Impact of India's Foreign Exchange Laws on FDI: A Legal Assessment of FEMA and RBI Guidelines

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Abstract

In this paper we shall be discussing in-depth about Foreign Direct Investment in India, its currents trends and how the present days laws and regulations govern the FDI impacts India. Foreign Direct investment is directly proportional to the growth and development taking place in India, but in order to relatively examine the reasons for low Foreign Direct Investments we shall have to delve deep in to the framework of laws and regulations that are currently in place.

A critical review of existing literature, government policies, laws and regulations revolving around FDI shall be conducted to understand and evaluate the evolution of FDI policies and their impacts. This shall also include the role of FEMA and RBI.

This paper shall also be delving into the current risks and blockages that has impacted in the reduction of FDI inflow, and the current trends in Emerging Market Economies. Based on the outcomes of these studies we shall be looking at certain recommendations to increase the FDI flow in India.

Keywords: *FDI, RBI, FEMA, Evolution, Impact.*

FDI: -

Foreign Direct Investment stands as a key catalyst in India's economic growth, it is a non- debt financial reservoir for nations growth and development. International corporations strategically invest in India, due to the unique investment incentives present in India. The influx of these investments creates jobs opportunities and various ancillary advantages.

There has been an implementation of a wide range of policies and frameworks governing FDI's in India. Some of the recent implementations include the " make in India" campaign, which was launched in 2014, to foster innovation and position India as a global manufacturing hub. This campaign had attracted an FDI inflow of USD 70.97 billion during the financial year 2022-23.

The liberalization of FDI policies across sectors such as retail, defence and insurance has allowed higher foreign ownerships in key industrial areas. The establishment of SEZ's, these are designated areas with tax benefits, streamlines to attract foreign investment in specific sectors. The Production-Linked Investment (PLI) Scheme, helps in providing financial incentives to companies investing in specific manufacturing sectors such as electronics and pharmaceuticals.

The National Single Window System (NSWS), is a digital platform for investors to access various regulatory approvals in a single location. The Foreign Exchange Management Act (FEMA), it is the primary legislation governing FDI which is managed by RBI. According to the World Investment Report 2023, the service sector, computer software and hardware training were the major receivers of FDI. The total amount of FDI inflows received during (April 2000- September 2004) was US$708.65 billion. This FDI came from more 170 countries.

Examining the Historical and Current Trends of FDI in India and its Impact in the present day scenario: -

The historical prevalence of FDI can be traced back to the formation of East India Company, during Britain's Colonial period in India. After World War 2, Japanese companies came to India and started to enhance their trade. U.K was the major dominant player concerning FDI's in India. After independence, MNC's started filtering through, keeping in mind the national interests the policy makers designed the FDI policies which aimed at technological advancements and mobilization of exchange resources.

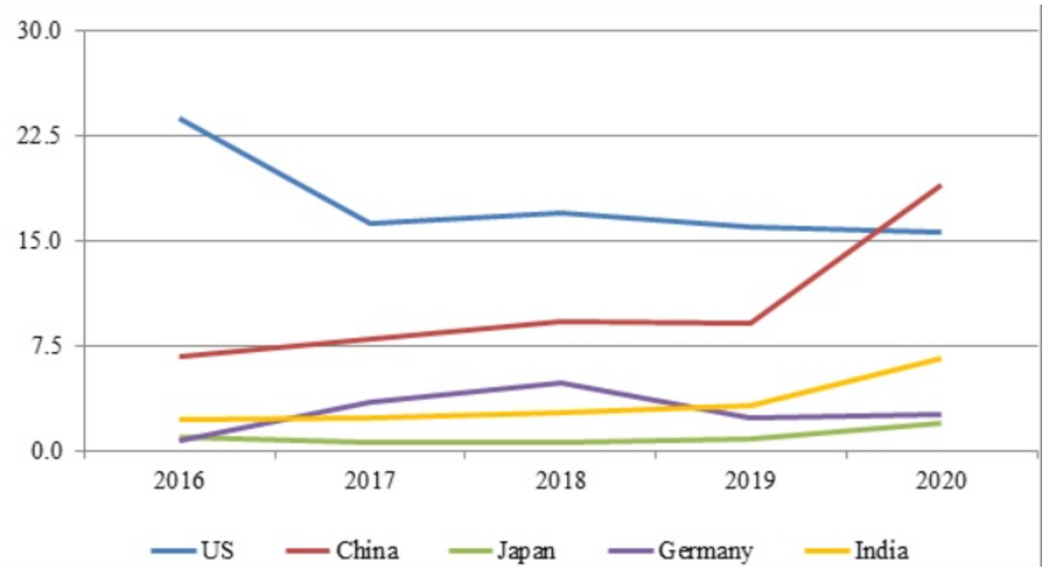
The industrial policy of 1965 Allowed MNC's to venture into technical collaborations in India which in turn made the government liberalize itself resulting into frequent equity participation and acceptance of equity capitals in technical collaborations. The Foreign Investment Board and the Foreign Exchange Regulation Act was enacted to regulate the flow of foreign capital and FDI's.

