Foreign Direct Investment and Its Impact on India's Economic Growth - A Study from 2014 to 2024

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Abstract

Foreign Direct Investment denotes the ownership interest in a foreign enterprise or project held by a government, corporation, or investor from a different nation. Foreign Direct Investment (FDI) refers to the strategic choice to obtain a significant equity interest in a foreign enterprise or to wholly acquire it in order to broaden operations in a new geographical area. The year 1991 marked the beginning of economic liberalization in India, and since then, Foreign Direct Investment (FDI) has been an essential source of capital. India is currently in the top spot for greenfield foreign direct investment (FDI) and provides an automatic investment channel. Additionally, regulations under FEMA ensure transparency. India's infrastructure, employment, and technology have all benefited greatly from foreign direct investment, which has been a key factor in the country's economic progress. The country of India has recently attracted a large influx of foreign direct investment (FDI). The government has liberalized foreign direct investment (FDI) standards in many industries and instituted programs like "Make in India" to attract investment. This study delves into the effects of foreign direct investment (FDI) on India's economic growth, shedding light on the positives, cons, and potential outcomes of this phenomenon. This study examines the impact of Foreign Direct Investment (FDI) on India's economic growth from 2014 to 2024. Over the decade, FDI inflows into India have surged, crossing the $1 trillion milestone, with a notable 119% increase between 2014-2024 compared to the preceding decade. The service sector attracted the highest FDI equity inflow, amounting to $115.18 billion.

Keywords: *FDI; FEMA; Economic Growth; FDI Inflows; Infrastructure; Make in India*

1. Introduction

Foreign Direct Investment (FDI) has emerged as a crucial driver of economic growth in India, bringing in capital, technology, and management expertise. Through the use of foreign direct investment, often known as FDI, states can integrate themselves into the global economy and foster economic growth and development. This is one of the most important options available to them. When a company or an individual from one nation invests resources into the assets or commercial enterprises of another nation, this is referred to as a foreign direct investment. Unlike foreign portfolio investments, which consist of passive ownership of securities, foreign direct investment (FDI) signifies a long-term stake as well as a large amount of control or influence over the management of the foreign company. FDI is distinguished from foreign portfolio investments by its long-term stake. The acquisition of this control can be accomplished through the use of intra-company loans, the reinvestment of earnings, and ownership of equity. Foreign direct investment (FDI) is much more than just a monetary investment; it is a determined move that has the ability to alter the economic environment of the nation that is to receive it.

1.1 Types of Foreign Direct Investment (FDI)

FDI, which stands for foreign direct investment, can be generically classified into three categories: horizontal, vertical, and conglomerate FDI. Additionally, greenfield investment, brownfield investment, and platform FDI are

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also included in this overall category. The expansion of a company's operations into a foreign country can be broken down into some of these categories.

A. Horizontal Foreign Direct Investment: With the intention of producing the same goods or services that it does in its home nation, a corporation decides to make an investment in a foreign country. As an illustration, a clothes retailer from the United States opens a store in India to offer apparel lines that are comparable to those sold in the United States.
B. Vertical Foreign Direct Investment: This kind is frequently utilized to broaden market reach and boost sales in new areas. In the second type of foreign direct investment, a corporation invests in a foreign country in order to control various stages of its supply chain. It is possible to further subdivide this into two types like
    i. Investing in suppliers is an example of backward vertical foreign direct investment (FDI). For example, a vehicle manufacturer would invest in a tire firm.
    ii. Investing in distributors or retailers is an example of forward vertical foreign direct investment (FDI). For example, a clothes company might invest in a foreign retail chain.
C. Conglomerate Foreign Direct Investment: When a firm invests in a foreign country in a sector that is wholly unrelated to its own. An example of this would be a technology company making an investment in a food processing company located in a different country. Foreign direct investment (FDI) of this kind is not very prevalent and is typically motivated by diversification or strategic potential.
D. Green Field Investment: Greenfield investment means, a company begins a new business venture in a foreign nation from the bottom up. To do this, new buildings, factories, or offices will need to be constructed. A company establishes a new operation in a foreign country from the ground up. This involves building new facilities, factories, or offices. It offers the highest degree of control over operations but can be more time-consuming and costly. However, it may be more time-consuming and expensive than other options, but it provides the maximum degree of control over operations.
E. Brownfield Investment: When a corporation purchases or rents existing facilities and operations in a foreign country is called Brownfield investment. This is a more expedient method of entering a market since it makes use of the infrastructure and market presence that already exists.
F. Platform Foreign Direct Investment: Platform foreign direct investment is when a firm invests in a foreign country in order to produce items that will be exported to a third country. This phenomenon is frequently observed in free-trade zones and is driven by tactics that are oriented toward exports.

