



# A Study on the Impact of Foreign Direct Investment on Economic Growth in India

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**Abstract:** Foreign Direct Investment (FDI) is a pivotal driver of economic growth, fostering development and innovation worldwide. Likewise, FDI in India plays an instrumental role in shaping the country's economic landscape. India remains a favored destination for global investors. This study can provide insights into the policy measures required to enhance FDI inflows and their positive impact on economic growth. FDI plays a vital role in stimulating economic development in host countries. Assessing the impact of FDI on Indian economic growth helps understand how foreign investment contributes to various aspects of development, such as increasing capital investment, creating employment opportunities, transferring technology and knowledge, and boosting productivity. The study's focus on sector-wise analysis of FDI provides valuable insights into the specific industries that attract foreign investment. Identifying the sectors with high FDI inflows and their impact on economic growth enables policymakers to prioritize investment. Implement targeted policies to promote growth in those sectors. Comparing the impact of FDI across different countries and sectors provides valuable benchmarks and insights. It provides empirical evidence and quantitative analysis that can further enrich the understanding of the relationship between FDI and Indian economic growth.

**Key Words:** FDI, GDP, Economic Development, UAE.

## 1. INTRODUCTION

Investments made by a firm or individual from one country into another are foreign direct investments (FDI). It entails establishing company activities or purchasing assets in a foreign nation, to gain control or significant influence over the invested enterprise. FDI allows investors ownership and control over their investments in a foreign country. This can take the form of establishing wholly-owned subsidiaries, joint ventures with local partners, or acquiring a significant stake in an existing company. FDI is typically characterized by long-term investments, as investors commit their resources and expertise to the foreign market. This long-term perspective can contribute to stable economic growth and sustainable development in the host country. FDI brings capital, technology, and skills to the host country. Foreign companies often introduce advanced production techniques, managerial practices, and technical know-how that can improve productivity and competitiveness in local industries. This transfer of knowledge and technology can have positive spillover effects on the domestic economy. Employment possibilities in the host nation could be created via FDI. As foreign companies set up operations or expand their existing businesses, they create jobs for the local workforce. This can contribute to reducing unemployment rates and improving the standard of living. Host countries with access to global markets and supply chains. FDI can contribute to the development of infrastructure in the host country. Foreign investors may invest in sectors such as telecommunications, transportation, energy, and urban development, which can improve the overall infrastructure and support economic activities.



## 2. NEED AND IMPORTANCE OF THE STUDY

FDI is an investment made by a foreign company in the economy of another country, to establish a lasting interest and control the management of the enterprise. FDI is a significant source of capital inflow in India. It allows foreign investors to invest in the Indian economy, thereby increasing the availability of capital for businesses and spurring economic growth. Technological Advancement: FDI often brings advanced technologies and managerial expertise to India. This helps to improve the quality of goods and services, increase productivity, and enhance competitiveness in the global market. Employment Generation: FDI creates employment opportunities in India. As foreign companies set up businesses, they hire local talent, which helps to reduce unemployment in the country. Improved Balance of Payments: FDI also helps to improve India's balance of payments position by boosting exports, reducing imports, and increasing foreign exchange reserves. Sectorial Growth: FDI can help to promote the growth of specific sectors in the Indian economy, such as manufacturing, infrastructure, and services. The Indian government has taken several steps to encourage FDI inflows, such as liberalizing foreign investment policies, simplifying procedures and offering various incentives to foreign investors.

## 3. OBJECTIVES OF THE STUDY

- To analyze the overview of FDI in India
- To Find out the Investment and growth performance of FDI
- To ascertain country-wise and sector-wise inflows FDI in selected countries.

## 4. PERIOD AND SCOPE OF THE STUDY

The period of the study from 2013-2014 to 2022-2023 for analysis of the impact of FDI on economic growth in India. The present study measures the inflow of FDI in India from select countries like Mauritius, Singapore, USA, Netherlands, Japan, U K, Germany, Cayman Island, UAE, and Cyprus. Further, in this present study, sector-wise inflow of FDI in India has been studied.

