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REVIEW PAPER

Exploring FDI Policies and Trends: Insights from the Indian Landscape

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ABSTRACT

In the present-day global economic landscape, FDI emerges as a pivotal driver for economic progress, especially in developing nations. Over recent years, propelled by the wave of globalization, numerous Asian developing economies have experienced a substantial surge in FDI. Notably, India has emerged as a prominent FDI destination, witnessing a notable upswing in FDI inflows. Given the paramount significance of FDI in the modern economic landscape and its noteworthy strides in India, a comprehensive analysis encompassing shifts in FDI policy, determinants of FDI attraction, and its ramifications on the domestic economy becomes imperative. This paper endeavors to scrutinize the evolution of FDI policies in India, delve into the diverse factors shaping FDI influx and ultimately assess the profound impact that FDI has exerted on the Indian economic landscape. *FDI Surge in India:* India has experienced a substantial surge in Foreign Direct Investment (FDI) in recent years, making it a prominent destination for global investors.

HIGHLIGHTS

- *Policy Evolution:* The evolution of India's FDI policies, highlighting the three broad categories – fully automatic route, government route, and a combination of both – as part of efforts to attract foreign investments.
- *Factors Driving FDI Inflow:* India's appeal for FDI lies in its low tax rates, skilled workforce, technological advancements, and job creation. The government has implemented measures, including sector-specific relaxations, contributing to the surge in FDI.
- *Sectoral Distribution:* Information technology, telecommunications, and automotive sectors have seen the most significant FDI influx. Strategic alliances with local conglomerates, especially in technology and healthcare, have contributed to substantial cross-border M&A.
- *Geographical Distribution:* Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu have emerged as the top recipients of FDI in different regions of India. Maharashtra, in particular, has outshined others in attracting substantial FDI.
- *FDI Trends:* While India witnessed a historic high of $83.57 billion in FDI inflow in 2021-22, there was a slight decrease to $70.97 billion in 2022-23. Singapore took the lead in contributing Foreign Direct Investment (FDI), with subsequent significant contributions coming from Mauritius, the United States, the UAE, and the Netherlands.
- *Cumulative Impact:* India's economic development has been greatly aided by FDI, with significant capital going into industries including trading, telecommunications, software and hardware for computers, and services. The total amount of foreign direct investment (FDI) from 2000 to 2023 was almost $919.633 billion, which strengthened India's standing in the world of FDI.

Keywords: FDI, sectoral distribution, regions, policy evolutions

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After the new economic policy 1991, with globalization and liberalization policy focus, the Indian economy wittiness several reforms and more in the foreign sector. Subsequently, FDI has emerged as a crucial non-debt financial resource driving India's economic growth. The favourable investment climate has attracted foreign corporations and companies, enticing them to invest in India (Anitha, 2012). India's appeal lies in its low tax rates and the availability of a skilled workforce at competitive salaries, which not only facilitate technological advancement but also generate employment opportunities for its labour force, among other benefits (FDI Flows to India, n.d). Consequently, India's accommodating FDI policy has been instrumental in attracting substantial investments. Moreover, a dynamic business environment, escalating global competitiveness, economic influence, resource abundance, and India's esteemed reputation on the world stage collectively play pivotal roles in influencing the influx of FDI into the country (Francis, 2010).

Reforms in the Indian foreign sector is considered to be the driving key of the Indian economy to compete in the world. As a result of the new trade policy several new activities in the foreign sector like WTO agreements, FDI, MNC, etc., made the Indian economy learn to face the challenges of world economic competition and to grab new opportunities (Kirthika & Nirmala, 2014).

The Indian government has implemented a number of noteworthy policy initiatives in recent years with the goal of promoting economic growth. One such initiative is the easing of regulations pertaining to Foreign Direct Investment (FDI) in a number of industries, including the public sector, oil refineries, communications, and defence (Kumar & Devesh, 2017). Notably, there was an extraordinary spike in foreign direct investment (FDI) between 2021 and 2022, with the information technology, telecommunications, and automotive sectors emerging as the leading recipients of FDI. The notable local corporate giants and multinational corporations (MNCs) have created strategic relationships, especially in the technology and healthcare sectors, which is responsible for the recent increase in foreign direct investment (FDI). With deals totaling a considerable US$27 billion, this collaborative strategy has led to an amazing 83.0 percent growth in cross-border mergers and acquisitions (M&A).