2. Review of Literature

Impact of FDI on GDP: a comparative study of China and India, Agrawal et al. (2011). FDI involves long-term participation in management skills, technology transfer, and joint ventures between countries, contributing to globalization. Strong evidence suggests that FDI promotes growth by generating sense. After studying the article, it was found that FDI positively impacts growth in developing nations, but only when trained labor is present. This paper examines the impact of FDI on economic growth in China and India, including a comparative analysis. To demonstrate, they use several regression models for the 1993-2009 timeframe. The study implies that a 1% increase in FDI will boost GDP in China and India. Redtrapism, inadequate competitiveness, and outdated technology are to blame. For better positioning than China, the government should adopt regulation policies to avoid bottlenecks.

According to Patil and Kadam (2014) endeavoured to ascertain the importance of FDI in our nation by analysing its inflows and influence on its economic development from 2000 to 2010.

Singh and Singh (2021) used the autoregressive distributed lag (ARDL) bounds testing method to examine the long-term connection between foreign direct investment (FDI) and economic growth in India. The findings point to a favorable and statistically significant correlation between foreign direct investment and GDP growth in India.

S. Sahoo and A. Kumar (2022) present a paper that offers an outline of the developments and policies regarding FDI in India. The report indicates that India has effectively attracted foreign direct investment (FDI); yet, challenges persist in maintaining FDI inflows due to regulatory and policy complications, inadequate infrastructure, and bureaucratic obstacles.

Using panel data spanning the years 2000 to 2020, R. K. Singh and P. N. Mishra (2022) made the observation that the factors that determine foreign direct investment (FDI) in various sectors of the Indian economy. Based on the findings of the study, foreign direct investment (FDI) is significantly influenced by market size, labor cost, and infrastructure in the majority of the Indian economy's sectors.

Sharma, (2018) pointed out that Market fragmentation and lack of scale: India's domestic market is highly fragmented and lacks scale, which can make it difficult for foreign companies to achieve economies of scale and profitability. This is particularly true for companies operating in sectors such as retail and consumer goods

