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Study on Trend Patterns of Foreign Direct Investment in India

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Abstract
This study comprehensively analyses the trends, sector-wise distribution, and country-wise inflows of foreign direct investment into India from 2000-01 to 2024-25. It highlights India's transformation into a major global investment destination driven by progressive economic reforms, liberalized foreign direct investment policies, and initiatives such as “Make in India” and GST. The study draws from secondary data sources including reports from the Department for Promotion of Industry and Internal Trade and the Reserve Bank of India. It finds that India’s cumulative gross foreign direct investment inflows crossed the $1 trillion mark during this period, with Maharashtra, Karnataka, and Gujarat leading state-wise contributions. Sectorally, services and IT/software attracted the most foreign direct investment, while Mauritius and Singapore remained the top source countries. The research provides evidence of the strong correlation between policy liberalization and foreign direct investment growth, though recent data suggest a deceleration due to global economic uncertainties and emerging regional competition.

Keywords: foreign direct investment, economic development, investment policy, liberalization, and globalization

Introduction

Economic development requires the availability of natural resources such as land and water; appropriate savings and their conversion into investments; a skilled labour force and entrepreneurship, technological expertise, and so on. A developing economy may have minimal savings, an inexperienced workforce, limited entrepreneurship, and a lack of technical understanding to harness natural resources for economic development. The majority of developing countries have low levels of income as well as capital accumulation. In such a situation, it may seek aid from countries with a higher level of economic development in terms of technology, labour skills, entrepreneurship, savings, and investments. Other countries' assistance could come in the form of investment. Foreign governments, private enterprises, and international financial organizations could all be involved. Despite the lack of cash, the countries have established a strong desire to industrialize and grow their economies. [1]
Capital flows have become a prerequisite for speeding a developing country's growth and development, and practically all developing countries have been working hard to attract additional capital flows. Furthermore, these countries have correctly recognized that entrusting a significant role to the private sector has become a necessity. Capital flows to developing countries began to pick up steam in the early

1980s, and by the end of the decade, there had been a massive rise in the amount of capital flows to these countries.

Private foreign investment has played a dominant role in India's economic development. While the Indian government has traditionally welcomed foreign investment with certain constraints, its foreign investment policy has undergone significant transformation since independence. A major shift occurred in 1991 with the introduction of economic policy reforms, which opened up the economy, enhanced competitiveness, and increased the role of governments in economic administration, thereby fostering a competitive environment for attracting foreign investment. Among the wide range of policies and initiatives implemented, the notable one is the "Make in India" campaign, which aims to simplify investment procedures and create a favorable investment climate across various sectors. The liberalization of foreign direct investment policies, especially in retail, defence, insurance, and single-brand retail trading, has been central to this strategy. Additionally, the implementation of the Goods and Services Tax (GST) has improved transparency, and the development of Special Economic Zones (SEZs) offers investors dedicated areas with tax incentives.

India has achieved a remarkable milestone in its economic journey, with gross foreign direct investment (FDI) inflows reaching an impressive $1 trillion since April 2000. In the meantime, India rose three spots from 43rd place in 2021 to 40th place in the World Competitive Index 2024. India was also ranked as the 48th most innovative country among the top 50 countries, securing 40th position out of 132 economies in the Global Innovation Index 2023, a significant improvement from 81st position in 2015. [2] Against this background, this study was able to evaluate the trends of FDI inflows into India, particularly the country-wise flow of FDI and its sector-wise distribution in India for the period 2000-01 to 2024-25.

Review of Literature

Goel, A., Garg, P., & Jain, M. (2020) indicated that foreign investments in India are regulated by the FDI policy and the Foreign Exchange Management Act (FEMA), 1999. Historically, FDI in India dates back to the British era with the East India Company. Over recent decades, FDI has gained global importance as a tool for development, with many countries liberalizing their investment policies. Although national and regional frameworks have evolved, there remains no comprehensive multilateral system. India experienced a steady flow of FDI until 2004, followed by a significant surge from 2005, aligned with the country’s transition to a market-oriented economy and increased openness to international trade. This has attracted many multinational corporations. Thus, the total FDI rose from $4,029 million in 2000-01 to $64,375 million in 2018-19, with cumulative FDI reaching $609.84 billion over April 2000 to March 2019. Equity capital components alone grew from $2,463 million to $44,366 million in the same period, with a cumulative total of $420.14 billion. [4]