## 5. COUNTRY-WISE INFLOW OF FDI IN INDIA

FDI in India has been a significant driver of economic growth and development. Over the years, India has attracted substantial inflows of FDI across various countries. The following table discloses an overview of FDI inflows in India between 2013-2014 and 2022-2023.

**Table 1. Inflows of FDI (USD Million)**

Year	Mauritius	Singapore	USA	Netherland	Japan	UK	UAE	Germany	Cyprus	Cayman Island
2013-2014	39360	4807	20462	10550	13920	6093	3410	35625	2084	1842
2014-2015	55172	11150	8769	12752	20960	6094	3634	41350	2251	3881
2015-2016	54706	27695	5938	17275	17275	6361	3317	89510	6528	3937
2016-2017	54706	27695	5940	22633	17275	9953	4539	7175	4050	3617
2017-2018	102492	13505	5473	10516	18048	7245	2680	78542	6767	3297
2018-2019	57139	22335	9352	20556	27036	6187	2134	112362	6356	2890
2019-2020	157785	29850	10041	22774	46071	3467	2134	103615	2393	26397
2020-2021	141661	102499	15225	14441	20380	4910	2839	129227	31242	20779
2021-2022	164891	69963	9059	20458	33604	4852	2180	133950	18799	21277
2022-2023	166721	80997	8818	21352	36032	4511	1843	149641	22335	25433
<b>Total</b>	1024633	390496	99041	173307	251051	60483	28710	880997	102805	113350
<b>Avg</b>	102463.3	39049.60	9904.10	17330.70	25105.10	6048.30	2871.00	88099.70	10280.50	11335.00
<b>SD</b>	51090.4	33277.26	4638.09	4897.09	10370.44	1803.80	850.82	47130.66	10175.00	10591.16
<b>CV</b>	49.86	82.22	46.83	28.26	41.31	29.82	29.63	53.50	98.97	93.44
<b>Rank</b>	<b>1</b>	<b>3</b>	<b>8</b>	<b>5</b>	<b>4</b>	<b>9</b>	<b>10</b>	<b>2</b>	<b>7</b>	<b>6</b>

Source: Computed



India receives a significant amount of FDI on average from Mauritius. The United Arab Emirates (UAE) has a low mean inflow of FDI to India, suggesting that India receives a relatively smaller amount of FDI on average from the UAE. The coefficient of variation for inflows of FDI from the Netherlands is low, implying that the FDI amounts from the Netherlands to India have a low level of fluctuation overtime. Similarly, the coefficient of variation for inflows of FDI from Cyprus is high, indicating that there is a high level of fluctuation in the FDI amounts received from Cyprus to India. Germany provided a high amount of FDI to India in 2023, indicating a substantial investment received from Germany during that year. India received a relatively small amount of investment from the Cayman Islands in 2014. One of the primary reasons for the high FDI from Mauritius to India is the favorable tax treatment provided by the Double Taxation Avoidance Agreement (DTAA) between the two countries. The agreement ensures that investors from Mauritius do not face double taxation on their investments in India. Capital gains tax on investments made through Mauritius is often exempt or subject to reduced rates, making it an attractive route for investors.