The Government of India with the help of World Bank introduced the macro-economic stabilization and structural adjustment program, as a result of this India initiated a more liberalized approach in order to attract more foreign investors, furthermore the FIPB (Foreign Investment Promotion Board) main function was to invite and facilitate foreign investments through single window system from the Prime Minister's Office. The Government also introduced the concept of foreign names for domestic brands, which was not allowed earlier. India also became a member of MIGA (Multilateral Investment Guarantee Agency) for the protection of Foreign investments (KUMAR** and RAO n.d.).

In recent years India has become an attractive center for FDI's. India ranked 40th in the World Competitive Index 2024, India also ranked as the 48th most innovative country. In recent years India has become a very attractive zone for FDI, India ranks 40th in the World Competitive Index 2024, it has also been named as the 48th most innovative country among the top 50 countries. The FDI inflows in India have increased 20 times from 2000-01 to 2023-24. Due to the government's efforts to ease the FDI norms the inflow stood at US$1.03 trillion dollars.

Major inflows came from Mauritius at US$ 177.18 billion, Singapore at US$167.47 billion, Netherlands at US$52.26 billion, and Japan at US$43.11 billion, during April 2000- September 2024.

Coming to Indian States that have received the highest FDI inflows, these states include Maharashtra (US$82.63billion), Karnataka (US$54.57 billion), Gujarat (US$43.15billion), Delhi (US$34.92 billion), followed by Tamil Nadu (US$12.56 billion)



This figure shows the changing shares of 5 major economies regarding the FDI inflows.

Analysis of the above figure:

The FDI inflows have steadily declined in US from 24% to 16%, the shares of India and China have increased from 2.2% and 6.7% to 6.6% and 19%, it is also importantly to note that the gap between India and China remain quite high. FDI inflows have risen in Japan since 2017 while Germany has fluctuated with its FDI inflows.

The industries which receive the highest FDI inflows are the non-manufacturing entities in India which include finance, banking, insurance, outsourcing, R&D, telecommunications, trading, Construction Development etc. the manufacturing industries which receive the highest FDI flows are automobiles, chemicals, drugs and pharmaceuticals.

The recent surge in FDI inflows can be attributed to various government initiatives and policies over the last few years. Policy reforms such as the introduction of Goods and Services Tax (GST), the "Make In India" initiative, liberalization of FDI policies in retail sectors such as defense and retail, promotion of an investor-friendly environment etc have aided in the growth of FDI.

Even though India has made significant progress in ease of doing business, it still has to catch up to the other Asian countries. There has been a hike in tariffs in key sectors like electronics which has affected FDI because a stable economy can help with the sustainable FDI flow.

