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A Study on Foreign Direct Investment Impact on the Indian Economy

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***Abstract*— *This study investigates the impact of Foreign Direct Investment (FDI) on India's economic growth from 2017 to 2024, utilizing secondary data analysis and regression techniques. The methodology involves analysing sectorial FDI inflows, their contribution to gross domestic product, and correlations with macroeconomic indicators such as inflation and stock market performance. Findings reveal that while FDI inflows have fluctuated, peaking during 2020-21, their direct influence on GDP, inflation, and stock indices remains statistically insignificant. The research highlights that FDI primarily benefits manufacturing and technology sectors, with limited immediate macroeconomic effects. These results imply that FDI alone cannot drive rapid economic changes but plays a vital role in sectorial development and long-term growth. The study underscores the importance of comprehensive policy measures to optimize FDI's contribution to sustainable economic progress.*

Keywords*— *Foreign Direct Investment (FDI), Indian Economy, Economic Growth, Capital Inflow, Investment Policy, Sectorial Investment, GDP Growth, FDI Trends in India.

I. INTRODUCTION

Foreign Direct Investment (FDI) serves as a key driver of economic growth in India, fostering capital formation, employment opportunities, and technological advancements. Since the economic liberalization of 1991, India has emerged as one of the most attractive destinations for global investors due to its vast consumer base, evolving policy frameworks, and improving ease of doing business. As one of the leading emerging economies, India's ability to attract FDI has played a crucial role in enhancing its industrial capabilities, strengthening its global competitiveness, and fostering economic resilience.

The inflow of foreign capital has contributed significantly to various sectors, including manufacturing, services, infrastructure, and technology, thereby accelerating economic progress. Over the years, India has introduced a series of reforms aimed at liberalizing FDI norms, improving investor confidence, and streamlining regulatory frameworks. The abolition of the Foreign Investment Promotion Board (FIPB) in 2017 marked a significant shift in the country's FDI approval mechanism, making the process more transparent and efficient. Policies such as the Make in India initiative, the implementation of the Goods and Services Tax (GST), and increased foreign equity limits in critical sectors have further fuelled investment inflows.

This study examines FDI inflows to India from 2017-18 to 2023-24, focusing on sectoral distribution, economic impact, and policy implications. The research aims to identify the industries that have benefited the most from foreign investments and assess the contribution of FDI to India's GDP growth and capital formation. Understanding the sector-wise distribution of FDI is crucial for determining which industries have attracted the most investment and evaluating their role in economic expansion. Additionally, the study aims to assess how these inflows have influenced job creation, infrastructure development, and technology transfer in India's key industrial sectors.

Furthermore, a comparative analysis with other emerging economies will highlight India's strengths, weaknesses, and areas for improvement in attracting foreign investments. India competes with other developing nations such as China, Brazil, and Indonesia in securing foreign capital. By analyzing FDI inflows in these economies, this study will offer insights into India's performance relative to its peers and suggest strategic measures for improving its investment climate. The role of geopolitical factors, trade agreements, and bilateral relations in shaping FDI trends will also be explored.

Additionally, this study explores the effectiveness of government policies and regulatory frameworks in facilitating FDI inflows. India has periodically revised its FDI policies to enhance ease of doing business, mitigate investment risks, and encourage long-term foreign participation. By examining country-wise and industry-wise FDI data, this research provides insights into key contributors to India's foreign investment landscape. The findings will help policymakers, investors, and stakeholders develop strategies to maximize the benefits of FDI and ensure sustainable economic growth.

Ultimately, this study aims to provide a comprehensive understanding of India's FDI landscape, identifying key trends, opportunities, and challenges. By evaluating policy effectiveness and investment patterns, this research will contribute to ongoing discussions on economic development and provide actionable insights for enhancing India's position as a preferred global investment destination.

II. LITERATURE REVIEW

1. **Shalini D. D. (2020)** uncovered the significance of Foreign Direct Investment (FDI) in India. FDI plays a crucial role in uniting diverse aspects of the country's economy by injecting capital into sectors such as manufacturing, infrastructure, transportation, technology, productivity, and hospitality. The study also examined the FDI trends and foreign investment patterns in India. The conclusion emphasizes that FDI is minimally anacted by the GDP contribution and growth rates of FDI industries.
2. **Singh, S. (2019) stated in his paper**, Indian economy is one of the top emerging markets of the world. Five yearsago, it was considered as part of the fragile, but no longer. Since 2014, it has emerged as of the top foreign destination in the world with a significant rise in FDI. India has become one of the most attractive emerging markets globally. The gross FDI received from April 2000 to June 2018 is USD563320 million. This flow of fund over the year helped the country in advancement of technology, skill upgradation, employment generation, better infrastructure and management.
3. **Jpnardankoner,Dipayan Roy and Avinash Purander (2018)** in their study they focused on the FDI on the growth of the Indian economy. They and raise in FDI after liberalization. Further they discussed about the impact of direct and indirect FDI on the economy. Important impacts on domestic income, employment, price level, productivity, efficiency, and export growth are created by direct foreign direct investment (FDI) in ows.
4. **Ravi. B `and V. Benchali (2018)** study taken with the objective analysed with the advantages of FDI for an emerging market like India. Finally, it was concluded that it had more merits than demerits attached to FDI and the Indian Government must go for it if it wants India to progress further and become a super power.
5. **Febina K., Thomas Paul Kattookaran, (2018),** in their paper, "A study on interstate distribution and sectoral composition of FDI inflows in India", studied that an overview on the sectoral distribution of foreign investment discloses the wide disparity in the distribution of foreign capital among various sectors. The identified objectives are finding out the pattern of FDI inflow in India and also its impact with the economy. The descriptive research is been used in the study. The data used is secondary data. While some sectors like service, construction, etc. receive elevated

flow of foreign capital, others are fully ignored by the foreign investors.

6. **Vyas, A.V (2015)** highlighted the significant role of FDI in India's economic growth and development, particularly in job creation and industrial expansion. From April 2000 to June 2015, FDI inflows in services, construction, IT, and pharmaceuticals contributed to sustained growth. However, investor interest in some sectors remained low. FDI boosted output, productivity, and employment, especially in services, while banking and insurance strengthened the economy. It also supported small-scale industries and enhanced India's global presence through liberalization and globalization.

