

## FDI DYNAMICS: A STATE-SPECIFIC EXAMINATION OF ITS IMPACT ON GROSS DOMESTIC PRODUCT

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### ABSTRACT

*This research paper investigates the relationship between Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) across various Indian states, examining the extent to which FDI inflows influence economic growth. Using data from 2015-16 to 2018-19, we calculate the coefficient of determination ( $r^2$ ) to understand the impact of FDI on GDP. The findings reveal significant positive correlations in states such as Bihar, Jharkhand, and Odisha, indicating that FDI plays a crucial role in their economic growth. Conversely, regions like Maharashtra and Goa show minimal FDI impact, highlighting the need for diversified economic strategies. The study emphasizes the importance of tailored policies to enhance the investment climate, infrastructure, and sustainable development, fulfilling the paper's objective to provide insights for balanced economic growth across India.*

**KEYWORDS:** Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Regional Development, Economic Policy, Economic Dynamics.

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### Introduction

In an era marked by globalization and interconnected economies, Foreign Direct Investment (FDI) has emerged as a pivotal driver of economic growth and development for nations worldwide. The intricate relationship between FDI and Gross Domestic Product (GDP) has been extensively explored at the national level, shedding light on the multifaceted impacts of foreign investments on a country's economic performance. However, the dynamics of this relationship become more nuanced when examined at the state level, where unique regional factors come into play.

This research endeavors to delve into the state-specific dimensions of FDI and its influence on the Gross Domestic Product of individual states. While national-level studies provide valuable insights, understanding the localized impact of foreign investments is crucial for policymakers, businesses, and scholars aiming to formulate targeted strategies that align with the distinct characteristics of each state.

The rationale behind focusing on a state-specific examination is rooted in the recognition that the economic landscape is not uniform across regions. States within a country often exhibit divergent levels of industrialization, infrastructure, human capital, and regulatory environments. Consequently, the impact of FDI on GDP is likely to vary significantly from one state to another, offering a rich field for exploration and analysis.

This paper aims to address the following key questions:

- How does FDI contribute to the economic growth of individual states?
- To what extent does the impact of FDI on GDP differ across states with diverse economic structures?

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By focusing on the state level, this research seeks to uncover valuable insights that can inform state-level policies, attract targeted investments, and foster sustainable economic development. The findings are anticipated to contribute not only to the academic discourse on FDI but also to offer practical implications for policymakers navigating the complex terrain of economic planning at the state level.

In the subsequent chapters, we will delve into the existing literature on FDI and GDP dynamics, outline the research methodology, present the empirical findings, and conclude with implications for policy and avenues for future research. Through this comprehensive examination, we aim to enhance our understanding of the intricate relationship between FDI and state-level economic growth, ultimately contributing to the broader discourse on economic development.

## Literature Review

### • **Foreign Direct Investment (FDI) & Economic Growth: National Perspectives**

Numerous studies have explored the relationship between Foreign Direct Investment (FDI) and economic growth at the national level. Existing literature suggests a generally positive correlation, with FDI being identified as a significant catalyst for economic development (Borensztein et al., 1998; Blomstrom et al., 1996). FDI is often associated with technology transfer, increased capital inflow, and the creation of employment opportunities, contributing to enhanced productivity and overall economic performance.

However, scholars have also emphasized the importance of considering contextual factors that influence the FDI-GDP nexus. For instance, regulatory frameworks, political stability, and the level of economic development in a country are identified as crucial determinants of how FDI impacts GDP (Alfaro et al., 2004; Li and Liu, 2005). This literature provides a foundation for understanding the broad dynamics of FDI and its impact on national economic growth.

### • **State-Level Dynamics in FDI & GDP Relationships**

Despite the wealth of knowledge on the national-level relationship between FDI and GDP, there is a growing recognition of the need for more nuanced analyses at the state or regional level. States within a country often exhibit distinctive economic structures, industrialization levels, and policy environments that can shape the impact of FDI on their respective Gross Domestic Products.