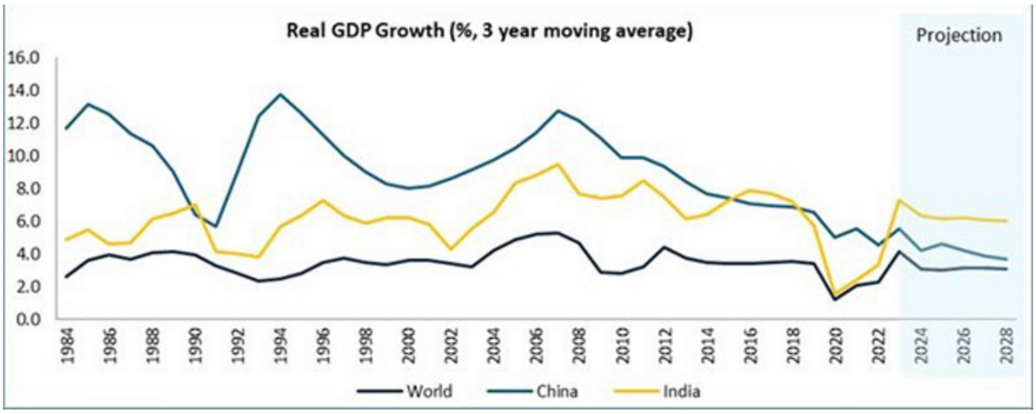
Attractiveness of India as a place of Investment: -

According to A.T Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, Indian has been ranked 5th on the basis of retail investment attractiveness. India is also the 8th largest recipient of FDI in 2023. India aims at expanding its FDI in the near future years, amounting to US$100 billion.

Back in 2023 India became a major destination for FDI, having received a total FDI inflow of US$70.9 billion during the financial year 2023-2024.

Sectors such as telecom, manufacturing, and financial services sector allow foreign investors to invest up to 100 percent of an Indian entity whereas sectors such as retail and pharmaceuticals require prior government approvals and compliance of RBI mandates.

Key industries such as Pharmaceuticals, telecom, aviation and technology continue to attract FDI and Special Economic Zones and incentives further enhance the flow of FDI. Sectors such lotteries, gambling and tobacco are completely prohibited from FDI



This figure shows India's global growth in the 5-10 years.

India is currently the fastest growing major economy, which is set to become the third largest economy by 2028. Due to new monetary policies inflations has been well managed in the recent years ensuring financial stability. India has a young population, with a median age of 28 years, which provides for a steady labor force, reforms such as GST, Insolvency Bankruptcy Code. (IBC), Production Linked Service (PLI) Scheme, Digitization and AI driven governance make India an investment friendly country.

India is currently the fastest growing major economy, with the World Bank projecting a 6.6% GDP growth by FY26 and it is set to become the third largest economy by 2028 projected to surpass US$ 5 trillion. Inflation in India has been well managed due to well-coordinated monetary and fiscal policies which has made India a predictable and attractive market for long term investments.

Unlike other equity markets, India's equity markets have consistently reflected GDP growth. The MSCI India index has a 14.9% annualized return over 20 years, backed by 10.9% compounded earnings growth rate.

Infrastructure spending has also surged to $130 billion in FY25. Networking and logistics also improved due to the highway expansion.

The mutual fund industry has grown four times in the last 7 years, which has ensured strong domestic liquidity and FPI's prefer investing in a country with strong domestic flows.

Sectors which are poised for high growth include Domestic Consumption and Financial Services, Manufacturing and Exports and Infrastructure and Real Estate. These sectors offer attractive FDI opportunities.

India is also offering foreign investors to invest beyond their traditional equity markets. Rs.11,474 was raised in 2023 through REIT's and INVIT's, this has helped diversity the investment venues beyond traditional stocks.

The current challenges faced by foreign investors include regulatory complexities, SEBI poses stringent restrictions to protect investors, policy shifts and taxation changes also affect the investment decisions, there as geopolitical tensions, market risks which has a big impact on foreign investments.

Overall India it can be said that India offers a compelling investment opportunity, for foreign investors driven by its growth, policies and expanding financial markets. However there are certain regulatory challenges which pose a risk and so it is beneficial for investors to have a strategic approach. India continues to rank as one of the most attractive destinations for FDI.

Regulatory Frameworks Governing FDI in India: -

The main legal frameworks governing India are Foreign Exchange management Act, 1999, Foreign Exchange Management (Non Debt Instruments) Rules, 2019, Companies Act, 2013, SEBI Regulations, and Consolidated FDI Policy.

