

Trends and Patterns of FDI Inflows in India

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Abstract: The purpose of this paper is to examine the trends, growth, and patterns of Foreign Direct Investment (FDI) inflows into India, with special focus on how inflation influences FDI growth. The study also identifies key sectoral and macroeconomic factors that shape foreign investment decisions, and evaluates the effects of FDI at both sectoral and national levels. Using secondary data, line graphs, and pie charts, the project analyses a decade of FDI inflow trends and compares major economic indicators to understand their impact on investment. Forecasted FDI values are also generated based on historical patterns. The findings highlight the major industries attracting substantial FDI and the factors influencing investor behaviour, while also showing how FDI contributes to India's overall economic growth through technology transfer, job creation, and productivity gains. Based on these insights, the study proposes measures such as regulatory reforms, investment facilitation, and sector-specific strategies to strengthen India's investment climate. The recommendations aim to guide policymakers, investors, and stakeholders in designing effective policies to enhance and sustain FDI inflows into the Indian economy.

Keywords: Foreign Direct Investment, economic growth, inflation, stakeholders.

Introduction

"I do believe that international trade agreements benefit both nations, always." – Phil Knight

Foreign Direct Investment (FDI) refers to investment made by an overseas entity that gains significant ownership or control of a business in another country. In India, FDI has become a major driver of economic growth, supporting industrial expansion, job creation, and technological advancement. India's large domestic market, skilled workforce, and improving business environment have made it a preferred destination for global investors. Over the years, the government has introduced several reforms and policies to attract FDI, including liberalizing sectoral limits, simplifying procedures, and promoting investment-friendly regulations.

Historically, India's FDI policy has evolved from a restrictive framework under FERA in the 1970s to a liberalized regime beginning in 1991 with the introduction of FEMA by Dr. Manmohan Singh. This shift marked the beginning of India's integration with the global economy. Since then, foreign investment has expanded across key sectors such as telecommunications, construction, software and hardware, and more recently, technology and automotive industries.

In recent years, India has emerged among the top global FDI recipients, recording inflows of US\$ 81,973 million in 2020–21, despite global economic challenges. The World Investment Report 2022 ranked India eighth globally in FDI inflows. Strategic partnerships, mergers and acquisitions, and policy reforms have further strengthened investor confidence. Between 2000 and 2022, India received US\$ 847 billion in cumulative FDI, with more than 40% arriving in the past eight years alone, highlighting India's growing attractiveness as an investment hub. The increasing FDI

inflows continue to support India's economic development, competitiveness, and global integration.

Review of Literature

Renuka et al. (2013) the use of the regression line along with macro variable emphasises the fact that FDI flow is consistently increasing, with the service sector accounting for the majority of this growth.

Shyam (2017) proposed in his journal, the article "FDI: Future Demand of India" stated that "Indian retail & employment potential is growing fast too. Consumers are always hungry for modern ways of shopping." In his analysis, it was claimed that the retail industry was reconsidering the ideal pricing system that would be wise to further encourage FDI in the sector.

Objectives of the Study

- To analyse the trends, growth, and patterns of FDI inflows into India—including the influence of sectoral distribution, macroeconomic conditions, and inflation (up to 11%) on FDI growth.
- To evaluate the effects of FDI on India's economy and propose strategies to enhance FDI inflows—covering sectoral and macroeconomic impacts and recommending effective policy measures to attract more foreign investment.

Data Collection

This study is based on Secondary data offers the foundation of this search. Using secondary information, historical analysis examines past occurrences and trends in order to spot trends and patterns that can guide contemporary study. This database was created by combining information and data from numerous trustworthy sources, including statisticstimes.com, the Reserve Bank of India

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(RBI), the Department of Industrial Policy and Promotion (DIPP), and the National Statistical Office. Additionally, essays, journals, newspapers, and online databases of the Indian economy have been cited.

