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FOREIGN DIRECT INVESTMENT'S IMPACT ON INDIA'S ECONOMIC GROWTH

S.N. Tripathy
**Former Professor of Economics, Gokhale Institute of Politics and Economics, Pune,sn_tripathy2004@yahoo.com*

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Abstract: Foreign Direct Investment (FDI) is a vital driver of economic growth, particularly in developing nations like India. The Indian Government has prioritized infrastructure development, focusing on transportation, logistics, and energy sectors to attract foreign investors. A skilled workforce, especially in the IT and software industries, and India's commitment to innovation have further fueled FDI inflows. Political stability and improved governance are key factors, though challenges like bureaucratic hurdles remain. Reforms in sectoral regulations, particularly in defence and retail, have played a crucial role in boosting FDI. Moreover, FDI has contributed significantly to technological advancement, job creation, and bolstering India's manufacturing sector. However, resolving remaining infrastructure gaps and regulatory complexities is essential to sustaining and increasing FDI inflows in the future.

Keywords: Foreign Direct Investment (FDI), Infrastructure Development, Skilled Workforce, Sectoral Reforms

JEL classification: F21, F23, O19

1. INTRODUCTION

The role of foreign direct investment (FDI) in fostering economic growth is multifaceted and widely acknowledged, spanning both developed and developing nations. FDI is not merely a financial inflow but also a pivotal enabler in integrating countries into the intricate web of global value chains. Nevertheless, the flow of FDI is not spontaneous; it is contingent upon an array of factors, including regulatory policies, the investment climate, competitiveness, market size, and political stability within the host nation.

Foreign Direct Investment (FDI) is critical to India's economic growth, and robust infrastructure is pivotal in attracting FDI. The Indian Government has prioritized developing infrastructure, particularly transportation, logistics, and energy, to improve connectivity and create an investor-friendly environment. However, addressing the country's infrastructure deficit is crucial to bolster foreign investor confidence. A skilled workforce and innovation are also central to FDI inflows. India's pool of highly qualified professionals, especially in the IT and software sectors, attracts significant foreign investments. The country's focus on research, development, and technology transfer further enhances its FDI appeal. Political stability and governance are essential for FDI, and India's democratic system offers stability. However, tackling bureaucratic hurdles and corruption is necessary to improve the investment climate. Sector-specific regulations also shape FDI inflows (Chaturvedi, 2023). Liberalizing FDI norms in sectors like defence, construction, and retail has encouraged foreign investments, driving economic growth. Technological advancements, driven by FDI, boost India's capabilities, especially in defence. Collaborations with foreign firms facilitate technology transfer and strengthen India's self-reliance. FDI also supports indigenous manufacturing through initiatives like "Make in India," which reduces import dependency and creates jobs. Furthermore, FDI aids in boosting defence exports and strengthening strategic alliances, contributing to India's global stature. Moreover, FDI in research and development promotes innovation, while job creation and skill development enhance India's human capital.

The gross foreign direct investment inflows to India were valued at nearly 71 billion US dollars in the financial year 2023. The computer hardware and software sector/ constituted the most significant part of the total inflows. However, this was a decline in total FDI inflows in India compared to 2022, which witnessed the highest-ever FDI inflow of 83.5 billion US dollars (Ministry of Commerce and Industry. 2023).

India further consolidated its position as a preferred investment destination by securing the second-largest amount of international project finance in 2022. International project financing refers to international lenders providing debt or equity to develop infrastructure projects worldwide. Nevertheless, the total FDI in 2022 was lower than recorded in 2020 amid the COVID-19 pandemic, when India attracted $64 billion of foreign investments. In another development signifying the rise of Indian businesses internationally, Indian multinational companies substantially increased their overseas investments in 2022.

2. OBJECTIVES OF THE STUDY

1) To analyze the role of Foreign Direct Investment (FDI) as a critical enabler of economic growth and integration into global value chains, particularly within developing economies like India.
2) To explore how India's evolving infrastructure, policy reforms, and skilled workforce contribute to attracting FDI while identifying the challenges that must be addressed for sustained economic growth.

3. METHODOLOGY

The methodology involves analyzing FDI trends through secondary data collection from official sources, including government reports and international organizations like UNCTAD. A comparative approach is applied to examine FDI inflows across sectors and countries. A qualitative assessment of policy reforms, infrastructure, and governance is also conducted to understand FDI drivers and barriers.

4. FDI INFLOWS IN INDIA

India has experienced a significant rise in FDI inflows over the past few years. Despite the challenges posed by the COVID-19 pandemic, FDI inflows in India reached a record high of $81.72 billion in the fiscal year 2020-21 (Ministry of Commerce and Industry, 2021). The trend analysis of FDI inflows in India indicates a significant increase in recent years, reaching a record high in the fiscal year 2020-21. The Government's efforts to liberalize FDI policies, coupled with India's large consumer market, infrastructure development initiatives, and skilled workforce, have contributed to this growth. These factors have made India an attractive investment destination for foreign investors across various sectors (Chaturvedi, 2023; OECD, 2022).

As India continues to implement reforms and enhance its business environment, FDI inflows are expected to continue growing. However, the Government must sustain its focus on policy reforms, infrastructure development, and skill enhancement to boost FDI inflows further and promote long-term sustainable economic growth (UNCTAD, 2023).

The data on Foreign Direct Investment (FDI) equity inflows by country and industry in India for the fiscal year 2020/21 (April 2020-March 2021) reveals the following key insights: The investment climate in India has undergone a significant transformation since the liberalization of the economy in 1991, with ease of doing business being a key driver. India now proudly holds a place in the top 100 countries regarding Ease of Doing Business (EoDB). This transformation is chiefly attributed to the progressive relaxation of FDI rules in India, resulting in a surge in foreign investments. In the fiscal year 2014-15, FDI inflows into India amounted to a modest $45.15 billion, a figure that witnessed a steady ascent, culminating in the highest-ever annual FDI inflow of $83.57 billion during the fiscal year 2021-22 (Reserve Bank of India, 2023).

