

ASSESSING FDI'S IMPACT ON INDIA'S BALANCE OF PAYMENTS AND POLICY IMPLICATIONS

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ABSTRACT

This study looks at sectoral contributions, policy implications, and trends from 2021 to 2024 to determine how Foreign Direct Investment (FDI) affects India's balance of payments. According to the data, FDI inflows steadily decreased from their peak of \$85.0 billion in 2022 to \$71.0 billion in 2024, lowering FDI's proportion of GDP from 3.0% to 2.0%. Global economic slowdowns, geopolitical unpredictabilities, regulatory barriers, and tightening monetary policies in major nations have all contributed to a decline in investor confidence, notwithstanding India's steady GDP growth. Sector-wise, FDI was most beneficial to IT & Software, Telecom, and Infrastructure, which reflected India's progress in digital infrastructure, 5G expansion, and urban development. In order to draw and keep foreign investors, it is critical to improve the ease of doing business, relax regulatory restrictions, and boost investment policies. This is highlighted by the general reduction in FDI inflows. India can maintain long-term FDI growth, improve external economic stability, and strengthen its balance of payments in the face of changing global challenges by putting deliberate policy interventions into place and creating an environment that is more investor-friendly.

Keywords: Foreign Direct Investment (FDI), Balance of Payments, FDI Inflows and GDP, Investment Policies, Sectoral Contributions, Regulatory Challenges.

1. INTRODUCTION

Foreign Direct Investment (FDI) facilitates capital inflows, generates employment opportunities, and advances technology, all of which act as vital catalysts for economic growth. FDI has been essential to India's industrial modernization, productivity gains, and economic integration with international markets. Due to its enormous customer base, highly qualified workforce, and governmental reforms intended to draw in foreign investors, India has become a popular place to invest throughout the years. FDI inflows bridge the gap between imports and exports, boosting the nation's foreign exchange reserves and stabilizing the balance of payments. Though FDI has many benefits, it can also lead to external sector vulnerabilities that impact trade balance, currency rate stability, and overall economic resilience. Given the ever-changing nature of international financial markets, it is critical to examine the impact of foreign direct investment (FDI) on India's balance of payments and to pinpoint tactics that guarantee steady and long-term investment inflows.

In order to give a thorough assessment of FDI's effect on India's balance of payments, this study will look at sectoral contributions, historical patterns, and macroeconomic linkages. Through the examination of recent data, the study aims to identify trends in foreign direct investment inflows, their contribution to funding the current account deficit, and their wider consequences for external economic stability. Finding the major industries that have profited the most from foreign investments and evaluating the effects of these investments on trade performance, foreign exchange reserves, and macroeconomic stability are given special attention. Furthermore, the report investigates the policy actions required to improve India's investment climate, reduce the risks brought on by a decline in FDI, and establish a more welcoming regulatory environment for international investors. The results will help us better understand how India can maximize foreign direct investment inflows to improve its balance of payments while maintaining long-term economic development and sustainability.

2. LITERATURE REVIEW

Bhat and Bhat (2021) employed asymmetric nonlinear cointegration to provide a thorough examination of how currency rate swings affect India's trade balance. Their research showed that changes in exchange rates did not always have the same influence on trade because exports were more significantly impacted favorably by currency depreciation than imports were by appreciation. A weaker currency made Indian exports more competitive in the international market, while a stronger currency did not always result in a corresponding rise in imports, according to this asymmetry.

According to the findings, exchange rate stability is crucial for preserving a positive trade balance, and successful exchange rate volatility management requires governmental interventions.

Goyal and Sharma (2019) examined how India's capital account, current account, and domestic investment are all intertwined, with a focus on how foreign capital inflows support economic growth. According to their analysis, capital inflows—especially through portfolio investments and Foreign Direct Investment (FDI)—were essential for funding the current account deficit and promoting local investment. Macroeconomic stability was shown to require a well-balanced capital flow since an over-reliance on erratic foreign investments could jeopardize the sustainability of the economy. In order to guarantee long-term economic stability and progress, both studies together offered insightful analyses of India's economic structure, highlighting the necessity of effective capital flow management techniques and well-structured exchange rate policies.

