



**ORIGINAL RESEARCH PAPER**

**Commerce**

**FOREIGN DIRECT INVESTMENT (FDI) TRENDS IN INDIA**

**KEY WORDS:** FDI, FPI, Growth, Development sector, Government measures

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**ABSTRACT**

Today India's international trade is increasing day by day. As a result, foreign companies are also willing to invest in India. On 12 June 2023, India's Finance Minister Nirmala Sitharaman stated that India has now reached the fifth largest economy in the world. In 2023, India's total GDP has reached the mark of \$3.75 trillion. India's GDP has been increasing continuously. One of the reasons for this increase in GDP is also proven to be the increasing flow of foreign trade in India, so the main objective of this paper is to know about the investment made in India. Among the various types of investment, this paper mainly considers Foreign Direct Investment (FDI). In this paper, it has been study that the trends in these investment in recent years is in which sector, from which countries the investment flows into India, which states of India mainly receive investment. All data for this study has been obtained from secondary sources. This information is mainly obtained from various websites of Government of India, SEBI, books, research papers.

**INTRODUCTION**

India has become the fifth largest economy in the world today. India's foreign trade has also increased significantly as India is on its way to becoming the third largest economy in the future. Looking at the situation in India, it can be said that the key to the development of the Indian economy is foreign trade. India's foreign trade figures for the year 2022-23 are shown in the table below.

**Table 1: Trade During July 2023**

Trade		JULY 2023 (USD Billion)	JULY 2022 (USD Billion)
Merchandise	Exports	32.25	38.34
	Imports	52.92	63.77
Services	Exports	27.17	24.26
	Imports	14.85	14.06
Overall Trade	Exports	59.43	62.59
	Imports	67.77	77.83

The above table compares India's foreign trade. From which it can be concluded that India's foreign trade has been increasing overall in the post-independence years and especially after the economic reforms of 1991. Which is a positive situation for India. There are many methods of entering into foreign trade. Some of the methods are mentioned below.

**Entry Modes In Foreign Trade:**



**Meaning of FDI**

Privatization has been encouraged since 1991 when the LPG model was adopted in India. Due to this, the path of FDI has become easier. FDI is one of the most crucial means of direct investment between two countries. Foreign direct investment occurs when a foreign company or individual makes an investment in India. Which includes both:

- (1) For new business operations

- (2) Acquiring business assets including controlling interests of an existing Indian company

FDI establishes long-term relationships and involves significant decision making on the company. Foreign direct investment (FDI) is a type of cross-border investment in which an investor from one country establishes a permanent interest in an enterprise of another country. FDI can take various forms, such as acquiring shares, establishing a subsidiary or joint venture, or providing loans or technology transfer. FDI is considered a key driver of economic development, as it can bring capital, technology, skills, market access and employment opportunities to the host country.

**FDI Entry Routes Into India**

Category 1	Category 2	Category 3
Up to 100% FDI permitted through Automatic Route	Up to 100% FDI permitted through Government Route	Up to 100% FDI permitted through Government + Automatic Route

**Types of FDI**

- (1) Horizontal: This type is observed whenever a business expands and enters a foreign country via the FDI route without changing its core activities.
- (2) Vertical: A business enters a foreign economy to strengthen a part of its supply chain without changing its business in any way.
- (3) Conglomerate: A business invests in a foreign country and buys an entity which manufactures totally different products.
- (4) Platform: This type refers to the expansion of a business to a foreign country, but everything manufactured there is exported to a third country.

**Literature Review**

(Dr. P. Sai Rani) The main objective of this research paper was to get information about changes in FDI policy of India, FDI in India in terms of country and sector. The period 2000-01 to 2018-19 was considered for this study. This information was obtained entirely from secondary sources. Findings were obtained from the data that there has been a positive growth in FDI since the period 2012-13.

(Syed Azhar, K. N. Marimuthu) This study studied the information about overview of FDI in India. The main objective of this study was to know about the various determinants of FDI. Apart from this the reasons for the need of FDI in India were also studied. In which it was said that the main reasons for the need for FDI were factors like technology gap, optimal utilization of natural resources, increase in

competitiveness. The impact of FDI on the economy of India was also studied in this research paper. Examine the data, it was found that there is a positive trend in the growth rate of FDI. India was ranked as the most selective country after China when comparing different countries.