Velu Suresh Kumar (2021) analyzed the trends in FDI inflows into India from 2000 to 2021, focusing on both country-wise and sector-wise patterns. The study notes that capital flows to developing nations began increasing in the 1980s. Although India has historically imposed certain constraints on foreign investments, significant policy changes have occurred since independence, especially after liberalization. FDI inflows into India reached $81.7 billion in 2020-21, making India the fifth-largest global FDI recipient in 2020, as per the World Investment Report 2021. This increase, especially in ICT investments, contributed to a 27 percent rise from the previous year. Mauritius emerged as the leading source country, accounting for 28 percent of total FDI inflows between April 2000 and March 2021, followed by

Singapore, the UAE, Cyprus, and the Cayman Islands. Sector-wise, the service industry, computer software and hardware, and telecommunications attracted the most FDI during this period. [5]

Neha, Madan Lal (2022) examined the trend, growth, and instability of FDI inflows to India following the 1991 economic reforms. It finds that liberalization policies boosted investor confidence, leading to a significant rise in FDI inflows. Using regression analysis, the study reports a highly significant growth rate of 19.31 percent in FDI inflows, alongside a decline in instability at a rate of **-**1.43 percent, indicating more stable and growing investment over time. [6]

Kumar, Pawan (2024) indicated that Karnataka has emerged as the top destination for FDI in the post-pandemic period, attracting 37.5 percent of India's total FDI inflows in 2021-22. Key sectors drawing investment include aerospace, defense manufacturing, biotech, and fintech. The state has consistently attracted global investments, created significant job opportunities, and established itself as an investor-friendly hub. FDI inflows in Karnataka grew from US$1,023 million in 2012-13 to US$8,575 million in 2017-18**,** despite a dip in 2016-17. After a pandemic-induced slowdown in 2019-20, inflows rebounded sharply to US$ 7,670 million in 2020-21 and reached an all-time high of US$ 22,072 million in 2021-22**.** Between October 2019 and September 2022, Karnataka received a cumulative FDI of US$39,361 million, ranking second among Indian states, just behind Maharashtra (28 percent share vs. Karnataka's 23 percent). Karnataka's favorable investment climate is supported by proactive policies, effective governance, skilled manpower, law and order, and strong connectivity. Bengaluru, the state's capital, has become a global tech cluster and a vibrant startup ecosystem, further fueling investment momentum. [7]

Sathvik, S. (2024), in his study, highlighted the pivotal role of FDI in driving India's economic development, particularly after the 1991 economic reforms (LPG policy). It notes a substantial rise in FDI inflows from ₹4,029 crore in 2001 to ₹89,930 crore by June 2023 attributed to liberalized trade policies and an improved business environment. The findings show that the services sector attracted the highest FDI (16.33 percent of total equity flows in USD), and Maharashtra led with the highest cumulative equity inflows **(₹44,396.1** crore from Oct 2019 to June 2023). The study confirms FDI's central role in India's capital formation and economic growth. [8]

Significance of the Study

There have been reports for the past few years showing inconsistency in inflows of FDI in India. So, the need is felt to study the trends of FDI inflows in India, identify country-wise inflows, and ascertain their sector-wise distribution in India.

Objective of the Study

The main objectives of this study are:

1. To study the trends of FDI inflows in India.
2. To identify the country-wise flow of FDI into India.
3. To ascertain the sector-wise distribution of FDI inflows in India.
4. To learn the state-wise distribution of FDI inflows in India.

Research Methodology

This research is based on secondary sources. It has been collected from sources such as the Department for Promotion of Industry and Internal Trade, Annual Reports of the Reserve Bank of India, UNCTAD, numerous journals, newspapers, and websites, among others.

Limitations of the Study

The major limitations of this study are that (i) it is entirely based on the Indian economy only. (ii) this study is limited to only the last twenty-five financial years. So, the findings of this study reflect this period only.

FDI Policy Framework in India

Over the previous few decades, India has seen substantial changes in its FDI approaches and polices, as well as changes in its industrial strategy and foreign exchange situation. The first steps toward liberalization were taken in 1980, with industrial policy announcements issued in 1980, 1982, and 1983. Many import items were switched to the open general license (OGL) category, which resulted in a significant drop in tariffs. FDI emerged as the most favored option for mobilizing financial resources in the 1990s, when the economy was in a critical phase and needed macroeconomic stabilization and structural transformation.

