

Md Shamshad Alam & Azra Bano (2026). Foreign Direct Investment (FDI) Inflows in India: Trends, Determinants and Future Prospects. International Journal of Multidisciplinary Research & Reviews, 5(5),220-232.



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**FOREIGN DIRECT INVESTMENT (FDI) INFLOWS IN INDIA:
TRENDS, DETERMINANTS AND FUTURE PROSPECTS**

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<i>Keywords</i>	<i>Abstract</i>
<i>Foreign Direct Investment, Statistical methodologies, Institutional Investment, Foreign Investment.</i>	This study examines the trends, determinants, and future prospects of Foreign Direct Investment (FDI) inflows in India from 2000–01 to 2024–25. The analysis employs secondary data obtained from DPIIT, RBI, World Bank reports, and Economic Surveys. Statistical methodologies, including the Mann-Kendall trend test, Sen’s slope estimator, and trend models, were used to evaluate the long-term behaviour of FDI inflows. The findings reveal a significant upward trend in both gross FDI and FDI equity inflows, whereas Foreign Institutional Investment (FII) shows no significant trend. The services sector, computer software and hardware, telecommunications, automobiles, and construction infrastructure have emerged as the primary recipients of foreign investment. Maharashtra, Karnataka, Gujarat, and Delhi accounted for the highest share of FDI inflows, with Mauritius, Singapore, the USA, and the Netherlands as the leading source countries. The study identifies economic liberalization, market size, infrastructure development, skilled labour, and government initiatives, such as “Make in India” and the PLI Scheme, as key determinants of FDI growth. The study concludes that India possesses strong potential to sustain foreign investment



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	inflows despite global economic uncertainties and rising international competition.
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Introduction:

Foreign Direct Investment (FDI) has emerged as a crucial driver of economic growth, globalization, industrial development, and technological advancement in developing economies. In India, FDI plays a vital role in accelerating economic transformation by increasing domestic capital, generating employment opportunities, enhancing productivity, facilitating technology transfer, and strengthening global trade integration. Since adopting economic liberalization policies in 1991, India has progressively opened its economy to foreign investors through policy reforms, deregulation, privatization, and trade liberalization measures. These reforms have significantly improved the investment climate, establishing India as a leading destination for foreign investment among emerging economies. Foreign Direct Investment (FDI) has become a crucial component of India's economic development strategy, promoting an environment favourable to industrial growth and innovation. By attracting foreign capital, FDI complements domestic investment, which is essential for expanding infrastructure and modernizing production capacity. This influx of capital generates direct employment opportunities and stimulates ancillary industries, thereby creating a multiplier effect on the economy. Moreover, FDI facilitates the transfer of advanced technologies and managerial expertise from multinational corporations to local firms, thereby enhancing overall productivity and competitiveness in the global market.

The liberalization policies initiated in 1991 marked a pivotal shift in the Indian economic landscape, dismantling many regulatory barriers and promoting greater openness to foreign investors. Subsequent reforms, including the simplification of approval processes, easing ownership restrictions, and introduction of sector-specific incentives, have further improved the investment climate. These measures have helped India integrate more deeply into the global economy, attracting investments in diverse sectors, such as manufacturing, services, and infrastructure. FDI has played a significant role in supporting sustainable economic growth, boosting exports, and positioning India as a preferred destination for global investors seeking emerging market opportunities. India's substantial consumer market, demographic advantage, skilled labor force, rapid urbanization, and burgeoning digital economy have consistently attracted multinational corporations and institutional investors. Over the past two decades, India has witnessed a significant increase in foreign direct investment (FDI) inflows, particularly post-mid-2000s. According to the data presented in the study, foreign investment inflows in India surged from a mere 97 million USD in 1990–91 to over 84.8 billion USD in 2021–22. The growth of FDI in India has been driven by various factors, including economic reforms, sectoral liberalization, infrastructural development, ease of doing business initiatives, political stability, and government schemes such as "Make in India," "Digital India," and the Production Linked Incentive (PLI) Scheme.

The trajectory of Foreign Direct Investment (FDI) inflows in India reveals both opportunities and challenges. While India has sustained a long-term upward trend in gross FDI and FDI equity inflows,



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fluctuations have been observed due to global economic uncertainties, financial crises, geopolitical tensions, and post-pandemic adjustments. The study highlights that sectors such as services, computer software and hardware, telecommunications, automobile industries, construction infrastructure, and pharmaceuticals have attracted significant shares of foreign investments. Similarly, states such as Maharashtra, Karnataka, Gujarat, Delhi, and Tamil Nadu have emerged as major destinations for FDI, attributed to their superior infrastructure, industrial development, skilled manpower, and investor-friendly policies.

