

Manuscript ID:  
IJEBAMPSR-2025- 0201035

Volume: 2

Issue: 1

Month: February

Year: 2025

E-ISSN: 3065-9140

Submitted: 15-Dec-2024

Revised: 08-Jan-2025

Accepted: 25-Feb-2025

Published: 28-Feb-2025

**Address for correspondence:**  
Ashwini Ganesh Patole  
S. S. G. M. College, Kopergaon  
Dist. Ahilyanagar  
Email:  
[ashwinipatole0751@gmail.com](mailto:ashwinipatole0751@gmail.com)

DOI: 10.5281/zenodo.15429968

DOI Link:  
<https://doi.org/10.5281/zenodo.15429968>



**Creative Commons (CC BY-NC-SA 4.0):**

This is an open access journal, and articles are distributed under the terms of the Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International Public License, which allows others to remix, tweak, and build upon the work noncommercially, as long as appropriate credit is given and the new creations are licensed under the identical terms.

#### How to Cite this Article:

Patole, A. G., & Holkar, D. (2025). The Study of Foreign Direct Investment Opportunities and Challenges. *International Journal of Economics, Business, Accounting, Agriculture and Management Towards Paradigm Shift in Research (IJEBAMPSR)*, 2(1), 182–187. <https://doi.org/10.5281/zenodo.15429968>

# The Study of Foreign Direct Investment Opportunities and Challenges

**Ashwini Ganesh Patole<sup>1</sup>, Dr. Deepa Holkar<sup>2</sup>**

<sup>1</sup>S. S. G. M. College, Kopergaon Dist. Ahilyanagar

<sup>2</sup>HOD Economics, Late, Bindu Ramrao Deshmukh Arts, Commerce & Science Mahila Mahavidyalaya, Nashik

## Abstract

*Foreign Direct Investment (FDI) occurs when a company or government invests in another country to establish a lasting interest. It includes reinvesting profits, giving loans, and sharing technology. FDI is different from Foreign Portfolio Investment (FPI), which only involves buying stocks. FDI can be greenfield, building new operations, or brownfield, merging with existing ones. In 2015, global FDI was around \$1.8 trillion. FDI benefits host countries by creating jobs, boosting local purchasing power, and improving skills. It can help underprivileged areas and increase exports. However, global uncertainties and bureaucratic challenges can limit FDI inflows. Proposed reforms aim to attract more FDI by improving investment policies. From April 2000 to September 2024, India received significant FDI, especially from Mauritius, Singapore, and the USA, focusing on services and automobiles. Indian government reforms have raised FDI limits, showing growth potential despite challenges. FDI by improving investment policies. Indian government reforms have raised FDI limits, showing growth potential despite challenges. Tax policies and labour laws in India may also create obstacles. FDI has various benefits for host countries, including job creation, skill development, and economic growth. Future prospects for FDI in India are optimistic, expecting continuous growth. Suggested reforms include improving policy environments, renegotiating bilateral investment treaties, creating coastal economic zones, and enhancing R&D to attract more investments and promote regional development. Overall, implementing effective FDI policies can lead to economic growth, diversify sectors, and boost employment.*

**Keyword:** FDI, Service Sectors, Indian economy, Investment, opportunities, Reforms, Equity, Finance & Technology

## Introduction

FDI plays a crucial role in India's economic growth as it helps in closing down the different economies of the country by investing capital in sectors like production, infrastructure, transportation, technology, productivity, and hospitality. Foreign capital is viewed as a means to bridge the gap between domestic savings and investments. India has been drawing in unprecedented levels of foreign investment and is a significant source of national pride. With a combination of favourable market size, investment reforms, and economic growth, India possesses the perfect blend of openness and opportunity. Unfortunately, India faces numerous obstacles and difficulties when attempting to open its market. The primary obstacles in the realm of foreign direct investment encompass political instability, inadequate infrastructure facilities, tax policies, corruption, and stringent state regulations. Governments should carefully design their foreign direct investment (FDI)

policies to ensure that they contribute to the growth of exports through increased domestic production, savings, and equitable distribution of resources among states. The significance of foreign direct investment (FDI) inflows into India in recent years has been immense. The significant expansion of foreign direct investment globally has emerged as a crucial element for the progress of both developed and developing nations. India will gradually impact globalization and expand its market for foreign investment. It also permitted foreign direct investment in India after implementing modifications to its economic policy. Trade barriers have been eliminated, leading to significant growth in the Indian industry across various sectors. As a result, India has made significant progress in terms of technological advancements and export growth. This article aims to clarify the role of foreign direct investment (FDI) in India and its impact on the country's funding strategies and quarterly funding. It is also analyze the relationship between foreign direct investment and the contributions to the gross domestic product.