Foreign Exchange Management Act,1999- It is the primary legislation which regulates foreign exchange in India, FEMA allows for automatic and government routes for foreign investments. The RBI oversees the compliance of FEMA.

Foreign Exchange Management (Non Debt Instruments) Rules, 2019- These rules outline the FDI policy, permitted sectors and investment limits. These rules govern the non debt instruments like equity shares, convertible securities and warrants.

Companies Act, 2013- The Companies Act governs the registration of foreign companies in India, it regulates the corporate governance, reporting, and compliance requirements for FDI funded businesses.

SEBI Regulations- The SEBI regulates Foreign Portfolio Investments (FPI's), Foreign Venture Capital Investments (FVCI's), and investment in listed companies through stock exchanges.

Consolidated FDI Policy- The Department For Promotion Of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry annually issues a consolidated FDI Policy which defines sectoral limits, investment conditions and prohibited sectors.

Current FDI policies and their Impact: -

Currently India has been making numerous changes to attract more and more foreign investments. The routes of foreign investment in India include the Automatic Route and Government Route.

Automatic Route- Automatic Route is when foreign investors can invest without any prior government approvals. This route simplifies the investment procedure and makes it more attractive for investors.

Government Route- Investment in this route requires prior government approvals, ensuring that the investments align with the national interests and security considerations

The key sectors where recent changes have taken place are Insurance, Space Technology, and Defense. The government has raised the FDI limit from 74% to 100% in the insurance sector so that the foreign companies can take full control and ownership. Regarding Space Technology 100% FDI is allowed under the automatic route, which has encouraged private players to participate and to invest in India's growing space sector. 74% FDI is permitted under defense through automatic routes, but for anything beyond 74%, the approval of government is needed.

It has been identified that FDI has played a major role in boosting India's economy, higher GDP growth rate, shift from closed economy to a globally integrated market, and foreign exchange reserves is a major contributor to India's economic growth. Recent policies are more focused on attracting FDI's in sectors such as technology, manufacturing and services, which has encouraged foreign players to contribute significantly in domestic production. FDI has lead to economic growth but the employment market hasn't seen a spur of growth. India has seen a growth in terms of industries but not in terms of employments, the formal employment sector has not expanded enough, which has created a "jobless growth". Recent initiatives such as the PLI scheme has aimed to address these problems by incentivizing manufacturing jobs. The gig economy like Uber, Zomato and Swiggy has seen large amounts of foreign investments but employment in these sectors remains unstable.

The retail sectors have been facing heavy challenges, large brands like Amazon and Walmart are thriving in an economy where FDI inflows have increased, but small shops such as kirana stores have been facing fears of being completely wiped off. While single brand retail sectors such IKEA and Apple have thrived, multi-brand retail FDI is still heavily regulated. Government has allowed 100% FDI in single brand retain sectors but FDI has been restricted in multi brand retail sectors to protect the local brands from perishing.

Post 2000's India's manufacturing sector has promoted FDI and investment in manufacturing sectors. Current initiatives like Make In India has encouraged firms like Apple, tesla and Foxconn to invest heavily in India. The Indian Government's PLI scheme has also been offering incentives for local productions, which aims to reduce imports. Indian IT giants like TCS and Infosys has benefitted largely from the collaborations which has taken place with foreign companies. India will gradually be positioning itself as a Global IT and Services hub, which shall help in attracting FDI in AI, Cloud Computing and Fintech.

Despite digital reforms such as the Foreign Investment Facilitation Programme (FIFP), the Bureaucratic red tape still delays the foreign investment process. In Defence and Telecom. Government has streamlined the approval process regarding foreign investments and more and more sectors have fallen under the automatic routes, reducing the needs for government approvals.

Therefore it can be concluded that there are positive as well as negative impacts such as the economy has seen a positive growth rate, in the employment sector "jobless growth" still remains a huge challenge, FDI's in multi brand retail sectors are still restricted to a large extent, "Make In India" and "PLI Schemes" have helped boost local production also the streamlining of approval processes has made it easier for foreign companies to invest.

