



Foreign Direct Investment in India: Trends, Impact, and Policy Analysis

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ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in the economic development of emerging economies like India. This paper examines the trends, sectoral distribution, policy environment, and economic impact of FDI in India. It analyzes both the positive and negative aspects of FDI inflows and provides recommendations for enhancing its effectiveness in driving inclusive growth.

Introduction:

Meaning of FDI:

Foreign Direct Investment (FDI) refers to investment made by a company or individual from one country into business interests located in another country. In India, FDI typically means foreign entities investing in Indian companies or setting up new operations (like factories, offices, or services) within the country.

Importance of FDI in the Economic Development of India:

1. Capital Inflow and Economic Growth

FDI brings in much-needed foreign capital, supplementing domestic investment. It fuels industrial growth, infrastructure development, and expansion of services, thereby contributing to GDP growth.

2. Employment Generation



FDI projects—especially in sectors like manufacturing, retail, and services—create direct and indirect employment opportunities.

3. Technology Transfer and Innovation

Foreign companies bring advanced technologies, innovative practices, and global expertise, improving productivity and quality standards in Indian industries.

4. Boost to Exports and Foreign Exchange Earnings

Many foreign firms set up export-oriented units in India, helping to increase the country's exports and stabilize its balance of payments.

5. Improvement in Infrastructure and Industrial Ecosystems

FDI helps develop physical and digital infrastructure through PPP models and corporate investments in logistics, ports, renewable energy, etc.

6. Enhancement of Human Capital

FDI leads to upskilling of the workforce through training, managerial development, and global exposure.

7. Strengthening of the Financial Sector

FDI in the banking, insurance, and fintech sectors boosts financial inclusion and modernizes the financial system.

8. Global Integration and Competitiveness

FDI integrates Indian businesses into global supply chains, improving their competitiveness and global standing.

RESEARCH METHODOLOGY

Scope of the Study

1. Time Frame – The study covers the historical trends and recent developments of FDI inflows and outflows in India
2. Policy Dimension – Evaluates FDI policies, liberalization reforms, ease of doing business, and government initiatives .



3. Economic Impact – of FDI.

Objectives of the Study

1. To analyze the trends of FDI inflows and outflows in India over the years.
2. To evaluate the impact of FDI on India's economic growth, employment, technology transfer, and exports.
3. To study the government's FDI policies and reforms and their effectiveness in attracting foreign investment.

REVIEW OF LITERATURE

A study of FDI and Indian Economy

Sapna Hooda

Kurukshetra, Indian: Deemed University, 2011

This study try to disclose how FDI provides a win-win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home'countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host'countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.

Impact of foreign direct investment on Indian economy

Mahanta Devajit

The study tries to find out how FDI is seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. The main purpose of the study is to investigate the impact of FDI on economic growth in India.

Research Methodology

1. Nature of the Study



The study is **descriptive and analytical** in nature.

2. Sources of Data

The study uses **secondary data** collected from reliable sources

3. Research Design - Policy Analysis, Impact Analysis.

4. Limitations of the Study

- The study depends entirely on secondary data; hence, accuracy depends on the reliability of published sources.
- Data may not always be comparable across different agencies due to variations in reporting methods.

FDI Inflows from 1991–2025—Key Highlights & Trends

Early 1990s–Mid 2000s: Foundations of Liberalization

- **1991:** Economic reforms initiated under P.V. Narasimha Rao’s government; FDI policy liberalized and foreign equity limit raised to **51%**, with 100% in select sectors.
- **1990s:** FDI remained relatively low and volatile, peaking around **US\$3.6 billion in 1997**, followed by stagnation at ~US\$2.5 billion before climbing to ~US\$4.3 billion by 2003.
- **2006–07:** FDI soared to a record **US\$19.5 billion**, more than doubling from US\$7.8 billion the previous fiscal year.
- **2007–08 to 2008–09:** Continued growth— ≈US\$24 billion in 2007–08, expected above US\$35 billion in 2008–09.

2010s: Reforms & Rising Momentum

- **2011:** Gov’t allowed **100% FDI in single-brand retail** and liberalized **FDI in multi-brand retail up to 51%**, with conditions.
- **2012:** Cemented the reform; by **2014–15**, the “Make in India” initiative launched, allowing **100% FDI across most sectors**.



- **2015:** India became the **top global destination for FDI in greenfield projects**, drawing **US\$30 billion in just H1 2015**, overtaking U.S. and China.
- **2004–2014 vs 2014–2024:** From **US\$208 billion** equity inflows (2004–14) to **more than US\$500 billion** post-2014, with **US\$300 billion** received between **2019–2024**.
- **2019:** Surged **FDI inflow by 16% over 2018**, reaching **US\$49 billion**, as India led South Asia’s FDI growth.