Roy and K (2019) investigated how the performance of domestic companies was affected by outbound Foreign Direct Investment (FDI) from India. According to their research, Indian companies who participated in foreign direct investment (FDI) saw increases in productivity, technological prowess, and market accessibility, all of which boosted their overall competitiveness. But the study also showed that the advantages of foreign direct investment (FDI) varied depending on the industry, business size, and strategic investment choices. The study underlined the necessity of supportive domestic policies to guarantee that these investments resulted in long-term economic gains for the host nation, even when outward FDI enabled Indian enterprises to integrate into global value chains.

Opusunju and Akyuz (2022) examined the causal connection between foreign direct investment (FDI) and Nigeria's oil and gas balance of payments. Increased FDI inflows enhanced the balance of payments by increasing foreign exchange reserves and economic output, according to their findings, which showed a substantial bidirectional causality. In contrast, FDI increased in an environment with a stable balance of payments, indicating a mutually reinforcing relationship. In order to optimize the beneficial benefits of foreign direct investment (FDI) on national economic stability, the study emphasized the significance of policy initiatives targeted at improving the investment climate, particularly in resource-rich sectors like oil and gas. Collectively, these studies demonstrate how FDI, company performance, and macroeconomic stability are intertwined, highlighting the necessity of focused policies that maximize both inbound and outward FDI for long-term, sustainable economic growth.

3. RESEARCH METHODOLOGY

This paper examines FDI patterns from 2021 to 2024 utilizing secondary data from the RBI, DPIIT, World Bank, and IMF. It uses a quantitative, descriptive, and analytical research design. FDI inflows, sectoral distribution, and economic ramifications are interpreted using trend analysis, percentage computations, and comparison analysis.

3.1. Research Design

To evaluate the effect of foreign direct investment (FDI) on India's balance of payments and the related policy consequences, this study uses a quantitative research design. Using secondary data, the descriptive and analytical study looks at recent trends in FDI inflows, their GDP contribution, and sectoral distribution. The study's objectives are to find trends, assess the economic ramifications, and make policy recommendations to increase India's appeal to foreign direct investment.

3.2. Data Collection

Reports from the World Bank, International Monetary Fund (IMF), Department for Promotion of Industry and Internal Trade (DPIIT), and Reserve Bank of India (RBI) are among the secondary data sources used in this study. From 2021 to 2024, information on GDP, sectoral contributions, and FDI inflows has been gathered and examined to comprehend investment patterns and economic effects.

3.3. Data Analysis

Trend analysis and percentage calculations are used to look at how FDI inflows have changed in relation to GDP and sectoral investments. The changes in FDI over time have been interpreted using descriptive statistics, and the differences in sectoral distribution have been brought to light using comparison analysis. Further illuminating trends in FDI growth and its sector-wise distribution are graphic depictions.

4. DATA ANALYSIS AND INTERPRETATION

The data shows that India's GDP increased steadily from \$2.79 trillion in 2021 to \$3.57 trillion in 2024, but the FDI-to-GDP ratio decreased, indicating a slowdown in foreign investments. Table 1 provides a detailed representation of India's FDI inflows from 2021 to 2024 and their contribution to the country's GDP. The data shows a peak FDI inflow of \$85.0 billion in 2022, accounting for 2.9% of GDP, before declining to \$82.2 billion in 2023 (2.7% of GDP) and then falling to \$71.0 billion in 2024 (2.0% of GDP).

