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India’s economic rise and the role of Western multinationals



INTRODUCTION

Over the past few decades, India has developed into one of the most important economies in the world. Its economy has nearly quadrupled in real terms since 2000, while income per person has almost tripled.

More recently, India remained the fastest-growing major economy in 2025–2026, with an economic growth of 7.6%.

One important factor behind this transformation has been foreign direct investment (FDI). Western and other international multinational companies have invested billions of dollars in Indian factories, offices, research centers, digital infrastructure and supply chains.

FDI has consequently become an important part of India's integration into the global economy. Total FDI inflows reached about $81 billion in 2024–2025, compared with only $36 billion in 2013–2014. Manufacturing FDI alone reached approximately $19 billion in 2024–2025.

This illustrates how India has evolved from mainly being associated with low-cost services and outsourcing into a country that also attracts investment in manufacturing, electronics, artificial intelligence, cloud computing and semiconductors.

WHY IS INDIA SO ATTRACTIVE TO MULTINATIONAL COMPANIES?

One of India's greatest advantages is its enormous population and domestic market. A multinational investing in India is not simply looking for a cheap production location from which products can be exported. It can also gain access to a huge and expanding consumer market. As incomes rise, hundreds of millions of Indian consumers represent potential customers for smartphones, cars, financial services, online shopping, entertainment and many other products.



A second major advantage is human capital. India has a large workforce and an especially important pool of engineers, IT specialists and other technically educated workers. This makes the country attractive not only for relatively labour-intensive production but also for sophisticated activities such as software development, research, cloud computing and artificial intelligence. Large technology companies are investing heavily in Indian AI and cloud infrastructure partly because they can benefit from this engineering workforce.

India also has a long tradition of English-language education and business services, making communication with American and European companies comparatively easy. This helped India become an important location for software development, call centers, accounting and other business services. Today, however, the country increasingly wants to move higher up the value chain.

Government policy has reinforced this development. India has gradually liberalized its FDI rules, and most sectors allow up to 100% FDI. Programmes supporting domestic manufacturing have also encouraged international companies to establish or expand production in India.



Another important factor is the changing geopolitical environment. Multinationals increasingly want to diversify their global value chains rather than depend too heavily on one production country, particularly China. India offers a combination of scale, labour, engineering talent and a large internal market. This makes it an important potential location in companies' supply-chain diversification strategies.

EXAMPLES OF MULTINATIONAL INVESTMENT

Apple has considerably expanded iPhone production in India through manufacturing partners such as Foxconn and Tata Electronics. By 2025, India accounted for roughly a quarter of global iPhone shipments. This is significant because smartphone production can create an entire ecosystem around assembly, components, logistics and suppliers.

The American company Amazon has invested heavily in e-commerce, logistics, cloud computing and digital infrastructure in India. In 2026, Amazon announced another $13 billion for AI and cloud infrastructure, bringing its planned investment for 2026–2030 to $48 billion. The company says its activities have helped digitize millions of Indian small businesses and supported millions of jobs.



India is also trying to become more important in the semiconductor industry. In September 2026, American semiconductor-equipment producer Applied Materials announced plans to invest $5 billion over ten years in India, focusing on research, supply chains and workforce development. India itself has committed substantial government incentives to developing its semiconductor ecosystem.

These examples demonstrate an important change. Foreign investment in India is no longer concentrated only in activities based on cheap labour. Increasingly, multinationals are investing in technology, advanced manufacturing, AI, digital services and research.

POSITIVE CONSEQUENCES FOR INDIA

The first important benefit is economic growth. Foreign companies bring additional capital into India. This money can finance factories, offices, warehouses, data centers, machinery and other productive assets. The course material similarly identifies a positive relationship between FDI and Indian economic growth, explaining that FDI provides additional resources that the economy cannot generate entirely by itself.

A second major benefit is job creation. A new factory directly employs production workers, engineers, managers and administrative personnel. But there are also indirect employment effects. A multinational needs suppliers, transportation, construction, security, catering, financial services and many other supporting activities. Foreign investment can therefore generate employment beyond the multinational itself.

Third, FDI can lead to knowledge and technology transfer. Indian employees working for technologically advanced multinationals learn new production methods, management techniques and technological skills. Domestic suppliers may have to improve their quality standards to meet the requirements of international companies. Employees may eventually leave multinational firms and start their own businesses. In this way, foreign knowledge can gradually spread throughout the economy. The course therefore describes knowledge and technology transfer as a possible “engine of innovation.”