Cumulatively, over the last 23 years (from April 2000 to March 2023), India has received a remarkable total of $919 billion in FDI inflows, while the last nine years (from April 2014 to March 2023) alone accounted for $595.25 billion, representing nearly 65% of the total FDI inflow during the entire 23-year period (World Bank, 2023). In the fiscal year 2022-23, India registered FDI inflows amounting to $70.97 billion, with FDI equity inflows at an impressive $46.03 billion, firmly establishing the country as an attractive and burgeoning destination for foreign investments (Ministry of Commerce and Industry, 2023).

These developments underline India's progressive and transformative trajectory in the defence sector and the broader investment landscape, firmly positioning the nation on the global stage as a hub of innovation, growth, and economic resilience (UNCTAD, 2023). FDI flows to India increased by 10% to reach $49.3 billion, positioning India as the third-largest host country for greenfield project announcements and the second largest for international project finance deals in South Asia (Chaturvedi, 2023).

India continues to cement its position as a preferred choice for foreign investors. The World Investment Report released by the United Nations Conference on Trade and Development (UNCTAD) has revealed that India attracted the third-highest foreign direct investment (FDI) in greenfield projects in 2022. The total FDI in India soared by 10%, from $44.7 billion in 2021 to an impressive $49.3 billion in 2022. The report further revealed that India was surpassed only by the United States and the United Kingdom in terms of FDI inflow. This solidifies India's reputation as a global economy, firmly placing it on the radar of international investors (UNCTAD, 2023).

The total foreign direct investment inflow into India dropped to $70.9 billion in the financial year 2023. This was a 16% decline from last year. FDIs are essential to a country's economy since they boost the job market and technical knowledge base and provide non-debt financial resources (OECD, 2022). In the case of a developing country like India, foreign investors find the lower job wages and government tax exemptions in FDI a lucrative offer for investments in the country. The Indian Government has been actively working towards increasing FDI inflows through various policy and financial reforms in the investment processes (Ministry of Commerce and Industry, 2023).

According to a UN report 2022, India was ranked among the top 20 host economies for FDI inflows. The global FDI inflows for fiscal year 2021 aggregated to over one trillion US dollars, of which around seven hundred billion were from the developing Asian region, including India (UNCTAD, 2023). Leading FDI investors and sectors in the Indian market, Singapore was the leading investor in the country, with FDI equity investments amounting to over $17 billion in the financial year 2023, followed by Mauritius. The computer hardware and software sector led the foreign direct investment inflows, with an overall amount of close to $9 billion for fiscal year 2023, followed by the services sector (Reserve Bank of India, 2023).

5. FDI INFLOWS IN THE INDIAN ECONOMY

The influx of FDI has significantly accelerated India's journey towards economic growth and technological advancement. Over the years, the country has become an attractive destination for foreign investment, leading to a substantial increase in FDI inflows. These investments have acted as catalysts for economic expansion, technological innovation, employment generation, and the development of critical infrastructure.

The Indian Government, in its pursuit of fostering a conducive environment for FDI, has instituted various policy reforms to attract foreign capital and enhance the ease of doing business within its borders. This synergy between foreign investment and policy initiatives has positioned India as a burgeoning hub for FDI, charting a course towards a brighter and more prosperous future.

Table 1: FDI Inflows in the Indian Economy

Foreign Direct Investment	*2020*	*2021*	*2022*
FDI Inward Flow *(million USD)*	64,072	44,763	49,355
FDI Stock *(million USD)*	480,127	514,112	510,719
Number of Greenfield Investments*	411	459	1,008
Value of Greenfield Investments (million USD)	22,750	16,374	77,946

Source: United Nations Conference on Trade and Development (UNCTAD)

Note: * Greenfield Investments are a form of Foreign Direct Investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Table 1 reveals India's Foreign Direct Investment (FDI) data over 2020, 2021, and 2022. There was a substantial decrease in FDI inflows from USD 64.1 billion in 2020 to USD 44.8 billion in 2021, signalling a significant downturn. However, in 2022, there was a modest recovery, with FDI inflows increasing to USD 49.4 billion. This suggests that India experienced a dip in foreign investment in 2021, likely due to global economic uncertainties related to the COVID-19 pandemic but managed to regain momentum in the subsequent year.

The stock of FDI in India showed a consistent upward trajectory, increasing from USD 480.1 billion in 2020 to USD 514.1 billion in 2021. However, it dipped slightly to USD 510.7 billion in 2022. This indicates that while new FDI inflows might have slowed in 2021, the existing FDI investments continued to appreciate.

The number of Greenfield Investments, representing new ventures initiated by parent companies constructing operational facilities from the ground up, significantly increased from 411 in 2020 to 1,008 in 2022. The value of these investments also surged, jumping from USD 22.8 billion in 2020 to an impressive USD 77.9 billion in 2022. This indicates a substantial surge in new business ventures and infrastructure development, reflecting a growing interest in establishing fresh operations within India.

While FDI inflows experienced a temporary setback in 2021, India's FDI landscape demonstrated resilience and recovery in 2022. The substantial increase in Greenfield Investments suggests sustained confidence in India as an investment destination, with investors willing to embark on new projects and ventures. The overall FDI stock remained robust, signifying the enduring attractiveness of India as an investment hub despite short-term fluctuations in inflows.

To attract investments and foster technological transfer and defence manufacturing, the Department of Defence Production (DDP) has diligently implemented policy reforms. These reforms encompass higher multipliers under the offset policy, aiming to incentivize investment and technology transfer in the defence sector. Continuous and specific consultations are conducted with Foreign Original Equipment Manufacturers (FOEM) to ensure alignment with their objectives and requirements.

Furthermore, establishing two defence corridors in Tamil Nadu and Uttar Pradesh represents a significant milestone in this endeavour. These corridors offer comprehensive support to businesses operating within their purview, including FOEMs. Notably, both state governments have announced tailored incentive packages as part of their Aerospace & Defence Policy, encompassing incentives such as GST-based sales refunds, stamp duty concessions on land allotment, electricity tax exemptions, capital subsidies, and training subsidies aimed at upskilling the workforce. These defence corridors are anticipated to collectively attract Rs. 24,000 crores (US$ 3 billion) investments by the fiscal year 2024-25.