Table 1: FDI Inflows as a Percentage of GDP (2021–2023)

Year	FDI Inflows (USD Billion)	India's GDP (USD Trillion)	FDI as % of GDP
2021	83.6	2.79	3.0%
2022	85.0	2.92	2.9%
2023	82.2	3.05	2.7%
2024	71.0	3.57	2.0%

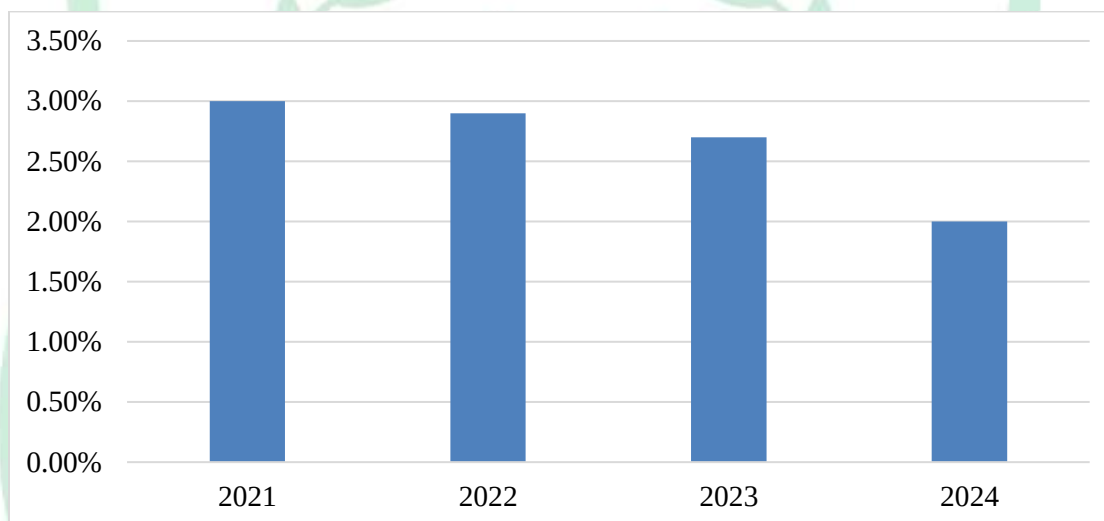


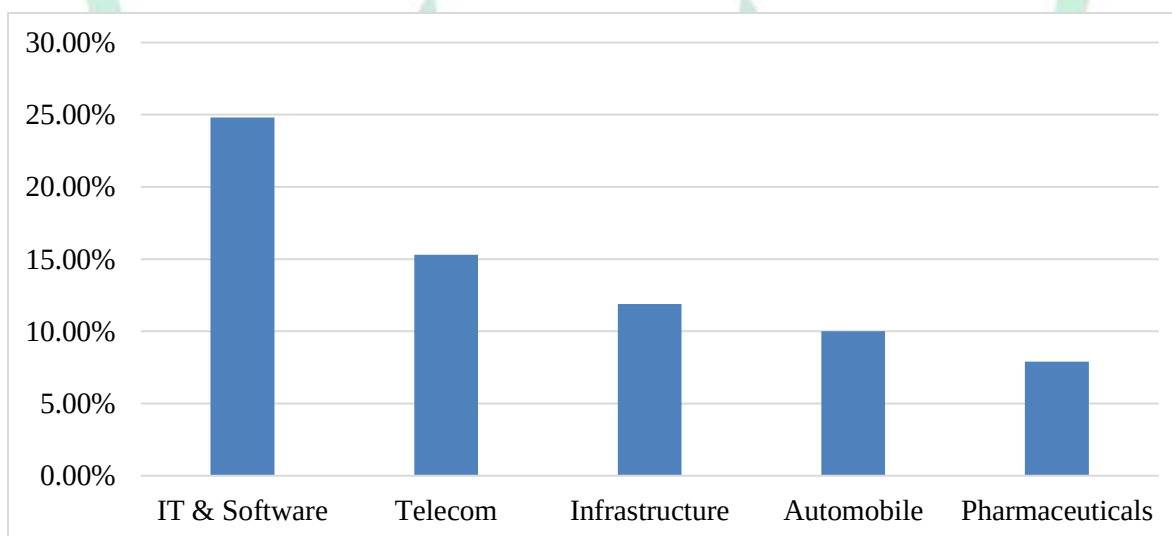
Figure 1: Graphical representation of FDI Inflows as a Percentage of GDP (2021–2023)