**TABLE 2.FORECASTING PERFORMANCE OF COUNTRY-WISE FDI INFLOWS (USD Million)**

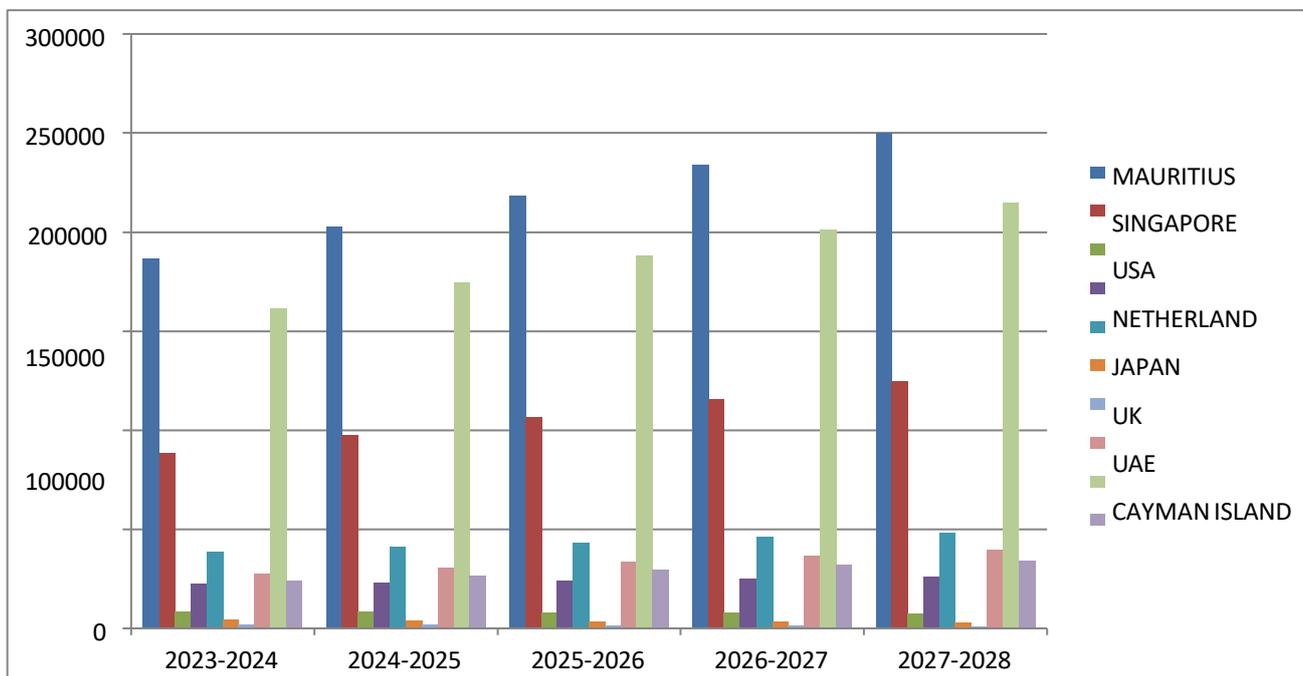
Year	Mauritius	Singapore	USA	Netherland	Japan	UK	UAE	Cayman Island	Germany	Cyprus
2023-2024	186561.3	88606.8	8576.6	22245.8	38460.67	4169.2	1723.267	27542.8	161302	24156.6
2024-2025	202397.1	97617.2	8335.236	23139.45	40888.95	3827.54	1514.588	30489.67	174611.5	26679.53
2025-2026	218232.8	106627.6	8093.873	24033.11	43317.24	3485.89	1305.909	33436.55	187921	29202.45
2026-2027	234068.6	115638	7852.509	24926.76	45745.52	3144.23	1097.23	36383.42	201230.5	31725.38
2027-2028	249904.3	124648.4	7611.145	25820.42	48173.81	2802.58	888.5515	39330.29	214540	34248.31