Research by Meyer and Sinani (2009) emphasizes the importance of regional factors, including infrastructure development, human capital, and regional policies, in mediating the impact of FDI on state-level economic growth. State-specific studies, such as those conducted by Chakrabarti (2001) and Zhang and Markusen (1999), have highlighted the heterogeneous effects of FDI on regional development, demonstrating that the influence of foreign investments can vary significantly across states.

### • **Factors Influencing State-Level FDI-GDP Relationships**

Understanding the factors that mediate or moderate the relationship between FDI and GDP at the state level is crucial for a comprehensive analysis. State-specific characteristics such as industrial composition, educational attainment, and innovation capacity may shape the extent to which FDI contributes to economic growth (Carkovic and Levine, 2005; Narula, 1996).

Furthermore, the regulatory environment within individual states, as highlighted by Blonigen (2005), can significantly impact the effectiveness of FDI in driving economic growth. This literature review underscores the need to move beyond a one-size-fits-all approach and adopt a state-specific lens to unravel the complexities of the FDI-GDP relationship.

### • **Research Gaps & the Rationale for State-specific Examination**

While the existing literature provides valuable insights into the national-level dynamics of FDI and GDP relationships, there is a noticeable gap in understanding the nuanced impacts at the state level. State-specific studies are essential for capturing the heterogeneity in economic structures and policies, offering a more granular perspective on how FDI influences regional development.

This research aims to address these gaps by focusing on the state-specific examination of FDI dynamics and its impact on Gross Domestic Product. By doing so, it seeks to contribute to the refinement of economic theories, inform state-level policies, and provide a foundation for future research endeavors in the realm of FDI and regional economic development. The subsequent sections of this thesis will delve into the research methodology, empirical findings, and policy implications to shed further light on the state-specific intricacies of the FDI-GDP relationship.

## Research Methodology

### Research Design

- The research adopts a quantitative approach to analyze the relationship between Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) at the state level.
- A panel data analysis framework is employed to account for the time-series and cross-sectional variations across different states over a specified period.
- The study utilizes secondary data sourced from reliable databases such as government publications, international organizations, and research institutions.

### Data Collection

- State-level data on FDI inflows and GDP figures are collected for 2015 to 2019, ensuring consistency and reliability.
- Other relevant variables such as trade openness, infrastructure development, human capital, and policy indicators may also be collected to control for potential confounding factors.
- The data collection process involves rigorous quality checks and validation procedures to ensure data accuracy and integrity.

### Variable Measurement

- FDI is measured as the net inflows of foreign investment into each state, typically expressed as a percentage of GDP.
- GDP is measured as the total monetary value of all goods and services produced within a state's borders over a specific period, adjusted for inflation.
- Control variables are chosen based on theoretical considerations and empirical evidence, ensuring their relevance and reliability in the analysis.

### Linear Regression Model

In this research topic a linear regression model can be utilized to quantify the relationship between Foreign Direct Investment (FDI) inflows and the Gross Domestic Product (GDP) across different states. By incorporating state-specific FDI data as the independent variable and GDP as the dependent variable, the model can help identify the extent to which FDI influences economic growth within each state. This approach enables the isolation of state-level effects, providing a nuanced understanding of how FDI contributes to regional economic performance, thereby informing targeted policy decisions.

### Empirical Analysis

In this part of the study, we look closely at how Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) are connected in different states. We use a method called panel data analysis to study this link. This means we analyze data from different states over a certain time period. We collect detailed data on FDI and GDP, along with other important factors, to understand how they affect each other and regional economic growth. We use fancy math techniques like regression analysis to see if our ideas hold up when we crunch the numbers. We also check how reliable our findings are through sensitivity analysis. We know there might be some limitations with the data we have, but by carefully studying the details at the state level, we hope to give useful information to policymakers, improve economic theories, and inspire more research in this area of FDI and regional economic development.

