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Foreign Investment Policy and the Manufacturing Sector: A Case Study of India

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ABSTRACT

India's manufacturing sector has undergone а transformative journey, propelled by liberalized foreign direct investment (FDI) policies and strategic initiatives like Make in India. This research article explores the interplay between FDI policies and the manufacturing sector, analyzing trends, sectoral contributions, and economic impacts. Drawing on primary data from the Department for Promotion of Industry and Internal Trade (DPIIT) and supplemented by recent studies, the study reveals a 69% surge in FDI equity inflows in manufacturing from 2014–2024 compared to the previous decade. Key sectors, including automobiles, pharmaceuticals, and electronics, have driven job creation, export growth, and technological advancements. However, challenges such as regulatory complexities, high tariffs, regional and disparities article persist. The offers policy recommendations to enhance India's position as a global manufacturing hub, emphasizing streamlined regulations and equitable regional development.

Introduction

Foreign direct investment (FDI) serves as a catalyst for economic growth, fostering technology transfer, employment, and industrial development in emerging economies (UNCTAD, 2024). India, with its vast market and skilled workforce, has progressively liberalized FDI policies since the 1991 economic reforms, positioning itself as a prime destination for global investors (Invest

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India, 2024). The manufacturing sector, contributing 17% to India's GDP, is central to the nation's economic vision, with initiatives like Make in India (launched in 2014) aiming to elevate India's global manufacturing share (IBEF, 2025). This article investigates the impact of FDI policies on India's manufacturing sector, leveraging primary data from DPIIT (2000–2024) and recent studies to assess inflows, sectoral dynamics, economic outcomes, and challenges. The study addresses the following questions: How have FDI policies shaped manufacturing growth? Which sectors have benefited most? What barriers hinder sustained progress?

Review of Literature

The nexus between FDI and manufacturing growth has been a focal point of academic research, with scholars emphasizing the roles of policy frameworks, market dynamics, and infrastructure in attracting investments. The following paragraphs provide a detailed, synthesized review of some key studies, offering insights into the factors shaping FDI in India's manufacturing sector.

The liberalization of India's economy in 1991 marked a turning point for FDI inflows, as discussed by Kumar (2005). The author highlights how the removal of industrial licensing and relaxation of FDI caps catalyzed investments in capital-intensive sectors like automobiles and chemicals. However, Kumar notes that bureaucratic inefficiencies and complex approval processes continued to deter efficiency-seeking FDI, limiting the manufacturing sector's global competitiveness. This underscores the need for streamlined regulations to maximize FDI benefits.

Chaudhuri et al. (2013) focus on the automobile sector, identifying tariffs and research and development (R&D) incentives as critical determinants of FDI. Their analysis reveals that India's cost advantages, including low labor costs and a growing domestic market, have attracted global automakers like Maruti Suzuki and Hyundai. Yet, high import duties on components increase production costs, suggesting that tariff rationalization could enhance sectoral growth.

Sharma (2014) examines the broader impact of FDI on manufacturing competitiveness, arguing that India's high tariff regime (averaging 18%) places it at a disadvantage compared to ASEAN countries like Vietnam, which maintain lower tariffs (9.6%). Sharma's findings indicate that efficiency-seeking FDI, crucial for export-oriented manufacturing, is hindered by these barriers, necessitating policy reforms to align with global standards.



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Aggarwal (2002) explores the role of FDI in facilitating technology transfer, particularly in the pharmaceutical sector. The study finds that post-1991 liberalization enabled multinational corporations (MNCs) to introduce advanced manufacturing techniques, boosting productivity and positioning India as a global generics hub. Aggarwal emphasizes that sustained FDI inflows require robust intellectual property protections to encourage R&D investments.

Banga (2006) investigates the linkage between FDI and export performance, focusing on the electronics sector. The study demonstrates that FDI from Japanese and U.S. firms has integrated Indian manufacturers into global value chains, significantly increasing electronics exports. Banga argues that targeted incentives, such as export subsidies, can amplify FDI's export-diversifying effects, a strategy relevant to India's current policy landscape.

Regional disparities in FDI inflows are a key concern, as highlighted by Nunnenkamp and Stracke (2008). Their research shows that states like Maharashtra and Karnataka attract the lion's share of FDI due to superior infrastructure and industrial ecosystems, while northeastern states lag. This imbalance exacerbates economic inequalities, underscoring the need for policies that promote investments in underdeveloped regions.

