India’s FDI Scenario: Since 1991 to 2021

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https://doi.org/10.5281/zenodo.10615554

ABSTRACT

This comprehensive study delves into India's Foreign Direct Investment (FDI) landscape over the past three decades (1991-2021).The investigation encapsulates an in-depth analysis of FDI policies, sectoral dynamics, regional disparities and their collective impact on India's economic growth. Moreover, the paper offers important policy insights and emphasizes the challenges and opportunities associated with FDI in India. The study indicates that since 1991, India’s FDI has seen a favorable growth trajectory, driven by the government’s consistent efforts to adopt liberalized policies in support of foreign investment.FDI drives India's economic growth, fostering financial strength, stability and global competitiveness.The research findings suggest that the effects of FDI growth differ among various sectors and destination states. Nevertheless, FDI remains a pivotal factor for India's economic advancement and FDI is positively correlated with GDP.

Keywords: FDI,economic growth, India

A. Introduction

Since the initiation of economic reforms in 1991, India has undergone a transformative journey in terms of attracting Foreign Direct Investment (FDI). The liberalization policies aimed at fostering a more open and investor-friendly environment have propelled India into becoming a key player in the global investment landscape. Over the past three decades, FDI has emerged as a vital catalyst for economic growth, technological advancement and structural development. This article delves into the nuanced evolution of India's FDI scenario from 1991 to 2021, a period marked by significant policy changes, sectoral shifts and dynamic global economic dynamics. The liberalization measures introduced in the early '90s set the stage for a surge in FDI, unlocking opportunities for foreign investors across diverse sectors. The subsequent years witnessed a series of policy amendments and initiatives aimed at not only attracting investment but also fostering a conducive business environment. As we navigate through the diverse facets of India's FDI landscape, this article aims to provide a comprehensive overview, unraveling the intricacies of FDI distribution, analyzing its impact on economic indicators and identifying the determinants that have shaped this trajectory. The analysis extends beyond a mere quantitative assessment of FDI inflows, delving into the qualitative aspects of its contribution to employment, technology transfer and sector-specific growth.

By critically examining the evolution of FDI policies, scrutinizing sectoral trends and assessing the broader impact on India's economic landscape, this article seeks to contribute valuable insights to academia, policymakers and practitioners. The comprehensive review not only encapsulates the historical context but also anticipates future trajectories, offering a holistic perspective on India's journey in the global FDI landscape.

B. Survey of Literature

Developing nations view FDI as an economic remedy and consequently, they are liberalizing their FDI policies to attract increased inflows (Dwivedi and Kumar, 2017).Being a developing country, India has also encountered the challenge of insufficient domestic investment hindering economic progress.To address this issue, foreign direct investment (FDI) has been considered essential, serving as a crucial link between required investment and savings (Borensztein, Gregorio & Lee 1998). Singh, Chadha and Sharma (2012) concluded that the flow of FDI has been supplementing the scare domestic investments in India as well as other developing countries. Thus, FDI exerts a multiplying impact on output, employment and income, positioning itself as a growth catalyst for host economies.Zheng (2009) observed that market growth rate, labour costs, country's political risk and policy are the significant determinant of FDI inflow both in India and China. Priyanka (2012) found that trade openness, GDP, and inflation are significant factors influencing FDI inflows in India during the postreform period. However, foreign currency reserves were not identified as a crucial factor in explaining FDI inflows in India.

Analyzing the sectoral pattern of FDI in India, Gupta (2009) found that electrical equipment, telecommunications and transportation attracted significant FDI, with the electrical equipment sector, including computer software and electronics, accounting for the highest share (17.54 per cent). This indicated a substantial portion of FDI went into data processing, software, and consultancy services. The findings suggested the need for more FDI in export-oriented industries to enhance organized sector employment, emphasizing the importance of accompanying FDI with increased exports for effective employment growth. In conclusion, while FDI serves as an engine for India's economic growth, its impact depends on improved quality, quantity and diversified allocation across different sectors.Sutradhar's (2016) analysis of global and Indian FDI trends revealed a historical shift. Pre-1990, FDI primarily flowed into manufacturing and the primary sector. However, the economic reforms of the 1990s, coupled with liberal FDI policies, led to the ascendance of the service sector in term of FDI inflow. This pattern mirrored global trends, indicating a transition in India from manufacturing-centric to service-oriented FDI inflows. The study emphasized the importance of a strong manufacturing sector alongside the service industry for sustainable growth. While FDI in services significantly contributed to India's economic expansion, the study warned about its susceptibility to global economic fluctuations. To mitigate this risk, the study recommended a strategic focus on attracting more FDI to the manufacturing sector.Sahu and Nanda's (2020) examination of India's FDI inflows spanning from 2001 to 2020 unveiled a continual increase in FDI inflow, with the services sector emerging as the primary recipient of such investments.Kumar and Bhattacharya's (2021) research underscored the dominance of the service sector as the primary recipient, with manufacturing following closely. Although FDI had a positive impact on manufacturing growth, it did not exert a similar influence on the construction sector.Kumar and Singh (2018) argue that the influx of FDI into India's services sector plays a crucial role in driving economic growth in manufacturing. They suggest that the services sector creates demand for manufactured goods, resulting in inter-sectoral spillovers and a boost in productivity. Jana et al. (2019) challenged the conventional aggregate approach to analyzing FDI's correlation with economic growth, advocating for a sectorspecific perspective. The study emphasized the need for government policies tailored to specific sectors to attract more FDI. While acknowledging the importance of a robust service sector, the study raised concerns about the sustainability of a service-led growth model without adequate development in agriculture and manufacturing. It urged policymakers to enhance the spillover effects of manufacturing FDI to ensure the sector's sustainable growth.

