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An Analysis of Foreign Investment Inflows in India

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ABSTRACT

Foreign investment (FI) is essential for the economic growth of a nation, particularly when domestic capital is inadequate to satisfy growth demands. FI contributes to capital formation, technological advancement, employment generation, and overall economic growth by bridging the divide between domestic savings and investment. Consequently, the current investigation is an endeavor to investigate the trends and fluctuations in FI inflows in India from 1990–91 to 2022–23. It also examines FI inflows by country and sector from 2014–15 to 2024–25. The study is founded on secondary data that has been gathered from reputable sources, including the World Investment Report, the Reserve Bank of India (RBI), and the Department for Promotion of Industry and Internal Trade (DPIIT). The results indicate a substantial increase in the inflow of foreign capital to India during the study period. Although there has been a general increase in foreign investment in India during the study period, this increase has not been consistent, as there are substantial fluctuations in the quantity of foreign investment inflow. The coefficient of variation in FI is 93.172%, which indicates a high degree of variability. Mauritius and Singapore have emerged as the primary sources of FI inflows and UAE's contribution has increased significantly. During 2024–25, the services sector attracted the maximum share of foreign investment, followed by computer software and hardware, according to the analysis.

Keywords: *Foreign Investment, FDI, FPI, Net Foreign Investment.*

Introduction

It is now widely recognized that foreign investment can aid countries in attaining more income, employment, and production levels. Nearly every nation is presently undertaking the autonomous liberalization of its foreign investment frameworks to promote the seamless influx of investment into its territories (Ministry of Commerce and Industry, 2001). Foreign direct investment and foreign portfolio investment are two distinct forms of foreign investment that exert varied effects. The economic consequences of foreign direct investment differ from those of portfolio investment. Foreign Direct Investment (FDI) is the favored investment modality for nations exhibiting diminished domestic economic capability, unskilled labor, and limited managerial capabilities (Ministry of Commerce and Industry. 2001).

Foreign direct investment serves as the principal non-debt financial resource for financing economic development. The Indian government has enacted specific policy steps to enhance FDI inflow, including the liberalization of FDI regulations across multiple sectors (Ministry of External Affairs, 2025). The Foreign Exchange Management Act (FEMA) of 1999 regulates foreign direct investment (FDI) in India via the FDI Policy 2020 and the FEMA Rules, 2019. The principal regulator of foreign direct investment (FDI) in India is the Department for Promotion of Industry and Internal Trade (DPIIT), a subdivision of the Ministry of Commerce and Industry. The Reserve Bank of India (RBI) plays a pivotal role in the implementation of the Foreign Direct Investment (FDI) Regulations.

Foreign institutional and portfolio investment plays a crucial role in the advancement of India's financial markets, with an investment inflow of roughly 12.51 trillion from FY2002 to FY2018 (Ministry of External Affairs, 2025). The Securities and Exchange Board of India (SEBI) oversees investments by Foreign Institutional Investors (FIIs) and Foreign Portfolio Investors (FPIs) in India, whereas the Reserve Bank of India (RBI) enforces investment limits.

India has traditionally upheld a rigorously cautious position regarding foreign investments, utilizing a meticulously selected and watchful strategy. The 1991 economic policy has led to the easing of foreign investment regulations. Consequently, India has enacted many steps to entice international investment in the country. The "World Investment Report 2025" by UN Trade and Development indicates that India's standing is strong, especially regarding greenfield investment, despite a minor reduction and an 11% global loss in FDI.

The research titled "Is Democracy Necessary for FDI Inflow in India?" by Ishfaq Hamid and Pabitra Kumar Jena (Ishfaq Hamid, 2021) examines the impact of democracy on foreign direct investment inflows in India. The study utilizes annual data spanning from 1980 to 2017. The democratic system does not promote foreign direct investment (FDI) inflows in the short term, but it exerts a significant and beneficial impact in the long term. The study identifies gross national income per capita, trade liberalization, political freedom, and civil liberties as significant and positive predictors of FDI inflows in India. The study indicates that India should progressively foster democratic ideals, secure property rights, and enhance civil liberties to attract increased foreign direct investment, as evidenced by the findings.