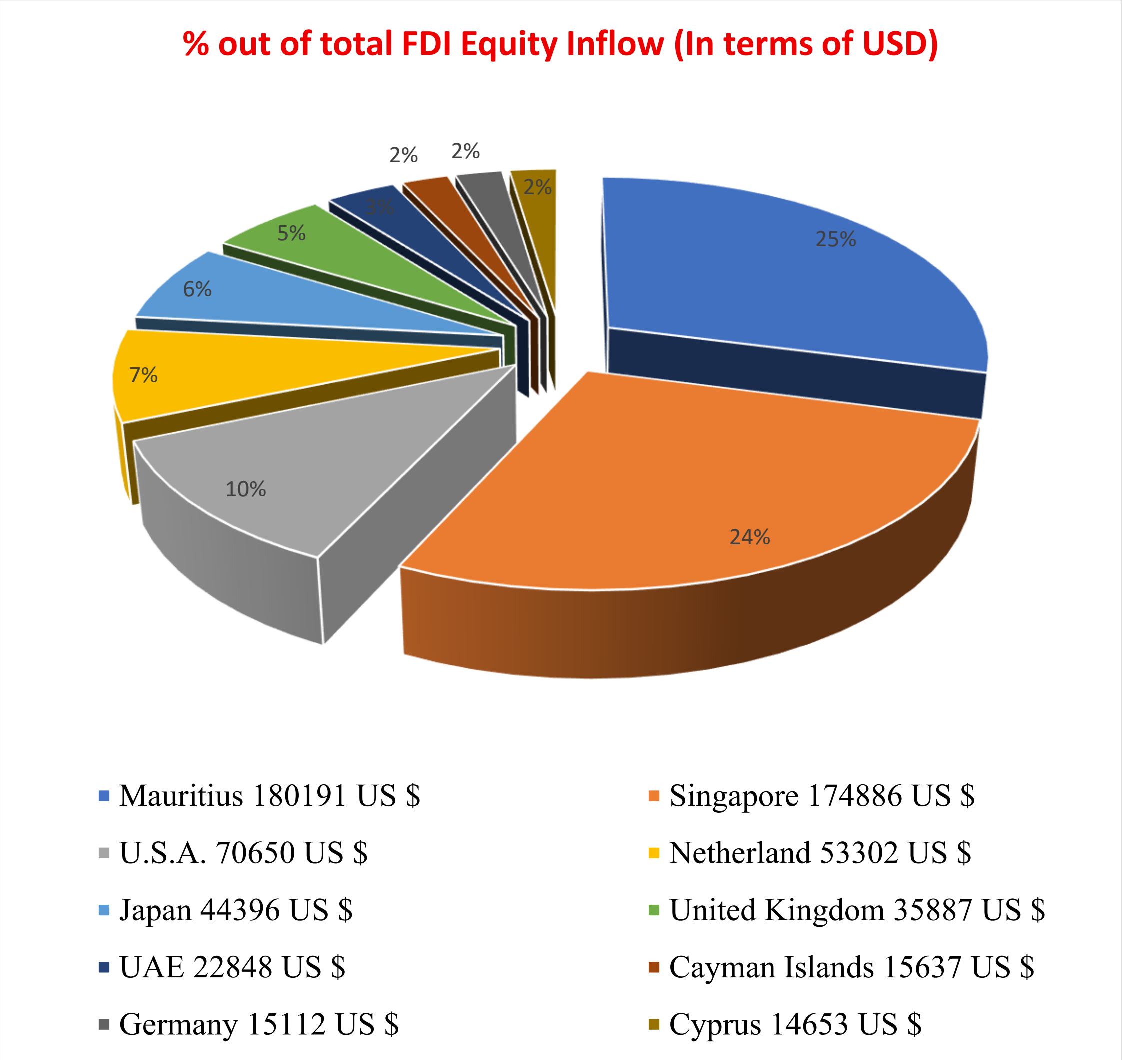
3. Objectives of the Study

1. To measure sector wise inflow of FDI in India
2. To measure impact of FDI on GDP Growth
3. To analyze the employment generation and skill development effects of FDI

