



A STUDY OF STATE WISE INFLOW OF FOREIGN DIRECT INVESTMENT IN INDIA

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Abstract

Foreign direct investment inflow plays very important role in the economic development of the host country. Developing and under developed countries are trying hard to attract more and more FDI. Within the countries, the states of those countries are also fighting amongst themselves for attracting maximum FDI. India has 28 states and 8 Union territories which are trying to lure foreign companies under FDI so that large corporate start their businesses in their states.

The present study tried to focus top ten states of India who attracts almost 98 percent of total FDI. Researcher have not considered the remaining 18 states for the study. The present study is based on secondary data which is obtained from annual reports of Department for Promotion of Industry and Internal Trade (DPIIT). The current status of FDI in India has been discerned in the present study. FDI inflow of top ten states has been studied and tried to find out who have secured highest FDI in the last three years.

Keywords- Foreign Direct Investment, DPIIT.

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Introduction:

Foreign Direct Investment is tumbling in India despite satisfactory economic growth. Indian economists are confounding and are not able to clearly identifying the causes of slump in the FDI. FDI in pharmaceutical, construction and automobiles have been significantly reduced. Investment may increase in tech startups like data centres, artificial intelligence. India is also optimistic for FDI in electrical vehicles.

Cheap labour and a positive business environment are attracting foreign companies to start or expand their businesses in India. Major changes were incorporated in India's FDI in April 2020 to safeguard the Indian companies from opportunistic takeovers and acquisition, which negatively affect the mindset of foreign companies. DPIIT has cleared the dilemma that changes in FDI are not to restrain FDI. As per revised FDI policy, all new FDI will go through the Ministry of Corporate Affairs.

Bureaucratic obstacles, frequently changing tax regime and delay in foreign contract activation are some of the barriers in FDI. India should also give impetus to free trade deals.

India's total FDI inflows in the last 23 years (April 2000 to Dec 2023) are \$971.521 Billion. FDI in India was \$17.96 Bn in the year 2023-24.

Countries who are top five in the financial year 2023-24 for FDI equity inflow in India are Mauritius-26%, Singapore- 23%, USA-9%, Netherland-7% and Japan-6%. FDI inflow is different in each state and it depends on many factors. There are few states who are attracting most of the FDI in India. Central and state governments must pave the way for FDI by developing and improving infrastructure facilities and compliance policies. Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu are the top five leading states who attracted highest FDI.

According to the data of DPIIT, Maharashtra secured 52.46 percent, i.e. 70,795 crores of the countries total FDI in Q1 FY2024-25 (April-June 2024)

Objectives:

1. To study FDI in India.
2. To understand the FDI inflow of top ten states in India.

Routes and Forms of FDI in India:

The very popular route of Foreign Direct Investment in India is the Automatic route where investors do not need to take permission from the Government or RBI. Second, the Government route where the investor does require to take approval from the Government of India and Ministry of Finance. As per DPIIT, there are certain sectors where Government permission is compulsory.

Under the forms of FDI, there are two popular forms, one is Greenfield, it is such an investment where foreign investors start fully new projects in the host country. Every host country looks for such types of investment, because it will not just create employment but also transfer technology and make optimum use of local natural resources.

Another form of FDI is Brownfield, it is an investment where foreign investment company invest in the pre-existing plant and facility of the host country, contrary to the Greenfield project. Under Brownfield, there are certain benefits to the foreign investors, like their start up time will automatically be reduced and the cost of building a factory and other required construction will also be reduced.

