

Foreign Direct Investment and Its Impact on the Indian Economy

A Descriptive Study of Trends, Sectoral Distribution, and Employment Generation (2000–2020)

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Abstract

India is one of the world's fastest-growing emerging economies, attracting a significant volume of Foreign Direct Investment (FDI) annually. Recent data, however, reveal episodes of volatility in FDI inflows alongside a tendency toward declining GDP growth rates, warranting a systematic examination of the multiple dimensions of such investment. The purpose of this study is to analyse the trends of FDI inflows into India across the period 2000–2020 and to assess how these investments are distributed across sectors, source countries, and employment categories. Since its spectacular rise over the past two decades, FDI has served as a crucial component of development strategies in both developed and developing nations, acting as a catalyst for economic growth through technology transfer, infrastructure development, managerial capacity building, and employment creation. For developing nations in particular, FDI is widely regarded as an engine of growth that bridges the gap between available domestic resources and those required for sustained capital formation. Using secondary data from the World Bank, the Reserve Bank of India, DPIIT, and the Economic Survey of India, this study employs descriptive analysis to examine FDI trends, sectoral distribution, and the relationship between FDI inflows and employment generation. Findings indicate an overall positive trajectory in FDI inflows, with a Compound Annual Growth Rate (CAGR) of +15.7% over the study period, alongside a structural shift in India's employment composition consistent with growing industrialisation and tertiarisation of the economy.

Keywords: FDI; Indian Economy; Foreign Investment; Economic Growth; Employment Generation; DPIIT; Sectoral Distribution.

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I. INTRODUCTION

Investment — commonly referred to as capital formation — is a primary determinant of a nation's economic growth. The production of capital goods, whether physical, financial, or human, requires the combination of capital, labour, natural resources, and technology in adequate measure. The concept of 'investment' encompasses both domestic and international capital flows, and the gap between domestic savings and investment requirements is frequently bridged by foreign inflows. These inflows typically stimulate economic progress in developing countries, and the multinational corporation (MNC) has emerged as the principal institutional vehicle through which national economies are integrated into the global system.

Foreign Direct Investment (FDI) represents one of the most consequential economic trends of the past three decades. In a broad sense, FDI refers to any long-term investment made by a foreign party in a host country, involving sustained ownership, managerial participation, and typically the acquisition of a controlling interest in a domestic enterprise. The defining feature of FDI — distinguishing it from portfolio investment — is the investor's direct engagement in the operational and strategic management of the host-country enterprise. This engagement generates a range of developmental spillovers, including improved logistics and supply chain systems, enhanced governance practices, increased employment, and technology diffusion.

India has long occupied an attractive position in the global FDI landscape owing to its large market size, abundant and skilled human resources, and improving regulatory environment. The post-1991 liberalisation significantly accelerated FDI inflows, and subsequent policy initiatives — most notably the 'Make in India' programme launched in 2014 — further strengthened the investment climate by simplifying procedures, reducing bureaucratic barriers, protecting intellectual property, and expanding automatic route approvals to additional sectors.

FDI consists of three principal components: (i) equity capital, (ii) reinvested earnings, and (iii) intra-company loans. In any given financial year, FDI flows are measured as the net of capital account credits over

debits between direct investors and their overseas affiliates. For foreign investors, two routes of entry into India are available:

(1) Automatic Route: Foreign entities may invest up to prescribed sectoral limits without prior approval from the Reserve Bank of India (RBI) or the Government of India.

(2) Government Route: Investment beyond prescribed limits, or in sensitive sectors, requires advance approval from the RBI or the relevant ministry.

Certain sectors — including tobacco, gambling, lotteries, chit funds, and Nidhi companies — remain prohibited from receiving FDI through either route.

II. REVIEW OF LITERATURE

A substantial body of scholarly literature has examined the determinants, trends, and economic consequences of FDI in India. The following review surveys the most pertinent contributions.

