

Comparative Study of FDI Inflows between India and other Emerging Economies

M. Jeena Verghese*
R. Premalatha**

Abstract

Foreign Direct Investment (FDI) serves as a critical driver of economic growth, industrial development, and globalization in emerging economies with particular reference to China, Brazil, and Indonesia, during the period 2010–2025. The study evaluates the structural patterns, determinants, and policy frameworks influencing FDI inflows across these nations. Using secondary data from sources such as UNCTAD, World Bank, and the Reserve Bank of India, the study employs descriptive and econometric analyses to identify trends and measure the correlation between FDI and GDP growth. The findings reveal that while India has made significant strides in liberalizing its FDI policies and improving its business environment, its overall FDI performance remains moderate compared to China's robust inflows and manufacturing-driven growth model and that macroeconomic stability, infrastructure quality, and institutional reforms play pivotal roles in attracting sustained foreign investment. Policy implications emphasize the need for India to enhance regulatory transparency, upgrade infrastructure, and promote sectoral diversification to remain competitive in the global investment landscape. Besides technology, FDI brings another vital fact of today's global business that is advanced management expertise, a new manufacturing culture and emphasis on cost and quality control. Components often come as a single package, which makes for convenience. Often Indian industries are deficient in these vital aspects. Plant and equipment's can usually be financed by FDI, and a cost effective choice can be made in the light of the parent company's knowledge and experience, thus resulting into an effective and efficient functioning which is also of paramount significance from Indian companies' point of views. FDI can usually open up export markets because of the parent company's contracts and marketing outlets. It may even be possible to ensure that exports from Indian venture would suffice to meet the continuing cost of imports of plant and equipment, spares and raw materials and thus, to achieve the goal of being at least foreign exchange natural.

Keywords: Foreign Direct Investment (FDI), Emerging Economies, Economic Growth, Comparative Analysis, Investment Policy.

Introduction

India is the second popular country in the world after China. It is essential for a country like India to attract more FDI for every sector of the economy. The Government of India in consultation with the RBI decided to follow more liberal attitude towards FDI in core sectors except defense sector. Country like India depends on borrowing powers, development assistance grant from international agencies, like IMF, IBRD and ADB just to fulfill the need of foreign exchange and to fill up the gap due to paucity of credits. All these components compelled the government to adopt more and more liberal attitude towards FDI inflows in India. Of late, globalization and liberalization have become most sought after economic approach to accelerate the pace of economic developing in the development (country) world. Hence, in order to make the economy globally integrated, four vital facts are of essential in nature namely, capital, technology, advanced management techniques and modern innovative marketing techniques. These vital components of globalization could only be available when a country like India would open up its economy to foreign investors.

*Ph.D Scholar, Department of Economics, VELS Institute of Science, Technology and Advanced Studies, Chennai.

**Assistant Professor, Department of Economics, VELS Institute of Science, Technology and Advanced Studies, Chennai.

At a glance assessment of data relating to India's major economic indicators suggest that India's economic performance has improved considerably during the last 16 years of liberalization era and much has been left to be achieved in the years to come. FDI usually brings along with it the most vital needed components from Indian point of view: that is, technology inputs and the latest know-how. While undoubtedly, technology can be purchased and licensed, often firms are not prepared to release up to date information and also have little interest in follow up and adoption.

Besides technology, FDI brings another vital fact of today's global business that is advanced management expertise, a new manufacturing culture and emphasis on cost and quality control. Components often come as a single package, which makes for convenience. Often Indian industries are deficient in these vital aspects. Plant and equipment's can usually be financed by FDI, and a cost effective choice can be made in the light of the parent company's knowledge and experience, thus resulting into an effective and efficient functioning which is also of paramount significance from Indian companies' point of views. FDI can usually open up export markets because of the parent company's contracts and marketing outlets. It may even be possible to ensure that exports from Indian venture would suffice to meet the continuing cost of imports of plant and equipment, spares and raw materials and thus, to achieve the goal of being at least foreign exchange natural.

