

Foreign Direct Investment in India: A Sectoral Analysis

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Abstract:

Foreign Direct Investment (FDI) serves as a critical catalyst for economic development in emerging markets like India. This study explores recent trends and sectoral patterns of FDI inflows across key areas of the Indian economy, including retail, real estate, stock exchanges, industrial manufacturing, and information technology. Utilizing secondary data from 2024 and 2025, the research analyzes the influence of liberalized FDI policies, highlights prevailing challenges, and proposes strategic recommendations to enhance future FDI inflows. Adopting an exploratory research design, the study aims to provide a comprehensive understanding of India's dynamic and evolving FDI landscape.

Keywords:

Foreign Direct Investment, India, Retail, Real Estate, Stock Exchange, Industrial Sector, IT Sector.

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1. Introduction

India has emerged as a global hub for foreign investment, buoyed by economic reforms, a stable political environment, and a burgeoning middle class. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India received a record \$84.2 billion FDI inflow in FY 2023-24, with projections indicating a further rise in 2025. Key sectors like retail, real estate, manufacturing, stock exchanges, and information technology have been instrumental in this growth.

India ranks third globally in terms of attracting FDI, following the USA and China, per the UNCTAD World Investment Report 2024. The government's "Make in India" and "Digital India" initiatives, liberalized FDI norms, and strategic bilateral agreements have significantly enhanced India's appeal.

This study aims to explore the evolving landscape of FDI in India by analyzing its flow into **key economic sectors** that have been instrumental in shaping this growth trajectory. These include **retail, real estate, industrial manufacturing, stock exchanges, and information technology**. By focusing on these sectors, the paper seeks to understand the patterns, implications, and strategic role of FDI in India's ongoing economic transformation.

2. Literature Review

Foreign direct investment has been extensively studied as a catalyst for economic growth. Dunning (1981) proposed the eclectic paradigm, emphasizing ownership, location, and internalization advantages. Recent studies by Mukherjee (2023) highlight that FDI not only supplements domestic capital but also facilitates technology transfer and employment generation.

Kumar (2023) observed that due to e-commerce, opportunities are being created in the previously remote areas that for a long time were difficult to penetrate, the major factors that were seen to be affecting the consumers were product quality, variety, service, and price. Other factors that have been attributed to sector expansion include increased disposable income per capita as well as advancement in technology. The consumer electronics and durables market in India is expected to reach nearly 100 billion US dollars by 2025 according to PwC in 2023, the call for innovation cannot be overemphasized to remain competitive in the global market.

Research by FICCI (2024) reveals that India's liberalized FDI policies have contributed to sectoral diversification. Studies by UNCTAD (2024) also affirm India's position as a preferred FDI destination, driven by policy predictability and a vast consumer base.

Kaddouri and Benelbar (2024) have analyzed the Short and Long-term relationships between Foreign Direct Investment and Economic Growth in Algeria using

time series data from 1990–2023. An ARDL model was used in the study, and the Phillips-Perron and Augmented Dickey-Fuller Unit Root Tests were used for analysis. The results show a cointegrated relationship, demonstrating how Foreign Direct Investment promotes Economic Growth. The importance of Foreign Direct Investment to Algeria’s Economic Development is emphasized in this study. It suggests that governments are required to improve the business environment in order to attract more FDI.

3. Research Methodology

This study adopts an exploratory research design, suitable for gaining insights into the trends, patterns, and sectoral impact of Foreign Direct Investment (FDI) in India. The exploratory nature of the research allows for a flexible and adaptive framework, accommodating the most recent data and developments in the field.

The study relies exclusively on secondary data collected from credible and authoritative sources, including Government Publications (e.g., Economic Surveys, Budget Documents), Department for Promotion of Industry and Internal Trade (DPIIT), Reserve Bank of India (RBI), World Bank Reports, UNCTAD World Investment Reports, Peer-reviewed Journals and Sectoral Research Papers.

Research Design:

- The research design is non-structured and flexible, allowing the incorporation of recent FDI statistics and relevant policy updates.
- Emphasis is placed on sector-specific analysis using current and comparative data from the fiscal years 2024 and 2025. Secondary data includes FDI Statistics (2024-25), sectoral investment reports, economic surveys, and research publications.

4. FDI in India: Trends and Sectoral Analysis

India is one of the world’s fastest-growing major economies, characterized by a robust service sector, a developing manufacturing base, and a strong agricultural foundation. According to the Ministry of Finance, India’s GDP is projected to grow around 7% in FY 2024-25, making it a global growth engine amidst economic uncertainties. This growth is supported by structural reforms, infrastructure development, and digital transformation initiatives. Foreign Direct Investment (FDI) has played a pivotal role in this growth narrative. Despite global FDI flows witnessing a slowdown, India has consistently attracted strong FDI inflows, signaling global investor confidence in its economic fundamentals.