Moreover, the Ministry of Defence has proactively organized webinars with Friendly Foreign Countries (FFCs) through Indian embassies abroad and industry organizations. These webinars have seen active participation from Indian defence businesses and have been facilitated by the Department of Defence Production (DDP). To date, 27 FFCs have actively engaged in these webinars, fostering international collaboration and promoting investment opportunities.

Establishing the Defence Investor Cell has been instrumental in providing comprehensive information and support for potential investors. This dedicated cell serves as a valuable resource, addressing inquiries related to investment opportunities, procedures, and regulatory requirements within the defence sector. The cell has responded to over 1,445 queries, ensuring clarity and transparency in the investment process.

These developments underscore the fruition of the Government's strategic efforts over the past eight years, leading to ever-increasing volumes of FDI inflows into the country, achieving record-breaking milestones. The Government's proactive approach includes continuous reviews of the FDI policy, introducing significant reforms regularly to ensure that India maintains its status as an attractive and investor-friendly destination. India has adopted a liberal and transparent policy for FDI, with most sectors allowing FDI under the automatic route. Recent reforms have further liberalized and simplified the FDI policy, enhancing the ease of doing business and attracting investments across various sectors, including Coal Mining, Contract Manufacturing, Digital Media, Single Brand Retail Trading, Civil Aviation, Defence, Insurance, and Telecom.

Table 2: Equity Inflows by Country and Industry

Main Investing Countries	*FY 2020/21 (April 2020-March 2021), in %*
Mauritius	28.0
Singapore	22.0
USA	8.0
Netherlands	7.0
Japan	7.0
United Kingdom	6.0
Germany	2.0
UAE	2.0
Main Invested Sectors	*FY 2020/21 (April 2020-March 2021), in %*
Services sector (including financial, banking and insurance)	16.0
Computer software and hardware	13.0
Construction	10.0
Telecommunications	7.0
Trade	6.0
Automobile industry	5.0
Chemicals	3.0

Source: Department of Industrial Policy and Promotion,
Ministry of Commerce, and Industry, Government of India

6. COMPARISON WITH OTHER SELECTED DEVELOPING ECONOMIES

To provide a comparative analysis, let us examine the FDI inflows in the Indian economy of other selected developing economies such as Brazil, China, and South Africa.

Brazil has attracted significant FDI inflows in manufacturing, services, and natural resources. However, FDI inflows in Brazil have been relatively lower than those in India. This can be attributed to complex bureaucratic procedures, high tax burdens, and limited infrastructure development. Brazil could benefit from implementing policy reforms to streamline investment procedures and improve the investment climate to attract more FDI.

China has significantly received FDI inflows, particularly in manufacturing and technology. The country's large domestic market, skilled workforce, and infrastructure development have been key factors driving FDI inflows. However, the regulatory environment and concerns about intellectual property rights have been areas of concern for foreign investors. China's economic policies and geopolitical factors have also influenced FDI inflows. The recent trade tensions between China and the United States have led some companies to explore alternative investment destinations, including India.

South Africa has actively promoted FDI to stimulate economic growth and address unemployment and inequality. FDI inflows in South Africa have been significant, primarily in sectors such as mining, finance, and manufacturing. However, policy uncertainty, regulatory burdens, and infrastructure limitations have hindered the country's ability to attract higher levels of FDI. Addressing these challenges through policy reforms and infrastructure development could enhance South Africa's FDI attractiveness.

7. DEVELOPMENT OF FDI IN THE DEFENCE SECTOR

The transformation of India's defence sector, which began in earnest in 1992 with the introduction of the Defence Procurement Procedure (DPP), has been a pivotal journey. This evolution was catalyzed by the Kargil War in 2001, prompting the Government to enact crucial amendments based on recommendations from the Group of Ministers to reform the National Security System.

In 2001, a groundbreaking moment arrived when India opened the sector to domestic and foreign players. This move allowed for 100% participation from domestic companies and permitted Foreign Direct Investment (FDI) of up to 26%, subject to licensing. Since then, the defence sector has seen continuous reforms, including revisions to the procurement policy. The journey began with the creation of the DPP in 2002, with subsequent updates, the most recent being DPP 2016. The Defence Production Policy, the issuance of joint venture guidelines, and the introduction of Strategic Partnership in Defence (under DPP 2016) have all played pivotal roles in shaping the sector's trajectory.

In 2014, further adjustments were made to the FDI cap in the defence sector, reflecting India's commitment to attracting foreign investment. This revision allowed for up to 49% FDI through the Government's Foreign Investment Promotion Board (FIPB) route and beyond 49% through the Cabinet Committee on Security (CCS) on a case-by-case basis, with provisions for up to 100% foreign ownership in cases involving modern technologies. Subsequently, from the fiscal year 2014-15, the defence and aerospace sector witnessed FDI inflows exceeding Rs. 2,133 crore (US$ 268.6 million).

The Government's efforts to encourage FDI have yielded significant benefits for domestic companies. They have gained exposure to state-of-the-art technology, additional capital, and access to global best practices in management. These advantages have collectively spurred employment growth and accelerate the development of the sector. Moreover, foreign investment has enabled domestic firms to expand their operational footprint, aligning with the Government's "Make in India" initiative.

In brief, the evolution of India's defence sector, driven by policy reforms and increased foreign investment, has bolstered the nation's security capabilities and created a more dynamic and competitive environment for domestic players. The sector's journey continues, poised for further growth and innovation as it embraces modern technologies and global partnerships.

8. GOVERNMENT'S ROLE IN SUPPORTING FDI IN THE DEFENCE SECTOR

To attract investments and foster technological transfer and defence manufacturing, the Department of Defence Production (DDP) has diligently implemented policy reforms. These reforms encompass higher multipliers under the offset policy, aiming to incentivize investment and technology transfer in the defence sector. Continuous and specific consultations are conducted with Foreign Original Equipment Manufacturers (FOEM) to ensure alignment with their objectives and requirements.

