

# SECTOR WISE FOREIGN DIRECT INVESTMENT INFLOWS IN INDIA

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DOI: <https://doi.org/10.5281/zenodo.18898399>

Published Date: 07-March-2026

**Abstract:** FDI policy is an enabling policy which is uniformly applicable in the country. Government has put in place a liberal and transparent policy for Foreign Direct Investment (FDI), wherein most of the sectors are open to FDI under the automatic route. The Government reviews the FDI policy and makes changes from time to time, to ensure that India remains an attractive & investor friendly destination. Make in India initiative was launched with the objective of facilitating investment, fostering innovation, building good quality manufacturing infrastructure, making it easy to do business and enhancing skill development. The initiative is further aimed at creating a conducive environment for investment, modern and efficient infrastructure, opening up new sectors for foreign investment and forging a partnership between government and industry through positive mindset. There are different sectors such as Manufacturing, Construction and Financial Services. This paper aims to analyze the sector wise foreign direct investment inflows in India.

**Keywords:** Foreign Direct Investment, Financial services, Construction sector and Manufacturing sector.

## 1.1 Introduction:

Foreign direct investment is thought to be more useful to a country than investments in the equity of its companies because equity investments are potentially “hot money” which can leave at the first sign of trouble, whereas FDI is durable and generally useful. FDI motivate economic growth for every stage of development of a country. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has – in a lot of ways – enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that may have needed economic attention, and address the various problems that continue to challenge the country. India has continually sought to attract FDI from the world’s major investors. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage FDI and present a favorable scenario for investors.

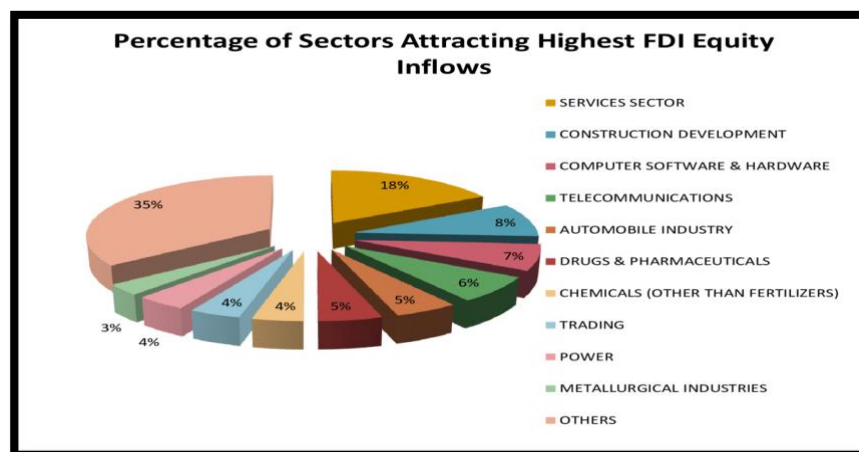


Figure 1.1 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

## 1.2 Review of Literature:

**Asha & E. Thomas (2016)**, in their study examined that “Impact of FDI on Indian Economy – An Analytical study, the main objectives of the study is to analyze the impact of FDI on Indian stock market. Data have been collected from various sources including RBI bulletins, Economic Survey Reports, NSE India and BSE India Websites and also from various publications of Ministry of Commerce. This study considers last 15 years data i.e from 2000-01 to 2014-15. The researcher concluded that the GDP of the country and stock market movements are dependent to a greater extend on the FDI inflows in to the country. FDI has had a positive impact on Indian economy which has tremendous growth potential in the coming years. FDI inflows has supplemented domestic capital, as well as technology and skills of existing companies in the country. All of these have contributed to the economic growth of the Indian economy. However, India must concentrate on maximizing political and social stability along with a friendly regulatory environment to make the country attractive for foreign investors.