Foreign investment inflows are influenced by various macroeconomic and institutional factors, such as GDP growth, market size, exchange rate stability, political climate, taxation policies, labour availability, trade openness, and technological readiness. India's growing integration into the global economy and diversification of investment sources from countries such as Mauritius, Singapore, the United States, Japan, and the Netherlands have strengthened its position in the international investment arena. However, India faces competition from emerging economies, such as Vietnam and Indonesia, in attracting global capital, especially under the "China +1" strategy adopted by multinational firms.

This study, titled "Foreign Direct Investment (FDI) Inflows in India: Trends, Determinants and Future Prospects," seeks to analyse the long-term trends and patterns of FDI inflows in India through the application of statistical techniques such as the Mann-Kendall trend test and Sen's slope estimator. Additionally, this study evaluates the sectoral and regional distributions of FDI, identifies the key determinants influencing foreign investment, and examines the future growth potential of FDI in India. The findings of this study may assist policymakers in formulating more effective investment policies and enhancing India's competitiveness in the global investment landscape.

Literature Review:

Dierk Herzer (2010) explored the connection between outward foreign direct investment (FDI) and economic growth, concluding that foreign investment positively impacts economic development through mechanisms like productivity enhancement and technology transfer. This study highlights the enduring relationship between investment inflows and sustainable economic growth.

Yadav (2018) analysed Foreign Direct Investment (FDI) inflows into India's service sector, revealing that this sector has emerged as one of the largest recipients of foreign investment in the country. This trend is attributed to the rapid expansion of banking, insurance, telecommunications, outsourcing, and information technology services. This study underscores that liberalized government policies and the increasing forces of globalization have bolstered investor confidence in India's service economy.

Veena and Jain (2022) analysed FDI inflows in India from 2000 to 2022 and concluded that the country saw a significant increase in foreign investment following the implementation of economic reforms and sectoral liberalization policies. This study highlights the crucial role of government



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initiatives, such as “Make in India,” enhanced ease of doing business, and liberal FDI regulations, in drawing foreign capital into various sectors of the economy.

In her 2012 study, Shobha explored FDI inflows in India and found that foreign investment positively impacted industrial production, infrastructure development, and job creation. The study also highlighted that political stability, market size, favourable investment policies, and economic growth are key determinants of FDI inflows into the country.

Malhotra (2014) investigated the impact of FDI on the Indian economy and found that foreign investment significantly contributed to GDP growth, technological advancement, and export competitiveness. However, the study also emphasizes the need for balanced regional development, as FDI inflows are concentrated mainly in developed states and urban centres.

Subba Rao (2009) discussed the role of international business and foreign investment in developing economies and explained that FDI serves as a vital source of external finance and managerial expertise. This study highlights the importance of stable economic policies, transparent regulations, and global competitiveness in attracting sustainable foreign investment.

The existing literature collectively indicates that India has become an attractive destination for foreign investment due to its expanding market size, policy reforms, skilled labour force, and potential for growth. However, challenges such as infrastructural gaps, regional disparities, policy uncertainty, global economic slowdowns, and geopolitical risks continue to affect the flow of foreign capital into the country. The present study extends previous research by examining recent trends in FDI inflows up to 2024–25 using statistical trend analysis techniques such as the Mann-Kendall test and Sen’s slope estimator. It also provides updated insights into the sectoral and regional patterns of FDI and evaluates the future prospects for sustaining foreign investment growth in India.

Objective of the Study:

- Analyse trends in FDI inflows into India.
- Identify key determinants influencing FDI inflows.
- Assess the proportion of FDI inflows in India from top investing nations during the period of Study.
- Assess sectoral and regional distribution of FDI inflows.
- Evaluate Policy Effectiveness and growth potential.

METHODOLOGY AND DATA ANALYSIS:

This research is descriptive and empirical in nature, based on secondary data collected from various sources i.e. World Bank reports, Reserve Bank of India, publications from Department of Promotion of Industry and Internal Trade (DPIIT), Economic survey reports etc. The study examines the relationship between FDI Equity inflow in India and GDP. For studying the relationship, the data are taken from 2000-01 to 2024-25. Ms-Excel and R-software are used for analysis and visualise the results.