Dr. Shikha Singh (2019) performed a study focusing on the sectoral analysis of foreign direct investment inflows in India from 2000 to 2018. The aim of the paper is to analyze several facets of positive FDI spillover in the nation. The research demonstrates that the investment environment in India has experienced substantial enhancement and transformation since the economy's liberalization in 1991. Furthermore, advancements were achieved inside this framework starting in 2014. The relaxation of FDI regulations was essential in the augmentation of FDI across multiple sectors of the economy. The study's findings reveal that India has become one of the most attractive emerging markets worldwide. The total foreign direct investment (FDI) received from April 2000 to June 2018 amounts to USD 563,320 million. Over the years, this influx of capital has advanced the nation's development in technology, talent cultivation, job creation, infrastructure enhancement, and governance.

J. Gupta and R. Chaturvedi's research, "A Study to AnalyzeFDI Inflow to India” (Gupta & Chaturvedi, 2017), aimed to examine FDI inflows in India from 1991 to 2016 and to forecast the subsequent five years utilizing the least squares method. Subsequent inflows were analyzed about the leading countries that invest in India and the primary sectors receiving these investments. Mauritius constituted 33% of the total foreign direct investment inflows to India. The rationale for this was then examined, given Mauritius and Singapore together provide around 50% of the overall inflows to India. The primary sectors that attract foreign direct investment (FDI) include services, construction development, computer software, telecommunications, automobiles, pharmaceuticals, trading, chemicals, power, and hotel and tourism. Finally, the inflows to India were compared with those of other BRIC nations.

Abhishek Vijaykumar Vyas's (2015) paper, "An Analytical Study of FDI in India," analyzes country-specific approvals of FDI inflows to India and sectoral FDI inflows from April 2000 to June 2015. The study is based on secondary data collected from the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, and the World Investment Report. The report says that Mauritius has emerged as the preeminent source of foreign direct investment (FDI). This is attributable to India's Double Taxation Avoidance Agreement (DTAA) with Mauritius, as most foreign nations favor investment in the service sector.

The paper “A Critical Analysis of Foreign Direct Investment Inflows in India” by R.B. Teli (2014) analyzed the growth, trends, and patterns of FDI inflows in India from 1991 to 2012. It also examined the influence of foreign direct investment on economic indicators and provided forecasts concerning FDI inflow in India. FDI inflows in India had a positive trend during the analyzed period. Gross inflows of foreign direct investment comprised 63% direct equity investment and 37% portfolio investments. Foreign Direct Investment (FDI) rose as a result of the implementation of a more flexible foreign policy and a series of initiatives undertaken by the Government of India (GOI). Foreign direct investment is anticipated to increase in the forthcoming years. The correlation study results demonstrated a strong association between FDI inflows and other pertinent economic variables.

The study "Economic Growth in India: Does Foreign Direct Investment Inflow Matter?" by Dukhabandhu Sahoo and M K Mathiyazhagan (Mathiyazhagan& Maathai, 2003) sought to examine the influence of FDI on economic growth via export promotion. Conducting the Johansen cointegration test on annual data spanning from 1979-80 to 2000-01. The findings demonstrate a favorable long-term correlation among GDP, FDI, and exports; yet, exports exert a considerably greater impact on the growth of the Indian economy than FDI. Their advice suggests that the economy should prioritize the expansion of export-oriented sectors to attain enhanced development.

Consequently, several research studies demonstrate that financial inclusion is essential for reconciling the disparity between the availability and demand for finances to facilitate the nation's development. Therefore, the inflows of foreign investment must exhibit stability and predictability within the economy. The present inquiry focuses on the trend and variability of foreign investment inflows in India.

Objectives of the Study

Given the preceding context, the objectives of the current investigation are as follows:

- To examine the trends in the net foreign investment inflows in India from 1991 to 2025.
- To examine variability in India's net foreign investment inflows from 1991 to 2025.
- To identify the top ten source countries of FDI in India and the alterations in their share from 2014-15 to 2024-25.
- To identify the sectors in India that have received the most FDI and the percentage variations in their share from 2014-15 to 2024-25.
- To identify the top destination states receiving FDI from 2014-15 to 2024-25.

Data and Methodology

The current investigation relies on secondary data. Annual data on Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) from 1991-92 to 2024-25 is obtained from the Handbook of Statistics of the Reserve Bank of India, the Department for Promotion of Industry and Internal Trade (DPIIT) reports, and the websites of the United Nations and the World Bank.
Methodology:

The least squares method has been employed to analyze the trends in net FI inflows from 1991-92 to 2023-24. The equation of a straight line is as follows:

$Y = a + bx$

Where Y is the dependent variable, a is the intercept, b is the slope, and x is the independent variable. Y represents net FI inflows, while X represents time. The variability of the FI, FDI, and FPI has been investigated using the coefficient of variation (CV). The percentage change has been calculated to analyze the alterations in FI inflows over the specified time frame. The source nations are ranked according to their percentage share of the total FDI inflow. The FDI-receiving sectors and states in India are ranked according to their percentage share of the total FDI received. Bar charts and pie charts illustrate the country-wise, sector-wise, and state-wise distributions of FDI inflow in India.