**Khun Sokang (2018)**, in their article examined that “The Impact of Foreign direct Investment on the Economic growth in Cambodia: Empirical Evidence, the foreign direct investment (FDI) inflows are often seen as important catalyst for economic growth in developing countries. The main objective of his study is to investigate the Impact of FDI on the economic growth in developing countries. The correlation matrix and multiple regression analysis techniques were used to collected data. The results of the study reveal that FDI has a positive impact on the economic growth of Cambodia. The study recommends that government should bring reforms in the domestic market to attract more FDI in Cambodia.

**Dr.Jonardankoner at.al.(2018)**, in their article observed that “Impact of Foreign Direct Investment (FDI) on the Growth of Indian Economy”, the main objectives of his study is to analyze the Impact of foreign Direct Investment on the growth of Indian Economy, the researcher concluded that a positive impact of FDI inflow on the GDP. This would be beneficial for policy makers to design strategies to target GDP based on the inflow of FDI. This study needs to be further developed taking into account other control variables which impacts GDP. This model describes the overall impact of FDI on GDP, however the sector wise impact needs to be further analyzed before drawing any conclusion.

## 1.3 Objectives of the study:

The main objective of the study is to analyze the sector wise foreign direct investment inflows in India.

## 1.4 Data analysis and Interpretation:

### 1.4.1 Foreign Direct Investment Inflows in India- Manufacturing Sector:

Manufacturing has played a key role in the economic growth and development of India. Over the past couple of years government of India has introduced several reforms and measures to boost India’s manufacturing sector. Foreign Direct Investment in India’s manufacturing sector reached USD 89.15 billion between April 2015 to December 2025. To further boost FDI, earlier in Sep 2025, government of India slashed the base corporate tax rate from 25 percent to 15 percent for new manufacturing sector.

**Table 1.1: Foreign Direct Investment Inflows In India - Manufacturing Sector**  
(US\$ million)

Year	FDI in Manufacturing sector	Increase /Decrease	Growth Rate (%)
2015-16	9,337	-	--
2016-17	6,528	-2809	-30.08
2017-18	6,381	-147	-2.25
2018-19	9,613	3232	50.6
2019-20	8,439	-1174	-12.21
2020-21	11,972	3533	41.86
2021-22	7066	-4906	-40.97
2022-23	7919	853	12.07
2023-24	8153	234	2.95
2024-25	6739	-1414	-17.3
<b>Minimum</b>	<b>6,381</b>		
<b>Maximum</b>	<b>11,972</b>		
<b>Mean</b>	<b>8214.7</b>		
<b>Standard Deviation</b>	<b>1737.76</b>		
<b>CAGR</b>	<b>-3.20</b>		

Source: Reserve Bank of India, Annual Report.

It is observed from the above table 1.1 that FDI inflow in India has gone up from 2015 to 2025. FDI inflow in India has \$9,337 million during the year 2011-12 and it gradually decreased from 2012 to 2014 was \$6,381 million. Again it has increased to \$11, 972 million during the year 2016-17 simultaneously again it has decreased from 2015-25 was \$ 6739 million. FDI inflow in India has positive growth rate during the year 2015-16 and 2018-19. The highest annual growth rate viz. 50.6 per cent was recorded in the year 2015-16 and the lowest annual growth rate viz.- 40.97 per cent recorded in the year 2017-18. In some of the years under the study periods shows the negative growth rate.

**1.4.2 Foreign Direct Investment Inflows in India - Construction Sector:**

India’s construction sector offers several investment opportunities for foreign companies given the country’s ambitious scope for infrastructure modernization, developing ‘smart cities’, improving logistics and transportation routes and ensuring affordable housing for all. Foreign investors also benefit from being able to invest in construction projects without requiring government approval. Foreign Direct Investment Inflows in construction sector were given in below table 1.2