Source: Computed

The projected FDI value of FDI inflows from Mauritius is 186561.3 million for the year 2023-2024, 202397.1 in the year 2024-2025, 218232.8 in the year 2025-2026, 234068.6 in the year 2026-2027, 249904.3 in the year 2027-2028. Singapore projected value FDI inflows 88606.8 million in the year 2023-2024, 97617.2 in the year 2024-2025, 106627.6 in the year 2025-2026, 115638 in the year 2026-2027, 124648.4 in the year 2027-2028. USA million 8576.6 in the year 2023-2024, 8335.236 in the year 2024-2025, 8093.873 in the year 2025-2026, 7852.509 in the year 2026-2027, 7611.145 in the year 2027-2028. The Netherlands about 22245.8 million in the year 2023-2024, 23139.45 in the year 2024-2025, 24033.11 in the year 2025-2026, 24926.76 in the year 2026-2027, 25820.42 in the year 2027-2028. Japan about 38460.67 million in the year 2023-2024, 40888.95 in the year 2024-2025, 43317.24 in the year 2025-2026, 45745.52 in the year 2026-2027, 48173.81 in the year 2027-2028. UK 4169.2 million in the year 2023-2024, 3827.54 in the year 2024-2025, 3485.89 in the year 2025-2026, 3144.23 in the year 2026-2027, 2802.58 in the year 2027-2028. UAE about 1723.267 million in the year 2023-2024, 1514.588 in the year 2024-2025, 1305.909 in the year 2025-2026, 1097.23 in the year 2026-2027, 888.5515 in the year 2027-2028. Cayman Island about 27542.8 million in the year 2023-2024, 30489.67 in the year 2024-2025, 33436.55 in the year 2025-2026, 36383.42 in the year 2026-2027, 39330.29 in the year 2027-2028. Germany about million 161302 in the year 2023-2024, 174611.5 in the year 2024-2025, 187921 in the year 2025-2026, 201230.5 in the year 2026-2027, 214540 in the year 2027-2028. Cyprus about 24156.6 million in the year 2023-2024, 26679.53 in the year 2024-2025, 29202.95 in the year 2025-2026, 31725.38 in the year 2026-2027, 34248.31 in the year 2027-2028.



**FORECASTING PERFORMANCE OF COUNTRY-WISE FDI INFLOWS IN INDIA  
 CHART-1**



**6. SECTOR-WISE INFLOW OF FDI IN INDIA**

The inflow of FDI in India varies across different sectors. It's important to note that the inflow of FDI can vary depending on economic conditions, government policies, and sector-specific opportunities. The government of India has introduced various measures to promote FDI across sectors and continues to work towards improving the ease of doing business in the country, which can further influence the sector-wise distribution of FDI. Thus, the following table illustrates FDI in India in various sectors between the period 2014 and 2023.

Foreign direct investment (FDI) serves as a vital mechanism for global economic integration. It offers avenues for technological transfer, job creation, and infrastructure development. However, while FDI presents numerous advantages, it also brings forth challenges like dependency on foreign investors and potential exploitation. Striking a balance between harnessing the benefits of FDI and mitigating its drawbacks is important. This benefits both home and host countries.

**Table 3. SECTOR-WISE INFLOW OF FDI IN INDIA (USD MILLION)**

Year	Services	Software & hardware	Telecommunication	Trading	Automobile	Infrastructure	Construction	Chemicals	Hotel & Tourism	Pharmaceuticals
2013-14	13294	7508	7987	6896	7191	9027	4738	3634	2939	6519
2014-15	27369	4652	14162	17372	16760	9052	4658	4296	4740	16755
2015-16	45415	727	8637	38351	16437	4975	25244	5662	2982	9664
2016-17	58214	37435	24605	703	10824	15721	5723	7473	12478	9397
2017-18	43249	39670	39748	3472	28078	13461	8425	17517	10473	6502
2018-19	63909	45297	18337	30963	1503	18309	13685	15927	7330	13685
2019-20	55429	54250	30940	32406	4350	19753	14510	3650	21060	7492



2020-21	37542	194291	2884	19349	12115	58240	3117	6300	2761	11015
2021-22	61832	38590	23363	26346	9203	41910	10330	11131	12991	9824
2022-23	60593	169442	22115	25963	5953	50174	8605	11032	13597	8383
Total	466846	591862	192778	201821	112414	240622	99035	86478	91351	99236
Avg	46684.6	59186.2	19277.8	20182.1	11241.4	24062.2	9903.6	8647.8	9135.1	9923.6
SD	16713.2	67467.87	11277.68	12956.9	7693.53	18908.57	6605.01	5070.03	6049.81	3230.87
CV	35.80	113.99	58.50	64.20	68.44	78.58	66.69	58.63	66.23	32.56
Rank	2	1	5	4	6	3	8	10	9	7