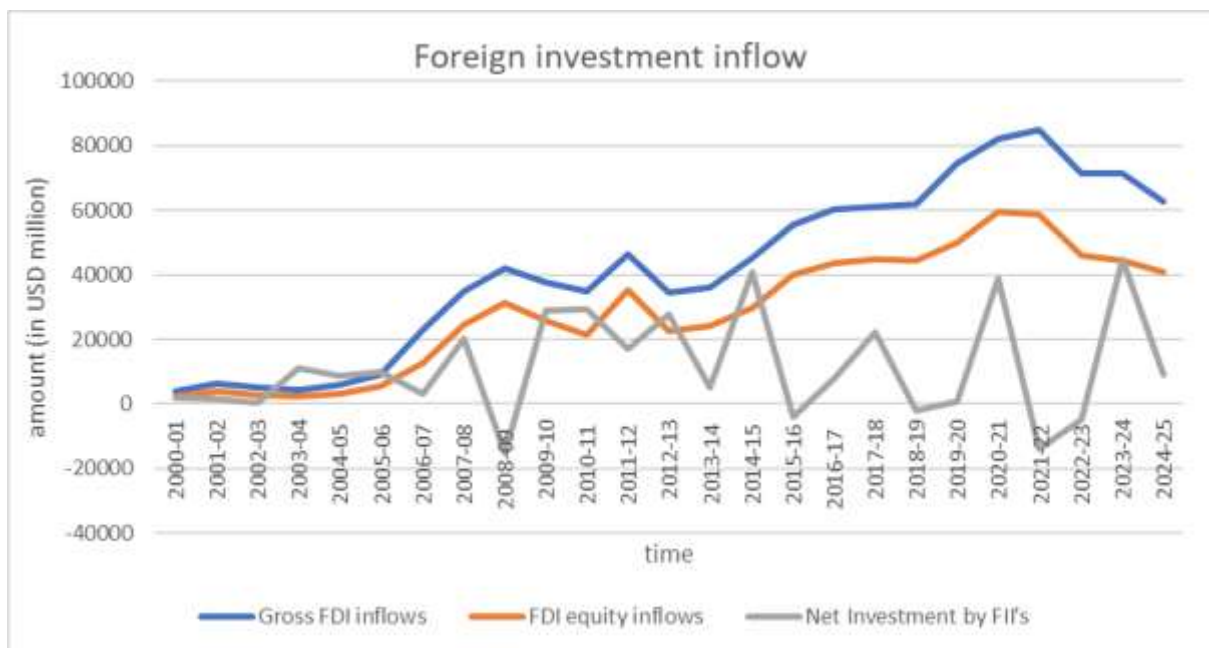


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Foreign Direct Investment (FDI) inflows in India:

India witnessed a substantial rise in FDI inflows onward the mid of 2000. After the liberalisation in 1991, India started getting foreign investment. In 1990-91 foreign investment in India was just 97 million USD, in next five year in 1994 -95 it rose more than 13 times to 1314 million USD. During the 1995-96 to 2004-05, FDI inflows were remained stationary ranging from 2 billion to 6 billion USD. However, there was a steady increase, particularly from 2004-05 onwards. The growth in FDI during this period can be attributed to economic liberalization policies implemented in the early 1990s, which began to show results by attracting more foreign investments. There was a significant jump in FDI inflows starting from 2006-07, reaching over \$20,000 million and peaking around \$40,000 million by 2008-09. From 2014-15 onwards, there was a consistent increase in FDI inflows, reaching new highs above 84.8 billion USD in year 2021-22, followed by a slight decline in the subsequent years. The recent decline could be influenced by global economic uncertainties, geopolitical tensions, and changes in investment patterns as the world recovers and adjusts post-pandemic. The trend of FDI inflows in India has shown a general upward trajectory with periods of fluctuations influenced by global economic conditions, domestic policies, and specific sectoral developments. While there have been record highs, recent declines suggest the need for continuous policy adaptation to maintain India's attractiveness as a destination for foreign investments.

