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FDI in India: Prospects for sustainable economic growth & development

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Abstract
Foreign Direct Investment contributes towards economic development by increasing industrial production, generating employment opportunities, strengthening infrastructure facilities, promoting exports, improving balance of payments position, and facilitating transfer of advanced technology and managerial expertise. It also encourages innovation, research and development, modern production methods, and global business practices within domestic industries. In recent years, Foreign Direct Investment has become an important indicator of a country's economic attractiveness and investment potential. The present study focuses on analyzing the trends and patterns of Foreign Direct Investment inflows in India during the period 2014–2024. The study attempts to examine year-wise trends in FDI inflows, sector-wise distribution of investment, changes in foreign investment patterns, and the contribution of Foreign Direct Investment towards India's sustainable economic development. The present paper also depicts the relationship between FDI inflows and Gross Domestic Product (GDP) to understand the role of foreign investment in the sustainable growth and development of the Indian economy.

Keywords: FDI, GDP, Innovation, Sustainable growth

Introduction

Foreign Direct Investment (FDI) has emerged as one of the most important components of economic growth and development in the modern global economy. It refers to investment made by foreign companies, multinational corporations, or individual investors in the business activities of another country with the objective of establishing long-term interest and managerial control. Foreign Direct Investment plays a significant role in promoting industrial development, infrastructure expansion, technological advancement, employment generation, productivity improvement, and international trade relations.

In the era of globalization and economic integration, Foreign Direct Investment has become an important source of capital formation for developing countries like India. Developing economies require large-scale investment for industrial expansion, infrastructure development, technological progress, and economic modernization. Domestic financial resources alone are often insufficient to meet these requirements; therefore, Foreign Direct Investment acts as an important supplementary source of capital and technology.

India is considered one of the fastest-growing developing economies and an attractive destination for Foreign Direct Investment due to its large market size, increasing population, skilled workforce, rapid urbanization, growing digital economy, and favorable demographic structure. Since the introduction of economicreformsin1991, the Government of India has under taken several policy measures to liberalize the economy and attract foreign investment into various sectors. Liberalization, privatization, and globalization policies significantly improved India's investment climate and increased participation of multinational corporations in the Indian economy.

The growing significance of FDI has also increased the need for empirical studies that examine its trends, patterns, and impact on economic development. An analysis of FDIinflows investment behavior, sectoral preferences, policy effectiveness, and emerging economic opportunities.FDI in flows in India during the period 2014–2024 [4] is important for understanding the changing dynamics of foreign investment and its contribution to the country's economic progress.

Review of Literature

Review of literature is an essential part of every research study because it provides a theoretical base and conceptual understanding of the selected topic. It helps the researcher to understand previous research work, identify research gaps, analyze different viewpoints of scholars, and develop a proper direction for conducting the study.

Katrak, Z. (2025)

Katrak conducted a comprehensive study on the patterns of Foreign Direct Investment inflows in India during the period 2014–2024 [4]. The study analyzed annual FDI inflows and examined the impact of policy reforms introduced by the Government of India for improving the investment environment. According to the findings, initiatives such as Make in India, Digital India, and liberalization of sectoral limits played an important rolein increasing foreign investment inflows into India.

Jay Prakash Verma, Sanskriti Wadhwa and Tushar (2025)

The researchers examined the impact of Foreign Direct Investment on India's financial markets and economic growth. The study analyzed the relationship between FDI inflows, stock market performance, and Gross Domestic Product (GDP) growth in India. The findingsrevealedthatFDIpositivelycontributestowardscapital formation, financialmarket development, industrial expansion, and economic stability. The study further

highlighted that increased foreign investment improves investor confidence, enhances market efficiency, and encourages global participation in the Indian economy.

Sarbapriya (2025) [10]
Sarbapriya analyzed the role of institutional quality, political stability, and trade openness in determining Foreign Direct Investment inflows in India. The study highlighted that transparent governance, policy consistency, and efficient administrative systems positively influence foreign investor decisions.

