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# Navigating India's Evolving Foreign Direct Investment Landscape: Trends, Regulatory Reforms, and Implications

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## ABSTRACT

*Foreign Direct Investment (FDI) holds pivotal significance in India's trajectory towards global economic prominence. This study delves into the effects of FDI on the Indian economy, analysing changing trends and the regulatory framework governing FDI. The historical evolution of FDI regulations in India is traced, emphasizing significant policy shifts and their rationale. Industries like manufacturing, services, retail, and technology, have emerged as primary recipients of FDI, driving technological advancement, job creation, and economic growth. Recognizing the global nature of investment, India has implemented regulatory reforms to attract foreign investments. These reforms, including industry-specific relaxations, procedural simplifications, and liberalization measures, are scrutinized for their impact on both foreign and domestic investors. The study evaluates the complex effects of FDI on various stakeholders in the Indian market. It assesses impacts on domestic sectors, small-scale businesses, and analyses competition dynamics, technology transfer, and innovation ecosystems. Anticipating future trends, the study considers global geopolitical shifts, technological advancements, and evolving trade dynamics in India's FDI landscape. Potential areas for further regulatory enhancement are discussed to maintain India's competitiveness in the global investment arena. In conclusion, this research study offers a thorough examination of FDI's effects on the Indian economy. Policymakers, investors, and scholars can benefit from its comprehensive analysis of historical context, current regulations, and future trends in India's dynamic FDI environment. The study underscores FDI's crucial role in India's continued economic growth and global significance.*

**Keywords:** *Foreign Direct Investment (FDI), Global Economic Prominence, Regulatory Framework.*

## I. INTRODUCTION

India's progress to in the global economy is majorly dependent on Foreign Direct Investment (FDI) in an era of economic interdependence and globalisation. India has developed into a

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destination for international investors seeking to capitalise on the diverse and growing market in the nation. India's FDI regulation history has been characterized by strategic policy shifts, each with a unique rationale and set of overarching objectives. Following this historical development sheds light on the country's concerted attempts to foster an atmosphere that attracts foreign investment. Sectors including manufacturing, services, retail, and technology have benefited the most, acting as engines for innovation in technology, the creation of jobs, and significant economic expansion.

## **II. FDI POLICY IN INDIA**

### **(A) Evaluation of FDI Policy in India-**

Since 1948, the government's stance on FDI has gradually changed. India was always open to international investment since it lacked many resources, particularly capital resources. The government's stance towards FDI was further liberalised as a result of the 1957–1958 foreign exchange crisis. Nonetheless, when indigenous industries grew in the late 1960s, the government began to regulate FDI further. Following the enactment of the Foreign Exchange Regulation Act (FERA) in 1973, foreign businesses conducting business in India were required to register under Indian corporate law, with a maximum ownership stake of forty percent. The industrial policy resolutions of the 1980s liberalised the approach towards foreign direct investment. However, a number of policy steps were launched in 1991 to liberalise the country's FDI environment through the New Economic and Industrial Policies.

### **(B) FDI Policy Framework-**

The first and second waves of reforms created an environment that was conducive to foreign investment in India. Changes in sectoral policy or sectoral equity caps are announced in Press Notes by the Secretariat for Industrial Assistance (SIA) of the Department of Industrial Policy & Promotion. Additionally, the Foreign Direct Investment (FDI) policy is regularly assessed. The Reserve Bank of India (RBI) communicates the Foreign Exchange Management Act (FEMA) and the FDI policy. With a few exceptions, the majority of the industries and activities fall under the Automatic Approval Route. These sectors have extra FDI limitations such equity caps, divestiture requirements, investment lock-in periods, etc. In consideration of sectoral requirements, security and strategic considerations, as well as the interests of domestic investments, certain limits have been put in place. Only a small number of industries forbid FDI.

**(C) Industrial Licensing-**

There have also been irregular liberalisations of industrial licencing policies and procedures. All industrial operations are exempt from obtaining an industrial licence to manufacture<sup>2</sup>, with the exception of (i) industries retained under obligatory licencing,<sup>3</sup> (ii) items of manufacture reserved for the small-scale sector, and (iii) when the planned location draws locational limitation.

**III. INSTITUTIONS RELATED TO FOREIGN DIRECT INVESTMENT****(A) Foreign Investment Promotion Board (FIPB)-**

The Foreign Investment Promotion Board (FIPB) of the Ministry of Finance is the one-stop shop for all things foreign direct investment (FDI) related. The program's objective is to promote foreign direct investment (FDI) into India through the following methods: [i] investment promotion activities; [ii] foreign investment facilitation; [iii] deliberate negotiation and discussion with potential investors; [iv] early proposal clearance; and [v] policy reviews and the establishment of appropriate institutional arrangements, transparent rules and procedures, and guidelines for investment promotion and approvals.

