

Foreign Direct Investment in India: A Systematic Analysis

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Abstract- This study examines India’s FDI landscape from April 2000 to March 2025, covering trends, sectoral and geographic distributions, source jurisdictions, policy reforms, economic impacts, challenges, and future directions. Utilizing DPIIT, RBI, UNCTAD, and topical sources, the analysis incorporates monthly-equity data, sectoral tables, and comparative insights. Results highlight record-high gross inflows (US \$81 bn) but stark contrast with net FDI collapse, emphasizing India’s increasingly complex global capital integration.

Keywords: *India, Foreign Direct Investment, FDI, sectoral analysis, policy, gross inflow, net inflow.*

1. INTRODUCTION

Foreign Direct Investment (FDI) is instrumental in advancing economies via capital inflow, technology spillovers, employment generation, and global integration. India, since its 1991 liberalization, has evolved from a cautious recipient to a globally significant destination. In FY 2024–25, gross FDI inflows reached US \$81.04 bn—a three-year peak—yet net inflows fell by 96.5% due to repatriation and outbound FDI, reflecting market maturation.

3. FDI TRENDS

3.1 Gross & Net Inflows

| Fiscal Year | Gross FDI (US\$ bn) | Equity FDI (US\$ bn) | Net FDI (US\$ bn) |
|----------------|---------------------|----------------------|-------------------|
| 2022–23 | 71.35 | ~54.3 | — |
| 2023–24 | 70.95 | ~50.0 | ~10.1 |
| 2024–25 (prov) | 81.04 (+14%) | ~50–51 (+13%) | ~0.4 (–96.5%) |

Gross FDI and Equity FDI indicate overall investment inflows remain strong or growing. The net FDI collapse (almost zero net inflow in 2024–25) is a red flag, implying that while investments are coming in, nearly equal amounts of capital might be going out. This could be due to increased repatriation of profits by foreign investors, higher outward investments by

Research Objectives

1. Quantify and analyze FDI trends—gross and net.
2. Dissect sectoral and geographic distribution.
3. Identify key source countries.
4. Evaluate policy reforms.
5. Carefully examine economic impacts and emerging challenges.

2. RESEARCH METHODOLOGY

- Data Sources: DPIIT monthly and annual reports; RBI data; UNCTAD World Investment Report; reputable media outlets.
- Timeline: April 2000–March 2025; emphasis on FY 2022–25.
- Methods: Descriptive statistics, time-series trends, tables, sector/state breakdowns, policy evaluation, comparative outlook.
- Structure: Five core sections spanning trends, sectors, geography, policy, and outcomes, ending with recommendations.

domestic entities, or other financial adjustments. This mixed picture shows positive growth in attracting investments but potential concerns over capital retention or long-term investment sustainability.

- Gross inflows surged 14% to \$81.04 bn

- Equity stepped up 13%, crossing \$50 bn for the first time.
- Net FDI collapsed to \$0.4 bn, driven by \$51.5 bn repatriation and \$29.2 bn outward FDI
- India has exceeded US \$1 trillion in cumulative FDI since April 2000, with nearly \$710 bn in equity and 69% arriving post-2014.
- Top-origin jurisdictions: Mauritius (25%), Singapore (24%), US (10%), Netherlands (7%).

3.2 Cumulative Inflows

4. MONTHLY EQUITY INFLOW PATTERN FY 2024–25

| Month | Gross Equity (US\$ m) |
|--------------|-----------------------|
| Apr–Jun 2024 | 4,910 – 5,415 |
| Jul–Sep 2024 | 3,213 – 6,393 |
| Oct–Dec 2024 | 2,285 – 4,374 |
| Jan–Mar 2025 | 2,831 – 3,363 |

Peaks during May–June (~US \$5–6 bn), troughs during Nov–Feb (~US \$2–3 bn) indicate seasonal investor patterns and global uncertainty.

5. Sector-Wise Analysis FY 2022–25

| Sector | 2022–23 | 2023–24 | 2024–25 | Cumulative Share |
|---|---------|---------|---------|------------------|
| Services (finance, consulting, R&D, etc.) | 8,707 | 6,640 | 9,347 | 16% |
| Computer software & hardware | 9,394 | 7,973 | 7,814 | 15% |
| Trading | 4,792 | 3,865 | 4,176 | 7% |
| Telecommunications | 713 | 282 | 746 | 5% |
| Automobile | 1,902 | 1,524 | 1,586 | 5% |
| Infrastructure construction | 1,703 | 4,232 | 2,245 | 5% |
| Townships & development | 147 | 255 | 529 | 4% |
| Drugs & pharma | 2,058 | 1,064 | 891 | 3% |
| Chemicals | 1,850 | 844 | 1,060 | 3% |
| Non-conventional energy | 2,500 | 3,764 | 4,012 | 3% |

Highlights: Services saw a 40% YoY rise to \$9.35 bn; manufacturing increased 18% to \$19.04 bn; clean energy also grew significantly. Services and IT sectors remain the backbone of FDI inflows, cumulatively accounting for over 30% of investments. Fluctuations in sectors like trading, telecom, and

infrastructure suggest sensitivity to broader economic or policy shifts. The rise of non-conventional energy and townships reflects evolving priorities like sustainable development and urbanization. Declining trends in drugs, pharma, and chemicals may warrant attention to understand if it's cyclical or structural.

