



## Sectoral dynamics of foreign direct investment in India

Haridwar Yadav<sup>1</sup>, Dilip Kumar Jha<sup>2</sup>

<sup>1</sup> Research Scholar, Department of Economics, Guru Ghasidas University, Bilaspur, Chhattisgarh, India

<sup>2</sup> Professor, Department of Economics, Guru Ghasidas University, Bilaspur, Chhattisgarh, India

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### Abstract

The paper examined the sectoral dynamics of FDI in India. The main objective is to discuss the policy framework which has enabled increased amounts of FDI after 2014-15. The study found that the sectoral composition of FDI in India has shifted over the decades — from a relatively heavier share for manufacturing to a stronger tilt toward services and IT/knowledge-intensive sectors. Manufacturing remains important, especially in sub-sectors like automobiles, electronics, and infrastructure-related manufacturing; and in recent years it has seen renewed growth in FDI inflows. Balanced sectoral development may attract investment in complementary sectors.

**Keywords:** FDI, India, manufacturing, services, IT, automobiles, electronics, infrastructure

### Introduction

Foreign investment plays an important role in economic development of a country, especially of the developing one, by providing development needs to bridge the gap between savings and investment. Apart from equity and/ or debt, many foreign investors carry with them superior technology, management, best practice and governance along with them which associate them as lasting interest in management. Known as foreign direct investment, as stable means of investment, is attracted by providing incentives in select sectors in many countries.

India started facing balance of payments (BOP) problems in mid-1980's which worsened in 1990-91 as BOP crisis 1991 due to large trade deficits, high inflation, depletion of foreign currency assets, withdrawal of NRI deposits, flight of short-term capital from banks, deteriorating export/import performance, etc. To address this BOP crisis, the Government of India had implemented economic reforms termed as 'New Economic policy' or 'LPG' (liberalization, Privatizations and Globalization) in terms of devaluation of rupee, liberalization, increased competition, easing trade barriers, deregulating industries, government spending cut, monetary measures – about 47 tons of gold were sent to the Bank of England and 20 tons to the Swiss Bank to support foreign currency needs, international institution borrowings and welcomed / incentivize foreign investment.

Following the economic reforms in 1991, India significantly liberalized its foreign direct investment policy, allowing for the increased foreign investment in various sectors by removing restrictions, introducing automatic approval for certain investments up to 51 per cent equity and generally creating a more open environment for foreign companies to operate within the country. This marked a major shift from previously restrictive FDI policies in India. The government opened several sectors, such as, telecommunications, automobiles, and consumer goods to foreign investment,

which were previously restricted heavily. Subsequently, the FERA 1973 was replaced by the FEMA in 1999 which further eased foreign investment and facilitated foreign transactions. Joint ventures were encouraged between Indian and foreign companies to transfer technology and expertise. A dedicated body 'FDI Promotion Board' was established to handle complex FDI proposals that did not fall under the automatic approval route. The sectors such as mining, banking, telecommunications, highways construction and management were opened to private including foreign investors.

There is various literature on sectoral perspectives of FDI. Bajpai and Dasgupta (2004) showed that electrical engineering and electrical goods sector accounts for the major share of FDI flows into India between 1992 and 2002. FDI was rarely available for infrastructure projects. Kumar, N (2005) reported that new industrial policy announced on 24 July 1991 marked a major departure with respect to FDI policy with the abolition of licensing system, except where it is required for strategic / environmental grounds, opening of new sectors, such as, mining, banking, insurance, telecom, construction, management of port, harbors, roads, highways, airlines, defence equipment to foreign companies subject to sectoral caps. In 2012, FDI was allowed in multi-brand retail and aviation. Sectoral caps have been constantly revised upwards over the years. India has liberalized the policy with respect to entry of FDI to different sectors and the level of equity ownership permitted.

Ogbanje E.C., *et al.* (2010) by analysing the fate of agricultural sector in relation to FDI in Nigeria found that of the seven sectors into which FDI was classified, agricultural sector got the least average net flow of investment while manufacturing and processing sector had the highest mean net investment flow. Kumar B. (2012) found that FDI inflow into the core sectors plays a significant role as a source of capital, management and technology in

transitional economies. Oloyede B. B. (2014) in his study on impact of FDI on the development of agricultural sector in Nigerian Economy found that FDI positively impacted agriculture, not only in the short run but also in the long run. Srujana C. (2014) in his study finds that rapid investment in technology development, irrigation infrastructure, emphasis on modern agricultural practices and provision of agricultural credit and subsidies are major factors contributed to agricultural growth and FDI in Indian agriculture sector increases employment opportunities. Adigun Abiodun Oladele (2015) in his study 'Sectoral Inflow of Foreign Direct Investment and Economic Growth in Nigeria' examined the sectorial inflow of Foreign Direct investment and its impact on economic growth in Nigeria. Sinha, MK

(2015) showed that electrical, transportation, chemical, telecom, and services sector were the most dominating sectors and represented 75 per cent of total FDI received during 1991-2001. Mitra A. (2015) reveals that policies related to FDI needs to be more liberalised for food crops which might lead to technological boom and growth in this sector. Banarjee A. (2015) suggests that the government must take certain innovative steps for survival and growth of overall agricultural sector.