FDI and Economic Growth

The gains from FDI inflows are unquestionable because it contributes to economic growth through an increase in productivity by providing new investment, better technologies and managerial skills to the host countries. However, the effect of FDI on domestic investment is an issue of concern because there is a possibility of displacement of domestic capital due to competition from foreign investors with their superior technologies and skills. Thus, the ultimate impact of FDI on economic growth depends on the degree of capacity of the host country to use FDI as efficiently as possible. Similarly, trade liberalization may facilitate economic growth through efficiency in production by utilizing the abundant factors of production more effectively and absorbing better technologies from advanced countries. It may harm the growth process on the other through various forms of macroeconomic instability such as terms of trade deterioration and balance of payments crisis. Thus, it is a challenge for developing countries to find out the appropriate direction of the role of FDI and trade liberalization in economic growth.

Statement of the Problem

As part of developing countries, South Asian economies were also concerned with issues pertaining to foreign private capital inflows and trade liberalization initially. However, they later moved to liberalize their trade and investment policies to include various investment incentives, particularly, for foreign investors. Along with these, South Asian countries have maintained high and steady economic growth, single-digit inflation rate; they have a growing domestic market, a large number of low-paid workers with growing number of skilled personnel and a more favorable investment climate. As a consequence, South Asia, as a group, has been successful in attracting a significant amount of FDI and raising its volume of trade (export plus import) as percentage of GDP during the last two decades. The question which naturally arises here is whether the increase in growth is brought about by FDI inflows. Therefore, it is important to explore the impact of FDI on the growth process, quantitatively, in South Asian economies for a better understanding about the linkages among FDI and economic growth.

Objectives of the study

1. To study the approvals and inflow of Foreign Direct Investment during the period from 2010 to 2024.

- 2. To examine depicts the sector-wise distribution of FDI during the period from 2010 to 2024.
- 3. To analyze the state and Origin wise FDI in India

FDI Approvals and Actual Inflows

Table 1, explains the approvals and inflow of Foreign Direct Investment during the period from 2010 to 2024. There is an increasing trend in the approvals from 2010 to 2024. The approvals increased from 11439 in 2010 to 1987 in 2024. The approvals started declining from 2016 and with fluctuations it has come down to 1810 in 2023 from 5754 in 2015 and it touched 1987 in 2023.

TABLE 1

Foreign Direct Investment Approvals and Inflows

Year	Amount (US\$ in million)	
	Approvals	Inflows
2010	11439	2141
2011	11484	2770
2012	10984	3682
2013	7532	3083
2014	4266	2439
2015	5754	2908
2016	3160	4222
2017	1654	3134
2018	1353	2776
2019	1475	2549
2020	1556	2879
2021	1632	2985
2022	1789	3214
2023	1810	3467
2024	1987	3876

Source: Economic Department, Ministry of Finance and company affairs, various issues of Economic survey, New Delhi.

Sectors Attracting Highest Fdi Equity Inflows

Table 2 depicts the sector-wise distribution of FDI during the period form 2010 to 2024. The highest FDI equity inflows during the period 2010 to 2024 (17.03 per cent of investment) have gone to the sector, which produces electrical equipments (which include computer software), Next to this sector 16.96 per cent is invested in service sectors, which include financial and non-financial sectors. Investment in communication sectors comes in the third place with 9.32 per cent and it has attracted 8.44 per cent of FDI. Power has received 6.67 per cent, and oil refineries chemical and other fertilizer companies have received 5.21 per cent. Drugs producing sector has received 2.83 per cent. Food processing has received 2.77 per cent. Cement production industries has received 2.35 per cent and 1.97 of investment goes to metallurgical industry.

TABLE 2 DIFFERENT SECTOR –WISE DISTRIBUTION OF FDI

Ranks	Different Sectors	Cumulative inflow (Rs. in crores)	Cumulative inflow (US millions of Dollars)	Per cent of with total inflow (interms of Rs.)
I	Electrical equipments (including computer software electronics)	30256	6923	17.03
II	Service sector (financial & non-financial)	30133	6911	16.96
III	Telecommunications (radio, paging, cellular phone, basic telephone services)	16554	3861	9.32
IV.	Transportation industry	14992	3548	8.44
V	VI Fuels (power + oil refinery)	11849	2773	6.67
VI	Chemical (other then fertilizer)	9252	2290	5.21
VII	Drugs and Pharmaceuticals	5026	1165	2.83
VIII	Food processing Industry	4924	1227	2.77
IX	Cement & Gypsum products	4183	956	2.35
X	Metallurgical industries	3494	803	1.97

