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RESEARCH ARTICLE

THE INFLUENCE OF POLITICAL PARTIES ON FDI IN INDIA

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Abstract

This paper explores how political stability has shaped India's foreign direct investment (FDI) inflows over sixteen pivotal years, focusing on 2008, 2011, 2020, and 2024. By tracing policy consistency, leadership transitions, and macro economic shifts under successive governments, it uncovers how a stable political environment fuels investor confidence and sustains FDI growth. Despite global crises and domestic challenges India's democratic resilience and steady policy frameworks have consi stently positioned it as a reliable investment hub in a volatile world. Far from being a passive backdrop, India's political stability has actively attracted and anchored foreign investment, powering its growth story. This paper offers fresh insight into why political stability is not merely desirable but essential for emerging economies aimingto secure long-term economic progress.

Introduction:-

India's political system follows a multi-party structure within a parliamentary framework. Since it is rare for a single party to get a clear majority, different parties often come together to form coalition governments. This system shows India's huge diversity, as political groups need to work together to represent different communities and regions. In 2025, the government is still a coalition that aims to maintain stability and ensure all groups feel included. At the same time, cultural issues have become more important in politics, with parties using these issues to connect with voters and shape their election campaigns. Because of this, there has been a slow shift toward one party or group gaining more power, as cultural nationalism influences both political messaging and voting patterns.

Foreign Direct Investment (FDI) happens when companies or people from one country invest in businesses in another country. Investors look for more than just profits—they often want to take an active role in how the business is run. FDI usually involves building new facilities, buying shares in local companies, or forming partnerships, which brings in capital, technology, and new business practices. FDI is good for a country because it creates jobs, helps businesses grow, and brings advanced skills and technologies into the economy. It also encourages healthy competition, which can strengthen industries and increase efficiency. While some people worry that foreign investment might harm local businesses, FDI mostly helps the economy by creating new opportunities for growth.

FDI and political stability are closely linked in India. Investors prefer countries that have stable governments, clear rules, and predictable policies. Before 2014, frequent changes in leadership and coalition governments led to an uncertain political environment, which made foreign investors cautious. However, after 2014, when a majority government came to power, India's political situation became more stable. This stability played a big role in

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increasing FDI, which grew from about USD 30 billion in 2014 to over USD 70 billion by 2022, according to the Department for Promotion of Industry and Internal Trade (DPIIT). Reforms like the Goods and Services Tax (GST), the Make in India campaign, and the relaxation of FDI limits in sectors like defense, retail, and insurance made India more attractive to investors. As a result, FDI has helped India grow by creating jobs, improving infrastructure, and bringing in new technologies. Political stability has also allowed India to focus on long-term economic goals, like becoming a \$5 trillion economy. In short, political stability has been key in attracting foreign investment, which has become an important driver of India's economic growth.

LITERATURE REVIEW:-

1. "Foreign Direct Investment in India: The Changing Pattern" – by Dr. A. K. Singh (2012) This paper explains how the trends and sources of FDI in India have shifted over time, especially after liberalization policies. It highlights how sectors like services and telecommunications began receiving more investment due to clearer policies and market opportunities. The study also notes that policy consistency plays a role in sustaining FDI inflows.
2. "FDI and Economic Growth in India: An Empirical Analysis" – Indian Journal of Economics and Development (2016)This article analyses the link between FDI and India's economic growth using data from different sectors. It finds that FDI has a positive impact on GDP growth, employment, and technology transfer in India. The study suggests that encouraging FDI through stable policies can further strengthen economic development.
3. "Political Stability and Its Impact on Foreign Direct Investment: Evidence from India" – Global Business Review (2019)This paper examines how political stability affects FDI inflows in India, using case studies and statistical analysis. It finds that periods of stable governance and clear policies attract higher FDI, while political uncertainty tends to discourage investors. The study emphasizesthe importance of maintaining a stable environment to keep foreign investment flowing.
4. "The Impact of Political Stability on Foreign Direct Investment Inflows in India" – IOSR Journal of Economics and Finance (2021)This paper studies how India's political stability affects FDI inflows using recent data. It finds that stable governments and policy clarity attract more foreign investment, while political disruptions slow inflows. The study highlights that maintaining consistent policies is crucial for continued FDI growth in India.
5. UNCTAD World Investment Reports (2008–2024 editions)These reports track India's FDI inflows, sectoral investments, and policy changes over time. They show how global investor confidence in India grew with reforms like GST and Make in India, but also how global crises impacted investment flows. The reports are useful for understanding India's FDI trends within a global context.
6. "Make in India and FDI: A Critical Review" – Journal of Business and Economic Policy (2020)This paper analyses how the Make in India initiative has impacted FDI in manufacturing and services. It finds that while the initiative attracted foreign investors, issues like land acquisition and infrastructure challenges slowed progress in some sectors. The study suggests aligning policy execution with investor needs to maximize FDI benefits.
7. Foreign Direct Investment in India: Opportunities and Challenges" – Reserve Bank of India Bulletin (2022)
   This article outlines India's potential for attracting FDI and the hurdles it faces, such as regulatory delays and infrastructure gaps. It also highlights how policy reforms and stable governance can address these challenges to sustain investment inflows. The paper emphasises the importance of continuous policy support for FDI growth.