Methodology

The current study only uses secondary data in its analysis. These supplemental data are gathered from many official government websites. The FDI formula (FDI = Sum of Equity Capital + Long Term Capital + Short Term Capital). Methods used are, graphical representations; like line graph, pie charts, etc. comparison of various sectoral and macro-economic factors; comparison of total FDI inflow for past 10 years, with some solutions are used to calculate the projected values of secondary data for FDI.

Factors Impact on FDI in India:

Foreign Direct Investment (FDI) plays a vital role in shaping India’s economic and sectoral landscape. It drives economic activity by bringing in capital, advanced technology, and managerial skills, which increase productivity, enhance competitiveness, and generate employment. FDI also strengthens key sectors: manufacturing benefits from technology upgrades and expanded capacity; the services sector—especially IT and BPO—gains global integration and job growth; agriculture receives support through food processing; and infrastructure sees major improvements in power, telecom, and transportation. At the macroeconomic level, FDI boosts GDP growth, improves the balance of payments by increasing exports, and contributes to government revenue through taxes and fees. It also facilitates technology transfer, while the impact on exchange rates remains stable due to strong foreign reserves.

To further increase FDI inflows, India must continue simplifying business procedures, reducing regulatory barriers, and improving infrastructure such as transport, ports, and power supply. Sector-specific reforms in manufacturing, agriculture, and services, along with transparent taxation and investment policies, can enhance investor confidence. Strengthening education and skill development will help meet industry needs, while promoting research, innovation, and global trade partnerships can attract high-

value and long-term investments. Together, these measures can make India more competitive and appealing to foreign investors.

Total FDI Inflow into India: 2013–2022

India’s economic landscape between 2013 and 2022 reflects strong growth in Foreign Direct Investment (FDI), supported by rising services activity, improved policy frameworks, and greater global confidence in the Indian market. The Economic Survey highlights steady GDP projections for 2023–24, with real growth expected between 6% and 6.8% and nominal growth at around 11%. Over the past decade, India’s services sector has played a central role in attracting FDI. After a contraction during the pandemic, the sector rebounded sharply in FY22 with 8.4% growth, led by contact-intensive services such as tourism, hospitality, and transport. Bank credit to services also rose significantly, signaling a healthy revival. India’s service exports grew by 27.7% in 2022 due to rising global demand and higher production costs in advanced economies, which made India a more competitive outsourcing destination.

According to UNCTAD’s World Investment Report 2022, India ranked seventh among top global FDI recipients, recording its highest-ever inflow of US\$ 84.8 billion in FY22, with US\$ 71 billion coming from the services sector alone. Government initiatives such as the National Single Window System, reforms in telecom, aviation, and financial services, and simplification of business procedures further supported investor confidence.

Several sectors experienced rapid expansion alongside FDI growth. Aviation saw a 52.9% rise in aircraft numbers by late 2022, while housing demand surpassed pre-pandemic levels despite inflationary pressures. The IT-BPM industry continued to be a major FDI magnet, achieving strong revenue growth, rising exports, and a record increase in employment. India also became a global leader in fintech adoption, reaching 87% adoption compared to the global average of 64%, with digital infrastructure and initiatives like CBDC strengthening investor sentiment.

