

The Role of Foreign Direct Investment in India- An Analysis of Recent Trends of FDI Equity Inflows

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ABSTRACT

Foreign direct investment is playing an increasing role in economic development. Economic reforms and the far-reaching political changes have resulted in very solid changes in the international capital flows. FDI now contribute to a significant share of the domestic investment, employment creation, exports etc... in a number of economies. The changes in the composition of the capital flows and the substantial increase in the magnitude of some of the flows, like FDI, have remarkably changed the balance of payments and foreign exchange reserves position in India. In India some favorable factors helps to attract recent level of FDI like improved global competitiveness, enterprising ecosystem, a dynamic innovation, proactive policy framework etc... Also India seems to be suffering from many challenges and restrictions. Some of the major challenges in the area of FDI are: infrastructure facility, tax policies, political volatility, corruptions, government regulation etc... The present paper has focused on recent trends and patterns (2023-24 to 2025-26) of FDI flow in India and sector wise and state wise investment in India. This article tries to present “The Role of Foreign Direct Investment in India- An Analysis of Recent Trends of FDI Equity Inflows”

Keywords: FDI, Equity Inflows, Trends and Patterns, Economic growth

1. INTRODUCTION

Addressing a session on infrastructure at the seminar on ‘Moving to market: sustaining reforms in India and Asia’ organized by the confederation of Indian Industry(CII) and Asian society, in New Delhi on March 9, 1997, Gordon Wu observed that foreign investment brings four E’s – Efficiency, Experience, Equity and Expertise.

FDI refers to investment in a foreign country where the investors retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Direct investment and management of the firms concerned normally go together.

UNCTAD’s World Investment Report defines foreign direct investment(FDI) as an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy(foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate). FDI implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transactions between the two entities and all

subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated, FDI may be undertaken by individuals as well as business entities. Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital received from an FDI enterprises by a foreign direct investor. FDI has three components: equity capital, reinvested earning and intra-company loans. It may be noted that the Government of India used to exclude reinvested earnings from the estimation of FDI in India. Government sources have, however, indicated that Government would redefine FDI including reinvested earnings also.

2. REVIEW OF LITERATURE

Dr. S Shalini (2020), in their article outlines the ‘Determinants of FDI in India and challenges for low FDI flow to India’. The FDI inflows during 2016-2017 to 2017-2018 were taken for study. This study analyze the share of top investing countries FDI inflow. This analysis shows that service sector in India is the one of the sector in which FDI is consistent in couple of years. This article also focused on studying influential effect of GDP contribution and growth rate on FDI inflows in India and analysis was done by using correlation and regression analysis which shows that there is no such significance relationship between FDI inflows and GDP.

Dr (CS) Usha Srivastava (2023), ‘Trend of FDI inflow in India and its impact on GDP’, in this study outlines the impact of FDI inflow on GDP growth and trends of FDI inflows into Indian economy during the period from 2001-2023. Analysis was done by using ANOVA and correlation coefficients which shows there is no significant impact of FDI inflow on GDP growth.

Jayakumar A (2015), ‘An Analysis of Foreign Direct Investment and Economic Growth in India’, in his study found that the impact of foreign direct investment on economic growth in India.

Vidysagar selvaraj singaram, Waseem ahmad(2025), ‘Impact of foreign direct investment, export, import and inflation on economic growth in India: an empirical analysis’. The study reveals a long term relationship between FDI, exports, imports, inflation, and economic growth. Ultimately, the study suggests that more favorable government policies towards FDI could help stimulate a more dynamic Indian economy.

3. OBJECTIVES OF STUDY

1. To study the trends and patterns of FDI equity inflows into India from FY 2019-20 to FY 2024-25
2. To know the cumulative amount of FDI inflows for FY 2023-24 and FY 2024-25
3. To analyze the sector wise and state wise FDI equity inflows
4. To examine the top investing countries FDI equity inflows

4. METHODOLOGY

The present article is purely based on the secondary source of data collection from various unpublished and published sources i.e. Department for Promotion of Industry and Internal Trade (DPIIT), Journals, books, websites etc... Statistical tools such as trend analysis, and percentage have been used in the study. For data illustration, suitable charts and diagram have also been used.

