

Role Of Foreign Direct Investment in Strengthening India's Global Competitiveness: Evidence, Channels, And Policy Priorities

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Abstract: Foreign direct investment (FDI) is frequently treated as a measure of investor confidence, but its strategic importance lies in whether it expands productive capability, technology, skills, exports, innovation, and participation in global value chains. This article examines the role of FDI in strengthening India's global competitiveness, using a secondary-data analytical design and evidence from the Department for Promotion of Industry and Internal Trade (DPIIT), the Ministry of Commerce and Industry, UN Trade and Development (UNCTAD), the World Intellectual Property Organization (WIPO), the World Bank, and relevant empirical literature. The study covers the reform and scale-up period from FY 2014-15 to FY 2024, while using longer-run scholarship to interpret technology and productivity spillovers. Total FDI inflows increased from USD 45.15 billion in FY 2014-15 to a provisional USD 94.53 billion in FY 2024. In FY 2024, computer software and hardware accounted for about 24 percent of FDI equity inflows, services for 17 percent, and trading for 7 percent. Singapore, the United States, and Mauritius remained major sources, while Maharashtra and Karnataka together received more than half of state-attributed equity inflows. During the same broad period, India's total exports rose strongly and its Global Innovation Index rank improved from 81st in 2015 to 38th in 2024. The analysis finds that FDI can strengthen competitiveness through technology transfer, management practices, supplier upgrading, scale economies, export networks, and investment in digital and green sectors. However, these gains are conditional on domestic absorptive capacity, R&D, human capital, logistics, regulatory predictability, and the quality of linkages between foreign affiliates and Indian firms. The paper concludes that India's policy objective should move from maximizing the volume of FDI toward maximizing FDI quality, domestic value addition, knowledge diffusion, resilient supply chains, and regionally broader competitiveness gains.

Keywords: foreign direct investment, India, global competitiveness, exports, technology spillovers, global value chains, innovation, manufacturing, FDI policy

1. Introduction

India's integration with the world economy has increasingly involved two connected processes: a widening role for foreign investment and an effort to convert domestic market scale into internationally competitive production. In this setting, FDI is more than an external financing flow. A multinational enterprise entering through a greenfield project, an acquisition, or an expansion can bring proprietary technology, production standards, managerial routines, supplier requirements, international brands, digital systems, and access to distribution networks. These assets may raise the performance of the foreign affiliate directly and may also influence domestic firms through worker mobility, competition, demonstration effects, and buyer-supplier linkages. The economic value of FDI therefore depends not only on how much capital enters, but also on what type of investment enters, where it is located, which sectors it serves, and how deeply it connects with the local economy.

The competitiveness question has become particularly important as global production is being reorganized by geopolitical risk, technology competition, decarbonization, supply-chain diversification, and the rapid expansion of digital infrastructure. UNCTAD (2024) reports that global FDI recovered in 2024 but remained highly

concentrated in a limited group of economies and strategic sectors. India benefited from stronger inflows in 2024, yet the global environment remains uncertain. For India, the policy challenge is therefore twofold. It must remain attractive to international investors while ensuring that foreign investment raises domestic productive capability rather than simply financing market access or asset transfers. Official Indian data show a large increase in gross FDI inflows over the last decade. DPIIT data indicate that total FDI inflow increased from USD 45.15 billion in FY 2014-15 to USD 94.53 billion in FY 2024 on a provisional basis, more than doubling over the period. The composition has also shifted toward technology-intensive and service activities. Computer software and hardware became the largest recipient of FDI equity in FY 2024, followed by services. At the same time, non-conventional energy, food processing, infrastructure, electronics, automobiles, pharmaceuticals, and other manufacturing activities have become important elements of the investment landscape. These patterns matter because the competitiveness consequences of FDI are likely to differ substantially by sector. These changes cannot be attributed to FDI alone. They reflect domestic reforms, infrastructure spending, entrepreneurship, digital public infrastructure, production incentives, trade agreements, human capital, and private investment. Nevertheless, FDI interacts with many of these forces and can accelerate their effect when foreign investment is embedded in domestic capabilities. This article therefore asks a more specific question than whether FDI is 'good' for growth. It examines how FDI can strengthen India's global competitiveness, which channels appear most relevant in the Indian context, where the gains are likely to be strongest, and which constraints may prevent investment from producing broad domestic spillovers. The paper uses a secondary-data analytical approach rather than a causal econometric design. This choice reflects the multidimensional nature of competitiveness and the limited comparability of annual FDI measures across national and international datasets. The goal is to combine trend evidence, structural composition, competitiveness indicators, and peer-reviewed research in a transparent framework. The article contributes in three ways. First, it updates the discussion with FY 2024 FDI data and recent global investment evidence. Second, it separates the volume of FDI from the quality of FDI by emphasizing technology, domestic value addition, export orientation, supplier upgrading, and resilience. Third, it identifies a policy shift from investment attraction toward investment conversion: India must convert foreign capital into capabilities that remain productive even when global firms later restructure their portfolios. This distinction is central to a durable competitiveness strategy.