FEMA Regulations Related to FDI: -

The Foreign Exchange Management Act (FEMA),1999 sets the legal frameworks regularizing Foreign Direct Investments in India. FEMA regulates everything, from how money flows into the country to how profits and capitals can be taken out.

Entry Routes under FEMA for FDI- There are two entry routes one being the automatic entry route and the other, government approved entry route. In the automatic entry route, no prior government approval is needed from the government or the Reserve Bank Of India, sectors such as IT, Commerce and manufacturing allow FDI under this route. Under the automatic route the only requirement is to comply with FEMA's reporting and documentation requirement. Certain sensitive sectors such as defense, broadcasting and telecom fall under the government approved route. In the government approved route, investors must apply through the FIFP (Foreign Investment Facilitation Portal) and approvals are granted on a case to case basis.

Sectoral Caps- India does not allow unlimited foreign ownerships in all sectors, the sectoral caps defines the maximum percentage of foreign investments that is allowed. Sectors such as E Commerce allow 100% FDI through automatic route, single brand retails sectors allow 100% FDI through automatic route (up to 49% and beyond 49% it must be government approved), Insurance sector allows 74% FDI through automatic route and beyond 74% it must be government approved, Telecom services sectors has 100%FDI through automatic(upto 49% and beyond 49% it must be government approved), and sectors such as defense has upto 74% FDI through automatic route beyond 74% it must be government approved.

Investment Instruments under FEMA- the /investment instruments under FEMA include Equity Instruments and Debt Instruments. Equity Instruments include shares, convertible debentures, and preference shares, these investments must be made at fair market value. Debt Instruments include Non-Convertible Debentures and Bonds. Regarding Debt Instruments FEMA place restrictions on how much can be invested and under what terms.

FEMA has strict rules and guidelines regarding reporting and compliance requirements. There are certain rules that are to be followed by new investments, every foreign investment in India must be reported to RBI. There are certain steps that need to be complied with such as, companies must file form FC-GPR within 30 days of issuing shares to foreign investors, for annual compliances companies receiving foreign investments must submit an annual return on foreign liabilities and assets, failure to comply with these reporting obligations can lead to penalties and restrictions to future investments.

FEMA has clear rules regarding repatriation i.e., whether foreign companies can take their money (profits, dividends or capital) back to their home country. Investors can take back their money back to their home country provided that they have complied with FEMA reporting and tax obligations. Dividends can be freely remitted in foreign exchanges without any additional approvals, if a foreign investor sells shares, they can repatriate the proceeds after paying capital gains tax, the sale price must comply with RBI's fair market value guidelines.

Not all industries in India are open to foreign investors. FEMA prohibits Foreign Direct Investment in certain sectors like lottery business including government and private lotteries, gambling and betting (casinos, online betting etc.), chit funds (excluding registered NBFC's), Nidhi Companies, Real Estate Business (except for construction and development projects), and manufacturing od cigars, cigarettes and tobacco.

There have certain changes that have recently developed in FEMA. FEMA has increased caps in sectors like insurance (from 49% to 74% under automatic route), FEMA has relaxed the compliance rules, the approval has become faster and the reporting simplifies for foreign investors.

RBI Guidelines on FDI : -

There ae certain requirements set by RBI regarding Foreign Direct Investments such as;