Fig.1: Trend of Foreign Investment Inflows



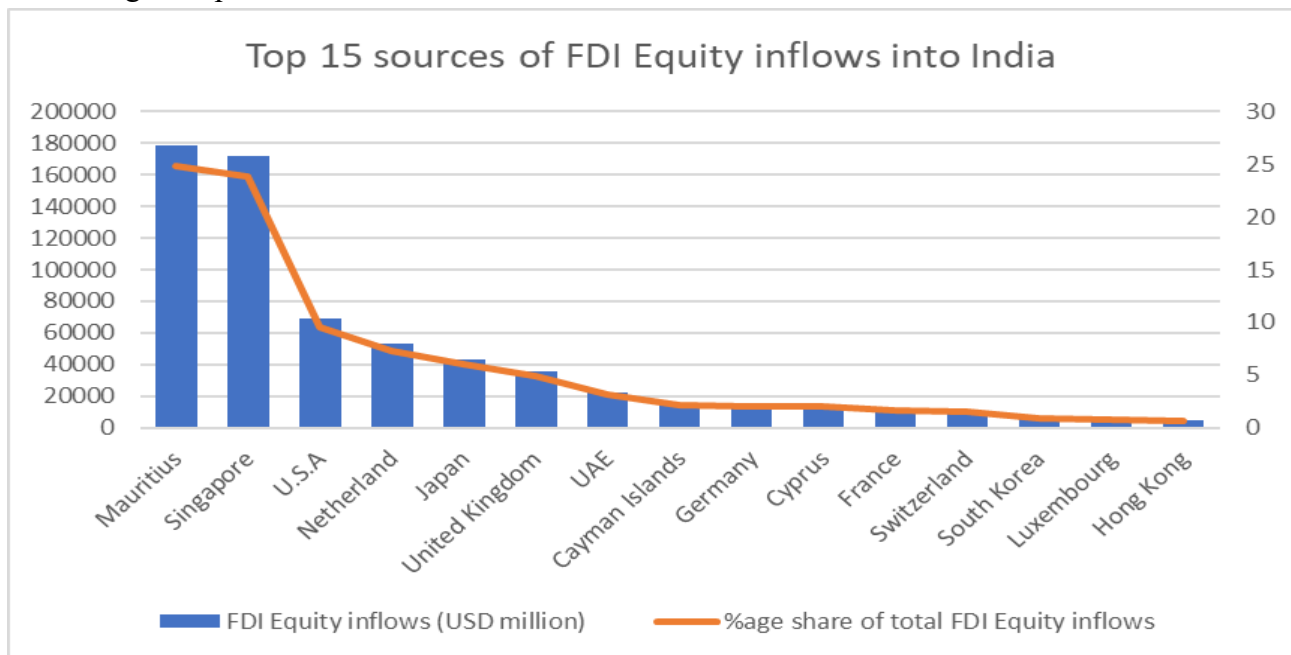
Source: <https://dpiit.gov.in/publications/fdi-statistics>



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Top 15 Source countries of foreign investment inflows into India:

Fig.2: Top source countries of FDI inflow in India



Source: <https://dpiit.gov.in/publications/fdi-statistics>

The graph depicts the top 15 countries contributing to Foreign Direct Investment (FDI) equity inflows into India from 2000-01 to 2024-25, measured in USD million (primary axis) and their percentage share of total FDI (secondary axis). Mauritius and Singapore stand out as leading sources, underscoring their strategic roles as global financial hubs and their favourable tax treaties with India. The United States and the Netherlands follow, highlighting strong economic ties and investor confidence in India's growth potential.

Japan and the United Kingdom are prominently featured, highlighting their enduring investments in India's infrastructure and technological sectors. The United Arab Emirates and the Cayman Islands also play significant roles, with the latter's participation suggesting investments routed through tax-efficient jurisdictions. European countries including Germany, France, Switzerland, and Luxembourg exhibit consistent foreign direct investment inflows, underscoring India's attractiveness to a diverse array of global investors. South Korea and Hong Kong further reinforce regional investment partnerships, particularly in manufacturing and services. Cyprus, although smaller in scale, remains notable for its contribution to foreign investment due to bilateral tax treaty (DTAA), strong diplomatic and economic ties, financial hub and historical investment patterns. Before 2016, Cyprus was one of the top sources of FDI into India due to zero capital gain tax.