Ministry of Textiles, GoI (2016) in its report 'Foreign Direct Investment Scenario in Indian Textile Sector' reported detailed account on country-origin of FDI in different sub-sectors of the textile industry along with various factors affecting it in India. Ernst and young (2020) <sup>[1]</sup> in its report "FDI in India: Now, Next and Beyond - Reforms and opportunities" mentions that India has consistently focused on reforms for attracting investments and encourage manufacturing in India. Goel, S, et.al. (2021) <sup>[4]</sup> opined that traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipment, etc. Sami Ullah, Rundong Luo, Kishwar Ali & Muhammad Irfan (2022) in their study "How does the sectoral composition of FDI induce economic growth in developing countries? The key role of business regulations" state that the prior empirical outcomes on the FDI-growth relationship are vastly conflicting. Vladimir Šimić, Lena Malešević-Perović (2022) in their study "FDI and Economic Growth: A new Look from the Sectoral Perspective" investigate the impact of foreign direct investment (FDI) on economic growth in a sample of 10 ex-socialist European and Asian countries. Qinchen Zhang (2023) in his paper "Sectoral and CountryOrigin Dynamics of FDI in China in 1997-2020<sup>[8]</sup>" states that FDI flows in China have increased for decades, but the sectoral and country-origin distribution change over times.

The paper focuses on changing sectoral composition of FDI in India. Section II presents a summary of FDI reforms in India with special reference to sectoral composition. Pattern of sectoral composition of FDI was discussed in Section III. Conclusions were presented in Section IV.

## FDI Reforms in India

Indian government focused its attention to attract FDI in various sectors to boost the economy after 2014-15. In 2015<sup>[6, 15]</sup>, the government issued a consolidated FDI policy (the "FDI Policy 2015 <sup>[15]</sup>") which rationalized and simplified many of the earlier rules. In November 2015<sup>[15]</sup>, the cabinet — led by Department for Promotion of Industry and Internal Trade (DPIIT) — eased norms across 15 major sectors, expanding the scope for foreign investment. Key sectors where FDI norms were relaxed included: defence, civil aviation, broadcasting, construction, retail trading (singlebrand), banking/insurance, plantations (e.g. rubber, coffee, palm oil), and more. Some of the important regulatory changes introduced in 2015<sup>[15]</sup>: Many sectors previously requiring government approval were moved to the "automatic route," meaning foreign investors no longer needed prior approval for investment up to specified caps — lowering bureaucratic hurdles. In the defence sector: FDI up to 49 per cent was allowed under automatic route (up from a lower limit earlier). FDI cap in insurance was raised (for instance, from previous lower limits) under certain conditions. Permitting new sectors / new activities for FDI. For example, e-commerce/trading in food products — 100 per cent FDI allowed (under government-approval route) for trading food products manufactured or produced in India. For construction-development projects, previous conditions like minimum floor-area requirements and minimum capitalisation were removed, making it easier for foreign investors to participate. LLPs open to foreign investment: Foreign investment into Limited Liability Partnerships (LLPs) was allowed (in sectors where overseas investment was permitted), under the automatic route. Simplified exit/transfer policy norms allowed foreign investors to exit or transfer their investment (subject to a lock-in period and other conditionalities), which improved flexibility for investors. The threshold for proposals requiring clearance was raised — e.g., only proposals above ₹5,000 crore (previously ₹3,000 crore) in certain sectors would need approval from the Foreign Investment

Promotion Board (FIPB). According to official data, after these reforms, FDI inflows rose strongly: in financial year 2015<sup>[15]</sup>-16, India attracted about US\$ 55.46 billion, up from US\$ 36.04 billion in 2013-14. The reforms aligned with the broader "ease of doing business" push-reducing red tape, simplifying approvals, improving regulatory clarity. By opening previously restricted or tightly regulated sectors (like defence, construction, retail, plantations, aviation, broadcasting), India became more attractive to a wider array of global investors. Removal of structural bottlenecks (like minimum floor-area rules, prior approval for share transfers, rigid exit norms) improved flexibility and lowered investment risk.

During 2016, the Government of India introduced a sweeping reform package — amending the FDI policy to liberalize rules across many sectors. The Union Cabinet (PM-led) gave ex-post approval in August/September 2016

for the June reforms. The reforms aimed to simplify the FDI regime by raising sector-specific caps, bringing more activities under the automatic route, and easing conditionalities for foreign investments. In the defense sector, the Government of India permitted up to 100 per cent FDI via government-approval route. The earlier 49 per cent cap under automatic route stayed; for more than 49 per cent, prior “state-of-the-art technology” requirement was dropped — now “modern technology or other reasons” was sufficient. Also extended to manufacturing of small arms and ammunition. Civil Aviation / Airports allowed 100 per cent FDI in brownfield airport projects (automatic route). For scheduled/domestic airlines and regional air transport, FDI limit raised from 49 per cent to 100 per cent (49 per cent automatic; more than 49 per cent via govt approval). In pharmaceuticals, for brownfield pharma projects, FDI up to 74 per cent allowed under automatic route. And for greenfield pharma, 100 per cent FDI via automatic route was allowed. In food-product trading/ e-commerce (manufactured/produced in India), 100 per cent FDI permitted under government-approval route for trading (including e-commerce) of food products manufactured/produced in India. For Single-Brand Retail Trading (SBRT), firms dealing in “state-of-the-art / cutting-edge technology” products, local sourcing requirements relaxed: initial 3 years waiver and possible extended relaxed regime for 5 more years — making it easier for global retailers/manufacturers to set up. In broadcasting carriage / media / related services sector, entry-route and caps revised to make FDI easier (part of broader liberalization) in broadcasting-carriage services. For private security agencies, FDI up to 49 per cent allowed under automatic route; for 49–74 per cent via government approval. The earlier rigidities in approval pathways were relaxed. In LLPs (Limited Liability Partnerships) & Manufacturing, 100 per cent FDI permitted under automatic route where applicable. Swap-of-shares by foreign investors in automatic-route sectors no longer required prior government approval. For stock exchanges, depositories, banking/insurance / commodity derivative exchanges, FDI limit for foreign investment raised from 5 per cent to 15 per cent. The reforms significantly broadened the scope of sectors accessible to foreign investors: from defence & aviation to pharma, retail, ecommerce, and services. By relaxing conditionalities (e.g. removing “state-of-the-art technology” clause, easing sourcing norms, simplifying approval procedures), the government lowered entry barriers — improving the ease of doing business. Many activities moved to the automatic route — reducing bureaucratic delay and uncertainty. The changes made investment rules more flexible and transparent (e.g. for LLPs, share swaps), encouraging foreign variety of investments and joint ventures. Expansion of foreign shareholding cap in financial markets (exchanges, banks, insurance) opened Indian financial sector to more external capital, potentially deepening markets and improving liquidity.