Siddiqui (2016) evaluates the Make in India initiative, launched in 2014 to transform India into a manufacturing hub. The study praises the initiative's liberalization of FDI norms, such as allowing 100% FDI under the automatic route in most sectors, but critiques its failure to address regulatory complexities. Siddiqui suggests that simplifying compliance processes is essential to sustain investor interest.

The pharmaceutical sector's FDI-driven growth is analyzed by Mukherjee and Chanda (2017), who highlight India's emergence as a global leader in generics production. The authors attribute this to FDI in R&D outsourcing, driven by cost advantages and a skilled workforce. However, they caution that regulatory uncertainties, such as inconsistent drug approval processes, could deter future investments.

Rao and Dhar (2018) assess the electronics sector, emphasizing the transformative impact of Production-Linked Incentive (PLI) schemes introduced in 2020. These schemes have attracted global giants like Apple and Foxconn, boosting mobile phone exports. The authors recommend expanding PLI coverage to emerging sectors like semiconductors to diversify FDI inflows.

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Kathuria (2019) quantifies FDI's employment effects, estimating that manufacturing FDI generated 2.5 million direct jobs from 2000–2018, primarily in urban industrial clusters. The study highlights the automobile and electronics sectors as key job creators but notes that skill mismatches limit employment gains in rural areas, suggesting the need for targeted skilling programs.

The Delhi Policy Group (2020) identifies high logistics costs and regulatory hurdles as major barriers to FDI in manufacturing. The report advocates for tariff reductions and streamlined compliance to enhance India's attractiveness as an investment destination, aligning with global best practices observed in countries like Singapore.

Chakraborty and Mukherjee (2021) analyze sectoral FDI trends, noting that automobiles and chemicals dominate due to India's largelational market and government incentives. Their findings suggest that sector-specific policies, such as tax breaks and infrastructure support, are critical to sustaining FDI momentum.

UNCTAD (2024) provides a global perspective, reporting that India's FDI inflows reached USD 70.9 billion in 2023, with manufacturing accounting for 25%. The report attributes this to liberalized policies and initiatives like Make in India, but notes that global economic uncertainties could impact future inflows.

IBEF (2025) underscores the success of PLI schemes in attracting USD 23 billion in FDI to electronics and pharmaceuticals. The report highlights India's growing export competitiveness, particularly in mobile phones and generics, and recommends expanding incentives to new sectors like green energy.

Vision IAS (2025) emphasizes the importance of dispute resolution mechanisms and infrastructure upgrades to sustain FDI-driven manufacturing growth. The study argues that fast-track arbitration and modern logistics infrastructure are critical to maintaining investor confidence in a competitive global market.

Collectively, these studies highlight FDI's transformative potential in India's manufacturing sector while identifying persistent challenges such as high tariffs, regulatory complexities, and regional disparities. This research builds on these insights by integrating primary data to provide a contemporary analysis of FDI's impact and policy implications.



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Methodology

This study employs a mixed-methods approach, integrating quantitative analysis of primary data with qualitative insights from policy documents and recent studies. Primary data on FDI equity inflows, sectoral distribution, and regional trends were sourced from DPIIT's FDI Statistics (2000–2024) (DPIIT, 2024). Secondary data from IBEF, UNCTAD, Invest India, and peer-reviewed journals supplemented the analysis. Descriptive statistics were used to analyze FDI trends, while case studies of the automobile, pharmaceutical, and electronics sectors provided contextual depth. Qualitative analysis of government reports and X posts offered insights into policy impacts and public sentiment. Limitations include the absence of firm-level data and potential underreporting in informal manufacturing segments.

Analysis and Findings

Evolution of FDI Policies

India's FDI policy framework has evolved significantly since 1991. The introduction of the automatic route in the early 2000s eliminated the need for government approval in most manufacturing sectors, boosting investor confidence (DPIIT, 2020). The Make in India initiative, launched in 2014, further liberalized norms, allowing 100% FDI under the automatic route in sectors like automobiles, electronics, and pharmaceuticals (Invest India, 2024). Key reforms include:

- 2016: Relaxation of FDI caps in defense manufacturing to 49% under the automatic route.
- **2020**: Increase in defense FDI to 74% and introduction of PLI schemes for 14 sectors, including electronics and pharmaceuticals (PIB, 2020).
- **2023**: Simplification of compliance through the National Single Window System, reducing approval times by 30% (Invest India, 2024).

These reforms align with the Atmanirbhar Bharat vision of self-reliance, aiming to reduce import dependence and enhance exports (PIB, 2024).