### Analysis of Impact of Foreign Direct Investment on State Gross Domestic Product

Between 2015-16 and 2018-19, Andhra Pradesh saw fluctuations in FDI and GDP. FDI surged from ₹1,03,150 million to ₹2,38,820 million, indicating investor interest growth. However, GDP varied, starting at ₹1,08,002 million and peaking at ₹1,51,173 million in 2018-19. Despite FDI growth, GDP didn't follow suit consistently, indicating challenges in converting investments into economic output. This highlights the need to align FDI with sustainable GDP growth for broader economic development and stability in Andhra Pradesh.

Between 2015-16 and 2018-19, northeastern states like Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, and Tripura witnessed fluctuating FDI levels, yet their GDP steadily increased from ₹5,77,347 million to ₹7,79,278 million. This indicates that while FDI played a part, other factors also drove economic growth. Bihar and Jharkhand experienced a drastic FDI decline during the same period, dropping from ₹2,720 million to zero. However, their GDP continued to rise from ₹83,158 million to ₹1,19,841 million, suggesting resilience driven by factors beyond foreign investment. This highlights the need for diverse investment strategies to sustain growth momentum.

From 2015-16 to 2018-19, Chandigarh, Punjab, Haryana, and Himachal Pradesh saw a significant rise in FDI, jumping from ₹1,770 million to ₹43,740 million, aligning with steady GDP growth from ₹6,49,450 million to ₹8,99,540 million. This surge, especially in 2018-19, likely fueled economic expansion, reflecting increased investor confidence and improved economic policies. The correlation between FDI and GDP growth underscores foreign investments' potential in driving regional development.

In the same period, Delhi experienced FDI fluctuations, peaking at ₹8,32,880 million in 2015-16, dipping to ₹3,94,820 million in 2016-17, and rising again to ₹7,04,850 million in 2018-19. Despite this volatility, Delhi's GDP maintained a consistent upward trajectory from ₹3,28,985 million to ₹3,65,529 million, suggesting resilience in leveraging foreign investments for steady growth.

From 2015-16 to 2018-19, Goa's FDI varied notably, starting at ₹1,170 million, peaking at ₹5,550 million in 2016-17, and then dropping to ₹1,110 million by 2018-19. Despite this, Goa's GDP consistently grew from ₹3,34,575 million to ₹4,58,304 million in the same period. This suggests that Goa's economic growth relies on strong domestic factors, possibly making efficient use of foreign investments. Similarly, Gujarat saw fluctuations in FDI, reaching a peak of ₹2,26,100 million in 2016-17 before declining to ₹1,26,180 million in 2018-19. However, Gujarat's GDP steadily rose from ₹1,39,254 million to ₹1,97,447 million. This indicates Gujarat's resilient economy, driven by robust domestic activities and effective investment utilization, suggesting that while FDI is beneficial, Gujarat's growth is supported by a stable economic foundation.

From 2015-16 to 2018-19, Jammu & Kashmir experienced a sharp drop in FDI, reaching zero by 2017-18 and 2018-19. However, its GDP steadily rose from ₹73,215 million to ₹91,882 million, showcasing a resilient economy driven by internal activities.

Karnataka witnessed fluctuating FDI levels, rising from ₹2,67,910 million to ₹5,53,340 million in 2017-18 before a slight decline to ₹4,69,630 million in 2018-19. Despite this, its GDP consistently grew from ₹1,48,108 million to ₹2,10,887 million, indicating the state's capacity to attract and utilize foreign investments effectively.

Similarly, Kerala saw varying FDI levels, from ₹5,890 million to ₹30,500 million in 2016-17, then declining to ₹13,390 million in 2017-18 and rising slightly to ₹18,070 million in 2018-19. Yet, its GDP steadily increased from ₹1,48,133 million to ₹2,04,105 million, reflecting a robust economy resilient to fluctuating foreign investments.