In 2017, the biggest move was the abolition of the Foreign Investment Promotion Board (FIPB). Under the new regime, proposals requiring government approval are now handled directly by the relevant ministries/departments (“competent authorities”) rather than a central multi-ministerial board. On 28 August 2017, the government issued the consolidated FDI Policy 2017 — which incorporated all the changes and liberalisations made up to that point. Key Sectoral / Structural Changes in 2017 were an FDI-funded limited liability partnership (LLP) can now be converted into a company (and vice versa), without new government approval — provided the sector allows 100 per cent FDI under automatic route and there are no FDI-linked performance conditions. In Financial services / NBFCs, FDI now permitted under automatic route in a broader set of financial services (beyond only the previously 18 specified NBFC activities), subject to regulation by the relevant financial regulators. Also, minimum capitalisation norms for foreign investment in NBFCs were removed. For Pharmaceuticals (brownfield projects), up to 74 per cent FDI permitted under the automatic route (before this, brownfield pharma required government approval). In civil aviation / airports, for brownfield airport projects — FDI up to 100 per cent allowed under automatic route. Also, for existing air transport companies (scheduled/domestic airlines/regional carriers), FDI limit raised (49 per cent automatic, >49 per cent via government approval). In single-brand retail trading (SBRT), for retailers dealing in products with “state-of-the-art / cutting-edge technology,” local-sourcing norms were relaxed: these would not apply for first 3 years after opening first store — easing compliance burden for foreign retailers. In broadcasting carriage services and cable networks, FDI cap revised — 100 per cent FDI allowed under automatic route (previously 49 per cent). By scrapping the FIPB, India removed a central chokepoint for foreign investment approvals. This meant that rather than waiting for a board to clear proposals, relevant ministries could act — reducing delays and improving transparency. The 2017 policy made structural changes to allow more flexibility for investors (LLP ↔ Company conversion, easier FDI in NBFCs/financial services, simpler rules for brownfield pharma, etc.). The expansion of the automatic route to more sectors (and relaxing caps / conditionalities in many existing sectors) increased the ease of doing business. This made India more attractive to a wide variety of foreign investors — from financial firms to manufacturers to retailers. The cumulative effect of the changes made India more competitive compared to other emerging economies, helping cement its status as a favourable FDI destination.

During 2018, the Union Cabinet of India approved a set of amendments to the FDI policy (with formal notifications following in January 2018). The amendments simplified and liberalised FDI rules across several major sectors to increase flexibility and ease of doing business. Some of the main reforms under 2018 were single-brand retail trading (SBRT) which allowed 100 per cent FDI under automatic route

(previously up to 49 per cent). Sourcing norms for SBRT relaxed for a certain period, the requirement for 30 per cent local sourcing was eased — incremental sourcing (including global operations) could be counted for the sourcing requirement for first several years. Foreign ownership in civil aviation / airlines: Foreign airlines could hold up to 49 per cent in Air India Ltd. (under the government-approval route) — an opening for foreign participation in national carrier. Real-estate broking services: The 2018 changes clarified that full foreign ownership (i.e. 100 per cent FDI) in real-estate broking services is permissible. The reforms for investment in power exchanges allowed foreign institutional investors (FIIs) / foreign portfolio investors (FPIs) to invest in the primary market of power exchanges — previously many such investments were limited to secondary markets. In contract manufacturing & mining-related relaxations, the 2018 regime further clarified and allowed 100 per cent FDI under automatic route in contract manufacturing, coal & lignite mining (including sale and associated processing infrastructure), steel/iron, cement units etc. Impact on FDI Inflows and Trends Post-2018 were reflected in the financial year 2018–19 India's FDI inflows (equity + other flows) reached a record high of U.S. \$ 64.37 billion — the highest ever for a year till then. Many sectors — manufacturing, services (including telecom / IT), construction/mining, retail — saw rising foreign investor interest, helped by the combination of liberalised norms and simplified regulatory environment. The 2018 changes further expanded and deepened the liberalization started in earlier years, making India more open and competitive for foreign investors. By allowing 100 per cent FDI under the automatic route in key sectors (retail, manufacturing / contract manufacturing, mining, real-estate services), the government lowered barriers to entry and reduced the need for bureaucratic approvals. Relaxation of sector-specific conditions (like sourcing norms for retail, local-ownership constraints in aviation, new permissions for power exchanges) improved ease of doing business and gave foreign firms more operational flexibility. The record high FDI inflow in 2018–19 suggests that these policy changes had a tangible impact — boosting investor confidence and making India a preferred destination for FDI.

