

Foreign Direct Investment and Its Influence on Indian Commercial Growth: Opportunities and Challenges

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Abstract

This paper examines the trajectory and influence of Foreign Direct Investment (FDI) on India's commercial growth. It highlights evolving policy frameworks, sectoral trends, regional distribution, and the impact of FDI on economic productivity and infrastructure. The study also explores how recent liberalisation efforts have propelled investment, analyzed challenges of uneven distribution, and suggests strategic directions for enhancing FDI's commercial benefits. The analysis relies on authentic data and scholarly literature. Additionally, the paper reflects on the long-term role of FDI in shaping India's trade competitiveness and its integration with global supply chains. It further evaluates FDI as a catalyst for innovation, employment, and regional development while pointing to the risks of external dependence. These insights underline the importance of balanced policies that maximize benefits while mitigating challenges.

Keywords: Foreign Direct Investment, India, commercial growth, policy liberalisation, sectoral inflows, economic challenges

1. Introduction

Foreign Direct Investment has played an instrumental role in shaping India's economic landscape, particularly since the 1991 liberalisation reforms. These reforms opened multiple sectors to foreign capital, reduced regulatory bottlenecks, and set India on a path of market-driven growth¹. Initially, inflows were modest, but successive policy measures, including automatic route approvals and tax incentives, helped create a favorable environment. Over time, FDI emerged not only as a source of capital but also as a conduit for technology transfer, management expertise, and global integration. In the more recent context, FDI inflows have nearly doubled from US\$36 billion in FY 2013–14 to a provisional US\$81.04 billion in FY 2024–25 with services, manufacturing, and technology sectors being major drivers². This increase has provided critical support to India's GDP expansion, industrial productivity, and job creation. The presence of multinational corporations has strengthened supply chains, modernized infrastructure, and improved export competitiveness.

States such as Maharashtra, Karnataka, and Delhi continue to attract the lion's share of FDI, reinforcing regional imbalances in economic development³. At the same time, underdeveloped states struggle to secure meaningful foreign investments, leading to uneven commercial progress. Global benchmarks show India ascending to the 15th position among world FDI destinations, illustrating its rising appeal despite broader economic uncertainties⁴.

The liberalisation policies have also encouraged cross-border mergers, acquisitions, and joint ventures, enhancing India's integration with global trade. Yet, challenges such as bureaucratic hurdles, inconsistent regulations, and land acquisition issues persist. Furthermore, sudden fluctuations in investor sentiment due to geopolitical or domestic financial uncertainties expose vulnerabilities in India's growth story.

FDI in India is no longer confined to traditional manufacturing. Increasingly, it has penetrated new-age sectors such as e-commerce, fintech, renewable energy, and artificial intelligence. This has reshaped commercial activities, driven innovation, and spurred inclusive growth opportunities. However, it has also raised questions about sustainability, local value creation, and the protection of domestic industries from external dominance. The broader challenge lies in ensuring that FDI aligns with developmental priorities. For example, while metro cities thrive on foreign inflows, tier-2 and tier-3 cities often remain neglected. Policymakers must balance national ambitions with local needs. The interplay of liberal policies, private sector dynamism, and government initiatives has therefore shaped the ongoing narrative of FDI in India. This backdrop raises key questions on how to ensure that FDI's benefits translate into broad-based commercial and societal advancement. It also stresses the need to leverage FDI as a tool not only for growth but also for equitable development.

2. Review of Literature

2.1.Pradhan (2011) underscores the foundational importance of FDI as a driver for economic development. He demonstrates through empirical data how FDI inflows bolster infrastructure, industrial capacity, and job creation. His study emphasizes that beyond financial capital, FDI brings management know-how and global business practices, which enhance competitiveness¹.

2.2.UNCTAD (2024) reports that India is the eighth-largest recipient of FDI globally, especially excelling in greenfield investments and international project finance, thereby

reinforcing the country's long-term commercial growth ecosystem. The report also identifies digital services and renewable energy as emerging hotspots for foreign investors, marking a shift from traditional industries².

2.3.Jain (2024) employs econometric modeling to show that unit increases in FDI correspond more significantly to GDP growth than to export growth, highlighting FDI's powerful impact on internal economic expansion.³.

2.4.India's Ministry of Commerce & Industry (2024) confirms that FDI inflows reached US\$81.04 billion in FY 2024–25, with the services, manufacturing, software, and trading sectors leading—underscoring diversified commercial stimulation. The report also noted that despite high aggregate inflows, challenges remain in ensuring equitable geographic spread⁴.

3. Objective of the Paper

The objective of the paper is to assess how foreign direct investment has propelled India's commercial growth by analyzing trends in policy liberalisation, sectoral inflows, and regional distribution, and to frame the key opportunities and challenges associated with these dynamics.

4. FDI Policy Reforms and Liberalisation

- ❖ India's FDI policy has progressively evolved from limited sectoral access to nearly universal access through the automatic route. Key milestones include raising the insurance FDI cap from 26 percent in 2001 to 74 percent in 2021, and sector opening via the "Make in India" initiative⁵. The combined effect has been to cultivate an open, investment-friendly commercial environment.
- ❖ Between 2014 and 2022, inward FDI stock rose dramatically from US\$312.9 billion to US\$636.6 billion, a 104 percent increase, reflecting liberalisation's compounding impact on capital inflow⁶. This growth also coincided with regulatory reforms in taxation, intellectual property rights, and ease-of-doing-business frameworks.
- ❖ Sector-specific liberalisation has catalyzed growth in infrastructure, defense, retail, and digital services, fueling commercial capacity, innovation, and job creation. It has encouraged public-private partnerships, driven urban development projects, and attracted global investors into infrastructure financing.
- ❖ FDI policies also enabled India to withstand external shocks like the COVID-19 pandemic by channeling capital inflows into healthcare, e-commerce, and digital

platforms. Furthermore, government-led incentives such as Production Linked Incentive (PLI) schemes have become an additional magnet for investors.