4. Share of top Investing Countries FDI Equity Inflow:

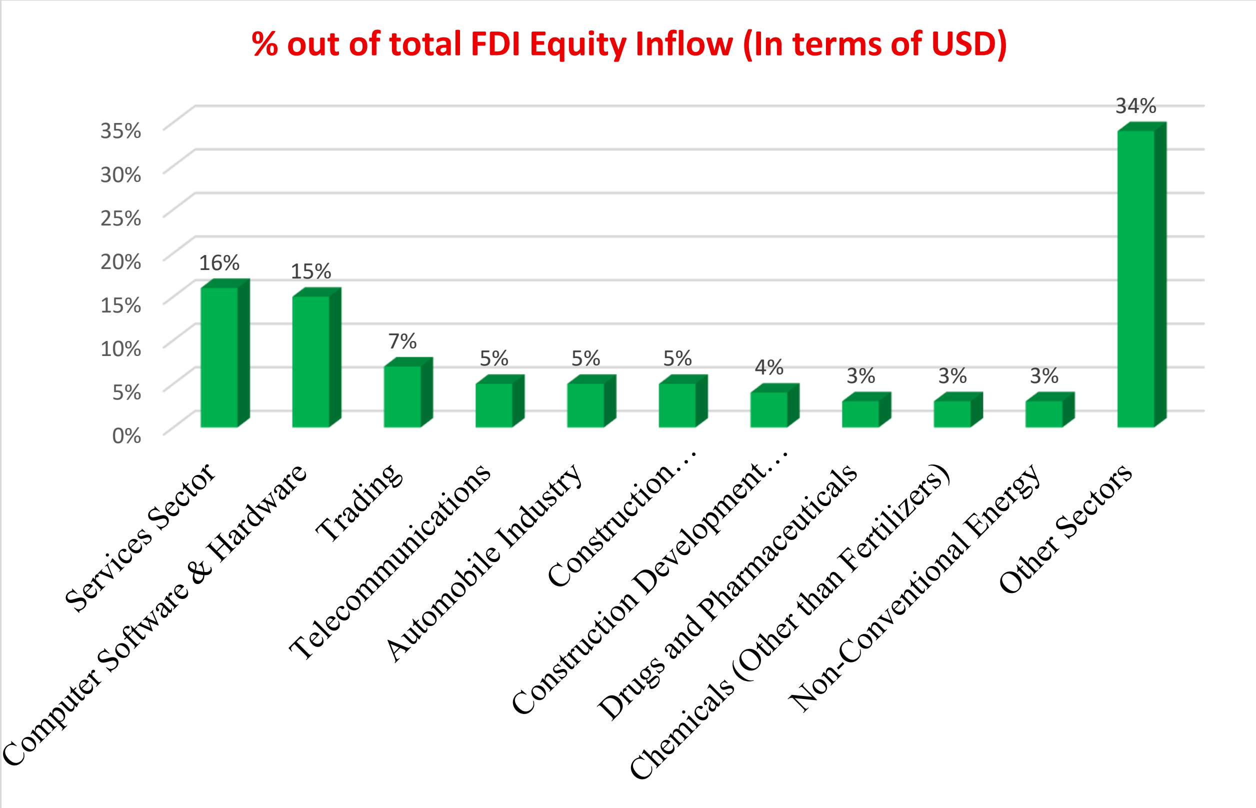
Mauritius and Singapore are major sources of Foreign Direct Investment (FDI) in India due to a combination of factors, including tax treaties, strategic financial hub status, and strong economic ties. Singapore's role as a financial hub and its Double Taxation Avoidance Agreement (DTAA) with India are significant drivers. Mauritius, while historically a major source, is increasingly being used for "treaty shopping," where investors from other countries route investments through Mauritius to take advantage of its tax benefits. The share of the top ten countries FDI Equity inflow will be like the following.

S.No	Name of the Country	Cumulative Equity Inflow from 2000-01 to 2024025 (In terms of USD)	% out of total FDI Equity Inflow (In terms of USD)
1	Mauritius	180191 US $	25%
2	Singapore	174886 US $	24%
3	U.S.A.	70650 US $	10%
4	Netherland	53302 US $	7%
5	Japan	44396 US $	6%
6	United Kingdom	35887 US $	5%
7	UAE	22848 US $	3%
8	Cayman Islands	15637 US $	2%
9	Germany	15112 US $	2%
10	Cyprus	14653 US $	2%
	Total FDI Equity Inflow from All Countries	728882 US $	



