

# A Study on Sustainable Development Growth of Foreign Direct Investment in India

Dr. Durdana Begum<sup>1</sup>, Dr. Razia Sultana<sup>2</sup>

<sup>1</sup>Presidency School of Management and Computer Sciences, Osmania University, Hyderabad, Telangana, India

<sup>2</sup>Shadan Institute of Management Studies for Girls

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## ABSTRACT

Indian economy is one of the fastest emerging economies of the world. The FDI attracts a remarkable amount of foreign direct investments from the past decade. However, there have been reports for the past few years showing inconsistency in inflows of foreign direct investment in India. FDI is a device for financial development through its reinforcing of household capital, efficiency and business. FDI additionally assumes a key part in the up degree of innovation, abilities and administrative capacities in different segments of the economy. Foreign Direct Investment as observed as an imperative wellspring of non-obligation inflows and is expanding being looked for as a vehicle for innovation streams and as a methods for accomplishing focused proficiency by making an important system of worldwide interconnections. The GDP of India is observed to be in decreasing trend. This gives rise to the need of studying multiple facets of such investments. This paper aims at studying the Growth of FDI inflows in India and ascertaining the countrywide FDI inflows and sector-wise distribution of such investments in the country. The study aims to understand the flow of FDI growth in different sectors in India

**Keywords:** Indian Economy, Foreign Direct Investment, Trend

## INTRODUCTION

Investment, often referred to as the creation of capital, plays a crucial role in driving a country's economic growth. Adequate capital, combined with labor, natural resources, and advanced technology, can lead to optimal economic growth by facilitating the production of capital goods, which can take the form of physical, financial, or human capital. This capital, which encompasses both domestic and foreign investments, is essential for bridging the savings gap in an economy.

Foreign investment, in particular, is significant for developing nations. It not only helps reduce the domestic savings gap but also fosters overall economic growth. Multinational corporations (MNCs) serve as vital instruments for integrating economies on a global scale, with a direct relationship between the expansion of foreign investment inflows and the growth of MNCs. Countries aiming for rapid economic development often need to import advanced machinery, technical expertise, entrepreneurial skills, and foreign capital.

Foreign direct investment (FDI) is a key element of total foreign investment, where investors from one country invest in businesses located in another. This can involve acquiring assets or establishing operations in the host country, allowing investors to have a direct management role. FDI consists of three main components: equity capital, reinvested earnings, and other capital (such as intracompany loans). These flows are tracked as net capital account credits and debits between direct investors and their foreign affiliates within a financial year.

In India, foreign investors can choose between two routes for making investments:

1. Automatic Route: This allows foreign investors to invest without requiring prior government approval in various sectors such as agriculture, construction, industrial parks, railway infrastructure, financial services, and more.

2. Government Route: In this case, foreign investment requires prior approval from the Indian government, which applies to certain sensitive sectors.

Overall, foreign investment plays a vital role in fostering economic growth, industrialization, and modernization in developing economies.

## REVIEW OF LITERATURE

**Dr.S.Shalini (2020)** the researcher has mainly focused on study of foreign direct investment in India and the pattern of investments in different sectors in India. The analysis shows that service sector in India is the sector in which foreign direct investment is consistent in couple of years, followed by the manufacturing and construction sector. Service Industry, telecommunication sector, construction activities followed by trading activities are major sectors which attracted higher inflows of FDI in India. Countries like Mauritius and Singapore were among the leading sources of FDI in India.

**Deepak Kumar Adhana and DR. Neelam Gulati (2019)** According to a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA), India has become the most appealing market for global partners in investment in next 12 months. Annual FDI inflows in the country are expected to rise by US\$ 75 billion over the next five years, as per UBS report. The World Bank has stated clearly that private investments in India is expected to grow by 8.8 per cent in FY 2018-19 from the past consumption growth of 7.4 per cent, and thereby steer the growth in India's gross domestic product (GDP) in FY 2018-19

**Bhavya Malhotra (2014)** Foreign Direct Investment (FDI) policy of India has been liberalized to make the market more investor friendly and the results have been encouraging. India is consistently ranked among the top three global investment destinations by all international bodies. Indian economy which has tremendous potential, FDI has a positive impact. FDI inflow not only supplements domestic capital but also technology and skills of existing companies. It also helps to setup new companies. All of these contribute to grow the Indian Economy.