At the end of 2022, India achieved the third-highest ranking in the world for Foreign Direct Investment, demonstrating its continued prominence as a major player in this area. Between April 2014 and March 2023, the country saw an extraordinary inflow of foreign direct investment (FDI) of US$ 596.07 billion. This remarkable accomplishment may be ascribed to contributions from over 101 countries, which were made to 31 States, Union Territories, and 57 different industries across the country (Press Information Bureau, 2022). In light of this dynamic environment, the purpose of this research study is to conduct a thorough analysis of the modifications made to India's Foreign Direct Investment policy, identify current patterns in FDI influx, and clarify the resulting effects on the country's economy. Understanding the changing economic landscape and how FDI affects India's growth trajectory requires this kind of investigation.

OBJECTIVES

Examining the Foreign Direct Investment (FDI) policy and evaluating the latest patterns in FDI influx to India are the main objectives of this research. The particular goals consist of:

- To examine discussions surrounding FDI policy.
- To analyse the trends, directions, and the economic impact of FDI on India.

METHODOLOGY

The paper is descriptive, discussing changes in FDI policies and analyzing the trend of FDI inflow to India in recent years. FDI inflow in various sectors as well as at different regions are also analysed. Analysis is carried out using secondary data from the relevant sources.

DISCUSSION

FDI policy of India

FDI involves a resident of one economy making an investment in a business located in another economy, with the goal of establishing a lasting interest or presence in the host economy. Another way to define FDI is as an investment into a country's business by a company from a different country (Goel, Kumar, & Rao, 2013). FDI inflows are one type of capital transfer and a key factor in determining capital for developing nations. A transnational or multinational company, in particular, invests money through the creation of new equity bases in the host or home economy. This is referred to as FDI (Anitha, 2012). The BOP of emerging nations is more significantly impacted by FDI. By their very nature, portfolio investments reflect considerably shorter-term commitment than FDI and are therefore thought to have higher volatility. The majority of foreign capital entering India is invested in equity shares, debentures, etc. as part of a portfolio (Mishra, 2017).

The role of FDI in India has been significant, serving as a crucial source of non-debt external finance. FDI inflows indicate the foreign investor's long-term status in the host economy (Thomas & Asha, 2016). As regards the policy relating to direct foreign investment in India, changes have been made from time to time in response to the changing economic environment. For nations that are still developing or weak in some aspects, FDI can be quite advantageous. It offers them the tools and resources they need from other nations to meet their issues and advance their economic conditions. The allocation of global capital is influenced by factors with social, political, and economic implications for nations engaged in trade. Significant empirical study on the flow of FDI into developing and underdeveloped countries has been carried out over the course of the previous 60 years (Sethi *et al.* 2011; Sharma, 2016).

The FDI Policy seeks to stimulate economic growth by luring in and promoting foreign direct investment as a complement to domestic capital, technology, and expertise. All applicable sectoral laws, rules, regulations, security requirements, and state and municipal legislation must be followed in order for FDI to be allowed. Since opening up its economy to foreign investment in 1991, India has witnessed a notable enhancement in its investment climate. Over time, there have been continuous efforts to formulate and adapt FDI policies. These policies can be broadly categorized into three distinct groups (Sirisha & Mayadri, 2015)

- **Group 1:** Complete foreign direct investment (FDI) is permitted through the automatic route.
- **In Group 2:** Up to 100 percent of foreign direct investment (FDI) is made possible through the government channel.
- **Group 3:** Allows up to 100 percent of foreign direct investment (FDI) via automatic and government channels.

The FDI policy of 1991, has provisions for favoring foreign investments. It is provided to invest up to 51.0 percent by foreign companies in the equity shares of Indian companies in India. This move and vision of the Indian government hoped to increase the flow of foreign capital into Indian markets (Vataliya & Paramar, 2013). India made a major step towards liberalising its Foreign Direct Investment (FDI) policy with regard to Single Brand retail retailing in 2012. This calculated move broke with past limitations and created opportunities for further foreign involvement in the nation's retail industry. The FDI quota has been increased to an astounding 100% as of right now, demonstrating the government's determination to draw in international investors. To maintain equilibrium between promoting foreign investment and defending the interests of the home market, a number of strict requirements accompany this liberalisation. Additionally, the FDI Policy 2016 allowed FDI in Private Security Agencies up to 49.0 percent under the government approval method (Basu & Ghosh, 2017; Kumar, 2017). The FDI Policy 2017 does, however, allow FDI up to 49.0 percent under the automatic method and up to 74.0 percent beyond 49.0 percent with government approval (Vyas, 2015; Wellington & Jammu, 2014).

