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“A STUDY ON FOREIGN DIRECT INVESTMENT IN INDIA”

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Introduction

Current Status of FDI, Sectoral and National Importance

Foreign Direct Investment (FDI) broadly encompasses any long-term investments by an entity that is not a resident of the host country. Typically, the investment is over a long duration of time and the idea is to make an initial investment and then subsequently keep investing to leverage the host country's advantages which could be in the form of access to better (and cheaper) resources, access to a consumer market or access to talent specific to the host country - which results in the enhancement of efficiency. This long-term relationship benefits both the investor as well as the host country. The investor benefits in getting higher returns for his investment than he would have gotten for the same investment in his country and the host country can benefit by the increased know how or technology transfer to its workers, increased pressure on its domestic industry to compete with the foreign entity thus making the industry improve as a whole or by having a demonstration effect on other entities thinking about investing in the host country.

Sector-wise, the services sector was the highest recipient of FDI equity in FY 2024– 25 with 19% of total inflows, amounting to USD 9.35 billion, a 40.77% increase from last year.

Literature Review

Foreign Direct Investment (FDI) has become a central driver of economic growth in developing nations like India. When foreign entities invest directly in Indian businesses, it brings with it a significant degree of control over the operation. This review examines the multifaceted impact of FDI on the Indian economy. Numerous studies highlight a positive correlation between FDI inflows and India's GDP growth. This financial injection acts as a catalyst, stimulating domestic capital formation and fostering overall economic expansion. FDI also facilitates the transfer of advanced technologies and knowledge from foreign firms to Indian companies. This knowledge spillover enhances India's technological capabilities, leading to innovation and improved product quality. The creation of new ventures and expansion of existing ones due to FDI translates into increased job opportunities for the Indian workforce. Additionally, foreign investments can play a crucial role in upgrading India's infrastructure, particularly in sectors like telecommunications, energy, and transportation. This improved infrastructure fosters further economic activity. The entry of foreign players also intensifies competition in the Indian market, pressurizing domestic companies to improve efficiency, product quality, and cost-effectiveness, ultimately benefiting consumers.

Investigating the effectiveness of government policies in attracting and regulating FDI is crucial for ensuring a sustainable flow of foreign investment. Studying the social and cultural implications of FDI in India can help mitigate potential disruptions and promote social harmony alongside economic development. Overall, the existing literature overwhelmingly suggests that FDI has a positive impact on the Indian economy. It fuels economic growth, fosters innovation, creates jobs, and improves infrastructure. However, it's crucial to acknowledge potential challenges and implement effective policies to maximize the benefits of FDI while mitigating its risks.

The Need of the Study

The accelerating process of globalization and economic liberalization across the globe have rendered Foreign Direct Investment (FDI) an integral part of national economic planning. For a developing nation such as India, it is crucial to know the dynamics and implications of FDI to ensure sustained economic development and growth. The necessity for this research stems from some key aspects:

Firstly, FDI is a source of finance that is not creating debt, which proves to be highly advantageous for the economies who want to finance ambitious development plans without imposing high levels of debt on them.

Assessing its impact assists in developing good financial policies.

Secondly, FDI makes it possible to transfer technology, managerial skills, and best practices from advanced economies to developing economies. This transfer of knowledge is invaluable to improve the productivity, efficiency, and competitiveness of local industries.

RESEARCH METHODOLOGY

Research Design

3.0 Statement of the problem:

There are many factors that influence the economic condition. One of them is FDI. Hence there is a need to study the impact of FDI on the change in economy.

Sector	2014-15 (April- March)	2015-16 (April- March)	2016-17 (April- March)	2017-18 A p r i l - March)	2018-19 (April- Dec.)	Cumulative Inflows (April 2007 - Dec. 11)	% age to total Inflows (In terms of US\$)
SERVICES SECTOR (financial & non- financial)	26,589 (6,615)	28,411 (6,116)	19,945 (4,176)	15,053 (3,296)	21,431 (4,575)	142,539 (31,710)	20%
COMPUTER SOFTWARE & HARDWARE	5,623 (1,410)	7,329 (1,677)	4,127 (872)	3,551 (780)	2,626 (564)	48,940 (10,973)	7%
TELECOMMUNIC ATIONS (radio paging, cellular mobile, basic telephone services)	5,103 (1,261)	11,727 (2,558)	12,270 (2,539)	7,542 (1,665)	8,969 (1,989)	57,035 (12,544)	8%
HOUSING & REAL ESTATE	8,749 (2,179)	12,621 (2,801)	14,027 (2,935)	5,600 (1,227)	2,544 (551)	48,819 (10,933)	7%
CONSTRUCTION ACTIVITIES (including roads & highways)	6,989 (1,743)	8,792 (2,028)	13,469 (2,852)	4,979 (1,103)	7,635 (1,602)	46,216 (10,239)	6%
POWER	3,875 (967)	4,382 (985)	6,138 (1,272)	5,796 (1,272)	6,639 (1,447)	32,176 (7,094)	4%
AUTOMOBILE INDUSTRY	2,697 (675)	5,212 (1,152)	5,893 (1,236)	5,864 (1,299)	2,785 (610)	29,224 (6,444)	4%
METALLURGICA L		4,686	4,157	1,999	5,023	6,881	25,469
INDUSTRIES		(1,177)	(961)	(420)	(1,098)	(1,495)	(5,750)
PETROLEUM	&	5,729	1,931	1,297	2,543	920	14,581
NATURAL GAS		(1,427)	(412)	(266)	(556)	(196)	(3,333)
DRUGS	&	NA	NA	1,006	961	14,405	42,668
PHARMACEUTIC ALS				(213)	(209)	(3,193)	(9,155)

