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# Impact of Foreign Investment in Economic Development in India

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**Abstract**
Foreign Direct Investment (FDI) has played a significant role in driving economic growth in India. FDI refers to the investment made by foreign entities, such as companies or individuals, in the domestic economy of a country. This study looks at how FDI has affected the growth of Indian economy. The findings of the study indicate a favourable correlation between FDI and both GDP growth.

## Introduction

Foreign Direct Investment (FDI) refers to capital that comes from abroad and is used to either invest in or improve the production capacity of a country's economy. Foreign Direct Investment (FDI) plays a very important role in the development of the nation. It is very much vital in the case of underdeveloped and developing countries. It serves as a link between investment and saving. Many developing countries like India are facing the deficit of savings and capital formation. This problem can be solved with the help of Foreign Direct Investment and it also help in long term development of country by boosting domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. This paper is a general analysis of the trends and patterns (state-wise, sector –wise, country-wise) distribution of FDI Inflows the post liberalization era.India’s economic reforms in 1991 have generated strong interest in foreign investors and turned India into one of the favourite destination for global FDI’s. For developed economies, FDI serves as a vital means of accessing markets in developing and less developed countries, while also contributing to their own technological advancement and economic growth. On the other hand, developing countries see FDI as an essential way to bridge their savings gaps, enhance foreign exchange reserves, generate revenue, address trade deficits, and improve management and technology. Moreover, FDI acts as a tool for international economic integration, bringing along a blend of resources such as capital, technology, management expertise, and access to foreign markets. The effects of FDI can vary significantly based on a nation's domestic and foreign policies (T. N. Mathur). This influx of foreign investment introduces substantial capital, knowledge, and technological resources, thereby advancing the host country's economy. In the context of developing nations, FDI plays a significant role in increasing domestic capital, boosting production levels, and creating job opportunities, which are critical steps towards economic growth. Since India's economic reforms initiated in 1991, there has been a notable increase in interest from foreign investors, positioning India as a preferred destination for global FDI. Attractive government policies and recent reforms have further strengthened India's appeal for foreign investment across various sectors, resulting in a significant influx of capital into the economy.

There was a notable uptick in FDI after 2014, marking a crucial turning point. In the financial year 2020-21, total FDI was recorded at $81.72 billion, reflecting a 10% increase from the preceding year. Over time, the origins of FDI have broadened. While Mauritius and Singapore remain the top investors, countries such as the Netherlands, Japan, the USA, Germany, and the UAE have emerged as important players. Notably, Singapore surpassed Mauritius as the largest source of FDI, experiencing a remarkable growth of 281% from 2014 to 2019 compared to the period from 2008 to 2013. The manufacturing sector has consistently attracted FDI, particularly in areas like chemicals, machinery and equipment, and transport equipment. The services sector, especially telecommunications and power, has also drawn considerable investment. The analysis points out that FDI in India tends to focus on natural resource exploitation, capital goods, and infrastructure projects. The government has undertaken several reforms aimed at boosting FDI, which include raising FDI caps in sectors like insurance and defence manufacturing and relaxing regulations in single-brand retail. The document emphasizes the importance of maintaining and enhancing the current levels of FDI growth and diversification to achieve the structural transformation of India's economy. The distribution of FDI across various sectors in India has changed over the years, reflecting shifts in investment priorities and economic focus. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, U.S and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year. The FDI inflows grow at about 20 times since the opening up of the economy to foreign investment. India received maximum amount of FDI from developing economies.

## Literature Review

***Kathuria (2002)*** explored the connections between liberalization, foreign direct investment (FDI), and productivity growth by employing panel data followed by regression analysis to assess the spillover effects from technology transfer after liberalization. He examined the factors both before and after the economic reforms. His research revealed that the productivity of Indian industries improved following the reforms. His study is grounded in a comparison of the pre- and post-reform periods to comprehend the resulting changes.

***Chaturvedi (2011)*** examined FDI inflows with a focus on sector-specific trends in India. His paper investigates the distribution of FDI across sectors to identify the leading sector attracting the largest share of FDI. Additionally, it explores the correlation between FDI and economic development, revealing a strong significance between the two.

***GulshanAkhta(2013)*** author conduct study on FDI inflows in India before and after economic reforms, observed that the pre-liberalization period saw a Compounded Annual Growth Rate of 19.05% in FDI, which increased to 24.28% following liberalization. This suggests that liberalization positively influenced FDI inflows in India, with an increase of over 165 times since 1991.