**Barua (2013)** This research paper had made an attempt to study the impact of FDI on the growth of economy. It analyzed the relationship between exports and FDI. The data from 2000 to 2012 was used considering variables like FDI, GDP, and Exports. Various statistical tools were used like Correlation, Simple Regression, Multiple Regression Models, ANOVA and Durbin-Watson test. The results showed that all variables are positively and highly correlated with each other.

**Syed Azhar And K.N.Marimuthu (2012)** The study focused on theoretical aspects of FDI in India during the last ten years. The study also analyzed various determinants and need of FDI in Indian scenario. India is one of the developing countries and has managed to show a positive GDP growth even during the recession period and has comparatively performed well, then the average growth rate of world GDP. "If the situation continues to improve, India is likely to be among the most promising investor-home countries in 2010- 12 as well as the third highest economy for FDI in 2010-12" according to World Investment Report 2010.

### Need of the Study:

There have been reports for the past few years showing inconsistency in inflows of foreign direct investment in India. So, the need is felt to study the trends of FDI inflows in India, identification of country-wise inflows and ascertaining their sector wise distribution in India.

### Objectives of the study:

1. To study the trends of FDI inflows in India.
2. To identify the country-wise flow of FDI into India.
3. To ascertain the sector-wise distribution of FDI inflows in India.

## RESEARCH METHODOLOGY

**Data Collection** This study is based on secondary data. This database is constructed by pooling information and data from various reliable sources like National Statistical Office, Department of Industrial Policy and Promotion (DIPP), Reserve Bank of India, statisticstimes.com amongst many other. Online database of Indian economy, articles, journals, newspapers, etc. have also been referred.

**Secondary Data:** This study is based on secondary data collected from various reliable sources. Simple statistical tools like CAGR (Compound Annual Growth Rate), and Percentage have been used for purpose of study. The study reveals varying trends of FDI inflows in India in the recent years which is in line with the world economy but it is generally on a rising side. The study also reveals that Mauritius has been the top investing nation in India and among all the sectors the service sector attracts the maximum FDI from various nations over the period of study. The data collected for the purpose of study is limited to almost last five years.

**Statistical Tool:** To evaluate the trend of FDI inflows into India, CAGR (Compound Annual Growth Rate) and percentage have been used. To study the country-wise flow of FDI and its sector-wise distribution in India, simple calculation using Percentage has been done for easy understanding.

### Data Analysis and Interpretation:

Table 1: Foreign Direct Investment Flows to India: Country-Wise and Industry-Wise

	2019-20	2020-21	2021-22	2022-23	2023-24 (P)	MEAN	SD	CV(%)
Singapore	1470.00	1740.00	1590.00	1720.00	1180.00	1540.00	228.80	14.86
Mauritius	820.00	560.00	940.00	610.00	800.00	746.00	157.42	21.10
US	410.00	1380.00	1050.00	600.00	500.00	788.00	412.40	52.33
Netherlands	650.00	280.00	460.00	250.00	490.00	426.00	164.10	38.52
Japan	320.00	190.00	150.00	180.00	320.00	232.00	81.67	35.20
UAE	30.00	420.00	100.00	340.00	290.00	236.00	164.71	69.79
UK	130.00	200.00	160.00	170.00	120.00	156.00	32.09	20.57
Qatar	10.00	20.00	20.00	0.00	100.00	30.00	40.00	133.33
Cyprus	90.00	40.00	20.00	130.00	80.00	72.00	43.24	60.06
Canada	20.00	0.00	50.00	80.00	60.00	42.00	31.94	76.04
Germany	50.00	70.00	70.00	50.00	50.00	58.00	10.95	18.89
Luxembourg	30.00	30.00	50.00	50.00	40.00	40.00	10.00	25.00
France	190.00	130.00	30.00	40.00	40.00	86.00	70.92	82.47
South Korea	80.00	40.00	30.00	30.00	40.00	44.00	20.74	47.13
Australia	0.00	0.00	0.00	10.00	30.00	8.00	13.04	162.98
Others	700.00	850.00	1120.00	350.00	300.00	664.00	344.57	51.89