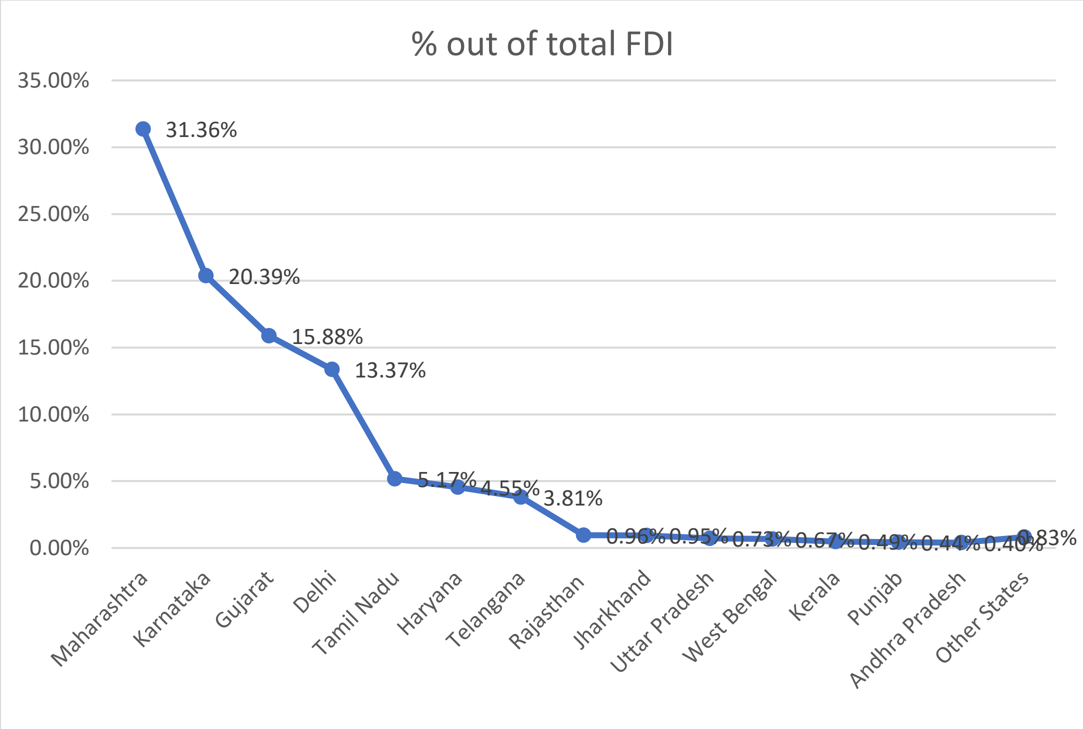
Sector wise FDI Equity Inflow in India

S.No	Name of the Sector	% out of total FDI Equity Inflow (In terms of USD)
1	Services Sector	16%
2	Computer Software & Hardware	15%
3	Trading	7%
4	Telecommunications	5%
5	Automobile Industry	5%
6	Construction (Infrastructure)Activities	5%
7	Construction Development (Townships, housing, build-up infrastructure and construction)	4%
8	Drugs and Pharmaceuticals	3%
9	Chemicals (Other than Fertilizers)	3%
10	Non-Conventional Energy	3%
11	Other Sectors	34%