2. Conceptual Foundations: FDI and Global Competitiveness

2.1 Meaning of global competitiveness

Global competitiveness is used here to describe the capacity of an economy and its firms to produce goods and services that succeed in international markets while raising productivity, innovation, income, and resilience at home. This is deliberately broader than a single country ranking. Porter (1990) emphasized that national competitive advantage is built through demanding markets, capable suppliers, firm strategy and rivalry, and supporting institutions. Modern competitiveness also includes digital capability, innovation networks, logistics performance, energy reliability, standards compliance, and the ability to participate in complex cross-border production systems. A useful implication is that FDI does not automatically create competitiveness. Foreign investment may finance efficient, export-oriented plants with local supplier development, or it may remain an enclave with weak domestic linkages. It may introduce new technologies that diffuse to Indian firms, or it may widen the technology gap if domestic firms lack skills and R&D capacity. The outcome depends on the interaction between multinational assets and host-economy absorptive capacity.

2.2 Why multinational investment may raise competitiveness

The eclectic or OLI framework explains international production through ownership advantages, location advantages, and internalization incentives (Dunning, 1988). India offers location advantages that include a large market, a substantial technical workforce, competitive service capabilities, expanding infrastructure, and an

increasingly dense digital and entrepreneurial ecosystem. When multinational firms combine their ownership-specific assets with these local advantages, productivity and export capacity can increase. Endogenous growth and spillover perspectives focus on the knowledge content of FDI. Findlay (1978) described foreign investment as a potential channel of technological diffusion, while Borensztein, De Gregorio, and Lee (1998) showed that the growth effect of FDI depends strongly on human capital. Javorcik (2004) provided influential evidence that spillovers can occur through backward linkages when domestic suppliers learn from multinational buyers. Rodriguez-Clare (1996) and Markusen and Venables (1999) similarly highlighted the role of linkages and industrial development. These insights imply that the most valuable FDI is not necessarily the investment with the largest initial financial value, but the investment that creates the deepest capability externalities. For India, six channels are especially relevant: capital formation; technology and management transfer; domestic supplier development; export and global value chain integration; workforce upgrading; and competitive pressure that induces domestic firms to improve. These channels are reinforced when foreign investors conduct local R&D, source from Indian suppliers, train workers, and integrate Indian operations into global production mandates rather than treating India only as a final consumer market.

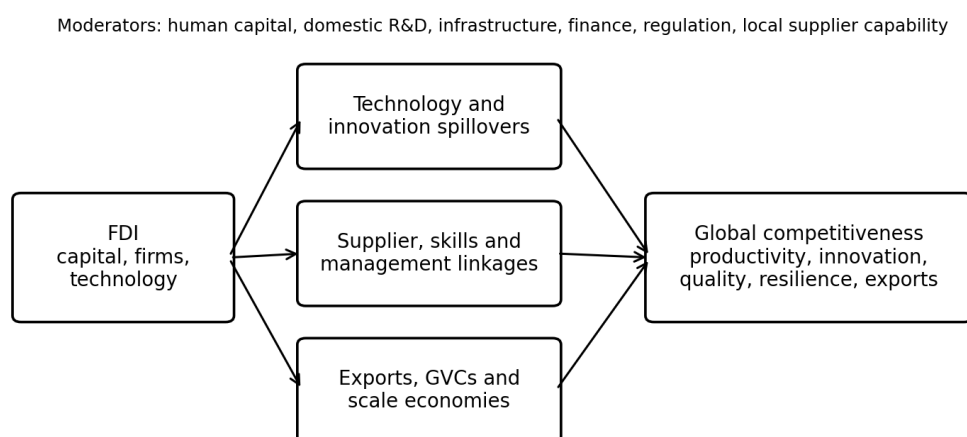


Figure 1. Conceptual channels from FDI to global competitiveness. Source: Author synthesis based on Dunning (1988), Borensztein et al. (1998), Javorcik (2004), and Porter (1990).