Recent Years: Acceleration Amid Challenges

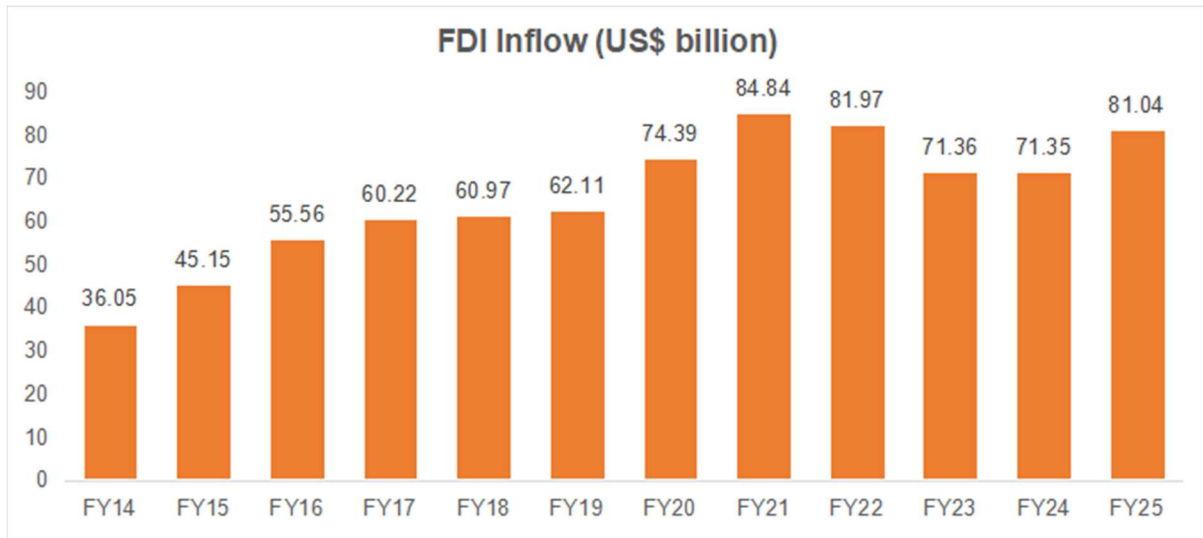
- **2020–21:** Achieved **highest ever FDI—US\$81.72 billion**, a 10% jump over the previous year; equity inflow alone rose 19% to **US\$59.64 billion**.
- **2023:** FDI sharply declined from **US\$49 billion in 2022 to US\$28 billion**, a **43% drop**, causing India’s global ranking to slip from 8th to 15th.
- **2024–25:** Despite setbacks, FDI rebounded—**US\$40.67 billion** between April–December 2024. For FY2024–25, **Singapore led as the largest FDI source**, with nearly **US\$15 billion** inflows.
- **Cumulative 2000–2025:** FDI inflows amassed to **Rs. 9,297,188 crore (~US\$1.07 trillion)**. From Jan–Mar 2025 alone, total FDI was **Rs. 1,51,465 crore (~US\$17.4 billion)**, with equity inflow at **Rs. 80,967 crore (~US\$9.3 billion)**.

Insights & Perspective

- The **sharp escalation in FDI after 2014** highlights how bold initiatives like *Make in India* and 100% FDI across sectors transformed investor confidence.
- **Greenfield leadership** in 2015 was a symbolic turning point for India on the global investment map.
- The **record FY2020–21 inflows** (US\$81.72B) underscores how FDI can play a stabilizing and growth-boosting role, even during crises.
- The **2023 downturn** signals ongoing challenges—global volatility, shift in capital flows, or regulatory uncertainty.



- Still, the **2024 rebound** and cumulative trillion-dollar FDI mark (over 1 lakh crore INR), reflect long-term investor confidence and resilience.



FDI Policies and Reforms:

FDI Policies in India

India’s FDI policy is regulated by the **Department for Promotion of Industry and Internal Trade (DPIIT)** under the **Ministry of Commerce and Industry**, and the rules are framed under the **Foreign Exchange Management Act (FEMA), 1999**.

Routes of FDI

1. Automatic Route:

- No prior approval required from the Government or RBI.
- The investor just informs RBI within a prescribed time after investment.

2. Government Route:

- Prior approval required from the Government (through DPIIT and respective ministries).
- Used in sensitive sectors (defence, media, telecom, etc.).

Sector-wise FDI Limits (Broad Highlights)

- **100% FDI (Automatic Route):**



- Agriculture & allied activities
- Mining & petroleum exploration
- Manufacturing (including 100% contract manufacturing)
- Infrastructure (roads, ports, airports, etc.)
- E-commerce marketplace model (with restrictions)
- **74%–100% with Government Route:**
 - Defence (74% automatic, beyond 74% government approval)
 - Insurance sector (74%)
 - Telecom (100% with govt. approval beyond 49%)
 - Private sector banking (74%)
- **Prohibited Sectors:**
 - Lottery business
 - Gambling and betting
 - Chit funds and Nidhi companies
 - Real estate trading (except construction)
 - Manufacturing of tobacco/cigarettes

Major FDI Reforms in India

Over the years, India has liberalized its FDI policy to attract global investment:

1991 Liberalization:

- Post-economic crisis, India opened up its economy.
- Allowed FDI in several sectors to encourage globalization and industrial growth.

