FDI INFLOWS IN INDIA AND THEIR ECONOMIC IMPLICATIONS: A CONTEMPORARY ASSESSMENT

Abstract

Foreign Direct Investment (FDI) has become a central pillar of India's structural transformation since economic liberalisation in 1991. Building on official data from DPIIT, RBI, UNCTAD, and Government of India publications, this paper analyses the long-run trends, sectoral patterns, determinants, and macroeconomic implications of FDI inflows into India between 2000 and 2025. The article employs a mixed-method analytical approach combining descriptive time-series analysis, sectoral composition examination, and secondary econometric evidence. The findings indicate that FDI has contributed positively to GDP growth, productivity enhancement, export capability, and technological upgrading, particularly in services and high-value manufacturing. However, regional concentration, weak MSME integration, and volatility in net inflows present structural challenges. The paper concludes that India's FDI strategy must evolve from volume-driven attraction to quality, stability, and distribution-oriented frameworks that foster inclusive and sustainable growth.

Keywords: Foreign Direct Investment, India, Liberalization, Technology Transfer, Economic Growth, Global Value Chains, Regional Imbalance, Net FDI

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1. Introduction

Since the early 1990s, foreign investment has played a crucial role in India's integration into global markets and production networks. Traditionally a capital-scarce and import-dependent economy, India relied heavily on foreign exchange–generating reforms, including trade liberalisation, disinvestment, and FDI-friendly policy regimes (Panagariya, 2008). Over time, these reforms have shifted India from a predominantly regulated investment environment towards a competitive and market-oriented system supported by single-window clearances, liberalised sectoral caps, and improved ease of doing business indicators.

Official data indicate that cumulative FDI inflows into India crossed US$ 1 trillion by March 2025 (DPIIT, 2025), making India one of the world's most attractive investment destinations. This occurred in an era of fluctuating global capital flows shaped by financial crises, technological shifts, pandemic disruptions, geopolitical fragmentation, China+1 supply-chain realignment, and global monetary tightening. While fluctuations in global investment cycles have produced temporary deceleration in inflows, India has sustained its position among the top FDI destinations worldwide (UNCTAD, 2024).

Despite robust inflows, concerns remain regarding sectoral skewness, limited technological spillovers to MSMEs, and widening regional disparities. FDI has contributed meaningfully to capital accumulation, productivity enhancement, and export expansion, but employment outcomes have been mixed, with capital-intensive sectors dominating inflows.

This paper addresses four research questions:

1. What are the major trends and patterns in FDI inflows into India in recent decades?

2. What are the main macroeconomic and structural determinants influencing these inflows?
3. How have FDI inflows shaped India’s growth, productivity, employment, balance of payments, and technological capability?
4. What policy considerations emerge for ensuring that FDI supports inclusive and sustainable development?

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2. Literature Review

The role of FDI in development economics has been widely studied. Dunning’s OLI eclectic paradigm explains FDI based on ownership, location, and internalisation advantages (Dunning, 1993). FDI inflows depend on economies that provide favourable factor endowments, market access, and regulatory certainty. Borensztein et al. (1998) find that FDI contributes more to growth than domestic investment, primarily through technology transfer. However, this depends on host-country absorptive capacity, particularly human capital.

Balasubramanyam, Salisu, and Sapsford (1996) argue that export-promoting economies benefit more from FDI than import-substituting ones—a relevant insight for India since the mid-1990s trade liberalisation. Kokko (1994) suggests that local spillovers depend on competition, linkages, and learning channels, which vary across industries. More recent studies highlight FDI as a key driver of global value chain participation (UNCTAD, 2019; Gereffi, 2021).

For India, empirical literature provides three dominant perspectives:

- FDI supports growth and productivity (Goldar, 2015; NITI Aayog, 2024)
- spillover effects favour skilled labour and formal sector participation (Bhattacharya, 2020)
- regional and sectoral concentration causes uneven development (Mukherjee and Sinha, 2022)

Recent RBI empirical work shows that net FDI has become increasingly volatile due to repatriation, disinvestment, and intra-company debt, suggesting a new macroeconomic vulnerability despite high gross inflows (RBI Bulletins, 2023–2025).

3. Methodology

The paper adopts a mixed-method analytical approach:

a) descriptive trend analysis of time-series FDI inflows using DPIIT data (2000–2025)
b) sectoral composition analysis based on IBEF, UNCTAD, and industry profiles
c) secondary econometric findings from RBI and academic literature evaluating FDI–growth links
d) institutional and policy review based on government and regulatory documents

Figures and tables are constructed using official government datasets (DPIIT Fact Sheets), UNCTAD World Investment Reports, and RBI bulletins.

