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Research Paper

Foreign Direct Investment (FDI) and Economic Growth in India

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ABSTRACT

Foreign Direct Investment (FDI) has emerged as a crucial driver of India's economic growth since liberalization in 1991. This study examines the relationship between FDI inflows and India's GDP growth from 2000–01 to 2023–24 using correlation, regression, and ANOVA analyses. Findings reveal a strong positive correlation between FDI and GDP growth, with manufacturing and computer services attracting the largest inflows, while sectors like mining and real estate lagged. However, regression results show that FDI's long-term impact on economic stability remains insignificant, highlighting the need for complementary domestic reforms. The study concludes that while FDI stimulates short-term growth, sustainable development requires sectoral diversification and policy resilience.

Keywords: *Foreign Direct Investment, Economic Growth, Sectoral Analysis, India, GDP, Policy Reforms*

Foreign Direct Investment (FDI) has emerged as a vital driver of economic growth in developing economies, including India. With economic liberalization in 1991, India opened its markets to global investors, leading to a significant inflow of foreign capital. FDI not only supplements domestic investment but also facilitates technology transfer, managerial expertise, and integration into global markets. In India, sectors such as information technology, manufacturing, telecommunications, and services have benefited substantially from foreign investment, thereby contributing to GDP growth, employment generation, and export competitiveness. However, debates continue regarding the extent and sustainability of FDI's impact on long-term economic development. While some studies highlight its positive role in accelerating growth, others suggest that benefits are uneven across sectors and regions. This paper seeks to analyze the relationship between FDI and India's economic growth, assess sectoral contributions, and evaluate the long-term implications for economic stability and development.

Objectives

1. To examine the relationship between Foreign Direct Investment (FDI) inflows and India's economic growth.
2. To analyze the sectoral contribution of FDI in promoting India's GDP growth.

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3. To evaluate the long-term impact of FDI on India's economic development and stability.

Null Hypotheses (H_0)

1. H_{01}: There is no significant relationship between FDI inflows and India's economic growth.
2. H_{02}: FDI inflows do not significantly influence sectoral contributions to India's GDP.
3. H_{03}: FDI has no significant long-term impact on India's economic development and stability.

REVIEW OF LITERATURE

1. **Singh & Roy (2025)**

Impact of FDI Inflows on Economic Growth and Startup Development in India: An Empirical Analysis

- **Key Focus:** Employs quarterly data from March 2016 to December 2023 to study the influence of *sectoral* FDI inflows—specifically in merchandise and services—on economic growth and startup formation.
- **Methodology:** Uses OLS regression and Granger causality tests.
- **Findings:** FDI inflows positively and significantly influence economic growth (a reported 21.48% effect), with a unidirectional causal relationship from FDI to growth

2. **Konnur & Chubachi (2025)**

The Impact of Foreign Direct Investment on India's Sectoral and Regional Economic Growth: An Analytical Study

- **Key Focus:** Examines how FDI distribution across sectors (like services, software/hardware, and trading) and regions (notably Maharashtra, Karnataka, Gujarat) affects GDP growth, industrial expansion, and employment generation.
- **Methodology:** Statistical analysis using data from DPIIT and other secondary sources.
- **Findings:** FDI is concentrated in already developed states, creating unequal regional benefits. The authors recommend targeted infrastructure policies and incentives for emerging sectors to improve equitable growth

3. **Hedau & Mishra (2025)**

FDI Inflow and Economic Growth in India

- **Key Focus:** Investigates the relationship between FDI inflow and economic growth from 2001 to 2022, with a particular focus on how macroeconomic and financial development factors moderate this relationship.
- **Methodology:** Panel data regression with indices for financial development and macroeconomic indicators.

- **Findings:** FDI significantly contributes to India's economic growth. Critical determinants include a favorable monetary policy environment, improved business climate, and privatization efforts. The Global Financial Crisis (2008) is noted as a disruptive event, with FDI playing a crucial role in recovery post-crisis

RESEARCH METHODOLOGY

This study adopts a descriptive and analytical research design to examine the relationship between Foreign Direct Investment (FDI) and economic growth in India. The research relies primarily on **secondary data sources**, including publications from the Reserve Bank of India (RBI), the Department for Promotion of Industry and Internal Trade (DPIIT), World Bank, International Monetary Fund (IMF), and annual Economic Surveys of India. The period of analysis covers the post-liberalization phase, with particular focus on data from **2004–05 to 2023–24**, in order to capture both long-term trends and short-term fluctuations in FDI inflows and GDP growth. The study employs both **descriptive statistics** (trend analysis, growth rates, and sectoral shares) and **econometric tools** (correlation and regression analysis) to measure the strength and direction of the relationship between FDI inflows and India's economic performance. Sectoral distribution of FDI is also examined to understand its contribution to GDP, employment generation, and regional development. The econometric analysis helps test the hypotheses regarding the impact of FDI on economic growth, while descriptive analysis provides supportive insights into structural changes brought about by foreign investment.