Objectives of the research:

The study covers the following objective

1. To study the trends and patterns of flow of FDI.
2. To evaluate the impact of FDI on the economy.

3.2 Methodology and Data collection: AIM:

To establish the relationship between FDI and growing trends in the Indian economy.

PRIMARY SOURCE:

Not Applicable in this research

SECONDARY SOURCE:

The present study is of analytical nature and makes use of secondary data. The relevant secondary data has been collected from reports of the Ministry of Commerce and Industry, Government of India, Centre for Monitoring Indian Economy, Reserve Bank of India, World Investment Report. It is a time series data and the relevant data has been collected for the period 2007-2018.

3.4 Scope of the study:

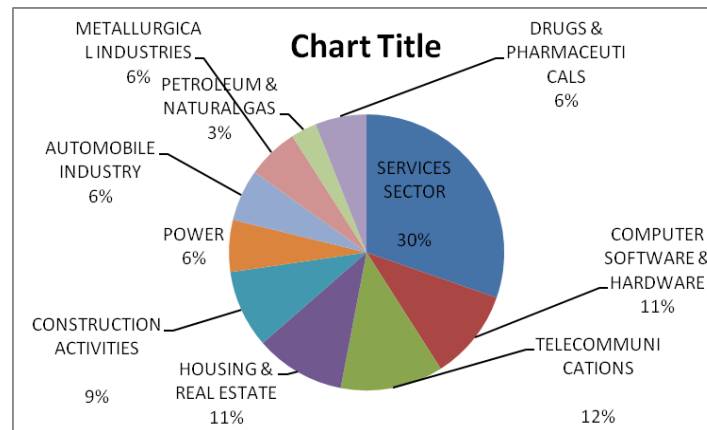
- 1) The study is aimed to understand the flow of FDI in the Indian economy.
- 2) Finding out the reason for the difference in FDI inflows
- 3) How FDI is affecting various sector of economy.

Analysis of sector wise inflows of FDI in India

Ranking of Sector wise FDI inflows in India since April 2007- Dec 2018

Industrial Sector	Rank
Service Sector	1
Telecommunication	2
Computer Hardware & Software	3
Housing and Real Estate	4
Construction Activities	5
Drugs and Pharmaceuticals	6
Automobile Industry	7
Metallurgical Industry	8
Power	9
Petroleum and Natural Gas	10

Pie chart shows % of total FDI inflows in various sector



DISCUSSION AND FINDING IN VARIOUS SECTOR

The examination of FDI inflows in India exhibits different patterns and effects across major sectors. The provisional FY 2024-25 data, combined with past trends, presents a complete picture of how international investment is transforming India's industrial sector.

a. Service Sector

The services sector has been the largest absorber of FDI in India consistently, receiving the largest proportion of equity inflows. During FY 2024–25, it received 19% of the total FDI equity inflows, USD 9.35 billion, a high growth of 40.77% over the last year. The reason behind this leadership lies in the robust service strengths of India, high-skilled labor, and increasing domestic demand. The sector comprises financial services, banking, insurance, IT-enabled services, and other business services. FDI in this industry not only introduced capital but also newer technologies and best global practices, improving the competitiveness and efficiency of Indian service providers.