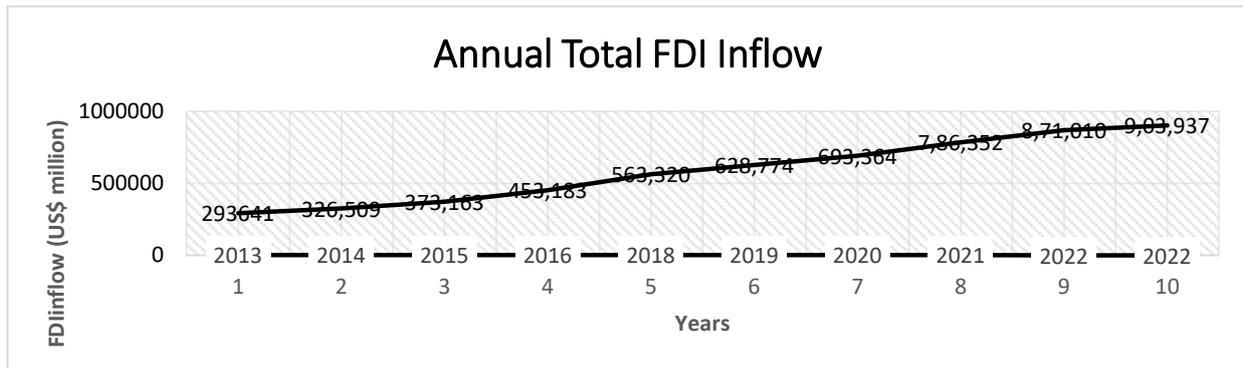
Overall, FDI inflows into India increased from US\$ 293,641 million in 2013 to US\$ 903,937 million by December 2022—more than tripling in just a decade. This sharp and sustained rise reflects India’s growing economic stability, policy reforms, and its expanding role as a global investment hub.

Table-1: Total FDI inflow

S. No	Total FDI Inflow	US\$(in millions)	Year
1	Cumulative amount of FDI inflows	2,93,641	2013
2	Cumulative amount of FDI inflows	3,26,509	2014
3	Cumulative amount of FDI inflows	3,73,163	2015
4	Cumulative amount of FDI inflows	4,53,183	2016
5	Cumulative amount of FDI inflows	5,63,320	2018
6	Cumulative amount of FDI inflows	6,28,774	2019
7	Cumulative amount of FDI inflows	6,93,364	2020
8	Cumulative amount of FDI inflows	7,86,352	2021
9	Cumulative amount of FDI inflows	8,71,010	2022(June)
10	Cumulative amount of FDI inflows	9,03,937	2022(Dec)

Source: RBI data, 2013-2022.

Figure-1: Annual total FDI



Share of Top Investing Countries FDI Equity Inflow- 2013-2022:

According to this data, Singapore and Mauritius have regularly ranked first and second, respectively, in terms of FDI equity inflow into India over the past ten years. The positions of the other top five nations have changed over time, though.

In terms of FDI equity flows into India in FY2021–2022, Singapore (27.01%) and the USA (17.94%) have emerged as the top 2 source nations, followed by Mauritius (15.98%), the Netherlands (7.86%), and Switzerland (7.31%). It should be noted that India has moved up one spot to take the 7th spot among the top 20 host economies for 2021, according to the UNCTAD World Investment Report (WIR) 2022, which analyses worldwide trends in FDI inflows. India is quickly becoming a popular destination for international industrial investments. When compared to the prior FY 2020-21 (USD 12.09 billion), FDI equity inflow in manufacturing sectors grew by 76% in FY 2021–22 (USD 21.34 billion). Under the FDI policy regime, the government has carried out a number of revolutionary changes in industries including insurance, defence, telecom, financial services, pharmaceuticals,

retail trade, e-commerce, construction & development, civil aviation, manufacturing, and more. India attracted the largest annual FDI inflows of USD 84,835 million in FY 21-22, surpassing FDI from the previous year by USD 2.87 billion, despite the ongoing epidemic and global events. Prior to that, FDI inflows rose from USD 74,391 million in FY 19-20 to USD 81,973 million in FY 20-21. Major industry spaces, associations, representatives of industries/groups, and other organisations are consulted before changes to the FDI policy are adopted. However, due to strategic considerations, some investments are either prohibited or approved under the Government authorization route through a screening system as per the stipulated framework, even though foreign investments are allowed under the automatic route in the majority of sectors/activities. These are the FDI inflow percentages for India from 2013 through December 2022. Mauritius, the top nation responsible for the majority of foreign investment in India, also contributes a significant portion, UAE also provides India with the least FDI. Other nations include Mauritius, Singapore, The UK, Japan, The USA, The Netherlands, Cyprus, Germany, France, And the U.A.E.

Table-2: Country wise inflow of FDIs.