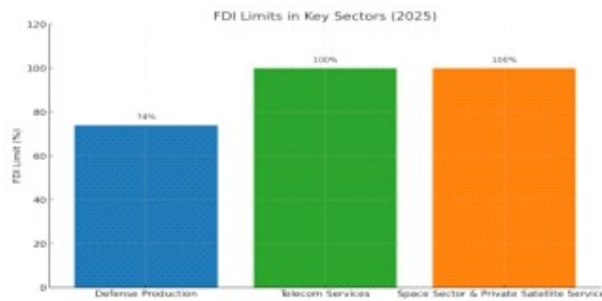
India’s FDI journey began with cautious liberalization in the early 1990s. Over the decades, FDI norms have been relaxed across multiple sectors, culminating in 100% FDI under the automatic route in several industries.

In 2024-25, key reforms include:

- 74% FDI allowed in defense production under automatic route.
- 100% FDI in telecom services.
- Liberalization of FDI in space sector startups and private satellite services.

FDI is seen as a vital source for augmenting investment, upgrading technology, creating jobs, and integrating into global value chains.

Figure 4.1 FDI Limits in Key Sectors (2025)



Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India

4.1 Sector-Wise Analysis of FDI

1. FDI in the Retail Sector

Table 4.1 Indian Retail Market – 2025

Aspect	Details
Market Value	\$1.3 trillion (2025)
Growth Status	Among the fastest-growing globally
FDI in Single-Brand Retail	100% permitted via automatic route
FDI in Multi-Brand Retail	Up to 51% allowed with state government approval

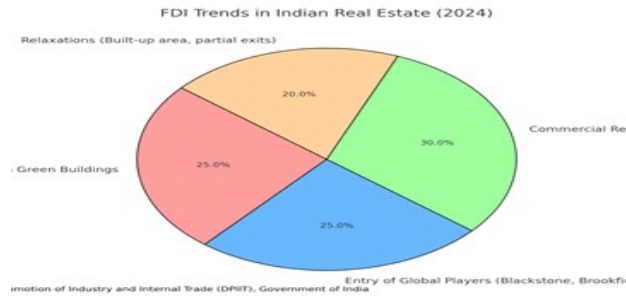
Source: Retail Insight Network and Hindustan Times

Table 4.1 shows that the Indian retail market, valued at \$1.3 trillion (2025), is among the fastest growing globally. 100% FDI is permitted in single-brand retail via automatic route, and up to 51% in multi-brand retail with state approval. The recent developments include Walmart, Amazon, and Reliance Retail expanded operations. IKEA and H&M reported double-digit growth in Indian markets. The government launched the “Open Network for Digital Commerce” (ONDC) to democratize e-commerce. However, regulatory complexity, local sourcing norms, and opposition from small retailers are the major challenges.

2. FDI in the Real Estate Sector

Real estate attracted over \$9 billion in FDI in 2024.

Figure 4.2 FDI Trends in Indian Real Estate (2024)



Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India

Figure 4.2 shows that India’s real estate sector has witnessed significant transformation, particularly with a growing focus on affordable housing and green buildings and, the entry of major global players like Blackstone and Brookfield into Indian REITs (Real Estate Investment Trusts) signaling rising global confidence in India’s real estate market. Commercial real estate has emerged as a strong growth driver, with cities like Bengaluru, Hyderabad, and the National Capital Region (NCR) experiencing robust demand for office spaces, IT parks, and co-working hubs. To further attract Foreign Direct Investment (FDI) into the sector, the Indian government has introduced key relaxations in FDI norms, such as the elimination of the minimum built-up area requirement for foreign investment. Additionally, investors are now allowed partial exits before the earlier mandatory three-year lock-in period, especially in completed and operational projects.

3. FDI in the Stock Exchange

Table 4.2 FDI in Indian Stock Market and Exchanges (2025)

Sector/Aspect	FDI Limit (%)	Remarks
Stock Exchanges, Depositories, and Clearing Corporations	49	Capped at 49% FDI
NSE and BSE Strategic Partnerships	N/A	Expanded partnerships with global bourses
India International Exchange (INX) at GIFT City	N/A	Attracted significant foreign investments
Stockbroking Services (Non-Retail)	100	100% FDI allowed under the automatic route by SEBI

Source: DNA India and Wikipedia

Table 4.2 shows that FDI in stock exchanges, depositories, and clearing corporations is capped at 49%. NSE and BSE have expanded strategic partnerships with global bourses. India International Exchange (INX) at GIFT City attracted significant foreign investments. SEBI allowed 100% FDI under the automatic route in stockbroking services (non-retail).