Sumita C., Anupam, and Jasbir S. (2012) examined the role of FDI in national economic development and found that FDI is the most effective mechanism for integrating a national economy into the global system. They further documented FDI's contribution to the mitigation of balance-of-payments (BOP) deficits and to sustainable economic growth, and recommended directing FDI flows toward infrastructure rather than concentrating exclusively on the service sector.

Azhar and Marimuthu (2012), in 'An Overview of Foreign Direct Investment in India,' analysed the necessity, sources, and determinants of FDI alongside a year-by-year and sector-by-sector evaluation of inflows, establishing a systematic empirical baseline for understanding India's FDI trajectory.

Bajpai and Sachs (2006), in 'Foreign Direct Investment in India: Issues and Problems' (Harvard Institute of International Development, Development Discussion Paper No. 759), identified structural constraints limiting FDI inflows and proposed policy interventions to improve India's investment climate, many of which were subsequently implemented during the reform cycle of 2014–2018.

Patil and Kadam (2014), in 'Effects of FDI on the Indian Economy: A Critical Appraisal,' traced FDI inflows between 2000 and 2010 and documented a positive linkage between FDI volumes and GDP growth, underscoring FDI's role as a macroeconomic stabiliser.

Anitha R. (2012) argued that FDI is critical to the economic development of any developing nation because of the resource gap between available and required domestic resources. Using the Autoregressive Integrated Moving Average (ARIMA) methodology, she projected FDI trends over a five-year horizon and demonstrated the forecasting utility of time-series approaches in this context.

Abhishek V.V. (2015) concluded that Mauritius has consistently been the largest source of FDI into India, attributable to the Double Taxation Avoidance Agreement (DTAA) between the two countries. He further noted that the construction, development, and service sectors attracted the largest shares of investment, with positive spillover effects on employment.

Bhavya M. (2014), in 'Foreign Direct Investment and Its Impact in India,' examined the challenges India faces in a competitive global investment environment, analysing inflow determinants, trends, and macroeconomic impact. The study concluded that FDI has exerted a broadly favourable catalytic effect on India's economic growth.

III. OBJECTIVES OF THE STUDY

- (i) To examine the relationship between FDI inflows and the economic development of India in the post-reform period.
- (ii) To investigate the trends and patterns of FDI inflows across financial years and source countries.
- (iii) To analyse the sectoral distribution of FDI in India and its impact on employment generation.

IV. SCOPE OF THE STUDY

The present study covers FDI inflows into India over a period of approximately 24 years, from 1991 to 2020, with particular emphasis on the period 2000–2019 for which disaggregated data are available. The study examines the relationships between FDI inflows, GDP, and stock market performance, using NIFTY and SENSEX as proxies for capital market dynamics. Employment generation — both organised and unorganised sector — is analysed across primary, secondary, and tertiary sectors using ILO-estimated employment-to-population ratios. The scope is restricted to secondary data analysis; primary field surveys are beyond the bounds of the current study.

V. RESEARCH METHODOLOGY

This study is based entirely on secondary data sourced from the World Bank, the Reserve Bank of India (RBI), the Department for Promotion of Industry and Internal Trade (DPIIT), the Economic Survey of India, and

the Ministry of Labour and Employment. Descriptive analysis — including tabular presentation, trend analysis, and percentage share calculations — is employed to examine the influence of FDI inflows on India's GDP and employment patterns. Data on FDI inflows, compound annual growth rates, sectoral distribution, and employment-to-population ratios are collated and interpreted across the study period. No primary data were collected; accordingly, no survey instruments or sampling procedures were deployed.