The growth of the sector has also resulted in large-scale employment generation, mostly in urban areas.

b. Computer Software and Hardware

The computer hardware and software industry has been among the fastest-growing industries in the Indian economy, with large amounts of FDI inflow. During FY 2024–25, the sector was the second-largest FDI recipient, garnering 16% of the total. This attests to India's status as a world IT hub and expanding digital economy. FDI in the sector has driven innovation, enabled the growth of new technologies, and generated many high-skilled employment opportunities. The consistent policy encouragement and presence of a huge talent pool have encouraged this industry to act as a drawing card for foreign investors wanting to take advantage of India's technological capabilities.

c. Telecommunication

The telecommunication industry too has been a major recipient of FDI and contributed to its speedy growth and upgradation. Although the initial report shows that the industry has received significant investment, ongoing statistics still exhibit consistent interest, although its position among other industries might fluctuate from year to year. The telecommunications industry has witnessed enormous investments in developing infrastructure, network extensions, as well as the implementation of next-generation technologies such as 5G. FDI has been essential in pushing competition, enhancing service quality, and boosting tele density nationwide, making India one of the biggest and fastest-expanding telecom markets in the world.

d. Housing and Real Estate

FDI in real estate and housing has been the mainstay for urban development and infrastructure expansion. Though subject to certain conditions and regulations, foreign investment has helped in the growth of residential, commercial, and retail spaces. The initial report emphasizes the significance of the industry as a draw for foreign capital for massive projects. FDI assists in financing big construction projects, bringing in contemporary building methods, and building integrated townships, addressing the need for housing and commercial infrastructure in India's fast-growing urban environment.

e. Construction Activities

The construction industry sector, directly associated with real estate development and infrastructure projects, has also received substantial FDI. That involves investment in the construction of roads, bridges, ports, airports, and other critical infrastructural projects. Construction FDI has played an important role in the development of India's infrastructure, which is key to overall economic growth and mobilizing additional investment.

Limitation - Data Changes, Time Constraints

This research, though exhaustive, is influenced in turn by some limitations, mainly the dynamic nature of data and time limitations within the research. Data Changes: Foreign Direct Investment (FDI) information, especially from governmental and international bodies, are revised and updated constantly. Provisional information tends to be released first, followed by revised information as more complete information is obtained. This may result in inconsistencies between data released at various points in time. The study draws on the most current data available up to the compilation date, but future updating might change some particular numbers or trends. The report itself recognizes this constraint in that "data changes time constraints".

Time Constraints: The extent and level of this study are also limited by the time for its completion. A further comprehensive study may include primary data gathering, higher-level qualitative examination, and further comparative study with other emerging economies. But in the time allowed, the study has concentrated on incorporating readily available secondary data to formulate a firm overview of FDI in India. This further limits the capacity for live analysis of fast-changing policy issues or market trends.

Conclusion

FDI fosters economic growth in today's interconnected world, particularly in India. Foreign direct investment provides a country with money, technology, and talent, allowing it to grow. The recent FDI rush into India has produced mixed consequences. These investments satisfied a significant financial demand by creating several jobs. Employment and disposable money drive up domestic consumption and growth. FDI disseminates knowledge and technology. Foreign companies have provided India with new management styles, efficient manufacturing methods, and innovative ideas. This exposure increases local innovation and global competitiveness. FDI promotes infrastructure development and economic growth. Upgrades to electrical, transportation, and communication infrastructure help to drive economic growth. Foreign direct investment is challenging in India. Overreliance on foreign capital may stifle indigenous investment and growth. Foreign company earnings may be repatriated, limiting Indian investment. Automation and global competitiveness may replace manpower in a variety of industries. India needs a clear policy framework to address these concerns and increase FDI. Use this strategy to attract foreign investment into critical industries. Transparent and uniform regulation boosts investor confidence. To maximize foreign direct investment, India requires qualified individuals who can quickly adapt to new technology. India's economy can grow by fostering foreign direct investment, local capability, innovation, and self-sufficiency.

Recommendation

- Continuous Policy Reforms and Simplification: The government should continue its efforts to simplify and rationalize the FDI policy framework. This includes further easing of entry barriers, reducing bureaucratic hurdles, and ensuring greater transparency and predictability in regulations. While many sectors are already under the automatic route, continuous review and expansion of this route, where feasible, can boost investor confidence.
- Strengthening Infrastructure: Investing more in critical infrastructure sectors such as power, transportation (roads, railways, ports, airports), and digital connectivity is crucial. A robust infrastructure base reduces operational costs for businesses and makes India a more attractive destination for long-term investments.
- Focus on Research & Development (R&D) and Innovation: To attract high-value FDI that brings advanced technology, the government should provide greater incentives for R&D activities and intellectual property creation. This includes tax benefits, grants, and collaborative platforms between foreign investors and domestic research institutions.
- Human Capital Development: Emphasizing skill development, education, and vocational training programs is essential to ensure the availability of a qualified workforce that can adapt to new technologies and management practices introduced by foreign firms. This boosts India's absorptive capacity for technology transfer.

REFERENCE

The necessary data were collected through following websites-

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2. www.worldbank.org.in
3. www.dipp.nic.in <http://indiahighcom-mauritius.org> www.docs.google.com www.imf.org www.uscc.gov