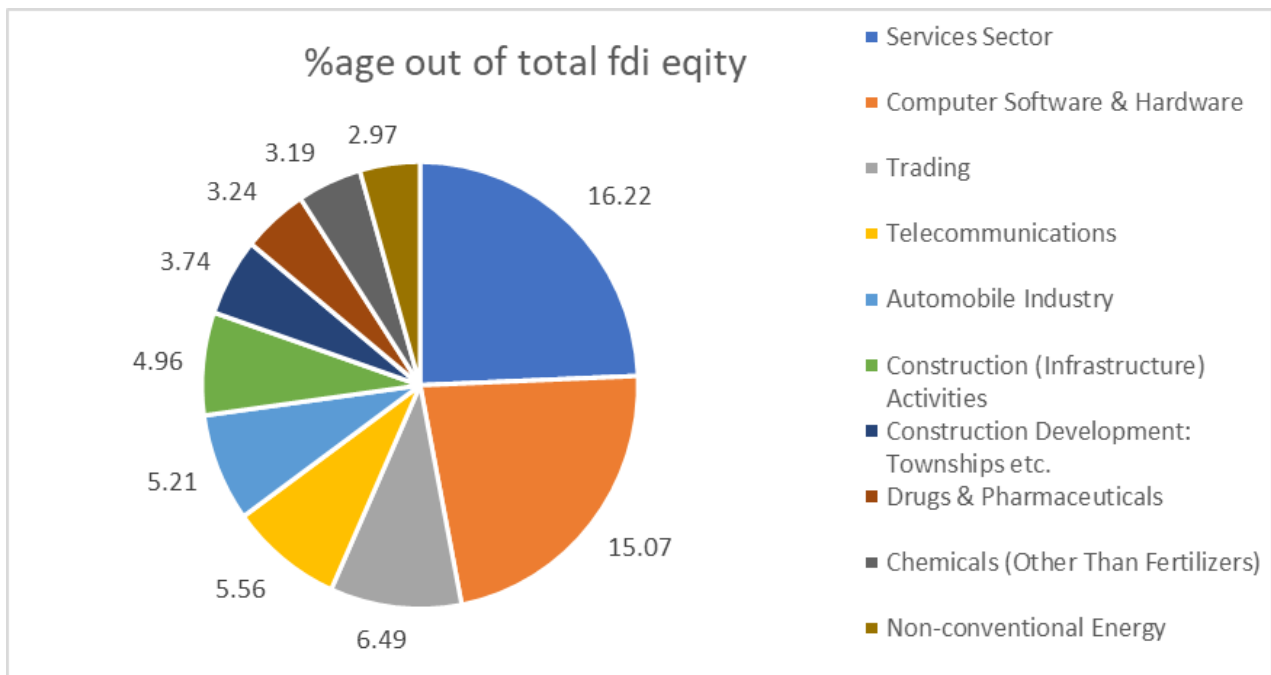


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Overall, this reflects India's attractiveness as an investment destination, with FDI inflows driven by a mix of tax-efficient routes, strategic economic partnerships, and confidence in India's market potential. Policymakers can leverage this insight to strengthen bilateral ties and further enhance the investment climate.

Top ten sectors attracting highest FDI equity:

Fig.3: Sectoral distribution of FDI inflow



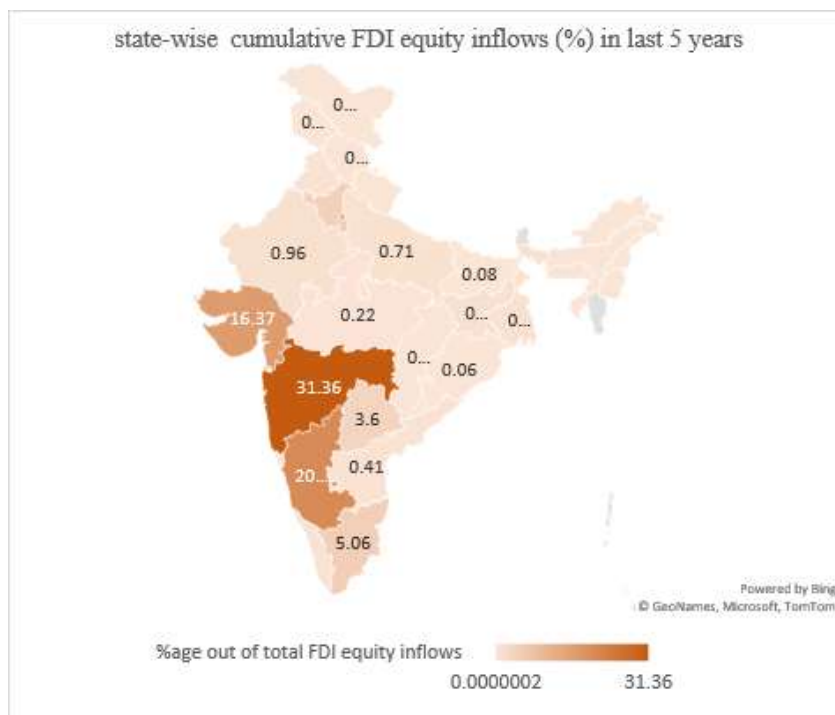
Source: FDI Statistics (DPIIT)

The pie chart illustrates the top ten sectors attracting the most foreign investment. The Services Sector holds the largest share at 16.22%, closely followed by the Computer Software & Hardware sector at 15.07%. Other sectors, such as trading (6.49%), telecommunications (5.56%), the Automobile Industry (5.21%), and Construction Infrastructure (4.96%), also receive substantial investment, albeit to a lesser extent. While important, the remaining sectors constitute smaller portions of the total FDI equity. This distribution reflects investor confidence and economic priorities, with the Services Sector (finance, banking, insurance, non-financial business, outsourcing, and R&D) and the Computer Software & Hardware sector taking the lead due to high demand, growth potential, or government incentives. Collectively, these ten sectors account for 66.69% of FDI equity inflow. The chart provides a comprehensive overview of the flow of foreign capital within the economy.