Research Gap:

The existing literature extensively highlights the positive impact of Foreign Direct Investment (FDI) on India’s economic growth, including its role in employment generation, technology transfer, sectoral development, and infrastructure enhancement. Studies by Shalini D.D. (2020), Singh S. (2019), and Vyas A.V. (2015) underline the macroeconomic benefits of FDI and its contribution to sectors like services, construction, IT, and pharmaceuticals. However, there is limited empirical investigation into the regional and sectoral disparities of FDI inflows, particularly the uneven distribution across Indian states and lesser-focused sectors. While some studies (e.g., Febina K. & Thomas Paul Kattookaran, 2018) note this disparity, there is a lack of in-depth analysis linking these disparities to economic outcomes such as sectoral growth, productivity changes, and employment quality.

Furthermore, few studies differentiate the qualitative impact of direct vs. indirect FDI, or explore the long-term sustainability and spillover effects of FDI in underrepresented sectors. There is also a noticeable gap in understanding how policy reforms and liberalization measures post-2015 have influenced sector-specific FDI trends and investor behaviour.

Statement of the Problem:

India has witnessed steady FDI inflows in recent years, but the extent to which these investments drive economic growth remains uncertain. There is a need to examine whether FDI is making a measurable contribution to key indicators like GDP, stock market performance, and inflation. This study aims to address this gap by analyzing the real impact of FDI on India's economic development from 2018 to 2024.

Need For the Study:

Foreign Direct Investment (FDI) is a key driver of economic growth, influencing various sectors, capital formation, and overall development. This study is essential to assess the sectoral distribution of FDI in India, identifying industries that have benefited the most from foreign investments.

Additionally, the study aims to analyze the impact of FDI on India's economic growth by examining its contribution to GDP and capital formation. A comparative analysis with other emerging economies will help evaluate India's FDI performance, highlighting strengths and areas for improvement.

Furthermore, the research will assess the role of government policies and regulatory frameworks in facilitating or restricting FDI inflows. Understanding the effectiveness of these policies is crucial for shaping a competitive and investor-friendly business environment.

Overall, this study will provide insights into FDI trends, their economic implications, and strategic measures to enhance India’s attractiveness as a global investment destination.

Objectives of the Study:

- To assess the sectoral distribution of FDI in India.
- To analyze the FDI Trends in India.
- To compare India's FDI performance with China.
- To analyze the impact of FDI on India's economic growth.

Scope of the Study:

- This study focuses on analyzing Foreign Direct Investment (FDI) inflows in India, their sectorial distribution, and their impact on economic growth. It covers a detailed examination of how FDI contributes to GDP, capital formation, and industrial development.
- The study extends to a comparative analysis of India’s FDI performance with other emerging economies, identifying key strengths, challenges, and areas for improvement. Additionally, it assesses the effectiveness of

government policies and regulatory frameworks in attracting foreign investments.

- The research is based on historical data from 2017-18 to 2023-24, providing insights into FDI trends, sectoral shifts, and policy impacts. It aims to help policymakers, businesses, and investors understand the role of FDI in India's economic growth and future investment opportunities.

Hypotheses of the Study:

H_{01} (Null Hypothesis): There is no significant impact of Foreign Direct Investment (FDI) on the overall economic growth of India.

H_{11} (Alternative Hypothesis): There is a significant impact of Foreign Direct Investment (FDI) on the overall economic growth of India.

H_{02}: FDI inflows do not significantly contribute to employment generation in India.

H_{12}: FDI inflows significantly contribute to employment generation in India.

H_{03}: There is no significant relationship between FDI and the development of the industrial and service sectors in India.

H_{13}: There is a significant relationship between FDI and the development of the industrial and service sectors in India.

H_{04}: Sectoral disparities in FDI inflows do not significantly affect regional economic development in India.

H_{14}: Sectoral disparities in FDI inflows significantly affect regional economic development in India.

H_{05}: There is no significant difference in the impact of FDI on direct and indirect economic indicators (e.g., GDP, productivity, export performance).

H_{15}: There is a significant difference in the impact of FDI on direct and indirect economic indicators (e.g., GDP, productivity, export performance).

Limitations of the Study:

- Limited Variables: The study focuses mainly on FDI's relationship with GDP, inflation, and Sensex. Other important economic factors like exchange rates, interest rates, employment levels, and trade balance were not included due to scope limitations.
- Secondary Data Reliance: The project is based entirely on secondary data collected from government and financial sources. The accuracy of the findings depends on the authenticity and consistency of those sources.
- No Sector-Level Statistical Analysis: While sector-wise FDI inflow trends were described, no detailed statistical analysis was conducted to measure the quantitative impact of FDI on specific industries.
- External Factors Not Fully Considered: Global events like geopolitical tensions, currency volatility, oil price fluctuations, and global recession risks were acknowledged but not deeply analysed for their direct influence on FDI flows.
- Policy Impact Assessment Missing: The study mentions various government schemes like Make in India and PLI but does not quantify their direct influence on attracting FDI, which could have added more depth.

III. RESEARCH METHODOLOGY

Research Design

This study follows an analytical research design to understand the impact of Foreign Direct Investment (FDI) in India from 2017 to 2024. Analytical research helps in identifying the reasons behind trends and their effects. It involves using existing data, reports, and facts, which are then examined to make a critical evaluation.

In this approach, the research breaks down the problem into key elements, analyzes the available information, and interprets the findings to understand how FDI has influenced different sectors and economic growth over the years.

Data Collection Method

This study is based on secondary data, which is collected from reliable sources to analyze the impact of Foreign Direct Investment (FDI) in India. The key sources of data include:

1. FDI Inflow Data – Taken from the RBI Annual Report, which provides details on foreign investments across different sectors.

2. GDP Data – Collected from the World Bank Group, which gives insights into India's economic growth trends.

By analysing this data, the study aims to evaluate the relationship between FDI inflows and economic development in India.

Tools and Software

The software used for this study is Microsoft Excel. Excel is utilized for data organization, statistical analysis, and visualization. The study employs descriptive statistics, regression analysis to analyse FDI inflows. These methods help in identifying trends, relationships, and patterns in the data.

Variables Used:

The variables used in this study are GDP, Inflation Rate, Sensex which help analyse the impact of FDI in India. GDP reflects the contribution of FDI to economic growth, while the inflation rate indicates economic stability, influencing foreign investment decisions. Sensex represents stock market performance and investor confidence. These variables together provide a comprehensive understanding of how FDI influences India's economic performance.