The pattern of Foreign Direct Investment in India:

Inflows of FDI to India totaled US$70.97 billion in 2022–23, a decrease from 2021–22 (US$ 83.57); this sum comprises capital from other sources as well as equity inflows. In the fiscal year 2021–2022, India got 83.57 billion dollars in FDI, the biggest amount ever. However, because of the uncertainty in the world, it has decreased in 2022–2023. The highest foreign direct investment (FDI) into India came from Singapore, totaling US$17.20 billion. Additionally, significant investments originated from Mauritius, the United States, the UAE, and the Netherlands (Zeheng, 2013).

The following are the specifics of total FDI inflows recorded in the past four fiscal years.

Table 1: Inflow of FDI to India (2018-22)

Year	Inflow of FDI
2018-19	US$62.0 billion
2019-20	US$74.39 billion
2020-21	US$81.97 billion
2021-22	US$83.57 billion

Source: *Ministry of Commerce & Industry Report 2023.*

Some Facts on FDI Inflows in 2022- 2023

Rena and Mbukanma (2022) have emphasised that India had a remarkable increase in Foreign Direct Investment (FDI) inflow during the fiscal year 2021-2022, with the amount reaching a historic high of US$83.57 billion. Nevertheless, the nation continued to draw a sizable amount in the following fiscal year of 2023, with total FDI inflows reaching US$70.97 billion. Notably, the computer hardware and software industry proved to be the most desirable location for foreign investments, reaffirming its role as a major force behind economic expansion. In close pursuit, the services sector demonstrated its remarkable ability to attract investments, amassing an incredible US$8.70 billion. This pattern shows how resilient and alluring India's economy is, as international investors keep seeing and seizing the chances given by the country's booming services and technology sectors.

Among the contributing nations, Singapore took the lead in inward FDI, contributing a noteworthy US$17.20 billion. Additionally, Mauritius, the United States, UAE, and the Netherlands also featured prominently as key investor countries. In terms of states, Maharashtra emerged as the frontrunner in attracting FDI, accumulating a substantial amount. Karnataka followed with a commendable sum, while Delhi and Gujarat secured significant investments. This robust influx of foreign investments reflects a positive trend in India's economic landscape, highlighting the country's growing allure on the global stage. This robust influx of foreign investments reflects a positive trajectory in India's economic landscape, showcasing the country's growing appeal on the global stage (FDI Flows to India, n.d).

The pace of annual growth of FDI influx varies significantly from year to year. The value of FDI abroad showed a deficit balance. Table 2 shows that FDI in India expanded dramatically between

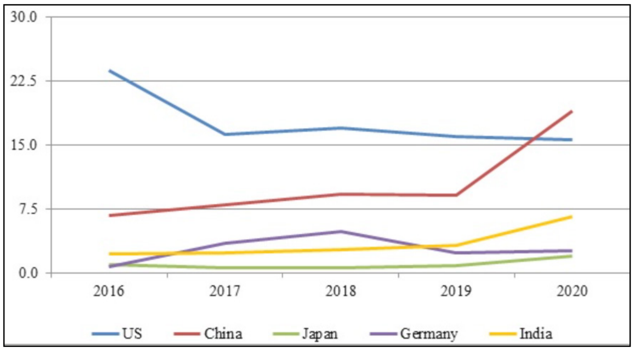
Table 2: Foreign Direct Investment and Portfolio Investment (₹ In crore)