**From** the above table it is observed that five years the Singapore country has highest average FDI inflows were 1540.00 Crores and Lowest FDI inflow were 8.00 Crores , the deviation of FDI inflows US has Highest 412 and Australia has Lowest 13.04. The co efficient of variation FDI flow highest Australia 162.98 and Lowest Germany. Hence it conclude that the average FDI flow is highest Singapore country 1540.00 Crores and FDI flow is more consistency Germany Country 18.89%.

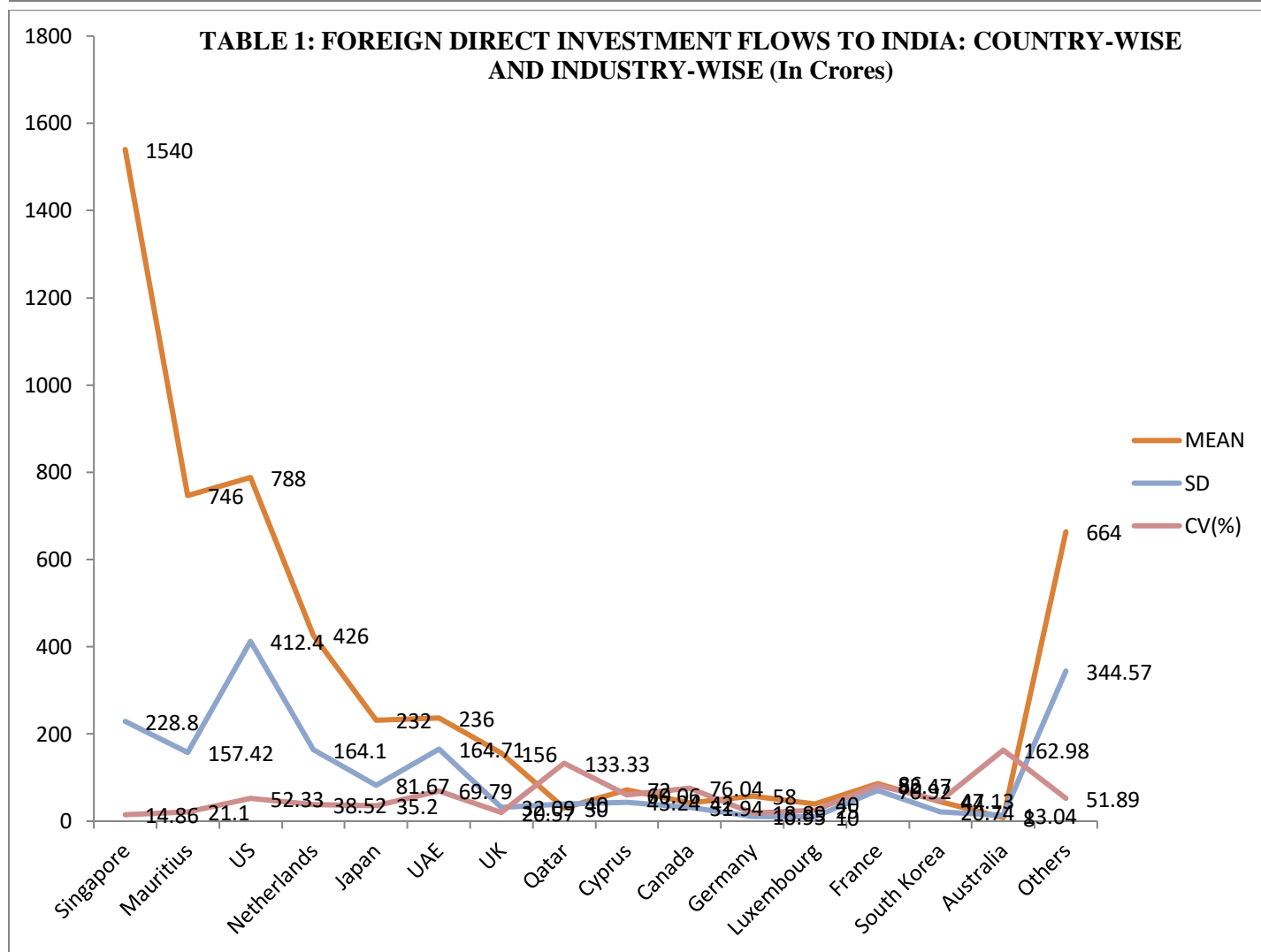
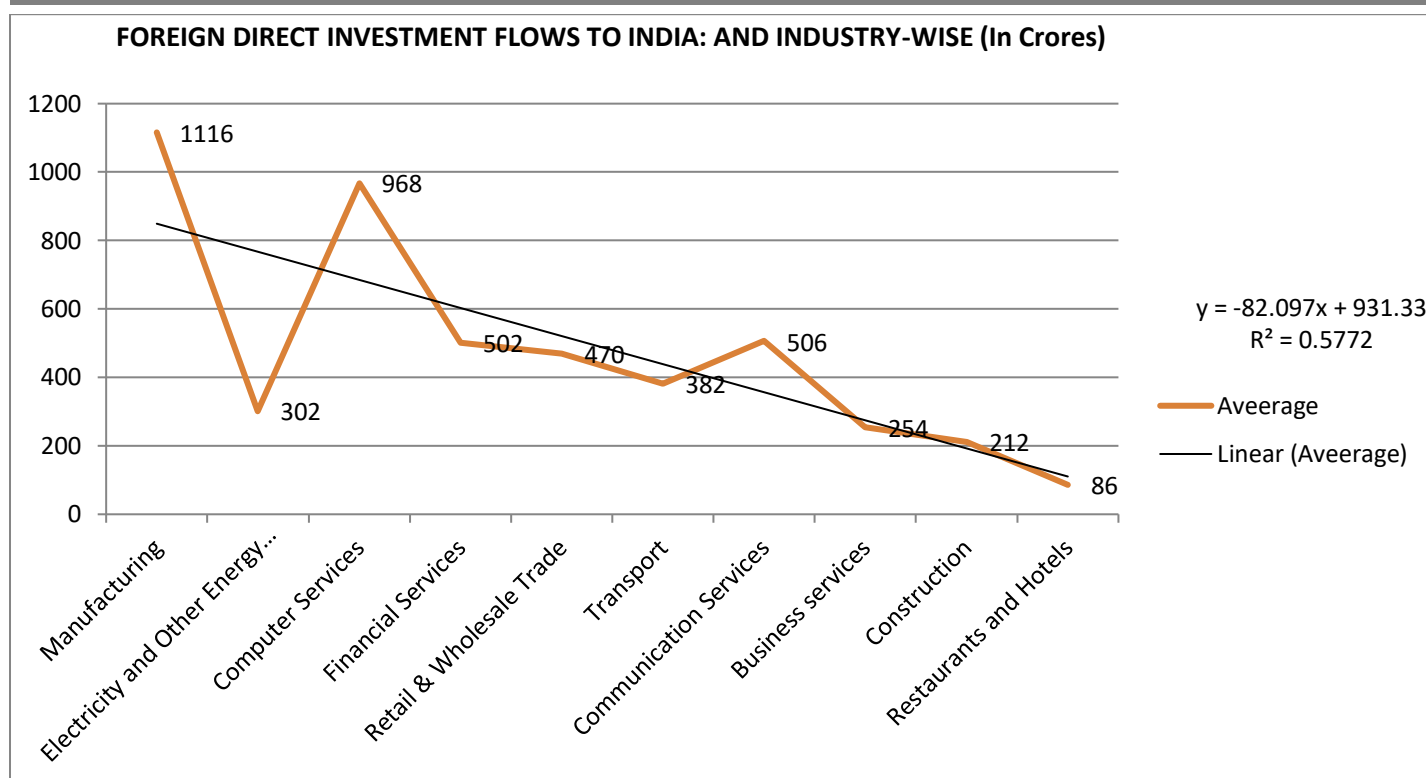