OBJECTIVE:-

This research paper aims to examine how political stability has influenced foreign direct investment (FDI) inflows across seven selected Indian states—Maharashtra, Delhi, Jammu and Kashmir, Madhya Pradesh, West Bengal, Tamil Nadu, and Uttar Pradesh—between 2008 and 2024. By focusing on key years (2008, 2011, 2020, and 2024), the study will analyze the trends in Gross State Domestic Product (GSDP) and FDI inflows over this 16-year period to understand the relationship between political stability and investment patterns in these states. The objective is to identify whether periods of stable governance have led to higher FDI inflows and economic growth at the state level, offering insights into how political factors can shape investment decisions in emerging economies like India.

Methodology:-

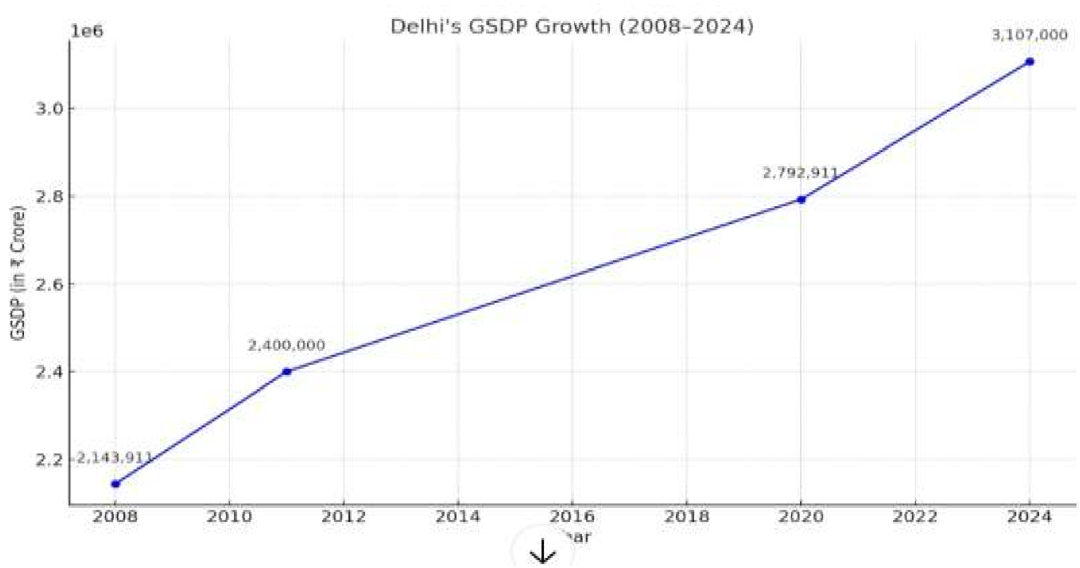
This study uses a comparative and descriptive research design to find out how political stability has affected FDI inflows in seven Indian states from 2008 to 2024. The research is mostly qualitative and uses secondary data to study trends and differences between states. By focusing on key years and looking at how policies and politics changed, this study aims to understand how political stability connects with investment in India.

The states chosen for this study are Maharashtra, Delhi, Jammu & Kashmir, Uttar Pradesh, Madhya Pradesh, West Bengal, and Tamil Nadu. These states were selected because they show a mix of stable and less stable political situations, as well as differences in development and governance. This helps to compare how different political environments impact FDI. The time period of 16 years allows the study to cover different governments and important reforms like the GST and the Make in India campaign, which may have influenced investment patterns during this time.