Rithi S.R., Nomani, Khan and Manoharan (2025) [6]
The findings revealed that institutional reforms and policy liberalization positively influenced investor confidence and encouraged multinational corporations to invest in India. The researchers also highlighted the growing importance of digital infrastructure and technological readiness in attracting foreign investment. The study concluded that recent economic reforms significantly improved India's investment climate during the selected period.

Imran Aliand Foday UsmanZahid (2024) [5]
The researchers examined the macroeconomic determinants in India by using econometric techniques like (VECM). The study analyzed the relationship between FDI inflows and macroeconomic variables such as GDP growth, inflation rate, exchange rate stability, and trade openness. The findings revealed that economic growth and market size positively influence Foreign Direct Investment inflows in India.

AliandPal (2023)
Ali and Pal analyzed the sector-wise distribution and determinants of Foreign Direct Investment inflows in India. The study revealed that the service sector and information technologysectorattractedthelargestshareofforeigninvestmen tduetorapiddigitalization, technological growth, and increasing consumer demand.

Ghosh (2015) [8]
Ghosh analyzed the long-term growth pattern and trends of Foreign Direct Investment inflows in India after economic liberalization. According to the study, India experienced a significant increase in FDI inflows after the implementation of liberal economic reforms in 1991.

Research Gap
After reviewing the available literature, it has been observed that several researchers have studied Foreign Direct Investment from different perspectives such as economic growth, determinants of FDI, policy reforms, sectoral distribution, and impact on industrial development. therefore, the present study attempts to fill this research gap by providing a detailed and comprehensive analysis of recent trends of Foreign Direct Investment inflows in India during 2014–2024 [4]. The study also focuses on analyzing sector-wise FDI patterns and examining the relationship between Foreign Direct Investment inflows and economic growth in India.

1. Research Methodology
Research methodology refers to the systematic and scientific procedure adopted by the researcher for conducting a research study.

The present study focuses on analyzing the recent trends, sector-wise distribution, and future economic significance of Foreign Direct Investment inflows in India. The study also attempts to analyze the relationship between Foreign Direct Investment and sustainable economic growth in India.

2. Objectives of the Study
The present study has been undertaken with the following objectives:
1. To study the recent trends of Foreign Direct Investment in flows in India during the period 2014–2024 [4].
2. To analyse the sector-wise distribution of Foreign Direct Investment in flows in India.
3. To examine the relationship between Foreign Direct Investment inflows and sustainable economic growth in India.

3. Hypothesis of the Study
For analyzing the relationship between Foreign Direct Investment inflows and economic growth in India, the following hypothesis has been formulated:

Null Hypothesis(H_0): There is no significant relationship between Foreign Direct Investment inflows and economic growth in India.

Alternative Hypothesis:(H_a): There is a significant relationship between Foreign Direct Investment inflows and economic growth in India.
The hypothesis has been framed to analyze whether changes in Foreign Direct Investment inflows have a significant impact on India's economic growth during the selected period.

4. Sources of Data
Secondary data has been considered appropriate for the present study because information related to Foreign Direct Investment and macroeconomic indicators is officially available through reliable sources.
The major sources of secondary data used in the study are as follows:
- Reserve Bank of India (RBI) Reports and Publications
- Department for Promotion of Industry and Internal Trade (DPIIT)
- Ministry of Commerce and Industry, Government of India
- Economic Survey of India
- World Bank Reports

Year-wise Foreign Direct Investment Inflow in India (2014–2024) [4]:
During the period 2014–2024, the Government of India introduced several policy initiatives and structural reforms aimed at improving the investment climate and attracting global investors. Programmes such as Make in India, Digital India, Startup India, Skill India, and AtmanirbharBharatsignificantlycontributedtowardsincreasin gforeigninvestorconfidence. In addition, reforms such as Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), and Production Linked Incentive (PLI) schemes further strengthened India's position in the global investment market. It helps in examining how economic reforms, government policies, technological advancement, global economic conditions, and changes in the international

market environment influence Foreign Direct Investment inflows in India. Such analysis also provides a clear understanding of India's investment performance and its position as an emerging destination for global investors.

