



## IS FOREIGN DIRECT INVESTMENT- A NEW ENGINE FOR GROWTH AND ECONOMIC DEVELOPMENT OF INDIA?

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### ABSTRACT:

*Indian economy is one of the fast-emerging economy across the world with respect to Foreign direct investments. The development of any nation doesn't happen overnight Foreign direct investment is a major vehicle for cash inflows into India economy. FDI is a major driving force and source for the development of any economy. Every year we are experiencing growth of FDI inflows into India. Post liberalization period India has witnessed major changes in the business activities, economy growth and capital formation during pre-liberalization period there was no conducive environment for conducting any business activity due to high tariffs, restrictive trade practices, restriction on import. After introducing liberalization, privatization and globalization policy in the year 1991, India has shifted focus towards outward oriented policy as well reduced restrictions on trade policies, import duties etc for feasibility of doing business. The flow of FDI inflows has arose from 4,029 Crore rupees in 2001 to 89,930 Crore rupees till 2023 june. In this research article author has made an attempt to present the statistical data pertaining to FDI inflows into India, besides this he made an attempt to understand the year wise equity flows into economy, state wise and sector wise attracting high FDI inflows into India. The aim of the present study is to understand the significance of Foreign direct investment inflows in development of India. The present study uses secondary data related to FDI investments which has been collected from DPIIT website and other published articles with the help of well defined inclusion and exclusion criteria. The results of the study reveals that service sector stood first with 16.33% of total equity flows in USD terms and it was observed that Maharashtra is attracting highest 4,43,961 cumulative equity flows from October,2019- june,2023.*

**Keywords:** *Foreign Direct Investments, Liberalization, DPIIT, Inclusion and Exclusion criteria.*

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### INTRODUCTION:

Formation of capital is key determinant for any economic activity and it is essential for the development of economy and the economic development of nation is represented by its GDP.

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Investments from domestic sources fuels capital stock in any country while, Foreign direct investment is one of the major source of overall capital formation. FDI bridges the gap between domestic investments and savings. MNC's act as vehicles for mobilizing funds and bring all the economies across globe. Indian economy is one of the major developing economy in the world with respect to Foreign direct investments. The development of any nation doesn't happen overnight. Foreign direct investment is a major vehicle for cash inflows into India economy. FDI is a major driving force and source for the development of any economy. Every year we are experiencing growth of FDI inflows into India. Post liberalization period India has witnessed major changes in the business activities, economy growth and capital formation during pre-liberalization period there was no conducive environment for doing any business activity due to high tariffs, restrictive trade practices, restriction on import. After introducing liberalization, privatization and globalization in the year 1991, India has shifted focus towards outward oriented policy as well reduced restrictions on trade policies, import duties etc for feasibility of doing business. The flow of FDI inflows has arose from 4,029 Crore rupees in 2001 to 89,930 Crore rupees till 2023 June.

#### **COMPONENTS OF FDI:**

FDI comprises of three major components viz, equity capital, re-invested gains and other sources of capital or term loans between intra-companies. FDI cash inflows are represented as net capital account. The difference between credits – debit transfers between direct investors as well as foreign investors associated with financial year. FDI is allowed in two major methods i.e, Automatic route and Government route. FDI inflows raised from automatic route don't need any approval from Indian Government to invest in any company. Without government interference one can invest in any sectors such as financial services, railway, insurance, construction and so on. Under government route FDI inflows need approval from Indian government. Sectors like Print media, banking-public, satellite operations etc require approval from government. There is no similar rates of FDI in India depends on sector/ industry the percentage of investments varies 49%, 51%, 74% in few industries 100% FDI investments are allowed which signifies the investments from foreign entities. In few sectors like Defence and telecom through government and automatic routes only 49% FDI's are allowed. Sectors such as tobacco industry, betting and gambling, Chits and nidhi companies etc are restricted FDI's in both routes.

