International Journal of Commerce and Management Research
ISSN: 2455-1627; Impact Factor: RJIF 5.22
Received: 02-12-2018, Accepted: 01-01-2019
www.managejournal.com
Volume 5, Issue 1, January 2019; Page No. 182-186

The impact of Foreign Direct investment on Indian Industries

Dr. Sharmila Ahlawat
Assistant Professor of Economics, Govt. P. G. College, Panchkula, Haryana, India

Abstract
Foreign Direct Investment (FDI) has been a critical engine of economic transformation in India since the country's landmark liberalisation in 1991. Over the subsequent three decades, FDI has reshaped the industrial landscape—channelling capital, technology, managerial expertise, and global market linkages into a wide spectrum of sectors. This paper examines the trends, sectoral distribution, policy evolution, and developmental impact of FDI on Indian industries up to the fiscal year 2018–19. Drawing on data from the Department for Promotion of Industry and Internal Trade (DPIIT), UNCTAD, Reserve Bank of India (RBI) publications, and sector-specific sources, it finds that while aggregate FDI inflows have risen markedly—reaching a record $64.37 billion in 2018–19—the distributional, employment, and technology transfer effects have been uneven across sectors and states.

Keywords: Foreign Direct Investment (FDI), Economic Liberalisation (1991), industrial development, capital inflows, technology transfer, managerial expertise

Introduction

India's engagement with foreign capital underwent a paradigm shift in July 1991 when, confronted with a severe balance-of-payments crisis, the government of Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh dismantled the Licence Raj, devalued the rupee, and opened the economy to private and foreign investment. The Industrial Policy of 1991 permitted FDI up to 51% in priority sectors under the automatic route—a significant departure from the restrictive framework of the Foreign Exchange Regulation Act (FERA) 1973, which had driven IBM and Coca-Cola out of India.

Over the next three decades, India's FDI policy underwent successive waves of liberalisation—expanding permitted sectors, raising ownership ceilings, streamlining approval processes, and progressively replacing the Foreign Investment Promotion Board (FIPB) with automatic route approvals. By 2018–19, more than 90% of FDI was coming through the automatic route, signalling a dramatically more open regime.

The stakes are high. India's GDP, at approximately $2.72 trillion in 2018–19, still faced a savings-investment gap requiring external capital. Gross capital formation as a share of GDP had declined from a peak of 38.1% in 2007–08 to around 30.6% in 2017–18. FDI—alongside portfolio investment and external commercial borrowings—helped bridge this gap while also serving as a conduit for technology, best practices, and export market access.

FDI Policy Framework and Evolution

1. Key Policy Milestones (1991–2019)

India's FDI policy framework has evolved through a series of landmark reforms. The 1991 industrial policy permitted automatic FDI up to 51% in specified industries. The Foreign Exchange Management Act (FEMA) of 1999 replaced FERA with a more liberalised regime, decriminalising most foreign exchange transactions. The Press Note series issued by the DIPP (now DPIIT) progressively expanded the automatic route list.

Key milestones include the 2005 liberalisation of FDI in retail trading through the wholesale cash-and-carry route; the 2012 controversial approval of 51% FDI in multi-brand retail (subsequently not pursued by foreign retailers at scale due to sourcing norms); the 2015 Make in India initiative which identified 25 priority sectors; the 2016 consolidation of FDI policy into a single document and further liberalisation in defence (49% to 100% under government route), civil aviation, and broadcasting; and the 2019 liberalisation of FDI in insurance intermediaries (to 100%) and coal mining (to 100% automatic).

The abolition of the Foreign Investment Promotion Board (FIPB) in 2017 was a landmark administrative reform, eliminating a layer of bureaucratic approval and transferring sector-specific approval powers to the respective administrative ministries. This significantly accelerated processing timelines.

2. Routes of Entry

FDI in India enters through three routes. The Automatic Route requires no prior government approval; investors simply notify the RBI within 30 days of receipt of funds. The Government Route requires prior approval of the relevant ministry or department. The Hybrid Route applies in sectors where part of the investment qualifies for automatic approval and the remainder requires government sanction. By 2018–19, over 90% of FDI inflows arrived via the automatic route, reflecting the cumulative effect of decades of liberalisation.

Aggregate FDI Trends in India

1. Growth of FDI Inflows (2000–2019)

India's FDI inflows have grown substantially over the two decades since 2000, though not without periods of volatility. Total FDI inflows (equity + reinvested earnings + other capital) rose from approximately $2.46 billion in 2000–01 to a record $64.37 billion in 2018–19 (DPIIT, 2019). The cumulative FDI equity inflow from April 2000 to March 2019 stood at approximately $409 billion, reflecting the depth of foreign capital integration into the Indian economy.