To ensure reliability, data from multiple authentic sources have been cross-verified. The methodology is designed to not only establish whether FDI contributes to India's economic growth but also to explore **sectoral disparities** and **long-term implications** of foreign capital inflows on economic stability.

DATA ANALYSIS:

Table: 1, FDI (% of GDP) and GDP Growth Rate (Annual %) — Last 20 Fiscal Years

Fiscal Year / Calendar Year	FDI (Net Inflows as % of GDP)	GDP Growth Rate (Annual %)
2004	1.66	7.50
2005	2.69	9.30
2006	2.98	9.30
2007	2.69	9.30
2008	1.48	6.70
2009	1.58	8.50
2010	3.33	10.50
2011	1.32	6.20
2012	1.35	5.50
2013	1.48	6.70
2014	1.98	7.40
2015	2.20	8.00
2016	2.22	8.30
2017	1.58	7.00
2018	1.60	6.70
2019	1.60	4.20
2020	1.03	-7.3
2021	2.23	7.00
2022	1.69	6.90
2023	1.66	7.50

Sources: Reserve Bank of India. (2023). *Annual Report 2022–23*. Mumbai: RBI. Retrieved from https://rbi.org.in

Based on the data for the last 20 fiscal years, FDI inflows as a percentage of GDP and GDP growth rates in India show a generally positive relationship, though with some fluctuations. Periods with higher FDI inflows, such as 2005–2007 and 2010, correspond to strong GDP growth rates, reaching up to 10.5% in 2010. Conversely, lower FDI inflows, notably in 2008, 2011–2013, and the COVID-affected year 2020, align with relatively slower or negative GDP growth, highlighting the impact of extraordinary events on the economy. Overall, despite short-term variations, the trend suggests that increased FDI inflows tend to support higher economic growth, indicating a positive association between foreign investment and India's economic expansion over the period. This provides preliminary evidence for rejecting the null hypothesis of no relationship between FDI and GDP growth.

Table: 2, Sector-wise FDI Inflows (in Billion USD)

Sector	2013-14	2014-15	2015-16	2016-17 P	2017–18	2018–19	2019–20	2020–21	2021–22	2022-23	2023-24 (P)
Manufacturing	6.381	9.613	8.439	11.972	9.0	9.6	9.6	9.3	16.3	11.3	9.3
Computer Services	0.934	2.154	4.319	1.937	3.4	3.7	5.1	23.8	9.0	3.3	5.5
Communication Services	1.256	1.075	2.638	5.876	9.1	6.5	7.8	2.9	6.4	5.6	4.9
Retail & Wholesale Trade	1.139	2.551	3.998	2.771	4.6	4.9	5.1	3.9	5.1	6.8	4.4
Financial Services	1.026	3.075	3.547	3.732	4.6	7.2	5.7	3.5	4.7	5.3	4.1
Education, Research & Development	0.107	0.131	0.394	0.205	0.4	0.9	0.8	1.3	3.6	1.7	3.8
Transport	0.311	0.482	1.363	0.891	2.5	1.2	2.4	7.9	3.3	4.5	3.7
Construction	1.276	1.640	4.141	1.564	2.8	2.3	2.0	1.8	3.2	2.0	2.6
Business Services	0.521	0.680	3.031	2.684	3.3	2.8	3.8	1.8	2.5	1.4	2.2
Electricity and Other Energy (Gen./Distrib./Trans.)	1.284	1.284	1.364	1.722	2.8	2.6	2.8	1.3	2.2	1.2	1.9
Miscellaneous Services	0.941	0.586	1.022	1.816	0.9	1.4	1.1	0.9	1.0	1.9	0.6
Restaurants and Hotels	0.361	0.686	0.889	0.430	0.5	0.8	2.7	0.3	0.7	0.2	0.4
Mining	0.024	0.129	0.596	0.141	0.1	0.3	0.3	0.2	0.4	0.1	0.3
Real Estate Activities	0.201	0.202	0.112	0.105	0.5	0.2	0.6	0.4	0.1	0.2	0.1
Trading	0.000	0.228	0.000	0.000	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	0.292	0.232	0.215	0.470	0.3	0.1	0.2	0.2	0.4	0.5	0.7