***Bhavya Malhotra (2014)*** observed that FDI has indeed had a positive impact on the Indian economy. The inflow of FDI brings various advantages that contribute to the economic growth of India. Further, inflow of FDI assist in supplementing domestic capital, technology and skills transfer, job creation and employment opportunities, knowledge and skill enhancement.

***Najeh Bouchoucha and Walid Ali (2019)*** determined that FDI has a favourable effect on both short-term and long-term economic growth

***Bhhatarai and Negi (2020)*** have discussed the policy changes that could potentially attract more FDI. They assert that the 'Make in India' initiative launched by the Indian government, along with the relaxation of FDI restrictions, has resulted in an increase in foreign investments. They have specifically examined the construction materials sector to assess the impact of FDI on sales, employee wages, and productivity growth. The authors have evaluated these metrics for periods before and after 2014.

***Saswata Chaudhury (2020)*** observed that sector-wise inflow of FDI assists in overall economic development .

***Abhay Pratap Singh (2022)*** observed that FDI involves the direct investment of capital by foreign companies into the host country. This infusion of capital can stimulate economic growth by increasing investment in productive assets, such as factories, machinery, and infrastructure. The increased capital investment can lead to higher levels of productivity, job creation, and overall economic expansion.

***Mohammad Zain Khan and Rana Zehra Masood (2022)*** observed that FDI and Foreign Institutional Investment (FII) play important roles in an economy, but FDI is often considered more crucial and referred to as the engine of growth

***Sudhakar and Velmurugan(2023)*** conducted study on impact of foreign direct Investment in Indian economic growth. They found FDI plays an important role in driving economic development, enhancing productivity, and promoting technological advancement and Infrastructure development . FDI contributed in expansion of industries and in GDP growth as well. FDI inflow resulted in job creation and employment opportunities in India. FDI are key to maximise positive impact of FDI on Indian economic growth.

## Objectives of the study

The study covers the following objectives:

1. To study the trends and patterns of flow of FDI country-wise, sector-wise and region- wise.
2. To assess the determinants of FDI inflows and governmen’s policy.
3. To Measure impact of FDI on GDP Growth.

## Research Methodology

***Data:*** Secondary data required for the study have been collected from websites, journals and newspapers.

***Sampling:*** Using purposive sampling techniques to gather data from select foreign countries and sectors based on data availability is a common approach in research studies. This approach allows researchers to focus on specific countries and sectors that are of particular interest and relevance to the research objectives.

***Framework of Analysis:*** Collected data are analyzed using arithmetic mean, standard deviation, coefficient of variation, Analysis of Variance (ANOVA) and correlation.

## TRENDS AND PATTERNS OF FDI FLOW IN INDIA

### *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 about an overview of FDI inflows in India between 2007 and 2023.