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State-wise FDI Equity inflows:



In the past five years, Maharashtra has attracted the highest percentage of Foreign Direct Investment (FDI) equity at 31.36%, followed by Karnataka (20.31%), Gujarat (16.37%), Delhi (13.23%), Tamil Nadu (5.06%), Haryana (4.6%), Telangana (3.6%), Jharkhand (0.98%), Rajasthan (0.96%), and Uttar Pradesh (0.71%). Collectively, these top ten states have accounted for 97.18% of the total FDI equity from October 2019 to December 2024, with the remaining states attracting only 2.82% during the same period. Maharashtra's status as India's financial capital, with Mumbai as a financial and industrial hub and Pune as a major center for manufacturing, automobiles, and IT, significantly contributes to its leading position in FDI equity. Similarly, Karnataka's prominence in the IT and startup ecosystem, with Bengaluru, known as the "Silicon Valley of India," excelling in innovation-driven sectors such as biotechnology and aerospace, has attracted substantial FDI during this period. Gujarat is noted for its manufacturing and petrochemical industries, major ports, and business-friendly policies. Delhi (NCR) benefits from corporate headquarters, IT and finance sectors, and strong infrastructure and connectivity. Tamil Nadu is recognized for its automotive industry centered in Chennai, electronics manufacturing, and port access. Telangana's strengths in Hyderabad's IT and pharmaceutical sectors, along with investor-friendly schemes, contribute to its FDI attraction. Haryana's automotive and manufacturing base, along with its proximity to Delhi NCR, enhances its appeal. Rajasthan's potential in renewable energy (solar), mining, and tourism. Jharkhand's focus on mining, steel, power, and infrastructure, and Uttar Pradesh's emphasis on infrastructure, renewable energy, and electronics are also noteworthy. Maharashtra, Karnataka, Gujarat, and Delhi collectively



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Mann-Kendall Trend Test:								
Gross FDI inflows			FDI Equity inflows			Net Investment by FII's		
z = 5.6753, p-value = 1.385e-08 S = 244, tau = 0.813			z = 5.2549, p-value = 1.481e-07 S = 226, tau = 0.753			z = 0.49045, p-value = 0.6238 s = 22, tau = 0.073		
metric	value	interpretation	metric	value	interpretation	metric	value	interpretation
z	5.6753(>>0)	Increasing trend	z	5.2549 (>0)	Increasing trend	z	0.49045 (≈0)	No meaningful trend
p-value	1.385e-08 (<0.05)	Statistically significant	p-value	1.481e-07 (<0.05)	Statistically significant	p-value	0.6238(>0.05)	Not significant
s	244 (larger magnitude)	stronger trend	s	226	Strong trend	s	22 (smaller magnitude)	Very weak trend
tau	0.813	Very strong correlation	tau	0.753	Strong correlation	tau	0.073	Negligible correlation

account for 81.27% of India's total FDI. The Delhi NCR and Haryana regions benefit from the presence of corporate headquarters and startups. States with proactive governments, robust law and order, strong infrastructure, skilled labor, sector-specific hubs, ease of doing business, and government incentives continue to dominate FDI inflows in India.

Table.1: Mann-Kendall Test

Source: Author's calculation

Null hypothesis H_0 : there is no trend.

Note: p-value <0.05, H_0 is rejected.

The z-score in the Mann-Kendall test is a standardized measure of the trend's strength and direction.

Kendall's tau: Measures correlation with time (range: -1 to 1).

S statistic: measures trend direction and strength (larger magnitude = stronger trend).

Sen's slope estimates the magnitude of the trend (median rate of change per year).

Confidence Interval: If it does not include 0, the trend is significant.

Trend of FDI inflows in India using Mann-Kendall and Sen's Slope estimator:

Table.2: Mann-Kendall and Sen's Slope estimator

Variable	MK p-value	MK_trend	Sens_Slope	CI_lower	CI_upper
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Gross FDI	1.384803e-08	Increasing	3389.9375	2819.1818	3951.875
FDI Equity	1.481308e-07	Increasing	2361.1333	1857.0000	2868.923
FII Investments	0.6238	No Trend	328.6498	-660.0588	1571.571