Discussion and Results

- **Trend Analysis and Variations**

Examination of the trajectory of foreign investment inflows into India from 1990-91 to 2022-23, respectively, shown in Figure 1, illustrates that foreign investment in India has increased in general during the specified period of study; however, this increase is not uniform. The coefficient of variation in FI is 93.172%, as demonstrated in Figure 2, indicating a high degree of variation in the magnitude of foreign investment inflow.

In 1991-92, the net inflow of foreign exchange in India increased by 29%. 1992-93 saw a 320% growth in FI, followed by a 643% increase in 1993-94. Immediately following the liberalization of the Indian economy, there was a significant increase in growth. The rate of FI inflow decreased by approximately 25% from 1994 to 1999. The rate of increase in FI was 116% in 1999-00. It has increased from approximately 20% to 30% since 2000–02. The net inflow experienced a 26% decrease in 2002-03, but it increased by 161% in 2003-04. Subsequently, it decreased by 17% in 2003-04. There was a 506% increase in the net inflow in 2007-08, which was followed by a 44% decrease in 2013-14 and a 178% increase in FI inflows in 2014-15. The net inflow increased by 80% in 2020-21, but it then experienced a 73% decline in 2021-22. In 2024-25, net inflows also experienced a significant decline of 96%. The net FDI figure was depressed by the increased repatriation of money back to their home countries by foreign companies conducting business in India, as well as the higher foreign investments made by Indian companies, although gross FDI into India remained robust (Raghavan, 2025). According to the RBI, this suggests a mature market that facilitates seamless entry and exit, which has a beneficial impact on the Indian economy (Raghavan, 2025).

Figure 1. Trends in Foreign Investment inflow in India(1991-2023)(in US $ Millions)

