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

**Abstract: The research investigates how Foreign Direct Investment (FDI) affects Indian development by studying its sectorial and geographical placements. The research evaluates how FDI affects GDP growth, industrial expansion, and employment generation and establishes what draws investors to India. The research uses data from the DPIIT Department for Promotion of Industry and Internal Trade and secondary sources to conduct statistical assessments of FDI movements and their economic impact. The highest inflow of foreign direct investment segments between services, computer software, hardware, and trading, but the states of Maharashtra, Karnataka and Gujarat receive the most investments because they offer robust infrastructure and supportive policies. The available investment capital mainly flows toward sections of India that already possess adequate development, which produces unequal distribution throughout the country. The tax treaties between Mauritius and Singapore make them dominant sources of FDI in the country. The report advises implementing new policies because it suggests establishing updated regulations with infrastructure initiatives alongside special incentives for upcoming technology sectors. The Indian economy needs to solve investment inequality and administrative bottlenecks to improve its appeal to worldwide investors. Ministerial and investor groups can use the findings to develop strategies that maximize their FDI-mediated economic expansion.**

**Keywords: Foreign Direct Investment (FDI), Trading, Supportive policies, Economic expansion**

**Introduction** : Foreign direct investment acts as a fundamental growth driver that generates new capital, creates more employment opportunities, and supports technological development among recipients of foreign investment. FDI enables Indian industries to connect with international markets through its crucial financial resources. The 1991 Indian economic liberalization program allowed India to attract high volumes of FDI that grew further through the Make in India initiative with the introduction of Production Linked Incentives (PLI). Foreign direct investment flows in India exhibit a mismatched geographic allocation, which leads to economic imbalances throughout the national regions.

The study carefully analyzes the transformation of Indian economic growth through FDI assessments conducted at both industrial and local statewide levels. As an evaluation study between GDP, employment transformations, and industrial output patterns, this research gives policymakers, investors, and academic researchers valuable knowledge. The research studies the sectoral distribution pattern of FDI and suggests policies to distribute investments correctly. Statistical analytic methods used in this investigation establish it as a benchmark, providing future economic investigation with substantial benefits.

**Research Problem : Research on foreign direct investment in India mainly narrows to the single-faceted investigation of sectoral patterns or geographical differences instead of concurrently studying both aspects. The aggregate studies of FDI operations do not show the distinctive advantages and disadvantages that industries and states receive independently from each other. The study addresses this research gap by evaluating both sector-specific and regional FDI inflows that determine economic growth effects. Knowledge is gathered regarding FDI investing nations’ changing patterns and dominant market sectors and the states receiving substantial FDI while assessing FDI’s effects on GDP growth, employment prospects, and industrial production levels.**

**Objectives :** This study aims to: 1. Research sector-specific FDI influx and their effects on economic development. 2. The research investigates FDI flows across different states and the distributions of investments among regions. 3. Data analysis will evaluate the economic indicators of GDP, employment, and industrial output related to FDI inflows. 4. The study aims to establish what drives FDI flows into specific sectors and decreases variability across different geographical locations. 5. The author develops guidance to enhance FDI allocation throughout the country while promoting fair economic expansion.

**Research Questions : 1. How does FDI affect the growth rate for different economic sectors? 2. States and sectors that receive the highest FDI amount and the reasons behind their success attract the most global investment. 3. Economic performance receives what impact from FDI inflows occurring at regional levels? 4. What elements determine the patterns of FDI entry into different sectors alongside different regions? 5. India needs policies to improve overall FDI distribution throughout the country.**

**Significance of the Study :This research benefits: The research supplies policymakers with sectoral and regional FDI benefits that help them create balanced investment policies. The study supports investors who need insights for making strategic decisions based on FDI patterns. The study integrates sectoral and regional FDI analysis to contribute to economic growth literature.**

