reviewed as follows.

N Prasanna's study examines the relationship between FDI inflows and manufactured exports in India. It highlights the shift from primary commodities to higher value- added exports and the role of FDI in this transition. The study finds a positive correlation between FDI inflows and manufactured exports, suggesting alignment of domestic strategies with FDI policies for sustained export growth.

Ravi Aluvala's study delves into the evolving landscape of foreign direct investment (FDI) in India. It highlights divergent views on FDI and stresses the importance of evaluating its costs and benefits. FDI is seen as a potential driver of economic growth, with liberalization policies playing a key role in attracting FDI inflows. The study also discusses global competition for FDI and the rise of outward FDI from emerging market multinational enterprises. Overall, it underscores the need for a balanced approach to harness FDI for development while addressing associated challenges.

Sonia Chawla et .al investigated foreign investment dynamics in India post-1991 liberalization. It highlights the dominance of the services sector in attracting foreign direct investment and foreign institutional investment. The research provides valuable insights into the determinants of foreign investment flows in India, aiding policymakers in attracting and sustaining foreign investments.

Rudresha's study on "Foreign direct investment in India" provides a detailed analysis of FDI's significance in India's growth, focusing on bridging the saving- investment gap. It examines FDI routes. The new FDI policy, and government measure to boost FDI. Using secondary data and statistical tools, the study categorizes FDI routes, discussed policy regulations, and identifies sectors with high FDI potential. It predicts increased FDI inflows due to favorable government policies.

OBJECTIVES OF THE STUDY

The primary objective of the present study is presented below.

- i. To analyze the market size of FDI in India.
- ii. To study the routes of FDI in India
- iii. To study the Government measures to increase FDI in India.

3. RESEARCH METHODOLOGY

The research paper is a descriptive in nature. The study was done through the secondary data. The secondary data collected from various published and unpublished sources like Reserve Bank of India (RBI) United Nations Conference for Trade and Development (UNCTAD), Ministry of Commerce and Industry, economical survey report and journal etc. And also some statistical tools used to analyze the data.

ROUTES OF FDI IN INDIA

Foreign direct investment in can be made through several routes, primarily classified as;

- **Automatic Route:** Under this route, foreign investors can invest in a business without requiring prior government approval this is applicable to most sectors, making the process more streamlined and efficient.
- **Government Route:** Investment which not qualify under the automatic route require prior approval from the government. This is typically applicable to sectors that are sensitive or where foreign investment is limited or prohibited.

- **Foreign Portfolio Investment (FPI):** Although not strictly FDI, FPIs can in Indian companies through stock markets, and they can eventually convert their holdings into FDI if they acquire a significant stake.
- **Joint Ventures or Collaborations:** Foreign investors often partner with local companies to set up joint ventures, which can help navigate local regulations and market dynamics.
- **Special Economic Zones (SEZs):** FDI can also be directed into SEZs, with offer specific incentive and relaxed regulations to encourage investment.
- **Infrastructure and Development Projects:** FDI is encouraged in infrastructure projects, often facilitated through public-private partnerships (PPPs) or specific government initiatives.

MARKET SIZE OF THE FDI IN INDIA

India's FDI inflows have surged nearly 20 times from 2000-01 to 2023-24, with cumulative inflows reaching approximately US\$695.04 billion between April 2000 and June 2024, as reported by the Department for Promotion of Industry and Internal Trade (DPIIT). This remarkable growth can be attributed to government initiatives aimed at improving the ease of doing business and liberalizing FDI norms. In the most recent period from April 2023 to June 2024, India recorded FDI inflows of US\$22.5 billion, with FDI equity inflows amounting to US\$16.2 billion.

DATA DISCUSSION

YEAR-WISE FDI INFLOW DATA IN INDIA

Table No. 1: Year-wise FDI inflow data in India (From 2014-15 to 2023-24)(Amount in US \$ Billions)

Sl. No.	Year	Total FDI inflow	% growth over previous year (in USD terms)
1	2014-15	45.15	(+)25%
2	2015-16	55.46	(+)23%
3	2016-17	60.22	(+)8%
4	2017-18	60.97	(+)1%
5	2018-19	62.00	(+)2%
6	2019-20	74.39	(+)20%
7	2020-21	81.97	(+)10%
8	2021-22	84.84	(+)3%
9	2022-23	71.36	(-)16%
10	2023-24	70.94	(-)1%

Source: Factsheet

Table No. 1 shows the year-wise FDI inflows in India from fiscal year 2014-15 to 2023-24. From 2014-15 to 2018-19, FDI inflows grew consistently, albeit at varying rate. The highest percentage increase was in 2014-15 at 25%. FDI inflow jumped to 20% in the year 2019-20, reaching \$74.39 billion. There was continued growth in 2020-21 and 2021-22, but with smaller increases. FDI inflow increased in 2022-23 and 2023-24, with a 16% decline 2022-23, followed by a smaller 1% decrease in 2023-24.