3. Review of Literature

3.1 International evidence on FDI, growth, and spillovers

The empirical literature does not support a simple claim that every increase in FDI produces the same development outcome. Borensztein et al. (1998) found that FDI can be an important vehicle for technology transfer, but its superior contribution to growth emerges when the host economy has sufficient human capital. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2004) similarly showed that local financial-market development affects the extent to which economies benefit from FDI. These studies shift attention from the quantity of investment to the institutional and capability conditions that determine whether foreign knowledge can be absorbed.

Spillover research also shows that the direction of linkages matters. Early studies often searched for productivity effects within the same industry, where foreign and domestic firms compete directly. Javorcik (2004), however, found stronger evidence of spillovers through backward linkages to suppliers. This finding is important for industrial policy because supplier qualification, technical assistance, quality certification, and stable purchase

contracts can transmit multinational production standards into domestic firms. Such effects can raise competitiveness even when the supplier itself does not export initially.

The literature also warns that adverse or weak effects are possible. Multinational firms can attract scarce skilled workers, increase competitive pressure on domestic firms before they have adapted, import a large share of sophisticated inputs, or operate with limited local knowledge transfer. Blomstrom and Kokko (1998) emphasize that spillovers are not automatic. Host-country policy, firm characteristics, technology gaps, and the nature of investment determine outcomes. This helps explain why FDI may produce strong results in one industry but limited effects in another.

3.2 Evidence from India

Indian research provides strong support for a sector-sensitive interpretation. Kathuria (2001) examined Indian manufacturing firms and found positive spillovers from foreign presence, but the pattern depended on industry characteristics and domestic R&D capability. His later work on the post-liberalization period again showed that productivity spillovers were heterogeneous rather than universal (Kathuria, 2002). The implication is particularly relevant to current policy: when domestic firms have a stronger technology base, they are more capable of learning from multinational presence. Chakraborty and Nunnenkamp (2008) used sector-level evidence from post-reform India and found that FDI and output were mutually reinforcing in manufacturing, while effects in other sectors were less uniform. They also identified cross-sector relationships, including the possibility that services FDI supports manufacturing through complementary capabilities. This is consistent with India's present structure, where software, business services, finance, engineering, logistics, and digital systems increasingly support manufacturing exports. Sasidharan and Kathuria (2011) studied the relationship between FDI and R&D strategies in Indian manufacturing after the 1991 reforms and found that the response differs by ownership and technology intensity. More recent firm-level research continues to identify positive backward-linkage spillovers in Indian manufacturing while finding weaker evidence for uniform horizontal or forward effects. The common message is that absorptive capacity, R&D, export intensity, ownership structure, and the quality of inter-firm linkages shape productivity outcomes. This literature also helps interpret India's current policy environment. Production-linked incentives, the National Single Window System, industrial corridors, logistics reforms, semiconductor initiatives, digital public infrastructure, and state-level investment promotion can complement FDI by increasing the probability that investment becomes embedded in domestic production. However, policy support can only be considered successful if it results in higher domestic value addition, technical learning, exports, and productivity rather than investment announcements alone.

3.3 Research gap

A large share of earlier Indian research concentrates on the relationship between FDI and output or firm productivity. Recent public debate, by contrast, often focuses on record investment values. There is a gap between these two perspectives. Competitiveness requires a framework that links current FDI composition with export performance, innovation, logistics, technology intensity, domestic supplier capability, and regional concentration. This article addresses that gap by combining recent FY 2024 investment evidence with established spillover theory and multiple competitiveness indicators. It does not claim to estimate the causal effect of FDI on each indicator. Instead, it identifies where the evidence is consistent with a competitiveness-enhancing role and where the data point to policy risks or missing linkages.

4. Research Objectives and Questions

The study has four objectives:

- To examine the trend, sectoral composition, source-country pattern, and geographical distribution of FDI in India, with emphasis on the period from FY 2014-15 to FY 2024.