**Literature Review: FDI establishes itself as an essential economic growth accelerator that creates capital, transfers advanced technology and sustains job market expansion. The Endogenous Growth Theory (Romer, 1986; Lucas, 1988) highlights how FDI fosters human capital development and innovation, particularly in India’s IT, pharmaceutical, and renewable energy sectors. According to the Solow-Swan Growth Model (Solow, 1956), FDI-generated technological progress counteracts diminishing capital returns to benefit the Indian manufacturing base and infrastructure network (Borensztein et al., 1998). According to Dunning’s Eclectic Paradigm (OLI Model) (Dunning, 1993), FDI is attractive in India because of its expansive market size and qualified workforce and encouraging governmental policies throughout Maharashtra, Karnataka and Gujarat. Research investigations demonstrate that FDI generates positive effects on economic development. The research by Borensztein et al. (1998) revealed that FDI boosts productivity by enabling capital expansion and knowledge transfer. The positive effects of foreign direct investment reach their highest potential in robust financial systems, according to Alfaro et al. (2010). Kumar (2002) and Chakraborty & Nunnenkamp (2008) showed that FDI invested heavily in the services and Information Technology sectors. However, manufacturing and infrastructure development received similar attention, whereby research conducted by scholars demonstrated regional and sectoral distribution differences. DPIIT (2023) data shows Maharashtra, Karnataka, and Gujarat as the leading states in attracting FDI through their supportive business approaches and strong industrial systems. How Foreign Direct Investment influences jobs depends on which economic field receives the investment. Labor-intensive businesses that receive FDI generate substantial employment opportunities. According to Sahoo (2006) and Nayak and Choudhury (2014) capital-, capital-intensive industries such as telecommunications and automobiles experience productivity improvements but show restricted employment development. The World Bank (2021) documented that Indian investment programs like Make in India and the Production Linked Incentive (PLI) scheme created favorable business conditions to draw FDI into manufacturing, electronics, and renewable energy sectors.**

****Research Gaps :** Additional investigation is needed even though researchers have extensively examined the subject matter. 1. Research into GDP and employment effects and industrial output lacks a connection between the sector and regional dimensions. 2. Renewable energy biotechnology and electric vehicle industries receive little foreign direct investment even though India aims for sustainable technological development. 3. A thorough analysis is needed to understand how COVID-19 affects FDI and its subsequent investment patterns, policy changes, and supply chain adjustments. 4. The scarcity of research about FDI barriers in underdeveloped states requires policy recommendations to establish balanced economic investment. Research in this study fills the existing knowledge gaps about Foreign Direct Investment, allowing a thorough analysis of its economic influences and recommended policies for optimal development.**

**Research Methodology:** A quantitative method-based research design allows for investigating the linkage between Foreign Direct Investment inflows, GDP growth numbers, employment rate and manufacturing output measurements. The data spans from April 2000 through September 2024 by accessing secondary information from the Department for Promotion of Industry and Internal Trade (DPIIT), Reserve Bank of India (RBI), Economic Surveys, and World Bank reports. The analytical methods for establishing statistical connections between Foreign Direct Investment and economic indicators include the following: The analysis relies on regression methods to determine sector-based and geographical FDI inflows impact GDP growth and, employment and industrial output. A multiple regression model has been used to analyze the magnitude and statistical importance of these factors studied. The study implements correlation analysis to establish how FDI movements connect with economic performance variables throughout diverse business sectors and geographic areas. Economic growth trends can be better understood through data that establishes relations between FDI inflows and their effect on the economy. Time-series analysis follows FDI inflow patterns throughout time to understand policy effects, economic circumstances, and international external elements. An analysis of previous patterns allows this method to predict future investment trends. The statistical approach describes FDI inflow patterns through visual displays and summarization of sectoral distributions with regional disproportions across investor countries. The analysis uses graphical displays with tables for clear representation. This analysis determines FDI attraction outcomes between main destinations such as Maharashtra and Karnataka alongside Gujarat with less engaged states through a comparison study to show policy challenges.