As a result, the Reserve Bank of India approved FDI in designated industries up to 51 per cent equity under the automatic clearance method. The Government of India also established the FIPB (Foreign Investment Promotion Board) under the new foreign investment policy. [9] Its primary purpose was to invite and facilitate international investment through a single-window system managed by the Prime Minister's Office. India also joined MIGA (Multilateral Investment Guarantee Agency), a multilateral organization that protects foreign investments. Since 1991, a lot of work has been done to make the country's climate more investor-friendly.

Trends in FDI Inflows

As previously mentioned, India's stock of FDI has grown remarkably following the liberalization of its economy. The period from 2000-01 to 2024-25 reflects a transformative journey in FDI inflows, shaped by progressive policy reforms, evolving global economic trends, and changing investor sentiment. This era has marked a significant milestone in India's economic advancement, with cumulative gross FDI inflows crossing an impressive US$1 trillion since April 2000 (Table 1).

In 2000-01, India received FDI inflows of US $4.03 billion, marking the beginning of a new investment era post-liberalization. This base year set the stage for gradual improvement, with inflows rising to $6.13 billion in 2001-02, reflecting a strong annual growth rate (AGR) of 52.1 percent, driven by increasing interest in telecom and IT services. However, the subsequent two years saw a contraction in inflows, with -17.9 percent growth in 2002-03 and -14.2 percent in 2003-04 due to global economic uncertainty following the dot-com crash and investor caution. A modest recovery was observed in 2004-05 as inflows touched $6.05 billion, marking a 40 percent rise backed by early sectoral reforms in construction and services.

The real momentum began in 2005-06, when FDI surged to $8.96 billion, up 48.1 percent, as India liberalized more sectors and improved the investment climate. This trend accelerated dramatically in 2006-07 with a record growth of 154.7 percent, taking inflows to $22.83 billion, driven by booming global liquidity and increased confidence in India’s growth potential. The upward trajectory continued in 2007-08 with inflows reaching $34.84 billion (52.6 percent growth), supported by strong performance in services, telecom, and infrastructure. In 2008-09, despite the onset of the global financial crisis, India maintained resilience, recording $41.87 billion in FDI with a growth of 20.2 percent. The impact of the crisis became more visible in 2009-10 when inflows declined to $37.75 billion, reflecting a -9.9 percent AGR.

From 2010-11 to 2012-13, FDI inflows were volatile. In 2010-11, inflows fell to $34.85 billion (-7.7 percent), mainly due to policy uncertainty and global recovery challenges. However, 2011-12 marked a rebound with $46.56 billion in inflows (33.6 percent), supported by opening up sectors like retail and civil aviation. But the momentum didn't last; in 2012-13, inflows dropped significantly to $34.30 billion, a -26.3 percent fall, mainly due to concerns over retrospective taxation and slow policy action. A marginal recovery in 2013-14 brought inflows to $36.05 billion (5.1 percent), while 2014-15 saw a more robust improvement to $45.15 billion (25.3 percent) as the new government launched "Make in India" and other pro-investment campaigns such as Digital India, Skill India, Start-Up India, Smart Cities Mission, Ease of Doing Business Reforms, and the announcement of the National Investment and Infrastructure Fund.

From 2015-16 onwards, India entered a phase of relatively consistent FDI growth. Inflows rose to $55.56 billion in 2015-16 (23.1 percent) and further to $60.22 billion in 2016-17 (8.4 percent), benefiting from eased FDI norms in defence, construction, and retail. In 2017-18 and 2018-19, growth stagnated at around $61 - 62 billion, with AGRs of just 1.3 percent and 1.7 percent, respectively, as implementation issues related to GST and concerns in the banking sector created investor hesitation. The years 2019-20 saw a renewed rise in FDI to $74.39 billion (20 percent), supported by policy changes in insurance, digital economy, and manufacturing.

The pandemic period (2020-21 and 2021-22) was surprisingly positive for FDI, as India attracted large investments in digital platforms and e-commerce, including big-ticket deals in technology. Inflows peaked at $84.83 billion in 2021-22, with modest growth of 3.5 percent over the previous year's $81.97 billion. However, a turning point emerged in 2022-23 when inflows declined sharply to $71.36 billion (-15.9 percent), followed by a marginal dip to $71.28 billion in 2023-24 (-0.1 percent), showing stagnation. Encouragingly, 2024-25 reveals a significant recovery, with FDI inflows increasing to $80.61 billion, reflecting a healthy 13.1 percent growth over the previous year, indicating renewed investor confidence and sustained economic resilience.