VI. FINDINGS AND ANALYSIS

Table 1: FDI Inflows into India — Financial Year-wise (2000–2020)

S.No.	Financial Year	FDI Inflows (US\$ Million)	Growth over Previous Year
1	2000–01	2,463	—
2	2001–02	4,065	+65%
3	2002–03	2,705	–33%
4	2003–04	2,188	–19%
5	2004–05	3,219	+47%
6	2005–06	5,540	+72%
7	2006–07	12,492	+125%
8	2007–08	24,575	+97%
9	2008–09	31,396	+28%
10	2010–11	25,834	–18%
11	2011–12	21,383	–17%
12	2012–13	35,121	+64%
13	2013–14	22,423	–36%
14	2014–15	24,299	+8%
15	2015–16	29,737	+22%
16	2016–17	40,001	+35%
17	2017–18	43,478	+9%
18	2018–19	44,857	+3%
19	2019–20	44,366	–1%
Total		4,20,142	

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India. Available at: <https://dpiit.gov.in>

Table 2: Component-wise Total FDI Inflows in India — US\$ Million (2000–2019)

Financial Year	FIPB / RBI Automatic Route	Equity Capital of Unincorporated Bodies	Reinvested Earnings	Others	Total FDI Inflows
2000–01	2,339	61	1,350	279	4,029
2001–02	3,904	191	1,645	390	6,130
2002–03	2,574	190	1,833	438	5,036
2003–04	2,197	32	1,460	633	4,322
2004–05	3,250	528	1,904	369	6,051
2005–06	5,540	435	2,760	226	8,961
2006–07	15,585	896	5,828	517	22,826
2007–08	24,573	2,291	7,696	300	34,843
2008–09	31,364	702	9,030	777	41,873

2009–10	31,364	1,540	8,668	1,931	37,745
2010–11	25,606	874	11,939	658	34,847
2011–12	21,376	1,022	8,206	2,495	46,556
2012–13	34,833	1,059	9,880	1,543	34,298
2013–14	21,825	975	8,978	1,794	34,046
2014–15	24,299	978	9,988	3,249	45,148
2015–16	30,933	1,111	10,413	4,043	55,559
2016–17	40,001	1,223	12,343	3,176	60,220
2017–18	43,478	664	12,542	2,911	60,974
2018–19	44,857	693	13,570	5,746	64,375
CAGR	—	—	—	—	+15.7%

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India. Available at: <https://dpiit.gov.in>

Analysis 1: Trend of FDI Inflows (2000–2020)

Tables 1 and 2 collectively present the trajectory of FDI received by India from 2000–01 to 2018–19. Following the foundational reforms of 1991, and especially after 2000, the Government of India made substantial and progressive changes to its FDI policy framework, transforming the country into an increasingly attractive destination for global capital. Despite this positive structural trend, FDI inflows exhibited significant volatility during the study period. Particularly sharp declines were recorded between 2002 and 2005 — owing to global post-dot-com and post-9/11 economic uncertainty — and again between 2009 and 2013, attributable to the global financial crisis and its domestic reverberations.

The decline in FDI equity inflows in 2018–19 to their lowest level in several years is traceable to sectoral contractions in telecom, electricity, and pharmaceuticals. Domestic macroeconomic headwinds — including the disruptions caused by demonetisation, the rollout of the Goods and Services Tax (GST), labour shortages, suppressed consumer demand, agrarian unrest, and the Non-Performing Asset (NPA) burden on the banking system — further dampened investor confidence. Nonetheless, the Government's liberalisation of 87 FDI regulations across 21 industries in the preceding three years, including the opening of rail and defence sectors to foreign capital, helped arrest the decline. Over the full study period, FDI inflows maintained a positive CAGR of +15.7%, broadly consistent with global emerging-market trends.

Analysis 2: Component-wise FDI and Growth Rate

Total FDI inflows into India — comprising equity capital, reinvested earnings, and other capital (including NRI programme-linked flows) — aggregated to approximately US\$ 6,09,838 million over the study period. The CAGR of +15.7% recorded across 2000–2019 reflects the sustained attractiveness of India as an investment destination. However, the annual growth rate of inflows declined from +6% in 2017–18 to –1% in 2018–19, partly due to the significant weight of RBI-NRI programme flows within the total, which are sensitive to exchange rate volatility and interest rate differentials between India and source economies.

