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Changing Dimensions of Foreign Direct Investment and its Impact on Indian Economy

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Abstract

The Government welcomes Foreign Direct Investment, which is in the interest of the country’s development through the transfer of technology, financial resources, organizational and managerial skills etc. Emerging markets like India possess a lot of potential for foreign direct investment. The rapid growth of India’s GDP, large middle-class population, Double Taxation Avoidance Agreement (DTAA) with the other countries etc. have attracted FDI inflows in India. Foreign Direct Investment in India is subject to policy guidelines framed by the Government of India from time to time in accordance with its industrial policy.

Recently, in 2021, India has brought about relaxations in several key sectors. The FDI limit in the insurance sector now raised from 49% to 74%, under the automatic route, the defence sector was significantly liberalised by raising the FDI limit for investment under the automatic route from 49% to 74%, the government has also increased the FDI limit into the telecoms sector from 49% to 100% under the automatic route, While the overall cap for FDI under the automatic route in the oil and gas sector remains at 49%, under the automatic route but a window has been created for 100% FDI in oil and gas public sector undertakings that have obtained 'in-principle approval' from the government for strategic disinvestment.

In 2023-24, Singapore is the largest contributor of FDI followed by Mauritius but during the last twenty four years on cumulative basis Mauritius continues to be on the top of the list of FDI inflows into India accounting for 25.31 per cent of the total inflows. Singapore is the second largest contributor of FDI followed by U.S.A., Netherlands, Japan, U.K., U.A.E., Cayman Islands, Germany and Cyprus.

The sectors like services (financial & nonfinancial), Computer software & hardware, Trading, Telecommunications, Automobile industry, Construction (Infrastructure) Activities, Construction Development (Townships, Housing, Built-up Infrastructure), Drugs & Pharmaceuticals, Chemicals

(other than fertilizers) and Power have been the major sectors for FDI inflows in India.
FDI inflows into India are showing a declining trend in recent years. India's cancellation of its major bilateral investment treaties, India's announced policies on free trade agreements, rising interest rates in developed markets, threat of global recession, economic crisis, global protectionist measures could be the reasons for this declining trend.
No doubt FDI has improved labour productivity in this period, but higher FDI also raised the wage inequality. Since in India, most of the FDI has come in sectors like services (financial & nonfinancial), Computer software & hardware, Trading, Telecommunications, Automobile industry, Construction (Infrastructure) Activities, Construction Development (Townships, Housing etc.), Drugs & Pharmaceuticals and Chemicals (other than fertilizers), so the developmental impact of it is urban centric and thus created a gap between urban and rural economy. FDI should be used to develop the rural infrastructure. One of the direct implications for policy should be to attract FDI in the export-oriented sector in India so as to maximise the benefits of FDI. Further, efforts should be undertaken in selected areas, especially rural infrastructure and import competing industries. This paper is an attempt to analyse the trends and emerging issues of Foreign Direct Investment in India and its impact on Indian Economy. It is fully based on secondary data.

Keywords: Automatic Route, Double Taxation Avoidance Agreement (DTAA), Economic Development, Foreign Direct Investment (FDI), India