Result analysis and discussion

**Sector wise attracting highest FDI equity inflow**

Table Sector wise attracting highest FDI equity inflow

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *Rank* | *Sector* | Amt. in Rupees Crores/ Amt. in USD Million | *2022-23 (April-March)* | *2023-24 (April-March)* | *2024-25  (April-Sept)* | *Cumulative Equity Inflow \* (April, 2000-Sept, 2024)* | *%age out of total FDI Equity inflow (in USD)* |
|
|
|
| 1 | Services sector | Rupees Crores | 69,852 | 54,894 | 47,540 | 7,34,419 |  |
| USD Million | 8,707 | 6,640 | 5,692 | 115,188 | 16% |
| 2 | Computer software & hardware | Rupees Crores | 74,718 | 66,090 | 35,025 | 7,53,894 |  |
| USD Million | 9,394 | 7,973 | 4,193 | 107,077 | 15% |
| 3 | Trading | Rupees Crores | 38,060 | 32,080 | 22,800 | 3,22,059 |  |
| USD Million | 4,792 | 3,865 | 2,722 | 46,118 | 7% |
| 4 | Telecommunications | Rupees Crores | 5,469 | 2,318 | 5,600 | 2,40,440 |  |
| USD Million | 713 | 282 | 670 | 39,996 | 6% |
| 5 | Automobile industry | Rupees Crores | 15,184 | 12,622 | 7,889 | 2,43,176 |  |
| USD Million | 1,902 | 1,524 | 944 | 37,212 | 5% |
| 6 | Construction (infrastructure) activities | Rupees Crores | 13,588 | 35,076 | 11,075 | 2,50,629 |  |
| USD Million | 1,703 | 4,232 | 1,324 | 35,242 | 5% |
| 7 | Construction development | Rupees Crores | 1,196 | 2,113 | 1,280 | 1,32,601 |  |
| USD Million | 147 | 255 | 153 | 26,764 | 4% |
| 8 | Drugs & pharmaceuticals | Rupees Crores | 16,654 | 8,844 | 4,349 | 1,39,230 |  |
| USD Million | 2,058 | 1,064 | 520 | 23,048 | 3% |
| 9 | Chemicals (other than fertilizers) | Rupees Crores | 14,662 | 6,985 | 6,070 | 1,39,774 |  |
| USD Million | 1,850 | 844 | 727 | 22,873 | 3% |
| 10 | Non-conventional energy | Rupees Crores | 19,977 | 31,188 | 17,531 | 1,43,692 |  |
| USD Million | 2,500 | 3,764 | 2,096 | 19,984 | 3% |

*Source:The Department for Promotion of Industry and Internal Trade (DPIIT).*

**fig 1: Sector-wise Highest FDI Equity Inflow**

1. **The Services Sector attracts the most FDI inflows** with ₹7,34,419 crores (USD 115,188 million) because it includes finance, banking, insurance, and IT-enabled services.

2. **Exponential growth in the Computer Software and hardware** segment reached ₹7,53,894 crores (USD 107,077 million, 15%) because of India’s leadership in IT services during digital transformation. 3. The FDI flows in trading rose to ₹3,22,059 crores (USD 46,118 million) during the year due to trade liberalization and retail market growth.

4. **Telecommunications** – ₹2,40,440 crores (USD 39,996 million, 6%) – Growth due to mobile network expansion and digital infrastructure.

5. **Automobile Industry** – ₹2,43,176 crores (USD 37,212 million, 5%) – Driven by EVs and auto components investments.

6. **Construction (Infrastructure)** – ₹2,50,629 crores (USD 35,242 million, 5%) – Key government priority attracting foreign investments.

7. **Construction Development receives** ₹1,32,601 crores (USD 26,764 million, 4%) of investments because of urban development alongside real estate demand.

8. **Drugs & Pharmaceuticals** – ₹1,39,230 crores (USD 23,048 million, 3%) – India’s strong R&D and global pharma presence boost FDI.

9. **Chemicals (Excl. Fertilizers)** – ₹1,39,774 crores (USD 22,873 million, 3%) – Investments in specialty and petrochemicals.

