International Journal of Commerce and Management Studies (IJCAMS)
ISSN 2456-3684, Vol 10, No 1,2025
www.ijcams.com

An Overview of Foreign Direct Investment (FDI) in India

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Abstract
Foreign Direct Investment (FDI) means a foreign enterprise investing by setting up or expanding its business activities in an Indian company. FDI is vital in furthering the economic growth in a country and India has become one of the top recipients of foreign investment owing to its huge market, expanding economy and policy changes. The aim of the study is to analyze the sectoral and state wise classification of FDI inflows in India. For this work, data was obtained only from secondary sources for the years 2000 to 2023. FDI has been a powerful driver for economic development, technological advancements and job opportunities in particular for developing nations. However, the advantages of FDI can be fully realized if the host country has proper regulatory systems, efficient infrastructure as well as sound economic policies. There is prospect for further investigation to look into the effect of the digitalization, sustainable development and global challenges such as climate change on FDI flows.
Keywords: Foreign Direct Investment (FDI), Economic Growth, Sustainable Development.

1. Introduction

Foreign Direct Investment (FDI) means when a company from another country puts money into starting or growing businesses in India. This can include setting up new branches, working with local companies, or buying parts of Indian firms. FDI helps countries grow their economies, and India has become a top choice for foreign companies to invest in. This is because India has a lot of people who buy things, its economy is getting bigger, and the government has made new rules to help businesses. FDI happens when companies from other countries put money into businesses or projects in India. Usually, they buy a big part of an Indian company (at least 10%) or start new businesses like branches, partnerships, or companies they own. FDI is important for India's economy to grow. It brings in money new ways of doing things, and knowledge from other countries. This helps create jobs, build up industries, and come up with new ideas. Over time, India has become one of the countries that gets the most FDI in the world. Companies from other countries want to invest in India for many reasons. These include the fact that India has a lot of people who buy things, its economy is getting bigger, it has workers who know how to do their jobs well, and the government has made changes to help businesses invest. The opening up of India's economy since the 90s, has led to a big jump in FDI making India a global spot for investments. FDI plays a key role in many areas like services, IT making things, cars building stuff, and medicine. It doesn't just boost what India makes, but also helps India join global supply chains, makes work better, and brings know-how from big world companies. We'll look at why FDI matters for India's growth, which areas get the most FDI how foreign money is coming in, and what the government does to bring more FDI. Looking at how FDI works in India shows us a lot about how the country's economy is growing and why it's a good place to invest. FDI has been key to India's economy getting bigger helping many areas grow, bringing new tech, and making jobs. While India is still one of the best places to put money fixing things like slow rules, not enough roads and buildings, and teaching people new skills will make it an even better place for the world to invest.

1.1 Key Sectors Receiving FDI:

- Services Sector: This sector gets the most FDI. It covers financial services, Business Process Outsourcing (BPO), IT services and telecommunications.
- Computer Software and Hardware: India stands out as a world center for software creation, IT outsourcing and hardware production.

• Trading and Retail: FDI in retail has grown as foreign investment rules have become less strict. This has led to more international brands coming in.

• Automobile Industry: India ranks among the biggest car-making centers in the world. It draws in a lot of FDI from big global car companies.

• Construction and Infrastructure: As the need for better infrastructure increases foreign money has poured into construction urban growth and real estate.

• Pharmaceuticals and Chemicals: India serves as a key spot for making generic drugs and chemicals. This has brought in steady foreign investments.

1.2 Countries Investing in India:

• Mauritius has been an important source of FDI because of its favorable tax treaties with India, and acts as drainage to invest other countries.

• Singapore and the United States are other major investors, who contribute significantly to areas such as IT, finance and services.

• Japan has a strong appearance in car production and electronics, while European countries such as Germany and the United Kingdom invest heavily in production, infrastructure and technology.

1.3 Future Outlook for FDI in India:

• India's GDP growth, huge home marketplace, and expanding center elegance are in all likelihood to preserve making it an appealing destination for FDI.

• Digital Transformation: The developing virtual financial system and India's emergence as a leader in artificial intelligence, data analytics and fintech gift opportunities for FDI in generation-pushed sectors.