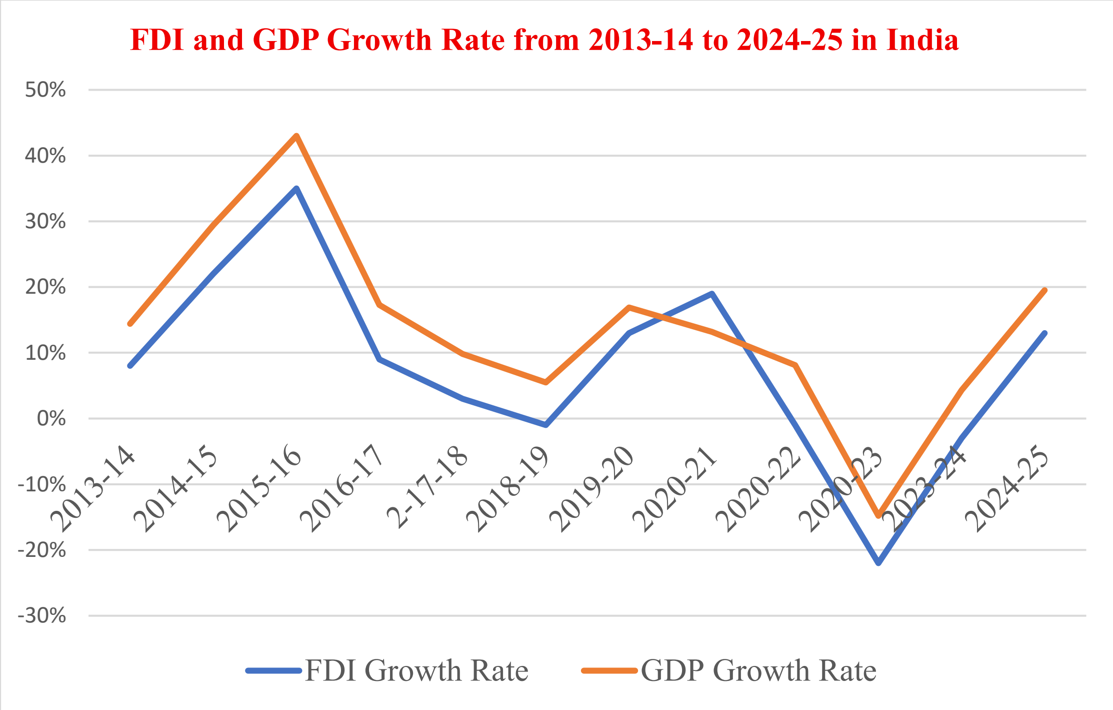
State wise FDI Equity inflow from October 2019 to March 2025

S.No	Name of the State	% out of total FDI
1	Maharashtra	31.36%
2	Karnataka	20.39%
3	Gujarat	15.88%
4	Delhi	13.37%
5	Tamil Nadu	5.17%
6	Haryana	4.55%
7	Telangana	3.81%
8	Rajasthan	0.96%
9	Jharkhand	0.95%
10	Uttar Pradesh	0.73%
11	West Bengal	0.67%
12	Kerala	0.49%
13	Punjab	0.44%
14	Andhra Pradesh	0.4%
15	Other States	0.83%
	Total	100%



FDI and GDP Growth Rate from 2013-14 to 2024-25 in India

S.No	Year	FDI Growth Rate	GDP Growth Rate
1	2013-14	8%	6.4%
2	2014-15	22%	7.4%
3	2015-16	35%	8%
4	2016-17	9%	8.3%
5	2-17-18	3%	6.8%
6	2018-19	-1%	6.5%
7	2019-20	13%	3.9%
8	2020-21	19%	-5.8%
9	2020-22	-1%	9.1%
10	2020-23	-22%	7.2%
11	2023-24	-3%	7.3%
12	2024-25	13%	6.5%



Based on the above table and figure can be concluded that FDI and GDP Growth rate have positive relationship that is when ever FDI has increased GDP Growth rate also increase. After 2015-16 FDI growth rate was decreased in response GDP growth rate also declined.

5. Foreign Direct Investment and Employment Generation:

Foreign Direct Investment in India exhibits a multifaceted link with job creation and skill enhancement. Although it unquestionably generates employment, particularly in industrial and service sectors, the effects are complex and shaped by numerous variables. FDI can indirectly enhance employment by promoting entrepreneurial endeavours and skill acquisition via knowledge dissemination and technological progress.