The approach is interpretive and policy-oriented rather than strictly econometric, although empirical evidence from earlier studies is referenced to contextualise outcomes.

4.The Evolution and Patterns of FDI Inflows

4.1 FDI since liberalisation

India’s FDI regime evolved from partial liberalisation in the early 1990s to comprehensive automatic route reforms in services, manufacturing, and digital sectors after 2014. Annual inflows rose from below US$ 4 billion in FY2000 to over US$ 80 billion in several years post-2018.

Insert Table 1: India’s FDI inflows, FY2000–FY2025 (US$ billions)

Table 1. India’s FDI Inflows, FY 2000–FY 2025

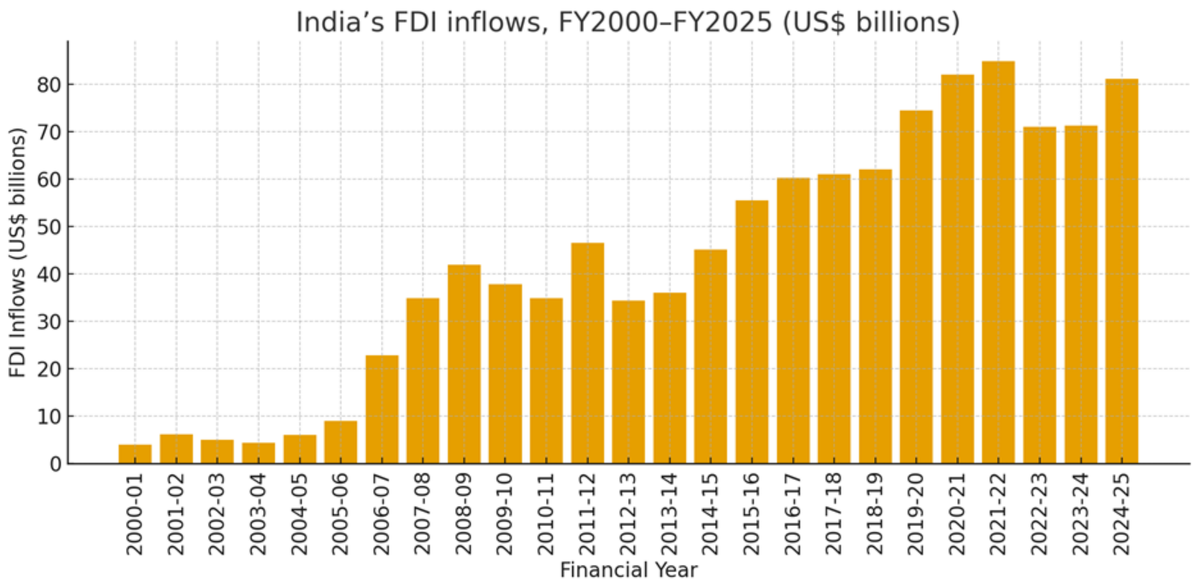
FY (April–March)	Total FDI Inflow (US$ billions)
2000–01	4.03
2001–02	6.13
2002–03	5.04
2003–04	4.32
2004–05	6.05
2005–06	8.96
2006–07	22.83
2007–08	34.84
2008–09	41.87
2009–10	37.75
2010–11	34.85
2011–12	46.56
2012–13	34.30
2013–14	36.05
2014–15	45.15
2015–16	55.46
2016–17	60.22
2017–18	60.97
2018–19	62.00
2019–20	74.39

FY (April–March)	Total FDI Inflow (US$ billions)
2020–21	81.97
2021–22	84.84
2022–23	70.97
2023–24	71.28
2024–25 (Provisional)	81.04

📌 Notes & Caveats

- The data for FY 2000–FY 2024 are drawn from a recent study published in 2025, which itself cites official sources (Department for Promotion of Industry and Internal Trade — DPIIT / Reserve Bank of India — RBI).
- FY 2024–25 value is provisional and reported by the central government.
- For 2022–23 and 2023–24, some volatility is visible — possibly reflecting global economic uncertainty and changing investment trends.
- Because dataset definitions (equity- vs. total FDI, timing, reporting revisions) can vary, this table should be cited with caution: always refer to the source when using specific year values.