#### Objectives

- To study the concept of FDI.
- To Analyze FDI's role in economic growth and development.
- To Explore the service industry and its impact on the Indian economy.
- To examine FDI's effect on India's service sector.
- To the study's importance of FDI.

#### Research Methodology:

The study is based on secondary data collections from various journals, newspapers, books and RBI, World Bank institutions websites, various economical surveys, etc.

#### What Is a Foreign Direct Investment (FDI)?

Foreign Direct Investment (FDI) refers to an investment made by an individual or company from one country into a business or entity in another country. This typically involves acquiring a significant ownership stake (usually 10% or more) in a foreign company or establishing new operations like a subsidiary or branch. It usually involves acquiring at least 10% of voting power in another organization. For example, if an Indian company like Ola opens a headquarters in Sydney, Australia, this counts as bringing FDI into Australia.

FDI also includes reinvestment of profits from overseas operations and intra-organizational loans to foreign subsidiaries. It involves not only the movement of capital but also skills, processes, management, and technology. FDI differs from Foreign Portfolio Investment (FPI), which is simply purchasing equity in foreign companies and does not signify a lasting interest. FDI can be categorized as Greenfield, where a company builds operations from scratch, or Brownfield, where it expands through mergers, acquisitions, or joint ventures by using existing facilities. FDI plays a significant role in global economics, with global FDI reaching approximately \$1.8 trillion in 2015, offering various benefits to the recipient nation. There are many ways in which FDI benefits the recipient nation:

#### Benefits of Foreign Direct Investment (FDI)

1. **Improved Employment and Economic Growth:** FDI creates jobs, reducing unemployment among skilled and unskilled workers. More jobs lead to increased income and stronger purchasing power, boosting the economy.
2. **Human Resource Development:** FDI enhances the skills and knowledge of the workforce, improving human capital. This development can lead to a ripple effect, benefiting other organizations as well.
3. **Improvement of Backward Regions:** FDI helps transform underdeveloped areas into business hubs, enhancing the socio-economic conditions. An example is the Hyundai unit in Sriperumbudur, Tamil Nadu.
4. **Provision of Finance and Technology:** It provides access to advanced financing and technologies, improving local industry efficiency.
5. **Increase in Exports:** Many FDI-produced goods target global markets, leading to increased exports.
6. **Exchange Rate Stability:** Continuous FDI inflow stabilizes currency exchange rates by maintaining foreign reserves.
7. **Stimulation of Economic Development:** FDI generates jobs, local sourcing, and tax revenues, which can be reinvested in infrastructure.
8. **Improved Capital Flow:** FDI assists nations with limited resources in accessing capital.
9. **Creation of a Competitive Market:** FDI fosters competition, breaking monopolies and

benefiting consumers with more affordable products.

#### Challenges for FDI

- **Global Uncertainties:** The global economic situation is unstable, impacting FDI inflows. For example, India experienced a decline in FDI, with net inflows dropping to \$9.8 billion in FY24 from \$28 billion in FY23.
- **Infrastructure and Ease of Doing Business:** Improvements in infrastructure and business processes are essential to attract more FDI. Gaps in transportation, power, and digital connectivity continue to pose challenges.
- **Bureaucratic Delays and Regulatory Complexity:** Foreign investors often face bureaucratic hurdles, including delays and complex regulations, which complicate investments.
- **Tax and Tariff Policies:** India's tax system is complex and changes frequently, creating uncertainty for foreign investors. Clarity in tax policies is crucial for building investor confidence.
- **Labour Laws:** India's labour laws are often seen as outdated and rigid, posing challenges for businesses. Reforms are needed to enhance the environment for investment.
- **Corruption and Transparency:** Corruption remains a significant issue, and enhancing transparency in government processes is vital for attracting investors.
- **Sector-Specific Challenges:** Specific sectors like retail, real estate, pharmaceuticals, and e-commerce face unique challenges that affect FDI.

#### FDI inflows

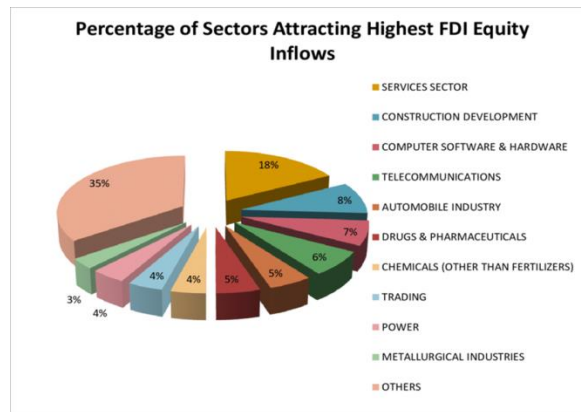
- From April 2014 to September 2024, India received \$709.8 billion in FDI.
- The insurance sector has attracted about \$6.51 billion in FDI over the past nine years.
- The manufacturing sector's FDI equity inflow increased by 69% from 2004–2014 to 2014–2024.