Furthermore, establishing two defence corridors in Tamil Nadu and Uttar Pradesh represents a significant milestone in this endeavour. These corridors offer comprehensive support to businesses operating within their purview, including FOEMs. Notably, both state governments have announced tailored incentive packages as part of their Aerospace & Defence Policy, encompassing incentives such as GST-based sales refunds, stamp duty concessions on land allotment, electricity tax exemptions, capital subsidies, and training subsidies aimed at upskilling the workforce. These defence corridors are anticipated to collectively attract investments amounting to Rs. 24,000 crores (US$ 3 billion) by the fiscal year 2024-25.

Moreover, the Ministry of Defence has proactively organized webinars with Friendly Foreign Countries (FFCs) through Indian embassies abroad and industry organizations. These webinars have seen active participation from Indian defence businesses and have been facilitated by the Department of Defence Production (DDP). To date, 27 FFCs have actively engaged in these webinars, fostering international collaboration and promoting investment opportunities.

Recognizing the need to provide comprehensive information and support for potential investors, establishing the Defence Investor Cell has been instrumental. This dedicated cell serves as a valuable resource, addressing inquiries related to investment opportunities, procedures, and regulatory requirements within the defence sector. The cell has responded to over 1,445 queries, ensuring clarity and transparency in the investment process.

Furthermore, an important policy change has allowed FOEMs to share product details and information about their Indian offset partners after contracts have been formalized. This newfound flexibility extends to the modification of Indian offset partners and offset components, even in contracts that have already been signed. This strategic move has enhanced the adaptability and efficiency of offset requirements. To further streamline the offset discharge process and promote transparency, the offset portal was established in May 2019, simplifying and expediting the procedure for all stakeholders involved.

The Government also unveiled the Strategic Partnership Model in 2017. It calls for forming long-term partnerships with Indian entities through an open, competitive process in which they would work with global OEMs to seek technology transfers to establish domestic supply chains and set up manufacturing infrastructure.

The Government is aiming to reduce the proportion of imports of defence and military goods further and is planning to increase domestic defence manufacturing. The Government has granted 107 licenses to produce weapons to 358 private companies as part of its effort to encourage 'Make in India' in the defence sector, which totals 584 defence licenses. This could boost the total FDI inflow in the defence sector, of which a great proportion will be allocated to setting up manufacturing units, thereby accelerating employment. The change of the FDI limit to 100% will encourage more established foreign companies to share their technology since they can own a controlling stake, thus leading to more FDI opportunities in India.

9. VALUE OF DEFENCE EXPORTS IN INDIA

In the financial year 2021-22, India registered its highest annual FDI inflow, amounting to USD 83.57 billion, a significant milestone considering that in 2014-2015, FDI inflows stood at a mere $45.15 billion. This achievement was particularly noteworthy as it surpassed the previous year's FDI by $1.60 billion, despite the geopolitical situation surrounding the military operation in Ukraine and the disruptive effects of the COVID-19 pandemic. The surge in FDI inflows underscores India's emergence as a preferred

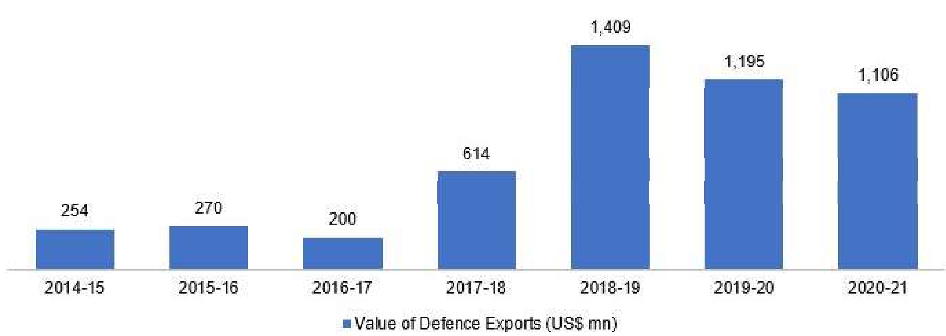

Figure 1

Source: The Mint

investment destination, with a remarkable 20-fold increase in FDI since the fiscal year 2003-04 when FDI inflows were a mere $4.3 billion.

These developments underscore the fruition of the Government's strategic efforts over the past eight years, leading to ever-increasing volumes of FDI inflows into the country, achieving record-breaking milestones. The Government's proactive approach includes continuous reviews of the FDI policy, introducing significant reforms regularly to ensure that India maintains its status as an attractive and investor-friendly destination. India has adopted a liberal and transparent policy for FDI, with most sectors allowing FDI under the automatic route. Recent reforms have further liberalized and simplified the FDI policy, enhancing the ease of doing business and attracting investments across various sectors, including Coal Mining, Contract Manufacturing, Digital Media, Single Brand Retail Trading, Civil Aviation, Defence, Insurance, and Telecom.

10. MAIN INVESTING COUNTRIES

Mauritius emerged as India's leading source of FDI equity inflows, contributing 28.0% of the total. Due to favourable tax treaties and investment policies, Mauritius has historically been a significant investor in India.

Singapore followed closely, accounting for 22.0% of FDI equity inflows. Singapore's strong presence in India's investment landscape reflects its status as a critical Asian financial hub.

The United States constituted 8.0% of FDI inflows, reaffirming the importance of the U.S.-India economic relationship. Netherlands and Japan held a 7.0% share in FDI equity inflows, indicating their substantial investments and interest in the Indian market. United Kingdom, Germany, and the United Arab Emirates (UAE) each made notable contributions, with 6.0%, 2.0%, and 2.0% of FDI inflows, respectively.

11. MAIN INVESTED SECTORS

The Services sector, encompassing financial, banking, and insurance services, attracted the highest share of FDI equity inflows at 16.0%. This highlights India's specialization in the services industry and its appeal to foreign investors. Computer software and hardware ranked second, with 13.0% of FDI inflows, underscoring India's reputation as a global IT and software development hub. Construction garnered 10.0% of FDI inflows, reflecting investments in infrastructure and real estate development projects. Telecommunications and Trade sectors accounted for 7.0% and 6.0% of FDI inflows, respectively, signalling interest in India's growing telecommunications market and trade-related activities. The Automobile industry and Chemicals sectors contributed 5.0% and 3.0% of FDI inflows, indicating foreign investments in manufacturing and chemical industries.