The downward trend in foreign direct investment inflows, especially in 2023 and 2024, points to a number of contributing causes. Investor confidence may have declined as a result of the global economic slowdown, geopolitical unpredictabilities, and tightening monetary policies in major nations. FDI inflows may also have been constrained by sectoral constraints, regulatory difficulties, and domestic policy changes. The precipitous drop in 2024, when FDI dropped to \$71.0 billion, emphasizes the necessity of proactive governmental initiatives to draw in and keep foreign investment. This entails bolstering trade relations, making regulations more investor-friendly, and making doing business easier. India's expanding GDP shows great domestic economic resilience despite the decline in FDI, indicating that smart reforms can help buck the trend and create a more welcoming investment environment.

The sector-wise distribution of foreign direct investment inflows into India for 2023 is shown in Table 2, where IT & Software (\$20.4 billion, 24.8%) leads the way due to robust digital growth, followed by Telecom (\$12.6 billion, 15.3%) driven by 5G expansion. While automobiles (\$8.2 billion, 10.0%) witnessed growth as a result of EV investments, infrastructure (\$9.8 billion, 11.9%) saw investments in urban development. The growing demand for generic medications helped pharmaceuticals (\$6.5 billion, 7.9%), while growing digital use helped retail and e-commerce (\$5.6 billion, 6.8%). The total amount received by other industries was \$19.1 billion (23.3%), indicating a varied investment environment.

Table 2. Sectoral Distribution of FDI in India (2023)

Sector	FDI Inflows (USD Billion)	Share of Total FDI (%)
IT & Software	20.4	24.8%
Telecom	12.6	15.3%
Infrastructure	9.8	11.9%
Automobile	8.2	10.0%
Pharmaceuticals	6.5	7.9%
Retail & E-commerce	5.6	6.8%
Others	19.1	23.3%

**Figure 2:** Graphical representation of Sectoral Distribution of FDI in India (2023)

The prominence of the telecom and IT & software industries highlights India's status as a global center for communication and technology, bolstered by a highly qualified workforce and government initiatives like Startup India and Digital India. The sizeable portion of the infrastructure industry is a reflection of the continuous drive for sustainable urbanization, smart cities, and roads. India's aggressive EV adoption targets and production-linked incentive (PLI) programs are in line with the growth in foreign direct investment (FDI) in the automotive sector, especially in the electric mobility sector. As a result of rising domestic consumption, growing healthcare demands, and regulatory advancements, the pharmaceutical and retail and e-commerce industries continue to draw in international investment. However, India's overall FDI inflows decreased in 2023 despite excellent sectoral performance, indicating the need for policy changes, the removal of investment impediments, and increased investor confidence to sustain and boost foreign investment growth in the upcoming years.

5. CONCLUSION

The analysis of foreign direct investment (FDI) inflows into India between 2021 and 2024 shows a tendency of oscillation, peaking at \$85.0 billion in 2022 and then falling to \$71.0 billion in 2024. As a result, FDI's proportion of GDP decreased from 3.0% in 2021 to 2.0% in 2024. Geopolitical concerns, domestic regulatory issues, and global economic uncertainties have affected investor confidence despite India's consistent GDP growth. India's digital expansion and urban development aspirations are reflected in the continued dominance of IT & Software, Telecom, and Infrastructure as sectors for investment. To maintain long-term growth in foreign investment and fortify India's

balance of payments, policy interventions are urgently needed, including investor-friendly reforms, regulatory simplifications, and improved ease of doing business. This is shown by the overall trend of diminishing FDI.

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