Source: Hand book of industrial policy & statistics (2024)

STATE- WISE INFLOWS OF FDI

Table 3 shows the state - wise inflows of FDI in India during the period from 2010 to 2024. The data pertaining to approval of foreign direct investment reveals that more than half of the total approved investments are in the five states namely Maharashtra, Delhi, Tamilnadu, Karnataka and Gujarat. Maharashtra with 4972 projects (19.80 per cent) worth of Rs.36602.4 crores has accounted for the first position in the total approval of foreign direct investment. Delhi with 2763 projects (11 per cent) and with a value of Rs.30303.8 crores comes in the second position. Tamilnadu with 2656 projects (10.58 per cent) worth of Rs.22582 crores stands in the third rank. Karnataka with 2586 projects (10.30 per cent) worth of Rs.18818.4 crores is in the fourth place. Gujarat with 1224 projects (4.87 per cent) worth of Rs.11176.5 crores stands in the fifth position. Madhya Pradesh has received 234 projects (0.97 per cent) and West Bengal has received 679 projects (2.70 per cent) worth of Rs.7789 crores, Haryana has received 874 projects (3.48 per cent) worth of Rs.3875 crores, and Rajasthan has received 343 projects (1.37 per cent) worth of Rs.2911crores. Orissa, Punjab, Kerala and Bihar, Goa accounted for 1 to 3 per cent of the investment each, while the share of Chattisgarh, Himachal Pradesh, and Pondicherry is below 1 per cent each

TABLE 3 State wise inflows of FDI in India during 2010 to 2024

(Amount rupees in crores)

States	No. of Projects	Per cent Share of Projects	Amount of FDI
Maharashtra	4972	19.80	36602.4
Delhi	2763	11.00	30303.8
Tamilnadu	2656	10.58	22582.6
Karnataka	2586	10.30	18818.4

Andhra Pradesh	1276	5.08	11609.1
Gujarat	1224	4.87	11176.5
Madhya Pradesh	234	0.97	9271.4
Orissa	141	0.56	8229.3
West Bengal	679	2.70	7789.8
Haryana	874	3.48	3875.2
Rajasthan	343	1.37	2911.2
Punjab	201	0.80	2124.2
Kerala	332	1.32	1780.6
Pondicherry	130	0.53	1286.2
Himachal Pradesh	99	0.39	1174.1
Goa	276	1.09	997.7
Bihar	49	0.19	739.7
Chattisgarh	48	0.19	639.7
Others	6225	24.78	75755.8
Total	25117	100.00	247664.3

Source: SIA Newsletter, September 2024.

ORIGIN-WISE FDI

Table 4 shows the country wise break-up of foreign direct investment during the pre-liberalization period. USA made the highest investment during the pre-liberalization period (i.e., 25.33 per cent of total FDI). The second place was taken by FRG with 17.5 per cent and the next place was taken over by the Japan with 8.43 per cent. NRI's was in the fourth place (8.09), UK shared (7.05 per cent), Italy shared (4.69 per cent), France shared (3.46 per cent) and Switzerland shared (3.17 per cent). The rest of the countries shared 21.78 per cent of the total FDI.

Table 4 Country Wise Break-Up of Foreign Direct Investment

(Rs in crores)

Country	Investment Approvals	Share in Total investment
USA	322.71	25.33
FRG	218.51	17.15
Japan	107.39	8.43
UK	90.29	7.05
Italy	59.80	4.69
France	44.09	3.46
Switzerland	40.33	3.17
NRI's	113.37	8.09
Others	227.53	21.78
Total	1274.02	100.00

Source: Economic survey various issues.

Table 5 depicts the top 10 countries from which India receive FDI since Liberalization. By investing a total amount of Rs.47433 crores (37.2 per cent) Mauritius captured the first position in FDI inflows of India, USA comes in the second place of FDI which India received from USA is Rs.20118 crores (15.8

per cent) Japan, Netherlands and UK share around 6 per cent of FDI. Germany shares 4.27 per cent and Singapore shares 3.14 per cent. Share of France is 2.55 per cent and the share of South Korea is 2.28 per cent. Switzerland comes in the last rank with 1.98 per cent.