***Table 1. Inflow of FDI, USD Million.***

| Year | Mauritius | Singapore | USA | Netherland | Japan | UK | Germany | Caymay Island | UAE | Cyprus |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 5141 | 3055 | 458 | 575 | 1217 | 663 | 822 | 537 | 157 | 353 |
| 2008 | 11441 | 2210 | 1164 | 925 | 340 | 1345 | 1218 | 82 | 269 | 429 |
| 2009 | 28759 | 3861 | 8389 | 382 | 2905 | 540 | 2662 | 528 | 266 | 257 |
| 2010 | 44483 | 4377 | 4690 | 3336 | 2780 | 2075 | 12319 | 583 | 3385 | 1039 |
| 2011 | 50794 | 8002 | 3840 | 1889 | 3922 | 2750 | 15727 | 2098 | 5983 | 1133 |
| 2012 | 49633 | 9230 | 3094 | 5670 | 4283 | 2980 | 11295 | 1437 | 7728 | 3017 |
| 2013 | 31855 | 5353 | 3434 | 7063 | 5501 | 908 | 7730 | 3349 | 4171 | 1569 |
| 2014 | 46710 | 5347 | 36428 | 14089 | 6698 | 7452 | 24712 | 3110 | 7722 | 1728 |
| 2015 | 3033 | 51654 | 3033 | 5797 | 12243 | 10054 | 4684 | 12594 | 3487 | 2658 |
| 2016 | 29360 | 4807 | 20426 | 10550 | 13920 | 6093 | 35625 | 1842 | 3401 | 2084 |
| 2017 | 55172 | 11150 | 8769 | 12752 | 20960 | 6904 | 41350 | 3881 | 3634 | 2251 |
| 2018 | 54706 | 27695 | 5938 | 17275 | 17275 | 6361 | 89510 | 3937 | 3317 | 6528 |
| 2019 | 54706 | 27695 | 5938 | 22633 | 17275 | 9953 | 7175 | 3617 | 4539 | 4050 |
| 2020 | 102492 | 13505 | 5473 | 10516 | 18048 | 7245 | 78542 | 3297 | 2680 | 6767 |
| 2021 | 57139 | 22335 | 9352 | 20556 | 27036 | 6187 | 112362 | 2890 | 2134 | 6356 |
| 2022 | 57785 | 29850 | 10041 | 22774 | 46071 | 3467 | 103615 | 26397 | 2134 | 2393 |
| 2023 | 41661 | 102499 | 15225 | 14441 | 20830 | 4910 | 129227 | 20779 | 2839 | 31242 |
| Avg | 42639.41 | 19566.18 | 8570.118 | 10071.94 | 13017.88 | 4699.235 | 39916.18 | 5350.471 | 3402.706 | 4344.353 |
| SD | 23769.75 | 25217.12 | 8776.104 | 7707.742 | 11828.56 | 3127.82 | 44310.28 | 7479.294 | 2239.211 | 7245.311 |
| CV | 55.75 | 128.88 | 102.40 | 76.53 | 90.86 | 66.56 | 111.01 | 139.79 | 65.81 | 166.78 |

**PERCENTAGE WISE CHANGE**

**Table 2. Inflow of FDI - ANOVA**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| **Between Groups** | 32676905315.788 | 9 | 3630767257.310 | 10.188 | 0.000 |
| **Within Groups** | 57022086758.235 | 160 | 356388042.239 | | |
| **Total** | 89698992074.024 | 169 | | | |

| | mauritius | | usa | netherland | japan | uk | germany | caymay | uae | cyprus |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 39.61 | | 3.53 | 4.431 | 9.38 | 5.11 | 6.33 | 4.14 | 1.21 | 2.72 |
| 2008 | 58.90 | | 5.99 | 4.762 | 1.75 | 6.92 | 6.27 | 0.42 | 1.38 | 2.21 |
| 2009 | 59.24 | | 17.28 | 0.787 | 5.98 | 1.11 | 5.48 | 1.09 | 0.55 | 0.53 |
| 2010 | 56.26 | | 5.93 | 4.219 | 3.52 | 2.62 | 15.58 | 0.74 | 4.28 | 1.31 |
| 2011 | 52.83 | | 3.99 | 1.965 | 4.08 | 2.86 | 16.36 | 2.18 | 6.22 | 1.18 |
| 2012 | 50.46 | | 3.15 | 5.764 | 4.35 | 3.03 | 11.48 | 1.46 | 7.86 | 3.07 |
| 2013 | 44.91 | | 4.84 | 9.957 | 7.76 | 1.28 | 10.90 | 4.72 | 5.88 | 2.21 |
| 2014 | 30.33 | | 23.66 | 9.149 | 4.35 | 4.84 | 16.05 | 2.02 | 5.01 | 1.12 |
| 2015 | 2.78 | | 2.78 | 5.307 | 11.21 | 9.20 | 4.29 | 11.53 | 3.19 | 2.43 |
| 2016 | 22.92 | | 15.94 | 8.235 | 10.87 | 4.76 | 27.81 | 1.44 | 2.65 | 1.63 |
| 2017 | 33.07 | | 5.26 | 7.644 | 12.56 | 4.14 | 24.79 | 2.33 | 2.18 | 1.35 |
| 2018 | 23.53 | | 2.55 | 7.429 | 7.43 | 2.74 | 38.49 | 1.69 | 1.43 | 2.81 |
| 2019 | 34.72 | | 3.77 | 14.363 | 10.96 | 6.32 | 4.55 | 2.30 | 2.88 | 2.57 |
| 2020 | 41.23 | | 2.20 | 4.231 | 7.26 | 2.91 | 31.60 | 1.33 | 1.08 | 2.72 |
| 2021 | 21.45 | | 3.51 | 7.718 | 10.15 | 2.32 | 42.19 | 1.09 | 0.80 | 2.39 |
| 2022 | 18.98 | | 3.30 | 7.478 | 15.13 | 1.14 | 34.02 | 8.67 | 0.70 | 0.79 |
| 2023 | 10.86 | | 3.97 | 3.764 | 5.43 | 1.28 | 33.68 | 5.42 | 0.74 | 8.14 |