SECTOR-WISE EQUITY INFLOW DATA IN INDIA

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

Sl. No.	Sector	FDI equity inflow	% of total FDI Equity inflow (in USD terms)
1	Services Sector	113.49	16%
2	Computer Software & Hardware	105.63	15%
3	Trading	43.86	6%
4	Telecommunications	39.78	6%
5	Automobile industry	36.66	5%

6	Construction (infrastructure) Activities	34.58	5%
7	Construction Development	26.64	4%
8	Drugs & Pharmaceuticals	22.76	3%
9	Chemicals (other than fertilizers)	22.71	3%
10	Non-conventional Energy	18.93	3%

Source: Factsheet

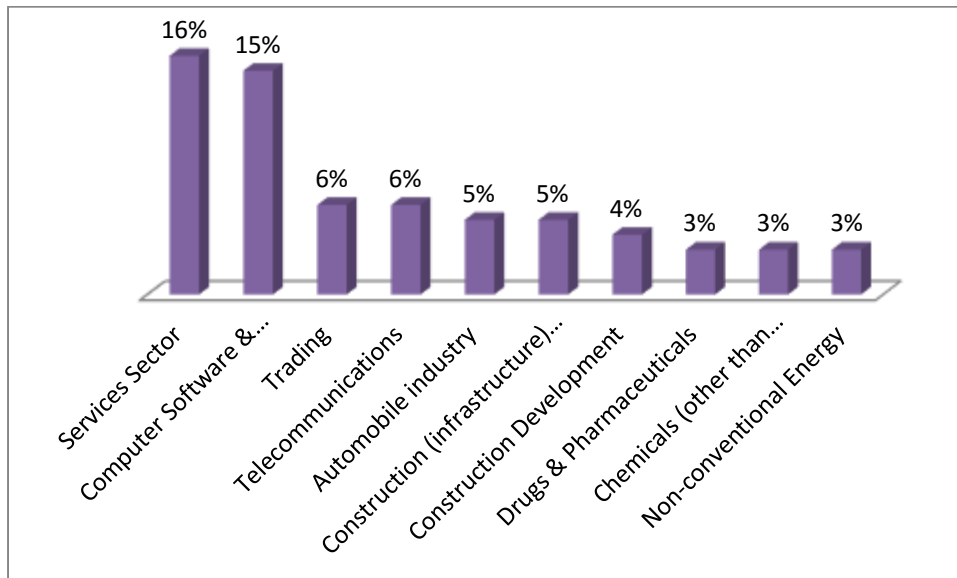


Figure 2: Sector-wise equity inflow data in India

Table No. 2 and figure 2 shows the Sector-wise equity inflow data in India. From April 2000 to June 2024, the Service sector attracted the highest FDI US\$113.49 billion followed by computer software and hardware (US\$105.63 billion), Trading (US\$43.86 billion), Telecommunication (US\$39.78 billion), Automobile industry (US\$36.66 billion), Construction (infrastructure) Activities (US\$34.58), Construction Development (US\$26.64), Drugs & Pharmaceuticals (US\$22.76), Chemicals (other than fertilizers) (US\$22.71) and Non-conventional Energy (US\$18.93).

COUNTRY-WISE FDI EQUITY INFLOW

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

Sl. No.	Country	Inflow	%of share
1	Mauritius	175.06	25%
2	Singapore	163.86	24%
3	USA	66.70	10%
4	Netherlands	51.13	7%
5	Japan	42.55	6%
6	United Kingdom	35.17	5%
7	UAE	19.06	3%
8	Cayman Islands	15.46	2%
9	Germany	14.74	2%
10	Cyprus	14.07	2%
Total		695.04	-

