



Trends and Patterns of Foreign Direct Investment (FDI) Inflows in India

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Abstract

Foreign Direct Investment (FDI) remains a pivotal factor in India's economic development. This paper examines recent trends and patterns in FDI inflows into India, with a focus on FY 2014–15 through FY 2024–25, analyzing sectoral composition, source countries, and implications for growth. Secondary data have been drawn from government reports (DPIIT), the Indian Economic Survey, and press releases. The analysis shows that FDI inflows surged to a provisional **US\$ 81.04 billion** in FY 2024–25, marking a 14% year-on-year increase. The services sector was the largest recipient (19%), followed by computer software & hardware (16%) and trading. Manufacturing FDI also rose strongly (18%), reaching US\$ 19.04 billion. These inflows have contributed significantly to GDP growth, employment, and technology transfer. However, the volatility in net FDI and repatriation risks underline the need for supportive policy frameworks to sustain inflows in priority sectors.

Keywords: FDI Inflows, Net FDI, Sectoral concentration, Service Sector

Introduction

Foreign Direct Investment (FDI) is widely recognized as a critical driver of modern economic growth, especially for emerging economies like India. Over the past decade, India has progressively liberalized its FDI regime, offering 100% FDI in many sectors via the automatic route, improving investor confidence. The country has become a key destination for global capital, leveraging its large domestic market, infrastructure reforms, and growing skilled labor force. This paper aims to analyze the latest trends and patterns in FDI inflows into India, with particular attention to recent fiscal years, sectoral distribution, and the potential implications for India's economic development.

Objectives

1. To examine the recent trend of FDI inflows in India, especially in FY 2024–25.
2. To analyze the sectoral composition of FDI, focusing on key receiving sectors.
3. To explore the economic implications of these FDI inflows, including growth, employment, and technology effects.

Methodology

This study relies on secondary data from authoritative sources: the Department for Promotion of Industry and Internal Trade (DPIIT), the Ministry of Commerce & Industry, and the Indian Economic Survey. Key data points include annual FDI equity inflows, sectoral shares, and year-on-year growth. The analysis primarily uses descriptive statistics, trend analysis, and simple ratio comparisons to identify patterns over time. The timeframe is broadly FY 2014–15 to FY 2024–25, with deeper analysis of the most recent years.

Trends and Patterns of FDI Inflows

India's FDI inflows have shown considerable dynamism in the most recent fiscal years. According to provisional data, gross FDI inflow reached **US\$ 81.04 billion** in FY 2024–25, reflecting a **14% increase** over the previous year.

This growth is underpinned by strong equity inflows: FDI equity alone crossed **US\$ 50 billion**, up 13% from FY 2023–24.

Over a longer period, from FY 2014 to FY 2025, India has cumulatively attracted around **US\$ 748.78 billion**, indicating a substantial rise in investor confidence.

However, the growth hasn't been uniform: in FY 2023–24, FDI equity inflows actually **fell** by ~3.5% to **US\$ 44.42 billion**, down from US\$ 46.03 bn in FY 2022–23.

This volatility suggests that while long-term trends look strong, annual fluctuations are significant and deserve attention.

Sectoral Composition

The sectoral distribution of recent FDI inflows shows both continuity and change. According to the DPIIT and the Economic Survey:

Sector	Share in FY 2024-25 or H1 FY 25*
Services	~19% of total equity inflows
Computer Software & Hardware	~16% (or ~15–16%)
Trading	~8% in FY 2024-25
Non-conventional Energy	~7% in H1 FY 25
Cement & Gypsum	~6.1% in H1 FY 25
Construction (Infrastructure)	~4.4% in H1 FY 25
Electricity / Energy	~4.3% in H1 FY 25
Automobile	~3.2% in H1 FY 25
Hospital & Diagnostics	~3.1% in H1 FY 25

*Note: The Economic Survey provides sectoral shares for **H1 FY 25**, which may not fully represent the full year but gives a strong indicator of ongoing trends.

Some highlights and dynamics:

- FDI into the services sector saw a **40.7% jump** in FY 2024–25, underscoring strong investor preference.
- The computer software & hardware sector's absolute inflows were slightly down (~2%), even though its share remains high.
- Telecommunications (telecom) recorded a **164.5% year-on-year increase**, although its share remains smaller compared to services or software.
- Manufacturing FDI grew significantly: it rose 18% in FY 2024–25 to **US\$ 19.04 billion** from US\$ 16.12 billion in FY 2023–24.
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Implications for Economic Growth and Development

The rising trend in FDI inflows has several positive implications for India's economy:

- Economic Growth:** High FDI contributes directly to capital formation, boosting GDP. The large inflows in services, software, and manufacturing help diversify the economy.
- Employment Generation:** Sectors like services (especially outsourcing, technology), manufacturing, and energy create both high-skill and mid-skill job opportunities.

3. **Technology Transfer:** FDI in software & hardware, manufacturing, and other high-tech sectors brings in new technologies, know-how, and managerial practices.
4. **External Sector Strengthening:** FDI inflows improve the balance of payments by bringing in foreign capital; they also help build foreign exchange reserves.
5. **Regional Development:** Although not deeply analyzed in this paper, major states like Maharashtra (which received ~39% of FDI in FY 25) are benefiting disproportionately, which could influence regional economic inequalities.
6. **Policy Validation:** The surge in FDI, especially in priority sectors, validates India's liberal FDI policy, infrastructure push, and PLI (Production Linked Incentive) schemes.

However, there are **risks and challenges**:

- The volatility in yearly FDI (e.g., drop in FY 24) suggests potential sensitivity to global economic conditions.
- High repatriation or outflow risks (i.e., investors pulling money out) could undermine net FDI gains.
- Over-concentration in a few sectors (like services) may limit balanced industrial development.
- States not receiving as much FDI may lag in infrastructure and competitiveness, increasing regional disparity.

Conclusion

India's FDI story continues to be largely positive, with record provisional gross inflows of US\$ 81.04 billion in FY 2024-25, driven by strong performance in services, software & hardware, and manufacturing. The evolving sectoral mix—especially the rebound in manufacturing and strong growth in non-conventional energy—suggests a maturing investment landscape that aligns with India's development goals. To sustain and deepen this trajectory, policymakers should focus on stabilizing net FDI, encouraging flows into under-invested sectors, and ensuring that FDI-driven growth translates into broad-based economic and social gains.

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