In total, the data reveals that Mauritius and Singapore were the dominant sources of FDI equity inflows into India during the fiscal year 2020/21, with a significant concentration in the services, IT, and construction sectors. These statistics underscore India's attractiveness as an investment destination for diverse countries and industries, reflecting its robust economic prospects and business opportunities.

Table 3: Illustrating the FDI inflows from the USA and Japan to India from 2010 to 2019 (in USD billions)

Year	*FDI Inflows from USA to India*	*FDI Inflows from Japan to India*
2010	0.94	1.05
2011	1.28	1.58
2012	0.58	1.76
2013	0.98	1.14
2014	1.99	1.76
2015	4.10	2.62
2016	3.11	1.43
2017	2.97	1.40
2018	4.25	1.99
2019	3.13	2.21

Table 3 provides information on the Foreign Direct Investment (FDI) inflows from the United States and Japan into India from 2010 to 2019 in billions of US dollars. The table shows that FDI inflows from the USA and Japan have shown an increasing trend over the years, with some fluctuations. In 2010, FDI from the USA to India was 0.94 billion USD, gradually increasing. The FDI from the USA peaked in 2018 at 4.25 billion USD, followed by a slight decrease in 2019 to 3.13 billion USD. There is a significant growth trend in FDI inflows from the USA, particularly from 2014 onwards. FDI inflows from Japan started at 1.05 billion USD in 2010 and showed an increasing trend. The highest FDI inflow from Japan was in 2015, reaching 2.62 billion USD. Unlike the USA, FDI from Japan saw some fluctuations, with a decline in 2016 and 2017 before rising again in 2018 and 2019. Overall, FDI from Japan also shows growth over the decade, but with more pronounced variations than the USA. Throughout this period, FDI inflows from the USA were generally higher than those from Japan, with the gap widening in recent years. The year 2015 stands out as a significant year for FDI inflows from both countries, with a substantial increase in investments. Economic and political factors, trade policies, and business opportunities in India could have influenced these FDI trends. Specific events or policy changes in the USA or Japan could explain the fluctuations in some years.

Table 4: Presents the data on Foreign Direct Investment (FDI) in US dollar million.
(Financial year-wise FDI inflow data)

S. No.	*Financial Year (April-March)*	*Equity*	*Re-invested earnings+ Other capital +*	*FDI inflow into India*	*Government Route/ Automatic Route/ Acquisition Route*	*Equity capital of unincorpo-rated bodies #*	*Total FDI Inflow*	*% age growth over previous year (in USD terms)*
1	2000-01	2,339	1,350	4,029	-	1,847	2,338	-
2	2001-02	3,904	1,645	6,130	(+) 52 %	1,505	3,635	(+) 55%
3	2002-03	2,574	1,833	5,035	(-) 18 %	377	2,901	(-) 20%
4	2003-04	2,197	1,460	4,322	(-) 14 %	10,918	15,240	(+) 425%
5	2004-05	3,250	1,904	6,051	(+) 40 %	8,686	15,737	(+) 3%
6	2005-06	5,540	2,760	8,961	(+) 48 %	9,926	19,887	(+) 26%
7	2006-07	15,585	5,828	22,826	(+) 155 %	3,225	26,051	(+) 31%
8	2007-08	24,573	7,679	34,843	(+) 53 %	20,328	55,171	(+) 112%
9	2008-09	31,364	9,030	41,873	(+) 20 %	-15,017	26,856	(-) 51%
10	2009-10	25,606	8,668	37,745	(-) 10 %	29,048	66,793	(+) 149%
11	2010-11	21,376	11,939	34,847	(-) 08 %	29,422	64,269	(-) 4%
12	2011-12	34,833	8,206	46,556	(+) 34 %	16,812	63,368	(-) 1%
13	2012-13	21,825	9,880	34,298	(-) 26%	27,582	61,880	(-) 2%
14	2013-14	24,299	8,978	36,046	(+) 5%	5,009	41,055	(+) 7%
15	2014-15	30,933	9,988	45,148	(+) 25%	40,923	86,071	(+) 110%
16	2015-16	40,001	10,413	55,559	(+) 23%	-4,016	51,979	(+) 21%
17	2016-17	43,478	12,343	60,220	(+) 8%	7,735	70,955	(+) 37%
18	2017-18	44,857	12,542	60,974	(+) 1%	22,165	83,139	(+) 17%
19	2018-19	44,366	13,672	62,001	(+) 2%	-2,225	59,776	(-) 28%

contd. table 4

S. No.	*Financial Year (April-March)*	*Equity*	*Re-invested earnings+ Other capital +*	*FDI inflow into India*	*Government Route/ Automatic Route/ Acquisition Route*	*Equity capital of unincorpo-rated bodies #*	*Total FDI Inflow*	*% age growth over previous year (in USD terms)*
20	2019-20	49,977	14,175	74,391	(+) 20%	552	74,943	(+) 25%
21	2020-21	59,636	16,935	81,973	(+) 10%	38,725	120,698	(+) 61%
22	2021-22	58,773	19,347	84,835	(+) 3%	-14,071	70,764	(-) 41%
23	2022-23 (P)	46,034	19,105	71,355	(-) 16%	-4,828	66,527	(-) 6%
24	2023-24 (up to June 23)	10,946	358	4390	1873		17,567	
Cumulative Total		648,266	21,504	53,745	937,585	—	234,628	

Source: (i) RBI's Bulletin for August 2023 dt. 17.08.2023

(ii) Inflow under the acquisition of shares in March 2011, August 2011 & October 2011, including net FDI on account of the transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).

(iii) RBI had included a Swap of Shares of USD 3.1 billion under equity components during December 2006.

(iv) Monthly data on components of FDI as per expended coverage are unavailable. These data, therefore, are not comparable with FDI data for previous (v) Figures updated by RBI up to June 2023. Figures are provisional.

(vi) Data in respect of 'Re-invested earnings' & 'Other capital' are estimated as average of previous two years.

'#' Figures for equity capital of unincorporated bodies are estimates. (P) All figures are provisional

The increasing FDI inflows from both countries indicate that India is an attractive destination for foreign investors. These investments can lead to economic growth, job creation, and technology transfer in India. In toto, the table shows a positive trend in FDI inflows from the USA and Japan to India over the decade, with the USA consistently being a more significant source of FDI. However, it's important to consider the broader economic and geopolitical context to fully understand the reasons behind these trends and their potential implications for India's economy.