Source: Computed

Table 3, explains that the mean value of the inflow of FDI is found high in the software and hardware sector and the mean value of the inflow of FDI is found low value in the chemical industry. Further, it is noted that high fluctuation in the inflow of FDI is noted in the software and hardware industry and low fluctuation in FDI inflow is noted in the service industry. The service sector has the highest mean inflow of FDI, indicating that it receives a significant amount of foreign investment. On the other hand, the chemical industry has a lower mean inflow of FDI. The software and hardware industry experiences high fluctuations in FDI inflow, indicating that the amount of foreign investment in this sector can vary significantly overtime. The service industry has low fluctuation in FDI inflow, suggesting more stable and consistent level of foreign investment. The software and hardware industry will receive a high amount of FDI inflow during 2021, indicating that it is an attractive sector for foreign investors. The chemical industry received a low amount FDI inflow during 2014, suggesting that it may be less attractive to foreign investors compared to other sectors. The service sector in India has been a major recipient of foreign direct investment(FDI) due to several factors. India has a rapidly growing domestic market with a large and diverse consumer base. The service sector, which includes financial services, telecommunications, retail, healthcare, education, and hospitality, among others, benefits from the expanding middle class and increasing consumer spending power. Foreign companies see India as a lucrative market to provide services and tap into the growing demand. Foreign investors may be cautious about investing in sectors that have a higher environmental impact or face public scrutiny due to environmental concerns. The global chemical industry is highly competitive, with established players from various countries. Indian chemical companies may face strong competition from international counterparts, making it challenging to attract significant FDI inflows.

**TABLE-4**  
**FORECASTING PERFORMANCE OF SECTOR-WISE FDI INFLOW IN INDIA (USD MILLION)**

Year	Service	Software & Hardware	Telecommunication	Trading	Automobile	Infrastructure	Construction	Pharmaceuticals	Chemicals	Hotel & Tourism
2023-24	68013.6	149815	24624.07	28915.8	6853.13	53515.47	9753.267	9139.667	12190.6	14974.3
2024-25	71891.6	166293	25596.12	30503.7	6055.26	58870.61	9725.952	8997.133	12834.8	16036.0
2025-26	75769.6	182770.9	26528.16	32091.6	5257.4	64225.75	9698.636	8854.6	13478.9	17097.6
2026-27	79647.9	199248.9	27540.21	33679.6	4459.53	69580.88	9671.321	8712.067	14123.1	18159.3
2027-28	83525.7	215726.9	28512.26	35267.5	3661.66	76936.02	9644.006	8569.533	14767.3	19221.0