- To identify the principal channels through which FDI can strengthen India's global competitiveness, including productivity, technology, exports, innovation, skills, and global value chain participation.
- To assess whether recent investment patterns are aligned with India's emerging strengths in digital services, advanced manufacturing, electronics, renewable energy, and export-oriented sectors.
- To identify constraints and policy priorities for converting FDI inflows into durable domestic capabilities and broader regional competitiveness.

The corresponding research questions are: How has the scale and composition of FDI changed? Which competitiveness channels are most credible in the Indian context? How concentrated are FDI benefits across sectors, source countries, and states? What policy conditions are necessary for FDI to generate stronger domestic value addition and knowledge spillovers?

5. Research Methodology

5.1 Research design and data

The article uses a descriptive and analytical secondary-data research design. The central period is FY 2014-15 to FY 2024 because this interval captures a sustained phase of FDI liberalization, investment facilitation, Make in India, production-linked incentives, logistics reforms, digitalization, and a marked increase in the scale of foreign investment. For historical and theoretical interpretation, earlier academic studies are also reviewed.

FDI data are drawn primarily from DPIIT and RBI-based official statements. The main national measure used in the trend table is total FDI inflow, which includes equity, reinvested earnings, and other capital. Sector, source-country, and state tables use FDI equity inflow because that is the basis on which the official disaggregated data are reported. International comparisons use UNCTAD data, which follow calendar-year balance-of-payments concepts. These measures should not be treated as identical. In particular, the FY 2024 DPIIT gross total of USD 94.53 billion is not directly comparable with UNCTAD's calendar-year net inflow measure for 2024. The distinction is stated explicitly to avoid false comparisons.

Competitiveness indicators are drawn from the Ministry of Commerce and Industry, WIPO, and the World Bank. Export performance is used as an outward-market indicator. The Global Innovation Index is used as an innovation capability indicator, while the Logistics Performance Index provides a measure of trade logistics. These indicators are supplemented by sector case evidence on electronics and production-linked investment.

5.2 Analytical approach

The analysis uses four techniques. First, trend analysis measures the change in total FDI inflows and computes compound annual growth over the observation period. Second, structural analysis examines sector, source-country, and state shares in FY 2024. Third, indicator triangulation compares the direction of FDI expansion with changes in exports, innovation, and logistics. Fourth, literature-based mechanism analysis evaluates whether observed patterns are consistent with established channels such as technology transfer, supplier linkages, and absorptive capacity. The compound annual growth rate is calculated as $CAGR = (\text{ending value} / \text{beginning value})^{(1/n)} - 1$, where n is the number of annual intervals. The method is intentionally non-causal. Annual national series are too short for a robust multivariate causal model when the dependent concept is multidimensional competitiveness and when policy changes, global demand, exchange rates, domestic investment, trade agreements, and macroeconomic shocks operate simultaneously. The evidence is therefore interpreted as structured association and mechanism-based assessment rather than as an estimate of the independent causal effect of FDI.

6. Results and Analysis

6.1 Expansion of FDI inflows

Table 1. Total FDI inflows into India, FY 2014-15 to FY 2024

Financial year	Total FDI inflow (USD bn)	Annual change
2014-15	45.148	-
2015-16	55.559	23.1%
2016-17	60.220	8.4%
2017-18	60.974	1.3%
2018-19	62.001	1.7%
2019-20	74.391	20.0%
2020-21	81.973	10.2%
2021-22	84.835	3.5%
2022-23	71.355	-15.9%
2023-24	71.279	-0.1%
2024	94.527	17.3%

Source: DPIIT, RBI-based FDI inflow statements. FY 2024 is provisional.

Total FDI inflows increased from USD 45.15 billion in FY 2014-15 to USD 94.53 billion in FY 2024. This represents an increase of approximately 109.4 percent and a compound annual growth rate of about 6.9 percent across the period. The path was not linear. Inflows rose strongly through FY 2021-22, declined in FY 2022-23 and remained broadly flat in FY 2023-24, before recovering to USD 80.62 billion in FY 2024-25 and reaching a provisional USD 94.53 billion in FY 2024. The latest increase occurred despite an uncertain global investment climate, indicating that India retained significant investor appeal.

The trend is important for competitiveness because a sustained foreign-investment base can finance capacity expansion and create repeated opportunities for technology and supplier linkages. However, the decline after FY 2021-22 also shows that FDI is sensitive to global cycles, portfolio restructuring, financing conditions, and multinational strategy. Competitiveness policy should therefore avoid dependence on continuously rising inflows and instead focus on the domestic capabilities created by each investment cycle.