• Manufacturing and Infrastructure: Initiatives like Make in India and Atmanirbhar Bharat (self-reliant India) are anticipated to attract greater overseas investments into manufacturing and infrastructure especially as India seems to become a worldwide production hub.

• Green FDI: With India's push closer to renewable electricity, electric powered cars and environmentally sustainable improvement, foreign investments in those sectors are probably to grow.

• Policy Reforms: Continued consciousness on easing commercial enterprise rules, enhancing infrastructure and streamlining FDI methods will similarly increase investor confidence.

2. Literature Review:

The following literature evaluate summarizes key research on the nature, determinants, impacts, and challenges associated with FDI.

Aitken and Harrison (1999) argue that the blessings of FDI are not generic, specially in developing nations. For example, FDI can result in the crowding out of domestic firms, exacerbate income inequality, or contribute to environmental degradation. Additionally, the impact of FDI on increase may be contingent upon the level of financial improvement, infrastructure and the absorptive potential of the host USA. Alfaro et al. (2004) advise that FDI contributes undoubtedly to economic growth by increasing capital formation, technology switch and managerial understanding. Moreover, FDI can stimulate export sports, improve domestic opposition and generate employment. Balasubramanyam et al. (1996) emphasizes that FDI has a more effect on boom in nations with a better degree of human capital which complements the absorption of overseas generation. Campos and Kinoshita (2003) talked about the political stability, authorities' policies and regulatory frameworks are essential in attracting FDI. Countries with favorable investment regulations, low corruption stages and solid felony environments tend to be greater attractive to overseas traders. In evaluation, political hazard, inclusive of expropriation and volatile governance can deter FDI inflows. Caves (1996) reasons also can be categorized into marketplace-looking for, aid-in search of and performance-in search of investments. Market-seeking FDI generally flows into international locations with massive or growing markets, even as efficiency-searching for FDI tends to be attracted by means of lower manufacturing charges. Haddad and Harrison (1993) studied the determinants of FDI consist of market size, labour fees, natural resources and the extent of financial improvement. Large markets generally tend to draw greater FDI as companies are trying to find to access these markets to increase their scale of operations. Henson (2021) investigates the political threat, exchange tensions and regulatory environments have persisted to form FDI decisions. A notable shift is the extended scrutiny of Chinese investments in Western nations due to security worries and geopolitical tensions. U.S. And EU has brought stricter guidelines on foreign investments, especially in high-tech sectors, below the guise of national safety. Jain and Pandya (2022) advocates that companies more and more prioritize investments in virtual infrastructure, innovation and cloud technologies. FDI inside the digital financial system has seen a pointy upward push in particular in industries such as e-commerce, artificial intelligence. Javorcik (2021) investigate that the multinational businesses are now much more likely to put money into regions with diversified deliver chains or to relocate manufacturing in the direction of their domestic nations. As a end result, FDI in manufacturing sectors has been redirected towards extra resilient and geographically diverse regions. Liu and Wang (2003) are focusing on China and India display contrasting reviews with FDI. While China has attracted big FDI and used it to transform into a worldwide production hub, India has experienced slower increase in FDI inflows because of factors consisting of bureaucratic hurdles and regulatory inefficiencies. Nevertheless, both nations have leveraged FDI to boost their industrialization and economic development. Mansfield and Reinhardt (2008) mentioned that the hazard of market volatility, adjustments in authorities' rules and expropriation remain worries for overseas traders Additionally, FDI might not constantly result in equitable boom as it could bring about uneven improvement in the host country favoring certain areas or sectors over others. Pradhan (2008) represent a considerable component of global FDI flows. The rapid boom of FDI in regions such as Asia, Africa and Latin America has sparked sizeable research into the function of FDI in those economies. However, the challenges of integrating FDI into these economies, which includes profits inequality and environmental concerns are massive. Raza et al. (2021) related to better stages of employment, in particular in sectors along with production and services. However, the pandemic has also underscored the importance of investing in human capital as economies with stronger training systems and digital infrastructures generally tend to attract greater FDI. Saggi (2002) pointed that a crucial role in generation transfers in particular in developing international locations. Foreign agencies regularly convey superior technologies, managerial practices and innovation abilities into host international locations. FDI can functions a conduit for expertise spillovers, thereby enhancing the productiveness and technological abilities of domestic corporations. Sullivan and Ramesh (2003) observe the context of multinational organizations (MNEs), FDI also involves good sized financial dangers. Fluctuations in trade prices, trade obstacles and geopolitical tensions can undermine the predicted returns from FDI.