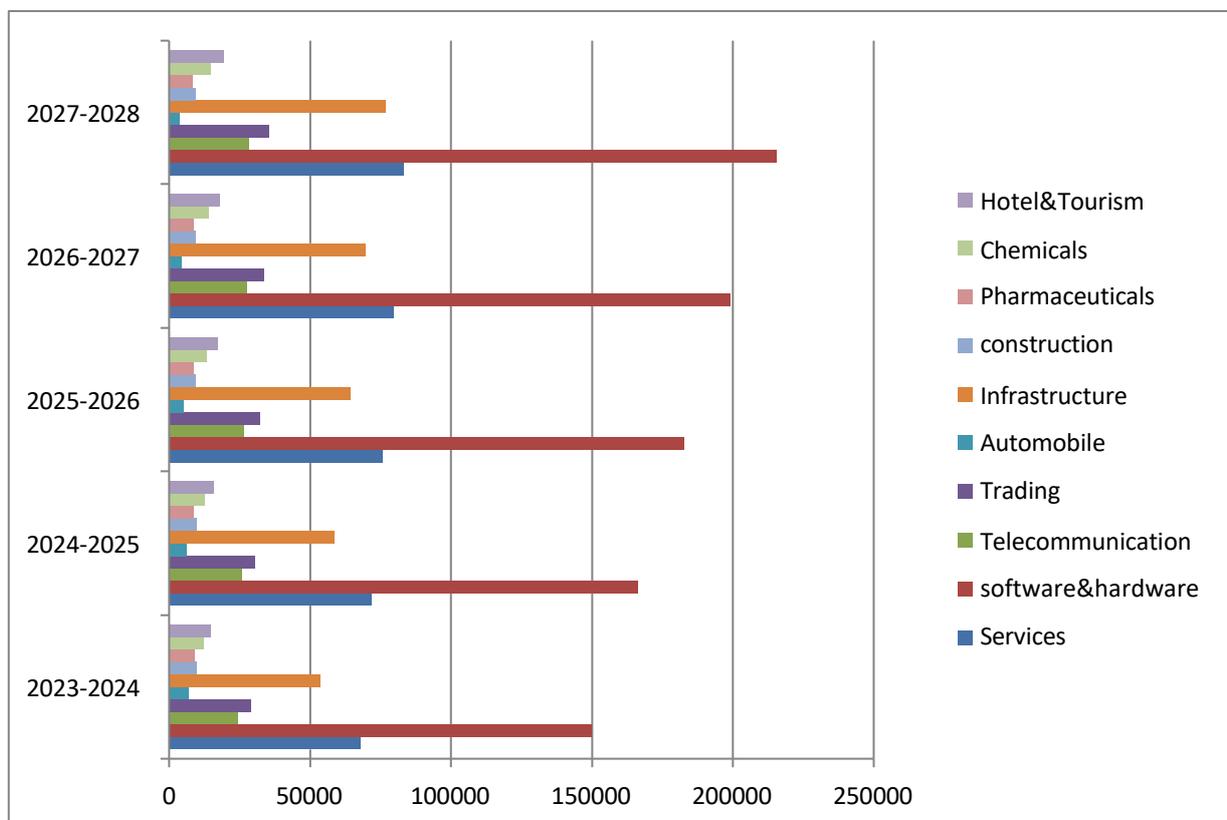
Source: UNCTAD

The project impact of FDI value of sector-wise trend analysis in the Service sector above million 68013.6 in the year 2023-2024, 71891.6 in the year 2024-2025, 75769.6 in the year 2025-2026, 79647.9 in the year 2026-2027, 83525.7 in the year 2027-2028. Software & Hardware sector about 149815 million in the year 2023-2024, 166293 in the year 2024-2025, 182770.9 in the year 2025-2026, 199248.9 in the year 2026-2027, 215726.9 in the year 2027-2028. Telecommunication sector about 24624.07 million in the year 2023-2024, 25596.12 in the year 2024-2025, 26528.16 in the year 2025-2026, 27540.21 in the year 2026-2027, 28512.26 in the year 2027-2028. The trading sector projected 28915.8 million in the year 2023-2024, 30503.75 in the year 2024-2025, 32091.69 in the year 2025-2026,



33679.64 in the year 2026- 2027, and 35267.58 in the year 2027-2028. Automobile sector projected value million 6853.133 in the year 2023-2024,6055.26 in the year 2024-2025,5257.4 in the year 2025-2026,4459.53 in the year 2026-2027,3661.66 in the year 2027-2028. Infrastructure sector expected million 53515.47 in the year 2023-2024, 58870.6 in the year 2024-2025, 64225.75 in the year 2025-2026, 69580.8 in the year 2026-2027, 76936.02 in the year 2027-2028. The pharmaceuticals sector projected 9139.66 million in the year 2023-2024,8997.13 in the year 2024-2025,8854.6 in the year 2025-2026, 8712.06 in the year 2026-2027,8569.53 in the year 2027-2028. Chemicals sector 12190.6 million in the year 2023-2024,12834.8 in the year 2024-2025,13478.9 in the year 2025-2026, 14123.1 in the year 2026-2027,14767.3 in the year 2027-2028. Hotel & Tourism sector 14974 million in the year 2023-2024,16036.01 in the year 2024-2025,17097.6 in the year 2025-2026,18159.3 in the year 2026-2027,19221.0 in the year 2027-2028. Construction sector 9753.26 million in the year 2023-2024,9725.95 in the year 2024-2025,9698.63 in the year 2025-2026,9671.32 in the year 2026-2027,9644.00 in the year 2027-2028.