In 2019, the cabinet approved a major package of FDI liberalization; the formal notification came. These reforms amended the existing consolidated FDI policy (from 2017) and relaxed norms for several sectors: the 2019 reforms liberalized FDI norms for the following key sectors: 100 per cent FDI under the automatic route was permitted (i.e. no prior approval needed). The requirement for local sourcing (that 30 per cent of goods by value be from India) was made more flexible: all procurement from India counts — including goods exported or used globally by the brand. Also allowed SBRT entities to start online retail (e-commerce) before opening brick-and-mortar stores — provided a physical store is set up within two years. The policy clarified that manufacturing via contract manufacturing (on a principal-to-principal or principal-to-

agent basis) qualifies for 100 per cent FDI under the automatic route. In other words, a foreign company can invest in a firm that only does contract manufacturing, without having to also do in-house production. The products made via contract manufacturing may be sold wholesale, retail, or through e-commerce, without requiring additional government approval. 100 per cent FDI under automatic route permitted in coal mining, as well as for associated processing infrastructure (coal washeries, crushing, handling, separation etc.). Earlier foreign involvement was limited or restricted. A new sub-category under “Broadcasting Content Services” was introduced — allowing up to 26 per cent FDI under government route for firms uploading / streaming news and current-affairs via digital media. This recognised digital media separately from traditional print/broadcast media. 100 per cent FDI was permitted for insurance intermediaries (e.g. brokers, agents), opening the broader insurance services ecosystem to foreign investment. The reforms in 2019 further deepened the liberalization initiated in earlier years (2015<sup>[15]</sup>–2018), especially by explicitly broadening what counts as “manufacturing” (via contract manufacturing) and opening up previously restricted sectors (coal mining, digital media, insurance intermediaries). By allowing 100 per cent FDI under automatic route in many cases — i.e. without prior government approval — the reforms reduced red-tape, improved ease of doing business, and cut lead times for foreign investors. Flexibility in SBRT norms (local sourcing, e-commerce first) and contract manufacturing made India more attractive for global brands / manufacturers looking for competitive manufacturing + retail supply chains. Opening coal mining and digital media — sectors with large potential demand and domestic growth — signalled that India was keen on aligning FDI policy with long-term infrastructure, energy and digital-economy goals. Overall, these changes were part of a broader push to make India a more open, investment-friendly economy — strengthening the investment climate and encouraging long-term capital inflows.

During 2020, Department for Promotion of Industry and Internal Trade (DPIIT) issued the Consolidated FDI Policy 2020, which came into effect 15 October 2020. This consolidated and superseded earlier press-notes, circulars and clarifications — simplifying the regulatory framework and giving investors a “ready reference” for FDI rules. The 2020 policy aligned FDI rules with the then-recently updated foreign exchange regulations under the Foreign Exchange Management Act, 1999 (FEMA), specifically the non-debt instruments and payment/reporting rules. This helped clarify and standardize compliance procedures for foreign investments. On 17 April 2020 — in the context of the COVID-19 pandemic — the government issued Press Note 3 (2020 Series), making prior government approval mandatory for foreign direct investments from countries sharing a land border with India (e.g. China, Bangladesh, Pakistan, Nepal, etc.). The government also issued clarifications relating to earlier FDI rules. For instance, for

Single Brand Retail Trading (SBRT): if foreign investment exceeds 51 per cent, sourcing norms (goods procured from India) must be followed — including goods from SEZs — helping improve clarity of conditions for global retailers. The 2020<sup>[10]</sup> consolidated policy gathered all the scattered FDI-related notifications, press notes, clarifications, and circulars into a single unified document. This made it easier for foreign investors and domestic firms to know the current rules without tracking multiple amendments. By aligning FDI policy with the updated foreign-exchange (FEMA) regulations, the government streamlined the inward remittance process and reporting obligations for non-debt instruments (shares, equity, etc.). This reduced procedural ambiguity for foreign investors. Given global economic stresses in 2020<sup>[11]</sup>, the government introduced a safeguard: any FDI from entities whose beneficial owners are from countries sharing a land border with India must obtain prior government approval rather than enjoy automatic route access. This was meant to prevent opportunistic takeovers of Indian companies when valuations dropped due to COVID-related economic disruption. To keep conditions clear and consistent, DPIIT clarified that sourcing norms for SBRT apply even when FDI crosses 51 per cent, and that goods from Indian SEZs count — which helps global retail firms plan sourcing and compliance better. The consolidated 2020<sup>[11]</sup> FDI policy increased transparency and predictability, which are key for foreign investors deciding whether to commit capital. Regulatory clarity and simplified procedures — especially regarding documentation, reporting, and foreign-exchange compliance — reduce “soft costs” and bureaucratic friction. Though the border-country screening added a layer of scrutiny, this was seen as a stabilizing measure — protecting domestic firms’ valuations in a volatile global situation, which may build long-term investor confidence. For global retailers and firms in single-brand retail, clearer sourcing & investment rules helped maintain trust in India’s regulatory stability, even during economic uncertainty.