Analyse The FDI Trends In India

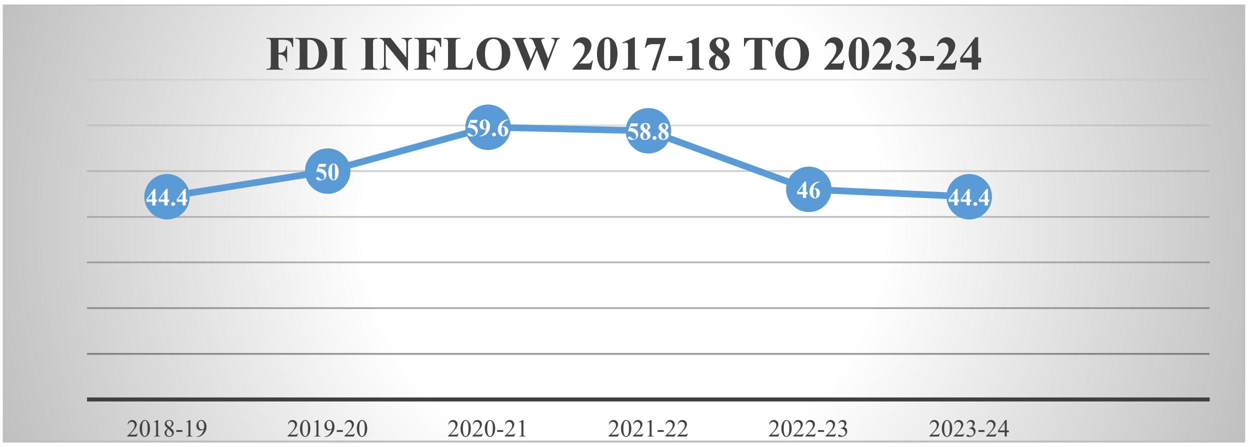
Foreign Direct Investment (FDI) serves as a key driver of economic development, influencing multiple sectors by providing capital, improving infrastructure, and introducing global best practices. This project aims to critically analyze the sectoral distribution of FDI in India, examining which industries attract the most investment and why. Additionally, we evaluate the impact of FDI on India's economic growth, employment generation, and industrial development.

FDI INFLOW DATA FROM 2017-18 to 2023-24:

Year Wise FDI Inflows	
2017-18	44.9
2018-19	44.4
2019-20	50
2020-21	59.6
2021-22	58.8
2022-23	46
2023-24	44.4

Source: RBI Annual Report

Data Analysis & Interpretation:



Interpretation:

India's Foreign Direct Investment (FDI) inflows have experienced fluctuations over the years due to a mix of global economic factors, domestic policies, and investor sentiment. The following is an overview of FDI inflows from 2017-18 to 2023-24 and key drivers influencing these trends.

- 2017-18: $44.9 billion – Stable Growth

FDI inflows stood at $44.9 billion, reflecting steady investor confidence in India's growing economy. Key sectors such as manufacturing, information technology, and financial services attracted significant foreign investments. Government initiatives aimed at improving the ease of doing business contributed to maintaining stable inflows.

- 2018-19: $44.4 billion – Marginal Decline

A slight drop to $44.4 billion was observed, primarily due to uncertainties in global trade and economic slowdowns in major economies. Despite this, investment remained steady in areas like telecommunications, e-commerce, and infrastructure, indicating continued foreign interest in India's market potential.

- 2019-20: $50.0 billion – Notable Growth
FDI inflows grew by 13%, reaching $50 billion. This increase was driven by policy reforms, a favourable investment climate, and the rapid expansion of India's digital and consumer markets. Growing investments in technology startups and innovation-driven industries further fuelled this upward trend.
- 2020-21: $59.6 billion – Peak Inflows
Despite the global economic disruptions caused by the COVID-19 pandemic, India received a record-high $59.6 billion in FDI. The pandemic accelerated digital adoption, boosting investments in technology, e-commerce, healthcare, and infrastructure. Additionally, India's role as an emerging global supply chain hub strengthened investor interest.
- 2021-22: $58.8 billion – Slight Dip, but Strong Inflows
FDI inflows slightly declined to $58.8 billion, reflecting some stabilization after the pandemic-driven surge. However, strong investments continued in fintech, manufacturing, and infrastructure, supported by the Production Linked Incentive (PLI) scheme, which encouraged domestic production and foreign participation in various sectors.
- 2022-23: $46.0 billion – Significant Decline
FDI inflows saw a 21.8% drop to $46 billion, primarily due to rising global inflation, geopolitical tensions, and economic uncertainties. Despite this decline, sectors such as renewable energy, information technology, and digital services continued to attract foreign investments.
- 2023-24: $44.4 billion – Further Decline
A continued downward trend brought FDI inflows to $44.4 billion, the lowest level since 2018-19. Factors such as high interest rates, cautious investor sentiment, and tighter global financial conditions contributed to this decrease. However, India remains a preferred investment destination due to its expanding digital economy, growing focus on green energy, and ongoing policy reforms aimed at improving foreign investment opportunities.

Analysis of Sectorial Distribution of FDI in India (2017-2024): This analysis examines the trends in FDI inflows across various sectors in India from 2017 to 2024, identifying key industries attracting investments and the factors influencing sectorial distribution. It provides insights into how FDI has shaped economic growth and industrial development during this period**.**

Table: 1

Billion's $							
Sector	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-2024**
Manufacturing	$ 9.00	$ 9.60	$ 9.60	$ 9.30	$ 16.30	$ 11.30	$ 9.30
Computer Services	$ 3.40	$ 3.70	$ 5.10	$ 23.80	$ 9.00	$ 3.30	$ 5.50
Communication Services	$ 9.10	$ 6.50	$ 7.80	$ 2.90	$ 6.40	$ 5.60	$ 4.90
Retail & Wholesale Trade	$ 4.60	$ 4.90	$ 5.10	$ 3.90	$ 5.10	$ 6.80	$ 4.40
Financial Services	$ 4.60	$ 7.20	$ 5.70	$ 3.50	$ 4.70	$ 5.30	$ 4.10
Education, Research & Development	$ 0.40	$ 0.90	$ 0.80	$ 1.30	$ 3.60	$ 1.70	$ 3.80

Transport	$ 2.50	$ 1.20	$ 2.40	$ 7.90	$ 3.30	$ 4.50	$ 3.70
Construction	$ 2.80	$ 2.30	$ 2.00	$ 1.80	$ 3.20	$ 2.00	$ 2.60
Business services	$ 3.30	$ 2.80	$ 3.80	$ 1.80	$ 2.50	$ 1.40	$ 2.20
Electricity and other energy Generation, Distribution & Transmission	$ 2.80	$ 2.60	$ 2.80	$ 1.30	$ 2.20	$ 1.20	$ 1.90
Miscellaneous Services	$ 0.90	$ 1.40	$ 1.10	$ 0.90	$ 1.00	$ 1.90	$ 0.60
Restaurants and Hotels	$ 0.50	$ 0.80	$ 2.70	$ 0.30	$ 0.70	$ 0.20	$ 0.40
Mining	$ 0.10	$ 0.30	$ 0.30	$ 0.20	$ 0.40	$ 0.10	$ 0.30
Real Estate Activities	$ 0.50	$ 0.20	$ 0.60	$ 0.40	$ 0.10	$ 0.20	$ 0.10
Others	$ 0.30	$ 0.10	$ 0.20	$ 0.20	$ 0.40	$ 0.50	$ 0.70
Total FDI Inflows	**$ 44.80**	**$ 44.50**	**$ 50.00**	**$ 59.50**	**$ 58.90**	**$ 46.00**	**$ 44.50**