#### Government reforms

- The government has raised FDI limits, removed regulatory barriers, and developed infrastructure.
- The government has liberalized the FDI cap in various sectors, including:
  - Insurance from 26% in 2014 to 74% in 2021, and to 100% in 2025
  - The defense sector FDI upto to 74% along the automatic route and 100% along the government route
  - The pharmaceutical sector to 74% through the automatic route and 100% across the approved route
- The government has also:
  - Reduced or eliminated customs duties on critical minerals and components for manufacturing mobile phones
  - Bolstered sectors such as defense, telecommunications, and space

#### Sectors that attract FDI

- **Services:** This sector has attracted the highest FDI equity inflow in India.
- **Computer software and hardware:** This sector has attracted a significant amount of FDI equity inflow.
- **Telecommunications:** This sector has attracted a significant amount of FDI equity inflow.
- **Trading:** This sector has attracted a significant amount of FDI equity inflow.
- **Automobile:** This sector has attracted a significant amount of FDI equity inflow.
- **Construction development:** This sector has attracted a significant amount of FDI.
- **Chemicals:** This sector has attracted a significant amount of FDI.
- **Pharmaceuticals:** This sector has attracted a significant amount of FDI.



### Government regulations

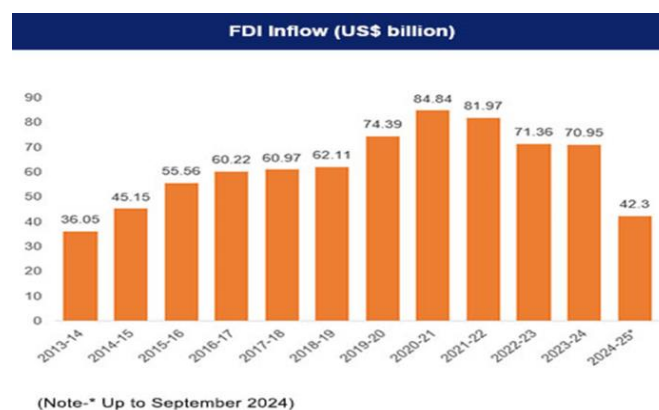
The authorities of India critique FDI coverage frequently and makes adjustments after consulting with stakeholders. The authorities have also released projects like the product related incentive (PLI) scheme to inspire corporations to spend money on EV production.

### FDI inflows in India

From April 2000 to September 2024, India has attracted US\$ one hundred fifteen.18 billion in FDI equity inflow from the carrier zone. India's FDI inflows have increased 20 times from 2000-01 to 2023-24. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US\$ 1.03 trillion between April 2000-September 2024,

mainly due to the government's efforts to improve the ease of doing business and easing of FDI norms. The total FDI inflow into India from July 2024 to September 2024 stood at US\$ 19.8 billion and FDI equity inflow for the same period stood at US\$ 13.6 billion.

From April 2000-September 2024, India's service sector attracted the highest FDI equity inflow of 16.0% amounting to US\$ 115.18 billion, followed by the computer software and hardware industry at 15.0%, amounting to US\$ 107.07 billion, trading at 7.0% (US\$ 46.2 billion), telecommunications at 6.0% (US\$ 39.4 billion), and automobile industry at 5.0% (US\$ 37.2 billion).



The state that received the highest FDI equity inflow during October 2019-September 2024, was Maharashtra (US\$ 82.63 billion) at 31%, followed by Karnataka (US\$ 54.57 billion) at 21%,

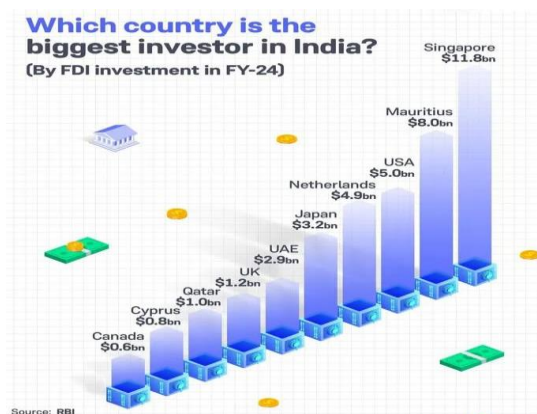
Gujarat (US\$ 43.15 billion) 16%, Delhi (US\$ 34.92 billion) 13%, and Tamil Nadu (US\$ 12.56 billion) 5%.



### Top sources of FDI in India

The top sources of foreign direct investment (FDI) in India come from Mauritius,

Singapore, the United States, the Netherlands, and Japan, according to IBEF.