The period 2014–2019 was particularly robust, driven by the Make in India initiative, Goods and Services Tax (GST) unification of the domestic market, Insolvency and Bankruptcy Code (IBC) improvements to creditor rights, and India's rise in World Bank Ease of Doing Business rankings from 142nd in 2014 to 77th in 2018. India was ranked the 9th largest FDI recipient globally in 2018 by UNCTAD's World Investment Report 2019.

Financial Year	FDI Equity Inflow (US$ bn)	Total FDI (US$ bn)	Growth (YoY %)	Global FDI Rank
2013–14	24.30	36.05	+8.1%	15th
2014–15	30.93	44.29	+22.8%	12th
2015–16	40.00	55.46	+25.2%	10th
2016–17	43.48	60.22	+8.6%	10th
2017–18	44.85	60.97	+1.2%	11th
2018–19	44.37	64.37	+5.6%	9th

Source: DPIIT FDI Statistics 2019; UNCTAD World Investment Report 2019. Total FDI includes equity, reinvested earnings, and other capital.

Sectoral Distribution of FDI

1. Top Recipient Sectors

FDI in India has been concentrated in services, manufacturing, and infrastructure, though the composition has shifted over time. The services sector—encompassing financial services, banking, insurance, outsourcing, R&D, and courier services—has historically been the single largest FDI recipient, accounting for approximately 18% of cumulative equity inflows from April 2000 to March 2019. Computer software and hardware attracted approximately 8%, followed by telecommunications (7%), construction (7%), trading (5%), automobile industry (5%), and chemicals (4%).

The emergence of e-commerce as a major FDI destination was a defining feature of the 2015–2019 period. While FDI in B2C multi-brand retail remained restricted, the government's clarification that 100% FDI was permitted in marketplace-model e-commerce under the automatic route opened the floodgates for investment in platforms like Flipkart and Amazon India. Walmart's acquisition of a 77% stake in Flipkart for $16 billion in 2018 was the single largest FDI deal in Indian history, though it was partly routed through Flipkart's Singapore holding company.

Sector	Cumulative FDI (Apr 2000–Mar 2019, US$ bn)	Share of Total (%)	Key Investing Countries
Services (financial, banking, insurance, IT)	80.3	18.4%	Mauritius, Singapore, USA
Computer Software & Hardware	35.1	8.1%	USA, Singapore, Japan
Telecommunications	31.7	7.3%	Mauritius, Singapore, UK
Construction Development	26.0	6.0%	Mauritius, UAE, Singapore
Automobile Industry	21.8	5.0%	Japan, Germany, USA
Trading	19.5	4.5%	Mauritius, Singapore, UK
Chemicals (excl. fertilisers)	17.5	4.0%	USA, Japan, Netherlands
Pharmaceuticals	16.4	3.8%	Mauritius, Japan, USA
Power	15.9	3.7%	Mauritius, USA, France
Metallurgical Industries	12.1	2.8%	Mauritius, Germany, Japan

Source: DPIIT, Statement on Sector-wise FDI Equity Inflows (April 2000–March 2019).

Impact on Key Indian Industries

1. Manufacturing and the Make in India Initiative

India's manufacturing sector has long underperformed relative to its demographic and resource potential—contributing only about 16–17% of GDP against the government's target of 25% by 2022. FDI has been central to the Make in India strategy launched in September 2014, which identified 25 priority sectors ranging from automobiles and defence to food processing and textiles. Between 2014–15 and 2018–19, FDI in manufacturing (defined narrowly to exclude services) averaged approximately $9–11 billion annually, driving capacity creation in automobiles, electronics, and chemicals.

The automobile sector exemplifies FDI's transformative role. Japan's Maruti Suzuki, which began as a joint venture in 1981, grew to command over 50% of India's passenger vehicle market. Subsequent FDI from Hyundai (South Korea), Honda, Toyota (Japan), Ford and GM (USA), Volkswagen and BMW (Germany) transformed India into the fourth-largest automobile market globally by 2018, producing approximately 4.06 million passenger vehicles and 9.4 million two-wheelers annually. The auto component industry, substantially supported by Japanese FDI and technical collaboration, generated revenues of $51.2 billion in 2018–19 (ACMA, 2019).