In 2021, according to the official FDI-policy updates in 2021, the Government amended FDI norms in multiple important sectors. Clarified the treatment of downstream investments by Non-Resident Indians (NRIs). Investments by an Indian company owned and controlled by NRIs, on a non-repatriation basis, are now treated as “domestic investment,” and not as indirect foreign investment. Raised the permissible FDI limit in Indian insurance companies from 49 per cent to 74 per cent under the automatic route. Alongside, allowed 100 per cent FDI in insurance intermediaries (brokers, agents, other intermediaries) under the automatic route. Relaxed the FDI policy for the Petroleum & Natural Gas (P&NG) sector. Allowed 100 per cent FDI under automatic route in cases where the government has given in-principle approval for strategic disinvestment of a PSU in that sector. Also allowed other investments in P&NG exploration and marketing infrastructure. Eased FDI cap in the Telecommunications (telecom) sector. Permitted 100 per cent FDI under

automatic route for telecom services (subject to applicable safeguards and regulations), an increase from the earlier 49 per cent automatic-route cap. The 2021 reforms formed part of a broader push by the government to improve the ease of doing business, industrialisation, and investment climate. According to recent reports, successive reforms have helped India achieve its highest ever FDI inflow of US\$ 84.84 billion in the financial year 2021<sup>[4]</sup>–22. The government has also continued to push schemes and frameworks that support investment — such as production-linked incentives (PLI), industrial corridors, and infrastructure facilitation — which complement FDI-friendly policy. By raising the FDI cap in insurance and telecom, and liberalizing P&NG, India opened up major sectors for foreign capital, boosting potential for large-scale strategic investments. The clarification on NRI-controlled firms removed ambiguity around “indirect foreign investment,” making investment via NRIs easier and more transparent. Automatic-route approvals reduce bureaucratic friction — which lowers entry barriers for foreign investors and likely shortens lead times for new projects. These reforms signalled continued government commitment to liberalization and economic openness, which is important for investor confidence — especially after the disruption of global capital flows during the COVID-19 pandemic. Distribution of sectors are important aspects of the composition of FDI inflows in India. This does not only impact on the business judgement and investment tendency of multinationals but also the host country’s trade policy. Foreign capital always flows to sectors / industries of certain countries which can generate profitable returns. The investment behavior of multinational giants may induce a domino impact for more companies to follow the suit. Likewise, advanced countries’ capital flow, i.e. the UK and the US are often indicative and can influence investment decisions of their partners. Scholars have noticed rapid growth in FDI to India in past one decade but there is less attention on structural changes at sectoral and source level are little known. Empirical studies based on econometric models can prove the influencing factors especially in a certain period. But some deeper reasons, especially, non-financial factors that transcend economic scope remain to be clarified. In fact, multiple dimensions of driving forces have affected FDI flows in Indian economy. They are difficult to assess quantitatively within a single framework. On the other hand, their actions intersect / overlap each other, so they cannot be simply tested together. Some crucial factors – state policies. Financial regulation and international trade relations are impossible to measure accurately. We examine the sectoral and country-origin dynamics of FDI in India against the backdrop of sustained and substantial growth over the past two decades. The longitudinal analysis involves many aspects such as economic development, state policies, international trade relations and financial system closely related to FDI in the Indian context. This research will deepen the understanding of FDI’s structural changes in India. It can cause broad policy implications for Indian

government, foreign companies and investors, as well as developing countries committed.

During 2022, the government began using the National Single Window System (NSWS) for FDI approvals. This replaced the earlier Foreign Investment Facilitation Portal (FIFP). Under this new system, investors need to file FDI applications online (paperless), upload scanned supporting documents and track proposals digitally. The updated Standard Operating Procedure (SOP) requires the relevant ministry/department (the “Competent Authority”) to decide on FDI proposals within 12 weeks (including security clearance). This makes the process faster, more transparent and easier for foreign investors — reducing bureaucratic friction.

As per the current FDI policy (as of 2022), the government continues with a liberal FDI regime: in most sectors/activities, 100 per cent FDI under automatic route is permitted (unless explicitly restricted). The government, via the Department for Promotion of Industry and Internal Trade (DPIIT), continues to maintain and promote this policy framework to attract foreign investment and support initiatives like “Make in India” / “Atmanirbhar Bharat.” Under the framework supporting FDI, the government has institutional set-ups — such as “Project Development Cells” in various ministries/departments — to help fast-track investment proposals, facilitate clearances, and coordinate with central/state agencies. These structural measures aim to improve ease of doing business and help foreign investors navigate India’s regulatory environment more smoothly. By switching to a single-window, online & paperless process, the government significantly reduced administrative delays and uncertainty — a crucial factor for foreign firms considering investment. Maintaining a broad “open” FDI policy (100 per cent automatic in many sectors) signals to global investors that India remains open and committed to FDI. Supporting institutional infrastructure (cells, facilitation units) helps speed up clearances, align central & state agencies, and makes India more competitive against other emerging economies. Such reforms — especially in the aftermath of global economic disruption from COVID — help India attract fresh foreign capital and make it easier for existing investors to scale up.