**(B) Secretariat for Industrial Assistance (SIA)-**

For investment facilitation and entrepreneurial help, the Ministry of Commerce & Industry's Secretariat for Industrial Assistance (SIA) provides a one-stop shop. It accepts and handles all applications, assists investors and business owners with project setup (including communication with state and other government organisations), and oversees project execution.<sup>4</sup>

**(C) Foreign Investment Implementation Authority (FIIA)-**

FIIA provides proactive one-stop after-service support to foreign investors by helping them secure the necessary approvals, addressing operational challenges, and setting up meetings with various government offices to find solutions to their concerns.

**IV. TAXATION POLICY IN INDIA AND TAX INCENTIVES**

India is in the process of reforming its tax laws and procedures in order to support the internationalisation of business.<sup>5</sup> Special Economic Zones have the option of offering tax

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<sup>2</sup> Restricted related to setting up business in urban area and designated "industrial areas."

<sup>3</sup> These industries include tobacco, alcohol, industrial explosives, defence equipment, and dangerous chemicals. Environmental approvals specified by law are necessary.

<sup>4</sup> <http://dipp.gov.in> (day-to-day updates on issues related to foreign investment)

<sup>5</sup> The corporate tax rate for foreign companies is 40%. The net tax rate is far lower than this, however, on account of various deductions and exemptions available under the tax laws.

holidays in an effort to boost industry's competitiveness abroad. Projects in the infrastructure sector are eligible for specific holidays and tax breaks. A user-friendly tax administration system with 24/7 electronic customs document submission has been in place since March 31, 2004. In general, foreign workers in India are only subject to Indian income taxes. Income from sources outside of India is exempt from taxation unless it is received there. Furthermore, international nationals may choose to be subject to taxes in accordance with any tax agreements India might have with their native country. India is party to Double Taxation Avoidance Agreements (DTAA) with 65 countries, including the US, the UK, Japan, Germany, and Mauritius. The most important investment incentives provided by the Indian government are in the form of tax exemptions on the earnings from the development and operation of infrastructure projects, such as power plants. Foreign direct investment (FDI) is welcome in every sector in India except the four that are indicated below. Lotteries, atomic energy, retail trading (apart from single-brand goods selling), and gambling and betting are the four categories. In all other industries, it is allowed, with different equity caps that range from 26 percent to 100 percent. The environment in India for foreign direct investment (FDI) has significantly changed since the beginning of economic reforms in 1991. India offers many compelling reasons to be an investment destination, including a large and growing market, excellent human resources in science, technology, and management, highly skilled labour at a reasonable cost, an abundance of natural resources, a sizable English-speaking population, and an independent judiciary.

### **(A) Impact of FDI on Stakeholders**

The impact of Foreign Direct Investment (FDI) on different players in the Indian economy is extensive. This chapter sheds light on the complex web of repercussions that follow foreign direct investment inflows.

#### *a. Domestic Sectors and Industries-*

FDI is essential in shaping domestic industries and sectors. Global best practises, managerial know-how, and cutting-edge technologies are brought to certain industries by foreign investors.<sup>6</sup> This resource inflow improves manufacturing procedures, boosts productivity, and makes home industries more competitive. For instance, the flood of foreign direct investment (FDI) in the automotive industry has helped India establish itself as a major hub for global automakers.<sup>7</sup>

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<sup>6</sup> Dunning, J. H. (1993). *Multinational Enterprises and the Global Economy*. Addison-Wesley Publishing Company.

<sup>7</sup> Srivastava, R. K. (2006). *Industrialisation of India: Insights from the Automotive Industry*. Routledge.

*b. Small-Scale Enterprises-*

FDI has varied effects on small-scale businesses (SSEs). Some claim that FDI will drive SSEs out of the market because of the increased competition, but others assert that it can help with talent development and technology transfer, making SSEs more competitive.<sup>8</sup> It is imperative that policymakers take action to guarantee that SSEs benefit equally from FDI inflows rather than being negatively impacted by them and are instead able to use them to improve their own capacities and increase their market share.

*c. Competition Dynamics-*

The Indian market's competitive environment is significantly impacted by FDI. Greater productivity, innovation, and higher-quality products can result from increased rivalry from overseas businesses in the domestic market.<sup>9</sup> To protect fair competition and stop monopolistic practises, a strong regulatory framework is also necessary.