From 2015-16 to 2018-19, Madhya Pradesh and Chhattisgarh experienced fluctuating FDI inflows, starting at ₹5,180 million, dipping to ₹1,810 million in 2017-18, and slightly rising to ₹2,240 million in 2018-19. Despite these variations in foreign investment, the GDP of the combined regions consistently grew, from ₹1,36,216 million in 2015-16 to ₹1,87,885 million in 2018-19. This steady GDP growth amidst fluctuating FDI suggests that the economies of Madhya Pradesh and Chhattisgarh are driven primarily by strong domestic factors. The data highlights the regions' economic resilience and ability to maintain growth despite inconsistent foreign investment levels.

From 2015-16 to 2018-19, Maharashtra witnessed significant fluctuations in FDI, peaking at ₹13,19,800 million in 2016-17 before declining to ₹8,00,130 million in 2018-19. Despite these variations, the state's GDP consistently increased from ₹1,46,258 million in 2015-16 to ₹1,91,736 million in 2018-19. The substantial FDI inflows likely contributed to Maharashtra's robust economic growth, reflecting its position as a major economic hub and its ability to attract foreign investments. The data underscores Maharashtra's strong economic fundamentals and its capacity to leverage FDI for sustained growth, albeit with some variability in investment levels over the years.

From 2015-16 to 2018-19, Odisha experienced a significant increase in FDI, rising from ₹360 million in 2015-16 to ₹4,830 million in 2018-19. This surge in foreign investment coincided with steady GDP growth, increasing from ₹64,595 million to ₹95,164 million during the same period. The data suggests that the influx of FDI played a crucial role in driving Odisha's economic expansion, potentially indicating increased investor confidence and government initiatives to attract foreign capital. The consistent GDP growth alongside rising FDI underscores Odisha's economic resilience and its ability to leverage foreign investments to fuel sustainable development and prosperity.

From 2015-16 to 2018-19, Rajasthan experienced a notable increase in FDI, rising from ₹3,320 million to ₹25,530 million. This significant influx of foreign investment corresponded with steady GDP growth, increasing from ₹83,426 million to ₹1,10,606 million over the same period. The data suggests that the surge in FDI played a pivotal role in driving Rajasthan's economic expansion, possibly reflecting

improved business environment and government policies to attract foreign capital. The consistent GDP growth alongside rising FDI indicates Rajasthan's economic resilience and its ability to leverage foreign investments for sustained development and prosperity, marking a positive trajectory for the state's economy.

From 2015-16 to 2018-19, Tamil Nadu and Pondicherry witnessed fluctuations in FDI, with peaks at ₹2,97,810 million in 2015-16 and ₹2,23,540 million in 2017-18, but dipping to ₹1,81,640 million in 2018-19. Despite these variations, their combined GDP steadily increased from ₹3,13,567 million to ₹4,24,949 million during the same period. This consistent GDP growth amidst fluctuating FDI indicates that Tamil Nadu and Pondicherry's economies are primarily driven by strong domestic factors. The data underscores the regions' economic resilience and their ability to sustain growth despite variable levels of foreign investment inflows.

From 2015-16 to 2018-19, Uttar Pradesh and Uttarakhand experienced fluctuations in FDI, ranging from ₹500 million to ₹5,780 million. Despite these variations, their combined GDP consistently increased from ₹47,118 million to ₹66,512 million during the same period. This indicates that while foreign investment levels varied, the economic growth of the regions remained relatively stable, possibly driven by domestic factors and government initiatives. The data suggests resilience in Uttar Pradesh and Uttarakhand's economies, capable of sustaining growth even with fluctuations in foreign investment inflows, highlighting the importance of diverse economic strategies to ensure continued development.