6.2 Sectoral composition and the technology shift

Table 2. Leading sectors receiving FDI equity inflows in FY 2024

Sector	USD bn	Share of equity inflow
Computer software and hardware	13.946	23.70%
Services sector	10.010	17.01%
Trading	4.011	6.82%
Non-conventional energy	3.019	5.13%
Food processing industries	3.010	5.11%
Construction infrastructure activities	2.574	4.37%

Source: DPIIT sector-wise FDI equity inflow statement for FY 2024.

The sector pattern is consistent with a more technology- and services-intensive investment structure. Computer software and hardware alone accounted for nearly one-fourth of FDI equity inflows in FY 2024. Services accounted for another 17 percent. The combined role of digital and service activities matters because India's competitiveness increasingly rests on hybrid production systems in which software, design, analytics, finance, engineering, and business services support manufacturing and global operations. The presence of non-conventional energy and food processing among the leading sectors also broadens the competitiveness story. Renewable energy investment can lower the carbon intensity of future production and support firms facing international sustainability requirements. Food processing investment can raise quality standards, cold-chain efficiency, packaging, traceability, and access to global distribution. Infrastructure FDI has system-wide relevance because transport, warehousing, and urban capacity reduce the cost of exporting from many sectors rather than one industry alone. Sectoral concentration also creates a policy warning. High inflows into software and services do not automatically deepen domestic manufacturing. Cross-sector spillovers require deliberate linkages. Digital FDI is most valuable when it supports product development, industrial software, data infrastructure, cybersecurity, R&D, and advanced services that raise the productivity of Indian manufacturing and exporters.

6.3 Source-country concentration and strategic partnerships

Table 3. Leading source economies for FDI equity inflows in FY 2024

Source economy	USD bn	Share
Singapore	19.802	33.65%
United States	11.171	18.98%
Mauritius	6.576	11.18%
Japan	3.745	6.36%

Source economy	USD bn	Share
Netherlands	3.374	5.73%
United Arab Emirates	2.738	4.65%

Source: DPIIT country-wise FDI equity inflow statement for FY 2024.

The top five source economies accounted for roughly three-fourths of equity inflows in FY 2024. Singapore alone represented about one-third, followed by the United States. This concentration partly reflects the role of financial and holding-company structures, so source-country data should not always be interpreted as the ultimate nationality of the operating investor. Even so, the pattern demonstrates the importance of India's investment relationships with major Asian, North American, European, and financial-center partners. From a competitiveness perspective, the source of FDI matters when investors bring specialized technology, quality systems, supplier development, and market access. Japanese investment, for example, has historically been important in automobiles and manufacturing systems, while US investment is strongly connected with technology and services. The policy objective should be to diversify high-quality investment sources while deepening strategic partnerships in semiconductors, electronics, clean energy, aerospace, medical technology, advanced materials, and research-intensive services.

6.4 State concentration and the geography of competitiveness

Table 4. Top states and union territories receiving FDI equity inflows in FY 2024

State/UT	USD bn	Share
Maharashtra	18.418	31%
Karnataka	12.939	22%
Delhi	6.182	11%
Gujarat	5.713	10%
Tamil Nadu	4.724	8%

Source: DPIIT focus year statement for FY 2024.

FDI is geographically concentrated. Maharashtra and Karnataka together accounted for about 53 percent of state-attributed equity inflows in FY 2024, while the top five locations accounted for roughly 82 percent. This reflects agglomeration advantages: large urban markets, financial depth, technology clusters, ports, skilled labor, existing multinational networks, and stronger investment facilitation reinforce one another. Agglomeration can raise national competitiveness because dense clusters improve specialization and knowledge flows. However, excessive concentration can widen regional gaps and leave large parts of India outside multinational supplier networks. A stronger national strategy would connect tier-2 industrial cities and emerging states to established clusters through freight corridors, plug-and-play industrial land, power reliability, skilling institutions, testing facilities, and predictable state-level approvals. The objective is not to weaken successful clusters, but to create additional nodes capable of attracting specialized investment.