Source: author's calculation

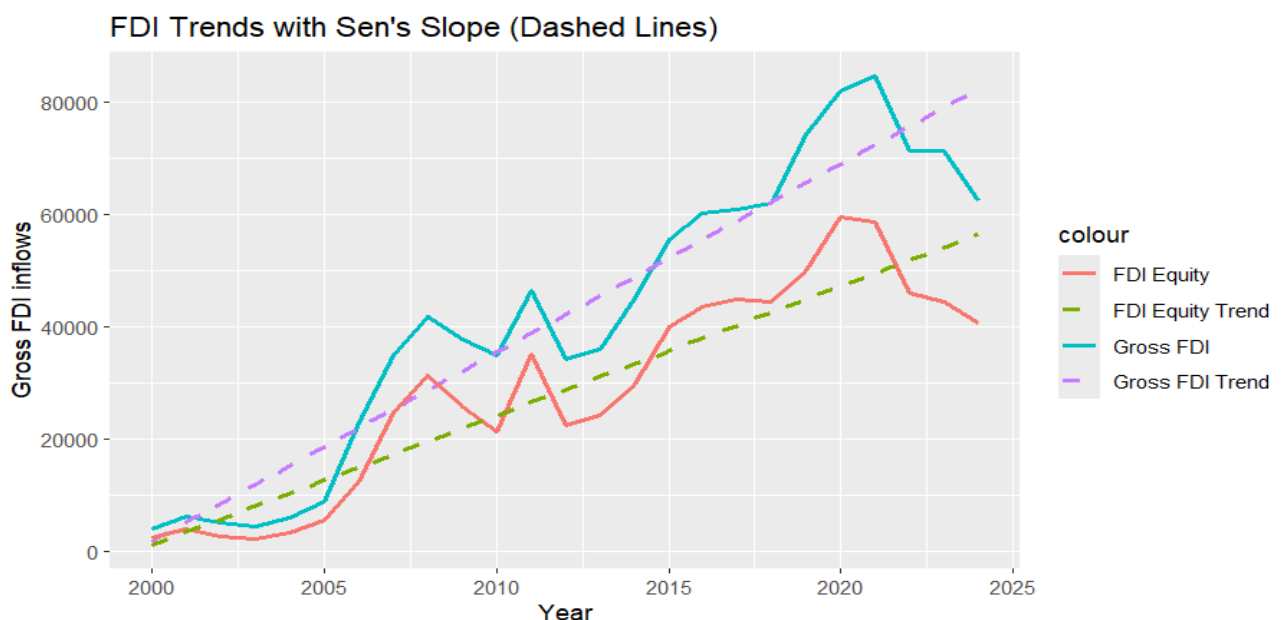
Gross FDI: MK p-value = 1.384803e-08 (<0.05), indicating a trend, and Sen's slope estimator is 3389.94. This indicates that gross FDI inflows are increasing at a median rate of \$3389.94 million per year over the period 2000-01 to 2024-25 (upto dec. 2024). Sen's slope has a 95% probability of lying between 2819.18 and 3951.87 million per year. The interval does not include 0, confirming that the trend is statistically significant (i.e., the increase is real and not due to random fluctuations).

FDI Equity: MK p-value = 1.481308e-07 (<<0.05), so there is trend and Sen's slope estimate is 2361.13, indicating FDI equity inflows are increasing at a median rate of \$2361.13 million per year over the period 2000-01 to 2024-25 (upto dec. 2024). This finding suggests a strong, consistent, and upward trend in equity investments by foreign investors in India.

FII Investment: MK p-value = 0.6238 (>0.05); H0 cannot be rejected. So, there is no trend. The Sen's slope estimate is 328.65 lying between -660.05 and 1571.5. The interval contains zero, confirming that the trend is statistically insignificant.

Gross FDI inflows and FDI equity inflows show a positive and increasing trend over time, whereas FII investment shows no trend.

Fig.4: FDI Trend with Sen's Slope



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The above graph indicates that Gross FDI and FDI equity show a strong positive upward trend. FDI equity inflows are increasing at a median rate of \$2361.13 million per year whereas total FDI inflows are increasing at a median rate of \$3389.94 million per year over the period 2000-01 to 2024-25.

Trend identification of gross FDI inflows and FDI equity inflow in India using linear, logarithmic and exponential statistical technique:

Table.3: Trend Identification through linear, logarithmic and exponential statistical technique

FDI (in USD million)	Linear	Logarithmic	Exponential
FDI Equity	$Y = -4609277.4 + 2305.2 * x$ $R^2 = 0.8459$	$Y = -35260653 + 4639149 * \ln X$ $R^2 = 0.8463$	$y = a * e^{bx}$ log transformation $\log y = a + bx$ $\log y = -253.51568 + 0.13091 * x$ $R^2 = 0.7616$
Gross FDI inflows	$Y = -6727326.5 + 3364.6 * x$ $R^2 = 0.8969$	$Y = -51460520 + 6770540 * \ln X$ $R^2 = 0.8972$	$y = a * e^{bx}$ log transformation $\log y = a + bx$ $\log y = -238.13910 + 0.12348 * x$ $R^2 = 0.791$

Note: y_i = FDI equity and x = time points (year), whereas a and b are the parameters.