Electronics manufacturing received a significant boost through schemes like the Modified Special Incentive Package Scheme (M-SIPS) and production-linked incentive (PLI) precursors. FDI from Samsung (South Korea), Foxconn (Taiwan), and multiple Chinese electronics manufacturers flowed into dedicated electronics clusters. India's mobile phone production rose from 60 million handsets in 2014–15 to approximately 290 million in 2018–19, reducing import dependence substantially.

2. Services Sector: IT and Financial Services

The information technology (IT) and IT-enabled services (ITeS) sector attracted substantial FDI—both greenfield investment in captive delivery centres and portfolio investment in listed IT companies. Multinational corporations including IBM, Accenture, Microsoft, SAP, and Oracle established large development and delivery operations in India's technology hubs—Bengaluru, Hyderabad, Pune, Chennai, and the NCR. India's IT-BPM industry revenues reached $177 billion in 2018–19 (NASSCOM, 2019), with approximately 4.1 million employed directly. While much of this was driven by

domestically founded companies (TCS, Infosys, Wipro), FDI played an important role in the captive segment.
The financial services sector attracted FDI from global banks (Citibank, HSBC, Standard Chartered, Deutsche Bank), insurance companies (post the 2015 increase of the FDI ceiling in insurance from 26% to 49%), and increasingly from private equity and venture capital. Total FDI in financial services from April 2000 to March 2019 exceeded $20 billion.

3. Pharmaceuticals and Healthcare

India's pharmaceuticals sector—the world's third-largest by volume and thirteenth by value—attracted cumulative FDI of over $16.4 billion from 2000 to 2019. A significant share came through acquisitions of Indian generic drug companies by multinational pharmaceutical corporations seeking to leverage India's cost-competitive manufacturing and regulatory approvals base. High-profile acquisitions included Abbott's purchase of Piramal Healthcare's domestic formulations business ($3.7 billion in 2010), Daiichi Sankyo's acquisition of Ranbaxy (subsequently divested to Sun Pharma), and Mylan's acquisition of a stake in Strides Shasun.
FDI in pharmaceuticals has transferred technology in drug formulation and active pharmaceutical ingredient (API) manufacturing, though critics note that the predominance of brownfield (acquisition-based) FDI over greenfield investment has limited fresh R&D investment. India remained predominantly a generics manufacturer, with limited FDI-driven innovation in new drug discovery.

4. Retail and E-Commerce

The liberalisation of FDI in single-brand retail to 100% (2012) and the subsequent clarification permitting 100% FDI in marketplace e-commerce brought transformative investment. IKEA opened its first India store in Hyderabad in August 2018 after committing to invest Rs 10,500 crore ($1.5 billion) over time, and was required under single-brand retail norms to source 30% of goods locally within five years. Amazon India, backed by over $5 billion in committed FDI from Amazon.com, had by 2018–19 become one of India's two dominant e-commerce marketplaces alongside Flipkart, cumulatively creating over 300,000 direct and indirect jobs.

5. Infrastructure: Power, Telecom, and Roads

Infrastructure sectors—power, roads, ports, airports, and telecommunications—attracted cumulative FDI exceeding $60 billion from 2000 to 2019. The telecommunications sector saw multiple waves: the early 2000s saw FDI from Vodafone (UK), Telenor (Norway), and NTT Docomo (Japan); the 2010s brought Jio's disruptive entry (primarily domestic capital) that forced massive restructuring. FDI in the power sector supported renewable energy—solar and wind—with international players including SoftBank (Japan), Total (France), and multiple Chinese solar manufacturers investing in India's ambitious 175 GW renewable energy target.
The renewable energy sector received FDI of approximately $7.4 billion between 2014–15 and 2018–19. India's installed renewable energy capacity grew from 35 GW in 2014 to over 75 GW by March 2019, with FDI from SoftBank-backed SB Energy, GE Renewable Energy, Vestas, and Adani-Total's joint ventures contributing significantly.

Source Countries and Investment Corridors

Mauritius has historically been the largest source of FDI equity inflows into India, accounting for approximately 32.3% of cumulative inflows from April 2000 to March 2019, primarily due to the Double Taxation Avoidance Agreement (DTAA) between India and Mauritius, which provided capital gains tax exemption on investments routed through the island nation. However, following the 2016 renegotiation of the India-Mauritius DTAA—phasing in capital gains taxation from April 2017—investment routing through Mauritius has moderated.
Singapore (17.3%), Netherlands (7.8%), USA (6.9%), Japan (6.6%), UK (3.4%), Germany (3.0%), UAE (2.9%), and Cyprus (2.2%) were other leading sources. Japan's investment has been particularly significant in manufacturing—automobiles, electronics, food processing—often accompanied by technology transfer under Indo-Japanese industrial townships frameworks. The Neemrana Industrial Park in Rajasthan, designated as a Japanese industrial zone, housed over 45 Japanese companies by 2019.