Table 1: Year-wise FDI Inflows in India (2014–2024) [4]

Years	FDI Inflows (US $Billion)
2014-2015	45.15
2015-2016	55.55
2016-2017	60.08
2017-2018	60.97
2018-2019	62.00
2019-2020	74.39
2020-2021	81.97
2021-2022	84.84
2022-2023	71.35
2023-2024	70.95

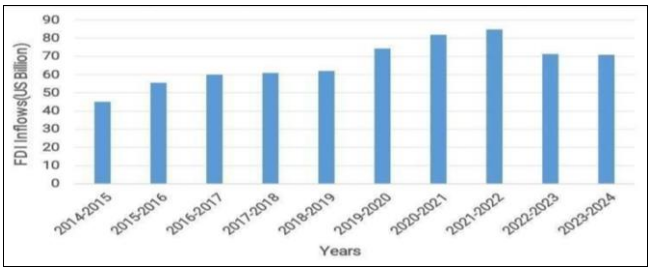
Source: DPIIT, Government of India.

Interpretation of Table 1

The above table presents the year-wise Foreign Direct Investment inflows in India during the period from 2014–15 to 2023 [7]–24. The data clearly indicates that India experienced significant growth in FDI inflows during the selected period, although certain fluctuations wereobservedinsomeyearsduetochangesinglobaleconomicconditionsandinternational financial uncertainties.

In2018–19, India received FDI inflowsofUS$62billion, reflectingcontinuousgrowthin foreign investment activities. Sectors such as services, information technology, telecommunications, manufacturing, and construction attracted substantial foreign investment during this period. Despite global disruptions caused by the COVID-19 pandemic, India maintained strong foreign investment inflows due to rapid growth in digital services, e-commerce, pharmaceutical industry, and technology-related sectors.

However, during 2022–23 and 2023–24, a moderate decline in FDI inflows was observed, withinflowsdecreasingtoUS$71.35billionandUS$70.95billionrespectively.Thisdecline may be associated with global economic slowdown, geopolitical tensions, inflationary pressure, and uncertainty in international financial markets.



2. Recent Trend of FDI Inflows in India:

The trend analysis of Foreign Direct Investment inflows in India during the period 2014–2024 [4] indicates that India experienced an overall upward growth trend in foreign investment inflows. The increase in FDI inflows reflects the positive impact of economic reforms, policy liberalization, technological advancement, and improvement in ease of doing business in the country. During the initial years of the study period, FDI inflows increased steadily from US$ 45.15 billion in 2014–15 to US$ 62 billion in 2018–19. This growth can be attributed to investor friendlyinitiativessuchasMakeinIndia, DigitalIndia, andrelaxationinsectoralrestrictions forforeigninvestment. Thesereformsimprovedforeigninvestorconfidenceandencouraged multinational corporations to expand their business operations in India.

Overall, the trend analysis clearly shows that Foreign Direct Investment inflows in India followed a positive growth trajectory during the selected period. Economic reforms, infrastructure development, technological progress, and increasing global integration played an important role in strengthening India's investment environment.

Sector-wise Distribution of FDI Inflows in India

Sector-wise distribution of Foreign Direct Investment inflows also reflects the changing preferences of foreign investors and the sectors that possess high growth potential in the Indianeconomy.

The analysis of sector-wise Foreign Direct Investment inflows is therefore useful in understanding theconcentrationofinvestmentacrossvarioussectorsandevaluatingtherole of different industries in attracting foreign capital into India during the period 2014–2024 [4].