Several studies have investigated the hurdles encountered by our country India in enticing and maintaining FDI inflows. Prasad and Mallick's (2020) research, for instance, identified bureaucratic obstacles, inadequate infrastructure, and an uncertain policy environment as challenges impeding FDI attraction in India.

C. Research Gap

Despite the extensive literature on India's FDI landscape, there exists a notable research gap that this article aims to address. Over the last three decades, the demand for FDI has increased owing to its importance in narrowing the gap between intended and realized investments in the developing and less developed economies and helping in achieving higher economic growthand creating more job opportunities. However, given that empirical studies highlight that the effective impact of FDI hinges on the host country's absorptive capacity;first, it is essential to assess whether FDI has a positive or negative effect on India's economy.Next, existing studies often provide a national-level perspective on FDItrends, overlooking the regional and sectoral disparities as regard to inflow of

FDI.Understanding these dynamics can help policymakers in formulating targeted strategies to promote more inclusive economic growth with help of FDI.Third, it is important to analyze how FDI inflows impact employment.Moreover, a new perspective is needed to assess how recent economic activities, like pandemichas influencedthe inflow of FDI, thereby affecting (if any)the India's economic growth and employment. Finally, there is a necessity to evaluate the holistic economic implications of FDI inflows on India's economic growth spanning from 1991 to 2021 due to a lack of comprehensive analyses covering this entire period.

D. Objectives of the Study

The objective of the present study is to comprehensively analyze and assess the trends, patterns and policy implications of Foreign Direct Investment in India during 1991 to 2021. The study aims to provide insights into the evolution of FDI policies, sectoral dynamics, regional disparities, determinants influencing FDI and the overall impact on economic growth and employment. Additionally, the article explores challenges and opportunities associated with FDI in India, offering a holistic understanding of the country's FDI landscape during the specified timeframe.

E. Data Source

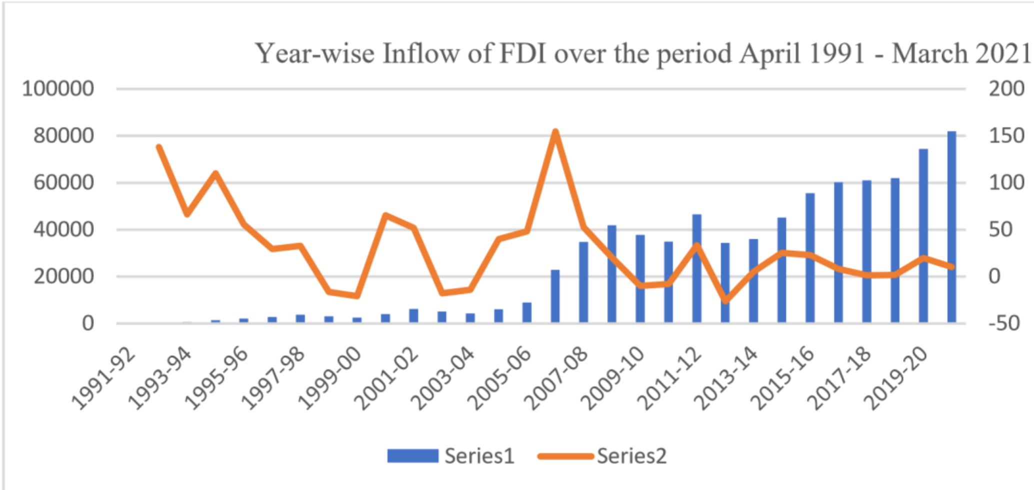
The research exclusively depends on secondary data gathered from various sources, including the Reserve Bank of India, Ministry of Commerce and Industry, Department of Industrial Policy & Promotion (DIPP), World Bank and the UNCTAD's World Investment Report. etc.

F. Result and Discussions

Trends and Patterns of FDI Inflow in India

In the early '90s, India confronted a severe Balance of Payment crisis, challenging its exports and burdened by external debts. To avert the threat of defaulting on external payments, policymakers adopted a more liberal approach, welcoming FDI to regain foreign investor confidence amid adverse economic conditionsunder the umbrella of New Economics Reforms pillared by globalization, liberalization and privatization. India, thus saw a surge in FDI inflows after 1991 during the globalized era, marked by economic reforms such as industrial decontrol, liberalized foreign trade, market-driven exchange rates, the start of public sector privatization and favorable FDI policies. In 1991, the FDI policy was liberalized as part of the government's economic reforms program. According to the 'Statement on Industrial Policy,'1991; up to 51 per cent of FDI was permitted in 35 high priority industrythrough the automatic route. Foreign technical collaboration was also included under the automatic route, with specified limits. Again, in 1996, the automatic approval route for FDIwas expanded to 111 industries categorized into four groups (A, B, C, D) with varying ownership limits (up to 50 per cent, 51 per cent, 74 per cent and 100 per cent). The Foreign Investment Promotion Board (FIPB) was formed to handle cases under the government route. From 2000 onwards, India's economic globalization escalated. In 2000, a significant shift occurred, placing most sectors under the automatic route, with gradual increases in caps for various sectors. Initiatives included were opening up insurance and defense to a 26 per cent cap, raising the cap for telecom services to 74 per cent and permitting 51 per centFDI in single-brand retail. In 2010, existing regulations on FDI were consolidated into a single document in 2010 for easier reference. Again in 2014, the government announced significant liberalization measures, raising FDI caps in defense and insurance to 49 per cent and permitting 100 per centFDI in the railways and construction sectors. In the year 2015, the concept of composite caps, where all forms of foreign investment (FDI, FII, NRI) are combined under a single cap, was introduced for simplification. Further, in the year 2016, FDI policy in pharmaceuticals was amended to encourage the manufacture of medical devices and in the e-commerce sector, guidelines were issued to address issues related to inventory-based models.The Indian government, in amendments announced on January 10, 2018, further liberalized the FDI policy in key sectors. These changes include 100 per centFDI under the automatic route for singlebrand retail trading, 100 per centFDI under automatic route in construction development, foreign airlines allowed to invest up to 49 per cent in Air India under approval, foreign institutional and portfolio investors permitted to invest in power exchanges through the primary market, and an amendment to the definition of medical devices in the FDI policy. Recently, in the year 2020, the government allowed 100 per centFDI in the agriculture sector, and in the defense sector, automatic route approval was extended to 74 per centFDI.