Source: RBI Annual Report

Percentage of Sectors Inflow:

Percentage of Each sector							
Sector	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-2024**
Manufacturing	20.09	21.57	19.20	15.63	27.67	24.57	20.90
Computer Services	7.59	8.31	10.20	40.00	15.28	7.17	12.36
Communication Services	20.31	14.61	15.60	4.87	10.87	12.17	11.01
Retail & Wholesale Trade	10.27	11.01	10.20	6.55	8.66	14.78	9.89
Financial Services	10.27	16.18	11.40	5.88	7.98	11.52	9.21
Education, Research & Development	0.89	2.02	1.60	2.18	6.11	3.70	8.54
Transport	5.58	2.70	4.80	13.28	5.60	9.78	8.31
Construction	6.25	5.17	4.00	3.03	5.43	4.35	5.84
Business services	7.37	6.29	7.60	3.03	4.24	3.04	4.94
Electricity and other energy Generation, Distribution & Transmission	6.25	5.84	5.60	2.18	3.74	2.61	4.27
Miscellaneous Services	2.01	3.15	2.20	1.51	1.70	4.13	1.35
Restaurants and Hotels	1.12	1.80	5.40	0.50	1.19	0.43	0.90

Mining	0.22	0.67	0.60	0.34	0.68	0.22	0.67
Real Estate Activities	1.12	0.45	1.20	0.67	0.17	0.43	0.22
Others	0.67	0.22	0.40	0.34	0.68	1.09	1.57
Total FDI %	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: RBI Annual Report

Interpretation:

Foreign Direct Investment (FDI) inflows have fluctuated across different sectors over the years, reflecting changes in global economic conditions, government policies, and industry attractiveness.

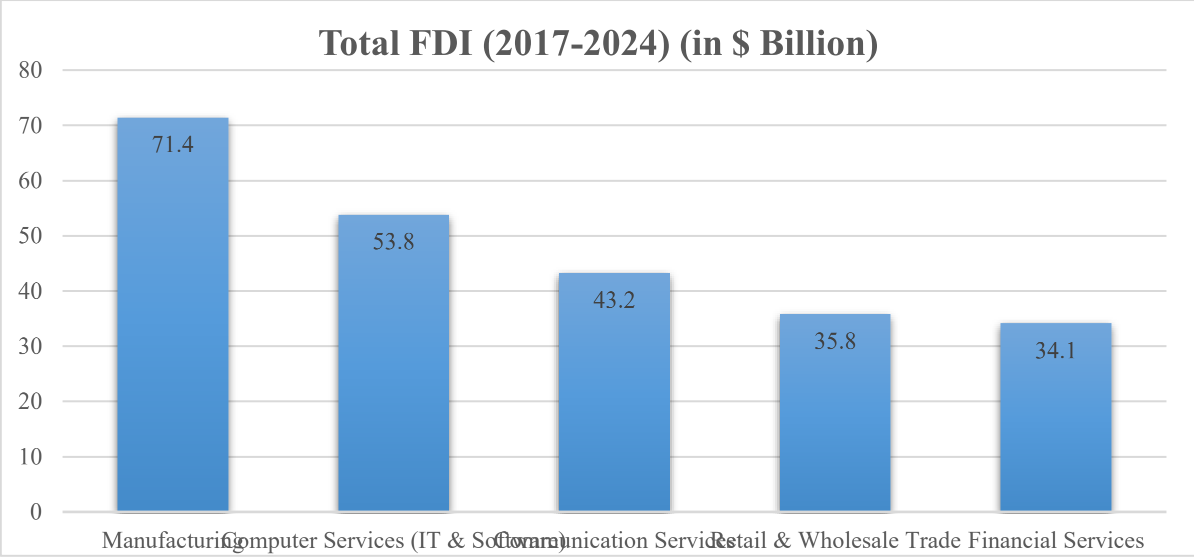
- Manufacturing Sector:
  The manufacturing sector has consistently been a major recipient of FDI, with its highest inflow in 2021-22 at $16.3 billion (27.67%), indicating a surge in investor confidence. However, the sector saw a decline in the following years, dropping to $9.3 billion (20.90%) in 2023-24, possibly due to global supply chain disruptions and shifting investment priorities.
- Computer Services:
  Investment in computer services peaked significantly in 2020-21 with $23.8 billion (40%), aligning with the global digital transformation and increased demand for IT services during the pandemic. However, in subsequent years, FDI in this sector dropped sharply to $3.3 billion (7.17%) in 2022-23 but showed a recovery to $5.5 billion (12.36%) in 2023-24, reflecting the ongoing relevance of digital technology.
- Communication Services:
  This sector, which includes telecommunications and media, saw strong FDI inflows in the earlier years but declined significantly in 2020-21 ($2.9 billion, 4.87%). The downturn was likely due to market saturation and regulatory challenges. While there was a slight recovery in 2021-22 ($6.4 billion, 10.87%), the sector remains below its earlier peak.
- Retail & Wholesale Trade:
  FDI in retail and wholesale trade has remained stable, with a peak of $6.8 billion (14.78%) in 2022-23, reflecting growing consumer demand and policy relaxations in e-commerce. However, the inflow dropped to $4.4 billion (9.89%) in 2023-24, possibly due to changing trade regulations and global economic slowdowns.
- Financial Services:
  Investment in financial services has been inconsistent, peaking at $7.2 billion (16.18%) in 2018-19 before declining in subsequent years. The sector's contribution to total FDI stood at $4.1 billion (9.21%) in 2023-24, showing resilience but also reflecting a shift in investor interest toward technology-driven financial solutions.
- Education, Research & Development:
  The education and R&D sector have seen a remarkable rise in FDI, growing from $0.4 billion (0.89%) in 2017-18 to $3.8 billion (8.54%) in 2023-24. This trend suggests increased global interest in India's education technology (EdTech) and research capabilities, particularly in the post-pandemic era.
- Transport Sector:
  Transport-related investments peaked in 2020-21 ($7.9 billion, 13.28%), likely due to infrastructure expansion projects. However, in the following years, investment declined, stabilizing at $3.7 billion (8.31%) in 2023-24, reflecting fluctuations in transportation demand and policy changes.
- Construction & Real Estate:
  FDI inflows in construction have remained relatively low but stable, peaking at $3.2 billion (5.43%) in 2021-22 before slightly dropping. The real estate sector, on the other hand, has seen minimal investment, with inflows shrinking to $0.1 billion (0.22%) in 2023-24, highlighting ongoing challenges in

regulatory frameworks and investor confidence.