**10. Non-Conventional Energy** – ₹1,43,692 crores (USD 19,984 million, 3%) – Rising FDI due to renewable energy focus.

**Overall Trend:** FDI-directed investments always flow toward services because India provides global leadership, especially in information technology and financial services. The computer software and hardware industry tracks behind services in attracting foreign direct investment because India is an international IT hub while the world requires more digital transformations. The FDI inflow numbers in trading businesses, telecommunications services, and automobile manufacturing are increasing steadily, demonstrating sectoral diversification throughout the economy. The non-conventional energy sector occupies the 10th position, but its market share is increasing because of the worldwide focus on renewable power and sustainability goals.

**Key Observations:** The combination of services, computer software hardware, and trading segments controls approximately 38% of India’s total FDI equity inflows because of their fundamental status in national economic growth. The construction industry of infrastructure and construction development maintains significant importance because the government wants to establish a durable infrastructure that facilitates economic activities. The pharmaceuticals and chemicals sectors rank lower than others yet play an essential role in achieving India’s export increase and national healthcare independence.

**Discussion:** The leading position of the services and IT sectors demonstrates how well India produces knowledge-based economic activities. The nation’s infrastructure and construction developments support the “Make in India" and “Smart Cities Mission” government programs. The increase of FDI in non-conventional energy is demonstrated worldwide with national initiatives toward decreasing carbon emission levels and adopting green power.

Top Investing Countries FDI Equity Inflow

Table 2 Share of Top Investing Countries FDI Equity Inflow

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| *Country* | | Amt. in Rupees Crores/ Amt. in USD Million | | *2022-23 (April-March)* | | *2023-24 (April-March)* | | *2024-25  (April - Sept.)* | | *Cumulative Equity Inflow \* (April, 2000-September, 2024)* | | *%age out of total FDI Equity inflow (in USD)* |
|
|
|
| Mauritius | | Rupees Crores | | 48,895 | | 66,147 | | 44,631 | | 10,67,220 | |  |
| USD Million | | 6,134 | | 7,970 | | 5,341 | | 177,188 | | 25% |
| Singapore | | Rupees Crores | | 1,37,374 | | 97,475 | | 62,965 | | 11,54,838 | |  |
| USD Million | | 17,203 | | 11,774 | | 7,531 | | 167,474 | | 24% |
| U.S.A. | | Rupees Crores | | 48,666 | | 41,403 | | 21,529 | | 4,68,846 | |  |
| USD Million | | 6,044 | | 4,998 | | 2,576 | | 67,770 | | 10% |
| Netherland | | Rupees Crores | | 19,855 | | 40,733 | | 29,905 | | 3,54,086 | |  |
| USD Million | | 2,498 | | 4,924 | | 3,580 | | 52,263 | | 7% |
| Japan | | Rupees Crores | | 14,328 | | 26,243 | | 10,024 | | 2,72,328 | |  |
| USD Million | | 1,798 | | 3,177 | | 1,199 | | 43,117 | | 6% |
| United Kingdom | | Rupees Crores | | 13,994 | | 10,061 | | 1,571 | | 2,04,867 | |  |
| USD Million | | 1,738 | | 1,216 | | 188 | | 35,279 | | 5% |
| UAE | | Rupees Crores | | 26,315 | | 24,262 | | 29,094 | | 1,60,315 | |  |
| USD Million | | 3,353 | | 2,924 | | 3,472 | | 21,974 | | 3% |
| Cayman Islands | | Rupees Crores | | 6,069 | | 2,835 | | 1,959 | | 1,09,873 | |  |
| USD Million | | 772 | | 342 | | 235 | | 15,501 | | 2% |
| Germany | | Rupees Crores | | 4,417 | | 4,181 | | 2,082 | | 89,956 | |  |
| USD Million | | 547 | | 505 | | 249 | | 14,892 | | 2% |
| Cyprus | | Rupees Crores | | 10,184 | | 6,705 | | 6,748 | | 86,203 | |  |
| USD Million | | 1,277 | | 806 | | 808 | | 14,258 | | 2% |
| Rupees Crores | 3,67,435 | | 3,67,899 | | 2,49,032 | | 45,96,034 | |  | |
| USD Million | 46,034 | | 44,423 | | 29,790 | | 7,08,654 | | - | |