3. Objectives of the Study

The objectives of the study are as follows:

i) Share of top investing countries FDI equity inflow for the periods.

ii) Sector wise highest attracting FDI equity inflow for the periods.

iii) Statement on sector-wise FDI equity inflow for the periods.

iv) States/UTs attracting highest FDI equity inflow for the periods.

v) FDI inflow into India for the periods.

4. Research Methodology

For this study data has been collected for the period 2000 to 2023. The entire data researcher collected only from the secondary sources. For analysis purpose researcher uses descriptive statistics, ratio analysis etc.

5. Analysis and Findings

The findings of the study are given below-

Table -1: Share of Top Investing Countries FDI Equity Inflow, March-2023

Rank	Country	% age out of total FDI Equity inflow (in terms of USD)
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%

Source: https://dpiit.gov.in/publications/fdi-statistics

The desk outlines the pinnacle 10 international locations based on their percentage in India's total FDI (Foreign Direct Investment) fairness inflows, expressed as a percent in USD phrases. These percentages imply the contribution of every u . S . To India's universal foreign funding during a particular duration. The pinnacle three international locations (Mauritius, Singapore and the U.S.) together account for fifty eight% of India's total FDI inflows. These international locations play a critical role in using foreign investment with Mauritius and Singapore serving as important gateways for investments because of their favorable tax structures and strategic business environments. European countries like the Netherlands, Germany and the UK have a robust historic and commercial presence in India and retain to contribute drastically to FDI inflows. Their investments have a tendency to be in sectors together with strength, manufacturing, infrastructure and generation. Japan's FDI is basically directed closer to production and infrastructure, aligning with its hobby in India's developing financial system and business improvement. The UAE, Cayman Islands, Cyprus and different small participants are often linked to funding routing through tax-efficient jurisdictions or represent direct investments in specific sectors, together with real property and monetary offerings. The table illustrates that Mauritius, Singapore and the United States are the dominant assets of FDI into India, largely due to their strategic positioning, favorable tax regulations and sturdy exchange relationships. The presence of numerous European countries in addition to Japan displays India's diverse variety of overseas investments spanning various sectors. The smaller contributions from international locations just like the UAE, Cayman Islands and Cyprus indicate their function as funding conduits, frequently profiting from tax treaties that facilitate move-border investments into India. These figures spotlight the global nature of FDI in India and the have an impact on of worldwide financial hubs and tax-efficient jurisdictions in directing capital flows.

Table – 2: Sectors Highest Attracting FDI Equity Inflow

Rank	Sector	% age out of total FDI Equity inflow (in terms of USD)
1	Services Sector	16%
2	Computer Software & Hardware	15%
3	Trading	6%
4	Telecommunications	6%
5	Automobile Industry	5%
6	Construction (Infrastructure) Activities	5%
7	Construction Development: Townships, Housing, Built-Up Infrastructure and Construction-Development Projects	4%
8	Drugs & Pharmaceuticals	3%
9	Chemicals (Other Than Fertilizer)	3%
10	Metallurgical Industries	3%