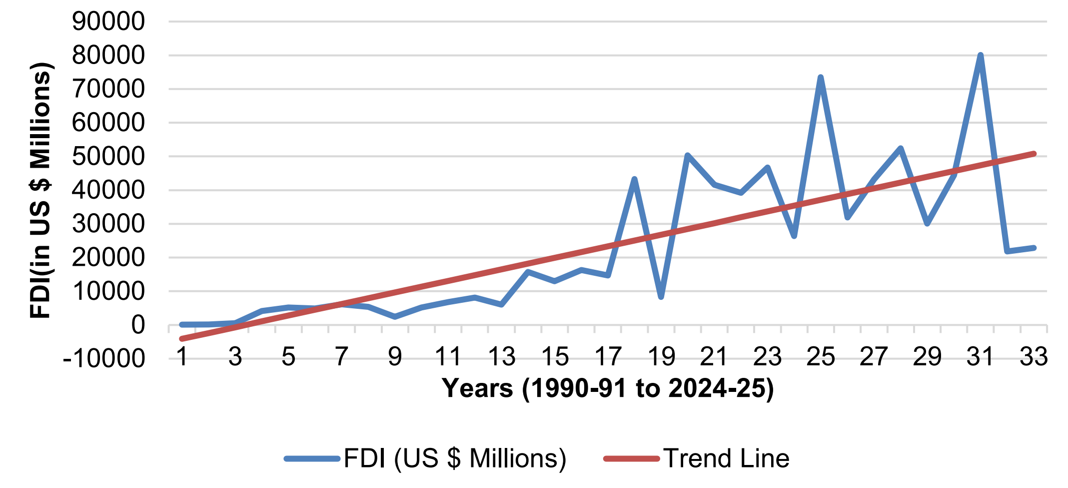


Figure 2 Variations in Foreign Investment

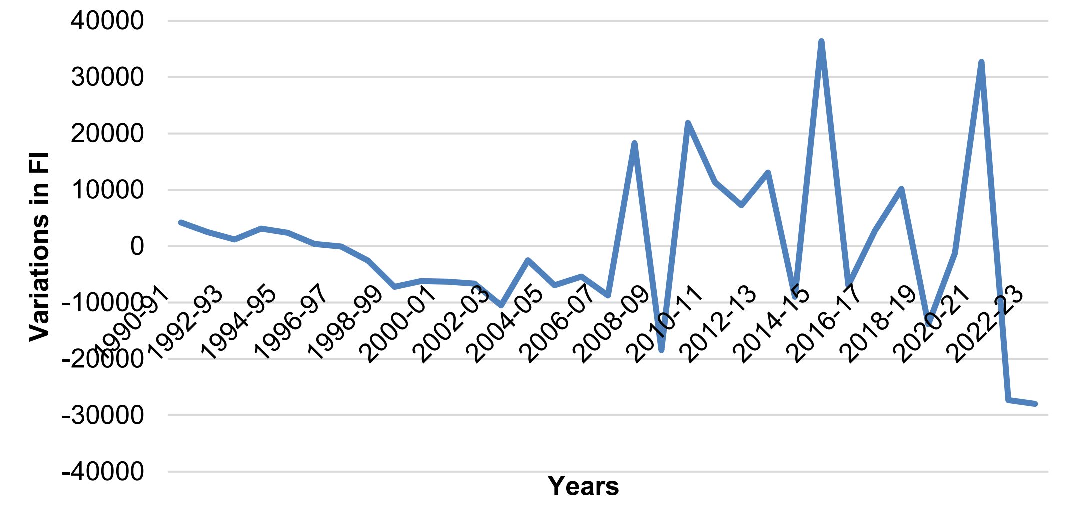


Figure 3. Variations in FPI and FDI

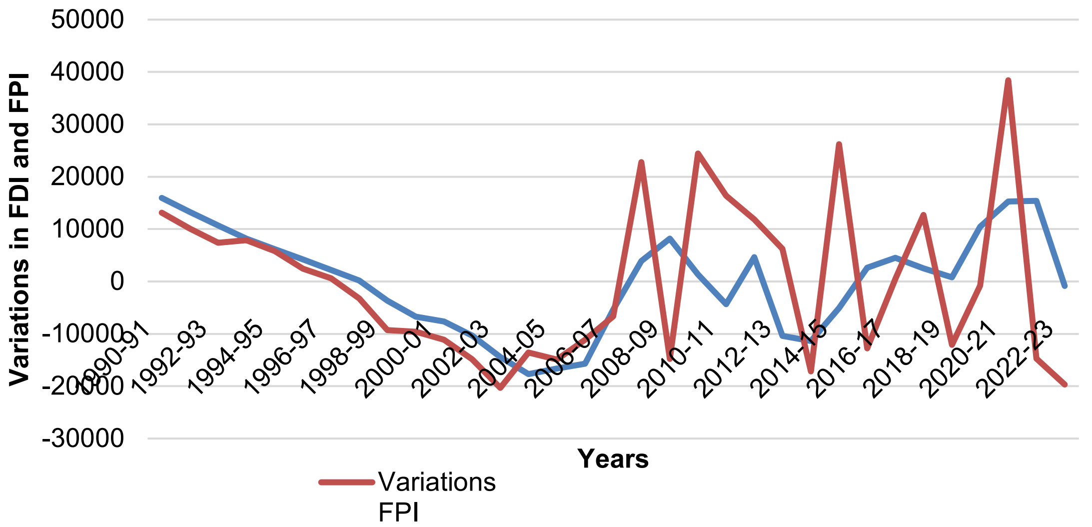


Figure 3 illustrates the fluctuations in FPI and FDI. The figure clearly indicates that FPI is highly volatile, while FDI is more stable in comparison. The coefficient of variation for net FPI inflow is 168.3%, and for net FDI inflow, it is 100.4%. Although both inflows are subject to significant fluctuations, FPI is significantly higher than FDI. These fluctuations have become more significant since 2006-07, as they are indicative of the ease of entrance and exit in Indian markets. Short-term investments in financial assets, such as equities and bonds, are referred to as FPI. It is speculative in nature, with the objective of capitalizing on market fluctuations, whereas FDI is more consistent. It is a long-term investment that is intended to facilitate the expansion and development of the business. It is less susceptible to disruptions as a result of its long-term nature. However, both are exceedingly volatile.