6.5 FDI, exports, and global value chain integration

Table 5. Selected indicators related to India's global competitiveness

Indicator	Earlier benchmark	Latest benchmark	Direction
Total FDI inflow	USD 45.15 bn (FY 2014-15)	USD 94.53 bn (FY 2024)	About 109% increase
Total exports	About USD 468 bn (FY 2014-15)	About USD 863 bn (FY 2024)	About 84% increase
Merchandise exports	About USD 310 bn	About USD 442 bn	About 43% increase
Services exports	About USD 158 bn	About USD 421 bn	About 167% increase
Global Innovation Index rank	81st (2015)	38th (2024)	43-place improvement
Logistics Performance Index rank	54th (2014)	38th (2023)	16-place improvement

Source: DPIIT; Ministry of Commerce and Industry; WIPO; World Bank. Years vary by indicator. Figures are rounded.

India's export expansion provides an important context for interpreting FDI. Total exports increased strongly between FY 2014-15 and FY 2024, with services exports growing much faster than merchandise exports. The parallel movement of FDI and exports is consistent with a positive role for multinational networks, but it should not be read as proof of causality. Exports also reflect exchange rates, world demand, domestic investment, trade policy, production incentives, and the competitiveness of Indian-owned firms. The strongest competitiveness case arises where FDI clearly becomes part of an export ecosystem. Multinational firms can provide access to global buyers, product specifications, certification, and logistics systems that would be costly for smaller domestic firms to build independently. Once local suppliers meet those standards, they may also gain access to customers outside the original multinational relationship. This is the central global value chain mechanism through which FDI can have effects beyond the foreign-owned enterprise itself. Official data show that electronic goods exports increased sharply over the last decade, while large-scale electronics manufacturing has attracted both foreign and domestic investment under an ecosystem that includes production incentives and supply-chain localization. By FY 2024, smartphones had become one of India's leading export products. The outcome cannot be assigned to FDI alone, but it demonstrates how market size, policy incentives, multinational assembly, component localization, logistics, and export networks can combine to create a new area of global competitiveness.

6.6 Innovation, technology, and absorptive capacity

India's rise in the Global Innovation Index from 81st in 2015 to 38th in 2024 provides evidence of a broader improvement in innovation capability. WIPO (2024) identifies India as a long-standing innovation overperformer relative to its income level and notes strengths in ICT services exports, venture activity, and knowledge outputs. These strengths create the absorptive capacity that the FDI literature identifies as necessary for technology spillovers. However, innovation capability is uneven. India's R&D expenditure remains modest

relative to GDP, and the depth of industrial R&D varies widely across firms and sectors. This means that foreign technology may diffuse most strongly into firms that already possess engineers, quality systems, R&D teams, and export experience. Policy should therefore connect investment attraction with domestic technology programs, research institutions, standards laboratories, and innovation finance. The objective is to make Indian firms capable partners rather than passive recipients of foreign technology. A high-quality FDI strategy should also encourage multinational R&D mandates in India. Design centers, engineering centers, clinical research, software development, semiconductor design, and advanced analytics can generate higher-value employment and knowledge networks than routine back-office activity alone. The growing scale of global capability centers offers India a platform to move from cost-based service competitiveness toward innovation-based competitiveness if research, product ownership, patents, and decision-making responsibilities deepen locally.

6.7 Manufacturing, productivity, and domestic value addition

Manufacturing remains central because it combines scale, tradability, supplier networks, and learning-by-doing. The Indian evidence reviewed earlier suggests that manufacturing FDI can be mutually reinforcing with output and can generate spillovers when domestic firms have adequate capability. Current policy therefore needs to distinguish between assembly expansion and deeper manufacturing. Assembly can be a valid first stage of industrialization, but competitiveness becomes more durable when components, tooling, materials, testing, design, maintenance, and process engineering are progressively localized.

Production-linked incentive schemes provide a complementary policy context. As of March 2024, official reporting indicated more than Rs. 2.4 lakh crore of realized investment across the PLI sectors, together with substantial production, exports, and employment. These totals include domestic as well as foreign investment, so they should not be used as an FDI impact estimate. Their relevance is institutional: they can influence where multinational firms locate capacity and whether domestic suppliers find sufficient scale to enter new value chains. For FDI to improve manufacturing competitiveness, supplier development must be treated as infrastructure. Global firms often require tight tolerances, traceability, delivery reliability, cyber-security, and environmental compliance. Smaller Indian suppliers may struggle to meet these requirements even when they are cost competitive. Shared testing facilities, supplier-finance programs, cluster-level technical centers, vendor development programs, and long-term procurement commitments can bridge this capability gap.