Source: Factsheet

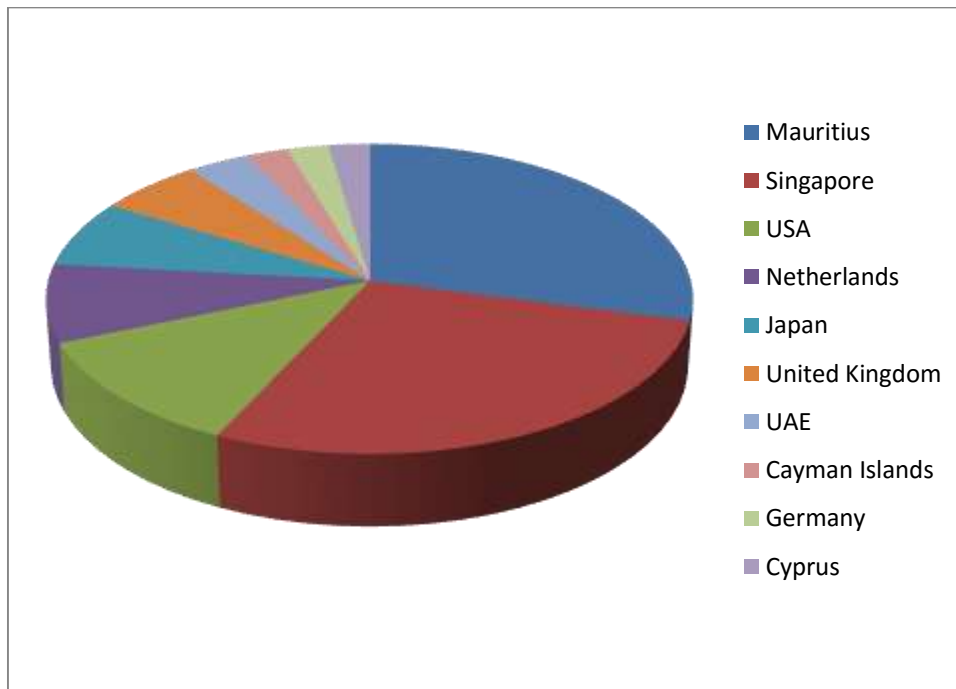


Figure 3: Country-wise FDI equity inflow

Table No. 3 and figure 3 represent the Country-wise FDI equity inflow of FDI from other countries. The highest FDI flow coming from Mauritius US\$175.06 billion, followed by the Singapore (US\$163.86 billion), USA (US\$66.70), Netherland (US\$51.13 billion), Japan (US\$42.55 billion), United Kingdom (US\$35.17), UAE (US\$19.06), Cayman Islands (US\$15.46), Germany (US\$14.74) and Cyprus (US\$14.07).

Table No. 4: State-wise FDI inflow (Amount in US \$Billions).

Sl. No.	Country	Inflow	%of share
1	Maharastra	77.57	31%
2	Karnataka	53.32	21%
3	Gujurath	40.22	16%
4	Delhi	33.01	13%
5	Tamil Nadu	11.94	5%
6	Haryana	10.43	4%
7	Telangana	8.86	3%
8	Jharkhand	2.67	1%
9	Rajasthan	2.38	1%
10	Uttar Pradesh	1.68	1%