- **Country-wise Division of FDI Inflow in India**

Table 1 and Figure 4 depict the percentage proportion of the top investing countries in India (FDI inflow) for the years 2014-15 and 2024-25. Mauritius made the highest contribution to FDI in 2014–15, approximately 43.78%, and was ranked first. However, in 2024-25, it declined to second place with a contribution of 16.6%. In 2014-15, Singapore accounted for 32.8% of the total FDI inflow, placing it in the second position. In 2024-25, it occupied the first position by contributing the highest proportion at 29.9%. The total foreign direct investment (FDI) from Singapore has increased by 205.3%. In 2014-15, the Netherlands occupied the third position; however, it has since fallen to the fourth position in 2024-25. Japan achieved the fourth position by increasing its FDI by 10.1%; however, it subsequently fell to the sixth position by increasing its FDI by 4.9%. In 2014-15, the United States was ranked fifth and contributed 8.8% of FDI inflow. However, in 2024-25, the inflow from the United States increased to 10.1%, resulting in a third-place ranking. The United Kingdom was in sixth place with a 6.9% share of FDI, but it has since fallen to eighth place with a 1.6% share of FDI. In 2014-25, Germany was ranked seventh; however, it was subsequently demoted to ninth. In 2014-15, Cyprus ranked eighth with a 2.8% contribution and has since risen to seventh with nearly the same proportion of foreign direct investment in 2024-25. In 2014-15, France ranked ninth with a 2.04 percent increase; however, it did not rank among the top ten investing countries in 2024-25. The United Arab Emirates has risen from the tenth position in 2014-15 to the fifth position in 2024-25 by increasing its proportion from 1.2% to 8.65%. In 2014-15, the Cayman Islands did not rank among the top 10 contributors; however, they achieved the tenth position in 2024-25.

The contribution of nearly all of the top ten countries has increased significantly in 2024-25 compared to 2014-15, with the exception of the United Kingdom, Germany, and France. FDI inflow from Singapore has increased by 205.3% from 2014-15 to 2024-25. FDI inflow from Mauritius has increased by 27.4%. The inflow of foreign direct investment (FDI) from Japan has increased by 65.2%. The FDI inflow to India experienced negative growth from the United Kingdom, Germany, and France. The United Kingdom has experienced a 23% decline in investment. Additionally, the investment from Germany and France has declined by 42.4% and 73%, respectively. FDI inflow from the United States and the Netherlands has increased by 314.6% and 85%, respectively. Cyprus has increased its investment in India by 177.4%. The United Arab Emirates has experienced the greatest increase in FDI inflows to India among the top ten countries, with a growth rate of 1521.6%. India's increasing global appeal as an investment destination is underscored by the fact that the number of source countries for FDI increased from 89 in FY 2014–15 to 174 in FY 2024–25 (DPIIT, GOI, 2025).

Table 1: Top Investing Countries in India (FDI Equity Inflow)

Countries	2014-15 (%)		2024-25	
	%	Rank	%	Rank
Mauritius	43.78	1	16.6	2
Singapore	32.8	2	29.9	1
Netherlands	16.6	3	9.2	4
Japan	10.1	4	4.9	6
U.S.A.	8.8	5	10.9	3
U.K.	6.9	6	1.6	8
Germany	5.47	7	0.94	9
Cyprus	2.8	8	2.38	7
France	2.04	9	-	-
U.A.E.	1.2	10	8.65	5
Cayman Islands	-	-	0.74	10

Source: author's calculation on the basis of secondary data

Data source: FDI Statistics, Department for Promotion of Industry and Internal Trade, GOI