Figure 1 illustrates the volatility of FDI inflows in India, showcasing notable fluctuations in both growth and decline. Despite this volatility, a discernible upward trend has been seen during the concerned period. The early '90s witnessed a surge in FDI inflows, indicating the positive response to economic liberalization. There's a significant spike in 1992-93 and 1993-94, indicating growing foreign investor confidence in India after economic liberalization in 1991. Again, the FDI inflows to India exhibited an upward trend from 2000-01 to 2008-09, followed by a decline for a couple of year in the aftermath of the global economic crisis in 2008-09.



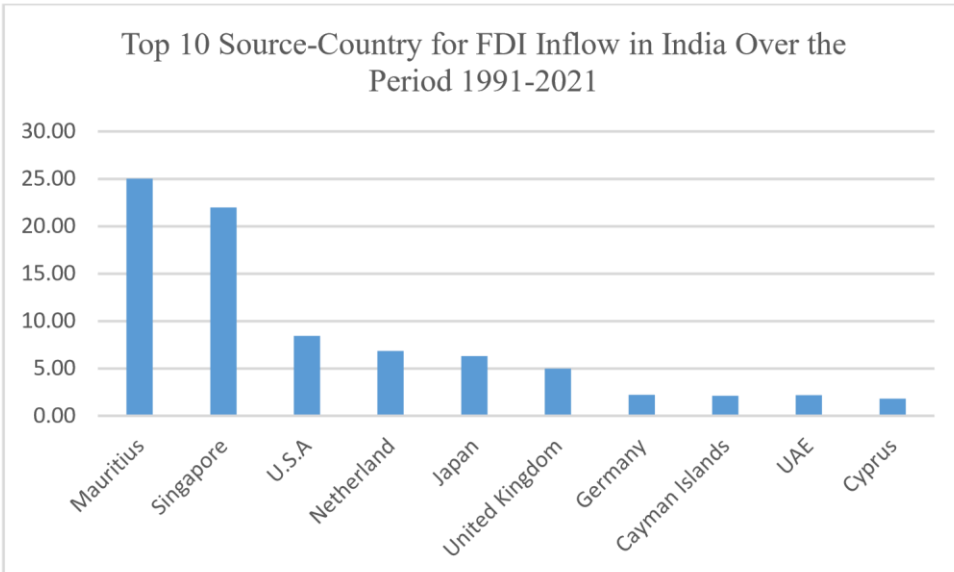
Source: DIPP

Figure 1. Year-wise Inflow of FDI

FDI inflows experienced a notable surge from 4029 million US $ to 6130 million US $ during 2000-01 to 2001-02,the increased demand from Indian consumers, liberalized government policies and robust communication facilities were the contributing factors. However, Subsequently, FDI inflows witnessed a dip, decreasing to 4322 million US $ in 2003-04. From 2004-05 to 2008-09, the percentage of FDI inflows experienced significant growth, reaching a peak of 125 percent in the year 2006-07.Between 2005-06 and 2007-08, FDI inflows experienced a notable surge, escalating from 8961.40 million $ to 34843.43 million US $. But from the year, 2009, the value of FDI has demonstrated a declining rate because of a decrease in the monetary value of rupees. A decline in FDI inflows in 2008-09 caused FDI inflows to decline to 41,873 million US dollars due to Global financial crisis originated in USA, but they remained higher than in previous years.The UNCTAD report (2010) shows the global FDI flows began to bottom out in the latter half of 2009 and has shown a modest recovery in the first half of 2010 with South Asia being the first to bounce back from the downturn.In 2012-13, it's going to reduce over the previous year i.e., 26 per cent and thereafter it is continuously increasing. Supported by various reforms, the year-on-year growth rate of FDI inflows, which peaked at 25 per cent in 2014-15 and 23 per cent in 2015-16, gradually slowed to 8 per cent in 2016-17 and further to 1 per cent in 2017-18.From 2015-16 to 2020-21, inflows of FDI in India consistently grew, rising from 55559 million US $ to 81793 million US $ in 2020-21. Despite global challenges posed by the COVID-19 pandemic, the 10 per cent growth in 2020-21 demonstrates India's resilience and attractiveness for foreign investors. India secured the seventh position among the top 20 host countries for FDI in 2021 (World Investment Report 2022).

Since the liberalization of the Indian economy in 1991, FDI inflows have exhibited a consistent upward trajectory over the period 1991-2021.This upward trend reflects foreign investors' positive response to the government's initiatives in opening and liberalizing the economy. Favorable factors contributing to foreign interest include India's demographic advantage with a young population, a substantial consumer base, a growing middle class, increased urbanization and awareness, and rising disposable incomes.