(Rishika Nayyar, Jaydeep Mukherjee) The main objective of this paper was to examine the effects of the country's microeconomic conditions and government policies on FDI during the period 1984 to 2015. It was concluded that Indian companies need to adopt a Go Global policy.

(Malhotra Gunjan) This paper compared FDI between India and China. 12 years of FDI data were aggregated to make this comparison. This comparison was made between total FDI and different sectors. A correlation was obtained between two variables of statistical data, FDI and GDP of that country. The study found that there was a high dependency between GDP growth rate and FDI inflow in that country.

(Gulshan Akhtar) The main objective of this study was to know the pattern of FDI in India. For this the information was obtained from secondary data. Main focus of this study was on the change in the pattern of FDI before and after the economic reforms of 1991. The reasons for low FDI in India were: Corruption, State and Central governments lack of coordination among etc.

**Objectives of Study**

The main objectives of this study are as follows:

- (1) To know about the concept of Foreign Direct Investment.
- (2) To study the trend of foreign direct investment in the current financial years in India.
- (3) Steps taken by the government have been studied in this study.

**Research Methodology**

Data for this present study have been obtained from secondary sources. Statistical information has been collected from the website of Reserve Bank of India, United Nations. Apart from this, news-papers, books, research papers have also been studied. The statistical data collected is presented in the form of classification, chart, diagram.

**Limitations Of Study**

- (1) Only statistical data from 2000-01 to 2022-23 has been considered for this study.
- (2) This study compares FDI figures only in India, other countries are not considered.

**Table 2: Data Analysis And Interpretation**

SR. NO.	FINANCIAL YEAR	TOTAL FDI INFLOW ( IN US\$ MILLION )	PERCENTAGE GROWTH OVER PREVIOUS YEAR (IN USD TERMS)
1	2000-01	4,029	-
2	2001-02	6,130	(+)52%
3	2002-03	5,035	(-)18%
4	2003-04	4,322	(-)14%
5	2004-05	6,051	(+)40%
6	2005-06	8,961	(+)48%
7	2006-07	22,826	(+)155%
8	2007-08	34,843	(+)53%
9	2008-09	41,873	(+)20%
10	2009-10	37,745	(-)10%
11	2010-11	34,847	(-)08%
12	2011-12	46,556	(+)34%
13	2012-13	34,298	(-)26%
14	2013-14	36,046	(+)05%
15	2014-15	45,148	(+)25%
16	2015-16	55,559	(+)23%
17	2016-17	60,220	(+)08%

18	2017-18	60,974	(+)01%
19	2018-19	62,001	(+)02%
20	2019-20	74,391	(+)20%
21	2020-21	81,973	(+)10%
22	2021-22(P)	84,835	(+)03%
23	2022-23(P)	70,979	(+)16%
TOTAL	-	919,633	-

The above table gives information about total FDI inflows into India during various financial years. This data provides information on the total FDI inflows into India from 2000-01 to 2022-23 and the increase and decrease in FDI during these years. Total FDI inflow to India during 2000-01 was \$4029 million which is estimated to be \$70,979 million during 2022-23. Over all the total FDI inflows in India have been increasing in these years but after the year 2021-22 there was a decline in the estimated figures for 2022-23.

After the initial few years, the growth rate of FDI decreased in the years 2009-10 and 2010-11. In subsequent years, the overall growth rate has always been positive.

**Table 3: Share Of Top Investing Countries FDI Equity Inflow April 2000-march 2023**

RANK	COUNTRY	PERCENTAGE OF TOTAL FDI EQUITY INFLOW
1	Mauritius	26%
2	Singapore	23%
3	U.S.A.	9%
4	Netherland	7%
5	Japan	6%
6	United Kingdom	5%
7	UAE	2%
8	Cayman Islands	2%
9	Germany	2%
10	Cyprus	2%

The above table shows the share of the top ten countries investing in India from April 2000 to March 2023. It can be concluded from the table that the top two countries investing in India are Mauritius and Singapore. Then gradually USA, Netherlands, Japan, UK, UAE countries.