6.8 Green investment and resilience

The presence of non-conventional energy among leading FDI sectors is strategically important. Future export competitiveness will increasingly depend on carbon intensity, energy reliability, battery ecosystems, renewable power, green hydrogen, and compliance with environmental standards in destination markets. Foreign investors can contribute capital and technology in these areas, but the domestic development impact will be larger when clean-energy projects use local engineering, equipment, software, and maintenance capabilities. Resilience is another dimension of competitiveness. Global firms are diversifying supply chains to reduce concentration risk. India can benefit from this shift, but simply becoming an alternative assembly location is not enough. Resilient competitiveness requires domestic supplier redundancy, ports and freight capacity, trusted digital infrastructure, energy security, transparent standards, and predictable trade and tax administration. FDI can reinforce these assets, but it cannot substitute for them.

7. Discussion

7.1 FDI as a capability amplifier rather than a stand-alone driver

The combined evidence supports a conditional conclusion. FDI can strengthen India's global competitiveness, but its effect is best understood as an amplifier of domestic capability. Where India already has skilled workers, supplier clusters, digital capacity, engineering depth, and export infrastructure, foreign investment can scale

production rapidly and connect firms to global markets. Where those capabilities are weak, the same amount of FDI may create fewer spillovers and remain more dependent on imported inputs. This interpretation is consistent with the international literature on human capital and financial development and with Indian evidence on R&D and manufacturing spillovers. It also explains why the composition of FDI matters. Technology, electronics, engineering, renewable energy, pharmaceuticals, and research-intensive services have a larger potential knowledge content than investment directed primarily toward passive asset ownership. Policy should therefore evaluate FDI using capability metrics, not only dollar values.

7.2 Key risks and limitations of an FDI-led competitiveness strategy

- **Concentration risk:** investment is concentrated in a small number of states, source economies, and sectors. A shock affecting one technology segment or source market can therefore have disproportionate effects.
- **Weak domestic linkages:** a foreign plant can have high output but low domestic value addition if sophisticated inputs, equipment, and design remain imported.
- **Limited spillovers:** technology transfer is not automatic. Firms with low absorptive capacity may be unable to learn from multinational presence.
- **Crowding and market power:** large foreign firms may intensify competition in ways that weaken less productive domestic firms before they can upgrade, especially when access to finance is unequal.
- **Profit repatriation and external balances:** FDI can improve the capital account initially but later generates income payments abroad. The long-run balance depends on productivity, exports, and reinvestment.
- **Policy dependence:** incentives can attract projects, but excessive or unstable incentives may encourage location decisions that do not survive once support expires.
- **Data interpretation:** gross FDI, equity inflows, net FDI, announced projects, and realized investment are different measures. Mixing them can produce misleading conclusions.

These risks do not weaken the case for FDI. They clarify the conditions under which FDI creates durable national advantage. The policy standard should be whether foreign investment leaves India with stronger firms, workers, technologies, clusters, and export capabilities than would otherwise exist.

8. Policy Implications

Table 6. Policy framework for converting FDI into global competitiveness

Policy priority	Recommended action	Expected competitiveness effect
Shift from volume to quality	Track domestic value addition, export intensity, R&D, supplier purchases, training, and reinvestment alongside inflow value.	Higher developmental return per dollar of FDI
Build supplier capability	Create vendor-upgrading programs, testing centers, certification support, supplier finance, and cluster-level engineering services.	Stronger backward linkages and productivity spillovers

Policy priority	Recommended action	Expected competitiveness effect
Deepen R&D and skills	Link FDI facilitation with universities, R&D missions, apprenticeships, design centers, and industry-led technical curricula.	Greater absorptive capacity and technology diffusion
Broaden the geography	Develop additional investment nodes around corridors, ports, industrial parks, and tier-2 technology cities.	Reduced regional concentration and new clusters
Promote export-oriented mandates	Prioritize firms that place regional production, design, service, and export responsibilities in India.	Deeper GVC integration and foreign-market access
Strengthen green competitiveness	Align renewable energy, storage, mobility, and industrial decarbonization investment with local manufacturing.	Lower carbon intensity and resilient supply chains
Improve aftercare	Support existing investors in expansion, supplier discovery, R&D partnerships, and regulatory problem solving.	More reinvestment and embedded operations
Improve data quality	Publish consistent gross, net, equity, greenfield, reinvestment, sector, state, employment, and value-addition measures.	Better policy evaluation and academic analysis

Source: Author synthesis based on the study findings and FDI spillover literature.