In 2023, the government — via Department for Promotion of Industry and Internal Trade (DPIIT) — fully moved FDI proposal filings to the National Single Window System (NSWS). Under the new Standard Operating Procedure (SOP), applications must be digitally signed and submitted online. The option to submit physical (paper) applications has been removed — making the process entirely digital. This “single-window + paperless + digital” mechanism is meant to reduce red tape, speed up clearances, and improve transparency — all of which enhance the ease of doing business for foreign investors. In 2023<sup>[5]</sup>, the government amended its FDI policy for the space sector: now, 100 per cent FDI under the automatic route is permitted for manufacturing of components and subsystems for satellites, ground- and user-segment equipment. For more sensitive space-related activities (e.g. launch vehicles, spaceports),

lower caps apply (e.g. 49 per cent or 74 per cent), but overall the amendment represents a significant opening up of the space-industry ecosystem to foreign investors. This step signals a deliberate push to attract overseas private and institutional players into India’s nascent but growing space-economy sector. According to recent statements by DPIIT, the government continues to back industrialisation through initiatives like industrial townships, sector-specific industrial parks, support to manufacturing hubs in Tier-2 and Tier-3 cities — measures which complement FDI liberalisation and help attract foreign capital. The broad framework remains in “most sectors, except certain strategic ones,” 100 per cent FDI under the automatic route is permitted. This consistent openness helps maintain investor confidence. The shift to a digital, single-window application process greatly reduces bureaucratic friction — making India more attractive for foreign investors sensitive to red tape and delays. Opening up the space sector — a high-tech, capital-intensive, and globally competitive industry — could bring in advanced technology, foreign capital, and expertise, helping India build high-value manufacturing and R&D capabilities. The continued support for industrial infrastructure and manufacturing ecosystems — especially beyond major metros — helps ensure that FDI inflows are not just limited to traditional sectors, but spread more geographically and across a broader industrial base. Maintaining a broad “open-door” FDI policy for most sectors keeps India competitive relative to other emerging economies vying for global capital. Despite the 2023<sup>[5]</sup> reforms, FDI inflows reportedly saw a decline in certain periods: for example, due to weak investment in sectors such as telecom, auto, pharma and computer hardware/software. Liberalization notwithstanding, some strategic sectors (especially highly sensitive ones) still have caps or government-route approval remain — meaning not all external investors can enter freely. Infrastructure, regulatory consistency, and state-level implementation remain key to converting policy openness into real investment projects — hurdles that India continues to manage.

During 2024, in the 2024 Union Budget, the government proposed to simplify the rules governing FDI and overseas investments. The idea is to make it easier for foreign investors to invest, while also encouraging use of the Indian rupee for overseas investment. The government eased FDI norms in the space sector: 100 per cent foreign investment is allowed for manufacturing components and subsystems for satellites, and in satellite operations/ground- and user-segment equipment. The overall FDI policy continues to allow, in most sectors (except a few strategic ones), 100 per cent FDI under automatic route — meaning foreign investors don’t need prior government approval. Combined with long-term schemes like Make in India, PM GatiShakti and the Production-Linked Incentive (PLI) Scheme, the government is making India attractive for manufacturing and industrial investments. Government continues to emphasise a transparent, predictable, investor-friendly FDI

policy framework, which helps foreign investors assess opportunities with greater confidence. The government is reportedly looking at further procedural easing for certain sectors — seeking feedback from industry bodies, regulators, and investors to identify bottlenecks and make processes easier. The government has set a goal of raising annual FDI inflows to US\$ 100 billion in coming years. According to recent data, after a dip, FDI inflows have shown signs of recovery — indicating that policy efforts and global interest may be aligning. By simplifying norms and easing entry in sectors like space and manufacturing, the government is signalling to global investors that India seeks high-tech, heavy-industry and strategic manufacturing FDI. A stable, transparent, and mostly open FDI policy reduces uncertainty — a key factor for long-term foreign investors, especially in industries requiring large capital, long gestation, and technology. Procedural and regulatory easing lowers “soft costs” (time, paperwork, uncertainty), which improves India’s attractiveness compared to other emerging economies. Clear targets (like US\$ 100 bn) and visible policy reforms may boost investor confidence, leading to more investment commitments and faster capital inflows. While many sectors are open, some “strategic” sectors remain restricted (or subject to conditional caps), which may limit FDI in certain areas. Although 2024 has seen policy relaxations, global economic uncertainties, supply-chain tensions, and geopolitical risks may still affect foreign investor appetite. Implementation at the ground level (clearances, state-level cooperation, infrastructure readiness) remains critical — liberal policies alone may not guarantee inflows.

In 2025, in the 2025–26 Union Budget, the government announced raising the FDI cap in the insurance sector from 74 per cent to 100 per cent. According to the budget statement, this enhanced limit will apply “for those companies which invest the entire premium in India.” The announcement aims to allow foreign insurers more freedom to enter India, set up wholly-owned entities (rather than needing Indian joint-venture partners), potentially speeding up entry and bringing more foreign capital. As of early 2025, the government reaffirmed that “most sectors, except certain strategically important ones, are open for 100 per cent FDI under the automatic route.” More than 90 per cent of FDI inflow comes under the automatic route, showing that the existing investor-friendly policy framework remains intact and continues to attract capital. In 2025, under the umbrella of national industrial corridor development, the government approved 12 new projects with about ₹28,602 crore investment across 10 states — part of efforts to improve manufacturing infrastructure and make India more attractive for foreign investors. Alongside, structural measures such as “Project Development Cells (PDCs)” embedded in relevant ministries/departments are being used to fast-track approvals, reduce delays, and coordinate clearances — making the investment process smoother. Government officials in 2025 reaffirmed that the policy framework remains “transparent, predictable and