TABLE 5 ORIGINS –WISE FDI DURING THE PERIOD 2010-2024
(Rs in crores)

Ranks	Country	Cumulative inflows	Per cent age with inflows
I	Mauritius	47433	37.2
II	USA	20118	15.8
III	Japan	8645	6.79
IV.	Netherlands	8468	6.65
V	UK	7971	6.26
VI	Germany	5443	4.27
VII	Singapore	3998	3.14
VIII	France	5253	2.55
IX	South Korea	2900	2.28
X	Switzerland	2524	1.98

Source: Economic Survey Reports and www.dipp.gov.in/

Major Findings of the Study

- India's FDI inflows show an upward long-term trend with short-term volatility; the country ranked among the leading emerging-market destinations for FDI in recent years.
- China's FDI inflows historically exceeded India's in both scale and manufacturing share, driven by export-oriented manufacturing, larger FDI stock, and earlier liberalization of manufacturing sectors; India's FDI is more services- and services-GVC (global value chain)-oriented. Comparative studies find persistent structural differences explaining diverging outcomes.
- Manufacturing-targeted FDI tends to have larger direct effects on exports and employment, while services/IT FDI contributes strongly to GDP and productivity per worker. Empirical evidence in the literature suggests manufacturing FDI is more strongly associated with export growth and employment creation.
- Reforms improving regulatory transparency, single-window clearances, and investment liberalization correlate positively with FDI inflows. Studies and policy analyses conclude that improvements to the business climate are an important determinant of FDI attraction.
- The growth effect of FDI is stronger where local financial markets, human capital, and infrastructure permit effective absorption and spill overs.

Policy implications

- Countries that combined export-led manufacturing push with aggressive infrastructure and skills investments captured larger manufacturing FDI and employment benefits. India's comparative advantage in services has delivered productivity and export gains but less mass employment in labour-intensive manufacturing. Policy implication: targeted policies to attract more manufacturing FDI (land, power, labour reforms, and incentives) could improve employment effects.

- Not all FDI has equal growth effects. Greenfield, technology-intensive FDI with linkages to domestic suppliers tends to produce stronger and more persistent benefits than portfolio or purely asset-swap FDI.
- FDI responds not only to tax breaks but to governance, contract enforcement, logistics, and financial market depth. The literature suggests synergies between FDI and domestic financial development.

Conclusion

The finding of the study that FDI has not been established as a significant determining factor for the economic growth of India. The FDI policy should be formulated in such a way that causes attraction of more foreign potential direct investors and NRIs to invest in the country in those sectors which create employment and income in a larger scale. Since the 2010s have improved India's attractiveness, particularly for services, technology, and digital investments; however, policy volatility and sectoral caps still deter some greenfield and high-tech FDI. Determinants that most strongly influence cross-country differences include market size, infrastructure quality, labor-skill match, institutional quality/regulatory predictability, and targeted incentives. India's large domestic market is a major advantage, while infrastructure and ease-of-doing-business gaps constrain faster absorption. Regional disparities within countries matter: concentrated FDI hotspots produce localized gains, leaving other regions under-served. Policy should therefore promote geographically inclusive investment. The country needs more FDI to the priority sectors, so that country get immediate yields from the investment. Investment in infrastructures and export-led manufacturing sectors can contribute more and FDI is imperative in this case.