.*Source:The Department for Promotion of Industry and Internal Trade (DPIIT).*

**Table 2 showcases the leading countries that invested their foreign direct investment equity in India.**

1. **Mauritius** – ₹10,67,220 crores (USD 177,188 million, 25%) – Top investor due to favorable tax treaties.
2. **Singapore** – ₹11,54,838 crores (USD 167,474 million, 24%) – Key investor with strong financial and trade ties.
3. **The United States,** among these key investors, contributed ₹4,68,846 crores (USD 67,770 million, 10%), which primarily targeted technology, pharmaceuticals and financial sectors.
4. **Netherlands** – ₹3,54,086 crores (USD 52,263 million, 7%) – Focus on manufacturing, energy, and technology.
5. **Japan** – ₹2,72,328 crores (USD 43,117 million, 6%) – Investments in automotive, electronics, and infrastructure.
6. **United Kingdom –** ₹2,04,867 crores (USD 35,279 million, 5%) – Significant investor in finance, pharma, and tech.
7. **UAE** – ₹1,60,315 crores (USD 21,974 million, 3%) – Focus on real estate, infrastructure, and energy.
8. **The Cayman Islands** functions as a tax-neutral territory through which India sends its routed investments amounting to ₹1,09,873 crores (USD 15,501 million, 2%).
9. **Germany** – ₹89,956 crores (USD 14,892 million, 2%) – Strong in automotive, engineering, and chemicals.
10. **Cyprus** – ₹86,203 crores (USD 14,258 million, 2%) – Preferred for real estate and financial services due to tax benefits.

**Overall Trend:** Mauritius and Singapore account for almost 49% of FDI investment equity inflow as their countries’ investment policies attract capital into the Indian market. Their excellent tax treaties and business-friendly policies serve as the primary reasons behind their high-ranking status. The United States and the Netherlands comprise India’s third and fourth-largest FDI contributors because of their established economic relationships and substantial technological, pharmaceutical, and manufacturing investments. Japan, the United Kingdom, and the UAE maintain significant positions by directing their investments to automotive vehicles, real estate, and infrastructure sectors.

**Key Observations:** The combined FDI equity inflow of Mauritius, Singapore, USA, Netherlands and Japan comprises more than 72% of the total worldwide FDI equity inflow, demonstrating concentrated investment origins from these countries. Tax-free status in the Cayman Islands and Cyprus makes these territories vital for FDI investment routing even though their contribution is smaller than that of other jurisdictions. Strong bilateral relations between the UAE and other nations have transformed the country into a prominent investor committed to real estate development alongside infrastructure improvements.

**Discussion:** Tax-efficient investment paths managed by Mauritius and Singapore play a vital role in bringing FDI to nations. Its integration assists India's global economic supply chains and service and manufacturing operations with developed countries such as the USA, Japan, and Germany. The increasing influence of the UAE and other Gulf countries shows a positive trend for increasing economic relations with the Middle East.