India consistently receives a considerable amount of foreign direct investment (FDI) on average from Mauritius, thereby establishing a notable presence in its economy. Conversely, FDI inflows from the United Arab Emirates (UAE) are characterised by a relatively low average, suggesting a reduced volume of investments from the UAE. An examination of the coefficient of variation indicates that FDI inflows from Mauritius demonstrate low volatility, implying that investments from this source exhibit a stable trend over time. Conversely, the coefficient of variation for FDI inflows from Cyprus is significantly higher, indicating substantial fluctuations in the amount of investment received from this source. Notably, Germany demonstrated an exceptionally high level of FDI in 2023, denoting a substantial influx of investment in that year. Conversely, the Cayman Islands provided a notably low volume of investment in 2008. The results of an analysis of variance (ANOVA) test reveal a statistically significant difference in the average FDI inflows from various countries, suggesting considerable variations in the investment trends among different nations. The Double Taxation Avoidance Agreement (DTAA) between India and Mauritius serves as a primary driver for the substantial FDI from Mauritius. This agreement ensures that investors are exempt from double taxation, rendering Mauritius an attractive destination for investment. The DTAA has also been susceptible to treaty shopping, allowing entities to invest in India through Mauritius to exploit favourable tax provisions. Consequently, this has resulted in substantial FDI inflows from Mauritius. India has implemented economic reforms and policies aimed at enhancing its business environment and attracting foreign investment. Additionally, the historical, cultural, and economic ties between India and Mauritius have facilitated closer economic relations between the two nations. The relatively low FDI inflows from the United Arab Emirates may be attributed to various factors. These include the sectors in which the UAE invests not aligning with India's priorities, mismatched investment preferences, or the UAE prioritizing investments in other countries. The UAE may also be faced with competition for FDI from other countries, which are perceived as more attractive or offer better incentives for UAE investors. The economic conditions or policies of India may not be conducive to attracting significant FDI from the UAE. Factors such as regulatory complexities, bureaucratic hurdles, taxation issues, or other business environment challenges can affect investor confidence and deter FDI inflows.

***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 about FDI in India at various sector between the period 2007 and 2023.

**Table 3. Sector Wise Inflow of FDI in India, USD Million.**

| Year | Service | Software & | Telecommunication | Trading | Automobile | Infrastructure | Construction | Pharmaceuticals | Chemicals | Hotel & Tourism |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 3281 | 815 | 2106 | 588 | 759 | 909 | 174 | 1343 | 44 | 146 |
| 2008 | 6499 | 983 | 2565 | 3023 | 416 | 1979 | 183 | 760 | 1970 | 681 |
| 2009 | 21047 | 2565 | 3023 | 983 | 416 | 1979 | 760 | 183 | 1970 | 681 |
| 2010 | 26589 | 5623 | 5103 | 6989 | 8749 | 2697 | 3875 | 5729 | 920 | 4686 |
| 2011 | 28516 | 7329 | 11727 | 12621 | 8792 | 5212 | 4382 | 4157 | 1931 | 3427 |
| 2012 | 20776 | 4351 | 12338 | 13586 | 13516 | 5754 | 6908 | 1935 | 1935 | 1707 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2013 | 15053 | 7542 | 3551 | 5600 | 4979 | 961 | 5796 | 5864 | 5023 | 2543 |
| 2014 | 24656 | 15236 | 9012 | 3804 | 14605 | 18422 | 7678 | 4347 | 8348 | 4754 |
| 2015 | 26306 | 7248 | 1654 | 2656 | 6011 | 1596 | 8384 | 2923 | 7878 | 17777 |
| 2016 | 13294 | 7508 | 7987 | 6896 | 7191 | 9027 | 4738 | 6519 | 3436 | 2949 |
| 2017 | 27369 | 4652 | 14162 | 17372 | 16760 | 9052 | 4658 | 16755 | 4296 | 4740 |
| 2018 | 45415 | 727 | 8637 | 38351 | 16437 | 4975 | 25244 | 9664 | 5662 | 2982 |
| 2019 | 58214 | 37435 | 24605 | 703 | 10824 | 15721 | 5723 | 9397 | 7473 | 12478 |
| 2020 | 43249 | 39670 | 39748 | 3472 | 28078 | 13461 | 8425 | 6502 | 17571 | 10473 |
| 2021 | 63909 | 45297 | 18337 | 30963 | 1503 | 18309 | 13685 | 13685 | 15927 | 7330 |
| 2022 | 55429 | 54250 | 30940 | 32406 | 4350 | 19753 | 14510 | 7492 | 3650 | 21060 |
| 2023 | 37542 | 194291 | 2884 | 19349 | 12115 | 58240 | 3117 | 11015 | 6300 | 2761 |
| Avg | 30420.24 | 25618.94 | 11669.35 | 11727.18 | 9147.118 | 11061.59 | 6955.294 | 6368.824 | 5549.059 | 5951.471 |
| SD | 17777.14 | 46833.42 | 11021.73 | 12077.94 | 7355.11 | 13858.15 | 6203.304 | 4612.99 | 4893.799 | 6076.754 |
| CV | 58.44 | 182.81 | 94.45 | 102.99 | 80.41 | 125.28 | 89.19 | 72.43 | 88.19 | 102.11 |