Source: Factsheet

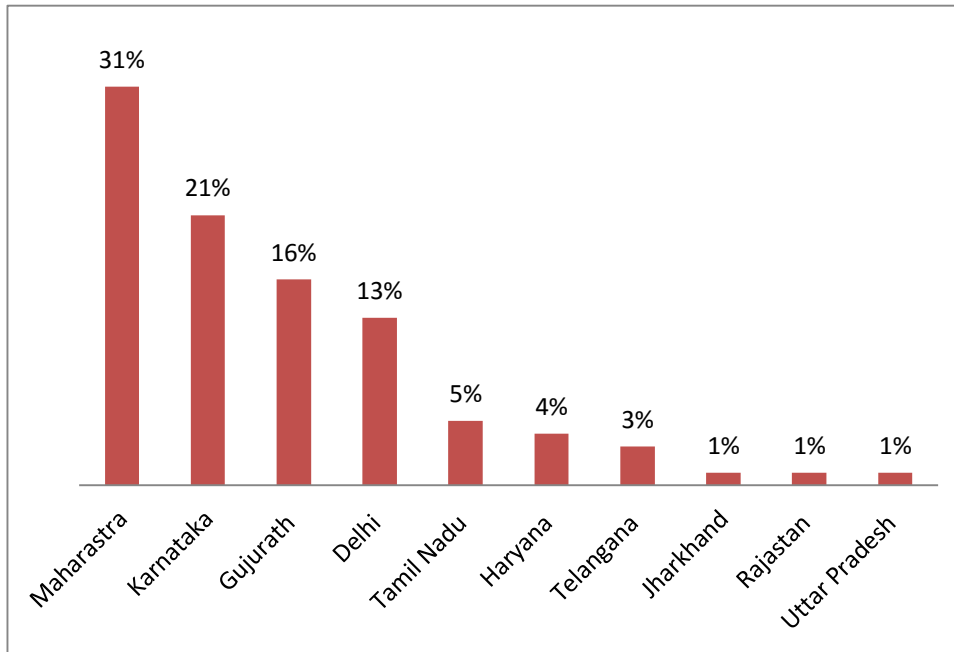


Figure 4: State-wise FDI inflows

Table No. 4 and figure 4 represent the state wise distribution of FDI in India. Regionally, Maharashtra emerged as the top recipient of FDI equity inflows from October 2019 to June 2024, attracting US\$77.57 billion. It was followed by Karnataka (US\$53.31 billion), Gujurath (US\$40.22), Delhi (US\$40.22), Tamil Nadu (US\$11.93 billion), Haryana (US\$10.43 billion), Telangana (US\$8.86), Jharkhand (US\$2.67), Rajasthan (US\$2.38) and Uttar Pradesh (US\$1.68). This distribution highlights the diverse regional appeal of India as a destination for foreign investment.

India was the 3rd largest recipient of green field projects as per the World Investment Report 2023. The number of International project financial deals in India also increased by 64%, making it the second largest recipient of International project finance deals.

In 2022, India received 811 industrial investment proposals valued at approximately US\$ 42.78 billion. Cumulatively, the total for the year reached around US\$298 billion, a significant increase from 169.5 billion in 2021.

For Financial year 2023, India reported a foreign direct investment (FDI) inflow of US\$ 71.35 billion while provisional figures for financial year 2024 indicate FDI worth US\$70.95 billion. This reflects a strong interest in India's industrial sector and overall investment climate.

GOVERNMENT MEASURES TO INCREASE FDI IN INDIA

India has indeed positioned itself as an attractive destination for FDI through various government initiatives. Here are some key schemes and policies that have contributed to this trend.

- **Make in India:** Launched in 2014, this initiative aims to encourage companies to manufacture products in India. It promotes investment in various sectors like manufacturing, defense and aerospace.
- **Startup India:** This initiative supports startups by providing easier access to funding tax exemptions, and a simplified regulatory framework, attracting both domestic and foreign investors.
- **FDI Policy Reforms:** The government has gradually liberalized FDI norms in various sectors, including defense, retail and aviation, allowing higher foreign ownership and simplifying the approval process.
- **Digital India:** This initiative aims to transform India into a digitally empowered society and knowledge economy, attracting tech-related investments.
- **National Infrastructure Pipeline (NIP):** Launched in 2019, NIP aims to improve infrastructure and attract investment in sectors like transportation, energy and investment in key sectors, encouraging both domestic and foreign players to invest.

- **Sector-Specific Initiatives:** The government has launched specific programs for sectors like renewable energy, healthcare and tourism to attract FDI by offering incentives and creating a conducive environment.
- **Atmanirbhar Bharat (Self- Reliant India):** This initiative seeks to boost local manufacturing and reduce dependency on imports, attracting FDI in key sectors such as defense, agriculture and pharmaceuticals.
- **Foreign Investment Promotion Board (FIPB):** While the FIPB has been abolished, the government has streamlined the process for FDI approvals, making it more transparent and accessible for foreign investors.
- **Production-Linked Incentive (PLI) Scheme:** This scheme offers incentives to manufactures in key sectors to enhance domestic production and attract foreign investment.

4. CONCLUSION

FDI flow in India is satisfactory and it becomes an important global hub for FDI. FDI plays a crucial role in India's economic development driving growth, job creation and technological advancement. The government's proactive initiatives, such as "Make in India," Startup India" and various sector-specific reforms have created a more favorable investment climate, attracting global investors. As India continues to liberalize its FDI policies and enhance infrastructure, it stands poised to become a significant player in the global market. By fostering a stable and transparent business environment, India can further capitalize on FDI to accelerate its economic transformation and achieve sustainable development.

5. REFERENCE

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Corresponding Author: **Rachana B S**, Research Scholar, Kuvempu University's Sahyadri Commerce and Management College, Shimoga-577 203.

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