A fourth benefit is infrastructure development. International companies need reliable electricity, roads, ports, telecommunications and digital infrastructure. Their presence can therefore encourage both private and public investment in infrastructure. The expansion of e-commerce and cloud computing, for instance, stimulates investment in warehouses, delivery networks and data centers.

Foreign investment can also strengthen India's exports. If multinational companies manufacture goods or provide services in India and then sell them abroad, India becomes more deeply integrated into global value chains. Instead of merely importing sophisticated products, India can participate in producing and exporting them.

Finally, foreign investment can increase government revenues, directly or indirectly. Economic activity generates corporate taxes, personal income taxes and other government revenues. These resources can, in principle, be used for infrastructure, education, healthcare and other public services.

The broader transformation of India has already produced important improvements in living standards. The World Bank reports that extreme poverty declined substantially over the past decade, although this progress obviously cannot be attributed to FDI alone.

NEGATIVE CONSEQUENCES AND RISKS FOR INDIA

The impact of FDI is not automatically positive, however. One problem is that the benefits may be unequally distributed. Highly educated engineers and urban workers may benefit enormously from foreign technology companies, while low-skilled workers and people in poorer rural regions may benefit much less. India still faces substantial regional inequalities and unequal access to high-quality education and healthcare. Economic growth can therefore occur without all groups benefiting equally.



A second problem concerns working conditions and exploitation.

One reason companies offshore production is that labour can be cheaper than in Western economies. This creates employment, but the pressure to keep costs low can also result in poor working conditions or weak worker protection, particularly further down complex supply chains. The course identifies the risk of exploitation and poor working conditions as one of the possible negative effects of offshoring on emerging economies.

There are also environmental costs. Rapid industrialization requires enormous amounts of energy, land, water and raw materials. Factories and transportation networks can increase pollution and greenhouse-gas emissions if growth is not accompanied by environmental regulation and cleaner technologies. India is already highly vulnerable to climate change and natural disasters, making the environmental dimension of industrial expansion particularly important.



Another disadvantage is that a significant part of the profits generated by foreign subsidiaries may eventually flow back to the multinational's home country. An American company can employ Indian workers and pay Indian taxes, but dividends and other profits may ultimately be transferred to shareholders abroad. The host country therefore does not necessarily retain the full value created by foreign investment. This is another negative effect of FDI explicitly identified in the course.

India may furthermore develop a degree of dependence on foreign companies and foreign capital. If a region becomes heavily dependent on one multinational employer, the decision of that company to relocate production can have serious consequences. Governments may also feel pressure to offer tax advantages, subsidies or favourable regulations to prevent large international investors from leaving.

There is an additional challenge: assembly is not the same as capturing the entire value chain. India now assembles enormous numbers of mobile phones, but many expensive components are still imported. Recent estimates indicate that domestic value added in Indian mobile-phone manufacturing remains below 20%, despite the very high share of phones assembled locally. For India, the next challenge is therefore not simply to attract more assembly plants, but to develop domestic companies capable of manufacturing sophisticated components, conducting research and creating intellectual property.

INDIA'S CHANGING POSITION IN THE WORLD ECONOMY

India illustrates both the opportunities and the contradictions of globalization. Western multinational investment provides capital, jobs, technology, knowledge, infrastructure and access to global markets. These factors can reinforce one another: investment creates employment, workers acquire skills, suppliers become more sophisticated, infrastructure improves, and India becomes attractive for another generation of higher-value investment.

At the same time, FDI can produce inequality, environmental pressure, dependence on foreign capital, labour problems and profit outflows. The crucial issue is therefore not simply how much foreign investment India attracts, but what kind of investment it attracts and how much value ultimately remains inside the Indian economy.

India's long-term success will depend increasingly on its ability to transform foreign investment into domestic capabilities. If Indian workers acquire advanced skills, Indian suppliers move into high-value production, domestic companies innovate, and foreign investment contributes to infrastructure and technological development, FDI can have effects that continue long after the original investment.

India is therefore no longer simply a destination where Western companies go because production is cheaper. It is increasingly a major market, technological center, manufacturing base and strategic part of global value chains. The continuing investments by companies such as Apple, Amazon and Applied Materials demonstrate how important India has become to multinational business. The economic opportunities are enormous, but so are the challenges of ensuring that this growth is inclusive, environmentally sustainable and capable of producing lasting prosperity for India itself.