***PERCENTAGE WISE CHANGE***

| | mauritius | singapore | usa | netherland | japan | uk | germany | caymay | uae | cyprus |
|---|---|---|---|---|---|---|---|---|---|---|
| 2007 | 32.28 | 8.02 | 20.72 | 5.78 | 7.47 | 8.94 | 1.71 | 13.21 | 0.43 | 1.44 |
| 2008 | 34.10 | 5.16 | 13.46 | 15.86 | 2.18 | 10.38 | 0.96 | 3.99 | 10.34 | 3.57 |
| 2009 | 62.63 | 7.63 | 9.00 | 2.92 | 1.24 | 5.89 | 2.26 | 0.54 | 5.86 | 2.03 |
| 2010 | 37.47 | 7.92 | 7.19 | 9.85 | 12.33 | 3.80 | 5.46 | 8.07 | 1.30 | 6.60 |
| 2011 | 32.37 | 8.32 | 13.31 | 14.33 | 9.98 | 5.92 | 4.97 | 4.72 | 2.19 | 3.89 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| 2012 | 25.09 | 5.25 | 14.90 | 16.41 | 16.32 | 6.95 | 8.34 | 2.34 | 2.34 | 2.06 |
| 2013 | 26.45 | 13.25 | 6.24 | 9.84 | 8.75 | 1.69 | 10.18 | 10.30 | 8.83 | 4.47 |
| 2014 | 22.24 | 13.74 | 8.13 | 3.43 | 13.17 | 16.62 | 6.93 | 3.92 | 7.53 | 4.29 |
| 2015 | 31.91 | 8.79 | 2.01 | 3.22 | 7.29 | 1.94 | 10.17 | 3.55 | 9.56 | 21.57 |
| 2016 | 19.12 | 10.80 | 11.48 | 9.92 | 10.34 | 12.98 | 6.81 | 9.37 | 4.94 | 4.24 |
| 2017 | 22.84 | 3.88 | 11.82 | 14.50 | 13.99 | 7.55 | 3.89 | 13.98 | 3.59 | 3.96 |
| 2018 | 28.73 | 0.46 | 5.46 | 24.26 | 10.40 | 3.15 | 15.97 | 6.11 | 3.58 | 1.89 |
| 2019 | 31.89 | 20.50 | 13.48 | 0.39 | 5.93 | 8.61 | 3.13 | 5.15 | 4.09 | 6.83 |
| 2020 | 20.53 | 18.83 | 18.87 | 1.65 | 13.33 | 6.39 | 4.00 | 3.09 | 8.34 | 4.97 |
| 2021 | 27.91 | 19.79 | 8.01 | 13.52 | 0.66 | 8.00 | 5.98 | 5.98 | 6.96 | 3.20 |
| 2022 | 22.73 | 22.25 | 12.69 | 13.29 | 1.78 | 8.10 | 5.95 | 3.07 | 1.50 | 8.64 |
| 2023 | 10.80 | 55.89 | 0.83 | 5.57 | 3.49 | 16.75 | 0.90 | 3.17 | 1.81 | 0.79 |