- Non-residents of India are allowed to invest in India, except for entities of countries which share a land border issue with India.
- Citizens of Pakistan or entities which are incorporated in Pakistan are not allowed to invest in sectors other than defense, atomic energy, space, and other other prohibited sectors under the Government route.
- Any subsequent changes in the ownership of existing or future FDI's in India that results in beneficial ownership falling under restrictions outlines in the point above will also require approval.
- Non-Resident Indians, who are residents of Nepal or Bhutan are allowed to invest in Indian companies on a repatriation basis. The amount of investment in this case should be paid through normal banking channels in the free Foreign Exchange.
- Overseas Corporate Bodies (OCB's) have been de-reconized as a class of investors in India since September 16, 2003. Overseas Corporate Bodies which are incorporated in India and are not under the adverse notice of Reserve Bank of India (RBI) are allowed to make fresh investments as incorporated Non-Resident entities in accordance with FDI policy and Foreign Exchange Management (Non- Debt Instrument) Rules, 2019.
- Companies, partnership firms and trusts which are incorporated outside of India and owned and controlled by NRI's can invest in India with the same dispensation which are available to NRI's under the Foreign Direct Investment Policy.
- FPI's and NRI's which are registered can trade and invest in India via registered brokers on recognized Indian Stock Exchanges as per the required Schedule VII of Foreign Exchange Management (Non-Debt Instruments) Rules, 2019
- NRI's and Overseas Citizens Of India (OCI's) are allowed to subscribe to the National Pension System which is administered and governed by the Pension Fund Regulatory and Development authority (PFRGA). The subscriptions should be done via normal banking channels and the individual is eligible to invest as per the provisions of the PFRDA Act. The Annuity/Accumulated savings from this investment will be repatriable.

Measures to increase FDI inflow in India: -

- Strengthening the Policy and Environment for Investors:
  Creating an investor friendly policy framework is imperative for boosting Foreign Direct Investments. Recent steps such as Corporate Tax reduction and simplified FDI regulations have been responsible for positive outcomes and India is going further to match global investment hubs. Peer economies such as Vietnam and Brazil have structured their policies to be more welcoming to foreign investors. Streamlining of approval processes, ensuring consistency in policy making decisions, and providing clear investment guidelines have enhance investor confidence.

- Reforming Bilateral Investment Treaties:
  The stability of investment treaties are a key factor in long-term foreign investments India's decision to revise or terminate many Bilateral Investment Treaties have created an uncertainty among investors. The 2016 Bilateral Investment Treaty model which prioritizes regulatory powers over investor protections has not been widely accepted by major trading partners. A more balanced approach like, one that protects India's interests while assuring investor protection and fair treatment for investors, transparent dispute redressal mechanism, and legal predictability can foster greater FDI inflows.

- Liberalizing Key Sectors:
  Strategic sectoral liberalization can significantly boost Foreign Direct Investments. Industries such as insurance, e-commerce, multi-brand retail remain partially restricted which limits the investment potential. Targeted reforms to ease restrictions in these sectors can be the key to unlock foreign capital. Renewable energies, digital technologies, and manufacturing are areas that have a competitive edge and that should be focused upon. Expanding opportunities in these high-growth industries will attract investors looking for long-term gains.

- Encouraging Research, Development and Innovation:

Innovation-driven economies attract high value investments. To strengthen India's position as an innovation hub, research and development (R&D) and policies that icentivize research are crucial. Supporting start-ups, fostering collaboration and offering tax breaks for research and development helps create a dynamic investment ecosystem. Investors get attracted to a thriving innovation landscape.

- Ensuring Transparency and Stability in Taxation:
  A predictable and transparent tax environment is fundamental to investor confidence. Frequent tax policy changes and retrospective taxation have previously deterred investors from investing. To increase Foreign Direct Investment India must ensure certain clarity in tax regulations, provide long term stability and eliminate uncertainties. A well defined tax structure which provides for competitive rates shall make India a more attractive zone for foreign capital.

- Developing Coastal Economic Zones (SEZ's):
  Establishing Coastal Economic Zones and specialized manufacturing clusters can create hotspots for foreign capital. These zones offer attractiveness such as proximity to ports, a well defined infrastructure, and streamlined logistics make them attractive to global investors. Additionally, continued investments on roads, power supply and digital infrastructure will enhance India's appeal as an Foreign Direct Investment destination. Efficient infrastructure reduces business costs and improves productivity, making investment in India more viable.

Impact of India's 2025-26 Budget on FDI: -

India has introduced various investor-friendly policy in the budget 2025-26 such as:

- The FDI cap in insurance has been raised from 74% to 100%, provided that the foreign investors re-invest their entire premium in India. This has helped in attracting global insurance giants, enabling them to enter India with full ownership and control leading to increased innovation and better services.
- The government has aimed to revamp its Bilateral Investment Treaty framework to make it more investor-friendly and to provide for a stable legal environment for foreign investors. This has helped India become a more secure place for foreign investment.