Annual report (RBI)

The sector-wise FDI inflows in India over the last decade show a varied pattern across different industries. **Manufacturing** consistently attracted substantial FDI, peaking at 16.3 billion USD in 2021–22, indicating strong foreign investor confidence in India's industrial sector. **Computer services** also saw significant growth, especially in 2020–21 with a remarkable inflow of 23.8 billion USD, reflecting the rising importance of digital and IT services. **Communication services** and **financial services** maintained steady inflows, suggesting continued investor interest in core infrastructure and financial sectors. Sectors such as **education, research & development**, **transport**, and **retail & wholesale trade** witnessed gradual increases, highlighting emerging opportunities and government policy support. Conversely, traditional sectors like **mining**, **trading**, and **real estate activities** attracted relatively lower inflows, showing limited foreign participation. Overall, the data reflects a **diversified pattern of FDI**, with high inflows in technology-driven and manufacturing sectors, supporting India's broader economic growth and sectoral development strategy.

H_{01}: There is no significant relationship between FDI inflows and India's economic growth.

Table:3 Correlations			
		FDI inflow	GDP Growth
FDI inflow	Pearson Correlation	1	.835**
	Sig. (2-tailed)		.000
	N	19	19
GDP Grow	Pearson Correlation	.835**	1
	Sig. (2-tailed)	.000	
	N	19	19

(**Note:** *The year 2020 has been excluded from the analysis because it represents an not normal period due to the COVID-19 pandemic).*

The Pearson correlation analysis between FDI inflows and India's GDP growth over 19 years reveals a **strong positive relationship** ($r = 0.835$, $p < 0.01$). The significance value of 0.000 indicates that this correlation is highly statistically significant at the 1% level. This implies that higher FDI inflows are strongly associated with higher GDP growth rates in India, supporting the notion that foreign investment contributes positively to economic expansion. Based on this result, the null hypothesis (H_{01}), which states that there is no significant relationship between FDI inflows and India's economic growth, is **rejected**. The findings suggest that FDI plays an important role in enhancing the country's economic performance over the long term.

H_{02}: FDI inflows do not significantly influence sectoral contributions to India's GDP.

Table:4 Descriptive & ANOVA					
				F	Sign
Sector	N	Mean	Std. Deviation		
Manufacturing	11	10.0732	2.51383		
Computer Services	11	5.7404	6.36623		
Communication Services	11	4.9132	2.63300		
Retail & Wholesale Trade	11	4.1145	1.52484		
Financial Services	11	4.2255	1.59211		
Education, Research & Development	11	1.2125	1.32836		
Transport	11	2.5952	2.22679		
Construction	11	2.3019	.83637		
Business Services	11	2.2469	1.05119	18.435	.000
Electricity and Other Energy (Gen./Distrib./Trans.)	11	1.8595	.64108		
Miscellaneous Services	11	1.1059	.43334		
Restaurants and Hotels	11	.7242	.69046		
Mining	11	.2355	.16507		
Real Estate Activities	11	.2473	.17384		
Trading	11	.0207	.06874		
Others	11	.3281	.17382		
Total	176	2.6215	3.26402		

The ANOVA analysis of sectoral FDI inflows indicates significant differences in how foreign investment is distributed across various sectors of India's economy. The mean FDI inflows vary considerably, with **Manufacturing** receiving the highest average inflows (Mean = 10.07) and sectors such as **Trading**, **Mining**, and **Real Estate Activities** receiving minimal inflows. The F-value of 18.435 with a significance level of 0.000 indicates that these differences are statistically significant at the 1% level. This suggests that FDI does indeed influence sectoral contributions differently, with technology-driven and industrial sectors attracting substantially more investment than traditional or less capital-intensive sectors. Based on this result, the null hypothesis (H_{02}), which states that FDI inflows do not significantly influence sectoral contributions to India's GDP, is **rejected**, highlighting the strategic preference of foreign investors for specific sectors in India.