**Table 1.2: Foreign Direct Investment Inflows in India - Construction Sector**  
(US\$ million)

Year	FDI in Construction Sector	Increase /Decrease	Growth Rate (%)
2015-16	2,634	-	--
2016-17	1,319	-1315	-49.9
2017-18	1,276	-43	-3.26
2018-19	1,640	364	28.5
2019-20	4,141	2501	152.5
2020-21	1,564	-2577	-62.23
2021-22	1,281	-283	-18.09
2022-23	2009	728	56.83
2023-24	1937	72	-3.58
2024-25	1746	191	-9.86
<b>Minimum</b>	<b>1,276</b>		
<b>Maximum</b>	<b>4,141</b>		
<b>Mean</b>	<b>1954.7</b>		
<b>Standard Deviation</b>	<b>8725.54</b>		
<b>CAGR</b>	<b>-4.02</b>		

**Source: Reserve Bank of India, Annual Report.**

From the above table 1.2 depicts that gross inflows of Foreign Direct Investment in construction sector from 2015 to 2025. A Foreign Direct Investment inflow in India has \$ 2,634 million during the year 2015-16 and it gradually decreased from 2018 to 2019 was \$1640 million. Again it has increased from \$ 4141 million during the year 2019-20 and gradually it has decreased during the year 2024-25 was \$1746 million. FDI inflow in India has positive growth rate in construction sector during the year 2019-20. The highest annual growth rate viz. 152.5 per cent was recorded in the year 2016-17 and the lowest annual growth rate viz. -62.23 per cent recorded in the year 2021-22. In some of the years under the study periods shows the negative growth rate.

**1.4.3 Foreign Direct Investment Inflows In India- Financial Services:**

Financial services are the economic services provided by the finance industry, which encompasses a broad range of businesses that manage money, including credit union, banks credit companies, insurance companies etc. As per the foreign direct investment policy of 2016, 100 percent investment is permitted in the unregulated financial services.

**Table 1.3 Foreign Direct Investment Inflows in India – Financial Services**  
(US\$ million)

Year	FDI in Financial services	Increase /Decrease	Growth Rate (%)
2015-16	2603	-	-
2016-17	2760	157	6.03
2017-18	1026	-1734	-62.82
2018-19	3075	2049	199.7

2019-20	3547	472	15.3
2020-21	3732	185	5.21
2021-22	4070	338	9.05
2022-23	6372	2302	56.5
2023-24	4326	-2046	-32.1
2024-25	2728	-1598	-36.9
<b>Minimum</b>	<b>1026</b>		
<b>Maximum</b>	<b>6372</b>		
<b>Mean</b>	<b>3423.9</b>		
<b>Standard Deviation</b>	<b>1394.56</b>		
<b>CAGR</b>	<b>0.47</b>		

Source: Reserve Bank of India, Annual Report.

It is observed from the table 1.3 the gross inflows of Foreign Direct Investment in financial services from 2015 to 2025. A Foreign Direct Investment inflow in India has \$ 2,603 million during the year 2015-16 and it gradually increased during the year 2016 to 2017 was \$2760 million. But simultaneously it has decreased to \$1026 million during the year 2017-18 to \$2728 million during the year 2024-25. FDI inflow in India has positive growth rate in financial services during the year 2018-19 and 2022-23. The highest annual growth rate viz. 199.7 per cent was recorded in the year 2018-19 and the lowest annual growth rate viz. -62.82 per cent recorded in the year 2017-18. In some of the years under the study periods shows the negative growth rate.

### 1.5 Conclusion:

The study identified that the major factor influencing the inflow of FDI to India, which is poised of various variables collected under FDI and Indian economy. A tactical feature of investment is required for India's sustainable economic growth and development which can be brought on board by Foreign Direct Investment (FDI) through creation of jobs and enhancement of skilful labour. In the present study the researcher, the researcher has analyzed the sector wise foreign direct investment in India Therefore, the study concluded that researcher had chosen only selected sectors for the study period and there is positive impact of foreign direct investment in India particularly there is good impact in some sectors such as manufacturing sector, Service sector and construction sector. Moreover, the foreign direct Investment companies provide better employment opportunities in India.

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