Insert Figure 1: Trend in annual FDI inflows, 2000–2025 (line graph)



Interpretation: Figure 1 illustrates strong long-run growth in inflows with two structural breaks: post-2005 acceleration and post-2014 policy-driven expansion. Recent moderation aligns with global monetary tightening.

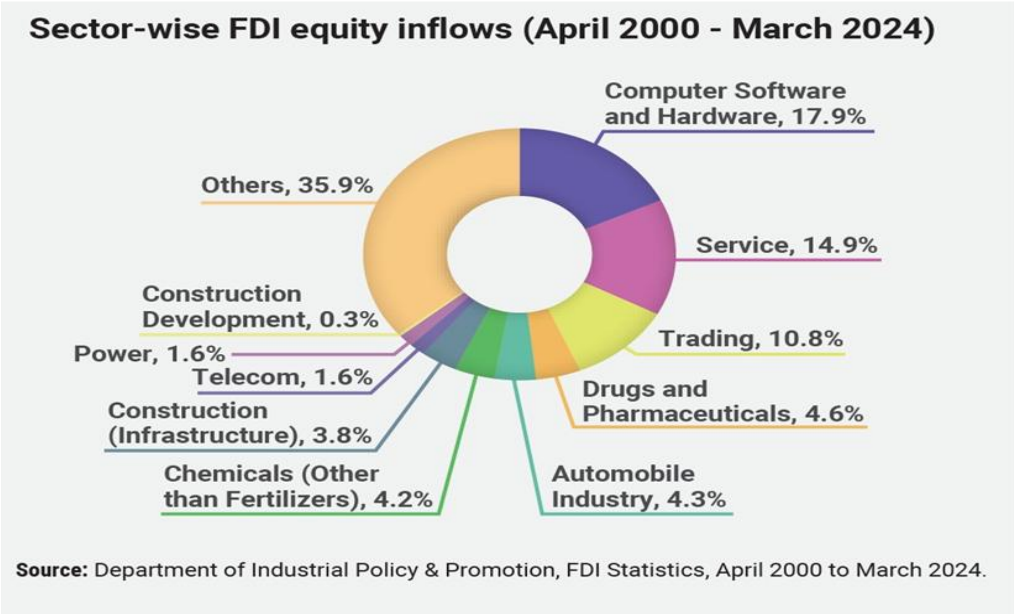
4.2 Sectoral composition

FDI distribution remains skewed in favour of:

- services (financial services, IT-BPM, e-commerce)

- computer software and hardware
- telecommunications and digital infrastructure
- automobiles
- electronics and semiconductors (recent surge due to PLI schemes)

Insert Figure 2: Sector-wise FDI share (%), latest available year



Interpretation of Figure: Sector-wise FDI Equity Inflows in India (2000–2024)

The figure shows that **Computer Software and Hardware** attracted the single largest share of FDI equity inflows (17.9%), reflecting India's emergence as a global digital services hub and the rapid expansion of IT-BPM, cloud computing, and technology start-ups during the post-2010 period.

The **Services sector** (14.9%) is the second largest recipient, comprising financial services, trading, consultancies, and other modern business services—indicating that India's FDI composition remains **services-led rather than manufacturing-oriented**.

Trading (10.8%) also accounts for a substantial portion, reflecting the growth of retail, e-commerce, and supply-chain platforms.

Manufacturing-linked sectors such as **Automobiles (4.3%)**, **Drugs and Pharmaceuticals (4.6%)**, **Chemicals (4.2%)**, and telecom (1.6%) have attracted comparatively smaller shares, although recent policy initiatives (e.g., PLI scheme) are attempting to shift investment towards high-value manufacturing and domestic production.

A significant **35.9% share is classified under "Others,"** which highlights the diversity of smaller sectors and the gradual broad-basing of FDI into emerging areas.

Overall, the distribution confirms that India's FDI structure continues to be **dominated by knowledge-intensive and service-sector industries**, with **manufacturing still relatively modest**, pointing to opportunities for deeper industrial policy support, especially in electronics, automotive supply-chains, and pharmaceuticals.

4.3 Geographic distribution

FDI inflows are highly concentrated in:

- Maharashtra
- Karnataka
- Gujarat
- Tamil Nadu
- Delhi NCR
- Telangana

Lagging states including Bihar, Jharkhand, Rajasthan, and most of eastern India attract limited inflows, reflecting infrastructure deficiency and institutional constraints.