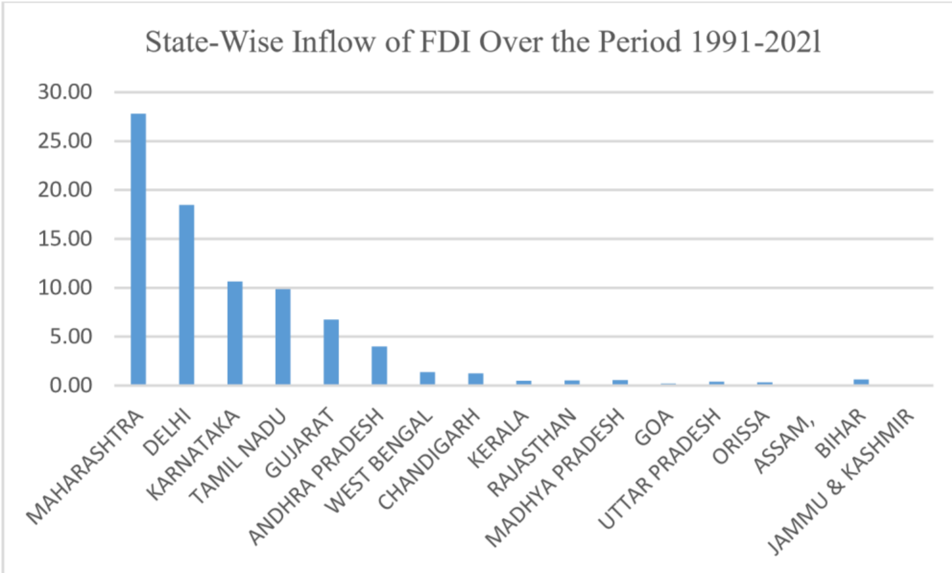
Source-wise Inflow of FDI.



Source: (DIPP)

Figure 2. Top 10 Source-Country for FDI

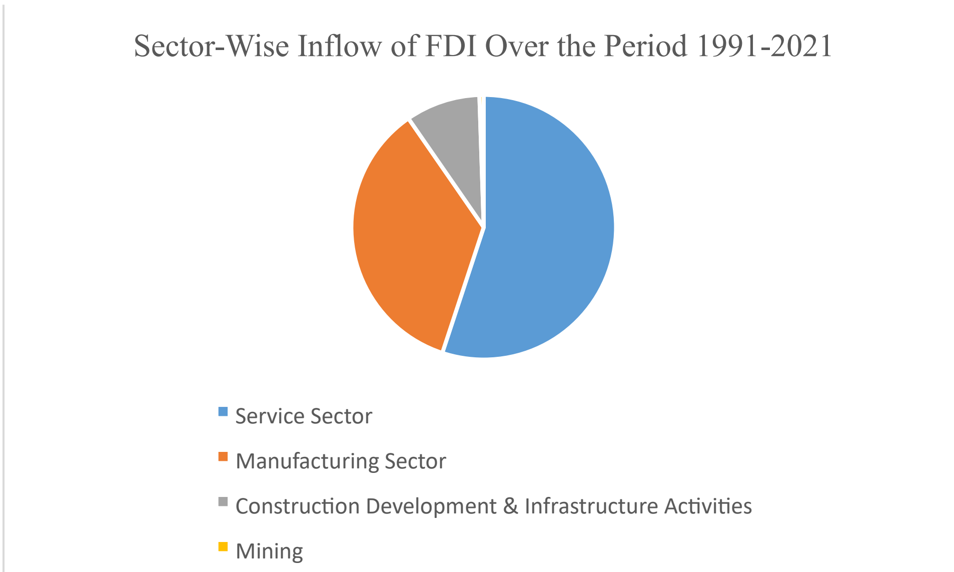
The data presented in Figure 2 illustrates India's FDI inflows from 1991 to 2021, showcasing significant contributions from countries like Mauritius, Singapore, and the United States. Mauritius, constituting approximately 25 per cent of total FDI inflows, benefits from favorable tax treaties with India, making it an attractive investment destination. Singapore, with nearly 22 per cent of FDI, attracts investors due to its strategic location, robust infrastructure, and businessfriendly policies. The United States, contributing around 9 per cent, leverages its global economic prominence to drive FDI into India. Collectively, Mauritius, Singapore, and the U.S.A contribute over 50 per cent of cumulative FDI inflows. Other noteworthy contributors arethe Netherland, Japan,UK, Germany, Cayman Islands, UAE and Cyprus,with a share of 6.83 per cent, 6.30 per cent, 4.98 per cent, 2.22 per cent, 2.11 per cent, 2.17 per cent and 1.81 respectively, investing across diverse sectors. The data reflects India's success in diversifying FDI sources, attributed to effective policy measuresin attracting foreign investors. State-Wise/Regional Inflow of FDI