Table 4 provides a detailed account of Foreign Direct Investment (FDI) inflows into India, measured in US dollar millions across various financial years, and includes key components like equity, reinvested earnings, and the investment route (Government Route, Automatic Route, or Acquisition Route). The cumulative FDI inflow is approximately $937.6 billion, reflecting significant growth over time despite some fluctuations. FDI inflows were relatively modest in the early 2000s, with a notable surge in 2003-04, mainly due to an increase in the equity capital of unincorporated bodies. From the mid to late 2000s, inflows grew steadily, with the highest growth rate of 155% in 2006-07, possibly due to the introduction of the Automatic Route in 2005. However, the global financial crisis of 2008- 09 led to a sharp 51% decline. Post-crisis, FDI rebounded, surpassing $50 billion in 2014-15. Growth continued into 2016-2018, albeit at a slower pace. Recent years saw fluctuations, with a significant 41% drop in 2021-22 and a further projected decline of 6% in 2022-23. Preliminary data for 2023-24 up to June indicates lower inflows. The Automatic Route has dominated recent FDI investments, while the equity capital of unincorporated bodies showed significant variations, impacting overall FDI. Year-on-year percentage growth figures highlight the volatility in the investment environment.

Undoubtedly, India has emerged as an attractive destination for FDI in recent years. The country has implemented various reforms to liberalize its FDI policies and promote foreign investment. As a result, FDI inflows in India have been steadily increasing. According to data from the Ministry of Commerce and Industry, FDI inflows in India reached a record high of $81.72 billion in the fiscal year 2020-21, despite the challenges posed by the COVID-19 pandemic.

According to the 'Investment Trend Monitor' report released by the United Nations Conference on Trade and Development (UNCTAD) in January 2021, 2020, bore witness to a significant contraction in global FDI due to the far-reaching effects of the COVID-19 pandemic. During this period, global FDI experienced a steep decline, plummeting by over 42%, from approximately US$1.5 trillion in 2019 to an estimated US$859 billion in 2020. Remarkably, India and China emerged as the solitary major FDI destinations to deviate from this trajectory, exhibiting growth in FDI inflows compared to the preceding year (UNCTAD, 2021). India witnessed a commendable 13% surge

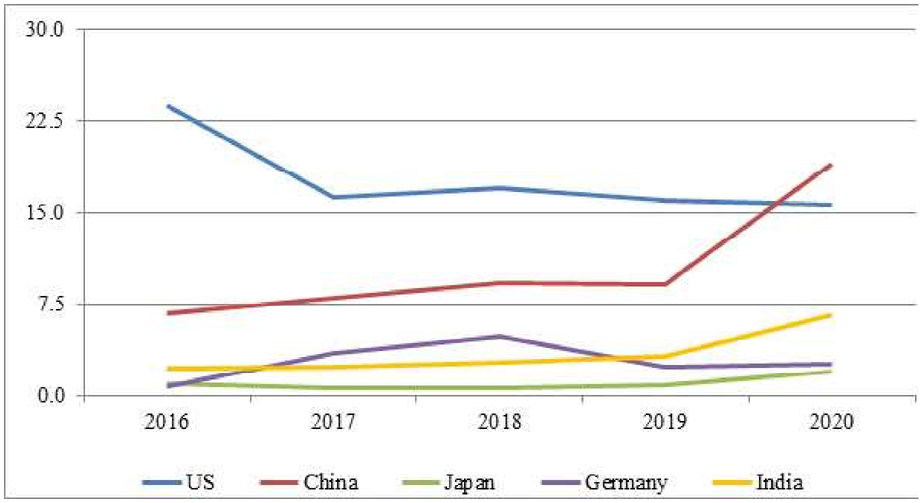

Figure 2: Share (%) of India and other major economies in global FDI flows

Source: World Investment Report 2020 and UNCTAD's Investment Trend Monitor, January 2021

in FDI flows, amassing an estimated US$57 billion, while China also experienced a 4% uptick in FDI, accumulating an estimated US$163 billion. Conversely, there was a stark decline in FDI inflows to numerous other significant economies, including but not limited to the United States, Germany, France, the United Kingdom, and Brazil (UNCTAD, 2021).

For decades, the United States had held the distinction of being the foremost recipient of global FDI flows; however, a precipitous decline exceeding 49% in 2020 relegated the country to the second position (UNCTAD, 2021). In an intriguing turn of events, China, which had long occupied the second spot, ascended to the pinnacle as the world's leading destination for FDI inflows in 2020. It is important to underscore that the shrinking gap between the United States and China concerning FDI inflow had been evident over the preceding five years, with the United States ceding its top position primarily due to its handling of the COVID-19 pandemic. Nevertheless, it is widely anticipated that the United States will regain its preeminent status once the pandemic is effectively managed and pre-pandemic economic growth is reinstated over the next few years. As per the International Monetary Fund's World Economic Outlook Update of January 2021, the U.S. economy is poised to expand by 5.1% in 2021 and 2.5% in 2022 (International Monetary Fund, 2021).

Figure 2 portrays the evolving proportions of five major economies in the context of global FDI flows over the preceding half-decade. Notably, the share of the United States in global FDI flows exhibited a consistent decline, diminishing steadily from 24% in 2016 to 16% in 2020. In stark contrast, the shares of India and China displayed a notable ascent, progressing from 2.2% and 6.7% to 6.6% and 19%, respectively, over the same timeframe (UNCTAD, 2021). However, it remains imperative to acknowledge that a significant disparity persists between India and China. Japan, meanwhile, has witnessed a steady incline in its FDI share since 2017, whereas FDI flows to Germany have exhibited fluctuations. While FDI inflows to Japan have consistently trailed those directed toward India over the last five years, Germany, too, has recorded lower FDI inflows than India over the past two years.