5. FDI ROUTES IN INDIA

FDI under sectors is permitted either through the Automatic route and Government route.

1. Automatic route: under the automatic route, the non-resident investor or the Indian company does not

requires any approval from the Government of India for the investment.

2. Government route: under government route, approval from the Government of India is required prior to investment. Proposals for foreign investment under the government route are considered by the respective administrative ministry or department.

6. SIGNIFICANCE OF FOREIGN INVESTMENT IN INDIA

- FDI shifts the burden of risk of an investment from domestic to foreign investors
- Repayment are linked to profitability of the underlying investment, whereas under debt financing the borrowed funds must be serviced regardless of the project costs
- FDI is the only capital inflow that has been strongly associated with higher GDP growth since 1970
- FDI has generated large employment opportunities
- FDI helps, fill the savings, technological, managerial and foreign exchange gaps
- Foreign investors often introduce advanced technologies and best practices to the Indian market
- FDI allows access to international market
- Inflows of foreign capital via FDI contribute to the improvement of a country's balance of payment

7. LIMITATIONS AND DANGERS OF FOREIGN CAPITAL

The following criticisms are levelled against foreign capital:

- Private foreign capital tends to flow to the high profit areas rather than to the priority sectors.
- The technologies brought in by the foreign investor may not be adapted to the consumption needs, size of the domestic market, resources availabilities, stages of development of the economy, etc...
- Foreign capital sometimes interferes in the national politics.
- Through their power and flexibilities, the multinational corporations can evade or undermine national economic autonomy and control, and their activities may be inimical to the national interests of particular countries.
- Foreign investors sometimes engage in unfair and unethical trade practices.
- Foreign investments, sometimes, have unfavorable effects on the Balance of Payments of a country such as when the drain of foreign exchange by way of royalty, dividend, etc., is more than the investment made by the foreign concerns.
- Foreign investment in some cases leads to the destruction or weakening of small and traditional enterprises.
- FDI can also potentially displace domestic producers by preempting their investment opportunities.

8. DATA ANALYSIS:-

Table 1: Total FDI inflows

Year (April-March)	Total equity inflows (US \$billion)	Re-invested earnings and other capital (US \$billion)	Total FDI (US \$billion)
2023-24	44.42	26.53	70.95
2024-25	50.02	30.02	81.04

(Source: Reserve Bank of India, monthly bulletins various issues)

Inference: In the year 2024-25, total FDI inflows increased to US \$81.04 billion from US \$70.95 billion in the year 2023-24 due to major reforms taken up by Indian Government.