Years	Foreign direct investment				Portfolio investment			
	In India		Abroad		In India		Abroad	
	Value	Annual growth rate	Value	Annual growth rate	Value	Annual growth rate	Value	Annual growth rate
2001-2002	29245	-	-6615	-	9616	-	-326	-
2002-2003	24397	-16.58	-8803	-33.08	4675	-51.38	-171	-47.55
2003-2004	19830	-18.72	-8886	-0.94	51898	1010.11	0	0
2004-2005	26947	35.89	-10202	-14.81	41419	-20.19	-107	0
2005-2006	39457	46.42	-26032	-155.17	55357	33.65	0	0
2006-2007	102652	160.16	-67742	-160.23	31630	-42.86	251	0
2007-2008	139420	35.82	-75644	-211.66	109968	247.67	651	159.36
2008-2009	158628	13.78	-81796	-8.13	-64197	-158.38	-848	-230.26
2009-2010	151182	-4.69	-56924	30.41	153885	339.71	100	-109.67
2010-2011	132358	-12.45	-78257	-37.48	144680	-5.98	-5300	-5400
2011-2012	154961	17.08	-51794	33.82	86745	-40.04	-1174	77.85
2012-2013	146954	-5.17	-38768	25.15	151251	74.36	-4784	-507.50
2013-2014	186830	27.14	-56860	-46.67	31103	-79.44	-1423	70.26
2014-2015	215893	15.56	-24675	56.60	257762	728.74	91	-106.39
2015-2016	294258	36.30	-58476	-136.98	-23822	-109.24	-3381	-3815.38
2016-2017	283292	-3.73	-44379	24.12	51522	316.28	-1040	-69.24
2017-2018	253977	-10.35	-58925	-32.78	142948	177.45	-317	-69.52
2018-2019	301932	18.88	-87869	-49.12	-5	-100.00	-1852	484.23
2019-2020	396955	31.47	-92135	-4.85	1200	-24100	6194	-434.45
2020-2021	406765	2.47	-81383	11.67	285630	23702.5	-19156	-409.27

Source: *Reserve Bank of India, Handbook of statistics on Indian Economy, 2001-2002, 2008-2009, 2010-2011, 2015-2016 and 2020-2021*

2001 and 2021, rising between 2001 and 2021, with the value reaching a maximum of ₹ 92135 crores in 2019 and 2020 (Kumar & Agarwal, 2020). The trend value of portfolio investment in India shows a steady upward trend, though it shows fluctuation, during 2008-2009 (₹ 64197 crore), 2015-2016 (₹ 23822 crore), and 2018-2019 (₹ 5 crore), where the trend values are negative. The annual growth rate of portfolio investment abroad during 2007-2008 (159.36 percent), 2011-2012 (77.85 percent), 2013-2014 (70.26 percent) and 2018-2019 (484.23 percent) shows a higher rate compared with other years in the last two decades (Reserve Bank of India, 2020-2021; Balasubramanyam & Sapsford 2009).

Between 2000-01 and 2021-22, India has seen a twentyfold increase in FDI inflows. It should be noted that, according to the UNCTAD World Investment Report (WIR) 2022, India has climbed one spot to take the 7th spot among the top 20 host economies for 2021 in its examination of worldwide trends in FDI inflows (Reserve Bank of India, 2020-2021; Mishra & Palit 2020).



Source: *World Investment Report 2020.*

Fig. 1: The proportion (%) of global FDI flows attributed to India and other major economies

According to detailed information provided by the Department for Promotion of Industry and Internal Trade (DPIIT), India has received roughly $919.633 billion in total Foreign Direct Investment (FDI) between April 2000 and March 2023. A closer look shows that the total amount of foreign direct investment (FDI) that entered India between January and March 2023 was a staggering $15.49 billion. When we extend the focus to the larger period from April 2000 to March 2023, we find that the service industry is the main recipient of FDI equity inflow, accounting for a stunning $102.85 billion and a sizeable 16.0 percent of the total. The computer hardware and software sector came in second, with a significant 15.0 percent stake, or $94.91 billion. Concurrently, the trading industry brought in $39.53 billion, or 6.0 percent of FDI. Furthermore, the automobile industry received a noteworthy $34.74 billion, or 5.0 percent part of FDI, while the telecoms sector obtained a comparable 6.0 percent portion, totaling $39.04 billion.

These figures, which are indicative of the changing foreign direct investment (FDI) environment in India, highlight the significant contributions made by different sectors to the overall foreign investment situation and offer a thorough overview of the distribution patterns throughout this long period of time.