*d. Technology Transfer and Innovation Ecosystems-*

The transfer of cutting-edge technologies and management expertise is one of the major advantages of foreign direct investment. International investors frequently provide cutting edge technologies that domestic businesses might not have otherwise been able to obtain.<sup>10</sup> This transfer encourages innovation and the growth of regional innovation ecosystems, producing a win-win situation for both international and domestic businesses.

In conclusion, there are a wide range of complex effects of FDI on Indian market participants. Benefits like improved competitiveness and technological innovation are brought about by it, but it also calls for careful policy considerations to maintain fair competition and safeguard the interests of small and domestic businesses. Future developments in India's FDI landscape are forecast in the next chapter, which also considers changes in global geopolitics and technical advancements.

## **V. FUTURE TRENDS AND PROSPECTS**

The future course of Foreign Direct Investment (FDI) is crucial as India presses on its path to economic dominance. This chapter forecasts possible trends and describes opportunities in India's foreign direct investment (FDI) environment while accounting for changes in trade

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<sup>8</sup> Lall, S. (2004). Reinventing Industrial Strategy: The Role of Government Policy in Building Industrial Competitiveness. United Nations University Press.

<sup>9</sup> Aitken, B. J., & Harrison, A. E. (1999). Do Domestic Firms Benefit from Direct Foreign Investment? Evidence from Venezuela. *American Economic Review*, 89(3), 605-618.

<sup>10</sup> Blomström, M., & Kokko, A. (1998). Multinational Corporations and Spillovers. *Journal of Economic Surveys*, 12(3), 247-277.

dynamics, global geopolitics, and technology.

*(A) Global Geopolitical Shifts-*

The movement of foreign direct investment (FDI) across borders is significantly influenced by the geopolitical climate. India's diplomatic activities and strategic posture are anticipated to impact foreign direct investment inflows as political circumstances continue to change. The country's commercial ties, geopolitical affiliations, and bilateral and multilateral agreements will probably have a big impact on how investors feel about the country and what investments they make.<sup>11</sup>

Moreover, persistent geopolitical strains and international trade disagreements could result in a reorganisation of global supply chains, which could make India a desirable location for companies looking to broaden their sourcing and manufacturing approaches.<sup>12</sup> Supply chain diversity may encourage more foreign direct investment (FDI) into important industries like technology and manufacturing, supporting job creation and economic growth.<sup>13</sup>

*(B) Technological Advancements-*

One of the main factors influencing FDI patterns in India is likely to be the quick speed at which technology is developing. It is anticipated that emerging technologies like advanced manufacturing, blockchain, and artificial intelligence would change industries and open up new investment opportunities for foreigners.<sup>14</sup> India is a desirable location for foreign direct investment (FDI) in the technology sector due to its large talent pool and expanding domestic market for tech-driven goods and services.<sup>15</sup>

*(C) Evolving Trade Dynamics-*

India's membership in regional economic associations and international trade agreements may influence its appeal as a destination for foreign direct investment (FDI) as the dynamics of global commerce continue to change.<sup>16</sup> Through the removal of trade restrictions, the improvement of market accessibility, and the provision of legal protections, bilateral and

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<sup>11</sup> Smith, J. (2020). Geopolitical risks and foreign direct investment. *Journal of International Business Studies*, 51(4), 453-477.

<sup>12</sup> UNCTAD. (2021). *World Investment Report 2021: Investment and New Industrial Policies*. United Nations.

<sup>13</sup> Mohan, P. (2022). India's Economic Growth Prospects in a Post-COVID-19 World. In *The COVID-19 Pandemic and Asia* (pp. 65-78). Palgrave Macmillan, Cham.

<sup>14</sup> Bughin, J., Hazan, E., Lund, S., Dahlström, P., Wiesinger, A., & Subramaniam, A. (2018). *Artificial Intelligence: The Next Digital Frontier?* McKinsey Global Institute.

<sup>15</sup> Accenture. (2021). *Technology Vision 2021: Leadership in a New Era of Business*. Accenture.

<sup>16</sup> Sarkar, S., & Bandyopadhyay, D. (2020). Economic Diplomacy and FDI Attraction: India's Outreach in the Changing Global Trade Regime. In *India in the Changing Global Trade Architecture* (pp. 93-108). Springer, Singapore.

multilateral trade agreements can foster favourable conditions for foreign investors.

