

Foreign Direct Investment in India: Navigating the legal and regulatory landscape

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– **By Sidharth Shankar and Vikram Raghani**

Foreign Direct Investment (FDI) is a crucial economic growth and development driver, bringing in capital, technology, expertise, and access to new markets. With its vast market potential, demographic advantages, and liberalized economic policies, [India](#) has become an attractive destination for FDI.

This article delves into the various facets of FDI in India, including recent legislative changes, sector-specific regulations, due diligence, and risk mitigation strategies.

Recent Legislative Changes

In recent years, significant amendments in FDI policies have been made to make India more investor-friendly and align with global economic shifts.

Implications for Corporate Entities

The legislative changes in India have vital implications for corporate entities. For instance, the government has relaxed [FDI norms](#) in several sectors, including defence, civil [aviation](#), and retail, thereby opening new avenues for investment and requiring companies to update their operational and compliance frameworks. Companies must stay abreast of these changes to leverage the new opportunities and ensure compliance.

As the Press Information Bureau {PIB}, these figures and policy directions suggest a nuanced picture of India's FDI environment, where strategic adjustments and [global economic conditions](#) play significant roles in shaping the investment landscape.

FDI in FY 2023-24

The financial year 2023-24 continues to register a healthy influx of FDI, with total inflows reaching \$17.96 billion, of which \$11.54 billion was in the form of FDI equity. The major contributors to this equity inflow include Mauritius (26%), Singapore (23%), the USA (9%), the Netherlands (7%), and Japan (6%), reflecting a diverse and globally distributed interest in India's economic sectors.

Sectoral and Regional Distribution

The sectors that attracted the most FDI equity inflow during FY 2023-24 include the Services Sector (16%), Computer Software & Hardware (15%), Trading (6%), Telecommunications (6%), and the Automobile [Industry](#) (5%). This distribution indicates a broad-based interest across various domains, highlighting India's multifaceted industrial landscape.

Regionally, Maharashtra leads with 30% of the total [FDI](#) equity inflows, followed by Karnataka (22%), [Gujarat](#) (17%), Delhi (13%), and Tamil Nadu (5%).

Why India is a Favorable Destination for FDI: A Comprehensive Analysis

A confluence of economic and demographic factors supports India's position as a preferred destination for FDI. Here's a closer survey of the five key reasons for India's prominence as a fertile ground for FDI opportunities.

1. Economic Growth and Government Initiatives

India is one of the world's fastest-growing economies and an emerging global powerhouse, projected to be the third-largest [economy](#) soon. With [FDI inflows](#) reaching \$971.521 billion from April 2000 to December 2023, India's economic trajectory is supported by significant governmental initiatives such as the Atmanirbhar Bharat Abhiyan, which earmarked more than \$270 billion, equivalent to 10% of the GDP, to stimulate various sectors of the economy (Source: Department of Promotion of Industry and Internal Trade, Govt. of India; Prime Minister's Office, Ministry of Finance).

2. Demographic Dividend

India boasts the largest [youth](#) population globally, a demographic advantage that promises sustained domestic demand and a productive workforce for decades. The country's population is expected to grow by 25.7% from 2011 to 2036, ensuring it will have one of the youngest populations worldwide until at least 2030 (Source: National Commission on Population, Ministry of [Health & Family Welfare](#); United Nations Population Fund).

3. Robust Infrastructure Development

The Government of India has prioritized infrastructure development through initiatives such as the National Infrastructure Pipeline, which foresees investment in nearly 7,000 projects across various sectors. This focus on infrastructure aims to support the broader goal of becoming a \$5 trillion economy by FY 2025, with substantial investments planned in energy, roads, urban development, and railways (Source: Department of Economic Affairs, Ministry of Finance).

4. Global Competitiveness and Ease of Doing Business

India's global competitiveness has steadily risen, evidenced by its improved rankings on various global indices. For instance, India ranks 40th on the Global Competitiveness Index 2023 and has made significant leaps in the World Bank's Logistics Performance Index (Source: International Institute for Management Development; World Bank).

5. Innovation and Technological Advancements

Significantly, India has made a marked leap in the Global Innovation Index, climbing 41 places in 8 years to rank 40th in 2023 (Source: World Intellectual Property Organization).

The Road Ahead

These corridors enhance India's logistical capabilities and integrate it more deeply in the global supply chain, boosting its economic stature. Moreover, the next five years are expected to see India exerting more significant economic influence across the Asia-Pacific region, positioning it as a key player in shaping regional trade dynamics and monetary policies (Source: Baker McKenzie & Mergermarket Group).

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