Chart 1: Total FDI inflows

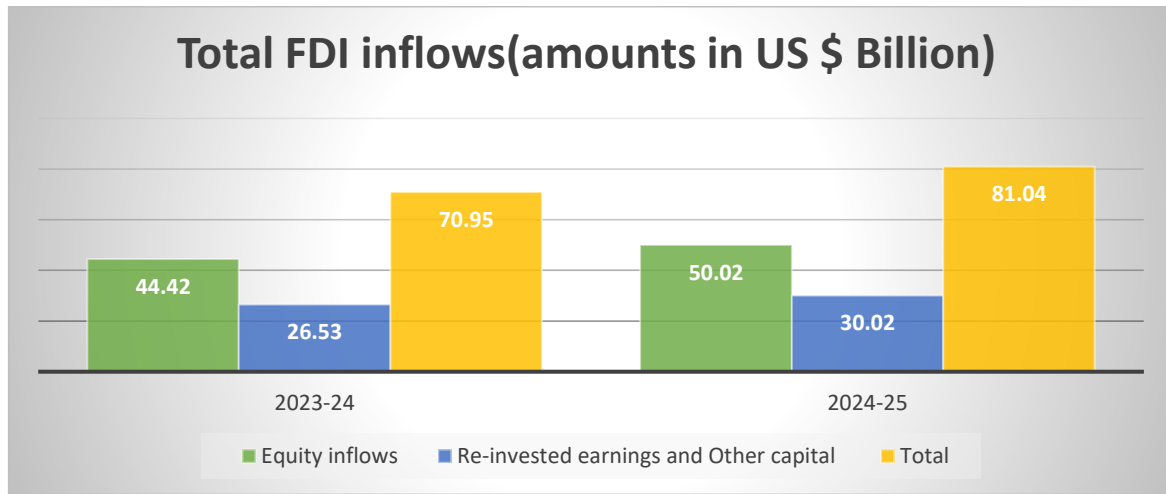


Table 2: India’s FDI equity inflows - Trend analysis for 6 years

Year (April-March)	FDI equity inflow (in terms of US \$ billion)	% change y-o-y
2019-20	49.9	+ 13
2020-21	59.6	+ 19
2021-22	58.7	- 01
2022-23	46.0	- 22
2023-24	44.4	- 03
2024-25	50.0	+ 13

(Source: <http://dipp.nic.in/>)

Inference: In the financial year 2023-24, FDI equity inflows into India fell to a five year low, recording a total inflow of US \$44.4 billion. This market a slight decline from the US \$ 46 billion received in the previous year, influenced by global economic uncertainties and a growing trend of inward looking capital allocation among nations.