#### **LIBERALIZATION AND FDI INVESTMENTS:**

Indian economic reforms influence significantly in shaping the development of India, prior to liberalization of economic reforms, investment policies are not conducive for FDI because of tariffs, government interference on import duties, restrictions on imports later in the year 1991, LPG has brought major changes in economic activities FDI investments upto 51% allowed under automatic route in 34 major sectors. During 2012, FDI limit has increased to 100% in retail sector govt route where as, 51% FDI is permitted for multi-brand retail segment. Government



has launched skill India and Make in India to boost FDI investments these initiatives attracted FDI inflows to India.

## REVIEW OF LITERATURE:

**Bajpai and Dasgupta (2004)** examined FDI flows in china and India examined the pattern over a period of years by major Multinational companies and made an attempt to understand the possibilities for attracting investments from foreign companies there by India can formulate policies to attract foreign direct investments. **Goswamia and Saikiab (2012)** an attempt is made to understand the relationship that exists between exports and FDI explored the major trends in FDI. **Anitha (2012)** in their research work authors have examined relationship between FDI inflows and Economic growth findings of their study revealed that FDI plays an important role in limiting the gap between present and future requirement of funds and FDI is very important source for financing funds for under-developing and developing nations. **Azhar S (2012)** examined FDI flows into India and impact on economic growth, they found that especially during the recent times FDI in India is following positive growth rate FDI is a major determinant which drives economic growth of India. **Patil and Kadam (2014)** an attempt is made to understand relevance of FDI on economic development of India over the years 2001-2010 and explained the importance of role of FDI in economic development through their observations. **Teli BR (2014)** in their research work an attempt is made to understand the growth rate of FDI investments and findings of the works represents Mauritius and Singapore stands top in FDI investments and service sector is major to receive FDI flows. Author opines that Government of India should design flexible business policies and to remove restrictions on investments which help to bring fresh investments which benefits Indian economy. **Vyas AV (2015)** found that FDI inflows are major sources of investments for capital formation and economic development of India. FDI helps in creating employable opportunities in many sectors for skilled workforce besides this FDI's in Banking and insurance sector strengthen Indian financial system FDI helps to raise the productivity and output. **Singh S (2019)** opines Indian economy is fast emerging economy in the world since 2014, foreign countries are looking towards India for Investments through FDI flows, these flow of funds will help India in advancement of technology, up gradation of skills, technology transfer, employment generation and better infrastructure. **Rakhi (2020)** author has made an attempt to analyse FDI trends in India findings of the study reveals that India is top 9<sup>th</sup> nation to receive FDI in 2020 finally author concludes the study with the positive impact of FDI on India economic development.

## PROBLEMATIC:

So far many research works has been carried out in this area pertaining to the inconsistency of fund flows into Indian economy hence, it is very important to assess the trends of FDI in

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developing Indian economy and also to understand the major states attracting higher FDI inflows, to analyze the major industries where FDI inflows are allowed through automatic and government route in India and to identify the sectors prohibited FDI investments in India.

### OBJECTIVES OF THE STUDY:

1. To examine the recent trends in FDI inflows into India economy.
2. To analyze the major sectors attracting FDI in India.
3. To identify the states which attract highest FDI Inflows.
4. To understand the investment pattern of top countries towards FDI Inflows.

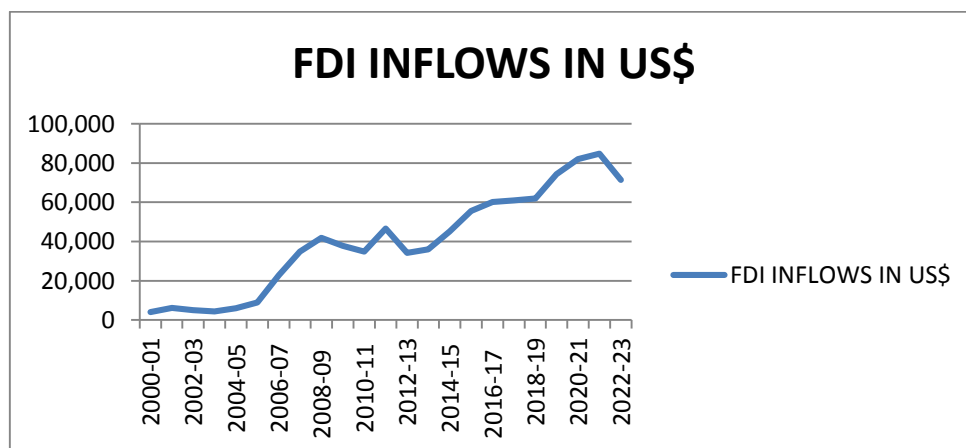
### RESEARCH METHODOLOGY:

Present study pertaining to FDI inflows is purely quantitative in nature. Author has collected secondary data from Department of Industrial and promotion policy, RBI etc and other online sources were used to collect required to meet the objectives set forth by author, Besides he used articles published pertaining to FDI is collected from databases like ebsohost, peer-reviewed journals and e-sources has been referred. Well defined inclusion and exclusion criteria is used to collect the data inclusion criteria helps author to collect the data related to Indian FDI investments articles published in English language are used and recent data has been collected from DIPP. Articles published in multiple nations are excluded only Indian works are reviewed.

**Tools used:** To assess the FDI trends author has used percentage and CAGR (Compounded Annual Growth Rate) is used to examine the quantitative data. Author intends to present figures of FDI in percentages to give comprehensive understanding about FDI inflows in India.

### DATA ANALYSIS AND INTERPRETATION:

**Chart-1. Represents the cumulative FDI inflows into India**



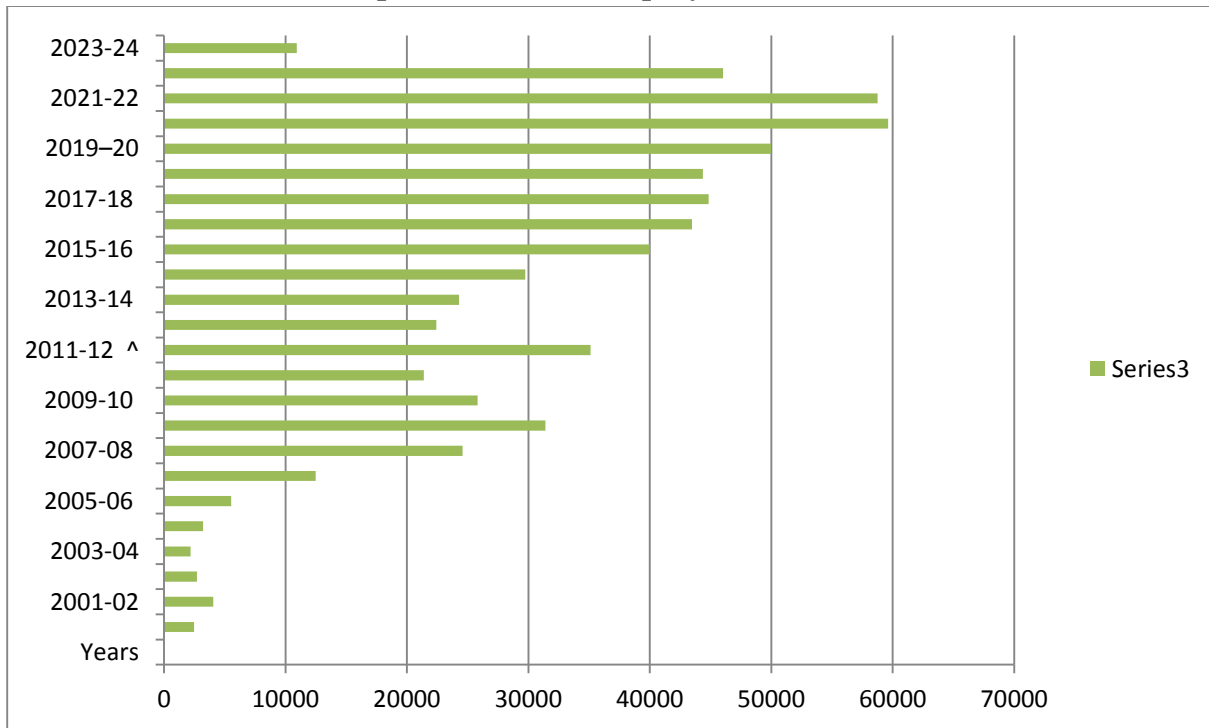
(Source: internet)