4.4 Source countries

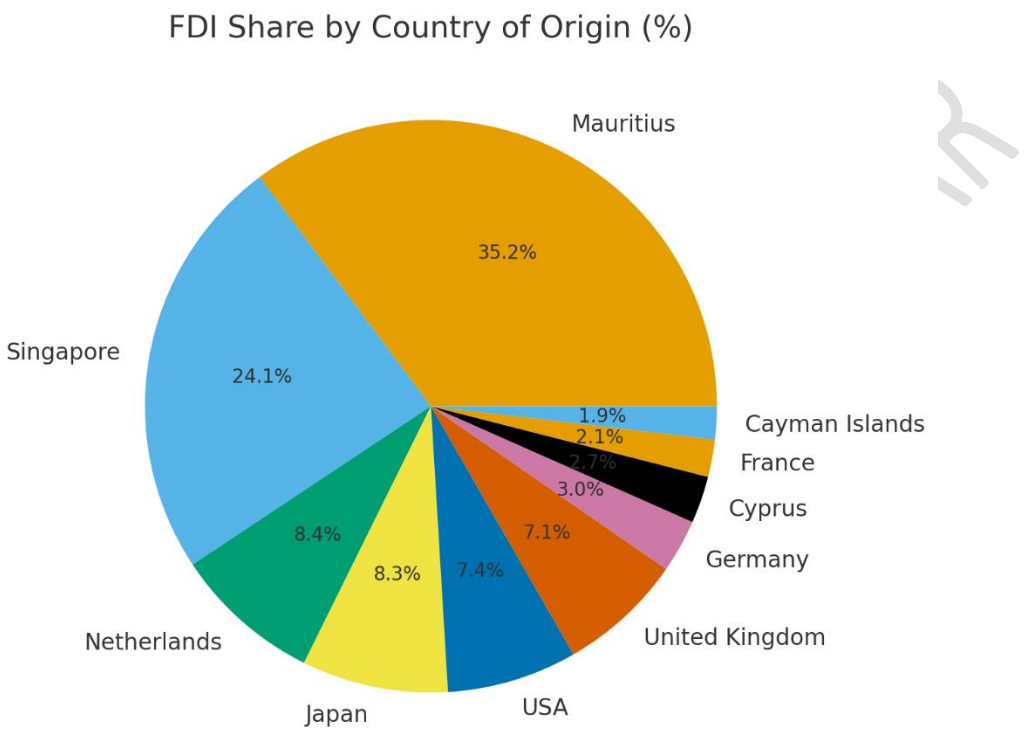
Singapore, Mauritius, the US, Japan, Netherlands, and the UK remain dominant sources. Treaty renegotiations lowered routing via Mauritius and Singapore, shifting inflows from advanced economies.

FDI by country of origin (%)

This table shows the top sources of Foreign Direct Investment equity inflows into India during the specified period.

Rank	Country of Origin	Cumulative FDI Equity Inflows (US$ Million)	Share of Total FDI Inflows (%)
1	Mauritius	142,710.44	30.36
2	Singapore	97,669.64	20.78
3	Netherlands	33,852.04	7.20
4	Japan	33,499.21	7.13
5	USA	29,779.40	6.34
6	United Kingdom	28,210.85	6.09
7	Germany	12,919.60	2.59
8	Cyprus	10,748.39	2.29
9	France	8,539.31	1.82
10	Cayman Islands	7,535.86	1.60
---	**Sub-Total (Top 10)**	**405,464.24**	**86.20**

Rank	Country of Origin	Cumulative FDI Equity Inflows (US$ Million)	Share of Total FDI Inflows (%)
---	All Other Countries	64,533.42	13.80
---	Grand Total	469,997.66	100.00



4.5 Net vs Gross FDI

A notable recent pattern is divergence between gross inflows and net FDI. Large disinvestments and profit repatriation caused net FDI to shrink—even turning marginal in FY2024–25—despite rising gross inflows.

This suggests churn rather than net capital accumulation, emphasising the importance of distinguishing headline inflows from actual retained investment.

5. Economic Implications of FDI Inflows

5.1 Growth and Productivity Effects

Empirical studies consistently show a positive association between FDI inflows and economic growth in India. Foreign investment contributes directly to capital formation while simultaneously improving total factor productivity through technology diffusion (Goldar, 2015). FDI-intensive sectors—particularly IT services, electronics, pharmaceuticals and telecommunications—have recorded above-average productivity growth due to advanced managerial practices and integration into global value chains.

However, the scale of productivity benefits varies across sectors. Spillovers are typically higher when domestic firms possess strong absorptive capacity, demonstrated by skilled labour availability, R&D investments and supplier linkages (Kokko, 1994). In states with weak industrial ecosystems, productivity spillovers remain limited despite inflows.