**States/uts attracting highest fdi equity inflow**

*Table 3 states/uts attracting highest fdi equity inflow*

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| *Rank* | *Sector* | Amt. in Rupees Crores/ Amt. in USD Million | *2022-23 (April-March)* | *2023-24 (April-March)* | *2024-25  (April-Sept)* | *Cumulative Equity Inflow \* (October, 2019-Sept, 2024)* | *%age out of total FDI Equity inflow (in terms of USD)* |
|
|
|
| 1 | Maharashtra | Rupees Crores | 1,18,422 | 1,25,101 | 1,13,236 | 6,45,664 |  |
| USD Million | 14,806 | 15,116 | 13,551 | 82,638 | 31% |
| 2 | Karnataka | Rupees Crores | 83,628 | 54,427 | 29,597 | 4,19,081 |  |
| USD Million | 10,429 | 6,571 | 3,542 | 54,574 | 21% |
| 3 | Gujarat | Rupees Crores | 37,059 | 60,600 | 33,060 | 3,32,684 |  |
| USD Million | 4,714 | 7,300 | 3,949 | 43,150 | 16% |
| 4 | Delhi | Rupees Crores | 60,119 | 53,980 | 26,807 | 2,70,881 |  |
| USD Million | 7,534 | 6,523 | 3,204 | 34,920 | 13% |
| 5 | Tamil nadu | Rupees Crores | 17,247 | 20,157 | 13,553 | 97,796 |  |
| USD Million | 2,169 | 2,436 | 1,623 | 12,561 | 5% |
| 6 | Haryana | Rupees Crores | 20,735 | 15,797 | 10,974 | 86,243 |  |
| USD Million | 2,600 | 1,908 | 1,313 | 11,043 | 4% |
| 7 | Telangana | Rupees Crores | 10,319 | 25,094 | 12,865 | 73,725 |  |
| USD Million | 1,303 | 3,029 | 1,540 | 9,314 | 4% |
| 8 | Jharkhand | Rupees Crores | 44 | 90 | - | 19,382 |  |
| USD Million | 6 | 11 | - | 2,667 | 1% |
| 9 | Rajasthan | Rupees Crores | 7,218 | 2,195 | 1,242 | 19,295 |  |
| USD Million | 910 | 265 | 149 | 2,492 | 1% |
| 10 | West bengal | Rupees Crores | 3,217 | 1,501 | 948 | 13,346 |  |
| USD Million | 394 | 181 | 113 | 1,723 | 1% |

*Source: The Department for Promotion of Industry and Internal Trade (DPIIT).*

Fig 2: The States/UTs that received the highest FDI equity inflow

Fig 2 show The States/UTs that received the highest FDI equity inflow reported during the period.

1. **Mumbai** functions as the financial hub, which propels FDI investments into finance together with IT and services throughout Maharashtra, where India has received a total of ₹6,45,664 crores (USD 82,638 million, 31%).
2. **Karnataka** receives a total of ₹4,19,081 crores worth FDI equity (USD 54,574 million and 21% of the total) from investors targeting IT as well as biotech and electronics sectors in Bengaluru, which functions as India’s technology hub.
3. **Gujarat** has received ₹3,32,684 crores (USD 43,150 million, 16%) in FDI equity inflows because it functions as an industrial center with strong petrochemicals, port activities, and manufacturing sectors.
4. **The Indian city of Delhi** attracts foreign direct investment amounting to ₹2,70,881 crores (USD 34,920 million) due to its work in services, real estate, and IT sectors.
5. **Tamil Nad**u – ₹97,796 crores (USD 12,561 million, 5%) – Major hub for automotive, textiles, and electronics.
6. The location near Delhi enables **Haryana** to receive manufacturing and IT-related investments totaling ₹86,243 crores (USD 11,043 million and 4% of the total).
7. **Telangana** attracts ₹73,725 crores (USD 9,314 million, 4%) through its pharmaceuticals and Information Technology specializations from Hyderabad.
8. **Jharkhand** receives ₹19,382 crores (USD 2,667 million) through mining and heavy industrial investments because of its mineral resources.
9. **Rajasthan** – ₹19,295 crores (USD 2,492 million, 1%) – Investments in tourism, textiles, and renewable energy.
10. **The government of West Bengal r**eceived ₹13,346 crores (USD 1,723 million) as investments for developing infrastructure and trade facilities along with the manufacturing sector. Textiles combined with chemicals and small-scale industries are the primary sectors within West Bengal.