Source: (DIPP)Figure 3. State-wise Inflow of FDI

While India has experienced substantial foreign direct investment (FDI) inflows since the liberalization policies of 1991, the distribution of these investments across regions has been characterized by significant disparities. This section investigates the regional dynamics of FDI distribution within India, analysing the factors contributing to the uneven spread of foreign investments. From a regional perspective, the top five states that have attracted the highest FDI inflows over the period 1991-2021 are Maharashtra, Delhi, Karnataka,Tamil Nadu and Gujarat, with a share of 28 per cent, 19 per cent, 11 per cent, 10 per cent 7 per cent respectively. These states account for around 70 per cent of the total FDI inflow in India over the same period. The remaining FDI inflows were received by other states and union territories. Historically, the southern and western regions of India, encompassing states like Maharashtra, Karnataka and Tamil Nadu, have been the primary recipients of FDI. Major metropolitan cities such as Mumbai and Bangalore have acted as magnets for foreign investments, attracting a disproportionate share of capital inflows. Within these states, the major cities, including Mumbai, Bengaluru, Chennai and Delhi, have been the primary destinations for FDI inflows.The presence of established industrial hubs, robust infrastructure and a conducive business environment in these regions has contributed to their dominance in FDI attraction. Maharashtra has consistently been the leading recipient of FDI inflows in India since the 1990s.Foreign Direct Investment (FDI) inflows into Maharashtra and Delhi predominantly focus on infrastructure development, including transportation, electrical equipment and telecommunications. Additionally, a significant portion of FDI is directed towards the services sector in these states.Karnataka has experienced a substantial surge in FDI equity inflows, recording a remarkable increase of 302 percent in 2017-18, as reported by the Department of Industrial Policy and Promotion (DIPP, 2018). This surge is attributed to significant FDI inflows, particularly in the information technology (IT) and startup companies.In contrast, the northern and eastern regions, including states like Uttar Pradesh, Bihar, and West Bengal, have lagged behind in FDI attraction. Despite having vast untapped potential and large populations, these regions face challenges related to infrastructure deficits, bureaucratic hurdles and historical industrial legacies. Limited connectivity and a less favourable business environment have hampered theirfactors contributing to disparities.

Sectoral Analysis of FDI

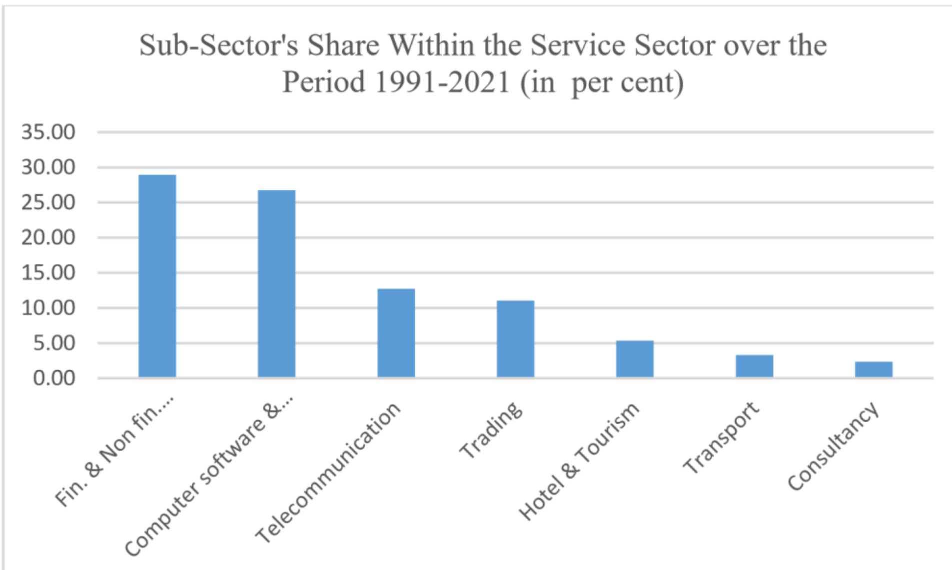


Source: DIPP

Figure 4. Sector-wise Inflow of FDI

One of the key trends in FDI inflows to India is the sectoral distribution of investments. Analysing the data on sectoral inflow of FDI for the period 19912021 reveals that the Service Sector has attracted the highest FDI inflow, constituting 55.07 per cent of the total FDI inflow over the concerned period. The Manufacturing sector has attracted 35 per cent of total inflow of FDI during the same period. On the other hand, other sectors like Construction Development & Infrastructure Activities and Mining constituted 9.11 per cent and 0.52 per cent respectively of the total inflow of FDI during the concerned period. The dominance of the Service and Manufacturing sectors as regard to inflow of FDIsignifies the role of these sectors as major contributors to economic growth and job creation. While FDI inflow in infrastructural sector highlight the crucial role of foreign investments in development projects, contributing to the country's economic progress. The relatively modest FDI in the Mining sector may indicate challenges or regulatory complexities. Addressing these issues could potentially attract more investments in this sector.

The sectoral distribution of FDI in India has also changed over time. In the early 1990s, FDI inflows were primarily concentrated in the manufacturing sector, with the service sector receiving a meagre share ofFDI. However, by the mid2000s, the service sector had surpassed the manufacturing sector in terms of receiving FDI inflows. Within the services sector, the subsectors that have received the highest FDI inflows are Financial, computer software and hardware, telecommunications and trading, accounting for 28.93 per cent, 26.75 per cent, 12.74 and 11.05 per cent respectively over the period 1991-2021. The financial sector is the leading recipient in term of FDI inflows in the service sector. This sector has consistently been the top sector to attract FDI inflows, followed by the computer software and hardware sector and the telecommunications sector. Nevertheless, the Indian financial services sector has an attractive destination for FDIdue to its potential for generating profits. In recent times, FDI inflows have risen in the e-commerce and renewable energy sectors.