Source Country	Cumulative FDI Equity (US$ bn, 2000–2019)	Share of Total (%)	Primary Sectors
Mauritius	140.9	32.3%	Services, telecom, construction
Singapore	75.5	17.3%	IT, financial services, real estate
Netherlands	34.0	7.8%	Financial services, manufacturing
USA	30.1	6.9%	IT, pharma, financial services
Japan	28.8	6.6%	Automobiles, electronics, food processing
United Kingdom	14.8	3.4%	Financial services, telecom
Germany	13.1	3.0%	Automobiles, chemicals, engineering
UAE	12.6	2.9%	Construction, real estate, trading

Source: DPIIT, Country-wise FDI Equity Inflows (April 2000–March 2019).

Developmental Impact of FDI

1. Employment Generation

FDI has been a significant source of formal employment generation in India, though estimating its direct contribution is complicated by the prevalence of contract labour and indirect employment through supply chains. The DPIIT does not publish direct FDI-employment linkage data; however, sector-specific estimates suggest that FDI-backed firms employed approximately 3–4 million people directly in manufacturing, services, and retail by 2018–19.
The automobile sector employed approximately 32 million people (direct and indirect) in 2018–19, much of it linked to FDI-driven capacity expansion. The IT sector employed 4.1 million, with multinational captive centres accounting for approximately 30–35% of this. E-commerce platforms backed by FDI—Amazon, Flipkart, Zomato, Swiggy—

collectively employed or contracted hundreds of thousands of logistics and gig workers by 2019.

2. Technology Transfer and Productivity

Technology transfer has been a central justification for FDI promotion. Empirical studies on India's manufacturing sector—notably those by Goldar and Kumari (2003), Banga (2006), and Keller and Yeaple (2009)—find positive spillovers from FDI on total factor productivity (TFP), particularly in industries with high foreign presence and significant backward linkages to domestic suppliers. The automobile industry's productivity transformation—from the inefficient, low-quality production of the 1970s and 1980s to globally competitive vehicles meeting stringent emission standards by 2018—is substantially attributable to FDI-driven technology transfer, supplier development, and workforce training.

In pharmaceuticals, technology licensing and joint ventures with foreign firms helped Indian companies meet WHO Good Manufacturing Practice (GMP) standards, enabling them to export to regulated markets including the US FDA and European EMA. Over 600 Indian manufacturing plants had US FDA approvals by 2019, a milestone substantially enabled by initial technology and quality system transfers from FDI partners.

3. Export Promotion

FDI has been positively associated with India's export performance, particularly in manufactured goods and services. The share of FDI-backed companies in India's total merchandise exports was estimated at approximately 15–18% in 2018–19, with automobiles, electronics, chemicals, and pharmaceutical formulations being the major export categories. Maruti Suzuki exported approximately 122,000 vehicles in 2018–19. India's pharmaceutical exports, at $19.14 billion in 2018–19, were substantially driven by FDI-linked technology and quality upgrades.

In services, India's software and IT services exports reached $137 billion in 2018–19 (including captive and third-party), with FDI-backed multinational captive centres contributing meaningfully. India's share of global IT services exports was estimated at approximately 55% by 2019, making it the dominant global destination for offshore technology services.

4. Regional Distribution

FDI has been spatially concentrated, reflecting infrastructure quality, skilled labour availability, and state-level governance. Maharashtra, Karnataka, Delhi NCR, Tamil Nadu, and Gujarat consistently accounted for over 70% of FDI equity inflows. Maharashtra alone attracted approximately 28–30% of total FDI, driven by Mumbai's financial centre status and Pune's manufacturing hub. Karnataka, home to Bengaluru's technology ecosystem, attracted approximately 8–10% of FDI.

Conversely, states in the eastern and north-eastern belt—Bihar, Jharkhand, Odisha, Chhattisgarh—despite possessing significant mineral resources, attracted minimal FDI due to infrastructure deficits, skills gaps, and governance concerns. This spatial concentration of FDI has arguably exacerbated inter-state income inequalities, raising concerns about FDI's distributional impact within India.

