

Recent Shifts in Inward Foreign Direct Investment in India

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Inward foreign direct investment (FDI) stock in India more than doubled from 2014 to 2022. During that same period, the Modi government engaged in a series of reforms on FDI regulations that liberalized many sectors, including traditionally restricted sectors such as defense, rail infrastructure, and pharmaceuticals. The FDI Restrictiveness Index, a measure to assess India’s FDI environment across 22 sectors, declined from 0.26 to 0.21 between 2014 and 2020. Sectors like fisheries, transport, and media, which were the focus of PM Modi’s liberalization efforts, experienced the most significant reductions in index values. Between 2014 and 2022, India saw a rapid increase in the number of greenfield FDI projects, primarily concentrated in software and IT services and business services. Geographically, South India witnessed the most significant growth in inward greenfield FDI within India.

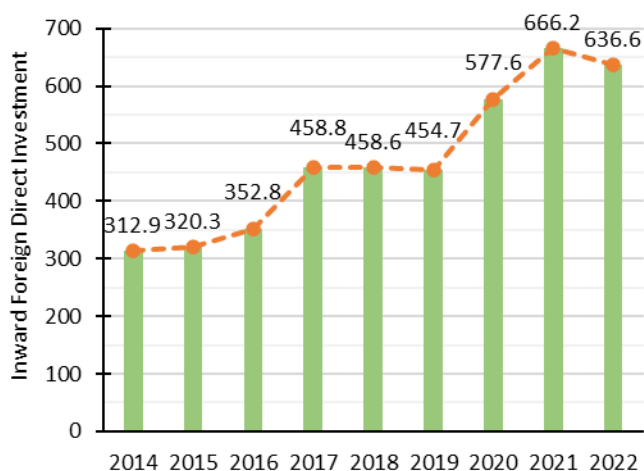
Recent Trends in India’s Inward FDI

Since efforts in the 1990s to open the economy, India has emerged as an attractive destination for FDI. India ranked 17th overall and 4th among developing nations in 2022 for inward FDI stock. Between 2014 and 2022, India’s inward FDI stock rose from \$312.9 billion to \$636.6 billion, an increase of 104 percent (Figure 1).

Changes in FDI Restrictions in India

The government of Prime Minister (PM) Narendra Modi has liberalized India’s FDI regime faster than any of its predecessors. Between 2014 and 2017, PM Modi made 37 sectoral relaxations in FDI rules, with additional reforms in 2019; this outpaces the number of sectoral relaxations in the entire six-year run of PM Vajpayee and is equal to that of PM Singh during his ten years in office. Notably, many reforms extended to sectors which traditionally had the strictest FDI restrictions, including defense, insurance, railways, construction, and e-commerce.

Figure 1: Inward FDI Stock in India, billion USD, 2014–22



Source: International Monetary Fund, [Coordinated Direct Investment Survey](#), 2023.

Table 1: Select FDI Reforms Under Prime Minister Modi, by Sector, 2014-2022

Defense	FDI cap, which limits the equity percent that can be held by foreign investors, raised from 26 to 74 percent via automatic route, and FDI beyond 74 percent allowed via government route. ¹
Railway	FDI cap eliminated, allowing up to 100 percent via automatic route for the construction, operation, and maintenance of specific rail infrastructure projects.
Construction	Restrictions like lock-in periods were relaxed.
Pharmaceuticals	FDI cap raised from 0 percent to 74 percent via automatic route for acquiring existing firms, while FDI beyond 74 percent permitted via government route; FDI up to 100 percent allowed via automatic route for greenfield projects.
Medical Devices	Updated provisions included allowing up to 100 percent FDI via automatic route for manufacturing medical devices.
Coal Mining	FDI cap eliminated, allowing up to 100 percent via automatic route for the sale of coal and other coal mining activities.
Insurance and Pension	FDI cap raised from 49 percent to 74 percent via automatic route for insurance and pension firms; FDI cap eliminated, allowing up to 100 percent via automatic route for insurance intermediaries.
Fisheries	Conditions removed to allow up to 100 percent in FDI via automatic route for aquaculture and pisciculture.
E-Commerce	Conditions relaxed to allow up to 100 percent in FDI via automatic route for marketplace e-commerce, i.e., platforms that connect sellers with buyers.

¹ The “automatic route” allows foreigners to invest without any approval from the Indian government, while the “government route” requires approval from the government of India prior to investment.

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Media	FDI cap eliminated for some broadcasting services, allowing up to 100 percent via automatic route; for other broadcasting services FDI cap raised from 26 percent to 49 percent via government route.
Air Transport	FDI cap eliminated, allowing up to 100 percent via automatic route on non-scheduled air transport services; FDI cap eliminated, allowing up to 100 percent via automatic route on airport projects.
Retail	FDI cap eliminated, allowing up to 100 percent via automatic route for single brand product retail trading.
Stock Exchanges	Removed 5 percent holding limit restriction for non-residents.