As per the 'Fact Sheet on FDI' provided by the Department for Promotion of Industry and Internal Trade (DPIIT) within the Ministry of Commerce and Industry, there has been a notable and substantial upsurge in Foreign Direct Investment (FDI) inflows into India over the past five years when compared to the preceding half-decade period. The cumulative sum of FDI that India garnered from the fiscal year 2015-2016 to 2019-20 amounted to approximately US$312 billion, representing a remarkable 59% increase over the total FDI inflow of around US$197 billion recorded during the span of 2010-11 to 2014-15 (Ministry of Commerce and Industry, 2021).

Notably, during the fiscal year 2019-20, the total inflow of FDI into India reached an impressive figure of over US$74 billion. Moreover, it is anticipated that this upward trajectory will continue in the fiscal year 2020-21, as data available for the initial six months spanning from April to September 2020 reveals an FDI inflow of approximately US$40 billion, marking it as the highest ever recorded for a comparable period in any previous year (Ministry of Commerce and Industry, 2021). This recent surge in FDI inflows can largely be attributed to the computer software and hardware sector, which in isolation has attracted FDI equity inflows amounting to an impressive US$17.55 billion during the first half of the fiscal year 2020-21 (Ministry of Commerce and Industry, 2021).

An additional noteworthy and positive facet that warrants attention is that the FDI inflow into India has primarily been characterized by equity investments, constituting approximately 70% of the total FDI received by India in the fiscal year 2019-20 (Ministry of Commerce and Industry, 2021).

When examining the sectoral composition of Foreign Direct Investment (FDI) inflows in India, it becomes evident that non-manufacturing sectors continue to hold paramount significance as recipients of FDI.

12. ANALYSIS OF FOREIGN DIRECT INVESTMENT (FDI) EQUITY IN VARIOUS SECTORS IN INDIA

In recent years, India has emerged as a significant destination for foreign direct investment (FDI) across various sectors. This analysis will delve into the FDI equity data for different sectors in India and examine their respective shares in the total FDI equity. The provided data represents the rankings, sectors, FDI equity amounts, and their respective shares in the total FDI equity.

Table 5: Composition of Cumulative Foreign Direct Investment (FDI) Equity in Various Sectors in India (April 2000 to March 2020)

Rank	*Sector*	*FDI Equity*	*Share in Total FDI Equity*
1	Services	82,002.96	17.44
2	Computer Software & Hardware	44,911.21	9.55
3	Telecommunications	37,270.95	7.93
4	Trading	27,594.95	5.87
5	Construction Development	25,662.33	5.46
6	Automobile Industry	24,210.68	5.15
7	Chemicals (excluding fertilizer)	17,639.48	3.75
8	Construction (Infrastructure) Activities	16,846.88	3.58
9	Drugs & Pharmaceuticals	16,500.62	3.51
10	Hotel & Tourism	15,288.97	3.25
11	Power	14,987.93	3.19
12	Metallurgical Industries	13,401.78	2.85
13	Food Processing Industries	9,980.75	2.12
14	Non-Conventional Energy	9,225.51	1.96
15	Information & Broadcasting	9,208.14	1.96
16	Electrical Equipment's	8,604.02	1.83
17	Petroleum & Natural Gas	7,824.16	1.66
18	Hospital & Diagnostic Centres	6,726.93	1.43
19	Consultancy Services	5,834.81	1.24
20	Industrial Machinery	5,619.50	1.20
Above total	399,342.56	84.94	
Total FDI	470,118.99	100.00	

Source: FDI Fact Sheet, DPIIT, Ministry of Commerce and Industry

Table 5 highlights vital sectors attracting significant FDI equity in India, with the Services sector leading at 17.44%. This reflects India's prominence in banking, finance, IT services, and outsourcing. Computer Software & Hardware, comprising 9.55%, benefits from India's IT and growing hardware manufacturing capabilities. Telecommunications, vital to India's digitalization, holds 7.93%, while trading and construction development follow at 5.87% and 5.46%, respectively, underscoring their importance to India's trade and infrastructure. The Automobile Industry (5.15%) draws

FDI due to India's growing consumer base, while Chemicals (3.75%) and Construction Infrastructure (3.58%) support both domestic and export markets. Pharmaceuticals (3.51%) signal foreign trust in India's manufacturing, and the Hotel & Tourism sector (3.25%) reflects the nation's tourism appeal. FDI in Power (3.19%) helps modernize the energy infrastructure, while Metallurgical Industries (2.85%) and Food Processing (2.12%) support industrial and agricultural sectors. Investments in Non-Conventional Energy (1.96%) and Information & Broadcasting (1.96%) align with India's sustainability goals and media growth. FDI in Electrical Equipment (1.83%) supports industrialization, while Petroleum & Natural Gas (1.66%) addresses energy needs. Hospital & Diagnostic Centres (1.43%) boost healthcare infrastructure, and Consultancy Services (1.24%) reflect foreign confidence in India's expertise. Finally, FDI in Industrial Machinery (1.20%) fosters innovation and growth across various sectors.

13. CONCLUDING REMARKS

The above analysis revealed that India's diverse sectors receive varying levels of FDI equity, reflecting the country's attractiveness as a destination for foreign investments. The Services sector leads the way, showcasing India's strength in the service industry, particularly IT and finance. Moreover, sectors like Telecommunications, Construction, Pharmaceuticals, and Automobiles also command substantial FDI equity, contributing to India's economic growth and modernization.

These investments boost the respective sectors and have a ripple effect on job creation, technology transfer, and overall economic development. The Government's efforts to ease regulations and improve the business environment continue to make India an appealing destination for foreign investors (OECD, 2020). With the right policies and continued investments, India can further enhance its position as a global economic powerhouse.

The recent surge in Foreign Direct Investment (FDI) inflows into India can be attributed to a multitude of factors, foremost among them being a series of bold policy reforms and initiatives meticulously undertaken by the Government over the past few years (Department for Promotion of Industry and Internal Trade [DPIIT], 2021). These reforms, designed to bolster India's economic competitiveness and facilitate the ease of conducting business within the country, have played a pivotal role in attracting foreign investments. Moreover, the overarching political stability within the nation has significantly bolstered the confidence of foreign investors (UNCTAD, 2021).