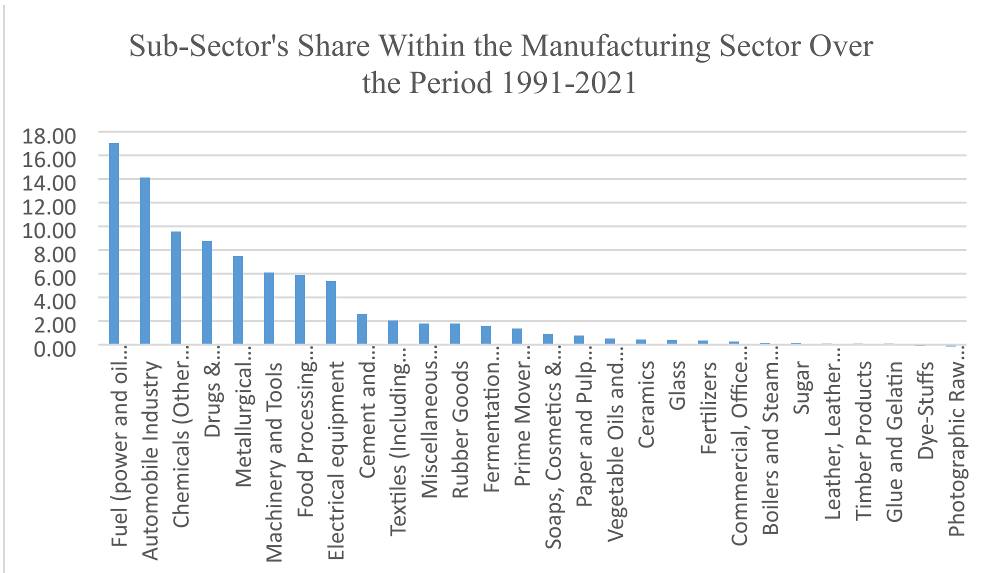


Source: DIPPFigure 5. Sub-Sector's Share within the Service Sector

The data on FDI inflows into India suggests that there has been a considerable shift in the sectoral distribution of FDI over time. From 1991 to 2000, the majority of FDI inflows went into the services sector, with a significant amount also going into manufacturing. However, since the early 2000s, there has been a significant increase in FDI inflows into the telecommunications, computer software and hardware and pharmaceuticals sectors.

Information Technology and Software Services: The Information Technology (IT) sector has been a frontrunner in attracting FDI to India. The country's skilled workforce, coupled with its global reputation for IT services, has led to substantial investments from multinational corporations.

Telecommunications: Telecommunications is another key sector that has witnessed substantial FDI. The liberalization of this industry has attracted major international players, fostering infrastructure development, technological advancements, and increased connectivity. Mobile services, internet penetration, and the digital revolution have been pivotal in shaping FDI trends in the telecommunications sector. Software development, business process outsourcing (BPO), and IT consulting services have thrived, contributing significantly to FDI inflows.



Source: DIPPFigure 6. Sub-Sector's Share within the Manufacturing Sector

The manufacturing sector attracted a substantial 35 per cent of total FDI inflows from 1991 to 2021, making it the second-largest recipient. Within the manufacturing sector, the subsectors that have received the highest FDI inflows are automobiles, chemicals, Drugs & Pharmaceuticals, metallurgical industries, Machinery and Food processing industries, accounting for 15 per cent, 10 per cent, 9 per cent, 8 per cent and 6 per cent respectively. Within the manufacturing sector, the automobile sector is the leading recipient of FDI inflows, followed by the chemicals, pharmaceuticals and metallurgical industries.

Automobiles and Manufacturing: India's automobile and manufacturing sectors have experienced a surge in FDI, driven by factors such as a large consumer base, skilled labor, and a growing middle class. Global automotive giants have established manufacturing facilities, contributing not only to domestic production but also to exports. The "Make in India" initiative has further propelled investments in manufacturing.

Pharmaceuticals and Healthcare: The pharmaceutical sector has been a magnet for FDI, with India emerging as a pharmaceutical hub. Investments in research and development, generic drug manufacturing, and healthcare infrastructure have bolstered the country's standing in the global pharmaceutical landscape. The COVID-19 pandemic has underscored the strategic importance of this sector.

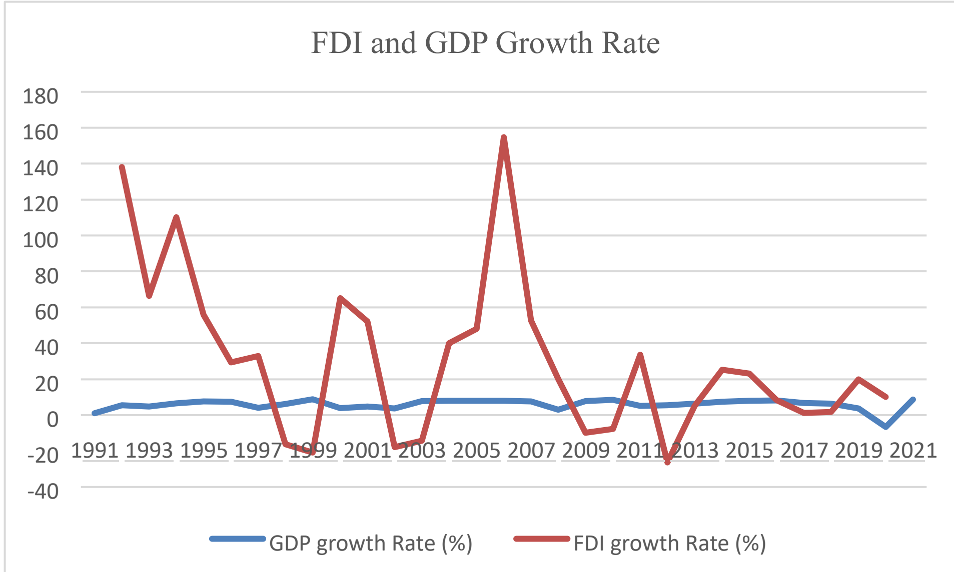
Retail and E-Commerce: The retail sector, particularly e-commerce, has seen a surge in FDI with the growth of online marketplaces. International retailers and e-commerce giants have entered the Indian market, capitalizing on the increasing digital penetration and changing consumer behavior. Government initiatives to ease FDI norms in retail have further fueled this trend.