Overall, from 2000-01 to 2024-25, India's total FDI inflows have grown over 15 times, with an estimated Compound Annual Growth Rate (CAGR) of approximately 13.3 percent. Equity inflows constituted the largest component of the total FDI, followed by reinvested earnings, while equity capital of unincorporated bodies and other capital contributed relatively smaller shares. The overall trend demonstrates that despite intermittent declines caused by global crises or domestic regulatory uncertainties, India's long-term FDI performance has remained robust, supported by economic reforms, market expansion, liberalization measures, and sustained investor confidence.

Table 1: Reported FDI Inflows into India and their Main Components (As Per International Best Practices) *(US$ millions)*

Financial Year (April - March)	Main Components					Percentage growth over the previous year
	Equity Inflows (FIPB/SIA, Automatic & Acquisition Routes)	Equity capital of unincorporated bodies	Reinvested earnings	Other capital	Total FDI Inflows	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2000 - 01	2,339	61	1,350	279	4,029	-
2001 - 02	3,904	191	1,645	390	6,130	52.1
2002 - 03	2,574	190	1,833	438	5,035	-17.9
2003 - 04	2,197	32	1,460	633	4,322	-14.2
2004 - 05	3,250	528	1,904	369	6,051	40.0
2005 - 06	5,540	435	2,760	226	8,961	48.1
2006 - 07	15,585	896	5,828	517	22,826	154.7
2007 - 08	24,573	2,291	7,679	300	34,843	52.6
2008 - 09	31,364	702	9,030	777	41,873	20.2
2009 - 10	25,606	1,540	8,668	1,931	37,745	-9.9
2010 - 11	21,376	874	11,939	658	34,847	-7.7
2011 - 12	34,833	1,022	8,206	2,495	46,556	33.6
2012 - 13	21,825	1,059	9,880	1,534	34,298	-26.3
2013 - 14	24,299	975	8,978	1,794	36,046	5.1
2014 - 15	30,933	978	9,988	3,249	45,148	25.3
2015 - 16	40,001	1,111	10,413	4,034	55,559	23.1
2016 - 17	43,478	1,223	12,343	3,176	60,220	8.4
2017 - 18	44,857	664	12,542	2,911	60,974	1.3
2018 - 19	44,366	689	13,672	3,274	62,001	1.7
2019 - 20	49,977	1,757	14,175	8,482	74,391	20.0
2020 - 21	59,636	1,452	16,935	3,950	81,973	10.2
2021 - 22	58,773	910	19,347	5,805	84,835	3.5
2022 - 23	46,034	1,566	19,105	4,650	71,355	-15.9
2023 - 24	44,423	1,394	19,768	5,694	71,279	-0.1
2024 - 25 (P)	50,018	975	22,759	6,863	80,615	13.1
Memorandum Items						
2000 - 01 to 2024 - 25	7,31,761	23,516	252,993	64,071	1,072,340	13.3

Source: Fact Sheet on Foreign Direct Investment, March 2025, Department of Industrial Policy & Promotion, GOI, New Delhi

It is critical for a country to determine which of its sectors receive the most FDI. Whether it's investing in modern and advanced technology-intensive sectors or assisting in the development of productive capabilities, thereby crowding out domestic investments. Since 1991, the composition of FDI inflows has shifted dramatically. FDI has gradually shifted away from manufacturing and toward services. In addition, different industries have been opened to FDI at different times. Table 2 shows the rankings, names, and shares of FDI inflows for the top ten sectors, as reported by DIPP statistics. The top two sectors that attracted the most investment inflows from April 2000 to December 2024 were the service industry (financial and non-financial) and computer software and hardware.

Table 2: Share of Top 10 Sectors Attracting Highest Inflow FDI
(April 2000 - March 2025)
(US$ millions)

Sl. No.	Sector	Cumulative Equity Inflow	% to Total Inflows	Rank
1.	Services Sector (financial & non-financial)	118,843	16.30	I
2.	Computer Software & Hardware	110,698	15.18	II
3.	Trading	47,572	6.53	III
4.	Telecommunications	40,072	5.50	IV
5.	Automobile Industry	37,854	5.19	V
6.	Construction (Infrastructure Activities)	36,163	4.96	VI
7.	Construction (townships, housing, built-up infrastructure, and construction-development projects)	27,139	3.72	VII
8.	Drugs & Pharmaceuticals	23,419	3.21	VIII
9.	Chemicals (other than fertilizers)	23,207	3.18	IX
10.	Non-Conventional Energy	21,900	3.00	X
Total FDI Equity Inflow from all Countries		**729,003**	-	-

Source: Fact Sheet on Foreign Direct Investment, March 2025, Department of Industrial Policy & Promotion, GOI, New Delhi

The significant shift in the immediate source country for FDI into India is another crucial component of the inflows (Table 3). While Mauritius' importance in routing foreign capital to India has long been recognized, the country's position as a source country has grown in recent years. The country contributed 25 percent of total reported inflows from April 2000 to December 2024. Surprisingly, Singapore came in second, ahead of the U.S.A., UAE, Cayman Islands, and Cyprus to join the top ten home nations for FDI into India.