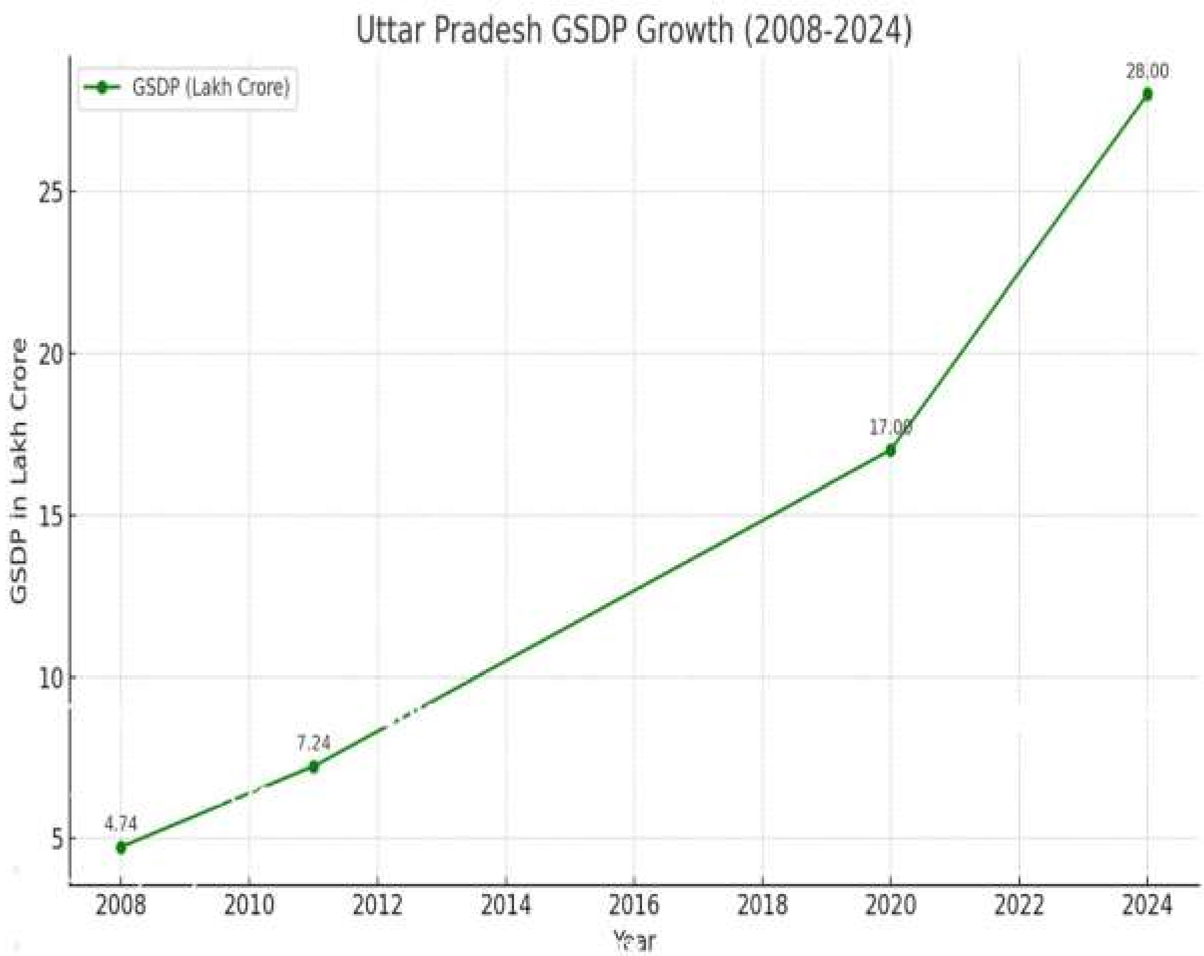
Data on FDI inflows will be taken from sources like the Department for Promotion of Industry and Internal Trade (DPIIT), RBI reports, state government publications, and World Bank data if available. For political stability, data will include how often governments changed, how long they stayed, and any periods of unrest or important legal reforms. In this study, political stability will be the independent variable, while FDI inflows will be the dependent variable measured in USD or INR. Economic growth, infrastructure, and ease of doing business will be used as control variables to keep the analysis fair. A case study method will also be used to look at important events in each state, like policy changes in Tamil Nadu or political issues in Jammu & Kashmir, to see how they affected FDI during these years.