4. FDI in the Industrial Sector

Table 4.3 FDI in the Manufacturing Sector (2024)

Sector/Aspect	FDI Value (\$ billion)	Remarks
Electronics Manufacturing	20.5	Boomed under the 'Make in India 2.0' initiative
Auto and Electric Vehicles (EVs)	20.5	Major investments by Tesla, BYD, and Ola Electric
Pharmaceuticals and Chemicals	20.5	Continued to attract FDI
Global Manufacturing Hub	20.5	India poised to compete with China

Source: The Economic Times and The Statesman

Table 4.3 shows that the Electronics manufacturing boomed under “Make in India 2.0”. This sector received \$20.5 billion in FDI in 2024. Auto and EV (Electric Vehicles) industries saw major investments by Tesla, BYD, and Ola Electric. Pharmaceuticals and chemicals continued to attract FDI. India is poised to become a global manufacturing hub, competing with China.

5. FDI in Information Technology (IT) Sector

Table 4.4 FDI in the IT Sector (2024)

Sector/Aspect	FDI Value (\$ billion)	Remarks
IT Sector	14	Attracted over \$14 billion in FDI in 2024
Global Delivery Centers	N/A	Infosys, TCS, and Wipro expanded centers globally
AI, Cloud Computing, Cybersecurity	N/A	New investments in these sectors
IT Exports	250	Projected to reach \$250 billion in 2025
Digital India 2.0	N/A	Continues to drive investments in tech startups

Source: Business News India, Equity Master, Telegraph India, CXO India

Table 4.4 illustrates key aspects of FDI in India’s IT sector for 2024. The sector attracted over \$14 billion in FDI, highlighting its significant growth and importance. Major Indian IT companies like Infosys, TCS, and Wipro expanded

their global delivery centers, strengthening their international presence. Additionally, new investments were made in emerging technology sectors such as AI, Cloud Computing, and Cybersecurity, reflecting India's growing expertise in these areas. India's IT exports are projected to reach \$250 billion by 2025, further emphasizing the sector's global dominance. The "Digital India 2.0" initiative continues to foster investment in tech startups, driving innovation and solidifying India's position as a global tech hub.

5. Findings and Suggestions

India's economic landscape continues to show strong and promising growth, with FDI inflows reaching \$71 billion in 2023, making it one of the top global destinations for foreign investment. Sectors like IT and software services have become vital pillars of the economy, contributing about 7.5% to GDP and accounting for nearly 45% of India's total exports, with the potential to create over 3 million jobs by 2025. Additionally, around 80% of foreign investors in India are earning profits, reflecting the favorable investment climate. The nation's foreign exchange reserves of approximately \$620 billion (as of early 2024) provide a strong financial buffer, enhancing investor confidence. The organized retail sector, now making up about 12% of total retail, is expected to grow to \$230 billion by 2025, generating millions of employment opportunities. Furthermore, India's ambitious \$1.4 trillion investment plan in infrastructure under the National Infrastructure Pipeline (NIP), with about 22% private sector participation, underscores the government's commitment to development.

Given these robust trends, doing business in India is highly profitable, supported by investment-friendly policies and a growing consumer market. However, for foreign investors, it is essential to gain a deep understanding of the local market dynamics, regulatory environment, and political factors. Consulting research firms and business advisory services can help navigate challenges such as compliance, location selection, partnerships, and project setup. While India is moving toward greater liberalization and globalization, progress can be slow, and sector-specific rules should be carefully examined. Liberalizing FDI norms further—especially in retail, stock markets, and real estate—can encourage greater foreign participation. At the same time, enhancing political stability, and investor protection, and reducing bureaucratic delays will help mitigate country risks. Moreover, had India prioritized R&D, modernized key industries, and improved infrastructure earlier, it may have already achieved developed nation status. Nevertheless, with progressive initiatives like "Make in India" and "Viksit Bharat 2047", there remains strong optimism that India is firmly on the path to becoming a global economic powerhouse in the near future.

6. Conclusion

Foreign Direct Investment (FDI) remains a key driver of India's economic growth, fostering capital inflow, job creation, and technological advancement. Backed by proactive policy reforms, infrastructure development, and a favorable business environment, India continues to attract global investors. Initiatives like *Make in India* and the *PLI schemes* have boosted investor confidence across diverse sectors. To ensure sustainable growth, India must focus on sectoral diversification, ease of doing business, and inclusive development. Addressing regulatory challenges, enhancing transparency, and investing in R&D will further strengthen India's position as a global investment hub, supporting its vision of becoming a \$5 trillion economy by 2047.

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