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FDI in Manufacturing Sector and Its Role in Viksit Bharat @2047

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Introduction

India's journey towards Vikasit Bharat by 2047 envisions a USD 30-40 trillion economy with per capita income reaching USD 13,000-18,000, emphasising self-reliance, innovation, and inclusive growth. Manufacturing, contributing around 15-17% to GDP, is central to this ambition, projected to reach USD 1 trillion by FY26 and create 100 million jobs. FDI serves as a catalyst, bridging investment gaps (targeting 40% of GDP), enabling technology infusion, and enhancing global competitiveness.

Post-2014 reforms, including Make in India and Production Linked Incentive (PLI) schemes, have liberalised FDI, allowing 100% automatic route in manufacturing. Cumulative FDI from April 2000 to December 2024 stands at USD 1.05 trillion, with manufacturing attracting USD 165 billion in 2014-2024—a 69% increase from the prior decade.This influx accelerates Viksit Bharat's mission, driving economic prosperity, ensuring social equity, and promoting sustainability.

LITERATURE REVIEW

Kumar and Gupta (2024) in "The Role of Foreign Direct Investment (FDI) in Realising Viksit Bharat @ 2047: A Management Perspective" employ an econometric framework (including VECM) over 2000–2023 data. They demonstrate FDI's positive long-run impact on GDP, employment, and capital formation, positioning it as a strategic tool for structural transformation, sustainability, and achieving developed-nation status by 2047 through targeted inflows in high-growth sectors.

ChandrakantiBehera (2023) in "Foreign Direct Investment and Technology Spillovers: An Analysis of Indian Manufacturing" uses firm-level panel data (2010–2018) to distinguish horizontal (intra-industry) and vertical (backward/forward inter-industry) spillovers. The study finds significant positive vertical spillovers, especially backward linkages, with industry heterogeneity as a key driver. It emphasises that technology intensity influences spillover magnitude, supporting FDI's role in productivity gains for domestic firms.

P. Sudhakar and Dr. R. Velmurugan (2023) in "Impact of Foreign Direct Investment in Indian Economic Growth" analyses sectoral FDI effects, finding a

positive correlation between FDI inflows and GDP growth, stock market performance (BSE Sensex), and employment. They emphasise technology transfer, skill enhancement, and job creation in manufacturing, noting FDI's cascading impact on broader economic indicators, relevant for inclusive growth toward Viksit Bharat.

SIGNIFICANCE OF THE STUDY

This study is significant as it provides empirical insights into the role of Foreign Direct Investment in strengthening India's manufacturing sector within the long-term development framework of Viksit Bharat @2047. By linking manufacturing FDI inflows with industrial output growth, real GVA contribution, and policy reforms, the study highlights both the growth-enhancing and structural limitations of FDI. It helps policymakers understand how FDI can be better leveraged through complementary domestic capacity building, supply-chain integration, and targeted incentives.

OBJECTIVES OF THE STUDY

1. To analyse trends in FDI inflows into India's manufacturing sector from 2014-2025.
2. To evaluate FDI's impact on manufacturing growth.
3. To assess FDI's alignment with Viksit Bharat 2047 goals, including GDP expansion.

METHODOLOGY

This study employs a secondary data-based quantitative approach to analyse the role of Foreign Direct Investment (FDI) in India's manufacturing sector and its alignment with the Viksit Bharat @2047 vision. The research is primarily descriptive and analytical, drawing on official time-series data to examine trends, correlations, and implications.

Data Sources

FDI Equity Inflows in Manufacturing, Manufacturing Share in Gross Value Added (GVA) at Constant Prices (Base 2011-12) and Index of Industrial Production (IIP) Growth Rate (%) Compiled from Department for Promotion of Industry and Internal Trade (DPIIT) factsheets, Press Information Bureau (PIB) releases, Ministry of Statistics and Programme Implementation (MoSPI) National Accounts Statistics, Provisional/Advance Estimates, and related press notes and government reports

Period of Study: The study covers Financial Years 2015-16 to 2024-25

Analytical Tools and Techniques: Trend analysis of year-on-year changes in FDI inflows, GVA share, and IIP growth to identify patterns, peaks, volatility, and the Pearson correlation coefficients among these variables.

LIMITATIONS OF THE STUDY

1. The study is based exclusively on secondary government data, which is subject to periodic revisions and aggregation biases that may affect accuracy.
2. Limited data granularity, particularly at sub-sectoral and state-wise levels, constrains deeper analysis of manufacturing FDI patterns.
3. Constant-price estimates are influenced by the 2011–12 base year, which may not fully capture recent structural changes in manufacturing.
4. The ten-year study period includes major disruptions such as the COVID-19 pandemic, introducing volatility and weakening long-term correlations.
5. The analysis is confined to the manufacturing sector, while projections for Viksit Bharat @2047 depend on uncertain future policy and implementation outcomes.