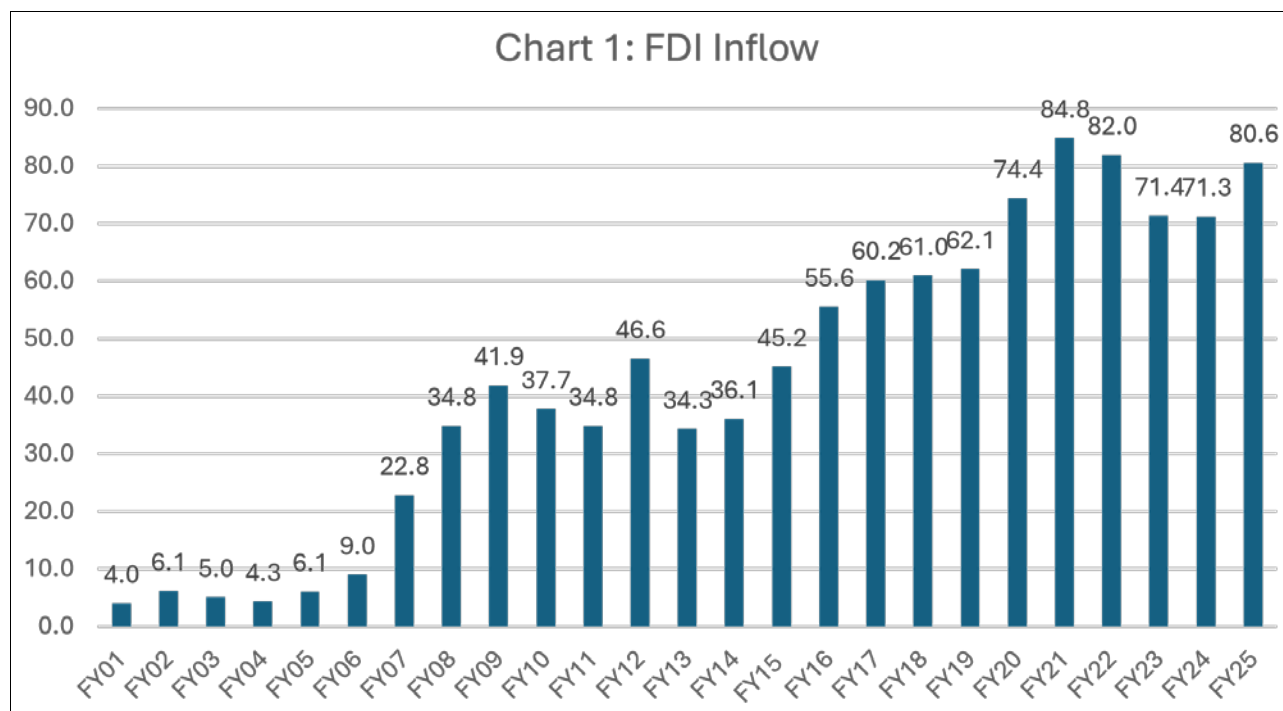
comprehensive” for foreign investors — highlighting those reforms across sectors like defence, telecom, insurance, space and more reflect the commitment to maintaining openness. Such consistent policy stance helps maintain investor confidence, which is critical for long-term FDI flows even if every sector does not see immediate liberalisation. According to recent government data, India recorded FDI inflows of US\$ 81.04 billion in FY 2024–25, a strong increase — the government credited its “investor-friendly FDI policy” among causes. A recent report indicates that as of mid-2025, India allows 100 per cent FDI access under the automatic route in “most industries” — underlining the broad open-doors policy meant to encourage investment. Full foreign-ownership in insurance removes the requirement for local partners — likely encouraging large foreign insurers to set up operations faster, with full control over management and capital. Infrastructure & industrial corridor push strengthens India’s manufacturing base, improves connectivity and logistics — making it more attractive to multinational companies looking to set up factories, supply chains or regional hubs. Policy stability & broad automatic-route access reduce bureaucratic uncertainty and delays, which are often major deterrents for foreign investors — especially in long-gestation sectors. Enhanced ease-of-doing-business environment through project fast-tracking and investment facilitation helps convert interest into actual investment commitments.

### **Pattern of Sectoral FDI**

FDI has grown dramatically since 1990 — first sharply (1990s), then moderately (2000s), peaking around 2021, but with increasing volatility recently. The global trend reflects waves: periods of rapid growth (especially driven by globalization and global value chains), and periods of slowdown (financial crises, geopolitical uncertainties, trade tensions). (Chart 1).

In 1990s, the vast majority of Indian FDI inflows were into manufacturing sector, particularly in areas like consumer goods, basic industries and export-oriented units in automobiles, pharmaceuticals, consumer electronics, chemicals industries, due to prevalent import substitution industrial policies that limited foreign investment in other sectors. Before the economic reforms of 1991, only a few sectors were allowed foreign investment, primarily focused on manufacturing with strict regulations on equity ownership and technology transfer (Table 1).

The GoI initiatives like ‘Make in India’ have pushed for greater FDI in manufacturing sectors like automobiles, electronics and pharmaceuticals. With a focus on clean energy, FDI is flowing significantly towards solar and wind power generation projects. The booming Indian digital market has attracted substantial FDI in sectors like online retail, fintech and cloud computing. Recent policy changes have allowed greater FDI in defense sector, potentially leading to increased technology transfer and domestic production capabilities.