2000 Consolidated FDI Policy:



- All FDI regulations are unified into one policy framework.

Key Reforms after 2014 (Make in India push):

- **Defence:** FDI limit raised from 26% to 49% (2014), later to 74% automatic.
- **Insurance & Pension:** Limit increased from 26% to 74%.
- **Railways:** 100% FDI allowed in infrastructure (construction, operation).
- **Civil Aviation:** 100% FDI in domestic airlines (49% automatic).
- **Single Brand Retail:** 100% FDI allowed (up to 51% automatic, beyond govt. approval earlier, now more liberalized).
- **E-commerce:** 100% FDI allowed in the marketplace model (not inventory model).

2020 Reforms (COVID-19 context):

- Any FDI from countries sharing a land border with India (esp. China, Pakistan) requires **government approval** (to prevent hostile takeovers).

2021–2022 Updates:

- Insurance sector raised to **74% FDI**.
- LIC IPO allowed FDI under automatic route.
- Space sector reforms – private participation encouraged.

Economic Impact of FDI:

Positive Impacts of FDI in India

a) Economic Growth

- Increases capital formation and boosts GDP.
- FDI inflows in sectors like IT, manufacturing, telecom, and infrastructure have accelerated India's growth.
- India recorded its **highest-ever annual FDI inflow of \$84.8 billion in 2021–22** (source: DPIIT).



b) Employment Generation

- FDI projects create direct and indirect jobs.
- Example: Expansion of foreign companies like Amazon, Walmart, and Foxconn in India created lakhs of jobs.

c) Technology Transfer

- Brings modern technology, advanced machinery, and know-how.
- Example: Automobile sector (Maruti-Suzuki, Hyundai, Toyota) and mobile phone manufacturing benefitted from global technology.

d) Infrastructure Development

- Investment in roads, ports, telecom, power, and urban development has improved connectivity and reduced production costs.

e) Boost to Exports

- Multinational companies set up manufacturing hubs in India, making India part of the global supply chain.
- Example: IT services, pharma exports, and electronics exports (Apple assembling iPhones in India).

f) Improvement in Balance of Payments

- Higher FDI inflows reduce dependence on foreign borrowings and strengthen forex reserves.

g) Financial Sector Growth

- Foreign investment in banking, insurance, and stock markets deepens India's financial markets.

h) Regional Development

- States like Maharashtra, Karnataka, Tamil Nadu, Gujarat, and Telangana have emerged as FDI hotspots, boosting local economies.

Negative Impacts / Challenges of FDI



a) Threat to Domestic Industries

- Small and medium enterprises (SMEs) face tough competition from MNCs with better technology and resources.
- Example: Retail sector concerns over Amazon & Walmart dominating local kirana stores.

b) Repatriation of Profits

- MNCs often repatriate profits to their home country, leading to outflow of foreign exchange.

c) Uneven Growth

- FDI is concentrated in developed states (Maharashtra, Delhi-NCR, Karnataka, Tamil Nadu), leaving backward regions behind.

d) Loss of Policy Autonomy

- Pressure from multinational corporations and international agencies can reduce India's ability to regulate sensitive sectors.

e) Cultural and Social Impact

- Influence of foreign brands may lead to westernization and erosion of traditional practices.

f) Risk of Takeovers

- Strategic sectors could face security concerns if foreign ownership is too high.
- Example: 2020 amendment required approval for FDI from neighboring countries (like China).

4. Sector-wise Impact

- **IT & Services:** Major contributor to India's global outsourcing leadership.
- **Manufacturing:** Automobile and electronics sector boosted by FDI (Make in India).
- **Retail & E-commerce:** Expansion of Amazon, Walmart-Flipkart increased competition.
- **Banking & Insurance:** Foreign banks and insurance companies increased capital availability.
- **Telecom:** Vodafone, Airtel partnerships improved connectivity, but also caused disputes.

**Finding:**

FDI has had a **transformative impact** on India's economy by fueling growth, technology transfer, exports, and job creation. Yet, uneven distribution, profit outflows, and competition pressures require careful policy balancing to ensure inclusive and sustainable development.

Conclusion

FDI has had a **transformative impact** on India's economy by fueling growth, creating jobs, modernizing industries, and integrating India into the global economy. However, it also poses challenges like uneven development, risks to small businesses, and security concerns.

The key is to balance **liberalization with regulation** so that FDI complements India's development goals under initiatives like **Make in India, Digital India, and Atmanirbhar Bharat**.

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