- Business & Miscellaneous Services:
  Business services have seen varying levels of FDI, with a downward trend from $3.8 billion (7.60%) in 2019-20 to $2.2 billion (4.94%) in 2023-24, indicating a shift in investor preference. Miscellaneous services remain a minor contributor, with fluctuating investment trends.
- Energy & Mining:
  Investment in energy-related sectors has generally remained low, with FDI in electricity, generation, and distribution peaking at $2.8 billion (5.60%) in 2019-20 before declining. Mining has received minimal attention from foreign investors, with inflows below $0.4 billion annually across all years.
- Restaurants, Hotels, and Hospitality:
  This sector experienced a peak in 2019-20 ($2.7 billion, 5.40%), likely due to pre-pandemic tourism growth. However, investments dropped sharply in 2020-21 ($0.3 billion, 0.50%) and have struggled to recover since. The industry continues to face challenges in attracting FDI despite improving global travel conditions.

TOP 5 ATTRACTING SECTORS:

Rank	Sector	Total FDI (2018-2024) (in $ Billion)	Peak Year	Peak FDI (in $ Billion)	Key Growth Drivers
1	**Manufacturing**	**71.4**	2021-22	16.3	Make in India, PLI scheme, China+1 strategy
2	**Computer Services (IT & Software)**	**53.8**	2020-21	23.8	Digital transformation, cloud computing, AI growth
3	**Communication Services**	**43.2**	2017-18	9.1	5G expansion, telecom sector liberalization, Jio & Airtel investments
4	**Retail & Wholesale Trade**	**35.8**	2022-23	6.8	E-commerce boom, foreign investments in Flipkart & Amazon
5	**Financial Services**	**34.1**	2018-19	7.2	Fintech revolution, banking & insurance sector liberalization



Interpretation:

The leading sectors receiving the highest FDI in India from 2017-18 to 2023-24 are Manufacturing, Computer Services, Communication Services, Retail & Wholesale Trade, and Financial Services. These industries have attracted investments due to supportive government policies, technological advancements, and increasing market opportunities.

Foreign Direct Investment (FDI) in India from 2017-18 to 2023-24 has been concentrated in five key sectors:

- Manufacturing ($71.40 billion) – Driven by Make in India, the PLI scheme, and India's role as a global manufacturing hub.
- Computer Services ($53.80 billion) – Boosted by investments from tech giants, digital transformation, and increasing demand for cloud computing and AI.
- Communication Services ($43.20 billion) – Growth fuelled by 5G expansion, mobile broadband, and major foreign investments in Reliance Jio and Bharti Airtel.
- Retail & Wholesale Trade ($35.80 billion) – Supported by e-commerce expansion, investments from Amazon, Walmart (Flipkart), and Alibaba, and digital payments growth.
- Financial Services ($34.10 billion) – Increased FDI due to growth in fintech, digital banking, insurance, and NBFCs, alongside policy liberalization.

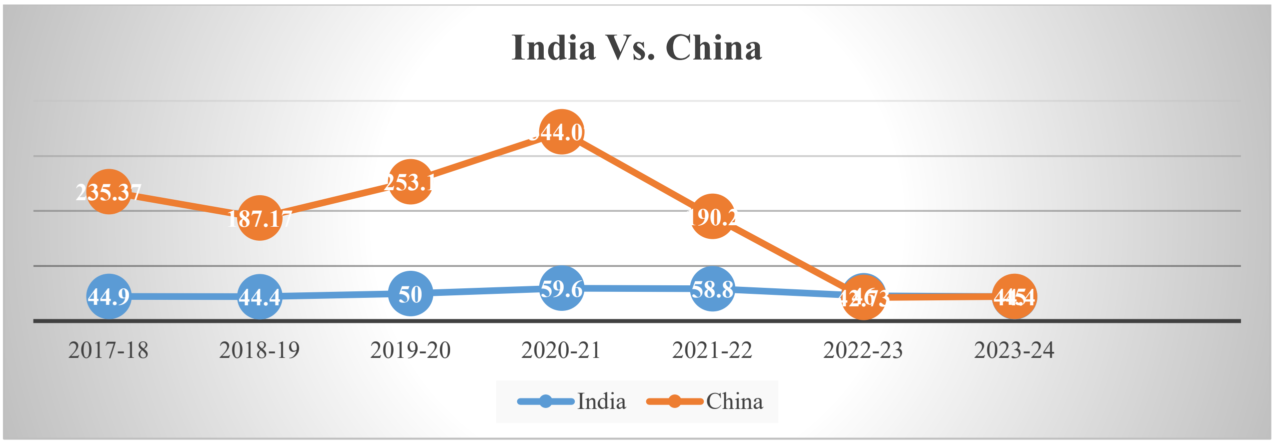
To compare India's FDI performance with China:

Foreign Direct Investment (FDI) is a key driver of economic expansion and industrial growth. Comparing India's FDI inflows with China helps evaluate investment trends and global investor confidence in both economies. While China has traditionally attracted higher FDI, recent years have seen fluctuations, whereas India has maintained steady inflows. This comparison highlights the changing dynamics of foreign investments and India's growing role as a preferred destination.

Year Wise FDI Inflows		
Years	**India**	**China**
2017-18	44.9	235.37
2018-19	44.4	187.17
2019-20	50	253.1
2020-21	59.6	344.07
2021-22	58.8	190.2
2022-23	46	42.73
2023-24	44.4	45

Source: *INDIA: RBI Annual Reports.

*CHINA: World Bank Data.



Overall FDI Trends (2018-2024):

- India's FDI inflows have remained relatively stable, fluctuating between $44.4 billion and $59.6 billion.
- China's FDI inflows were significantly higher than India's but showed volatility, peaking at $344.07 billion in 2020-21 before dropping to $42.73 billion in 2022-23.

FDI Volume:

- China historically received much higher FDI than India, sometimes 5-6 times more.
- India's highest FDI inflow was $59.6 billion (2020-21), while China peaked at $344.07 billion (2020-21).

Volatility & Stability:

- India's FDI has been relatively steady, ranging between $44 billion and $60 billion.
- China's FDI fluctuated significantly, with a sharp drop from $344.07 billion (2020-21) to $42.73 billion (2022-23).