### ****Overall Trend:**** The eastern states of Maharashtra and Karnataka occupy the lead position by delivering more than half of the overall FDI equity inflows. Mumbai and Bengaluru function as leading financial and IT hubs within these states. Delhi and Gujarat rank second and third states because they dedicate their FDI inflow to manufacturing sectors, infrastructure development, and service operations. The southern areas of India perform as significant investment destinations since their technological capabilities and industrial landscapes match the global market standards. Jharkhand and Rajasthan have started to welcome FDI through mining, renewable energy projects, and tourism investments.

### ****Key Observations:**** FDI equity inflows in India show a strong regional cluster because the top five states combined (Maharashtra, Karnataka, Gujarat, Delhi, Tamil Nadu) receive 86% of all FDI. Haryana and Telangana are now promising locations for investment in the manufacturing and information technology industries. Evidence shows that states West Bengal and Rajasthan received less FDI due to underutilized potential, which policy interventions could unlock.

### ****Discussion:**** Karnataka and Maharashtra obtain substantial FDI because of their advanced business infrastructure, productive workforce, and supportive economic regulations. Industrial corridors, special economic zones (SEZs), and proper policies have motivated investors to establish themselves in Gujarat and Tamil Nadu. The unequal development between states highlights the necessity to give attention to smaller states since they require more FDI to eliminate economic discrepancies.

### ****Challenges and Policy Implications:**** The essential function of Foreign Direct Investment (FDI) in Indian economic growth faces various constraints that block its maximum potential. FDI distribution shows an extreme imbalance across India because Maharashtra, Karnataka, and Gujarat receive the most investments, while Jharkhand and Rajasthan receive very little investment (DPIIT, 2023). Differences in infrastructure, investment policies, and business environments cause this regional inequality (Nayak & Choudhury, 2014). To improve investment potential in underdeveloped areas, the government must implement specific policies and improve infrastructure that attracts foreign direct investment. Indian foreign investors face obstacles because approval procedures take too long and regulatory implementation is irregular (World Bank, 2021). India has achieved better rankings on the ease of doing business scale, yet needs additional regulatory improvements, single-window clearance systems, and automated approval systems (Kumar, 2002). The services and IT sector enters foreign direct investment with the most significant share, but manufacturing, healthcare, and agricultural industries continue receiving limited funding (Borensztein et al., 1998). Policymakers must use specific incentives for different sectors combined with reduced regulatory barriers that will encourage FDI inflows to diversify in a balanced way (Alfaro et al., 2010). The poor state of infrastructure elements such as transportation and power distribution facilities and logistical systems restricts opportunities for investment in India (Sahoo, 2006). Higher infrastructure budget allocations combined with increased public-private partnerships serve as two factors that boost investor confidence and economic competitiveness, according to Chakraborty and Nunnenkamp (2008). Foreign Direct Investment inflows into India experience noticeable impacts from geopolitical uncertainties and economic instability because India receives most of its FDI through investments from Mauritius and Singapore (DPIIT, 2023). Through expanded trade deals and various investment sources, India can reduce its exposure to worldwide economic volatility (World Bank, 2021).

### ****Policy Recommendations**** India needs to adopt regional investment policies focused on better infrastructure, tax benefits, and accelerated land acquisition processes for its developing states (Kumar, 2002). A single-window clearance system combined with transparent regulations will encourage foreign investors to enter the market, according to Nayak and Choudhury (2014). Manufacturing healthcare and renewable energy sectors will develop through sector-specific incentives to promote economic growth equilibrium (Alfaro et al., 2010). The government should establish infrastructure development through improved PPP models, which aim to construct transportation networks, digital systems, and industrial development projects (Sahoo, 2006). Establishing diplomatic trade partnerships and multiple investment agreements between countries will enable India to reduce dependence on foreign direct investments and build sustainable economic stability (World Bank, 2021). Implementing strategic policies combined with suitable measures to overcome these challenges will make India more attractive to global investors and enable sustainable economic growth with inclusivity.