First, India should explicitly adopt an FDI-quality dashboard. Traditional investment promotion emphasizes the total amount attracted and the number of projects. A competitiveness-oriented dashboard would also measure the share of local procurement, number of domestic suppliers upgraded, export intensity, skilled jobs created, R&D expenditure, patents or product mandates, training hours, energy efficiency, and reinvestment. These indicators are closer to the development channels identified in the literature. Second, supplier development should become a formal part of investment facilitation. When a major foreign investor is approved or supported, investment agencies can map potential domestic suppliers, identify capability gaps, coordinate testing and certification, and work with banks to finance necessary machinery. This approach converts multinational procurement into a mechanism for upgrading Indian firms. Third, policy should encourage a transition from production mandates to design and innovation mandates. India's software and engineering strengths create an advantage that many manufacturing locations do not possess. The next stage should integrate engineering services, embedded software, product design, advanced analytics, and manufacturing R&D. This raises the likelihood that strategic decision-making and intellectual property creation occur in India. Fourth, state-level competition for FDI should be balanced with national coordination. Investors benefit from clusters, but a national supplier network can spread gains beyond the host state. Corridor-based programs can connect firms in neighboring states to anchor multinational plants. Common standards, interoperable digital approvals, and freight connectivity can reduce the disadvantages of locations that are currently outside the largest FDI hubs. Fifth, India should maintain policy predictability while continuing liberalization where it improves competition and access to technology. Foreign investors make long-term decisions based on tax stability, contract

enforcement, customs procedures, land availability, power quality, data rules, and the ease of moving skilled personnel. Sudden policy changes can reduce the value of financial incentives. Consistency is therefore itself a competitiveness asset. Finally, FDI policy should be integrated with trade strategy. Firms invest for different reasons: to serve India's domestic market, to use India as an export base, to access skills, or to diversify global supply chains. Trade agreements, efficient customs, standards recognition, ports, and logistics determine whether India becomes a regional export platform. The strongest competitiveness gains occur when investment and trade policy reinforce one another.

9. Conclusion

India's FDI story has entered a new phase. The central question is no longer whether the country can attract large foreign investments, but whether those investments can be converted into globally competitive capabilities. Total FDI inflows more than doubled between FY 2014-15 and FY 2024, while the latest sectoral data show a strong role for software, hardware, services, renewable energy, and food processing. Export performance, innovation rankings, and logistics indicators have also improved over the broad reform period. The evidence reviewed in this article suggests that FDI contributes most to competitiveness when it transfers technology, develops suppliers, expands exports, builds skills, and embeds Indian operations in global production and innovation networks. These outcomes are conditional on human capital, domestic R&D, financial access, infrastructure, regulation, and local firm capability. The same inflow value can therefore have very different developmental consequences across sectors and states. For policy, the implication is clear: India should move from an attraction-centered FDI strategy toward a conversion-centered strategy. Success should be measured by what foreign investment leaves behind in the domestic economy: productive capacity, capable suppliers, advanced workers, patents and design mandates, export relationships, cleaner production, and resilient clusters. If India can deepen these linkages while broadening the regional distribution of investment, FDI can remain an important instrument for strengthening long-term global competitiveness rather than merely a headline capital flow.

10. Limitations and Scope for Future Research

The study has three main limitations. First, it relies on aggregate secondary data and therefore cannot isolate the causal effect of FDI from domestic investment, policy reforms, world demand, exchange-rate movements, or other macroeconomic influences. Second, several competitiveness indicators are available at different frequencies and for different reference years, limiting direct statistical comparison. Third, aggregate FDI measures do not reveal firm-level domestic value addition, technology transfer, wage effects, or supplier learning. Future research can extend the analysis using firm-level panel data, matched foreign-affiliate and domestic-supplier datasets, sector-specific export intensity, patent and R&D measures, and state-level investment outcomes. A particularly valuable extension would estimate whether foreign presence raises the productivity and export probability of Indian suppliers after controlling for firm characteristics and selection into multinational supply chains. Another avenue is to compare greenfield FDI with mergers and acquisitions, because the two modes may have different effects on new capacity, competition, and technology diffusion.

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