Reasons for China's Decline:

- Geopolitical Tensions: The U.S.-China trade war and restrictions on foreign investments have led to uncertainty among global investors. A 2023 survey by the Japanese Chamber of Commerce in China indicated that nearly half of Japanese firms planned to reduce or halt investments due to rising tensions.
- Regulatory Crackdowns: The Chinese government's strict regulations on the technology and real estate sectors have created an uncertain investment climate. High-profile actions like the suspension of Ant Group's IPO and increased scrutiny of data privacy have raised investor concerns.
- COVID-19: Extended lockdowns and stringent pandemic measures disrupted supply chains and business operations. Many foreign companies have started diversifying their investments to other countries to reduce dependency on China.

India is maintaining stable FDI inflows, while China is experiencing a sharp decline. China's long-standing dominance in FDI is weakening, creating opportunities for India to attract more global investments. As investor confidence in China declines due to regulatory issues and geopolitical tensions, India can position itself as a more favourable destination for foreign investments.

Impact of FDI on India's economic growth:

FDI Contribution to GDP:

Impact of FDI on India's Economic Growth

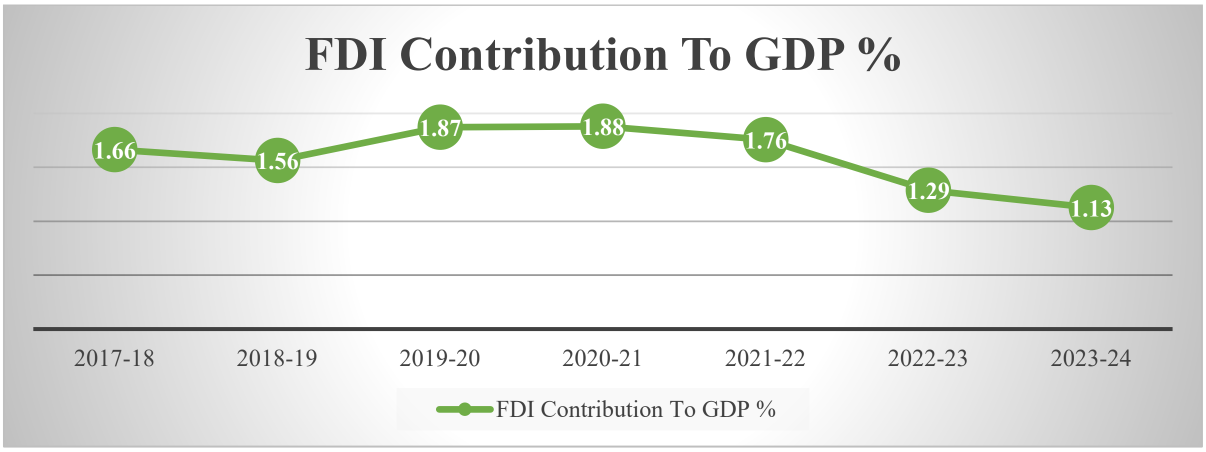
Foreign Direct Investment (FDI) plays a crucial role in India's economic development by bringing in capital, technology, and employment opportunities. It supports key sectors like infrastructure, manufacturing, and services, driving GDP growth. Analyzing the year-wise FDI inflows and their contribution to GDP helps in understanding its impact on economic expansion and investment trends.

Table:

Year Wise FDI Inflows		GDP IN Billion $	FDI Contribution to GDP %
2017-18	44.9	2700	1.66
2018-19	44.4	2840	1.56
2019-20	50	2670	1.87
2020-21	59.6	3170	1.88
2021-22	58.8	3350	1.76
2022-23	46	3570	1.29
2023-24	44.4	3940	1.13

Source: RBI Annual Reports.

World Bank Group.



Interpretation:

Year-wise Analysis of FDI Contribution to India's GDP (2017-2024)

In 2017-18, India received $44.9 billion in FDI, contributing 1.66% to the total GDP of $2700 billion. This indicates a steady flow of foreign investments, supporting economic growth.

In 2018-19, FDI slightly declined to $44.4 billion, while GDP increased to $2840 billion, reducing the FDI contribution to 1.56%. This suggests that India's economic expansion was more dependent on domestic factors rather than foreign capital.

In 2019-20, FDI inflows rose to $50 billion, but GDP declined to $2670 billion, increasing FDI's share to 1.87%. This shows that foreign investments played a crucial role in stabilizing the economy during slower growth.

In 2020-21, FDI peaked at $59.6 billion, contributing 1.88% to GDP, which increased to $3170 billion. The rise was largely driven by higher investments in digital services, e-commerce, and manufacturing during the pandemic period.

In 2021-22, FDI slightly dropped to $58.8 billion, while GDP grew to $3350 billion, bringing FDI's contribution down to 1.76%. This indicates that while FDI inflows remained strong, India's overall economic growth was primarily driven by other factors.

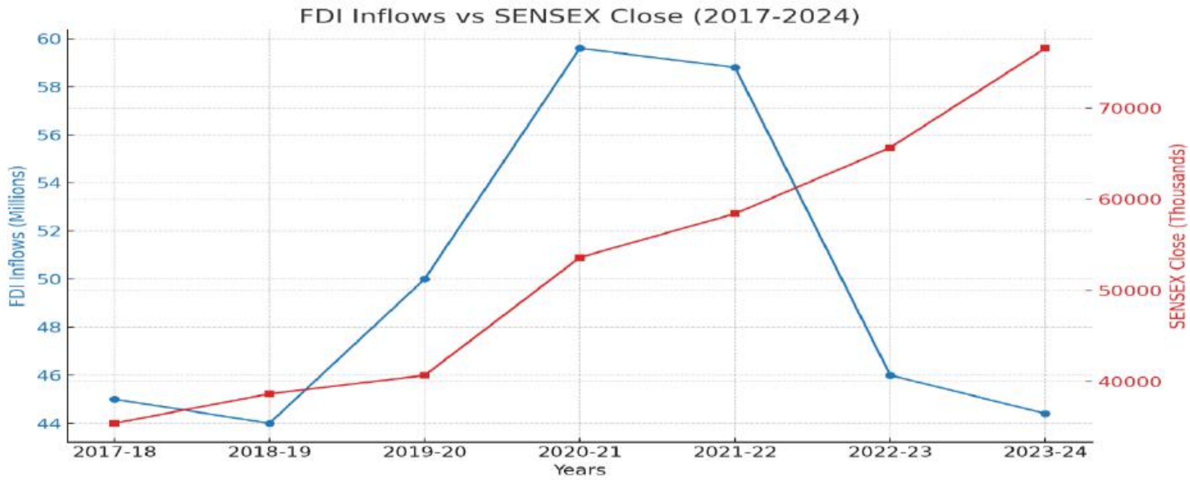
In 2022-23, FDI inflows declined sharply to $46 billion, while GDP grew to $3570 billion, reducing FDI's contribution to 1.29%. The decline reflects global investment uncertainties and cautious investor sentiment.