**Interpretation:**

The above graph depicts the flow of FDI inflows from 2001-2023. The FDI inflows are drastically increased. We can understand that economic reforms and flexi policies of business favorable business policies has attracted multinational companies to invest in India. Even India has seen up's and down's in FDI investments during the instances of 2008 global economic recession, 2012-13 European crisis and 2019-2020 pandemic crisis, witnessed gradual surge in FDI inflows in India. During 2014 government of India took initiatives such as start up India, Skill India also boost the FDI growth.

**Chart-2 Represents the FDI Equity Inflows in US dollars**



**Interpretation:**

The above exhibit represents cumulative equity inflows deducting the investments remitted through RBI and NRI schemes. It was found that inconsistency in growth rate of FDI equity inflows over a period of time, there is a positive growth rate and also observed down trends in FDI equity also the reasons may be covid-19 pandemic crisis, changes in investment pattern may be the reasons.



**I. CUMULATIVE FDI FLOWS INTO INDIA (2000-2023):**

**A. TOTAL FDI INFLOW (from April, 2000 to JUNE, 2023):**

1	<b>CUMULATIVE FDI INFLOWS</b> (Equity inflow + 'Re-invested earnings' + 'Other capital')		USD 9,71,521 Million
2	<b>CUMULATIVE FDI EQUITY INFLOWS</b> (excluding, amount remitted through RBI's NRI Schemes)	INR 42,44,132 Crore	USD 6,66,477 Million

**B. FIRST QUARTER FDI INFLOWS FOR THE FINANCIAL YEAR 2023-24 (APRIL, 2023 TO JUNE, 2023):**

1	<b>TOTAL FDI INFLOW INTO INDIA</b> (Equity inflow + 'Re-invested earnings' + 'Other capital') (as per RBI's Monthly bulletins)		USD 17,960 Million
2	<b>FDI EQUITY INFLOW</b>	INR 96,154 Crore	USD 11,549 Million

**C. MONTH-WISE FDI EQUITY INFLOWS FOR THE FINANCIAL YEAR 2023-24:**

<i>Financial Year 2023-24</i>		<i>Amount of FDI Equity inflow</i>	
<i>(April – JUNE)</i>		<i>(In INR Crore)</i>	<i>(In USD mn)</i>
1	April, 2023	41,877	5,106
2	May, 2023	22,055	2,678
3	June, 2023	25,999	3,162
<b>2023-24 (from April, 2023 to JUNE, 2023) #</b>		<b>89,930</b>	<b>10,946</b>
<b>2022-23 (from April, 2022 to JUNE, 2022) #</b>		<b>1,27,823</b>	<b>16,589</b>
<b>%age growth over last year</b>		<b>-30%</b>	<b>-34%</b>



**Source: DPIIT publications**

The above table describes the facts of FDI flows month-wise from April –June 2023 -34% changes has been found in FDI equity inflows over the last three months.