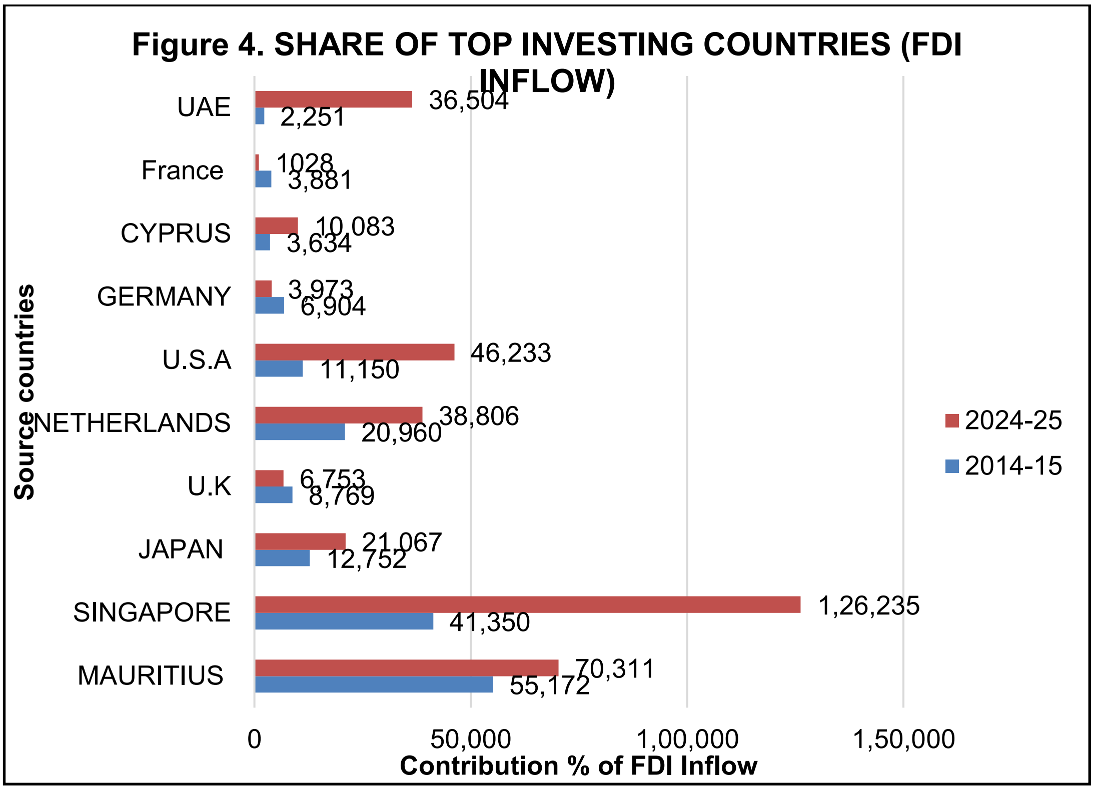


Figure 5 and table 2 show the percentage share of top investing countries in FDI equity flow from 2000 to 2025 and their ranking as per cumulative share in the concerned time period.

From 2000 to 2025, Mauritius ranks as the leading nation for FDI equity inflows to India, contributing an average of 25%, closely followed by Singapore, which contributes an average of 24%. These two nations significantly contribute, collectively accounting for almost 50% of India's foreign direct investment inflow. The remaining 50% has originated from approximately 110 countries. During this period, the USA accounted for 10% of overall FDI inflows, followed by the Netherlands at 7%, Japan at 6%, and the UK at 5%. Foreign Direct Investment (FDI) input from the UAE has significantly expanded recently, positioning it seventh with a 3% share of total FDI inflow from 2000 to 2025. Germany, Cyprus, and the Cayman Islands collectively account for approximately 2% during these years.

Figure 5. %AGE SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOW (2000-2025)

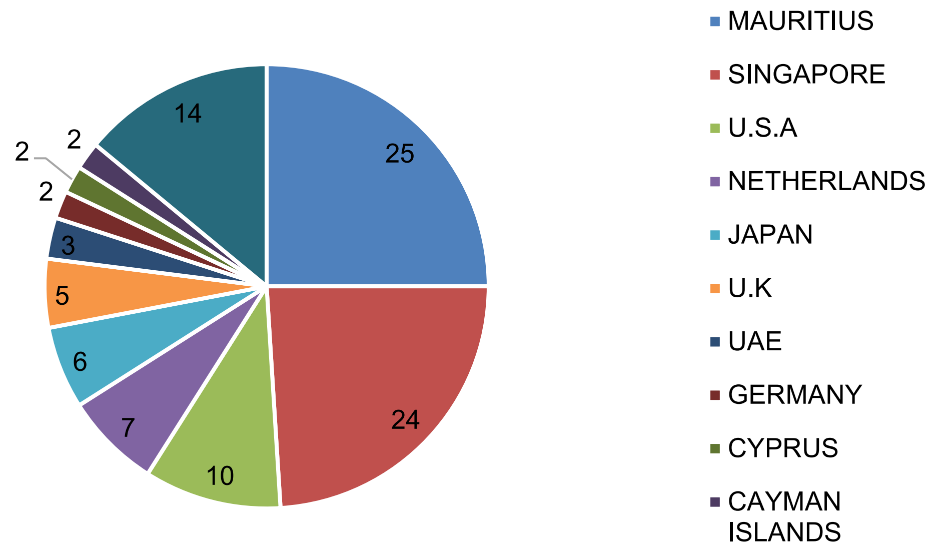


Table 2: Share of top investing countries' fdi equity inflow (2000-2025)