- ❖ These policy shifts have enhanced India's attractiveness in global investment circuits, with investors drawn by the ease of access, growth potential, and regulatory clarity. However, structural challenges such as legal uncertainties and bureaucratic inefficiencies occasionally dampen investor enthusiasm.
- ❖ The central government has sought to streamline processes through initiatives like single-window clearances and online approvals. Despite these improvements, further reforms are necessary to simplify land acquisition, contract enforcement, and dispute resolution.

5. Sectoral and Regional Distribution of FDI

5.1.As of FY 2023–24, services accounted for 19 percent of FDI inflows, followed by computer software and hardware (16 percent) and trading (8 percent)⁷. These sectors highlight the diversified role of FDI in both traditional and modern industries.

5.2.FDI's regional distribution remains skewed. Maharashtra attracted 39 percent of total equity inflows, while Karnataka and Delhi garnered 13 percent and 12 percent respectively, underscoring persistent centre-periphery disparities⁷. While industrial hubs thrive, underdeveloped states remain outside the FDI growth story, limiting balanced commercial expansion.

5.3.Notably, Singapore remained India's top FDI source in 2024–24, contributing US\$15 billion, reinforcing long-standing bilateral investment ties⁸. The role of Singapore demonstrates how stable bilateral trade agreements can sustain inflows over extended periods.

5.4.Despite resilience, May 2023 saw a dramatic dip as net FDI inflows plunged by 98 percent to just US\$35 million due to repatriation, indicating volatile investor sentiment amid economic or geopolitical shifts⁹. This volatility raises questions about long-term sustainability and reliance on external capital.

5.5.FDI has also concentrated in urban clusters, boosting infrastructure, real estate, and IT parks, but rural regions remain underserved. This imbalance calls for deliberate policy interventions to direct investments toward lagging regions. The emphasis on emerging sectors such as renewable energy and fintech suggests that the next wave of FDI may support sustainable and technology-driven growth.

6. Opportunities and Challenges in Commercial Growth

❖ Opportunities

- FDI has been pivotal in modernising infrastructure, bolstering manufacturing, and enhancing technological capabilities, accelerating India's commercial competitiveness¹⁰. It has enabled technology spillovers, increased research intensity, and improved supply chain resilience. The inflow of capital has reduced fiscal constraints and helped finance mega projects in urban transport and energy.
- The upsurge in services and digital economy inflows presents broad-based commercial opportunities, especially in IT and trade². The presence of global players has expanded employment and spurred innovation in start-up ecosystems. It has also led to international market linkages, providing Indian businesses with access to global supply chains.
- Policy reforms like Make in India and enhanced FDI limits continue to draw multinational corporations, bringing capital, skills, and global integration. FDI also complements government objectives like Atmanirbhar Bharat by facilitating technology-driven self-reliance.

❖ Challenges

- The pronounced regional concentration of FDI exacerbates development gaps, limiting inclusive commercial expansion. Rural areas receive limited inflows, curbing job opportunities outside urban clusters.
- The sharp volatility in FDI inflows, demonstrated by the May 2024 decline, highlights vulnerabilities to overseas financial shifts and policy uncertainties. Such fluctuations expose Indian commerce to external risks that may undermine stability.
- Ensuring that FDI translates into domestic value addition, employment, and equitable growth remains an unresolved commercial challenge. Issues like technology dependence, profit repatriation, and uneven skill transfer persist.
- Additionally, bureaucratic inefficiencies, legal disputes, and inconsistent policies often hinder smooth investment processes. Balancing national interest with liberalised policies is a fine line policymakers must continue to navigate.

7. Research Methodology

7.1. Type of Data: The present paper is based on secondary data, which was collected from government releases, UNCTAD analysis, RBI bulletins, and scholarly research.

7.2. Type of Research: The present paper is descriptive in nature.

7.3. Period of Research: The period of research for the present paper is of two years 2023-24.

Table: FDI Inflows and Distribution (FY 2022–23 to FY 2023–24)

Fiscal Year	Total FDI Inflow (US\$ billion)	Services (%)	Manufacturing (US\$ billion)	Top State (Maharashtra share)
2022–23	71.28	–	16.12	–
2023–24	81.04	19%	19.04	39%

Sources: UNCTAD (2024).

9. Conclusion

The evolution of India's FDI regime has been a cornerstone of its commercial growth story, invigorating sectors such as services, manufacturing, and infrastructure. Progressive liberalisation and improved ease-of-doing-business frameworks have substantially elevated FDI inflows. However, regional and sectoral disparities highlight gaps that still need attention. The recent volatility in inflows demonstrates that external shocks remain a critical concern for sustaining growth. Stronger domestic institutions and targeted policy measures are needed to mitigate such risks. Opportunities lie in channeling FDI into technology, renewable energy, and rural industries, thereby broadening its developmental impact. By leveraging foreign capital in a balanced and inclusive manner, India can enhance competitiveness, generate employment, and achieve sustainable growth. Ultimately, FDI's transformative potential will be realized only if its inflows are strategically aligned with national priorities, inclusive development, and long-term economic resilience.

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