DATA ANALYSIS AND DISCUSSION:-

FDI - Trends : Graphs &statistical charts

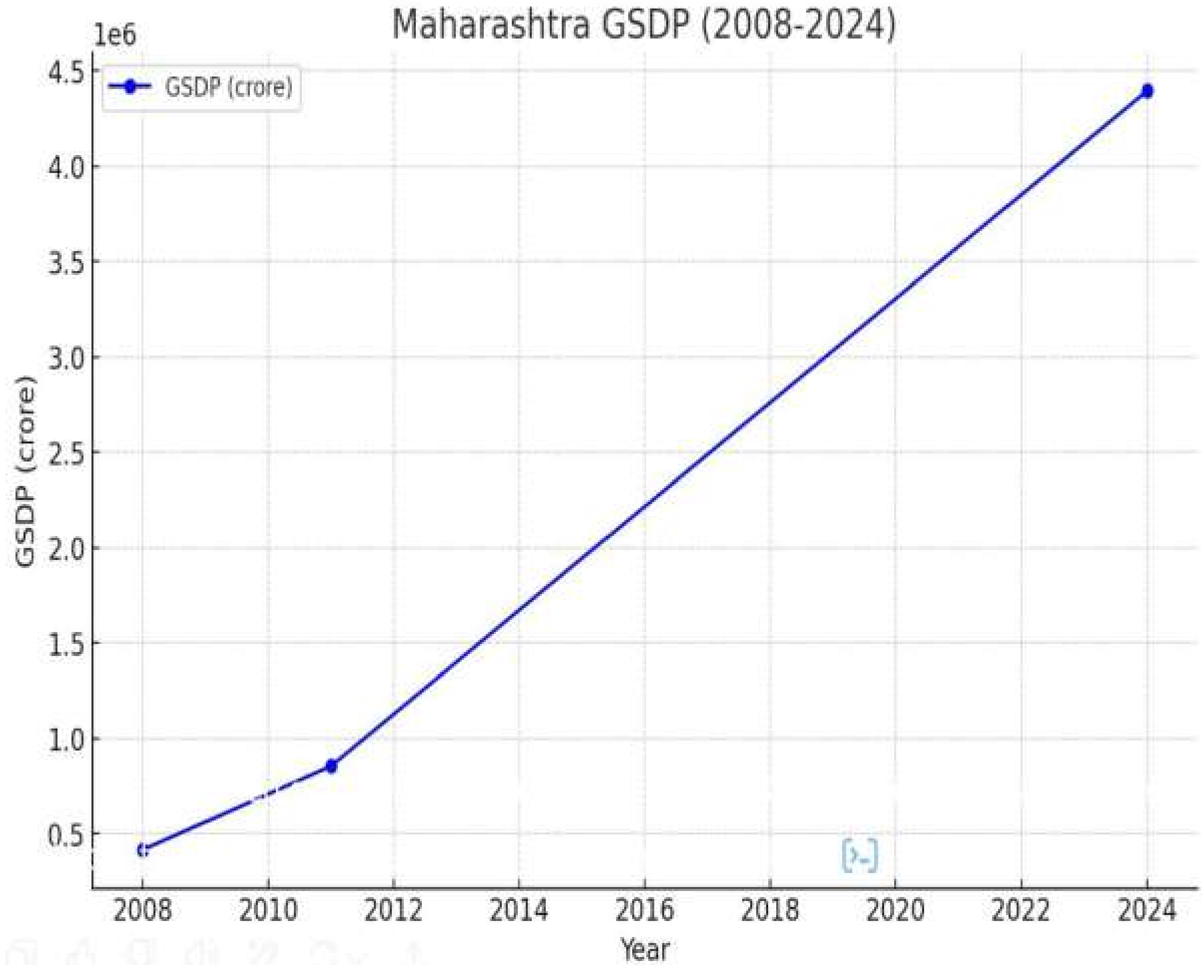


Delhi's GSDP Growth from 2008 to 2024:
1. GSDP shows how much Delhi earns by producing goods and services in a year.
2. In 2008, Delhi's GSDP was about ₹21.4 lakh crore.
3. By 2011, it increased to ₹24 lakh crore, showing some growth.
4. In 2020, Delhi's GSDP rose to nearly ₹27.9 lakh crore, and by 2024, it reached ₹31.1 lakh crore.
5. The graph shows steady and moderate growth in Delhi's economy over these years, with no sharp jumps.