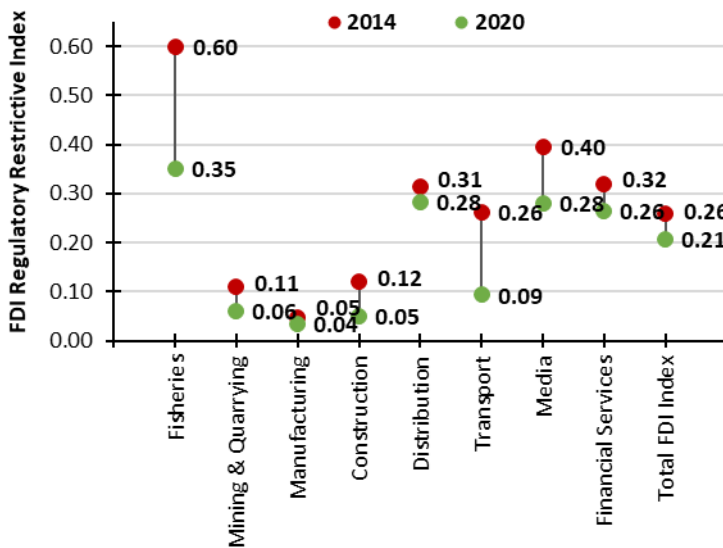
Sources: Invest India, [FDI Policy](#), 2023. Ministry of Commerce and Industry, [Consolidated FDI Policy](#), 2020. Ministry of Commerce and Industry, [Consolidated FDI Policy](#), 2013. Yuan and Tsigas, “[When Multinational Companies Come](#),” USITC, 2022.

One way to measure India’s changing FDI environment is with the FDI Restrictiveness Index, an OECD measure of statutory FDI restrictions across 22 sectors with values between 0 (open) and 1 (restrictive). Between 2014 and 2020, India’s FDI restrictiveness, as measured by the Index, fell from 0.26 to 0.21 (Figure 2).² Index values declined across most sectors, with sectors like fisheries, transport, and media, which were targeted by PM Modi’s liberalization efforts, seeing the biggest reductions.

Shifting Global Inflows of Greenfield FDI into India

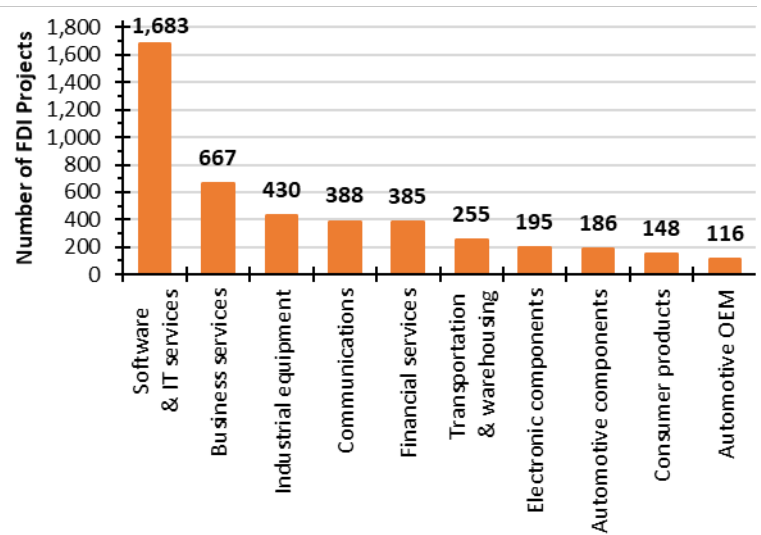
Of the 28 states in all of India, from 2014 to 2022, Maharashtra attracted the highest number of greenfield FDI projects (19.2 percent), followed by Karnataka (18.1 percent), Tamil Nadu (9.0 percent), and Telangana (8.8 percent).³ Additionally, from 2014 to 2022, South India saw the most rapid increase in the number of inward greenfield FDI projects within India; of the aforementioned top four states receiving inward FDI projects, three of them, namely, Karnataka, Tamil Nadu and Telangana, are in South India.

Figure 2: India’s FDI Restrictiveness Index, Select Sectors, 2014–20



Source: OECD, [FDI Restrictive Index](#), 2020.

Figure 3: Number of greenfield FDI Projects by Select Sector, 2014–22



Source: Financial Times, [fDi Markets database](#), 2023.

Between 2014 and 2022, there were 6,101 greenfield FDI projects in India, of which the majority were in software and IT services, business services, industrial equipment, communications, financial services and transportation (Figure 3). Software and IT services as well as transportation and

Sources: Financial Times, [fDi Markets database](#), 2023; International Monetary Fund, [Coordinated Direct Investment Survey](#), 2023; Invest India, [FDI Policy](#), 2023; Ministry of Commerce and Industry, [Consolidated FDI Policy](#), 2020; Ministry of Commerce and Industry, [Consolidated FDI Policy](#), 2013; Organisation for Economic Cooperation and Development (OECD), [FDI Regulatory Restrictiveness Index, 2020](#); Yuan and Tsigas, “[When Multinational Companies Come – a CGE Analysis on the Impact of Growing Inward FDI on the Indian Economy](#),” USITC, 2022.

² The OCED’s FDI Restrictiveness Index only includes data up to 2020.

³ Greenfield FDI projects are defined as new investments by foreign investors; FDI stock statistics include both greenfield FDI and mergers and acquisitions of existing companies or equity investments.

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