Table Number-1
STATES/UTs ATTRACTING HIGHEST FDI EQUITY INFLOW

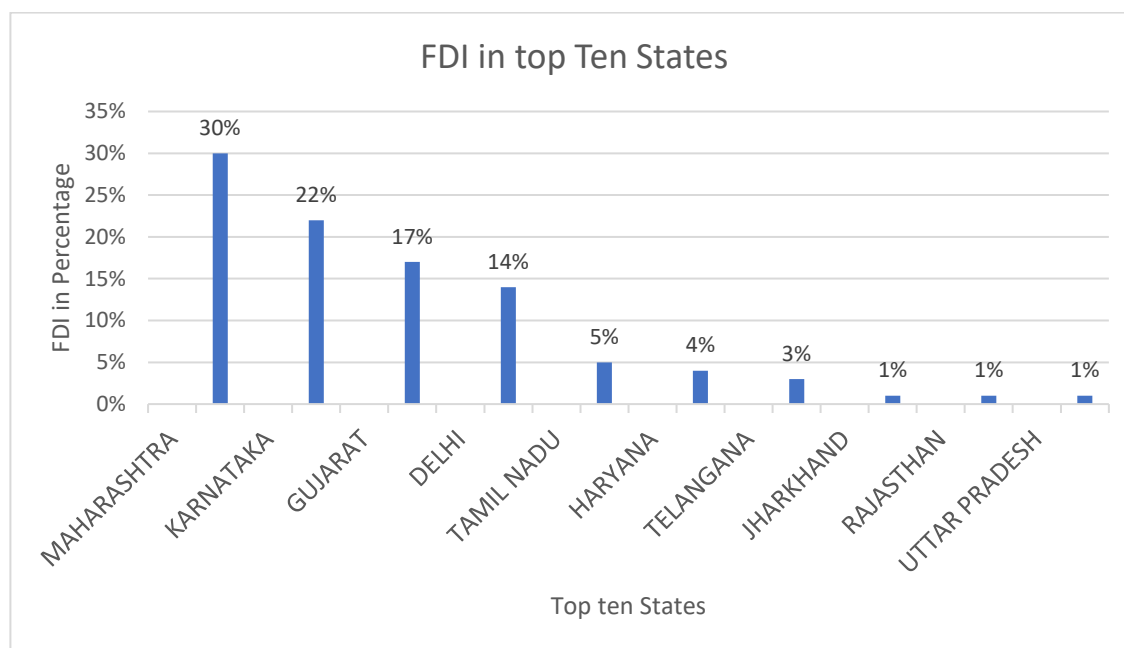
Rank	State Name	Amt. in Rupees Crores/ Amt. in USD Million	2021-22	2022-23	2023-24	Cumulative Equity Inflow *	%age out of total FDI Equity inflow
			(April-March)	(April-March)	(April-March)	(October, 2019-March 2024)	(in terms of USD)
			-	-	-	-	
			-	-	-	-	
1	MAHARASHTRA	Rupees Crores	1,14,964	1,18,422	1,25,101	5,32,429	
		USD Million	15,439	14,806	15,116	69,087	30%
2	KARNATAKA	Rupees Crores	1,63,795	83,628	54,427	3,89,483	
		USD Million	22,072	10,429	6,571	51,031	22%
3	GUJARAT	Rupees Crores	20,169	37,059	60,600	2,99,624	
		USD Million	2,706	4,714	7,300	39,201	17%
4	DELHI	Rupees Crores	60,839	60,119	53,980	2,44,073	
		USD Million	8,189	7,534	6,523	31,716	14%
5	TAMIL NADU	Rupees Crores	22,396	17,247	20,157	84,243	
		USD Million	3,003	2,169	2,436	10,938	5%
6	HARYANA	Rupees Crores	20,971	20,735	15,797	75,270	
		USD Million	2798	2,600	1,908	9,730	4%
7	TELANGANA	Rupees Crores	11,964	10,319	25,094	60,860	
		USD Million	1,607	1,303	3,029	7,774	3%
8	JHARKHAND	Rupees Crores	48	44	90	19,382	
		USD Million	6	6	11	2,667	1%
9	RAJASTHAN	Rupees Crores	5,277	7,218	2,195	18,052	
		USD Million	707	910	265	2,344	1%
10	UTTAR PRADESH	Rupees Crores	1,619	3,373	2,762	12,615	
		USD Million	217	420	334	1,635	1%

Source-Fact sheet from <https://dpiit.gov.in/publications/fdi-statistics>

The above table depicts state wise FDI data of last three financial years. The researcher has considered only top 10 states for the study because these top ten states are attracting almost 98 percent of FDI and remaining 2 percent of the FDI inflow go to the rest of the states in India. Amongst the states, the Maharashtra is attracting highest amount of FDI followed by Karnataka and Gujarat. The table shows the data of top ten states attracting highest FDI of only last three financial years, i.e. since 2021-22, 2022-23 to 2023-24.

If we look at the FDI attracted by Maharashtra in the financial year 2023-24 was 125101 crores. Gujarat is on the second number in the year 2023-24 to attract FDI, who attracted 60600 crores. Karnataka and Delhi have attracted 54427 crores and 53980 crores respectively in the year 2023-24. Other states like Uttar Pradesh, Rajasthan and Jharkhand are the states have attracted lowest FDI as compared top four states.

If we see FDI inflow in the percentage form then Maharashtra has received 30% out of total FDI inflow since Oct 2019 to March 2024 amongst Indian states. After Maharashtra, Karnataka is the states who attracted 22% out of total FDI. Jharkhand, Rajasthan, and Uttar Pradesh have shown very abysmal performance i.e. they could reach to 1% each as far as FDI inflow is concerned.



Above chart will help us to understand the percentage wise FDI inflow in top ten Indian states. As explained in the table that Maharashtra, Karnataka, Gujarat, and Delhi are the four states have attracted most of the FDI. States like Uttar Pradesh, Rajasthan and Jharkhand have lowest FDI inflow i.e. only 1% each, as compared to top four Indian states.

Conclusion:

India and its states should make skilled manpower available so that foreign companies will show interest to start their business operations here. Tax structure, trade laws and overall business environment should be conducive to attract top corporates in Indian states under the provision of FDI.

Airports, national highways, length and quality of rail routes, coastlines and ports are influencing factors in FDI decision making process of the investors when they think to invest in other countries. Power supply, land availability and its transfer for business purposes and internet connectivity are some of the crucial elements ensures by investors while investing in host

countries. Literacy rate is also one of the factors considered by the foreign companies before they invest in host country.

The present study helped us to understand that out of 28 states and 8 union territories, few are successful to attract FDI. The states which are still struggling to received enough FDI in their states must study the model of Maharashtra, Karnataka and Gujarat. Facilities which are essential for businesses should be sufficient for smooth functioning of daily business operations and investors should get good return on investment, these are the two key elements helps to attract more of FDI inflow.

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Cite This Article:

Dr. Dalvi B. A. (2024). *A Study of State Wise Inflow of Foreign Direct Investment in India*. In *Aarhat Multidisciplinary International Education Research Journal*: Vol. XIII (Number V, pp. 13–16).

DOI: <https://doi.org/10.5281/zenodo.14739034>