Table 3: Share of Top 10 Countries Investing in India
(April 2000 - March 2025)
(US$ millions)

Sl. No.	Country	Cumulative Equity Inflow	% to Total Inflows	Rank
1.	Mauritius	1,80,190	24.72	I
2.	Singapore	1,74,885	23.99	II
3.	USA	70,650	9.69	III
4.	Netherlands	53,302	7.31	IV
5.	Japan	44,395	6.09	V
6.	UK	35,886	4.92	VI
7.	UAE	22,847	3.13	VII
8.	Cayman Islands	15,637	2.15	VIII
9.	Germany	15,112	2.07	IX
10.	Cyprus	14,653	2.01	X
Total FDI Equity Inflow from all Countries		**729,003**	-	-

Source: Fact Sheet on Foreign Direct Investment, March 2025, Department of Industrial Policy & Promotion, GOI, New Delhi

India has 28 states and 8 union territories. From October 1999 to December 2024, India's FDI landscape has been significantly influenced by state-level dynamics, with certain states emerging as prominent hubs due to their economic policies, infrastructure, and sectoral strengths. Maharashtra has consistently led in attracting FDI, accounting for approximately 31 percent of the total cumulative inflows during this period. The state's robust industrial base, particularly in Mumbai and Pune, coupled with a mature financial ecosystem, has made it a preferred destination for investors (Table 4). Karnataka, with its capital Bengaluru known as the "Silicon Valley of India," has attracted about 20 percent of the cumulative FDI inflows. The state's strong IT and startup ecosystem has been a significant draw for foreign investors. Gujarat has seen a substantial share of FDI, accounting for 16 percent of the total inflows. The state's proactive industrial policies and infrastructure development have played a crucial role in attracting investments. The National Capital Territory of Delhi has received about 13 percent of the cumulative FDI, benefiting from its strategic location and status as the administrative and political center of India. Tamil Nadu has garnered around 5 percent of the total FDI inflows, leveraging its strong manufacturing sector, particularly in automobiles and electronics, and a favorable business environment. Other states like Haryana and Telangana have also made notable contributions, each accounting for approximately 4 percent of the total FDI. States such as Jharkhand**,** Rajasthan, and Uttar Pradesh have received smaller shares of FDI, ranging from 1 percent to 2 percent, indicating potential areas for policy focus and development to enhance their attractiveness to foreign investors.

Table 4: States/UTs Attracting Highest FDI Equity Inflow
(October 1999 - March 2025)
(US$ millions)

Sl. No.	State	Cumulative Equity Inflow	% to Total Inflows	Rank
1.	Maharashtra	88,675	31.36	I
2.	Karnataka	57,649	20.39	II
3.	Gujarat	44,912	15.88	III
4.	Delhi	37,807	13.37	IV
5.	Tamil Nadu	14,619	5.17	V
6.	Haryana	12,877	4.55	VI
7.	Telangana	10,768	3.81	VII
8.	Jharkhand	2,718	0.96	VIII
9.	Rajasthan	2,674	0.95	IX
10.	Uttar Pradesh	2,070	0.73	X
Total FDI Equity Inflow from all Countries		**729,003**	-	-

Source: Fact Sheet on Foreign Direct Investment, March 2025, Department of Industrial Policy & Promotion, GOI, New Delhi

Conclusion

Over the past two and a half decades, India's FDI inflow trajectory has reflected both the promise and the challenges of a rapidly evolving economy. The liberalization reforms of the early 1990s set the foundation, while subsequent policy measures progressively opened up various sectors, making India a preferred investment hub. The study confirms that FDI has not only been a critical source of external capital but also a significant driver of economic development, employment generation, and technological advancement. Despite robust long-term growth, recent declines in FDI inflows signal the need for India to recalibrate its investment strategy, ensure policy stability, enhance sectoral competitiveness, and address infrastructural and regulatory bottlenecks. As India aims to maintain and grow its global investment share, a nuanced approach combining reforms, strategic diplomacy, and regional equity in investment distribution will be imperative.

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