5.1 Employment Creation:

- ❖ Creation of Employment Opportunities: Foreign Direct Investment results in the generation of both direct and indirect employment opportunities. Direct employment pertains to positions within foreign-owned enterprises, whereas indirect employment arises in associated industries and supply chains. The influence of FDI on employment differs by sector. The manufacturing and service sectors have had substantial job growth attributable to foreign direct investment, although the effects in other sectors may be less important.
- ❖ Regional differences: Foreign Direct Investment inflows are unevenly allocated throughout India, resulting in regional differences in job creation. The nature of employment generated by foreign direct investment is frequently determined by the skill prerequisites of the industries drawing the investment. Certain foreign direct investments may prioritize high-skilled employment, whereas others may concentrate on low-skilled or semi-skilled roles. Formal versus Informal Sector: Foreign Direct Investment (FDI) can influence both the formal and informal sectors. Although it may result in an increase in formal sector employment, it can also stimulate entrepreneurial ventures and self-employment prospects within the informal sector, especially in rural regions.

5.2 Skill Development

- ❖ Knowledge Transfer: Foreign Direct Investment (FDI) can promote knowledge transfer and technological progress, hence fostering skill development within the local workforce.
- ❖ Training and Development: Foreign corporations frequently allocate resources to training and development initiatives for their personnel, resulting in a more proficient workforce.
- ❖ Skill Complementarity: Foreign Direct Investment, particularly in technology-intensive industries, may promote the development of highly skilled personnel.

- Impact on Domestic enterprises: Foreign Direct Investment (FDI) can indirectly affect skill development by prompting domestic enterprises to enhance their technology and elevate workforce competencies to maintain competitiveness.

5.3 Obstacles and Future Opportunities

- Confronting Implementation Obstacles: The economic reforms have been revolutionary; nonetheless, the execution of these policies continues to pose challenges. Ensuring efficient implementation at the state and municipal levels, optimizing bureaucratic procedures, and resolving infrastructure impediments are essential for actualizing the complete potential of these changes.
- Enduring and Equitable Development: As India persists in attracting foreign direct investment, it is imperative to guarantee that the growth is sustainable and inclusive. Policies must prioritize environmental sustainability, social equality, and inclusive development to establish a balanced and resilient economy.
- Enhancing Bilateral and Multilateral Relations: Enhancing India's bilateral and multilateral connections will be essential for attracting increased foreign direct investment (FDI). Strategic alliances, trade accords, and global collaborations can elevate India's status as a favored investment locale.
- Adopting Technological Innovations: As the global economy grows more digital, adopting technological improvements will be essential for attracting foreign direct investment (FDI). Ongoing investment in digital infrastructure, innovation, and technology adoption will be essential for sustaining India's competitive advantage.

6. Conclusion

FDI has played a vital role in India's economic growth from 2014 to 2024. The government's efforts to liberalize FDI norms and improve the business environment have contributed to increased FDI inflows, which in turn have driven economic growth, job creation, and technological advancements. As India continues to attract foreign investment, it is likely to remain a key driver of the country's economic development. The Indian government has implemented policies to liberalize FDI norms, promoting ease of doing business and attracting foreign investors. The government's focus on infrastructure development, digital transformation, and labor law reforms has also contributed to increased FDI inflows. The government's dedication to fostering an investment-friendly climate, along with the nation's intrinsic advantages, establishes India as a worldwide economic powerhouse. The forthcoming trip necessitates ongoing endeavors to tackle implementation obstacles, guarantee sustainable development, and adopt technology innovations. Through effective methods and cooperative initiatives, India can realize its ambition of being a $5 trillion economy and a prominent global investment centre. India possesses the most free and transparent policies on foreign direct investment among rising economies. India has been a significant receiver of foreign direct investment inflows across most sectors. An unusual increase in the country's economic developments has occurred. During the age of liberalization, India is recognized for attracting a substantial volume of Foreign Direct Investment, particularly following the liberalization measures. The performance of FDI has been commendable in some areas, acceptable in several others, and deficient in certain aspects. India must implement more comprehensive reforms across all sectors to get optimal outcomes. The primary flaw of the Indian economic reforms is that the economy is experiencing sustainable growth, although it is characterized by "jobless growth" in the post-liberalization era. The liberalization policy has provided employment opportunities, but not to the necessary extent.

7. Conflict of Interest

The authors declare that they have no conflict of interest.

8. Funding Declaration

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