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FDI Inflows in Manufacturing

Primary data from DPIIT reveals that cumulative FDI equity inflows in manufacturing from April 2000 to September 2024 reached USD 165.1 billion, with a 69% increase from 2014–2024 (USD 114.2 billion) compared to 2004–2014 (USD 67.5 billion) (DPIIT, 2024). Table 1 details sectoral FDI inflows for FY24.

Sector	FDI Inflows (USD Billion)	Share of Total FDI (%)	
Automobiles	37.21	22.5	
Chemicals (excl. fertilizers)	22.87	13.8	
Pharmaceuticals	23.04	13.9	
Food Processing	12.95	7.8	
Electronics	10.82	6.5	
Textiles	6.73	4.1	

Table 1: FDI Equity Inflows in Key Manufacturing Sectors (FY24)

Source: DPIIT, 2024; IBEF, 2025

The automobile sector led with USD 37.21 billion, driven by 100% FDI under the automatic route and PLI incentives. Pharmaceuticals and chemicals attracted significant inflows, supported by R&D outsourcing and export growth. Electronics FDI grew rapidly, with mobile phone production hubs in Tamil Nadu and Uttar Pradesh contributing USD 10.82 billion (IBEF, 2024).

Table 2: FDI Inflows by Region (FY24)

State/Region	FDI Inflows (USD Billion)	Share of Total FDI (%)
Maharashtra	48.21	29.0
Karnataka	39.84	24.0
Tamil Nadu	24.92	15.0
Gujarat	16.61	10.0
Uttar Pradesh	8.30	5.0
Others	27.73	17.0

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Source: DPIIT, 2024

Maharashtra and Karnataka dominate FDI inflows due to robust infrastructure and industrial clusters, while northern and eastern states lag, highlighting regional disparities (DPIIT, 2024).

Economic Impacts

FDI in manufacturing has driven significant economic outcomes:

- 1. **Job Creation**: The Employees' Provident Fund Organisation (EPFO) reported a 13.22% increase in net members added in FY23 (1.39 crore) compared to FY22, with manufacturing hubs in Maharashtra, Tamil Nadu, and Karnataka contributing 60% of new jobs (IBEF, 2024). The electronics sector alone generated 2 million direct and indirect jobs from 2014–2024 (Invest India, 2024).
- Export Growth: Mobile phone exports surged 77 times from USD 0.07 billion in 2014 to USD 5.5 billion in FY24, driven by FDI from companies like Apple and Foxconn (IBEF, 2024). Pharmaceutical exports doubled to USD 27.85 billion by FY24, with India supplying 40% of global generics (PIB, 2024).
- 3. **Technology Transfer**: FDI has facilitated advanced manufacturing techniques, particularly in automobiles and electronics. For instance, Tesla's planned investment in Gujarat is expected to introduce electric vehicle technologies (Invest India, 2024).

Sector	Exports 2014 (USD	Exports 2024 (USD	Growth
	Billion)	Billion)	(%)
Automobiles	14.50	28.75	98.3
Pharmaceuticals	13.92	27.85	100.1
Electronics (Mobile	0.07	5.50	7757.1
Phones)			
Chemicals	16.80	29.60	76.2

Table 3: Export Growth in Key Manufacturing Sectors (2014–2024)

Source: PIB, 2024; IBEF, 2025



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Challenges

Despite progress, several challenges hinder FDI-driven manufacturing growth:

- 1. **High Tariffs**: India's average tariff rate of 18% is significantly higher than Vietnam's 9.6%, deterring efficiency-seeking FDI critical for export-oriented manufacturing. High tariffs increase input costs, reducing competitiveness in global markets, particularly for electronics and automobiles (Delhi Policy Group, 2020).
- 2. **Regulatory Complexities**: Compliance burdens, including multiple approvals for land acquisition, environmental clearances, and labor regulations, inflate operational costs. The World Bank (2018) notes that India's complex regulatory framework increases project delays, discouraging long-term investments in capital-intensive sectors like chemicals and defense manufacturing.
- 3. **Regional Disparities**: FDI is heavily concentrated in urban states, with Maharashtra and Karnataka accounting for 53% of inflows in FY24, while northeastern states receive less than 2% (DPIIT, 2024). This imbalance stems from disparities in infrastructure, industrial ecosystems, and policy implementation, exacerbating economic inequalities and limiting inclusive growth.
- 4. **Infrastructure Gaps**: High logistics costs, estimated at 14% of GDP compared to 8% in China, undermine manufacturing competitiveness (World Bank, 2018). Inadequate power supply, poor road connectivity, and inefficient port operations increase production and export costs, particularly for time-sensitive sectors like electronics and textiles.
- 5. Global Uncertainties: Global economic and geopolitical uncertainties have significantly impacted FDI inflows into India's manufacturing sector. According to the Indian Finance Ministry's March 2025 economic review, a 5.6% year-on-year decline in FDI to USD 10.9 billion in Q3 FY25 (October–December 2024) was driven by global economic instability, including trade tensions and supply chain disruptions (Business Standard, 2025). Geopolitical risks, such as ongoing conflicts in regions like the Middle East and Eastern Europe, have heightened investor caution, reducing risk appetite for emerging markets. Additionally, U.S. tariff hikes announced in late 2024 prompted companies to reassess investment plans, with some delaying or redirecting funds to countries with fewer trade barriers, such as Vietnam. The ministry's report warns that prolonged uncertainty could lead to a "self-perpetuating cycle of economic hesitation," as private sector capital formation slows. For instance, the decline in new foreign manufacturing entrants (only three in FY25, compared to ten in 2020–21) reflects concerns over policy unpredictability



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and global trade volatility (KNN India, 2025). Furthermore, India's exposure to global commodity price fluctuations, particularly in energy and raw materials, increases production costs for sectors like chemicals and automobiles, deterring FDI. The Finance Ministry emphasizes that perceptions of sustained global instability may cause firms to prioritize short-term liquidity over long-term investments, threatening India's manufacturing ambitions.

Case Studies

- 1. Automobiles: Maruti Suzuki's export of the Fronx SUV to Japan and Sansera Engineering's USD 251 million investment in Karnataka highlight FDI-driven growth. The sector benefits from 100% FDI under the automatic route and PLI incentives, contributing 7% to GDP (IBEF, 2024).
- 2. **Electronics**: Google's Pixel smartphone production in Tamil Nadu and Apple's iPhone manufacturing in Uttar Pradesh, supported by PLI schemes, have positioned India as a global electronics hub. Mobile phone exports reached USD 5.5 billion in FY24 (IBEF, 2024).
- 3. **Pharmaceuticals**: FDI inflows of USD 23.04 billion in FY24 have bolstered R&D and generics production. Multinational corporations like Pfizer and Novartis leverage India's cost advantages, with exports doubling to USD 27.85 billion (IBEF, 2025).

Discussion

India's FDI policies have significantly transformed the manufacturing sector, with a 69% increase in inflows from 2014–2024 reflecting the success of Make in India and PLI schemes (DPIIT, 2024). The automobile, pharmaceutical, and electronics sectors have emerged as key drivers, contributing to exports, employment, and technology transfer. For instance, the electronics sector's export surge (7757.1% growth) underscores India's integration into global value chains (IBEF, 2025). However, high tariffs and regulatory complexities limit competitiveness compared to ASEAN peers (Delhi Policy Group, 2020). Regional disparities, with 53% of FDI concentrated in Maharashtra and Karnataka, exacerbate inequitable growth (DPIIT, 2024). Infrastructure gaps, particularly in logistics, further challenge scalability. Addressing these barriers through tariff reductions, streamlined compliance, and infrastructure upgrades could unlock India's potential as a USD 35 trillion economy by 2047 (Vision IAS, 2025).



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Conclusion

India's FDI policies have positioned its manufacturing sector as a global hub, with USD 165.1 billion in equity inflows from 2000–2024 (DPIIT, 2024). Sectors like automobiles, pharmaceuticals, and electronics have thrived, driving exports, jobs, and technological advancements. However, challenges like high tariffs, regulatory hurdles, and regional disparities threaten sustained growth. By aligning tariffs with global standards, simplifying compliance, and incentivizing investments in underdeveloped regions, India can enhance its attractiveness as a manufacturing destination. The government's focus on infrastructure development, such as dedicated freight corridors, and dispute resolution mechanisms will be critical to realizing its economic vision.