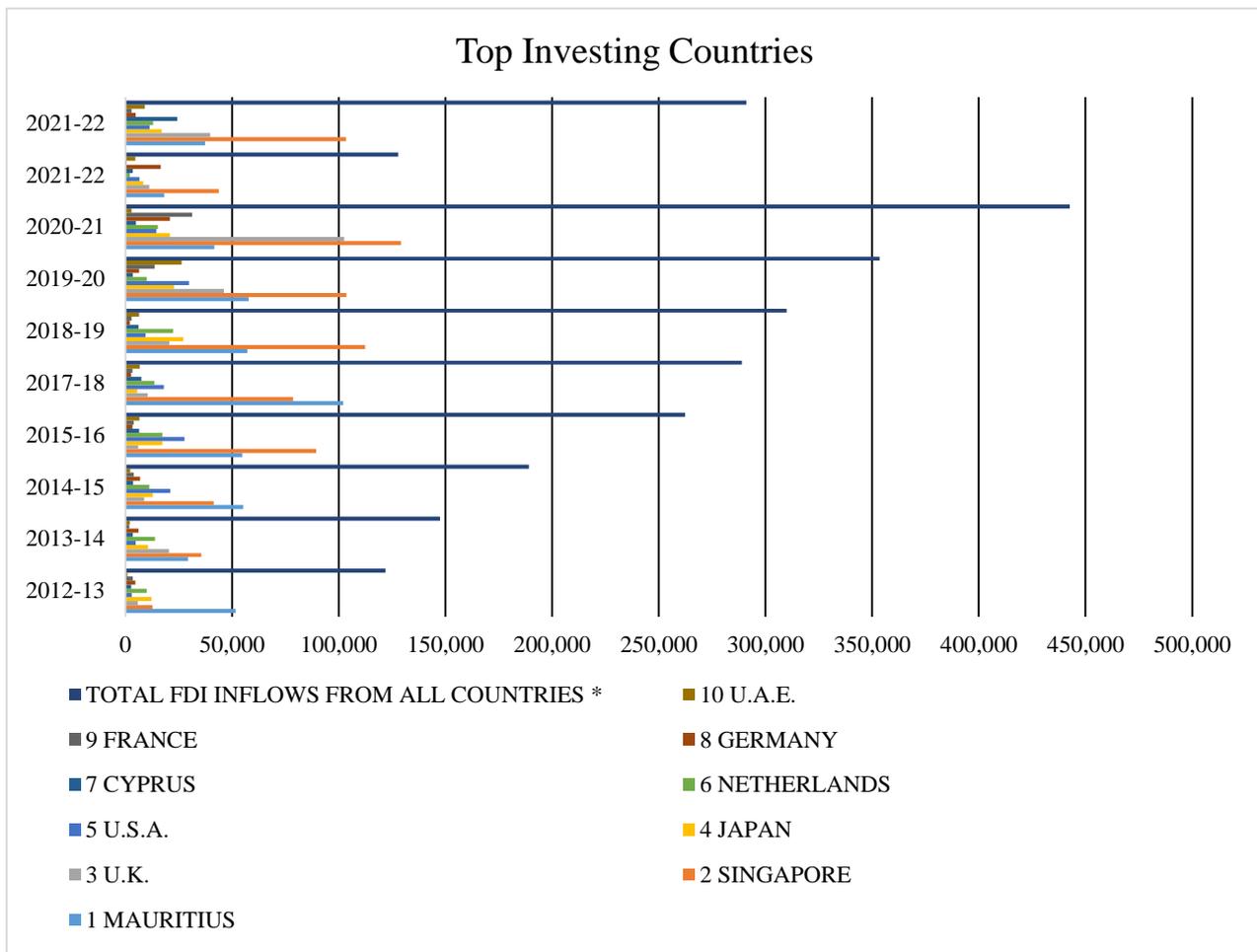
Rank	Country	2012-13	2013-14	2014-15	2015-16	2017-18
1	Mauritius	51,654	29,360	55,172	54,706	1,02,056
2	Singapore	12,594	35,625	41,350	89,510	78,542
3	U.K.	5,797	20,426	8,769	5,938	10,371
4	Japan	12,243	10,550	12,752	17,275	5,473
5	U.S.A.	3,033	4,807	20,960	27,695	18,048
6	Netherlands	10,054	13,920	11,150	17,275	13,505
7	Cyprus	2,658	3,401	3,634	6,361	7,391
8	Germany	4,684	6,093	6,904	3,317	2,680
9	France	3,487	1,842	3,881	3,937	3,297
10	U.A.E.	987	2,084	2,251	6,528	6,767