From 2015-16 to 2018-19, West Bengal, Sikkim, and the Andaman & Nicobar Islands exhibited varied FDI trends. While FDI surged to ₹62,200 million in 2015-16, it dropped significantly in 2016-17 to ₹3,320 million, before recovering to ₹85,310 million in 2018-19. Interestingly, GDP showed less fluctuation, steadily increasing from ₹4,48,574 million to ₹4,67,134 million during the same period. Despite the volatility in FDI, the consistent GDP growth suggests that the economies of these regions are resilient, likely driven by robust domestic activities and possibly indicating the need for more sustainable FDI strategies to ensure stable economic growth.

Analysis of the data through the coefficient of determination  $r^2$  of FDI impact on GDP for each state/region:

- **Andhra Pradesh**

FDI and GDP showed a moderate positive correlation ( $r^2 = 0.311$ ), indicating that approximately 31.1% of the variation in GDP can be explained by FDI inflows. This suggests that while FDI plays a significant role, other factors also contribute to GDP growth.

- **Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura:**

These states exhibit a very weak correlation between FDI and GDP ( $r^2 = 0.012$ ), indicating that FDI has little explanatory power in determining GDP variations. Other factors likely have a more significant influence on economic growth in these regions.

- **Bihar, Jharkhand**

FDI shows a strong positive correlation with GDP ( $r^2 = 0.776$ ), suggesting that approximately 77.6% of the variation in GDP can be explained by FDI inflows. This indicates that FDI plays a critical role in driving economic growth in Bihar and Jharkhand.

- **Chandigarh, Punjab, Haryana, Himachal Pradesh**

These regions exhibit a strong positive correlation between FDI and GDP ( $r^2 = 0.708$ ), indicating that around 70.8% of the variation in GDP can be attributed to FDI. This suggests that FDI significantly impacts economic growth in these states.

- **Delhi**

FDI and GDP show a moderate positive correlation ( $r^2 = 0.376$ ), indicating that approximately 37.6% of the variation in GDP can be explained by FDI inflows. This suggests that while FDI plays a significant role, other factors also contribute to GDP growth in Delhi.

- **Goa**

FDI has a very weak correlation with GDP ( $r^2 = 0.016$ ), indicating that FDI has minimal explanatory power in determining GDP variations in Goa. Other factors likely play a more substantial role in driving economic growth in the region.

- **Gujarat**

FDI and GDP exhibit a weak positive correlation ( $r^2 = 0.199$ ), suggesting that approximately 19.9% of the variation in GDP can be attributed to FDI inflows. This indicates that while FDI contributes to economic growth in Gujarat, other factors also play significant roles.

- **Jammu & Kashmir**

FDI shows a moderate positive correlation with GDP ( $r^2 = 0.567$ ), indicating that around 56.7% of the variation in GDP can be explained by FDI inflows. This suggests that FDI plays a significant role in driving economic growth in Jammu & Kashmir.

- **Karnataka**

FDI and GDP exhibit a moderate positive correlation ( $r^2 = 0.443$ ), suggesting that approximately 44.3% of the variation in GDP can be attributed to FDI inflows. This indicates that while FDI contributes to economic growth in Karnataka, other factors also play significant roles.

- **Kerala**

FDI has a very weak correlation with GDP ( $r^2 = 0.059$ ), indicating that FDI has minimal explanatory power in determining GDP variations in Kerala. Other factors likely have a more significant influence on economic growth in the region.

- **Madhya Pradesh, Chhattisgarh**

These states exhibit a strong positive correlation between FDI and GDP ( $r^2 = 0.732$ ), indicating that approximately 73.2% of the variation in GDP can be explained by FDI inflows. This suggests that FDI significantly impacts economic growth in Madhya Pradesh and Chhattisgarh.

- **Maharashtra**

FDI has a very weak correlation with GDP ( $r^2 = 0.002$ ), indicating that FDI has minimal explanatory power in determining GDP variations in Maharashtra. Other factors likely play a more substantial role in driving economic growth in the state.

- **Orissa**

FDI shows a strong positive correlation with GDP ( $r^2 = 0.839$ ), suggesting that approximately 83.9% of the variation in GDP can be explained by FDI inflows. This indicates that FDI plays a critical role in driving economic growth in Odisha.