Table 2: Sector-wise Distribution of FDI Inflows in India (2014–2024) [4]

Sector	Share in Total FDI Inflows (%)
Service Sector	17%
Computer software& Hardware	15%
Telecommunications	8%
Trading	7%
Construction Development	6%
Automobile Industry	5%
Pharmaceuticals	4%
Infrastructure Activities	4%
Others	34%

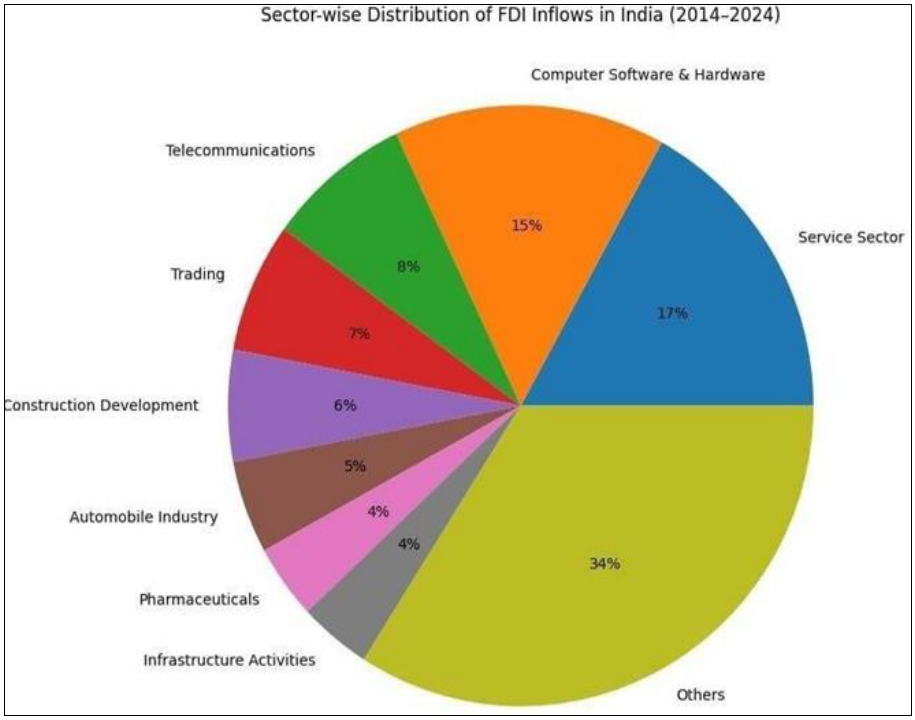
Source: DPIIT Reports

Interpretation

The services sector received the highest share of Foreign Direct Investment inflows amounting to 17 percent of total inflows during the selected period. The services sector includesbanking,insurance,financialservices,businessoutsourcing,consultancy,education,andothercommercialservices.Continuousexpansionofthe Indianserviceeconomy,growth of financial technology, increasing digital transactions, and rising demand for professional services encouraged foreign investors to invest heavily in this sector.The contribution of theservicessectortowardsGDPandemploymentgenerationalso increaseditsattractivenessfor multinational corporations.The computer software and hard ware sector accounted for 15percent of total Foreign Direct Investment inflows. India has established itself as a global hub for information technology and software services, which attracted significant foreign investment. The telecommunications sector received 8 percent of total FDI inflows during the study period. The rapid increase in internet users, expansion of mobile communication services, development of 4G and 5G infrastructure, and rising demand for digital connectivity encouraged foreign investment in the telecommunications sector. The sector witnessed substantial growth due to digital transformation and increasing dependence on online communication and data services across the country.

Thetradingsectorattracted7percentoftotalForeignDirectInvestmentinflows.Growthof organised retailing, expansion of e-commerce companies, increasing consumer spending, and integration of Indian markets with global trade networks contributed towards higher foreign Investment. Construction development accounted for 6 percent of total Foreign Direct Investment inflows. Rapid urbanization, infrastructure development projects, housing demand, smart city initiatives, and expansion of commercial real estate activities created favorable conditions for foreign investment in the construction sector. The automobile industry received 5percent of total Foreign Direct Investment inflows during the selected period. India emerged as one of the fastest-growing automobile markets due to rising income levels, increasing demand for passenger and commercial vehicles, and expansion of automobile manufacturing facilities. Foreign automobile companies invested in India to benefit from low production costs, skilled labor force, and growing domestic demand.