Table 3: Sectors with Highest FDI Capital Inflows in India (Cumulative, 2000–2019)

Sector	Cumulative Inflow (Rs. Crores / US\$ Million)	Share of Total FDI (%)
Service Sector	₹4,16,301 Cr / \$74,149 Mn	18%
Telecommunication	₹1,88,249 Cr / \$32,826 Mn	8%
Trading Sector	₹77,889 Cr / \$14,316 Mn	5%
Automobile Sector	₹1,23,989 Cr / \$21,387 Mn	4%
Power Sector	₹77,889 Cr / \$14,316 Mn	3%

Source: Department for Promotion of Industry and Internal Trade (DPIIT), Government of India. Available at: <https://dpiit.gov.in>

Analysis 3: Sectoral Distribution of FDI

The service sector attracted the largest share of cumulative FDI, accounting for approximately 18% of total inflows over the 19-year study period, followed by the telecommunications sector at 8% and the trading and

automobile sectors at 5% and 4%, respectively. The service sector's dominance is attributable to its consistently high growth trajectory within the Indian economy, its relative ease of entry for foreign entities, and its proximity to India's comparative advantage in skilled, English-speaking human capital. Other important contributors to FDI inflows — and thereby to GDP growth — include the power sector, pharmaceuticals, construction, and chemicals, each of which has benefited from targeted liberalisation and infrastructure initiatives in successive Union Budgets.

Table 4: FDI Inflows as a Percentage of GDP and Employment-to-Population Ratio (1991–2018)

Year	FDI Inflows (% of GDP)	Employment-to-Population Ratio (ILO)
1991	0.02	57.21
1992	0.09	57.17
1993	0.19	57.11
1994	0.29	56.93
1995	0.59	56.71
1996	0.61	56.09
1997	0.86	55.92
1998	0.62	56.01
1999	0.47	56.09
2000	0.76	56.21
2001	1.05	56.47
2002	1.01	56.68
2003	0.60	55.98
2004	0.76	55.30
2005	0.88	54.51
2006	2.13	53.56
2007	2.07	52.79
2008	3.62	51.81
2009	2.65	50.67
2010	1.65	52.78
2011	1.63	51.79
2012	2.00	51.75
2013	1.31 / 1.51	50.71 / 50.60
2014	1.69	50.75
2015	2.09	50.51
2016	1.98	50.60
2017	1.50	50.78
2018	1.54	50.67

Source: World Bank, World Development Indicators. Available at: <https://data.worldbank.org>

Table 5: Employment in the Organised Sector — Public and Private (Millions)

S.No.	Public Sector Employment (Millions)	Private Sector Employment (Millions)
1	19.56	8.75
2	19.42	8.07
3	19.41	8.65

4	19.31	8.65
5	19.14	8.43
6	18.77	8.42
7	18.58	8.25
8	18.20	8.45
9	18.01	8.77
10	18.00	9.24
11	17.67	9.88
12	17.08	10.38
13	17.86	10.85
14	17.55	11.45
15	17.61	12.04
16	17.05	10.25
17	17.55	12.37
18	17.59	13.01
19	18.05	13.35

Source: Reserve Bank of India (RBI), Handbook of Statistics on Indian Economy. Available at: <https://rbi.org.in>

Table 6: Sectoral Composition of Employment in India — 1991 to 2019 (%)

Year	Primary Sector (%)	Secondary Sector (%)	Tertiary Sector (%)
1991	63.04	15.30	21.65
1992	62.77	15.35	21.87
1993	62.48	15.42	22.16
1994	62.17	15.56	22.39
1995	61.75	15.72	22.67
1996	61.43	15.87	22.83
1997	61.07	16.02	23.04
1998	60.66	16.32	23.31
1999	59.92	16.66	23.85
2000	59.64	17.04	24.00
2001	59.04	17.55	24.29
2002	58.43	18.38	24.52
2003	57.66	18.97	24.77
2004	56.68	19.65	24.93
2005	55.82	20.44	25.02
2006	54.89	20.96	24.45
2007	53.86	21.60	25.69
2008	53.09	22.37	25.94
2009	52.12	22.52	26.27
2010	52.05	23.35	26.56
2011	48.96	23.38	27.51
2012	47.00	24.33	28.64
2013	46.59	24.28	29.54