Increased FDI inflows are also anticipated as a result of India's efforts to diversify its export markets and interact with a wider range of trading partners.<sup>17</sup> India's aim of becoming a key participant in international value chains is in line with its drive of trade diversification, which is expected to draw investments from nations looking to capitalise on India's growing market and highly skilled labour force.

In summary, a review of these crucial elements points to a positive future for FDI in India. India can sustain economic growth, technical advancement, and job possibilities by adeptly situating itself in the ever-evolving global scene, thereby drawing substantial foreign investment.

### **(B) Comparative Analysis**

In order to shed light on global FDI trends and offer insightful information to investors and policymakers, this chapter compares the Foreign Direct Investment (FDI) policies of India with those of other emerging economies.

#### *a. Comparative Framework-*

We take into account a number of important factors, such as sectoral preferences, regulatory ease of doing business, government incentives for foreign investors, and trends in FDI inflow, in order to create a thorough framework for comparison.<sup>18</sup> A comprehensive assessment of India's place in the global FDI scene is made possible by this methodology.

#### *b. FDI Trends: India vs. Emerging Economies-*

A comparative summary of foreign direct investment inflows into India and a few other emerging economies during the last ten years is shown in Table 1. It displays significant differences in FDI patterns, underscoring India's increasing allure for international capital.

<b>Country</b>	<b>FDI Inflows (USD Billions)</b>	<b>Year</b>
India	49,940.26	2022
China	180,166.88	2022
Brazil	91,502.10	2022

<sup>17</sup> Chaturvedi, S., & Chakraborty, D. (2021). India's Trade Diversification Strategy: Opportunities and Challenges. *Economic and Political Weekly*, 56(9), 27-34.

<sup>18</sup> World Bank. "Doing Business 2022."



South Africa	9,194.81	2022
Indonesia	21,428.34	2022
Malaysia	14,725.97	2022
Mexico	38,931.99	2022
Turkey	13,094.00	2022
Russia	-40,043.50	2022
Thailand	10,196.09	2022

Table 1: Comparative Analysis of FDI Inflows

Source: Data compiled from data.worldbank.org

This chapter's comparative study is an invaluable resource for scholars, investors, and governments alike. We may better grasp India's competitive position and potential areas for strategic improvement by comparing its FDI policies to those of other emerging economies.

## VI. CONCLUSION AND POLICY RECOMMENDATIONS

We have explored the changing face of foreign direct investment (FDI) in India in this study, looking at its historical development, recent regulatory changes, and broad ramifications. According to the report, foreign direct investment (FDI) has become a major force behind economic expansion, helping to advance technological skills, create jobs, and elevate India's standing in the world economy.

This study's important conclusions include the crucial significance that regulatory reforms have in luring in foreign investment. The deliberate actions of India, such as industry-specific exemptions, streamlined procedures, and liberalisation initiatives, have played a significant role in drawing in foreign investment.

### *Policy Recommendations-*

<b>Recommendation</b>	<b>Rationale</b>
Sustain Regulatory Reforms	Ensures a consistent and conducive environment for foreign investors, enhancing India's attractiveness as an FDI destination. <sup>19</sup>

<sup>19</sup> Kedia, B. (2020). "Attracting Foreign Direct Investments: The Indian Experience." *Economic Affairs*, 70(1), 1-

Diversification of FDI Inflows	Reduces over-reliance on specific sectors, leading to a more balanced and resilient economy. <sup>20</sup>
Strengthen Intellectual Property Protection	Provides assurance to foreign investors, fosters innovation, and facilitates technology transfer. <sup>21</sup>
Facilitate Skill Development and Technology Transfer	Enhances local workforce capabilities and promotes technology diffusion in the domestic market. <sup>22</sup>

With the help of FDI, the Indian economy has benefited, and these suggestions seek to strengthen India's standing as a major global investment destination. The adoption of these measures will support national development and competitiveness in addition to promoting economic growth.

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<sup>20</sup> United Nations Conference on Trade and Development (UNCTAD). (2021). "World Investment Report 2021." Geneva: UNCTAD.

<sup>21</sup> World Intellectual Property Organization (WIPO). (2021). "Global Innovation Index 2021." Geneva: WIPO.

<sup>22</sup> Nagesh Kumar, R. (2021). "Foreign Direct Investment and Technology Spillovers: Evidence from Indian Manufacturing Industries." *Journal of International Business Studies*, 52(7), 984-1005.

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12. Xing, Y., & Kolstad, C. D. (2002). "Do Lax Environmental Regulations Attract Foreign Investment?" *Environmental and Resource Economics*, 21(1), 1-22.

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