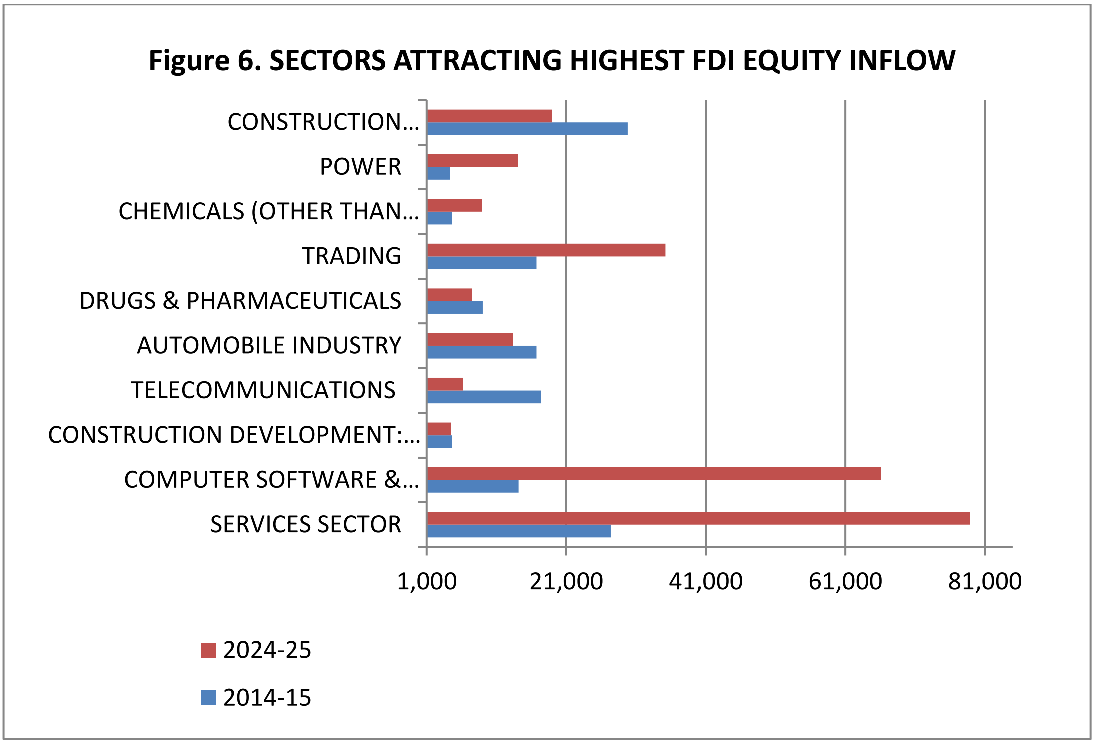
Country	Mauritius	Singapore	U.S.A	Netherlands	Japan	U.K	UAE	Germany	Cyprus	Cayman Islands	Others
%age out of total FDI Equity inflow	25	24	10	7	6	5	3	2	2	2	14

Data source: FDI Statistics, Department for Promotion of Industry and Internal Trade, GOI

- **Sectoral Division of FDI Inflow in India**

Figure 6 illustrates the sectors that attract the most substantial inflow of FDI in India, along with the variations in flow from 2014-15 to 2024-25. The service sector has garnered the biggest FDI inflow in equity, with an increase of 188.2%. The second category, computer software and hardware, exhibited a substantial growth rate of 366.7%. Trading ranks third and has experienced a 110.0% increase in FDI in 2024-25 compared to 2014-15. The construction, telecommunications, and automobile industries have recorded negative growth rates of 3.2%, 64%, and 20%, respectively.

The infrastructural building and pharmaceutical industries have seen negative growth rates of 36% and 17%, respectively. The power sector experienced a substantial growth rate of 229%, while the chemical industry (excluding fertilizers) demonstrated a favorable growth of 91% in FDI inflow during 2014-15 compared to the previous year.



- **State-wise inflow of FDI in India**

Maharashtra, Karnataka, Delhi, Gujarat, and Tamil Nadu have consistently been the foremost destinations for foreign direct investment during the past decade. Maharashtra maintained its leading position, increasing its percentage share of total FDI inflow in India from 20.58% in 2014-15 to around 40% in 2025-26. Karnataka ascended to second place in 2025-26, rising from fourth position. Subsequently, there is Delhi/NCR, succeeded by Gujarat and Tamil Nadu. Table 3 illustrates the percentage of cumulative equity inflow relative to total FDI equity inflow in India from 2000 to 2025, indicating that FDI inflow in India is concentrated in a limited number of states. Seventy percent of the foreign direct investment inflow from the overall equity flow is concentrated in four states, while fifty-two percent of the inflow is restricted to two states alone. This indicates a significantly elevated concentration in foreign direct investment inflow. Table 5 clearly indicates that all these states exhibit significant contributions to state GDP, with the exception of Uttar Pradesh, which ranks fifth in GDP contribution but accounts for only 1% of FDI intake, placing it in the tenth place.