### ****Conclusion and Future Scope:**** FDI is essential to India’s economic development because it contributes explicitly to service sectors and IT and manufacturing industries. The states of Maharashtra, Karnataka, and Gujarat demonstrate their position as leading investment choices through which FDI contributes positively to GDP employment numbers and industrial production statistics. The FDI-driven growth requires ongoing reforms of policies and straightforward regulations, improved infrastructures, and solutions to problems with regional differences, bureaucratic inefficiencies, and sectoral discrepancies to sustain continuous growth. Although the study provides extensive analysis, it faces two significant constraints because data is inconsistent, and no evaluation was conducted at the firm level or for socioeconomic effects. The investigation fails to address the ongoing impacts that COVID-19 is generating on FDI trends’ future trajectory. The investigation needs to analyze upcoming changes in FDI patterns after COVID-19 alongside changes to worldwide supply chains and the impact of artificial intelligence and automation on investment selection processes. Additional investigation needs to be done on sustainable FDI investments in renewable energy, electric vehicles and production methods that reduce climate damage. The development of these areas by policymakers would lead to economically sustainable growth that combines technology with inclusivity in India.

### Disclaimer

### **Authors state they have not used any generative artificial intelligence such as Large Language Models including ChatGPT and COPILOT and text-to-image generators to write or edit their research.**

### ****References****

1. Alfaro, L., Chanda, A., Kalemli-Ozcan, S., & Sayek, S. (2010). Does foreign direct investment promote growth? Exploring the role of financial markets on linkages. Journal of Development Economics, 91(2), 242-256. <https://doi.org/10.1016/j.jdeveco.2009.09.004>
2. Borensztein, E., De Gregorio, J., & Lee, J.-W. (1998). How does foreign direct investment affect economic growth? Journal of International Economics, 45(1), 115-135. <https://doi.org/10.1016/S0022-1996(97)00033-0>
3. Chakraborty, C., & Nunnenkamp, P. (2008). Economic reforms, FDI, and economic growth in India: A sector-level analysis. World Development, 36(7), 1192-1212. <https://doi.org/10.1016/j.worlddev.2007.06.014>
4. Department for Promotion of Industry and Internal Trade (DPIIT). (2023). FDI Statistics: Annual Report. Government of India. Retrieved from <https://dpiit.gov.in>
5. Dunning, J. H. (1993). Multinational enterprises and the global economy. Addison-Wesley.
6. Economic Survey of India. (2022). Foreign Direct Investment: Trends and Analysis. Ministry of Finance, Government of India.
7. Islam, M. M. (2022). The Role of Foreign Direct Investment (FDI) Inflows on Export Performance in Developing Economies: Evidence from Bangladesh. South Asian Journal of Social Studies and Economics, 16(3), 49–57. <https://doi.org/10.9734/sajsse/2022/v16i3615>
8. Kumar, N. (2002). Globalization and the quality of foreign direct investment. Oxford University Press.
9. Lucas, R. E. (1988). On the mechanics of economic development. Journal of Monetary Economics, 22(1), 3–42. <https://doi.org/10.1016/0304-3932(88)90168-7>
10. Nayak, D., & Choudhury, R. N. (2014). A selective review of foreign direct investment theories. ARTNeT Working Paper Series, 143. <https://artnet.unescap.org/publications/selective-review-foreign-direct-investment-theories>
11. Reserve Bank of India. (2020). Foreign Direct Investment in India: Trends and Prospects. RBI Bulletin. Retrieved from <https://rbi.org.in>
12. Romer, P. M. (1986). Increasing returns and long-run growth. Journal of Political Economy, 94(5), 1002–1037. <https://doi.org/10.1086/261420>
13. Sahoo, P. (2006). Foreign direct investment in South Asia: Policy, trends, and impact. Journal of International Trade & Economic Development, 15(2), 217–246. <https://doi.org/10.1080/09638190600723111>
14. Solow, R. M. (1956). A contribution to the theory of economic growth. Quarterly Journal of Economics, 70(1), 65–94. <https://doi.org/10.2307/1884513>
15. The World Bank. (2021). World Development Report 2021: Data for better lives. World Bank Publications. Retrieved from <https://www.worldbank.org/en/programs/business-enabling-environment>