DATA PRESENTATION AND ANALYSIS

The empirical analysis of Foreign Direct Investment (FDI) inflows into India's manufacturing sector over the period FY 2015-16 to FY 2024-25 provides important insights into the evolving dynamics of industrial development and its alignment with the national vision of Viksit Bharat @2047. By examining manufacturing FDI trends alongside key performance indicators—manufacturing share in Gross Value Added (GVA) at constant prices and the Index of Industrial Production (IIP) growth rate—the study captures both the structural and cyclical dimensions of manufacturing growth.

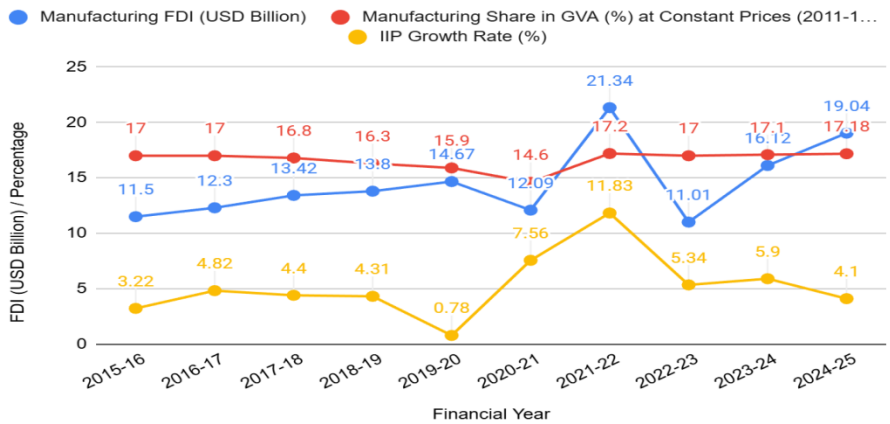
Table 1:Year-wise FDI (USD Billion) and Key Indicators % of Manufacturing Sector

Financial Year	Manufacturing FDI (USD Billion)	Manufacturing Share in GVA (%) at Constant Prices (2011-12 base)	IIP Growth Rate (%)
2015-16	11.5	17	3.22
2016-17	12.3	17	4.82

2017-18	13.42	16.8	4.4
2018-19	13.8	16.3	4.31
2019-20	14.67	15.9	0.78
2020-21	12.09	14.6	7.56
2021-22	21.34	17.2	11.83
2022-23	11.01	17	5.34
2023-24	16.12	17.1	5.9
2024-25	19.04	17.18	4.1
Correlation of Manufacturing FDI (USD Billion) and Manufacturing Share in GVA			0.3503037662
Correlation of Manufacturing FDI (USD Billion) and IIP Growth Rate			0.4818438161

Source:MoSPI,DPIIT&PIB releases

Figure 1: FDI and Key indicators of manufacturing Sector



Trends in Manufacturing FDI Inflows

The results indicate that manufacturing FDI inflows in India have exhibited a broadly upward trend, albeit with notable fluctuations. The steady increase in inflows during the pre-pandemic period (2015-16 to 2019-20) reflects the effectiveness of policy initiatives such as Make in India, easing of entry norms, and the liberalisation of FDI through the automatic route. These measures enhanced India's attractiveness as a manufacturing destination amid rising global production costs elsewhere.

The contraction in FDI inflows during FY 2020-21 corresponds with the global economic shock induced by the COVID-19 pandemic, which disrupted investment flows, supply chains, and industrial activity worldwide. However, the sharp surge in FY 2021-22 represents a strong post-pandemic recovery, driven by pent-up investment demand, global supply chain diversification strategies, and the introduction of targeted Production Linked Incentive (PLI) schemes. The subsequent moderation in inflows suggests a transition from recovery-led investment to a more stable, long-term investment phase.

Manufacturing Share in GVA: Structural Perspective

Despite rising FDI inflows, the manufacturing sector's share in GVA demonstrates a relatively gradual and uneven pattern of change. The decline in manufacturing's GVA share during the initial years of the study and its sharp fall in FY 2020-21 indicate persistent structural constraints, including productivity challenges, infrastructure gaps, and limited domestic value addition.

The recovery of manufacturing's GVA share from FY 2021-22 onwards highlights the delayed but positive impact of renewed investment flows and policy support. However, the moderate nature of this recovery suggests that while FDI contributes to output expansion, its ability to alter the sector's structural weight within the economy depends on complementary domestic reforms and absorptive capacity.

Industrial Output and IIP Growth

The IIP growth rate exhibits greater responsiveness to changes in FDI inflows compared to GVA share. Periods of higher FDI inflows coincide with improved industrial output performance, particularly during the post-pandemic rebound phase. The strong IIP growth observed in FY 2021-22 underscores the role of FDI in facilitating capacity expansion, technology adoption, and operational efficiency in manufacturing.