FDI V/S SENSEX

Years	India FDI Inflows (Millions)	SENSEX Close (Thousands)
2017-18	45	35,400.45
2018-19	44	38,628.17

2019-20	50	40,659.14
2020-21	59.6	53,611.25
2021-22	58.8	58,413.78
2022-23	46	65,670.19
2023-24	44.4	76,584.31

Source: World Bank Data and NSE

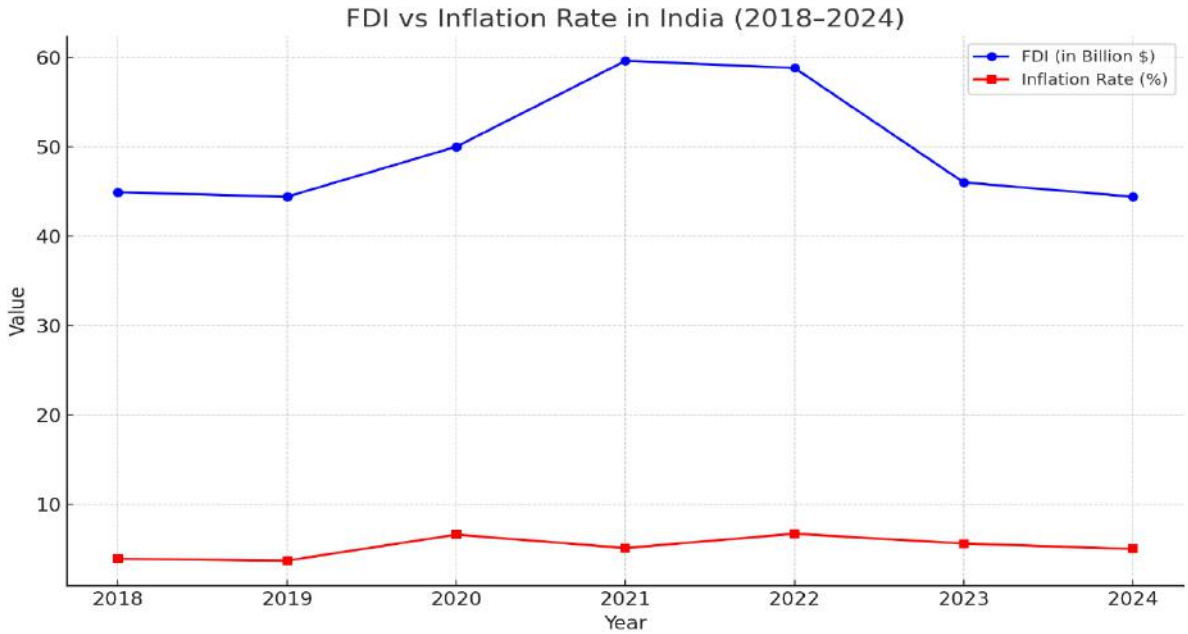


- Overall Market Growth Despite FDI Fluctuation: Over the seven-year period, the SENSEX consistently increased from around 35,400 in 2017–18 to over 76,500 in 2023–24, showing strong market performance. However, FDI inflows did not show a consistent upward trend, indicating that the stock market was growing even when FDI was falling.
- FDI Peaked Before 2020–21, Then Declined: FDI inflows peaked in 2020–21 at 59.6 million USD, but gradually declined in the following years to 44.4 million USD in 2023–24. This suggests a possible slowdown in foreign investor interest, despite India's stock market continuing to grow.
- Strong SENSEX Growth in Recent Years: From 2021–22 to 2023–24, the SENSEX rose sharply from 58,413 to 76,584, while FDI actually decreased during the same period. This indicates that the stock market growth was driven by internal economic factors or domestic investors, not foreign direct investment.

FDI V/S INFLATION

Year	FDI	Inflation, consumer prices (annual %) - India
2018	44.9	3.9
2019	44.4	3.7
2020	50	6.6
2021	59.6	5.1
2022	58.8	6.7
2023	46	5.6
2024	44.4	5

Source: World Bank Data, RBI Annual Reports



- FDI Was High Even During Rising Inflation (2020–2022) Despite higher inflation levels in 2020 (6.6%) and 2022 (6.7%), FDI inflows were also at their peak, with 50 billion USD in 2020 and 58.8 billion USD in 2022. This indicates that moderate to high inflation did not necessarily discourage foreign investors.
- Recent Decline in FDI Despite Stable InflationIn 2023 and 2024, inflation remained moderate at 5.6% and 5.0%, but FDI inflows declined to 46 and then 44.4 billion USD. This suggests that other external or policy-related factors might be influencing FDI, beyond just inflation.
- Foreign Investors Seem Tolerant to Moderate InflationThe data suggests that foreign investors continued to invest in India even when inflation was above 5%, indicating that India remained an attractive destination due to other factors like market size, growth potential, and reforms.

Statistical Analysis:

FDI V/S GDP

Hypothesis:

Null Hypothesis (H_0): There is no significant relationship between FDI inflows and India's GDP.

Alternative Hypothesis (H_1): There is a significant relationship between FDI inflows and India's GDP.

Regression Statistics	
Multiple R	0.363721958
R Square	0.132293663
Adjusted R Square	-0.084632921
Standard Error	385.7048761
Observations	6

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	90726.99411	90726.99411	0.609855	0.478476117
Residual	4	595073.0059	148768.2515		

Total	5	685800			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	2067.269844	1268.220435	1.63005562	0.1784	-1453.87458	5588.414	-1453.8746	5588.41426
FDI Inflows	19.41514961	24.86151612	0.78093184	0.4785	-49.6114851	88.44178	-49.611485	88.4417843

Interpretation:

- The p-value for FDI inflows is 0.478, which is much greater than 0.05.
- This means there is no strong statistical evidence to show that FDI significantly affects GDP at the 5% level of significance.
- So, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_1).

Based on the regression analysis, there does not appear to be a strong or significant impact of Foreign Direct Investment (FDI) inflows on India's Gross Domestic Product (GDP). The results show that the relationship between FDI and GDP is weak, meaning that an increase or decrease in FDI does not clearly result in a corresponding change in the country's economic growth. This suggests that FDI alone is not the key factor influencing GDP. Other elements like domestic consumption, government spending, industrial production, inflation, and global market conditions could have a stronger effect on GDP growth. To get a better understanding of the overall impact on the economy, it would be helpful to study more variables and use a larger and more detailed dataset, possibly with quarterly or monthly data over a longer time period.