Among the most notable policy reforms that have long been pending but have only recently been implemented by the government are the introduction of the Goods and Services Tax (GST) regime and a substantial reduction in the corporate profit tax rate (OECD, 2020). Under these reforms, the corporate profit tax rate was trimmed down to 17% for newly established manufacturing firms and 25% for other entities (DPIIT, 2021). This reduction in corporate tax rates has rendered India far more appealing from a taxation standpoint, aligning it more closely with its counterparts in the Asian region.

Furthermore, several other significant reforms have been instrumental in enhancing the country's overall investment climate. This encompasses the progressive liberalization of the FDI regime across critical sectors such as manufacturing, railways, insurance, pension, defence, construction, single-brand retail trading, and coal mining (UNCTAD, 2021). Additionally, the rationalization of labour laws into four comprehensive labour codes and the enactment of the Insolvency and Bankruptcy Code in 2016 have collectively contributed to augmenting India's attractiveness as an investment destination (World Bank, 2018).

The enhanced investment climate in India is also mirrored in the OECD's FDI Regulatory Restrictiveness Index, which saw a decline in India's FDI restrictiveness from 0.244 in 2015 to 0.207 in 2019 (OECD, 2020). Although this positions India favourably compared to China's 0.244, there is still notable competition from other FDI competitors like Vietnam (0.130).

Recognizing the pivotal role that logistics plays in determining economic competitiveness and attracting FDI, the Government has embarked on an array of initiatives to improve the efficiency of the logistics sector in India. These initiatives encompass not only the expansion and modernization of physical infrastructure such as roads, railways, airports, and ports but also significant reforms in logistics processes (World Bank, 2018). These process-oriented reforms include digitising the EXIM trade process through E-Sanchit, RFID tagging of all EXIM containers for tracking and tracing and implementing a mandatory electronic toll collection system (FASTag). These measures have significantly bolstered logistics efficiency in the country, as evidenced by India's commendable ranking of 44th out of 160 economies in the World Bank's 'Connecting to Compete 2018' report, with a Logistics Performance Index (LPI) score of 3.18 (World Bank, 2018).

Another pivotal factor contributing to the upswing in FDI inflows is the escalating competition among Indian states to attract investments. Many states have begun offering diverse incentives to entice investors to set up operations within their jurisdictions (DPIIT, 2021).

However, despite the recent wave of reform measures and key government initiatives that have spurred a considerable surge in FDI inflows, several areas still require further reforms and actions to unlock India's full potential. For instance, India has continuously increased tariffs in electronics sectors over the past few years. Although such moves might stimulate market-seeking FDI in select sectors, a stable and lower tariff regime is imperative to ensure the competitiveness of the Indian economy, particularly to sustain FDI inflows, especially those seeking efficiency (OECD, 2020). Such efficiency-seeking FDI is vital for sectors that lack scale within the country and can also hinder India's participation in global production networks, primarily due to high tariffs on intermediate products. Maintaining a stable and consistent tariff policy that is on par with those of competitor economies is imperative to ensure robust and broad-based FDI inflows in the long run (World Bank, 2018).

While significant strides have been made to ensure access to electricity, high commercial and industrial (C&I) power tariffs and the quality of power supply continue to be essential concerns for industries. Addressing these issues requires policy measures, as evidenced in the COVID-19 package 2020, and practical implementation at the state level, necessitating specific attention and focus from the central Government (OECD, 2020).

In recent years, India has substantially improved in specific aspects of the 'ease of doing business'. Nevertheless, there is still considerable room for growth in other critical areas, such as contract enforcement, property registration, business startup procedures, and tax compliance, where India continues to lag competitor economies (DPIIT, 2021). To address these challenges effectively, the Government must embark on reforms in domains like digitalization of judicial processes, paperless court systems, rapid digitization of land records, further simplification of GST procedures, and the establishment of a streamlined one-stop shop for central and state government clearances and approvals (World Bank, 2018).

Further, logistics remains a substantial impediment to FDI inflows, particularly those of efficiency-seeking nature. In addition to ensuring the timely completion of essential infrastructure projects such as dedicated freight corridors, the Government needs to address structural issues such as inconsistent policies and regulations, the multiplicity of line ministries and agencies involved in the sector, and the suboptimal modal share in freight movement (World Bank, 2018). It is equally vital to maintain a stable and consistent policy regime, particularly regarding e-commerce, which is instrumental in securing long-term investment commitments (OECD, 2020).

These steps, coupled with the Production Linked Incentive (PLI) scheme, further augment FDI inflows into India and reinforce the country's position in global value chains, particularly in the post-COVID-19 economic recovery era (DPIIT, 2021).

The economy of a nation, as exemplified by India, is a dynamic entity characterized by growth, production, and evolution. Its GDP charts the course of progress, per capita income reflects the well-being of its people, manufacturing showcases its industrial prowess, and FDI marks its integration into the global economic landscape. India's journey is a testament to resilience and adaptability, guided by economic policies and reforms. In particular, the infusion of FDI, especially in sectors like defence, is a testament to India's ambitions, forging a path toward self-reliance and global competitiveness as it continues to script its economic narrative on the world stage.

India's efforts to attract Foreign Direct Investment (FDI) have yielded substantial results due to a convergence of several key factors. The liberalization of FDI regulations across pivotal sectors and robust infrastructure development have significantly improved the country's investment landscape, while India's skilled labour force and innovative IT sector further enhance its appeal to foreign investors. The nation's political stability and democratic governance provide a secure environment for long-term investments. However, further reforms to strengthen governance, streamline bureaucracy, and combat corruption are crucial for maintaining this momentum. These efforts promise to boost economic growth and foster stronger ties with foreign investors.

FDI inflows have profoundly influenced India's economic landscape, stimulating job creation, infrastructure development, technology transfer, and export promotion, all of which contribute to improving the balance of payments. However, despite India's progress in attracting foreign capital, further reforms are required to close infrastructure gaps, fortify intellectual property rights, and establish a more investor-friendly environment. In the defence sector, FDI holds immense potential to enhance domestic production and reduce import dependence, with spillover effects evident from other countries' experiences. Understanding the trends and fluctuations in FDI, shaped by global economic factors and policy shifts, is crucial for shaping future investment strategies in India.

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