The category of "Others" accounted for 34 percent of total Foreign Direct Investment inflows, which indicates that foreign investment was diversified across several additional sectors such as chemicals, tourism, food processing, renewable energy, education, textiles etc.



Relationship between FDI Inflows and GDP of India (Sustainable Economic growth)

Foreign Direct Investment plays an important role in promoting sustainable economic growth and development in developing countries like India. FDI not only provides capital inflows but also contributes towards technological advancement, infrastructure development. The relationship between Foreign Direct Investment and sustainable economic growth is therefore considered an important aspect for analyzing the overall economic performance of a country.

In India, Foreign Direct Investment has significantly contributed towards increasing Gross Domestic Product (GDP), strengtheningindustrialproduction, improvingbusinessactivities, and enhancing global economic integration.

The analysis of relationship between FDI inflows and sustainable economic growth helps in understandinghowincreasingforeigninvestmentcontributestowardsexpansionofeconomic activities and improvement in national income. It also reflects the role of government policies, digital transformation, industrial development, and infrastructure expansion in Strengthening India's economic performance during the selected period.

Table: 3

Year	FDI Inflows (US $ Billion)	GDP (US$ Billion)
42014-2015	45.15	2100
2015-2016	55.55	2290
2016-2017	60.08	2650
2017-2018	60.97	2700
2018-2019	62.00	2830
2019-2020	74.39	2670
2020-2021	81.97	2660
2021-2022	84.84	3170
2022-2023	71.35	3390
2023-2024	70.95	3570

Source: RBI Annual Reports, DPIIT Statistics and World Bank Database.

Hypothesis Testing: SPSS
Correlation

		FDI	GDP
FDI	Pearson Correlation	1	.828
	Sig. (2-tailed)		.005
	N	10	10
GDP	Pearson Correlation	.828	1
	Sig. (2-tailed)	.005	
	N	10	10

Further, the analysis showed a strong association among dependent variable GDP and independent variable FDI Inflow.

FDI Inflow relationship with GDP (Indian economy) as its p value which was less than 5% level of significance. So, the relationship is significant one. Therefore, null hypothesis has been rejected, thus depicted that strong association exist among FDI Inflow and GDP Thus FDI Inflow and GDP is bidirectional in nature. Thus, Null hypothesis(H0) i.e., there is no significant relationship between FDI & Indian GDP have been rejected as r= .828 that shows positive relationship between both variables. So Alternative hypothesis (Ha) have been accepted.

Conclusion

The study concludes that Foreign Direct Investment played a significant role in promoting sustainable economic growth and development in India during the period 2014–2024 [4]. The analysis clearly indicates that India experienced substantial growth in Foreign Direct Investmentinflowsduetopolicyliberalization, economicreforms, digitaltransformation, technological advancement, and improvement in investment environment. Government initiatives such as Make in India, Digital India, Startup India, infrastructure development programmes, and liberalization of sectoral FDI policies created favorable conditionsforforeigninvestorsandstrengthenedIndia'spositio nasanattractiveinvestment destination among developing economies.

The study further concludes that Foreign Direct Investment contributed positively towards industrialdevelopment, infrastructureexpansion, employmentgeneration, exportpromotion, technological advancement, productivity improvement, and strengthening of economic activities in India. Service-oriented and technology-driven sectors emerged as major recipients of Foreign Direct Investment inflows due to increasing digitalization and market expansion in the country. Although fluctuations in Foreign Direct Investment inflows were observed during certain years because of global economic challenges and financial uncertainty.

The relationship analysis and correlation discussion indicated a positive association between Foreign Direct Investment inflows and sustainable economic growth in India. Increasing Foreign Direct Investment inflows supported industrial growth, business expansion, infrastructure development, and improvement in overall economic performance during the selected period.

Therefore, it can be concluded that Foreign Direct Investment has become an important driver of sustainable economic growth and development of Emerging economy like India.

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