Chart 2: India’s FDI equity inflows

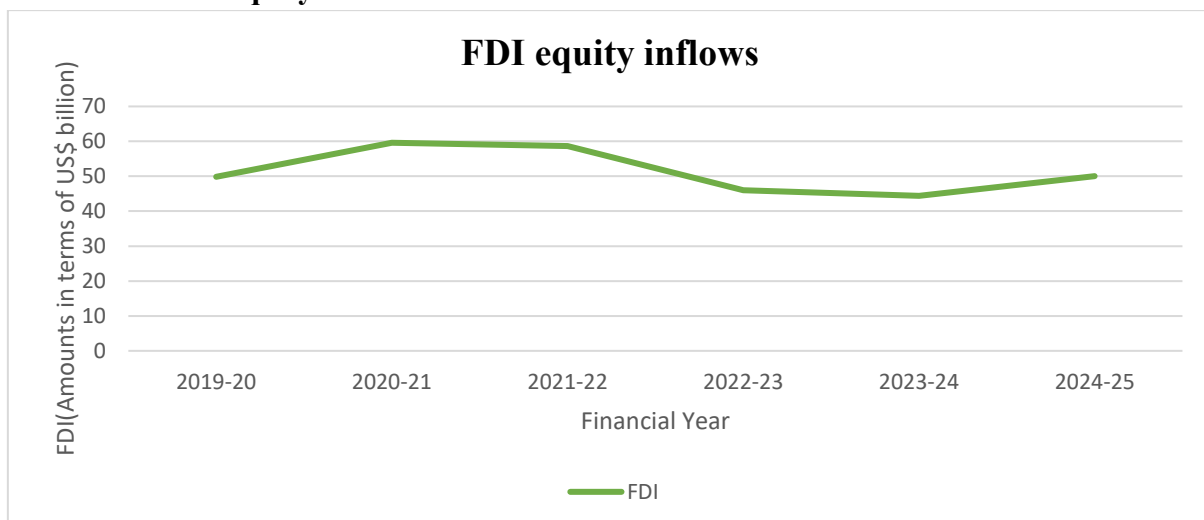


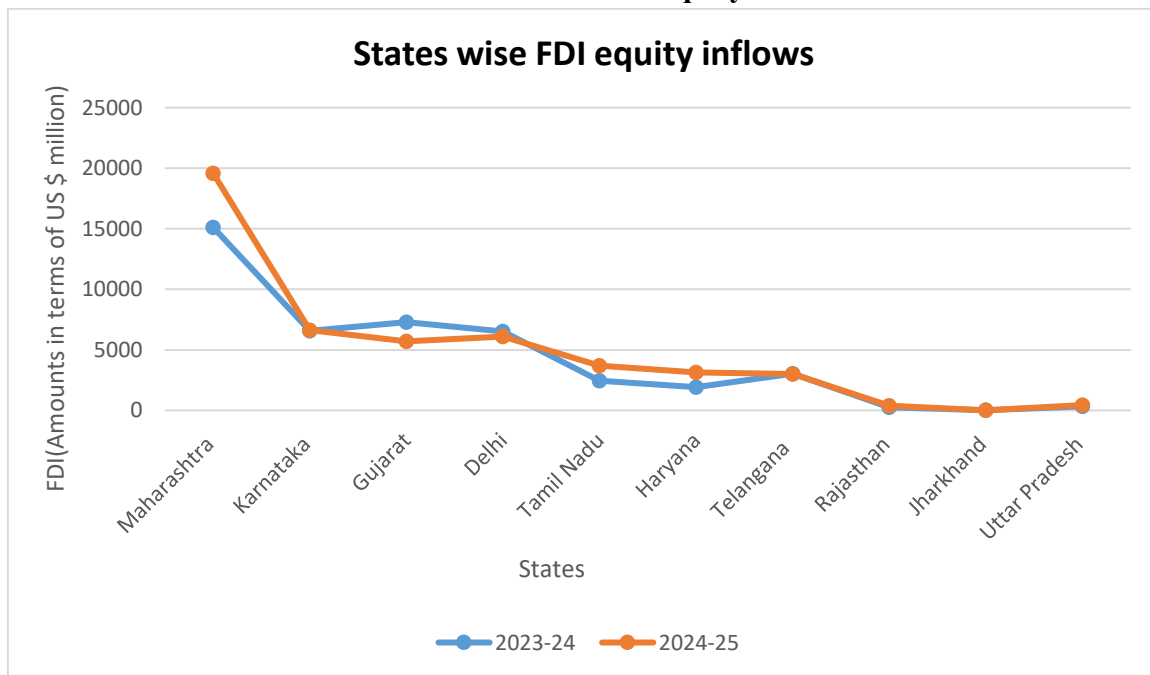
Table 3: States in India attracting the highest FDI equity inflows (Amounts in US \$ million)

	States	2023-24 (April-March)	2024-25 (April-March)	%age out of total FDI equity inflow(in terms of USD)
1	Maharashtra	15116	19589	40
2	Karnataka	6571	6619	13
3	Gujarat	7300	5711	11
4	Delhi	6523	6091	12
5	Tamil Nadu	2436	3681	8
6	Haryana	1908	3147	7
7	Telangana	3029	2994	6
8	Rajasthan	265	374	1
9	Jharkhand	11	7	1
10	Uttar Pradesh	334	436	1
		43493	48649	100

(Source: <http://dipp.nic.in/>)

Inference: Table 3 shows the FDI equity inflows into India in various states. Among all the major states, the highest investment attracted by way of FDI is Maharashtra followed by Karnataka and Gujarat. Jharkhand, Rajasthan and Uttar Pradesh are least attracted by FDI in India.