6. GEOGRAPHIC DISTRIBUTION

6.1 State-Wise Summary 2024–25 Equity

| State | FDI (₹ Crore) | Share (%) |
|-------------|---------------|-----------|
| Maharashtra | 164,875 | ~40% |
| Karnataka | — | 13% |
| Delhi | — | 12% |

In FY 2024–25, Maharashtra captured nearly 40% of equity FDI (~₹ 1,64,875 crore / US \$19.6 bn), a 32% increase YoY. Maharashtra and Karnataka together drew over half of national FDI.

6.2 Earlier Trends

From Oct 2019 to Mar 2023, Maharashtra (28.7%), Karnataka (23.6%), Gujarat (17%), Delhi (13.4%) were top states—confirming long-term concentration

7. SOURCE COUNTRIES

FY 2024–25 top five:

- Singapore: \$14.94 bn (30%) – +27% YoY
- Mauritius: \$8.34 bn (17%)
- US: \$5.45 bn (11%)
- Netherlands: \$4.62 bn
- UAE: \$4.34 bn.

Together, these five contributed more than 75% of gross inflows

8. POLICY ENVIRONMENT

8.1 Liberalization Timeline

- 2005: 100% FDI in construction and real estate
- 2012–14: Expanded auto, insurance, telecom, defense, retail, aviation limits
- 2023–25: 100% FDI in space; EV infrastructure pushes; incentives for foreign EV investments; corporate tax cuts for foreign firms.

8.2 Strategic Instruments

- Considering mezzanine financing (hybrid debt/equity) to attract US \$20–30 bn additional capital returns.
- Land-border clarity (2020): investments from neighboring countries require prior government approval.
- Automatic routing for most sectors; selective vetting for strategic exceptions.

8.3 National Initiatives

- Make in India (from 2014): 100% FDI allowed in all but space (74%), defence (49%), and media (26%).

- PLI schemes, Atmanirbhar Bharat, Gati Shakti, NSWS, FIFP boosted manufacturing, electronics, green energy, and ease-of-doing-business.

9. ECONOMIC IMPACTS

9.1 Capital Formation

Gross inflows reduce dependency on portfolio flows, supporting durable sectoral investment.

9.2 Technological Up gradation & Employment

FDI enhances managerial skill, tech transfer, and boosts job creation across IT, renewables, pharmaceuticals, automobiles.

9.3 Balance of Payments

Although gross FDI offsets CAD, growing repatriation and outward FDI pose emerging complexities.

9.4 Global Metrics

India ranked 15th in UNCTAD FDI inflows (2024), retaining top position in South Asia, and 4th in greenfield investments.

10. CHALLENGES

- Net inflow volatility: FY 2024–25's net FDI near-zero despite high gross inflows .
- Global turbulence: RBI governor affirmed India's resilience but external headwinds remain.
- Sub-national bottlenecks: Infrastructure disparities, bureaucratic delays outside leading states deter investment diversification.
- Policy changes: Strategic vetting and proximity-based approval may impact investor perceptions.
- Capital repatriation: Nearly US \$100 bn repatriated in FY 2024–25, indicating institutional maturity but also major outflows.

11. FUTURE DIRECTIONS & POLICY PRESCRIPTIONS

1. Mezzanine Financing Deployment
Allow hybrid instruments to entice strategic capital (\$20–30 bn).
2. Diversification
Attract foreign investors beyond traditional hubs

(e.g., Europe, North America) via bilateral investment treaties.

3. **Balanced Sub national Development**
Strengthen investment ecosystems in Gujarat, Tamil Nadu, and emerging states with infrastructure, tax clarity, and incentives.
4. **Global Supply Chain Integration**
Leverage "China + 1" shift in electronics, EVs, pharmaceuticals through PLI alignment, trade facilitation.
5. **Sustain Policy Consistency**
Continue ease-of-doing-business reforms, investor protection mechanisms, and multi-modal logistics projects.

12. CONCLUSION

India's FDI story is shaped by record gross inflows but nuanced by shrinking net capital due to outward flows and repatriation. The concentration in services, IT, green energy, and select states underscores strengths, while geographic and policy gaps suggest areas for reform. Balanced and diversified policy action, investor-centric instruments, and strengthened state engagement are critical to maintaining India's upward FDI trajectory grounded in global confidence and domestic resilience.

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