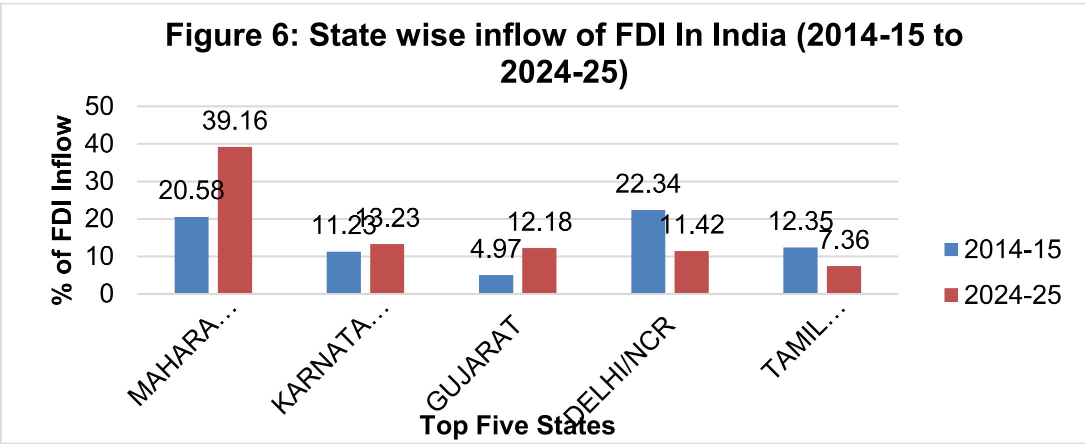


Table 3: % of cumulative equity inflow out of Total FDI Equity inflow in India (2000-2025)

Rank	State	% out of total equity inflow
1	Maharashtra	31
2	Karnataka	21
3	Gujrat	15
4	Delhi	13
5	Tamil Nadu	6
6	Haryana	5
7	Telangana	4
8	Rajasthan	1
9	Jharkhand	1
10	Uttar Pradesh	1

Source: FDI Factsheet June 2025, Department for Promotion of Industry and Internal Trade.

Table 4: Contribution of States in National GDP (2000-2025)(in %)

Rank	States	% of state contribution in National GDP (2000-2025)
1	Maharashtra	14.5
2	Tamil Nadu	9.1
3	Karnataka	8.3
4	Gujarat	7.7
5	Uttar Pradesh	7.3
6	West Bengal	5.5
7	Rajasthan	5
8	Andhra Pradesh	4.6
9	Telangana	4.4
10	Madhya Pradesh	3.9

Source: Hand book of statistics, RBI

Conclusion

Despite a general increase in foreign investment in India during the specified study period, this growth is characterized by significant fluctuations, as evidenced by a coefficient of variation of 93.172%, indicating a high degree of variability in the inflow of foreign investment. Foreign Portfolio Investment (FPI) exhibits significant volatility, but FDIis comparably steadier. However, the fluctuations in both categories of inflows are significant, resulting in considerable volatility in FI. Variations in net foreign investment have become increasingly pronounced during 2006-07. The RBI attributes this phenomenon to the facilitation of entry and departure, indicating the growing sophistication of Indian markets.

The quantity of source nations for FDI rose from 89 in FY 2014-15 to 174 in FY 2024-25, highlighting India's increasing worldwide attractiveness as an investment hub. According to the cumulative FDI equity inflow to India from 2000 to 2025, Mauritius ranks as the foremost investment nation in India, closely succeeded by Singapore. These two nations are significant donors, collectively accounting for over 50% of India's FDI influx. During this period, the USA also possesses a considerable part. The Netherlands, Japan, and the United Kingdom rank among the top ten investors in India. Foreign Direct Investment inflow from the UAE has significantly expanded recently, placing it in seventh position. Germany, Cyprus, and the Cayman Islands occupy the 8th, 9th, and 10th positions, respectively.

The service sector has garnered the largest volume of FDI inflow through equity investments. Computer software and hardware occupy the second position, succeeded by trading, construction development, telecommunications, and the automobile industry. The power sector has experienced substantial expansion in foreign direct investment (FDI). Maharashtra, Karnataka, Delhi, Gujarat, and Tamil Nadu have persistently ranked as the premier destinations for foreign direct investment during the last decade. Maharashtra, Karnataka, Delhi, Gujarat, and Tamil Nadu have persistently ranked as the primary destinations for foreign direct investment during the last decade. The distribution of FDI inflow in India is predominantly focused in a limited number of states.

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