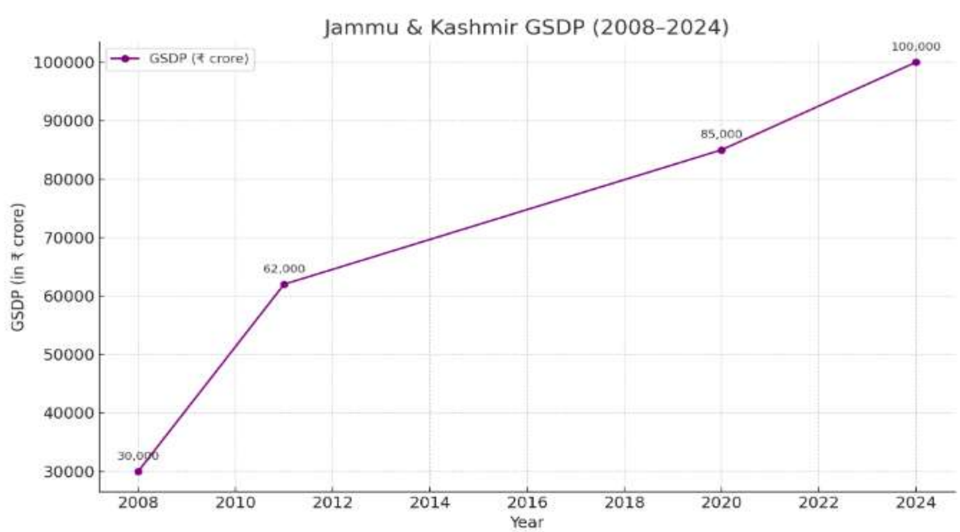


Uttar Pradesh's GSDP Growth from 2008 to 2024:

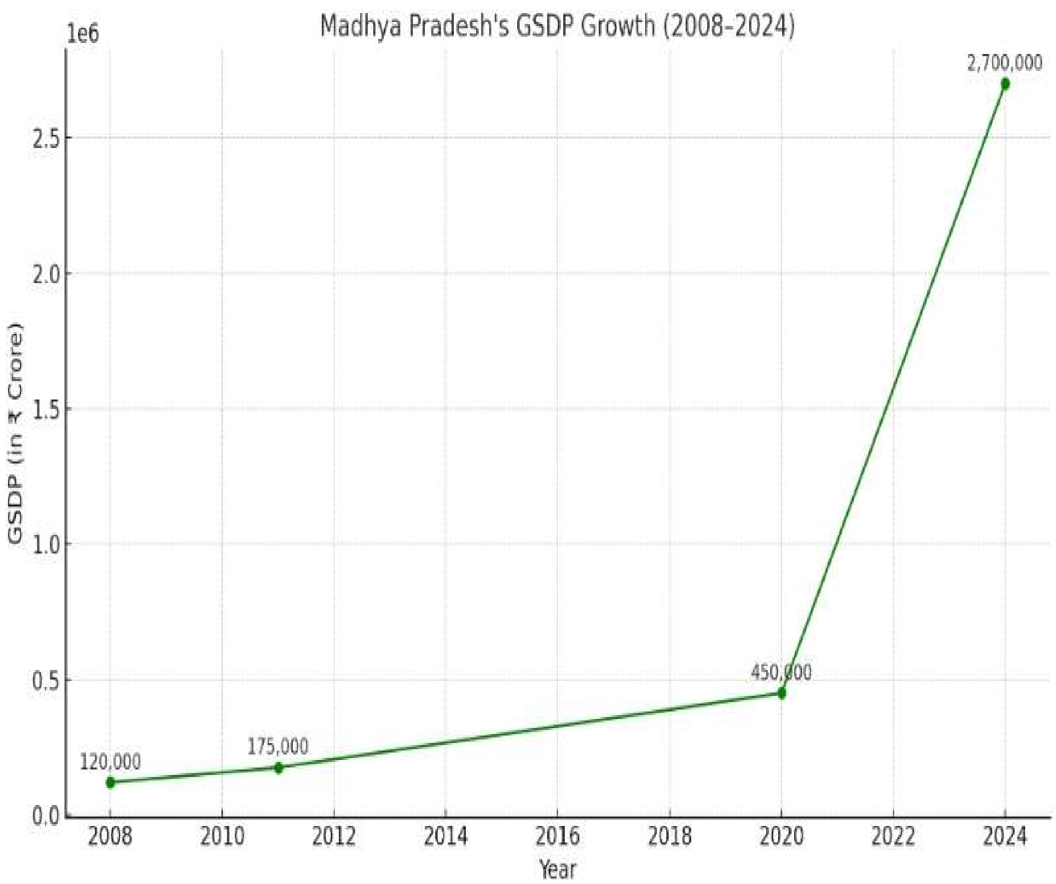
1. GSDP is the total income from goods and services produced in the state each year.
2. In 2008, Uttar Pradesh's GSDP was about ₹4.74 lakh crore.
3. It increased to ₹7.24 lakh crore by 2011, and further rose steadily to ₹17 lakh crore in 2020.
4. Between 2020 and 2024, the GSDP jumped significantly to ₹28 lakh crore.
5. The graph shows steady growth at first, followed by a big increase after 2020, showing fast economic development recently.