Source: RBI data, 2012-2018.

Table -2: Top investing countries

Rank	Country	2018-19	2019-20	2019-20	2021-22	2021-22
1	Mauritius	57,139	57,785	41,661	18,175	37,368
2	Singapore	1,12,362	1,03,615	1,29,227	43,779	1,03,459
3	U.K.	20,556	46,071	1,02,499	11,244	39,716
4	Japan	27,036	22,774	20,830	8,345	17,046
5	U.S.A.	9,352	29,850	14,441	6,626	11,308
6	Netherlands	22,335	10,041	15,225	2,146	12,929
7	Cyprus	6,187	3,467	4,910	3,455	24,242
8	Germany	2,134	6,449	20,779	16,588	4,849
9	France	2,890	13,686	31,242	690	2,802
10	U.A.E.	6,356	26,397	2,839	4,682	9,168

Source: RBI data, 2019-2022.



Sectors Attracting Highest FDI Equity Inflow

Foreign Direct Investment (FDI) in India is shaped by economic policies, market demand, and investment conditions, with several key sectors consistently attracting the highest inflows. The services sector remains the leading recipient, accounting for over half of total FDI. This includes finance, banking, insurance, IT-enabled services, education, health care, and hospitality. In FY 2020,

services alone received about ₹554 billion, reflecting strong global investor confidence. The dominance of services is also linked to the high concentration of foreign firms in business-service hubs like Delhi and Maharashtra.

The computer software and hardware sector is the second-largest FDI receiver, supported by India’s skilled workforce and strong IT capabilities. In FY 2022, the sector attracted nearly US\$ 14.5 billion, making it one of the most dynamic areas for foreign

investment. The telecommunications sector also draws substantial FDI due to its large customer base and rapid digital expansion, though inflows fluctuate with market cycles. Additionally, the trading sector—including wholesale and retail—attracts investors seeking access to India’s large and growing consumer market, receiving around US\$ 2.6 billion in FY 2021.

Government reforms such as relaxing sourcing norms, allowing 100% FDI in sectors like coal mining and contract manufacturing, and improving ease of doing business have further strengthened inflows. Collectively, these sectors continue to drive India’s FDI

growth by bringing capital, technology, and new business opportunities.

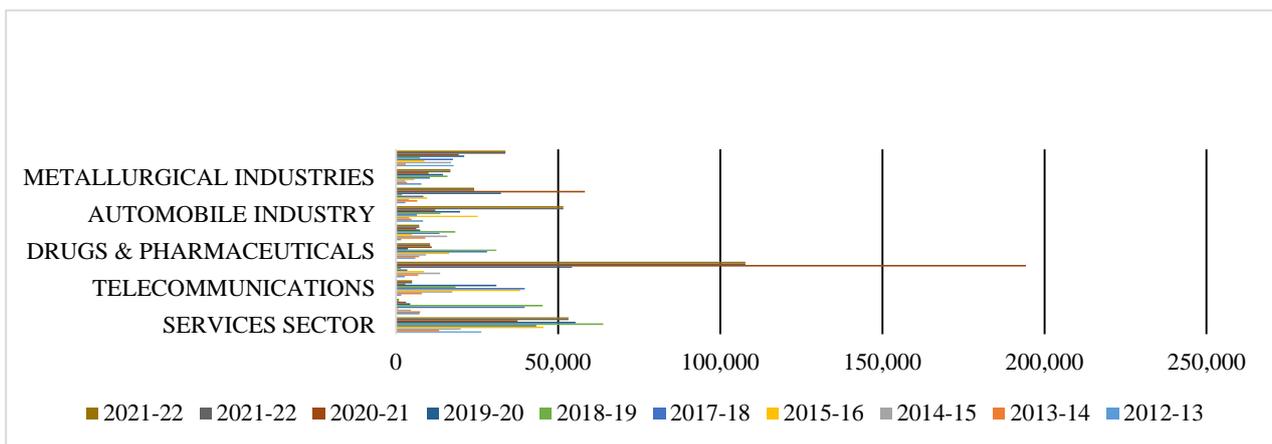
Automobiles - The car sector in India has also attracted large FDI investments. The industry provides access to India's increasing middle class as well as the possibility of exporting to other markets. In fiscal year 2021, the car sector in India received an equity inflow of around 1.6 billion US dollars from foreign direct investments. Between 2015 and 2020, the country's car sector had continuous equity inflows of 2 to 3 billion dollars.