Table 2: Foreign Direct Investment Flows to India: and Industry-Wise (In Crores)

S.No	Source/Industry	2019-20	2020-21	2021-22	2022-23	2023-24 (P)	Average
1	Manufacturing	960	930	1630	1130	930	1116
2	Electricity and Other Energy Generation, Distribution & Transmission	280	130	220	330	550	302
3	Computer Services	510	2380	900	560	490	968
4	Financial Services	570	350	470	680	440	502
5	Retail & Wholesale Trade	510	390	510	530	410	470
6	Transport	240	790	330	170	380	382
7	Communication Services	780	290	640	450	370	506
8	Business services	380	180	250	200	260	254
9	Construction	200	180	320	140	220	212
10	Restaurants and Hotels	270	30	70	20	40	86

The above table presents the FDI inflows during the study period 2019-20 to 2023-24 Manufacturing industry average inflow was 1116.00 Crores, Electricity and Other Energy Generation, Distribution & Transmission 302.00 Crores, Computer services 968.00 Crores, Financial Services 502.00 Crores, Retail and Wholesale Trade 470 Crores, Transport 382.00 Crores Communication services 506 Crores, Business Services 254.00 Crores , Construction 212.00 Crores, and Restaurants and Hotels 86.00 Crores,



Interpretation: It is observed from the data provided in the above chart the FDI inflow industry wise the trend equation shows that  $Y = -82.09x + 931.3$ , and  $R^2$  value 0.577 (57.7%) shows that the fitted trend line is highly influencing on FDI flows in India.

### Testing of Hypothesis:

**Ho: There is no significant difference between FDI inflows Sector wise in India**

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Analysis of Variance						
Source of Variation	SS	df	MS	F	P-value	F crit
Between Groups	4816618	9	535179.8	5.908888	0.0000	2.124029
Within Groups	3622880	40	90572			
Total	8439498	49				

From the above study anova table presents that the F value 5.908888 with df 9 , F Critical value 2.124029 is greater than the F Calculated value. The p value is 0.000 is less than the 0.05 percent significant level. Hence it concludes that there is a significant difference FDI inflow and Sector wise in India.

## CONCLUSION

The study made an attempt the trend of foreign direct investment flows in india from 2019 to 2024 there is variance 57.7% . the tools used in study are descriptive statistics and Analysis of variance to the impact of FDI flow sector wise. Trends are just relative numbers which might differ from that of the original numbers. It only shows the relation in the form of percentage growth over last year whereas the foreign direct investment keeps on coming into the economy. There can be many factors responsible for such variations in the trends of foreign direct investment inflows like economic, institutional and political factors. These factors include economic growth of the country, market size, resource location, and return on investment, inflation, government regulation, political stability, tax policies and foreign exchange rate among others. It is recommended to shift the focus more to the long-term development of the country rather than its short-term growth. In the context of FDI, the government is suggested to further liberalise the foreign direct investment policies and make India

more investment-friendly. At the same time, it can look for possible sectors where foreign investors can enter through automatic route and formulate policies favorable for investments in other sectors alongside service sector.

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