- **Singapore:** 24% of FDI inflows, from 2014 to 2024.
- **Mauritius:** 25% of FDI inflows, from 2014 to 2024.
- **United States:** 10% of FDI inflows, from 2014 to 2024.
- **Netherlands:** 7% of FDI inflows, from 2014 to 2024.
- **Japan:** 6% of FDI inflows, from 2014 to 2024.

### FDI in India

In the first quarter of FY 2024-25, FDI inflows reached \$6.9 billion, up from \$4.7 billion in the same period last year. In 2023-24, total FDI declined marginally to \$70.95 billion from \$71.35 billion in 2022-23. FDI has played a transformative role in India's development by providing financial resources, fostering technology transfers, and creating employment opportunities.

### Future outlook

The dpiit secretary has stated that India will continue to draw wholesome FDI in 2025. Foreign direct investment inflows into India have crossed the US\$ one thousand billion milestone within the April 2000-September 2024 duration, firmly organising the USA's popularity as a secure

and key funding destination globally. Consistent with the DPIIT facts, the cumulative quantity of FDI, consisting of fairness, reinvested income and other capital, stood at US\$ 1,033.40 billion throughout the said period.

From Mauritius, India received US\$ 177.18 billion, US\$ 167.47 billion from singapore and US\$ 67.8 billion from the USA in the course of the duration below review, as according to the information. The provider area, pc software and hardware, telecommunications, buying and selling, and automobile sectors are the top sectors that attract overseas direct funding (FDI) in india.

### Suggested Reforms:

- **Policy Environment:** India needs to improve its investor-friendly policies by learning from countries with lower FDI restrictions.
- **Bilateral Investment Treaties (BITs):** Renegotiating BITs for stability and predictability is essential for attracting investors.
- **Sectoral Liberalisation:** Targeted reforms in sectors with potential for growth, like insurance and e-commerce, can enhance FDI attraction.



- **Coastal Economic Zones (CEZs):** Creating CEZs can improve infrastructure and attract FDI by being close to transport hubs.
- **R&D and Innovation:** Encouraging research and development through incentives can attract forward-thinking investors.
- **Address Existing Barriers:** Efforts should aim to reduce regulatory complexities, political instability, and other risks that deter FDI.

#### **Opportunities in Implementing FDI Policies**

1. **Economic Growth Potential:** FDI tailored to needs can boost industrialization, innovation, and job creation.
2. **Sectoral Diversification:** Attracting investments in emerging fields can diversify the economy.
3. **Regional Development:** FDI can aid growth in underdeveloped areas by generating industries and infrastructure.
4. **Integration into Global Value Chains:** Strong FDI policies help countries engage in global trade.
5. **Technology Transfer and Skill Development:** FDI brings new technologies and skills, enhancing productivity.
6. **Enhanced Public-Private Collaboration:** FDI encourages partnerships that improve infrastructure and services.
7. **ESG Alignment:** Responsible FDI attracts impact investors and supports sustainability goals.
8. **Attracting Diaspora Investments:** Policies targeting expatriates can boost investments.
9. **Tax and Financial Benefits:** Incentives like tax breaks can attract investments.
10. **Building Investor Confidence:** Clear and friendly policies enhance investor trust.

#### **Conclusion:**

FDI in India from 2014–2025 has risen with government reforms and openness to the economy. India has attracted substantial FDI but faces various challenges that need addressing to sustain and enhance future inflows. The government is implementing reforms to improve the investment climate, indicating a positive outlook for continued FDI growth.

#### **Acknowledgement**

I am Ms. A. G. Patole thankful to HOD Dr. B. A. Tarhal, Department of Economics, S. S. G. M. College, Kopargaon & Dr. S. R. Dabhade for granting permission to carry the work.

#### **Financial support and sponsorship**

Nil.

#### **Conflicts of Interest**

The authors declare that there are no conflicts of interest regarding the publication of this paper.

#### **References:**

1. Dr. Niti Bhasin (Author) Foreign Direct Investment (FDI) in India: Policies, Conditions & Procedures - 5 November 2012
2. Dr. Shuchi, Foreign Direct Investment (FDI) in India & its Impact on Industrial Development - Sankalp Publication
3. [economictimes.indiatimes.com](http://economictimes.indiatimes.com)
4. [https://library.niti.gov.in/cgi-bin/koha/opac-detail.pl?biblionumber=74168&shelfbrowse\\_itemnumber=84772](https://library.niti.gov.in/cgi-bin/koha/opac-detail.pl?biblionumber=74168&shelfbrowse_itemnumber=84772)
5. <https://dpiit.gov.in/>
6. <https://www.rbi.org.in/>
7. <https://www.makeinindia.com/policy/foreign-direct-investment>
8. [www.ibef.org](http://www.ibef.org)
9. [www.pib.gov.in](http://www.pib.gov.in)
10. [www.researchgate.net](http://www.researchgate.net)