FDI V/S INFLATION

Hypothesis:

Null Hypothesis (H_0): There is no significant relationship between Foreign Direct Investment (FDI) inflows and the inflation rate in India.

Alternative Hypothesis (H_1): There is a significant relationship between Foreign Direct Investment (FDI) inflows and the inflation rate in India.

Regression Statistics	
Multiple R	0.5612665
R Square	0.3150201
Adjusted R Square	0.1780241
Standard Error	1.0698147
Observations	7

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	2.631768	2.631768002	2.299484365	0.189859621
Residual	5	5.722518	1.144503543		
Total	6	8.354286			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.3532671	3.240368576	0.109020645	0.91742626	-7.9763655	8.682899677	-7.97636553	8.682899677
FDI	0.0980383	0.064651785	1.516405079	0.18985962	-0.0681544	0.264230999	-0.068154409	0.264230999

Interpretation:

- The p-value for FDI is 0.19, which is higher than the 0.05 cutoff.
- This indicates that there is no clear statistical proof that FDI has a meaningful impact on inflation at the 5% significance level.
- Therefore, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_1).

The results show that Foreign Direct Investment (FDI) has a very small effect on inflation in India. Since the p-value is 0.19, which is higher than the standard 0.05 level, there is no strong evidence to prove that FDI significantly influences inflation. This means inflation is probably affected more by other things like government policies, market demand and supply, fiscal measures, or global economic changes rather than FDI alone

FDI V/S SENSEX

Hypothesis:

Null Hypothesis (H_0): There is no significant relationship between Foreign Direct Investment (FDI) inflows and the Sensex index.

Alternative Hypothesis (H_1): There is a significant relationship between Foreign Direct Investment (FDI) inflows and the Sensex index.

Regression Statistics	
Multiple R	0.064989094
R Square	0.004223582
Adjusted R Square	-0.194931701
Standard Error	16783.69661
Observations	7

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	5973988.337	5973988	0.02120748	0.889903932
Residual	5	1408462360	2.82E+08		
Total	6	1414436348			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	45364.30235	50836.24473	0.8924	0.4131	-85314.425	176043.03	-85314.4249	176043.0296
India FDI Inflows (Billions)	147.7080395	1014.283987	0.1456	0.8899	-2459.592	2755.00803	-2459.59195	2755.008032

Interpretation:

- The p-value for FDI inflows is 0.89, which is much higher than the 0.05 significance level.
- This means there is no strong statistical evidence to suggest that FDI significantly impacts the Sensex at the 5% significance level.
- So, we accept the null hypothesis (H_0) and reject the alternative hypothesis (H_1).

The regression analysis between Foreign Direct Investment (FDI) inflows and the Sensex index reveals a very weak connection. The p-value is 0.89, which is far above the commonly used significance level of 0.05. This indicates that the data does not provide strong evidence to support the idea that FDI inflows have a significant impact on the movement of the Sensex. In other words, changes in FDI do not appear to explain the fluctuations in the Sensex index during the period studied.

This weak relationship suggests that the Sensex, which reflects the overall performance of the Indian stock market, is influenced by many other factors besides FDI. These could include domestic economic policies, interest rates, corporate earnings, investor sentiment, geopolitical developments, and global market trends. Therefore, relying solely on FDI to predict or understand Sensex movements would not give an accurate picture.

Additionally, the low R-squared value from the regression model confirms that only a very small portion of the variation in the Sensex can be explained by FDI inflows. This implies that other variables and external factors play a more dominant role in shaping stock market behaviour.

By the doing of Regression, I find out:

1. FDI does not show a significant effect on India's GDP, indicating other factors have a stronger role in economic growth.
2. The impact of FDI on inflation is weak and not statistically meaningful, suggesting inflation is mainly influenced by policies and economic conditions beyond FDI.
3. There is no clear relationship between FDI and the Sensex, implying stock market performance depends on many other variables besides FDI.

Overall, FDI contributes to the economy but its direct influence on GDP, inflation, and stock market is limited in this analysis.

IV. FINDINGS

- FDI Inflow Trends (2017-2024): India's FDI inflows have shown fluctuations over the years, with peaks during 2020-21 at $59.6 billion, followed by a gradual decline to $44.4 billion in 2023-24. This pattern reflects the influence of global economic conditions, domestic policy reforms, and investor sentiment.
- Impact of Global and Domestic Factors: Factors such as geopolitical tensions, inflation, global supply chain disruptions, and pandemic-related challenges influenced the volume and direction of FDI inflows. Policy reforms, ease of doing business, and strategic incentives helped maintain India's attractiveness despite these challenges.
- Comparison with China: China's FDI inflows have historically been much higher but showed sharp volatility and a steep decline after 2020-21 due to geopolitical tensions, regulatory crackdowns, and COVID-19 disruptions. Meanwhile, India maintained relatively steady inflows, positioning itself as a more stable investment destination.
- Relationship between FDI and Economic Indicators: Statistical analysis shows a weak or insignificant relationship between FDI and key macroeconomic variables such as GDP, inflation, and Sensex performance during the study period. This suggests that while FDI contributes to economic growth, other factors play substantial roles in influencing these indicators.

V. CONCLUSION

- India's FDI inflows have been resilient, reflecting ongoing investor confidence supported by policy reforms, sectoral growth, and economic potential.
- The manufacturing and technology-driven sectors continue to be the primary beneficiaries of FDI, highlighting India's evolving industrial and digital landscape.
- Despite global economic uncertainties, India's stable FDI inflows demonstrate its growing

appeal as a foreign investment destination compared to more volatile peers like China.

- The weak correlation between FDI and GDP, inflation, and stock market indicators suggests that FDI alone cannot drive immediate macroeconomic changes, emphasizing the need for comprehensive economic strategies.
- Policymakers should continue to focus on improving the business environment, infrastructure, and regulatory clarity to attract and sustain higher levels of quality FDI.
- Diversifying investment sources and targeting emerging sectors like education, renewable energy, and research & development can further enhance FDI's impact on the economy.
- India's stable FDI trends amid global challenges indicate the success of its long-term growth strategies and potential to attract increased global capital.
- Continuous monitoring of global developments and adapting policies accordingly will be critical to maintain India's competitiveness in the global investment landscape.
- Expanding data collection frequency and incorporating other economic variables could improve future analysis accuracy and provide deeper insights.
- Overall, FDI plays a vital but complex role in India's economic development, necessitating coordinated efforts across multiple sectors and policy areas to maximize its benefits.

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