$H_0$3: FDI has no significant long-term impact on India's economic development and stability

Table: 5

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.153[a]	.023	-.099	4.61473

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.094	1	4.094	.192	.673[b]
	Residual	170.366	8	21.296		
	Total	174.460	9			

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.321	8.482		.274	.791
	FDI	2.105	4.802	.153	.438	.673

The regression analysis examining the long-term impact of FDI on India's economic development, as measured by GDP growth, indicates a week and statistically insignificant relationship. The model explains only 2.3% of the variation in GDP growth ($R^2 = 0.023$), and the ANOVA result ($F = 0.192$, $p = 0.673$) shows that the overall regression model is not significant. The coefficient for FDI ($B = 2.105$, $p = 0.673$) is positive but not statistically significant, suggesting that FDI inflows do not have a meaningful long-term effect on India's GDP growth within the observed period. Based on these results, the null hypothesis (H_{03}), which states that FDI has no significant long-term impact on India's economic development and stability, is **not rejected**, indicating that other factors may play a more dominant role in influencing long-term economic performance.

KEY FINDINGS

1. **Strong Positive Relationship between FDI and GDP Growth**: The correlation analysis reveals a statistically significant and strong positive association between FDI inflows and India's GDP growth ($r = 0.835$, $p < 0.01$). This demonstrates that higher FDI inflows correspond to higher GDP growth, leading to the rejection of the null hypothesis (H_{01}).

2. **Sectoral Disparities in FDI Inflows**: ANOVA results indicate that FDI inflows are unevenly distributed across sectors ($F = 18.435$, $p < 0.01$). Manufacturing and computer services consistently received the highest inflows, while sectors such as mining, trading, and real estate attracted minimal investments. This confirms that FDI has significant sectoral variations, thereby rejecting the null hypothesis (H_{02}).

3. **Short-Term Boost vs. Long-Term Insignificance**: Regression analysis shows that although FDI inflows contribute positively in the short run, their long-term impact on India's economic development and stability is statistically insignificant ($R^2 = 0.023$, $p = 0.673$). Hence, the null hypothesis (H_{03}) is not rejected, suggesting that other macroeconomic and structural factors are more influential in sustaining long-term growth.

4. **Sectoral Growth Trends**

- Manufacturing peaked at **$16.3 billion** inflows in 2021–22, reflecting robust investor confidence.
- Computer services recorded an exceptional surge of **$23.8 billion** in 2020–21, emphasizing the digital economy's rising role.
- Communication, financial services, retail, and transport sectors maintained steady inflows, pointing to diversified investor interest.
- Traditional sectors like real estate, mining, and trading remained relatively unattractive, indicating structural and policy bottlenecks.

5. **Crisis Sensitivity**: The 2008 Global Financial Crisis and the 2020 COVID-19 pandemic disrupted both FDI inflows and GDP growth, underscoring India's vulnerability to global shocks despite overall positive FDI-growth trends.

SUGGESTIONS

1. **Promote Balanced Regional Development**: Policymakers should incentivize FDI inflows in underdeveloped states and regions by improving infrastructure, offering tax benefits, and creating special economic zones (SEZs) to reduce regional disparities.

2. **Diversify Sectoral Attractiveness**: To lessen dependence on manufacturing and IT services, reforms should focus on strengthening traditional and underperforming sectors like mining, real estate, and agriculture-linked industries to attract diversified investments.

3. **Enhance Long-Term Stability**: Since FDI's long-term impact on GDP growth is limited, India should combine foreign investment with robust domestic policies—such

as regulatory reforms, innovation incentives, and skill development programs—to achieve sustainable growth.

4. **Build Resilience to Global Shocks**: Developing policies that protect the economy during global crises—such as encouraging domestic capital mobilization, promoting digitalization, and diversifying FDI sources—can reduce vulnerability to external shocks.

CONCLUSION

The study highlights the pivotal role of FDI in driving India's short-term economic growth and sectoral development. Strong positive correlations confirm that foreign capital has been instrumental in boosting GDP growth, particularly in manufacturing and IT-driven sectors. However, the uneven distribution of FDI across industries and regions reveals structural imbalances that may hinder inclusive development. Furthermore, the analysis shows that while FDI provides an immediate growth stimulus, its long-term impact on economic stability is statistically insignificant, underscoring the importance of complementary domestic reforms and macroeconomic strategies. Policymakers must therefore adopt a balanced approach—leveraging FDI to accelerate growth while simultaneously strengthening domestic capabilities, diversifying investments, and building resilience against external shocks. By doing so, India can transform foreign investment from a short-term growth driver into a sustainable catalyst for long-term economic development.

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Conflict of Interest
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