The stabilisation of IIP growth in the subsequent years reflects improving industrial resilience and a gradual return to trend growth, indicating that FDI has contributed to strengthening short- to medium-term production capabilities.

Correlation Analysis and Its Implications

The correlation analysis reinforces these observations. The moderate positive correlation (0.35) between manufacturing FDI and manufacturing share in GVA suggests that FDI supports structural expansion of manufacturing, though the relationship is neither immediate nor exclusive. This indicates that structural transformation requires sustained investment, domestic capital formation, and institutional support beyond FDI inflows alone.

In contrast, the relatively stronger positive correlation (0.48) between manufacturing FDI and IIP growth rate indicates that FDI has a more pronounced influence on industrial output and cyclical performance. This finding aligns with existing literature emphasising FDI's role in enhancing productivity, introducing advanced technologies, and improving managerial practices.

Implications for Viksit Bharat @2047

1. The vision of Viksit Bharat @2047 aims to transform India into a developed economy with a GDP of USD 30–40 trillion and per capita income of USD 13,000–18,000 by the centenary of independence. Achieving this ambition requires a structural shift toward manufacturing-led growth, with the sector's share in GDP rising from the current 13–17 per cent to nearly 25 per cent by 2047. This implies manufacturing value addition of approximately USD 7.5 trillion and sustained annual growth of around 15 per cent.
2. Foreign Direct Investment (FDI) plays a catalytic role in enabling this transformation. Manufacturing FDI inflows increased from USD 11.5 billion in FY 2015-16 to a peak of USD 21.34 billion in FY 2021-22, recovering to USD 19.04 billion in FY 2024-25. Post-2014 policy reforms, including *Make in India*, liberalised FDI norms, and Production Linked Incentive (PLI) schemes, have attracted cumulative manufacturing FDI of nearly USD 165–184 billion, addressing India's long-term investment gap through non-debt capital, technology transfer, and capacity expansion.
3. Empirical evidence indicates a moderate positive correlation between manufacturing FDI and industrial output growth (r = 0.48), highlighting FDI's role in enhancing production, efficiency, and capacity utilisation. While the correlation between FDI and manufacturing's share in real GVA

is weaker (r = 0.35), FDI has contributed to output stability through productivity gains and integration into global value chains.

4. Beyond output effects, manufacturing FDI supports employment generation, export competitiveness, innovation, and sustainability. By strengthening domestic capabilities while reducing import dependence, FDI complements the objective of Aatmanirbhar Bharat and emerges as a critical pathway toward achieving Viksit Bharat @2047.

FINDINGS

1. Manufacturing FDI inflows showed sustained long-term growth from FY 2015-16 to FY 2024-25 despite short-term volatility caused by global shocks, reflecting sectoral resilience and rising investor confidence.
2. Policy initiatives such as *Make in India*, liberalised FDI norms, and PLI schemes significantly boosted manufacturing FDI, resulting in cumulative inflows of USD 165–184 billion post-2014.
3. A moderate positive correlation (r = 0.4818) between FDI and IIP growth indicates that FDI supports industrial output expansion and efficiency gains.
4. The weak correlation with manufacturing GVA share (r = 0.3503) suggests limited structural transformation through FDI alone.
5. Post-pandemic recovery in FY 2021-22 was strongly supported by FDI-driven investment and supply-chain diversification.
6. Manufacturing FDI aligns closely with employment, exports, and self-reliance goals under Viksit Bharat @2047.

SUGGESTIONS

1. Ensure continued policy stability, regulatory simplification, and predictable taxation to sustain investor confidence and attract long-term manufacturing FDI.
2. Strengthen domestic absorptive capacity through investments in infrastructure, logistics, skill development, and technology adoption, particularly in MSMEs and manufacturing clusters.
3. Promote sector-specific and high-value manufacturing FDI by targeting technology-intensive areas such as electronics, EVs, semiconductors, pharmaceuticals, and green manufacturing.
4. Enhance backward and forward linkages by encouraging local sourcing, supplier development, and technology spillovers between foreign firms and domestic enterprises.

5. Align manufacturing FDI strategies with export promotion and sustainability objectives to improve global competitiveness and support green industrial growth.
6. Improve data granularity and monitoring by strengthening sector-wise and state-wise FDI reporting for evidence-based policy formulation under Viksit Bharat @2047.

CONCLUSION

The study concludes that Foreign Direct Investment has played a critical enabling role in strengthening India's manufacturing sector, particularly by supporting capital formation, technology infusion, and post-pandemic recovery. While manufacturing FDI has shown resilience and a positive impact on industrial output growth, its influence on raising the sector's share in real GDP remains limited. This indicates that FDI, though necessary, is not sufficient on its own to achieve manufacturing-led transformation. Achieving the objectives of Viksit Bharat @2047 will therefore require complementing FDI inflows with robust domestic capacity building, deeper supply-chain integration, and sustained policy support.

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