- The government has announced Rs.10 Lakh Crores Asset Monetization Plan which aims to unlock foreign capital in sectors like roads, ports, railways and power transmission. This has helped present a huge investing opportunity for Foreign Sovereign Funds, Private Equity Firms, and Multinational Infrastructure Companies. Public Private Partnerships are also encouraged in infrastructure development.
- The government has also planned to introduces a State-Wise Investment Friendliness Index to promote competition among states to attract Foreign Direct Investment.
- A new Income Tax bill shall be introduced to simplify taxation, reduce litigation and ensure greater tax certainty for foreign investors.
- The government is also planning to revamp the Central KYC Registry, which aims at reducing bureaucratic hurdles for foreign entities looking to invest in India.
- Rs. 20,000 Crores allocation has been made for private-sector-driven Research, Development, ad Innovation (RDI)
- A Deep Tech Fund of Funds will be created for high-tech start-ups.
- The government has extended tax benefits for ship leasing units, global insurance offices, and treasury center in GIFT CITY (IFSC) until 2030. This aimed at encouraging glbal financial institutions to set up their regional headquarters in India.

There have been certain negative/neutral impacts regarding the budget as well, which includes:

- The budget has increased customs duties on several imports including Interactive Flat Panel Display (IFPD) (from 10% to 20%), Knitted Fabrics (from 10% to 20%), and certain Consumer Electronics.
- The budget has also proposed mining sector reforms, including policies for the recovery of critical minerals from tailings. The lack of clear guidelines for foreign investors has created uncertainty for foreign mining companies.
- There still remains ambiguities in tax treatments for certain foreign investors, particularly in AIF’s (Alternative Investment Funds) and International Tax Dispute Resolution Mechanisms.

A Comparative study of FDI in China, Ireland and India: -

China is a huge domestic market a key driver of FDI inflows especially from OECD Countries, unlike China India's FDI is heavily concentrated in services and real estate, which are less product than industrial Foreign Direct Investment. China stands out since it has better infrastructure, industrial policies and Special Economic Zones (SEZ's) making it a preferred destination for Foreign direct Investment. Mauritius is a major source of Foreign Direct Investment in India, China on the other hand receives FDI directly from business investors rather than tax havens.

There are certain amount of trade barriers that are faced by India in comparison to Ireland. Ireland as member to the European Union and needs to abide by the EU rules regarding the tariffs that is applied on imports from other countries. Although the Most Favored Nation (MFN) tariffs are indiscriminatory, some countries still gain an edge through preferential treatment especially if they happen to be a member of preferential or free trade agreement with the EU or enjoy " Duty Free Quota Free access". India on the other hand does not have any preferential tariff access into the European Union. Globally both India and Ireland are top service traders, in 2020 Ireland was the third largest service trader and India was the 10th with a share of 3.5%. Ireland is also the third largest exporter and importer of services with a trade deficit of 350US$ India is the 9th largest exporter and 10th largest importer with a trade surplus of 50 billion US$. Ireland, after Brexit, is the only large known English speaking country and is the largest exporter of Information Technology services, however the country currently faces shortages especially in the technology oriented sectors. Technology is the focus point between both the countries i.e., India and Ireland and both the countries have signed various inter-governmental bilateral treaties such as Joint Working Group on Information Technology, Agreement on Scientific and Technological Cooperation etc.

India's Key Contributors in FDI: -

India has surpassed 1 trillion US$ from April 2000 to September 2024. The major contributors of FDI in India as per data by the Department for Promotion of Industry and Internal Trade (DPIIT) are Mauritius, closely followed by Singapore (at 24%), then the United States (at 10%), followed by Netherlands (at 7%). Other notable contributors include Japan (at 6%), the United Kingdom (at 5%), the UAE (at 3%), followed by Cayman Islands, Germany and Cyprus (at 2%)