**Table 4. Sector Wise Inflow of FDI in India -ANOVA**

| | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| **Between Groups** | 11344869231.082 | 9 | 1260541025.676 | 4.010 | 0.000 |
| **Within Groups** | 50296549187.412 | 160 | 314353432.421 | | |
| **Total** | 61641418418.494 | 169 | | | |

Significant insights have been garnered from the tabulated data, revealing that the service sector exhibits an elevated mean inflow of foreign direct investment (FDI), in stark contrast to the chemical industry, which displays a diminished mean inflow. Furthermore, the software and hardware industry demonstrates substantial fluctuations in FDI inflow, underscoring the sector's propensity for variability in foreign investment. Conversely, the service industry showcases moderate fluctuations, exemplifying a more stable and consistent inflow of FDI. A noteworthy observation is that the software and hardware industry receives a substantial influx of FDI during 2023, underscoring its allure to foreign investors. Conversely, the chemical industry experiences a limited influx of FDI, suggesting that it may be less alluring to foreign investors relative to other sectors. The Analysis of Variance (ANOVA) test divulges a statistically significant difference in the inflow of FDI across various sectors in India, indicating that the mean FDI inflows in at least one sector exhibit a marked disparity from the mean inflows in other sectors. This discernible disparity underscores the existence of sector-specific characteristics, market conditions, or investment opportunities that sway the preferences of foreign investors. Investigating the dynamics of foreign direct investment in the service sector in India, it is evident that the sector has received extensive FDI on account of diverse factors. India's burgeoning domestic market, replete with a substantial middle class and burgeoning consumer spending power, contributes to the sector's appeal. The service sector, encompassing financial services, telecommunications, retail, healthcare, education, and hospitality, among others, leverages the expanding middle class and increasing consumer spending power. The Indian government's implementation of policies and reforms aimed at attracting FDI in the service sector has facilitated the creation of an accommodating investment climate. The sector's attractiveness can be attributed to India's burgeoning domestic market, comprising a substantial and diverse middle class, characterized by increasing consumer spending power. The service sector, encompassing various sub-sectors, including financial services, telecommunications, retail, healthcare, education, and hospitality, among others, benefits from the expanding middle class and increasing consumer spending power. The

Indian government's deliberate initiatives aimed at liberalizing FDI norms, simplifying regulations, and promoting ease of doing business have collectively contributed to the creation of a favorable investment climate in the service sector.
The relatively low inflow of FDI in the Indian chemical industry can be attributed to several factors. The chemical industry is subject to stringent regulations and compliance requirements related to safety, environmental impact, and hazardous materials. These regulations can increase operational costs and create barriers to entry for foreign investors, leading to a comparatively lower inflow of FDI. The chemical industry often requires significant investments in infrastructure, research and development, and specialized equipment. The capital-intensive nature of the industry may deter foreign investors who are seeking sectors with lower capital requirements or faster returns on investment. The chemical industry is associated with potential environmental risks and concerns related to pollution and waste management. Foreign investors may be cautious about investing in sectors that have 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.

**Impact of FDI on GDP**

Foreign Direct Investment (FDI) in India has a substantial potential to impact the nation's economic growth, specifically its Gross Domestic Product (GDP). FDI inflows introduce foreign capital, thereby enhancing investment and capital formation within the Indian economy. Consequently, this investment fosters the establishment of novel businesses, the expansion of existing industries, and the development of infrastructure, all of which contribute to elevated GDP growth. Furthermore, FDI often encompasses the transfer of advanced technology, technical expertise, and superior practices from foreign undertakings to their Indian counterparts. This technology transfer augments productivity, efficiency, and innovation across various sectors, thus contributing to increased economic output and GDP growth. FDI inflows also create employment opportunities within India. Foreign companies establishing or expanding their operations within the nation contribute to job generation among the local workforce, thereby reducing unemployment and augmenting consumer spending power. This, in turn, enhances economic activity and contributes significantly to GDP growth. Additionally, FDI facilitates the promotion of exports from India. Foreign companies may establish production facilities in India to capitalize on the nation's lower labor and production costs. This leads to increased export-oriented production and elevated foreign exchange earnings, both of which positively impact GDP growth. FDI inflows also contribute to the development of infrastructure within India. Foreign companies invest in the construction or upgrading of infrastructure such as ports, roads, power plants, and telecommunications networks. Improved infrastructure facilitates economic activities, enhances productivity, and supports overall GDP growth. Lastly, FDI stimulates competition and market efficiency in India. The presence of foreign companies and their investments encourages domestic industries to become more competitive, adopt modern practices, and improve product quality, thus fostering greater integration with global markets and elevated potential for export-led growth, both of which positively influence GDP.To measure impact of inflow of FDI on Indian GDP growth, correlation test is employed. The following table discuss about the result of the study.