Between April 2000 and March 2023, India saw significant inflows of foreign direct investment (FDI), which were largely led by important donors. With a noteworthy $163.87 billion contribution, or 26.0% of the overall FDI inflow during this time, Mauritius was a major player. Singapore came in second place with a $148.16 billion contribution and a 23.0 percent stake. With a $60.19 billion overall investment, the United States secured a 9.0 percent stake, making a substantial influence as well. Furthermore, the Netherlands was a significant contributor, contributing $7.0% of the $43.75 billion in FDI inflows. Japan made up $38.74 billion of India's total FDI landscape with a 6.0 percent participation. The wide range of contributors demonstrates the confidence and interest that the world has in India's economic climate, which makes it a desirable location for foreign investment (FDI Flows to India, n.d).

A detailed regional breakdown of Foreign Direct Investment (FDI) inflows into India highlights Maharashtra as the main recipient, with FDI totaling a respectable US$53.97 billion. With an astounding US$44.46 billion, Karnataka comes in second, followed by Gujarat ($31.90 billion), Delhi ($25.19 billion), and Tamil Nadu ($8.50 billion). As per the most recent data by the Department of Industrial Policy and Promotion (DIPP) on foreign direct investment (FDI) inflows from January to March 2023, Maharashtra remains the top destination for FDI, with an impressive FDI inflow of US$14.80 billion. Gujarat has US$4.71 billion, Delhi US$7.53 billion, and Karnataka US$10.42 billion in line. This report highlights Maharashtra's continued achievement in outperforming other notable states in obtaining FDI within the designated period (Press Information Bureau, 2022).

A detailed analysis of foreign direct investment (FDI) inflows into India by area reveals Maharashtra to be the top recipient, with FDI totaling US$53.97 billion. With an astounding US$44.46 billion, Karnataka is not far behind, followed by Gujarat ($31.90 billion), Delhi ($25.19 billion), and Tamil Nadu ($8.50 billion). The Department of Industrial Policy and Promotion (DIPP) has released a report on foreign direct investment (FDI) inflows for the period of January to March 2023. The research confirms Maharashtra's dominance in attracting FDI, with a noteworthy amount of US$14.80 billion. Gujarat has US$4.71 billion, Delhi US$7.53 billion, and Karnataka US$10.42 billion in line. The aforementioned statistics highlights Maharashtra's remarkable track record of surpassing other notable states in obtaining foreign direct investment within the designated term (Press Information Bureau, 2022).

India has successfully received 811 industrial investment offers as of August 2022, totaling Rs. 352,697 crores, or around 42.78 billion US dollars. The total amount of proposed industrial investments for 2022 has increased dramatically to US$ 298 billion (₹ 23.6 lakh crore). This is a significant rise above the US$ 169.5 billion (₹ 13.8 lakh crore) amount from the previous year. With a valuation of more than 17 billion US dollars, Singapore is the largest source of FDI equity inflow into India, according to a noteworthy trend for the fiscal year 2023. Mauritius, trailing closely behind, took second place with an inflow of more than six billion dollars. During the fiscal year 2023, Singapore's contribution was noteworthy as it accounted for thirty percent of the overall FDI influx, indicating its significant influence on the economic landscape of India during that time (Press Information Bureau, 2022).

CONCLUSION

Foreign Direct Investment (FDI) has emerged as a crucial catalyst in promoting global economic development, fostering job creation, bolstering GDP growth, and enhancing living standards in host nations through the exchange of managerial expertise and technological knowledge. India, in recent times, has positioned itself as a prominent global FDI hub. A 2020 study identified India among the top three preferred international destinations for FDI, with an impressive 80.0 percent of respondents expressing interest in investment opportunities there. Additionally, India has undertaken significant measures such as reducing corporate taxes and streamlining labor regulations to attract foreign investors. Over the past 16 years, the nation has consistently maintained a commendable FDI index of 0.21, reinforcing its appeal for foreign investment both in the short and long term. Notably, one sector within FDI demonstrating considerable potential is low-skill manufacturing in India. This sector holds promise for investors seeking lucrative opportunities in the country's evolving economic landscape.

India has witnessed notable enhancements in government effectiveness. These improvements are largely credited to the relatively stable state finances, even in the face of challenges posed by COVID, as well as a positive reception from stakeholders in the Indian business community towards the government's funding and subsidies extended to private enterprises. As a result of these factors, it is anticipated that by 2025, India could potentially attract an annual FDI influx ranging from US$ 120 to 160 billion.

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