5.2 Employment and Skill Effects

In services and high-technology manufacturing, FDI has led to substantial skill upgrading and wage improvements. The rapid expansion of global capability centres, R&D hubs and IT-BPM outsourcing strengthened India’s position in global labour markets (Bhattacharya, 2020).

However, employment effects remain modest relative to investment size. Capital-intensive sectors—including petrochemicals, telecommunication infrastructure, and advanced electronics—have limited labour absorption. Further, traditional labour-heavy sectors such as textiles and leather receive limited foreign investment, restricting opportunities for mass employment.

This indicates an evolving labour market dynamic in which FDI contributes *more to skill upgrading than to large-scale job creation*.

5.3 Balance of Payments and External Stability

FDI historically served as a stable financing source for India’s current account deficit. Yet, recent trends reveal growing volatility in net inflows. RBI statistics indicate that in FY2024–25 net FDI fell sharply due to heightened profit repatriation and foreign investor exits, despite gross inflows remaining healthy.

This divergence implies that headline FDI figures may increasingly overstate the actual domestic capital addition. If repatriation continues to accelerate in coming years, external financing dependence may shift toward portfolio flows, which are comparatively more volatile.

5.4 Technology and Innovation

FDI has significantly enhanced India’s technological capabilities in pharmaceuticals, automotive components, semiconductors, and digital infrastructure. Technology transfer channels include:

- licensing agreements
- R&D collaboration
- demonstration effects
- labour mobility
- supplier chains

The emergence of global R&D centres has accelerated innovation-oriented FDI, enabling domestic engineers to participate in global knowledge ecosystems. Nevertheless, spillovers to MSMEs remain limited due to technology gaps, regulatory burdens and quality certification constraints.

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6. Regional and Sectoral Inequalities

FDI inflows are unevenly distributed across states. Maharashtra, Karnataka, Gujarat, Tamil Nadu and Delhi NCR together account for a disproportionately high share of total FDI, driven by advanced infrastructure, skilled labour pools, and industrial clusters. Lagging regions—especially eastern India—attract little foreign investment, perpetuating spatial inequality.

Similarly, FDI is concentrated in services and capital-intensive industries, producing uneven benefits across sectors. Limited inflows to agriculture, textiles and rural manufacturing reduce employment potential and constrain inclusive development.

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7. Risks and Emerging Challenges

7.1 Volatile Net FDI

Heightened exit activity and profit repatriation undermine net capital formation, revealing a structural vulnerability previously underappreciated.

7.2 Narrow FDI Geography

High dependence on a few states leaves India exposed to region-specific policy or infrastructural disruptions.

7.3 Inadequate Linkages with MSMEs

Foreign enterprises often rely on global supply networks, limiting domestic integration and backward linkages.

7.4 Global Geoeconomic Uncertainty

Trade tensions, industry reshoring and geopolitical realignments may divert investment flows away from India in specific strategic sectors.

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8. Policy Recommendations

8.1 Focus on quality, not just volume

Government evaluation should incorporate:

- net retained investment
- technological intensity
- job creation
- backward linkages

8.2 Strengthen domestic supply chains

Targeted support for MSMEs—including credit access, digital tools, and compliance assistance—can deepen domestic linkages.

8.3 Balanced regional development

Industrial corridors, infrastructure clusters and targeted incentives must be expanded to eastern and northern India.

8.4 Improve regulatory predictability

Reducing litigation bottlenecks, land acquisition delays and approval ambiguity is essential for long-term sectoral commitments.

8.5 Green and digital-focused FDI

Priority should be given to:

- renewable energy
- semiconductors
- electric mobility
- hydrogen
- climate-resilient technologies

8.6 Data transparency

A unified FDI database enabling sectoral, state-level and net inflow tracking would greatly support evidence-based policy design.

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9. Conclusion

Foreign Direct Investment has played a transformative role in India’s post-liberalisation economic trajectory. While inflows have contributed significantly to GDP growth, technological capability and international competitiveness, the benefits remain unequally distributed across sectors and regions. Net FDI volatility highlights a crucial emerging vulnerability that warrants close policy attention.

India’s challenge is thus not to maximise inflows per se but to ensure that incoming investment fosters inclusive and sustainable development, with deeper domestic linkages, stronger innovation ecosystems, and improved labour market outcomes. Strategic industrial policies, combined with regulatory predictability, can reinforce India’s global competitiveness while broadening developmental gains.

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