**FORECASTING PERFORMANCE OF SECTOR-WISE FDI INFLOW IN INDIA CHART-2**



**FDI in India inflow cover the last ten years**

Table 5 below provides the FDI in India inflows over the past decade

**Table-5**

Financial year(April-March)	Total FDI inflow(US\$)	% of GDP
2012-2013	28.19B	1.52%
2013-2014	34.58B	1.70%
2014-2015	44.06B	2.09%
2015-2016	44.48B	1.94%
2016-2017	39.90B	1.51%
2017-2018	42.15B	1.56%
2018-2019	50.55B	1.78%
2019-2020	64.07B	2.41%
2019-2021	44.73B	1.42%
2021-2022	49.35B	1.47%



## 7. SUGGESTIONS

- To attract more inflow of foreign direct investment(FDI)in India, several strategies and measures can be implemented.
- Streamline and simplify bureaucratic processes, reduce regulatory burden, and enhance transparency and efficiency in business operations. Creating a business-friendly environment by implementing reforms that make it easier for foreign investors to establish and operate their businesses in India can significantly attract FDI inflows.
- Invest in infrastructure development, including transportation, logistics, energy, and digital connectivity. High-quality infrastructure is crucial for attracting foreign investors as it provides a conducive environment for business operations and enables efficient supply chains.
- Implement transparent and stable tax policies to provide certainty to foreign investors. Rationalize tax rates and reduce complexities in tax compliance. Additionally, ensure consistency and predictability in investment policies to instill confidence in foreign investors.
- Ensure robust IPR protection to safeguard the interests of foreign investors and encourage innovation and technology transfer. Strengthen enforcement mechanisms and streamline the process for obtaining and protecting intellectual property rights.
- Actively Make- in- India an attractive investment destination through promotional campaigns and investment summits. Highlight the country's strengths, such as a large consumer base, skilled workforce, diverse market opportunities, and a favorable demographic profile.
- Strengthen legal and institutional frameworks for investor protection and provide efficient dispute resolution mechanisms. Ensure a transparent and predictable legal system to instill confidence in foreign investors. These suggestions aim to create an enabling environment that promotes investment, reduces barriers, and instills confidence in foreign investors. Implementing these measures requires coordination among various government departments, regulatory bodies, and stakeholders to create a conducive investment climate and position India as an attractive FDI destination.

## 6. CONCLUSION

India has become an attractive destination for FDI in recent years, influenced by various factors which have boosted FDI. India ranked 40th in the World Competitive Index 2023 jumping third position from the 43rd rank in 2021. India was also named as the 48th most innovative country among the top 50 countries, securing 40th position out of 132 economies in the Global Innovation Index 2023. India rose from 81st position in 2015 to 40th position in 2023, and the impact of foreign direct investment (FDI) on Indian economic growth can be significant. FDI plays a crucial role in driving economic development, enhancing productivity, and promoting technological advancement. FDI inflows bring in additional investment capital to the Indian economy. FDI brings with it advanced technology, managerial expertise, and best practices from foreign companies. This technology transfer and knowledge spillover can enhance productivity, improve the quality of products and services, and increase the competitiveness of domestic industries. reducing unemployment rates and improving the standard of living . Increased employment levels contribute to higher consumer spending and overall economic growth. Growth can vary depending on various factors, including the quality of investment, policy environment, institutional framework, and absorptive capacity of the economy. Implementing supportive policies, creating an enabling business environment, and attracting high-quality. FDI is key to maximizing the positive impact of FDI on Indian economic growth.

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