Fig.5; Trend Model: FDI Equity

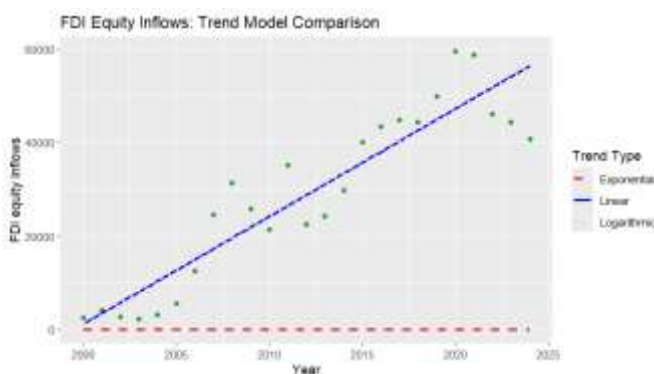
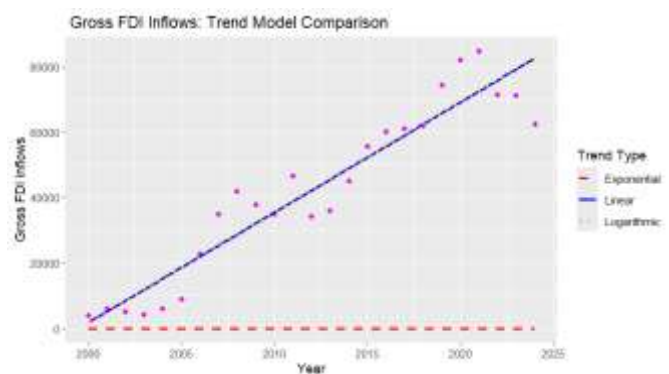


Fig.6; Trend Model: Gross FDI



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In this study, both linear and nonlinear models were utilized to identify trends in Foreign Direct Investment (FDI) inflows in India. The optimal models were determined by comparing the R^2 values, with the highest value indicating the best fit for the observed model. R^2 describes the proportion of the total variance in the observed data, which can be explained by various statistical models such as linear, logarithmic, and exponential. The findings indicate that the R^2 value is lower in the exponential model for both gross FDI inflows and FDI equity inflows. The R^2 values for the linear and logarithmic models are approximately equivalent for both gross FDI and FDI equity. The best-fit lines for the linear and logarithmic models for gross FDI and FDI equity overlap, as depicted in the accompanying graph. Specifically, the R^2 values for gross FDI in the linear and logarithmic models are 0.8969 and 0.8972, respectively, while the R^2 values for FDI equity in the linear and logarithmic models are 0.8459 and 0.8463, respectively. However, the linear model is easier to interpret. This linear trend explains 84.6% of the variance in FDI equity and 89.7% of the variance in gross FDI.

Conclusion:

The trends in gross FDI inflows and FDI equity inflows in India from 2000-01 to 2024-25 (up to December 2024) have been analysed for goodness of fit using linear, exponential, and logarithmic models, along with the Mann-Kendall test and Sen's slope estimator. The Mann-Kendall test and Sen's slope estimator indicate consistent upward trends in both gross FDI and FDI equity inflows in India during the study period, whereas FII investments show no such trend. FII investments are characterized as short-term, event-driven, volatile, and lacking long-term trends. Among the models, the logarithmic and linear models best explain the trends in FDI inflows in India during this period. Gross FDI and FDI equity inflows exhibit an increasing tendency from 2000-01 to 2024-25, rising by 3,364.6 million and 2,305.2 million per year, respectively.

Foreign direct investment (FDI) in India plays a pivotal role in driving economic growth, fostering technological advancement, and creating employment opportunities. India has become one of the most appealing destinations for FDI owing to its strong economic growth rate, vast consumer market, liberalized FDI policies (including the allowance of 100% FDI under the automatic route in sectors such as telecommunications and insurance), relaxed compliance norms, and the introduction of the production-linked incentive (PLI) scheme.

Following the 2022-23 period, there was a decline in Foreign Direct Investment (FDI) equity, attributed to the global economic slowdown and geopolitical tensions, including the Russia-Ukraine and Israel-Hamas conflicts. While the China +1 strategy presents advantages for India, it also faces competition from Vietnam and Indonesia. This analysis can assist policymakers in refining FDI regulations to enhance investment attraction in India.

AUTHOR(S) CONTRIBUTION

The writers affirm that they have no connections to, or engagement with, any group or body that provides financial or non-financial assistance for the topics or resources covered in this manuscript.



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CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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