Challenges and Criticisms

1. Brownfield vs. Greenfield Investment

A persistent concern is that a significant share of India's FDI has been brownfield (acquisition of existing assets) rather than greenfield (creation of new productive capacity). Brownfield FDI generates immediate financial flows but limited incremental employment, technology transfer, or capacity expansion. The pharmaceuticals sector is a notable example, where high-value acquisitions by multinationals bought market access without committing to new R&D or manufacturing investment.

2. Profit Repatriation and Transfer Pricing

Critics note that FDI involves reciprocal financial outflows: dividend repatriation, royalty payments, management fees, and technical service charges. India's dividend repatriation outflows from FDI-backed companies have grown alongside inflows. Transfer pricing manipulation—in which multinationals shift profits to low-tax jurisdictions through intra-group transactions—has been a persistent enforcement challenge for the Income Tax Department, with several high-profile disputes involving firms including Vodafone, Shell, and Nokia.

3. FDI in Retail and Local Industry Concerns

The liberalisation of FDI in retail, and particularly e-commerce, has attracted criticism from small traders, kirana store owners, and industry associations who argue that FDI-backed platforms engage in predatory pricing, deep discounting, and preferential seller arrangements that undercut domestic competitors. The Confederation of All India Traders (CAIT) filed multiple complaints with the Competition Commission of India (CCI) regarding Amazon and Flipkart's marketplace practices, leading to a 2019 investigation.

Conclusion

Foreign Direct Investment has been a transformative force in India's post-liberalisation economic trajectory. Over the three decades from 1991 to 2019, cumulative FDI equity inflows approached $409 billion, reshaping industries from automobiles and pharmaceuticals to IT services and e-commerce. Record inflows of $64.37 billion in 2018–19 validated India's rising attractiveness as an investment destination—a function of its demographic dividend, expanding domestic market, policy reforms, and improving infrastructure.

The impact across sectors has been substantial: the automobile sector became globally competitive; IT services grew into a $177 billion export industry; pharmaceuticals achieved global regulatory approvals; renewable energy capacity expanded dramatically; and e-commerce delivered consumer welfare gains. Technology transfer, productivity spillovers, and export promotion have been measurable, if unevenly distributed, benefits.

However, challenges persist. Spatial concentration of FDI in a handful of states, the dominance of brownfield over greenfield investment in certain sectors, concerns about e-commerce market practices, and the risks of excessive profit repatriation warrant continued policy attention. The goal of 25% manufacturing in GDP remains elusive without deeper FDI penetration into labour-intensive sectors such as textiles, leather, and food processing. Realising the full potential of FDI will require continued improvements in infrastructure, labour market flexibility, dispute resolution, and skilling—translating India's scale into a sustainable competitive advantage for foreign investors.

References

1. Automobile Component Manufacturers Association of India (ACMA). ACMA Annual Report 2018–19. New Delhi: ACMA, 2019.
2. Banga R. The Export-Diversifying Impact of Japanese and US Foreign Direct Investments in the Indian Manufacturing Sector. Journal of International Business Studies,2006:37(4):558–568.
3. Department for Promotion of Industry and Internal Trade (DPIIT). FDI Statistics: Fact Sheet on Foreign Direct Investment (April 2000–March 2019). New Delhi: Ministry of Commerce and Industry, 2019.
4. Goldar B, Kumari A. Import Liberalisation and Productivity Growth in Indian Manufacturing Industries in the 1990s. Developing Economies,2003:41(4):436–460.
5. Keller W, Yeaple SR. Multinational Enterprises, International Trade, and Productivity Growth: Firm Level Evidence from the United States. Review of Economics and Statistics,2009:91(4):821–831.
6. Ministry of Commerce and Industry. Annual Report 2018–19. New Delhi: Government of India, 2019.
7. NASSCOM. Indian IT-BPM Industry: Annual Review 2018–19. New Delhi: NASSCOM, 2019.
8. Reserve Bank of India. Annual Report 2018–19. Mumbai: RBI, 2019.
9. Reserve Bank of India. Handbook of Statistics on the Indian Economy 2018–19. Mumbai: RBI, 2019.
10. UNCTAD. World Investment Report 2019: Special Economic Zones. Geneva: UNCTAD, 2019.
11. World Bank. Doing Business 2019: Training for Reform. Washington, D.C.: World Bank Group, 2018.
12. World Bank. India Economic Update: Exports for Growth and Job Creation. Washington, D.C.: World Bank, 2019.
13. Planning Commission / NITI Aayog. Strategy for New India @ 75. New Delhi: NITI Aayog, 2018.