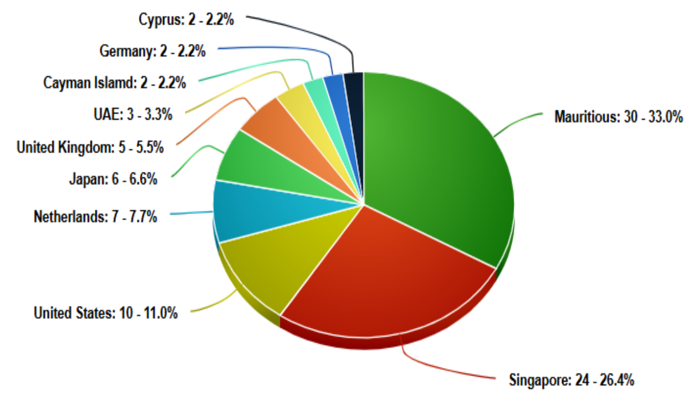


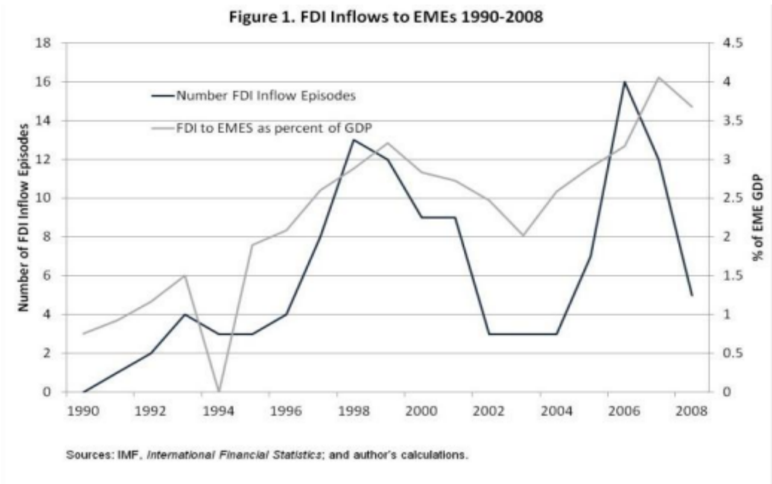
Fig: Major Investors

FDI Trends in Emerging Market Economies: -

China is loosing its market share since foreign Direct Investment flows in strategic sector are diverging across regions. FDI is increasingly getting directed towards geopolitically close countries.

Emerging markets and developing countries happen to be more vulnerable to the increasing fragmentation in FDI's that is leading to shifts in new flows. While the reconfigured supply chain benefits the national security and helps maintain a technological advancement over the geopolitical rivals. In emerging markets and developing economies, the domestic suppliers benefit the most from developing technologies.

While there are substantial gains from investment flow diversions, but these gains are subject to uncertainty. Economies that remain open to geopolitical blocs often enjoy gains from redirected investments. The widespread economic cost from FDI fragmentation suggest that, policy makers should strategically manage the motivations behind reshoring and friend-shoring to avoid spillovers.



This Figure shows the FDI inflows in EME's during the 1990-2008.

The sharp rise In FDI inflows started in 1990's and reached its peak during 1999, the total inflows decline started in 2000 and reached a trough in 2003. The second surge of trough took place between 2003-2007 and reached a peak of 4% during of the total emerging market GDP just before the global financial crisis in 2008. (Arbatli 2011)

Conclusion: -

FDI plays a crucial role in India's economic growth. Programmes such "Make In India" and the PLI Scheme support expansion in economy. Changes under the FEMA and RBI have have helped radically change the legal framework that is present in place, which has benefitted theFDI inflows in India and has made it Investor friendly zone. Inspite of the developing nature of Foreign Direct Investments, sectoral limits, regulatory complexities and jobless growth still are existing factors in India, which at times restricts the growth.

India has to improve tax transparency, expedite the approval mechanisms, and provide for a stable regulatory climate in order to maintain the FDI inflows. Increasing investment prospect in Industries in industries with rapid development. Such as infrastructure and technology helps draw in more foreign funding. A balanced strategy needs to be maintained that protects national interests while maintaining investor trust, which in turn strengthens India's standing as a major international investment destination.

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