Energy and Renewable Resources: India's focus on sustainable development has attracted FDI in the energy sector, especially in renewable resources. Investments in solar and wind energy projects, along with initiatives to reduce carbon emissions, have positioned India as an attractive destination for green investments. The government's commitment to renewable energy targets has been a driving force.his sector.

The sectoral analysis underscores the diverse nature of FDI inflows into India. While certain sectors like IT and pharmaceuticals have traditionally been attractive, emerging areas like renewable energy and e-commerce are gaining prominence. The significance of FDI inflow in India cannot be overstated, playing a pivotal role in fostering growth and development across diverse sectors. The inflow of foreign investment has empowered the nation to invest in critical areas such as infrastructure, technology, and research & development, thereby contributing to enhanced economic growth and expanded employment opportunities. The consistent FDI inflow across various sectors underscores India's appeal as an attractive destination for foreign investors. Despite these achievements, there remains untapped for growth in sectors like agriculture, renewable energy, and healthcare remains, attracting further foreign investment in the coming years.

FDI and GDP

Early Years of Liberalization (1991-1994): GDP growth was modest in 1991, but with the initiation of economic reforms, both GDP and FDI growth increased significantly. The positive FDI growth had a notable impact on GDP, contributing to economic expansion.



Source: World Data Bank and DIPP.

Figure 7. FDI and GDP Growth Rate

Steady Growth (1995-2000): The mid to late 1990s and early 2000s witnessed consistent GDP and FDI growth. Foreign investment played a crucial role in sustaining and accelerating GDP growth during this period.

Global Downturn and Recovery (2001-2004): Despite a global economic downturn in the early 2000s, India experienced robust GDP and FDI growth. The FDI inflow positively impacted various sectors, stimulating economic activities.

High Growth Phase (2005-2010): The period from 2005 to 2010 marked high GDP growth, with FDI contributing significantly. The positive correlation suggests that increased foreign investment played a crucial role in propelling India's economic growth.

Global Financial Crisis Impact (2008-2009): The global financial crisis had a limited impact on India's GDP growth, partially due to continued FDI inflows. The positive FDI growth during this period helped mitigate the adverse effects of the crisis on the Indian economy.

Post-Crisis Period (2010-2016): The post-crisis years exhibited steady GDP growth, and FDI continued to play a crucial role in sustaining economic expansion. The data indicates a positive relationship between the growth of FDI and GDP.

Period of Fluctuations (2017-2021): In recent years, India witnessed fluctuations in GDP growth, including a negative growth rate in the year 2020 attributed to the covid-19 pandemic. Inspite of this, the positive FDI growth in 2020 and 2021 suggests that foreign investment contributed to economic recovery

Thus, the data illustrates a positive and enduring impact of FDI on India's GDP growth throughout the period from 1991 to 2021. FDI has consistently played a vital role in supporting economic growth, fostering stability, and mitigating the impact of global economic challenges. The strong relationship between the growth of FDI and GDP underscores the significance of FDI as a driving force for India's economic progress throughout the mentioned period.

FDI and Job Growth Analysis

FDI is often linked with numerous advantages for host countries, with employment generation being a paramount contribution. Beyond imparting technical expertise, FDI serves as a catalyst for job creation in the recipient nation. The correlation between FDI and employment hinges on variables like economic structure and the nature and approach of FDI implementation. FDI's impact on host economy employment is influenced by the nature of investment undertaken by multinational corporations. Horizontal FDI may yield mixed effects on employment, as its advantages could potentially result in the closure of less efficient domestic firms. In contrast, Vertical FDI positively contributes to host economy employment by complementing the firm's domestic and foreign operations. The mode of entry for FDI significantly influences the employment dynamics of the host economy. Several studies suggest that the positive impact on employment is likely greater when the investment manifests as Greenfield investment. Greenfield investment is thought to boost employment levels by establishing new production facilities in the host economy, creating opportunities for additional workers. On the other hand, if inflow of FDI take place in the form of mergers and acquisitions, the impact on employment may be limited or even negative in the short run period. However, in the long run, efficiency improvements and higher quality can result in new job creation in the host economy.

Period	FDIElasiticity of Income	FDI Elasticity of Employment
1991-2021	0.353	0.070

The above table represents the FDI elasticity of income and employment for the period 1991-2021. FDI elasticity measures the responsiveness of income and employment to changes in foreign direct investment. The values indicate that for every one per cent increase in FDI, income experiences a 0.353per cent change and employment shows a 0.070 per cent change. This implies that FDI has a positive impact on both income and employment, with income being more responsive than employment to changes in FDI.The government's FDI policy amendments aim to enhance business ease, draw investments and foster income and employment growth. Focused on bolstering the Make in India initiative, these changes have positioned India as the most open economy for FDI, with the majority of sectors now enjoying automatic approval. Notably, Samsung's launch of the world's largest mobile factory in Noida in 2018, Xiaomi in 2015 highlights the initial success of the Make in India program in attracting FDI for manufacturing. However, the effectiveness of the manufacturing sector in generating employment remains uncertain due to technological innovation and capital-intensive production methods. On the other hand, FDI inflow in the service sector isn't strongly linked to increased employment for several reasons. Firstly, FDI introduces technological changes that demand highly skilled labor, which is often lacking in the Indian workforce, limiting job creation. Secondly, significant FDI flows through mergers and acquisitions, which don't contribute new jobs but may result in job losses due to activity streamlining. Lastly, the enhancement of average labor productivity in the service sector is another factor influencing employment dynamics.