Chart 3: States wise FDI equity inflows



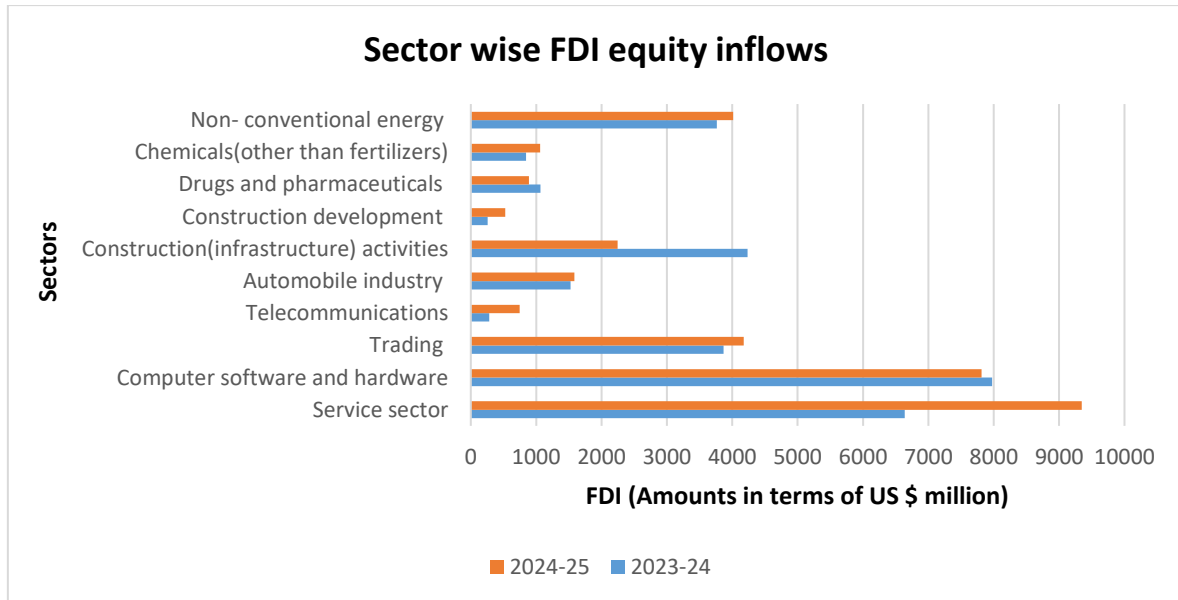
**Table 4: Sectors in India attracting the highest FDI equity inflows
(Amounts in terms of US \$ million)**

	Sectors	2023-24 (April- March)	2024-25 (April- March)
1	Service sector	6640	9347
2	Computer software and hardware	7973	7814
3	Trading	3865	4176
4	Telecommunications	282	746
5	Automobile industry	1524	1586
6	Construction(infrastructure) activities	4232	2245
7	Construction development	255	529
8	Drugs and pharmaceuticals	1064	891
9	Chemicals(other than fertilizers)	844	1060
10	Non- conventional energy	3764	4012

(Source: <http://dipp.nic.in/>)

Inference: As per Table 4 shows the FDI inflows into India in various sectors. Among all the major sectors, the highest investment attracted by way of FDI in the year 2024-25 is in service sector and in the year 2023-24 is in Computer software and hardware. Construction development are least attracted by FDI in both the years.