- **Rajasthan**

FDI and GDP exhibit a strong positive correlation ( $r^2 = 0.784$ ), indicating that around 78.4% of the variation in GDP can be attributed to FDI inflows. This suggests that FDI significantly impacts economic growth in Rajasthan.

- **Tamil Nadu, Pondicherry**

FDI has a weak correlation with GDP ( $r^2 = 0.274$ ), indicating that approximately 27.4% of the variation in GDP can be explained by FDI inflows. This suggests that while FDI contributes to economic growth in Tamil Nadu and Pondicherry, other factors also play significant roles.

- **Uttar Pradesh, Uttranchal**

With an  $r^2$  value of 0.034, Uttar Pradesh and Uttarakhand show a very low impact of FDI on GDP growth. Only around 3.4% of the variation in GDP can be attributed to changes in FDI levels, indicating that foreign investment has a minimal influence on economic expansion in these regions. This underscores the importance of focusing on domestic economic factors and implementing targeted strategies to stimulate growth.

- **West Bengal, Sikkim, Andaman & Nicobar Islands**

The coefficient of determination for West Bengal, Sikkim, and the Andaman & Nicobar Islands is exceptionally low at 0.011, indicating an almost negligible impact of FDI on GDP growth. Only around 1.1% of the variation in GDP can be explained by changes in FDI levels, suggesting that foreign investment has little influence on economic expansion in these regions. This underscores the need for alternative growth strategies and policies to drive economic development.

### Findings and Suggestions

Analyzing the economic data of various states and regions in India from 2015-16 to 2018-19 provides valuable insights into their growth dynamics. These are some key findings and suggested strategies for enhancing economic growth and resilience.

- **Andhra Pradesh:** FDI grew overall, but GDP growth was inconsistent, indicating challenges in translating investments into economic output. FDI explains about 31.1% of GDP variation, suggesting other factors influence growth.
- **Northeastern States:** Despite erratic FDI trends, steady GDP growth indicates resilience beyond foreign investments. FDI has minimal impact on GDP variations, with other factors likely playing a more significant role.
- **Bihar, Jharkhand:** FDI declined dramatically, but GDP continued to grow, driven by robust internal economic activities. FDI strongly correlates with GDP, explaining 77.6% of GDP variation, highlighting its critical role in driving economic growth.
- **Chandigarh, Punjab, Haryana, Himachal Pradesh:** Saw FDI surge, boosting GDP, showcasing investor confidence. FDI correlates strongly with GDP ( $r^2 = 0.708$ ), impacting 70.8% of GDP variation.
- **Delhi:** Despite FDI fluctuations, GDP grew, highlighting domestic economic activity importance. FDI-GDP correlation strong ( $r^2 = 0.708$ ), with FDI influencing 70.8% of GDP variation. In Delhi, FDI-GDP correlation moderate ( $r^2 = 0.376$ ), with FDI affecting 37.6% of GDP variation.
- **Goa:** Despite FDI fluctuations, GDP grew, indicating strong domestic drivers. Weak FDI-GDP correlation ( $r^2 = 0.016$ ) suggests minimal FDI impact, other factors drive economic growth.
- **Gujarat:** Despite FDI fluctuations, GDP grew steadily, driven by domestic factors. Weak FDI-GDP correlation ( $r^2 = 0.199$ ) shows FDI affects 19.9% of GDP variation, indicating other factors' significance.
- **Jammu & Kashmir:** GDP grew steadily despite reduced FDI, indicating reliance on domestic factors for growth. FDI correlates moderately positively with GDP ( $r^2 = 0.567$ ), explaining 56.7% of GDP variation, highlighting its significant role in driving economic growth.
- **Karnataka:** Despite fluctuating FDI, steady GDP growth suggests effective utilization of foreign investments. FDI and GDP display a moderate positive correlation ( $r^2 = 0.443$ ), indicating that 44.3% of GDP variation is linked to FDI, alongside other significant factors.
- **Kerala:** Despite FDI fluctuations, consistent GDP growth is attributed to robust domestic factors. Weak correlation between FDI and GDP ( $r^2 = 0.059$ ) implies minimal impact on GDP fluctuations, suggesting other factors drive economic growth in the region.
- **Madhya Pradesh, Chhattisgarh:** Despite FDI fluctuations, GDP continued growing, reflecting strong internal economic activity. Both states show a significant positive correlation between FDI and GDP ( $r^2 = 0.732$ ), attributing around 73.2% of GDP variation to FDI inflows, underscoring its considerable impact on economic growth.
- **Maharashtra:** Substantial fluctuations in FDI didn't impede GDP growth, showcasing adept utilization of foreign investments. FDI shows a weak correlation with GDP ( $r^2 = 0.002$ ), suggesting it has minimal impact on GDP fluctuations in Maharashtra. Other factors likely wield greater influence on the state's economic growth.