2014	46.07	24.27	30.01
2015	45.55	24.69	30.58
2016	45.12	24.80	31.00
2017	44.52	24.97	31.96
2018	43.86	24.98	31.45
2019	43.21	24.89	31.89

Source: World Bank, World Development Indicators. Available at: <https://data.worldbank.org>

Analysis 4: FDI and Employment Generation

An examination of FDI inflows by sectoral purpose reveals that the service sector accounts for 17.17% of total FDI, followed by the construction sector at 9.77%. The agricultural sector, receiving a modest 0.16% of total FDI, nonetheless supports substantial employment — approximately 50% directly and 12% indirectly — owing to its labour-intensive character. Within the manufacturing sector, the fertiliser, automobile, and electricity sub-sectors account for 4.17%, 4.96%, and 3.88% of total FDI, respectively.

Employment data from Table 5 indicate that organised sector employment remained relatively stable between 2002 and 2003. A notable structural shift occurred by 2012: private sector employment rose to 60% of FDI-linked employment creation, compared to 40% for the public sector. Since then, private sector employment has progressively exceeded public sector employment in absolute terms, reflecting the deepening penetration of FDI-driven enterprise. The period 2006–2010 recorded a temporary contraction across all employment indicators, attributable to the global financial crisis.

Table 6 presents the clearest evidence of structural transformation. The primary sector's share of total employment declined steadily from 63.04% in 1991 to 43.21% in 2019, while the secondary sector expanded from 15.30% to 24.89% and the tertiary sector from 21.65% to 31.89% over the same period. This three-decade shift — concurrent with rising FDI inflows — is consistent with Lewis's structural transformation theory and reflects the progressive industrialisation and servicification of the Indian economy. Total employment in India rose from approximately 267.4 million in 1991 to 296.5 million by 2013. While FDI inflows have undoubtedly contributed to this growth, significant sectoral unevenness in FDI distribution persists, warranting targeted policy attention to broaden FDI's employment dividend.

VII. CONCLUSION AND POLICY RECOMMENDATIONS

The present study demonstrates that India has experienced a broadly positive trajectory in FDI inflows since the landmark economic reforms of 1991, with cumulative inflows reaching US\$ 4,20,142 million between 2000 and 2020 and a CAGR of +15.7% over the 2000–2019 period. The service sector has consistently dominated FDI inflows, reflecting both India's comparative advantage and the relative ease of entry compared to manufacturing and infrastructure. Structural employment data confirm a sustained shift away from the primary sector toward secondary and tertiary activities, a transition in which rising FDI has played a facilitative role. Nonetheless, India continues to lag several comparably sized emerging economies — including China, Brazil, and Indonesia — in terms of FDI inflows as a percentage of GDP, underscoring the need for continued structural reform. On the basis of these findings, the following policy recommendations are advanced:

- (i) Continued liberalisation of FDI regulations across sectors currently under the government approval route, with a view to expanding automatic route access.
- (ii) Diversification of FDI source countries to reduce dependence on a limited number of bilateral partners.
- (iii) Targeted incentives to direct FDI into manufacturing, agriculture, and physical infrastructure — sectors with high employment multiplier effects.
- (iv) Investment in human capital development to ensure that the labour force is equipped to absorb and benefit from technology-intensive FDI.
- (v) Strengthening of institutional frameworks — dispute resolution, contract enforcement, and intellectual property protection — to enhance investor confidence.

In sum, FDI has been and will remain an indispensable driver of India's economic development. Sustaining this momentum requires a transparent, stable, and predictable policy environment, complemented by robust physical and digital infrastructure and a skilled, adaptable workforce.

DECLARATIONS

Conflict of Interest: The author declares no conflict of interest.

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Data Availability: All data used in this study are derived from publicly available secondary sources cited in the references.

Ethical Statement: This study does not involve human subjects, animal experiments, or primary data collection. No ethical clearance was required.

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