**Table 4: Sectors Attracting Highest FDI Equity Inflow**

RANK	SECTOR	PERCENTAGE OF TOTAL FDI EQUITY INFLOW
1	SERVICE SECTOR	16%
2	COMPUTER SOFTWARE AND HARDWARE	15%
3	TRADING	6%
4	TELECOMMUNICATION	6%
5	AUTOMOBILE INDUSTRY	5%
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	5%
7	CONSTRUCTION DEVELOPMENT (TOWNSHIPS, HOUSING, BUILT UP INFRASTRUCTURE)	4%
8	DRUGS AND PHARMACEUTICALS	3%
9	CHEMICALS (OTER THAN FERTILIZEINR)	3%
10	METALLURGICAL INDUSTRIES	3%

The table given above gives the percentage of income flow of FDI in different sectors of India so it can be known which major sectors of India are attracting FDI. The core service sector and computer software hardware sectors in India have been important in attracting FDI. Apart from this, trading, communication, automobile industry, infrastructure activities

are also gradually attracting the income stream of FDI.

**Table 5: States/UTs Attracting Highest FDI Equity Inflow**

RANK	STATE/UT NAME	PERCENTAGE OF TOTAL FDI EQUITY INFLOW
1	MAHARASHTRA	29%
2	KARNATAKA	24%
3	GUJARAT	17%
4	DELHI	13%
5	TAMIL NADU	5%
6	HARYANA	4%
7	TELANGANA	3%
8	JHARKHAND	1%
9	RAJASTHAN	1%
10	WEST BENGAL	1%

In the above table it is known which states attract FDI inflows among various states in India. The state of Maharashtra, considered the economic capital of India, has received the largest share of FDI inflows during these years. Then Karnataka with 24%, Gujarat with 17% and Delhi with 13% are the priority states. It can be said from this information that other states also need to take steps to attract FDI.

**Government Initiatives**

According to recent government initiatives, India has become an attractive destination for foreign investment because of favorable policy changes. These changes have spurred investment in India's upcoming sectors, such as defense manufacturing, real estate, and research and development. Some of the major government initiatives are:

1. The Government of India increased FDI in the defense sector by increasing it to 74% through the automatic route and 100% through the government route.
2. The government has amended rules of the Foreign Exchange Management Act (FEMA), allowing up to 20% FDI in insurance company LIC through the automatic route.
3. The government is considering easing scrutiny on certain FDI's from countries that share a border with India.
4. The implementation of measures such as PM Gati Shakti, single window clearance and GIS-mapped land bank are expected to push FDI inflows in 2022.
5. The government is likely to introduce at least three policies as part of the Space Activity Bill in 2022. This bill is expected to clearly define the scope of FDI in the Indian space sector.
6. In September 2021, India and the UK agreed for an investment boost to strengthen bilateral ties for an 'enhanced trade partnership'.
7. In September 2021, the Union Cabinet announced that to boost the telecom sector, it will allow 100% FDI via the automatic route, up from the previous 49%.
8. In August 2021, the government amended the Foreign Exchange Management (non-debt instruments) Rules, 2019, to allow the 74% increase in FDI limit in the insurance sector.

**CONCLUSION**

The promotion and attraction of foreign investment in India is of paramount importance for the country's economic growth and development. India has successfully implemented various schemes and policies to create a favorable investment climate, which have effectively attracted foreign investors and fostered a conducive business environment. In recent times, India has emerged as a significant global destination for FDI, with a high level of interest from international investors.

The appeal of India has been further enhanced by corporate tax cuts and simplified labor laws, while FDI restrictions have also decreased considerably in recent years. India's potential as an attractive market for both short-term and long-term investment remains strong, particularly in the low-skilled manufacturing sector.

The combined effect of these factors could lead to FDI inflows of US\$ 120-160 billion annually by 2025. Initiatives such as Make in India, Startup India, Digital India, and GST have yielded positive results, boosting competitiveness, economic growth, and employment opportunities. However, sustaining and promoting foreign investment requires continued government commitment to reforms, promoting stability, and addressing any remaining challenges. By doing so, India can continue its path as a global investment destination, leading to long-term economic prosperity.

Thus, for India to compete with China, it will be necessary to increase the inflow of FDI. The steps taken by the government are enough to move forward in this direction but some problems that are seen have to be overcome by the government.

**Recommendations**

Simplify and Streamline regulatory process, single window clearance system, digital platform for regulatory compliance, reduce bureaucracy and enhance investor protection mechanisms this is some suggestions to taken to boost FDI inflows in India.

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