Source: https://dpiit.gov.in/publications/fdi-statistics

The desk gives the top 10 sectors in India based totally on their percentage in total FDI (Foreign Direct Investment) fairness inflows, expressed as a percentage. The probabilities reflect the contribution of each region to India's standard FDI inflow, highlighting which sectors appeal to the most overseas funding. The Services Sector and Computer Software and Hardware together account for 31% of the overall FDI inflows. This highlights the robust international interest in India's IT and services industries, which stay the spine of the financial system. The Telecommunications, Automobile and Construction sectors also are considerable, together accounting for 21% of the overall inflows. These sectors advantage from India's infrastructure business has increase. Drugs and Pharmaceuticals, Chemicals and Metallurgical Industries are smaller however nevertheless essential sectors, attracting nine% of the full FDI inflow. These sectors mirror India's strength in production and the growing call for prescription drugs and chemical substances each locally and internationally. The table highlights the diverse range of sectors that appeal to foreign funding in India. The IT and offerings quarter accompanied with the aid of computer software and telecommunications are the important thing drivers of FDI, reflecting India's position as a international hub for era and offerings. The automobile and construction sectors also play vital roles in attracting FDI, reflecting India's developing infrastructure and production skills. While sectors like pharmaceuticals and chemicals make a contribution smaller share, they stay crucial for India's commercial and economic development. Overall, the table underscores the growing significance of both excessive-tech and traditional industries in attracting foreign capital to India.

Table – 3: Statement on Sector-Wise FDI Equity Inflow

SL No	Sectors	Amount of FDI Equity inflow		% age out of total FDI Equity inflow (in USD terms)
		(In INR crores)	(In USD million)	
1	Services Sector	6,31,985.1479	102,855.8222	16.2121
2	Computer Software & Hardware	6,52,778.6071	94,911.6250	14.9599
3	Trading	2,67,179.1268	39,531.1488	6.2309
4	Telecommunications	2,32,522.4983	39,044.1560	6.1541
5	Automobile Industry	2,22,664.9710	34,743.9106	5.4763
6	Construction Activities	2,04,477.6885	29,685.8595	4.6791
7	Construction Development	1,29,208.3520	26,356.0368	4.1542
8	Drugs & Pharmaceuticals	1,26,036.3570	21,463.7648	3.3831
9	Chemicals (Other Than Fertilizers)	1,26,718.8104	21,302.3442	3.3577
10	Metallurgical Industries	1,03,147.1412	17,233.5897	2.7163
11	Hotel & Tourism	1,02,557.3861	16,715.0441	2.6346
12	Power	94,855.0920	16,585.1435	2.6141
13	Non-Conventional Energy	94,973.8271	14,123.6398	2.2262
14	Food Processing Industries	77,229.9657	11,979.2183	1.8882
15	Electrical Equipment	73,347.6103	11,594.8598	1.8276

Source: https://dpiit.gov.in/publications/fdi-statistics

The Services Sector leads the table, contributing the highest percent of general FDI inflow. This may be indicative of India's growing carrier-oriented economic system with sectors like economic offerings, IT and business services attracting significant overseas investments. The Computer Software and Hardware area holds a substantial part of FDI suggesting a robust interest in India's era quarter mainly in software program development, IT offerings and hardware manufacturing. Sectors such as Telecommunications, Automobile Industry, Drugs and Pharmaceuticals and Chemicals maintain to draw vast investments indicating overseas traders' confidence in those sectors because of their hooked up market presence and growth potentialities. Construction Activities, Construction Development, Power and Non-Conventional Energy sectors also acquire large investments, reflecting the importance of infrastructure improvement and the power zone within the country increase trajectory. Overall, the records highlight the range in FDI inflows throughout extraordinary sectors with offerings, era and conventional industries like pharmaceuticals and chemicals being the main beneficiaries. The figures additionally mirror India's growing attraction as an investment vacation spot in various sectors with robust overseas interest in infrastructure, technology and strength. The highly smaller stocks in food processing, electrical device and non-traditional strength imply regions with capacity for destiny boom and investment.

Table – 4: States / UTs Attracting Highest FDI Equity Inflow

Rank	States	% age out of total FDI Equity inflow (in terms of USD)
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%

Source: https://dpiit.gov.in/publications/fdi-statistics

The desk offers facts at the pinnacle 10 Indian states based on their percentage inside the total FDI (Foreign Direct Investment) equity inflows expressed as a percent in USD phrases. Each country is ranked primarily based on its contribution to the overall FDI in India. The top 5 states (Maharashtra, Karnataka, Gujarat, Delhi and Tamil Nadu) together account for 92% of the full FDI inflows highlighting their dominant position in attracting overseas investments. These states are generally the financial powerhouses of India with strong infrastructure a skilled staff and diverse industries that appeal to international traders. The final states Haryana, Telangana, Jharkhand, Rajasthan and West Bengal every make a contribution smaller portions however are nevertheless noteworthy. States like Telangana and West Bengal with emerging sectors and strategic places have the ability to peer elevated FDI in the destiny. The desk underscores the importance of a few key Indian states in attracting the majority of FDI inflows. The economic advantages of these states consisting of infrastructure, industrialization and proximity to key markets lead them to appealing locations for overseas traders. As India's economic system maintains to develop different states may additionally see an increase in FDI however Maharashtra, Karnataka and Gujarat will possibly stay the pinnacle performers due to their financial importance.