**D. SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOW (Financial year):**

<i>Rank</i>	<i>Country</i>	<b>Amt. in Rupees Crores/ Amt. in USD Million</b>	<u>2021-22 (April-March)</u>	<u>2022-23 (April-March)</u>	<u>2023-24 (April-Dec.)</u>	<u>Cumulative Equity Inflow * (April, 2000-December, 2023)</u>	<i>%age out of total FDI Equity inflow (in terms of USD)</i>
<b>1</b>	<b>Mauritius</b>	Rupees Crores	69,945	48,895	58,433	10,14,876	
		USD Million	9,392	6,134	7,042	1,70,918	26%
<b>2</b>	<b>Singapore</b>	Rupees Crores	1,18,235	1,37,374	61,505	10,55,902	
		USD Million	15,878	17,203	7,443	1,55,612	23%
<b>3</b>	<b>U.S.A.</b>	Rupees Crores	78,527	48,666	23,432	4,29,346	
		USD Million	10,549	6,044	2,835	63,031	9%
<b>4</b>	<b>Netherland</b>	Rupees Crores	34,442	19,855	18,765	3,02,213	
		USD Million	4,620	2,498	2,278	46,037	7%
<b>5</b>	<b>Japan</b>	Rupees Crores	11,187	14,328	22,567	2,58,628	
		USD Million	1,494	1,798	2,735	41,475	6%
<b>6</b>	<b>United Kingdom</b>	Rupees Crores	12,283	13,994	7,589	2,00,823	
		USD Million	1,657	1,738	918	34,794	5%
<b>7</b>	<b>UAE</b>	Rupees Crores	7,699	26,315	20,160	1,27,118	
		USD Million	1,032	3,353	2,430	18,008	3%
<b>8</b>	<b>Cayman Islands</b>	Rupees Crores	28,383	6,069	1,780	1,06,859	
		USD Million	3,818	772	215	15,139	2%
<b>9</b>	<b>Germany</b>	Rupees Crores	5,421	4,417	3,041	86,734	



		USD Million	728	547	368	14,506	2%
10	Cyprus	Rupees Crores	1,735	10,184	6,627	79,378	
		USD Million	233	1,277	796	13,441	2%
<b>TOTAL FDI EQUITY INFLOW FROM ALL COUNTRIES</b>		Rupees Crores	<b>4,37,188</b>	<b>3,67,435</b>	<b>2,65,030</b>	<b>42,44,132</b>	
		USD Million	<b>58,773</b>	<b>46,034</b>	<b>32,037</b>	<b>6,66,477</b>	-

Source: DPIIT

From the above table we can observe that Mauritius stood top followed by Singapore and Netherlands in FDI equity inflows and other has considered only top ten nations contributed for FDI equity inflows.

#### E. SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOW

Rank	Sector	Amt. in Rupees Crores/ Amt. in USD Million	2021-22 (April-March)	2022-23 (April-March)	2023-24 (April-Dec)	Cumulative Equity Inflow * (April, 2000- Dec, 2023)	%age out of total FDI Equity inflow (in terms of USD)
1	SERVICES SECTOR **	Rupees Crores	53,165	69,852	42,822	6,74,807	
		USD Million	7,131	8,707	5,187	1,08,042	16%
2	COMPUTER SOFTWARE & HARDWARE	Rupees Crores	1,07,762	74,718	28,250	6,81,029	
		USD Million	14,461	9,394	3,417	98,329	15%
3	TRADING	Rupees Crores	33,779	38,060	22,082	2,89,261	
		USD Million	4,538	4,792	2,661	42,192	6%
4	TELECOMMUNICATIONS	Rupees Crores	4,980	5,469	2,229	2,34,752	
		USD Million	668	713	271	39,315	6%



5	AUTOMOBILE INDUSTRY	Rupees Crores	51,624	15,184	7,547	2,30,212	
		USD Million	6,994	1,902	913	35,657	5%
6	CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES	Rupees Crores	24,178	13,588	31,826	2,36,304	
		USD Million	3,248	1,703	3,841	33,527	5%
7	CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction-development projects	Rupees Crores	932	1,196	1,538	1,30,747	
		USD Million	125	146	185	26,541	4%
8	DRUGS & PHARMACEUTICALS	Rupees Crores	10,552	16,654	7,592	1,33,628	
		USD Million	1,414	2,058	913	22,377	3%
9	CHEMICALS (OTHER THAN FERTILIZER)	Rupees Crores	7,202	14,662	6,370	1,33,089	
		USD Million	966	1,850	770	22,072	3%
10	POWER	Rupees Crores	3,904	5,483	13,155	1,08,010	
		USD Million	526	698	1,583	18,168	3%

From the above exhibit it is found that service sector is attracting more FDI investments 16% followed by computer hardware and software by 15% and trading and telecommunication 6% respectively on top 3 FDI investments.