Chart 4: Sector wise FDI equity inflows



**Table 5: Share of top investing countries FDI Equity inflows
(Amounts in terms of US \$ million)**

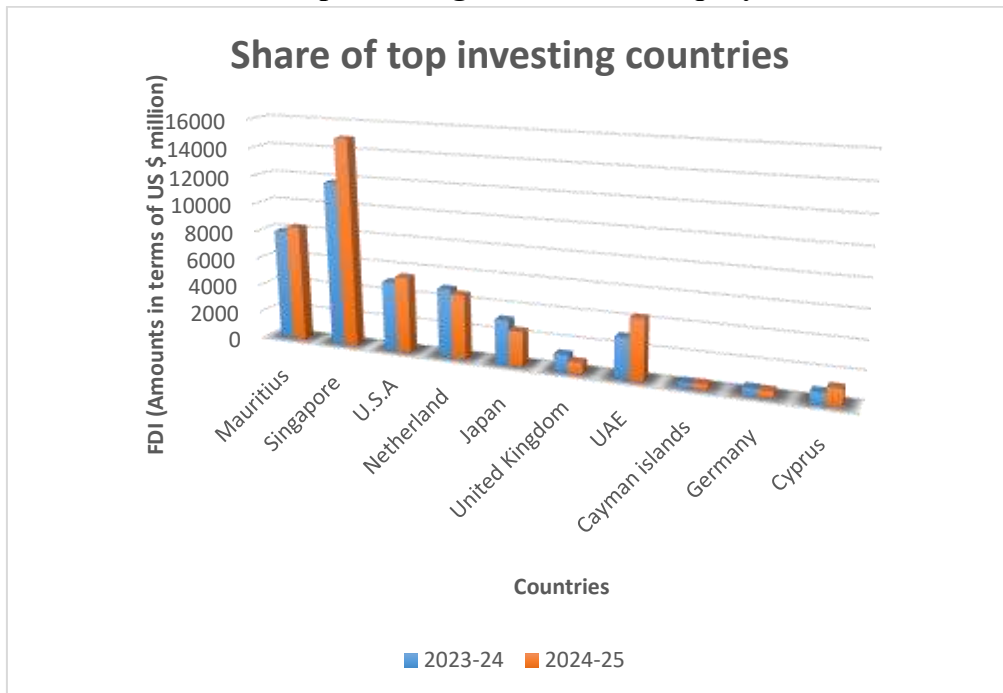
	Country	2023-24 (April- March)	2024-25 (April- March)
1	Mauritius	7970	8344
2	Singapore	11774	14942

3	U.S.A	4998	5457
4	Netherland	4924	4620
5	Japan	3177	2478
6	United Kingdom	1216	795
7	UAE	2924	4345
8	Cayman islands	342	371
9	Germany	505	469
10	Cyprus	806	1203

(Source: <http://dipp.nic.in/>)

Inference: In both the financial year, Singapore emerged as the largest contributor, accounting for US \$ 11774 million in the year 2023-24 and US \$ 14942 million in 2024-25 of the total FDI inflows and followed by Mauritius and U.S.A.

Chart 5: Top investing countries FDI equity inflows



9. FINDINGS

- In the year 2024-25, total FDI inflows increased to US \$81.04 billion from US \$70.95 billion in the year 2023-24 due to major reforms taken up by Indian Government like policy liberalization, "China Plus One" strategy, large domestic market, government initiatives ('Make in India' and Production Linked Incentives schemes), demographic dividend and economic and political stability etc....
- Among all the major states, the highest investment attracted by way of FDI is Maharashtra followed by Karnataka and Gujarat i.e.40%, 13%, 11% respectively.
- In the year 2024-25, FDI equity inflows rose to US \$50 billion from US \$44.4 billion in the year 2023-24, influenced by economic stability and reforms, infrastructure development, large domestic market and growth etc...

- Among all the major sectors, the highest investment attracted by way of FDI in the year 2024-25 is in service sector i.e. US \$9347 million.

10. SUGGESTIONS

- Government take more steps such as further improving ease of doing business, liberalizing sectoral caps like in pharmaceuticals, private security agencies, e-commerce activities, broadcasting and plantation and easing the norms.
- From couple of years, only few countries like Mauritius, Singapore and USA taking a position of top investing countries in FDI inflows in India. So government should also attract other countries investment through liberalized policies, allowing up to 100% investment through the automatic route in most sectors.
- Government of India focus and actively encourage FDI welcoming environment on other states which have struggle to attract FDI due to weak regulatory environments, lack of required skills and talents.
- Government take more active measures to attract more FDI through re-invested earnings and capital also.

11. CONCLUSION

India has become an attractive destination for FDI in recent years, influenced by several factors which have boosted FDI. FDI inflow play a very important role as supplements domestic capital as well as skills and technology of existing companies. It helps to economic growth by facilitating foreign capital, strengthening forex reserves and improving the infrastructure development. It swells job creation, adoption of advanced technology and encourage competition. However, the government actively encourage supportive environment to attract maximum FDI, often focusing on high growth areas via states, sectors and top investing countries. By 2027, India is poised to become the world's third-largest economy with a projected GDP of \$7.3 trillion.

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