Table – 5: FDI inflow into India

Financial Year	Total FDI Inflow	%age Growth over Previous year (in USD terms)
2000-01	4029	-
2001-02	6130	(+) 52 %
2002-03	5035	(-) 18 %
2003-04	4322	(-) 14 %
2004-05	6051	(+) 40 %
2005-06	8961	(+) 48 %
2006-07	22826	(+) 155 %
2007-08	34843	(+) 53 %
2008-09	41873	(+) 20 %
2009-10	37745	(-) 10 %
2010-11	34847	(-) 08 %
2011-12	46556	(+) 34 %
2012-13	34298	(-) 26%
2013-14	36046	(+) 5%
2014-15	45148	(+) 25%
2015-16	55559	(+) 23%
2016-17	60220	(+) 8%
2017-18	60974	(+) 1%
2018-19	62001	(+) 2%
2019-20	74391	(+) 20%
2020-21	81973	(+) 10%
2021-22	84835	(+) 3%
2022-23	70970	(-) 16%

Source: https://dpiit.gov.in/publications/fdi-statistics

The early years of the 2000s confirmed volatility with rapid increase accompanied with the aid of declines, but the fashion turned extra fantastic submit-2004. From 2006-07 to 2008-09, India skilled full-size increase in FDI, specifically pushed by means of the booming economy, global investor interest and liberalization guidelines. After the global financial disaster (2008), India's FDI inflows showed resilience with excessive increase in numerous years particularly from 2011-12 to 2016-17. In the remaining decade, FDI growth bogged down with some years showing modest will increase and others showing declines, such as in 2022-23. The typical fashion indicates that FDI inflows to India have normally been increasing albeit with a few fluctuations. The growth charges inside the initial years have been more risky but the longer-term trend displays sustained hobby from worldwide buyers even though latest declines display challenges that may want to be addressed thru policy or market conditions.

6. Conclusion

Foreign Direct Investment (FDI) in India has performed a essential function for the economic development. Over the years, FDI has contributed notably to the increase of industries, infrastructure and employment era. India's big purchaser marketplace, professional workforce and strategic vicinity have made it an attractive destination for overseas traders. The authority of

India has carried out diverse reforms consisting of liberalizing foreign funding regulations and growing a extra business-friendly surroundings via projects like "Make in India," "Atmanirbhar Bharat" and sector-unique FDI caps. These steps have led to a constant boom in FDI inflows throughout numerous sectors consisting of technology, retail, telecommunications, and manufacturing. However, demanding situations continue to be in phrases of regulatory complexities, ease of doing enterprise and political stability. To in addition improve FDI, persevered enhancements in infrastructure, hard work legal guidelines and consistency in coverage frameworks are wished. In conclusion, whilst FDI has definitely impacted India's financial trajectory, sustained efforts are required to maximize its capacity and attract extra funding, fostering lengthy-time period increase and development. In essence, FDI has been a important catalyst for India's financial improvement across various sectors, contributing to technological development, task advent and infrastructure development. However, persevered coverage reforms, simplification of regulatory techniques and addressing area-precise demanding situations will be maintaining and improving the impact of FDI in the country. FDI highlights its multifaceted nature with various theories explaining its reasons and effects. FDI is an effective engine for economic boom, technological progress and activity introduction mainly for developing international locations. However, the whole advantages of FDI are contingent upon the host united state's regulatory frameworks, infrastructure and monetary rules. Future research is probably to cognizance on the position of digitalization, sustainable development and the impact of worldwide demanding situations like weather change on FDI flows.

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