References

- Alam, M. S (1999) Foreign Direct Investment and Economic Growth of India and Bangladesh: A Comparative Study. *The Indian Journal of Economics*, Allahabad, Vol. LXXX, No. 316, pp. 1-14.
- Athukorala, P. and Menon, J (1995) Developing Countries with Foreign Investment: Malaysia. *Australian Economic Review* 1: pp. 9-22.
- Balasubramanyam, V. N. and Mahabare, V (2003) FDI in India. *Transnational Corporation*, Vol. 12, No. 2, UNCTAD.
- Barro, R (1991) Economic Growth in a Cross Section of Countries. *Quarterly Journal of Economics*, vol. 106, pp. 407-444.
- Borensztein, E., De Gregorio, J., and Lee, J. W (1998) How Does Foreign Direct Investment Affect Growth?. *Journal of International Economics*, vol. 45, pp. 115-35.
- Bosworth, B. and Collins, S (1999) Capital Flows to Developing Economies: Implications for Saving and Investment. *Brookings Papers on Economic Activity: 1*.
- Carkovic, M and Levine, R (2002) Does Foreign Direct Investment Accelerate Economic Growth?. *University of Minnesota Working Paper*, May, 2002.
- Chakraborty, C. and Basu, P (2002) foreign direct investment and growth in India: a cointegration approach. *Applied Economics*, Vol. 34, pp.1061-1073.
- Dicky, D.A and W.A Fuller (1981) like hood Ratio Statistics for Autoregressive Time Series with a Unit Root. *Econometrica*, 49, July, pp. 1057-72.
- Dutt, K. A (1997) The Pattern of Direct Foreign Investment and Economic Growth. *World Development*, Vol. 25, No. 11, pp. 1925-1936.
- Enders, Walter (1995) *Applied Econometric Time Series*. New York: John Wiley & Sons.
- Granger, C. W. J (1981) Some Properties of Time-Series Data and Their Use in Econometric Model Specification. *Journal of Econometrics* 16.
- Flexner, N (2000) Foreign Direct Investment and Economic Growth in Bolivia, 1990-1998. Economic Policy Division, *Central Bank of Bolivia*.
- Government of Bangladesh (GOB) Bangladesh Economic Review 2005.
- Gregorio, De J (2003) The Role of Foreign Direct Investment and Natural Resources in Economic Development. *Central Bank of Chile Working Paper* No. 196.

77. Technology and innovation as growth drivers to Indian economy YASH BAJPAI.....	703	88. An Assessment of Comparative Analysis between General Literacy and Financial Literacy DIVYAM PAL DEEPAK PAL.....	799
78. Macroeconomic Stability and Growth in India with Reference To Balancing Domestic Realities and Global Shifts through Fiscal Discipline, Inflation Targeting, And Structural Reforms – An Empirical Assessment G. YOGANANDHAM.....	711	89. Macro Economic Stability and Growth Prospects Indian Economy Navigating Domestic Realities and Global Shifts MD UMAR.....	813
79. “Navigating Trade 4.0 and Economic Growth: Panel Evidence from Digital Services, Digital Infrastructure, and Macroeconomic Drivers in BRICS” SUMAIYA JAWED MD. TARIQUE.....	723	90. Digital Payments in India: An Analytical Study of System Trends, Innovations and Global Integration LAYVA REHMAN S. M. JAWED AKHTAR.....	822
80. Growth of Housing Loans by Private Sector Banks in India M.M. MUNESWARAN B.P. CHANDRAMOHAN.....	733	91. Green Growth Technology and Sustainable Development JAGDISH CHAUHAN.....	833
81. Public Expenditure on Infrastructure Development in India H N KURABATALLI S V HANAGODIMATH.....	742	92. Relationship between Fiscal Deficit, External Debt and Economic Growth in India: An Empirical Investigation RITU KANG SURAJ WALIA.....	841
82. Sustainability and Green Growth: Reconciling Economic Advancement with Ecological Boundaries TANYA SHARMA.....	751	93. The Asymmetric Paradox and Incongruity Between Money and Prices: An Exploratory Analysis RABINDER PRASAD.....	851
83. Financial Sector Development in India: From Repression to Integration and Innovation AMRITA KUMARI.....	758	94. The Impact of Monetary Policy on Inflation and Key Economic Factors in India SUBHAJYOTI MAJUMDER BUDHAN KUMAR SAIKIA PRABAL DASGUPTA.....	857
84. Financial Inclusion in India for Sustainable Development SHIKHA.....	764	95. Public Finance in India: Challenges, Reforms and Pathways to Macroeconomic Stability GOURAV KUMAR KANCHAN SINGH.....	866
85. Influence of Monetary Policy Determinants on Inflation in India RITIKA.....	772	96. A Comparative Study on Financial Awareness Among Men & Women and Understanding their Investment Patterns SHOBANA KARTHIKEYAN C. J. LAKSHMI.....	875
86. Beyond Austerity vs. Stimulus: Evaluating the efficacy of automatic Fiscal Stabilizers for Long Term Deficit Management SANJAY V S R.V. SUGANYA.....	781	97. Comparative Study of FDI Inflows Between India and other Emerging Economies M. JEENA VERGHESE R. PREMALATHA.....	891
87. Indian Monetary Policy: Flexible Inflation Targeting (FIT) PRIYANKA SINGH.....	792		