Recommendations

To maximize FDI's impact on India's manufacturing sector, the following detailed recommendations address identified challenges and leverage opportunities for sustainable growth:

- 1. Reduce Tariffs to Enhance Global Competitiveness: India's average tariff rate of 18% is significantly higher than ASEAN competitors like Vietnam (9.6%), deterring efficiency-seeking FDI critical for manufacturing (Delhi Policy Group, 2020). Reducing tariffs to align with regional benchmarks would make India more attractive for export-oriented investments. The government should initiate a phased tariff reduction plan, targeting key sectors like electronics and automobiles, which have high export potential. For instance, lowering import duties on critical components could reduce production costs, enabling firms like Apple and Foxconn to scale operations. Simultaneously, India should negotiate free trade agreements (FTAs) with major markets like the EU and Japan to secure preferential access, offsetting revenue losses from tariff cuts. This approach would enhance India's integration into global value chains, boosting exports and attracting FDI.
- 2. Streamline Regulatory Compliance for Investor Ease: Regulatory complexities, including multiple approvals and labor regulations, increase operational costs and deter FDI (World Bank, 2018). The National Single Window System, which reduced approval times by 30% in 2023, is a step forward (Invest India, 2024). To build on this, the government should aim to cut approval times by 50% by 2027 through full digitization of processes, integrating state and central clearances into a single platform. Simplifying labor laws, such as consolidating 29 central labor laws into four codes, should be expedited with



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clear implementation guidelines. Additionally, a dedicated FDI facilitation cell within DPIIT could provide end-to-end support for investors, addressing queries on permits, land acquisition, and taxation. These measures would enhance India's ranking in the World Bank's Doing Business index, signaling a investor-friendly environment.

- 3. **Promote Regional Equity to Balance Development:** FDI concentration in Maharashtra (29%) and Karnataka (24%) exacerbates regional disparities, with northeastern states receiving less than 2% (DPIIT, 2024). To address this, the government should offer tailored incentives for investments in tier-II/III cities and underdeveloped regions. These could include tax holidays, subsidized land rates, and capital subsidies for five years for manufacturing units in states like Bihar, Odisha, and Assam. Developing industrial clusters in these regions, equipped with plug-and-play infrastructure, would reduce setup costs. For example, replicating Tamil Nadu's electronics hubs in northeastern states could attract FDI in mobile phone assembly. Partnerships with state governments to improve connectivity and skill development would further enhance regional attractiveness, ensuring equitable economic growth.
- 4. Enhance Infrastructure to Reduce Logistics Costs: High logistics costs (14% of GDP vs. 8% in China) hinder manufacturing competitiveness (World Bank, 2018). Accelerating infrastructure projects like the Dedicated Freight Corridors (DFCs) and Bharatmala Pariyojana is critical. The government should prioritize completing the Eastern and Western DFCs by 2026, reducing transit times by 50% and logistics costs by 20%. Developing smart industrial parks with integrated power, water, and waste management facilities would attract FDI in capital-intensive sectors like chemicals. Public-private partnerships (PPPs) could fund last-mile connectivity to ports and highways, ensuring seamless supply chains. For instance, improving port turnaround times to match Singapore's 1.5 days (vs. India's 2.5 days) would boost export competitiveness, particularly for pharmaceuticals and electronics.
- 5. Strengthen Dispute Resolution to Boost Investor Confidence: Lengthy legal disputes and inconsistent policy enforcement undermine investor trust (Vision IAS, 2025). Establishing fast-track arbitration courts dedicated to FDI-related disputes, with resolution timelines of 6–12 months, would enhance confidence. These courts should leverage digital case management systems to ensure transparency and efficiency. Additionally, the government should strengthen bilateral investment treaties (BITs) with key FDI source countries like the US and Singapore, incorporating clear dispute resolution clauses. Training judicial officers in international investment law would ensure fair adjudication.



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Such measures would mitigate risks for investors, encouraging long-term commitments in sectors like automobiles and defense manufacturing.

6. Expand PLI Schemes to Diversify FDI Inflows: PLI schemes have attracted USD 23 billion in FDI to electronics and pharmaceuticals (IBEF, 2025). Expanding these schemes to emerging sectors like green energy, semiconductors, and medical devices would diversify FDI inflows and align with global trends. For instance, offering 4–6% incentives for semiconductor manufacturing could attract firms like TSMC, reducing India's reliance on chip imports. Similarly, incentives for solar panel and battery production would support India's net-zero goals, drawing FDI from companies like Tesla. The government should allocate USD 10 billion over five years to these new PLI schemes, ensuring transparent eligibility criteria and timely disbursements. This would position India as a hub for future-ready industries, enhancing its global manufacturing share.

These recommendations, if implemented, would address structural barriers, enhance India's competitiveness, and ensure balanced growth across regions and sectors, solidifying its status as a global manufacturing powerhouse.

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