Table-4: Sector wise inflow of FDIs.

Rank	Sector	2018-19	2019-20	2020-21	2021-22	2021-22
1	Services Sector	63,909	55,429	37,542	53,165	53,165
2	Construction Development	45,297	4,350	3,117	932	932
3	Telecommunications	18,337	30,940	2,884	4,980	4,980
4	Computer Software & Hardware	1,503	54,250	1,94,291	1,07,762	1,07,762
5	Drugs & Pharmaceuticals	30,963	3,650	11,015	10,552	10,552
6	Chemicals	18,309	7,492	6,300	7,202	7,202
7	Automobile Industry	13,685	19,753	12,115	51,624	51,624
8	Power	1,842	32,406	58,240	24,178	24,178
9	Metallurgical Industries	15,927	14,510	10,002	16,783	16,783
10	Hotel & Tourism	7,330	21,060	19,349	33,779	33,779

Source: RBI data, 2012-2018.

Figure-3: Top investing sectors



Conclusion

Analyzing the trends, growth, and patterns of FDI inflows into India is essential for understanding how various economic forces shape investment behaviour. A clear assessment of inflation’s impact on FDI—particularly up to the 11% level—helps explain how rising prices can affect investor confidence, purchasing power, and long-term profitability. Over the last decade, India has emerged as an increasingly attractive destination for global investors, driven by policy reforms, growing markets, and expanding international trade. At the same time, understanding sectoral and

macroeconomic determinants—such as ease of doing business, infrastructure quality, policy stability, and skill development—is crucial for designing targeted strategies to attract larger and more diversified FDI inflows.

FDI contributes significantly to India’s economic progress by enabling technology transfer, stimulating innovation, expanding employment, improving export competitiveness, and strengthening foreign exchange reserves. To maximize these benefits, India must adopt a comprehensive strategy focused on simplifying regulations, enhancing infrastructure, promoting sector-specific reforms,

developing human capital, and fostering stable and transparent investment policies. Strengthening global partnerships and integrating sustainability principles will further improve investor confidence.

Overall, India's FDI inflows have consistently increased, supported by strong participation from countries like Singapore, Mauritius, and the United States. Both country-wise contributions and sectoral strengths—such as services, IT, manufacturing, and telecommunications—play a vital role in sustaining inflows. By continuously refining policies and analyzing evolving FDI patterns, India can reinforce its position as a competitive and reliable global investment hub.

Findings

Over the last decade, India's cumulative FDI inflows have risen sharply from USD 2,93,641 million in 2013 to USD 9,03,937 million in 2022, nearly tripling overall. Despite minor fluctuations, the long-term trend shows strong and consistent growth in foreign investment. Singapore and Mauritius have remained the top FDI contributors, followed by the USA, Netherlands, and Japan. Shifts in country-wise shares reflect changing global investment patterns and India's evolving economic priorities. Overall, rising FDI

inflows highlight growing confidence in India's economy, supported by government reforms and improved ease of doing business.

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