**Table 1: Sector Attracting Highest Foreign Direct Investment (FDI) Equity Inflows in India  
(2010-2011 to 2025-2026-upto June 2025)**

Sector	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26 up to June 2025 (P)	Cumulative
Services Sector	3296	5216	4833	2225	4443	6889	8684	6709	9158	7854	50601	71311	87071	66401	93471	32811	1221241
Computer Software and Hardware	780	796	486	1126	2296	5904	3652	6153	6415	7673	26145	14461	9394	7973	7814	5460	116158
Telecommunications (Radio Paging Cellular Mobile Basic Telephone Services)	1665	1997	304	1307	2895	1324	5564	6212	2668	4445	392	668	713	282	746	24	40096
Trading	-	-	718	1343	2728	3845	2338	4348	4462	4574	2608	4538	4792	3865	4176	506	48077
Automobile Industry	1299	923	1537	1517	2726	2527	1609	2090	2623	2824	1637	6994	1902	1524	1586	1293	39148
Construction (Infrastructure) Activities	-	-	-	-	-	4511	1861	2730	2258	2042	7875	3248	1703	4232	2245	688	36850
Construction Development: Township, Housing, Built-up Infrastructure and Construction-Development Projects	1663	3141	1332	1226	769	113	105	540	213	617	422	125	147	255	529	75	27214
Drugs and Pharmaceuticals	209	3232	1123	1279	1498	754	857	1010	266	518	1490	1414	2058	1064	891	1197	24617
Chemicals (Other than Fertilizers)	2354	4041	292	878	763	1470	1393	1308	1981	1058	847	966	1850	844	1060	140	23347
Non-Conventional Energy	-	-	-	-	-	-	-	-	-	-	-	-	2500	3764	4012	1148	23048
Metallurgical Industries	1098	1786	1466	568	359	456	1440	-	-	2101	1340	-	-	-	-	-	-

(Amount on Million \$)

## What drives the FDI Sectoral Changes

Changes in FDI sectors in India are primarily driven by government policy reforms, including liberalization of specific sectors including, tax incentives, infrastructure development, ease of doing business initiatives, political stability and recent focus on emerging technologies, a mix of economic, policy, technological, and market-specific factors. Economic factors include market size and growth potential, cost advantage and resource availability, Investors favor sectors in countries with growing consumer demand (e.g., retail, telecom, e-commerce in emerging markets). Sectors with lower labor, land, or production costs attract more FDI (e.g., textiles, manufacturing in developing economies). Presence of natural resources (minerals, oil, and agricultural resources) attracts investment in resource-intensive industries. Policy and Regulatory Environment include countries opening up more sectors to foreign ownership see immediate shifts in FDI inflows. Relaxed caps, simplified approvals, and tax incentives influence sectoral attractiveness. Bilateral and multilateral agreements reduce risk and encourage investment in sectors tied to exports. Political stability, strong governance, and transparent regulations boost FDI across sophisticated sectors (finance, infrastructure, healthcare). Technological and Industrial Trends including digital transformation drives FDI into ICT, fintech, AI, automation, and green tech. Manufacturing and services relocate based on supply chain optimization (nearshoring, reshoring, and friendshoring trends). Smart manufacturing, robotics, and advanced materials pull FDI toward high-tech industries. Market-Specific Dynamics such as shifts (e.g., demand for clean energy, healthier foods, digital services) drive investors into corresponding sectors. Availability of skilled labor attracts FDI into high-skill sectors like IT, finance, pharmaceuticals, and R&D. in global economic shocks & trends include investors rebalance toward safer or counter-cyclical sectors. Sanctions, trade wars, or regional tensions alter supply chain strategies and sectoral flows. Growing global pressure shifts FDI into renewable energy, waste management, and green infrastructure. Competitive Advantage of a Host Country: Countries known for specific sectors (e.g., India—IT, Germany—automobiles, Singapore—logistics) attract specialized FDI. Presence of universities, research hubs, and start-up ecosystems attracts R&D-related investments. It is therefore, FDI sectoral changes are driven by a combination of economic conditions, policy reforms, technological transformations, market demand, global trends, and national competitive strengths. When these factors shift, so does the distribution of foreign investment across different industries. etc., which can lead to shifts in where foreign investors choose to allocate their capital across different industries within Indian economy. Foreign Direct Investment (FDI) sectoral changes are driven by a mix of economic, policy, technological, and market-specific factors. Economic factors include market size and growth potential, cost advantage and resource availability, Investors favor sectors in countries with growing consumer demand (e.g., retail, telecom, e-commerce in emerging markets). Sectors with lower labor, land, or production costs attract more FDI (e.g., textiles, manufacturing in developing economies). Presence of natural resources (minerals, oil, and agricultural resources) attracts investment in resource-intensive industries. Policy and Regulatory Environment include countries opening up more sectors to foreign ownership see immediate shifts in FDI inflows. Relaxed caps, simplified

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## Conclusion

The sectoral composition of FDI in India has shifted over the decades — from a relatively heavier share for manufacturing to a stronger tilt toward services and IT/knowledge-intensive sectors. Manufacturing remains important, especially in sub-sectors like automobiles, electronics, and infrastructure-related manufacturing; and in recent years it has seen renewed growth in FDI inflows. The impact of FDI is heterogeneous: while some sectors (esp. high-tech manufacturing, IT) show clear gains in output, productivity, and integration into global value chains, others show limited gains, especially in employment. Spillovers (technology transfer, innovation, value-chain upgrading) are

possible, but depend on domestic capabilities: local firms, cluster infrastructure, skilled labour, policy support. Balanced sectoral development — i.e. supporting both manufacturing and services — may encourage a virtuous cycle, as investments in one sector (e.g. manufacturing) may attract investment in complementary sectors (services).

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