Rank	Sector	Amt. in Rupees Crores/ Amt. in USD Million	2021-22 (April-March)	2022-23 (April-March)	2023-24 (April-June)	Cumulative Equity Inflow * (October, 2019-June, 2023)	% age out of total FDI Equity inflow (in terms of USD)
1	MAHARASHTRA	Rupees Crores	1,14,964	1,18,422	36,634	4,43,961	
		USD Million	15,439	14,806	4,460	58,431	29%
2	KARNATAKA	Rupees Crores	1,63,795	83,628	12,046	3,47,103	
		USD Million	22,072	10,429	1,466	45,927	23%
3	GUJARAT	Rupees Crores	20,169	37,059	5,993	2,45,018	
		USD Million	2,706	4,714	729	32,630	16%



4	DELHI	Rupees Crores	60,839	60,119	15,358	2,05,451	
		USD Million	8,189	7,534	1,868	27,061	14%
5	TAMIL NADU	Rupees Crores	22,396	17,247	5,181	69,268	
		USD Million	3,003	2,169	631	9,133	5%
6	HARYANA	Rupees Crores	20,971	20,735	4,056	63,528	
		USD Million	2798	2,600	494	8,316	4%
7	TELANGANA	Rupees Crores	11,964	10,319	6,829	42,595	
		USD Million	1,607	1,303	831	5,576	3%
8	JHARKHAND	Rupees Crores	48	44	79	19,371	
		USD Million	6	6	10	2,666	1%
9	RAJASTHAN	Rupees Crores	5,277	7,218	785	16,643	
		USD Million	707	910	96	2,174	1%
10	WEST BENGAL	Rupees Crores	3,195	3,217	438	11,335	
		USD Million	428	394	53	1,482	1%

Source: DPIIT

From the above table it is observed that Maharashtra ranked 1<sup>st</sup> in FDI inflows with 29% , Karnataka stood second with 23% , followed by Gujarat with 16% above 3 states ranked highest FDI investments in top 3.

#### PRINCIPLE FINDINGS OF THE STUDY:

1. FDI is a major determinant that helps in capital formation as well as in development of Indian economy.
2. Cumulative amount of Equity FDI inflows excluding RBI and NRI remittance is 40,69,033 Crore rupees.
3. FDI cumulative equity flows for the first quarter i.e, April –June,2023 Stands at 89,930 Crore rupees.
4. Mauritius stood first among top ten countries in attracting FDI equity inflows with 26%, Singapore 23% and USA 9% respectively during the first quarter from April,2023- June,2023.
5. Service sector is the major sector to attract the FDI inflows during first quarter with 16% equity inflows, computer hard ware and software segment constitute 15% of equity inflows in FDI investments.
6. Maharashtra is state which attracted more FDI inflows for first quarter with 29%, followed by Karnataka 23% and Gujarat constitutes 16% of FDI inflows during April,2023- June,2023.



7. It was observed that there was no uniformity or consistency in growth rate of FDI inflows into Indian economy. Every year there is growth rate as well as decreased in percentage of Inflows are observed.
8. Government of India has taken major initiatives like start-up India, Skill India and other initiatives helps to strengthen FDI inflows into India.
9. FDI is a major investment vehicle through companies and nation forms long term source of capital and it is important for the growth and development of India.

## CONCLUSION:

India is a country with huge potential to attract FDI inflows, for the development of economy it is observed that a flexible business policy framed by the government has helped to foster FDI inflows. From the results of the data analysis we can understand the importance of FDI in economic development of India. India should focus on Long term financing sources rather than short run. Investor friendly environment has to be created for feasibility of investments. India has to consider the potential sectors where foreign investments has to be generated from automatic routes. Since service sector and Hard ware and soft ware sectors playing a pivotal role in attracting investments in such sectors favorable policies can also draft for such sectors. It can be suggested that researchers can do research in this area still there is broader scope. The limitation of the present study is only simple percentage and CAGR is used, in future works other statistical tools can used for analyzing financial data.

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