**Table 6. Impact of Inflow of FDI on Indian GDP Growth**

| | | VAR00001 | VAR00002 |
|---|---|---|---|
| GDP | Pearson Correlation | 1 | .920** |
| | Sig. (2-tailed) | | .000 |
| | N | 17 | 17 |
| FDI | Pearson Correlation | .920** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 17 | 17 |
| **. Correlation is significant at the 0.01 level (2-tailed). | | | |

Research has yielded evidence of a positive correlation between foreign direct investment inflows and Gross Domestic Product (GDP) growth. Enhanced inflows of foreign direct investment significantly contribute to GDP growth by increasing investment and capital formation within the recipient nation. As a result, domestic economic activity is stimulated, novel businesses are created, and existing industries are expanded, ultimately augmenting GDP growth. Furthermore, the transfer of cutting-edge technology, expert knowledge, and managerial methods by foreign companies to local businesses fosters a more productive, efficient, and innovative domestic economy, thereby increasing GDP growth and total output. The influx of foreign direct investment also generates employment opportunities and reduces unemployment rates, leading to increased consumer spending power and a subsequent boost to GDP growth. Additionally, foreign direct investment inflows can stimulate productivity enhancements in domestic industries, as foreign companies introduce more efficient production methods, managerial expertise, and access to global markets. This increased competitiveness enables domestic industries to boost productivity levels and contribute to higher GDP growth. Furthermore, foreign direct investment inflows can result in increased exports from the recipient country, as foreign companies establish production facilities to serve both local and global markets, thereby expanding export-oriented production and leading to higher foreign exchange earnings. Finally, foreign direct investment inflows can contribute to greater stability within the recipient nation's financial and economic system, as foreign investors enhance investor confidence, attract additional investment, and promote overall economic stability, ultimately supporting sustained GDP growth.

**Suggestions**

The findings of this study conclusively illustrate that foreign direct investment holds significant implications for India's continued economic growth and development. The research demonstrates that the strategic component of FDI contributes to the creation of employment opportunities, expansion and development of manufacturing industries, as well as improvements in healthcare, education, research and development, infrastructure, retail sectors, and long-term financial projects. Therefore, it is imperative for policymakers to adopt policies that facilitate the utilisation of foreign investment as a means of augmenting domestic production, savings, and exports. This policy framework must also encourage technological learning and technology diffusion, as well as provide foreign investors with access to external markets. Policymakers should also ensure that foreign direct investment inflows are equitably distributed across various states. Additionally, it is crucial that the government invests in infrastructure development, including transportation, logistics, energy, and digital connectivity, as high-quality infrastructure is essential for attracting foreign investors. This conducive environment enables efficient supply chains and facilitates business operations. Moreover, policymakers must implement transparent and stable tax policies to provide foreign investors with the necessary certainty. Rationalization of tax rates and simplification of tax regulations can help in reducing complexities in tax compliance. To promote a stable and predictable investment climate, policymakers must ensure consistency in investment policies. Furthermore, collaboration between the government and the private sector can be facilitated through public-private partnerships, thereby leveraging expertise and resources for infrastructure development projects. Additionally, policymakers must strengthen bilateral and multilateral trade and investment agreements to provide favourable market access and protect investments. Engaging in negotiations to establish free trade agreements and bilateral investment treaties with key trading partners can facilitate cross-border investment flows. These recommendations collectively aim to create an enabling environment that fosters investment, reduces barriers, and maintain confidence in foreign investors.

**Conclusion**

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 supports the expansion of existing industries, the establishment of new businesses, and the development of infrastructure, all of which stimulate economic activity and contribute to GDP growth. 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.

Improved productivity and competitiveness can lead to higher economic output and sustainable economic growth. FDI inflows can result in job creation and employment opportunities in the recipient country. Foreign companies establishing or expanding their operations in India create direct and indirect employment, reducing unemployment rates and improving the standard of living. It is important to note that the extent and magnitude of the impact of FDI on Indian economic 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 are key to maximizing the positive impact of FDI on Indian economic growth.

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