In Odisha, FDI has been pivotal for driving economic growth, with a strong correlation ( $r^2 = 0.839$ ) between FDI and GDP, indicating that about 83.9% of GDP variation can be attributed to FDI inflows.

Rajasthan has witnessed a notable surge in FDI alongside consistent GDP growth, showcasing an improved business climate and governmental policies. The correlation between FDI and GDP stands at ( $r^2 = 0.784$ ), suggesting that approximately 78.4% of GDP variation can be linked to FDI.

In Tamil Nadu and Puducherry, despite fluctuating FDI levels, GDP has maintained steady growth, indicating resilience driven by domestic factors. The correlation between FDI and GDP is weaker ( $r^2 = 0.274$ ), with around 27.4% of GDP variation being explained by FDI inflows, underscoring the significant contribution of other factors to economic growth in these regions.

In Uttar Pradesh and Uttarakhand, fluctuating FDI levels had minimal impact on GDP growth, with only around 3.4% of GDP variation attributed to FDI changes. Similarly, West Bengal, Sikkim, and the Andaman & Nicobar Islands showed little influence of FDI on GDP growth, with only around 1.1% of GDP variation linked to FDI fluctuations.

Based on these findings, here are several suggestions to enhance economic growth and resilience:

- Encourage domestic entrepreneurship, promote SMEs, and invest in key sectors to create a resilient economic base.
- Reduce bureaucratic hurdles, streamline regulatory processes, and provide incentives for both domestic and foreign investors to create a conducive investment climate.
- Invest in infrastructure projects to enhance attractiveness for investors, facilitate business operations, and boost productivity.
- Invest in education and training programs to develop a skilled workforce, which attracts investment, fosters innovation, and drives economic growth.
- Encourage export-oriented industries to diversify revenue streams and reduce dependence on domestic demand.
- Prioritize environmental conservation and responsible resource management for long-term economic resilience.
- Foster economic synergies through collaboration between neighboring states in infrastructure development and trade promotion.
- Embrace innovation and technology adoption to drive economic transformation and competitiveness.
- Strengthen governance frameworks and ensure transparency to foster investor confidence and promote long-term economic stability.
- Mitigate risks associated with economic downturns by diversifying sources of FDI and attracting investments from a diverse range of industries and markets.

Implementing these suggestions can strengthen economic foundations, attract investments, and foster sustainable and inclusive growth, contributing to India's overall economic development and prosperity.

### **Conclusion**

The analysis of FDI and GDP data across various Indian states reveals varying degrees of impact, with significant positive correlations in some regions and minimal influence in others. The study highlights the critical role of FDI in driving economic growth in states like Odisha, Rajasthan, and Bihar, while underscoring the importance of domestic factors in regions where FDI has a minimal impact. The findings fulfill the paper's purpose by providing insights into the economic dynamics of different states, guiding policymakers to tailor strategies that enhance investment climate, infrastructure, and sustainable development for balanced economic growth across the nation.

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