FDI Policies in India

Pre-1991: Restrictive Regime: Prior to 1991, India followed a restrictive policy framework that limited foreign direct investment (FDI) inflows. The focus was on self-reliance, and sectors such as telecommunications, banking and insurance were highly regulated, with stringent restrictions on foreign capital.

1991 Economic Reforms: Liberalization: In response to a severe balance of payments crisis, India initiated economic reforms in 1991. This marked a paradigm shift in FDI policies, moving from protectionism to liberalization. The government introduced measures to attract foreign investments, including the establishment of the FIPB (Foreign Investment Promotion Board) to simplified the approval process.

Sectoral Liberalization:Over the years, the Indian government progressively liberalized FDI policies across sectors. Industries like information technology, pharmaceuticals, and single-brand retail saw increased FDI limits. The introduction of the automatic route simplified procedures for certain sectors, reducing bureaucratic hurdles.

Make in India Initiative: Launched in 2014, the "Make in India" initiative aimed to position India as a global manufacturing hub. FDI policies were aligned with this vision, encouraging investments in manufacturing and related sectors. Several reforms were implemented, including the easing of norms for defense, railways, and construction.

Consolidation and Further Reforms: In subsequent years, the government continued to refine FDI policies. Strategic sectors such as defense witnessed an increase in permissible FDI limits. The launch of the Goods and Services Tax (GST) further streamlined taxation, enhancing the ease of doing business for foreign investors.

Current Scenario: Most Sectors Under Automatic Route: As of the latest regulations, the majority of sectors in India fall under the automatic route for FDI, signifying a liberalized and investor-friendly environment. While certain sensitive sectors still require government approval, the overall trend reflects a commitment to openness and a welcoming stance towards foreign capital.

India's journey in shaping FDI policies reflects a dynamic process of adaptation and reform. From a restrictive regime pre-1991 to embracing liberalization and sectoral reforms, the evolution of FDI policies aligns with India's broader economic development goals. The current scenario, with most sectors under the automatic route, underscores India's commitment to fostering a conducive environment for foreign investors.ng stance towards foreign capital. Challenges and Opportunities in FDI for India: Navigating the Landscape Challenges:

Bureaucratic Hurdles: Despite strides in liberalization, bureaucratic red tape remains a significant challenge for foreign investors. Cumbersome administrative processes and regulatory complexities can hinder the ease of doing business.

Infrastructure Gaps: While progress has been made, India still grapples with infrastructure deficits. Insufficient transportation, energy, and logistics infrastructure can pose challenges for investors, impacting operational efficiency.

Policy Uncertainty: Periodic changes in policies and regulatory frameworks may create uncertainty for investors. A stable and predictable policy environment is crucial to instill confidence and attract long-term investments.

Labour Market Dynamics: While India boasts a large workforce, skill gaps persist. FDI in certain high-tech sectors may be constrained by the need for more specialized skills, necessitating a focus on education and skill development.

Political and Social Risks: Political instability and social unrest can introduce risks for foreign investors. Proactive measures to address and mitigate these risks are essential for maintaining a favorable investment climate.

Opportunities:

Digital Transformation: India's ongoing digital revolution presents significant opportunities for FDI. Investments in digital infrastructure, e-commerce, and technology-driven sectors can yield substantial returns.

Renewable Energy Sector: With a growing focus on sustainability, India's renewable energy sector offers immense potential. FDI in solar and wind energy projects aligns with global environmental goals.

Healthcare and Pharmaceuticals: The global pandemic has underscored the importance of robust healthcare systems. FDI in pharmaceuticals, healthcare infrastructure, and biotechnology can address both domestic needs and global demand.

Manufacturing Hub: As a proponent of the "Make in India" initiative, the country aims to become a manufacturing hub. FDI in manufacturing, especially in sectors like electronics and automobiles, can contribute to India's economic growth.

Strategic Partnerships: Collaborative ventures and strategic partnerships with foreign companies can open new avenues for FDI. Joint ventures and technology transfers can enhance India's industrial capabilities.

Economic Reforms: Ongoing economic reforms, including tax reforms and ease of doing business initiatives, present opportunities for FDI. Continued efforts to streamline regulations can attract more foreign investors.

G. Conclusion

Since the 1991 economic reforms, India has excelled in attracting FDI. However, this success story comes with a notable imbalance in both the source countries and the distribution across states and sectors. Notably, just two nations Mauritius and Singapore contribute over half of cumulative equity investments;similarly, just two states Maharashtra and Karnataka attract over half of the FDI equity inflows. Moreover, this skewed pattern extends to the major sectors, with the services sector emerging as the primary recipient, capturing nearly half of the recent inflows.Since 1991, FDI has been instrumental in driving India's economic growth, with positive effects on technology transfer and employment.Given the study's findings that FDI is a key driver of economic growth and job creation, maintaining political stability is imperative for sustaining investor confidence and attracting more FDI inflows. Further, the government should continue to create a favourable investment climate and stable policy environment to install investors' confidence and attract more FDI inflow into India but not at the cost of national and economic security. Moreover, FDI has bolstered our country's global reputation by promoting liberalization and globalization, allowing it to wield influence on the international stage.

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