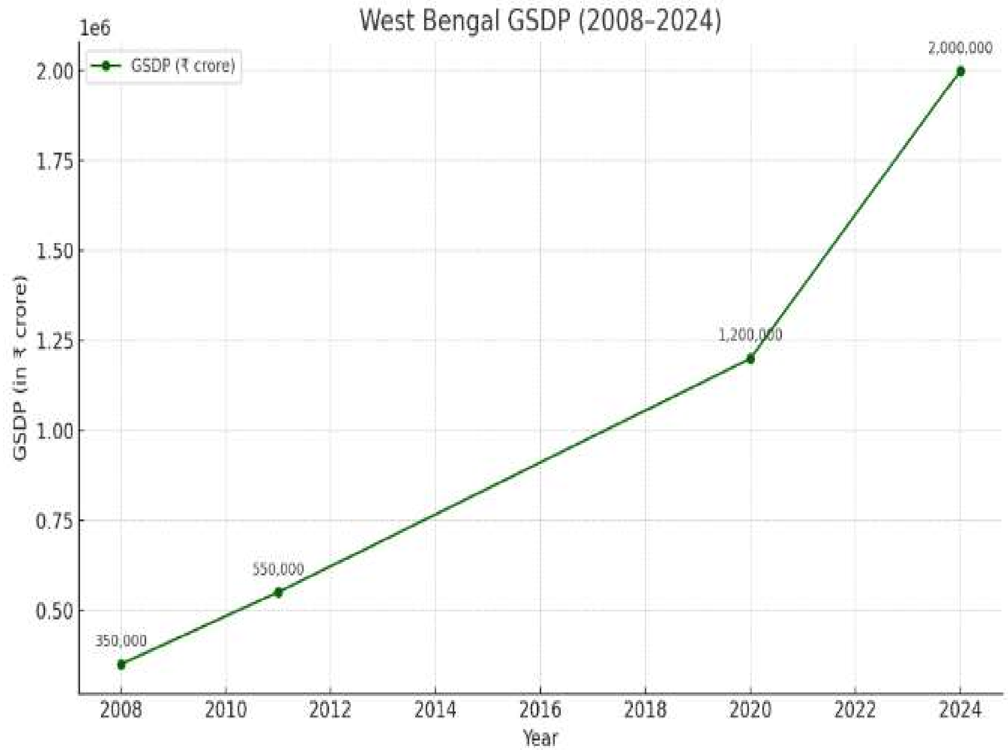
Maharashtra's GSDP (Gross State Domestic Product) from 2008 to 2024:
1. GSDP means how much money the state earns from all goods and services produced in a year.
2. In 2008, Maharashtra's GSDP was around 4.5 lakh crore rupees.
3. By 2011, it had grown to about 8.5 lakh crore rupees, showing a good increase.
4. From 2011 to 2024, the GSDP kept rising steadily and reached nearly 44 lakh crore rupees in 2024.
5. The graph shows a strong and consistent growth in Maharashtra's economy over the years.



GSDP tells us how much Jammu & Kashmir earned from producing goods and services each year.
In 2008, the GSDP was around ₹30,000 crore.
By 2011, it rose sharply to about ₹62,000 crore, showing rapid early growth.
It continued to grow steadily and reached ₹85,000 crore by 2020.
Steady growth, by 2024, the GSDP is estimated to reach approximately ₹1,00,000 crore (₹1 lakh crore), based on the trend in the graph.

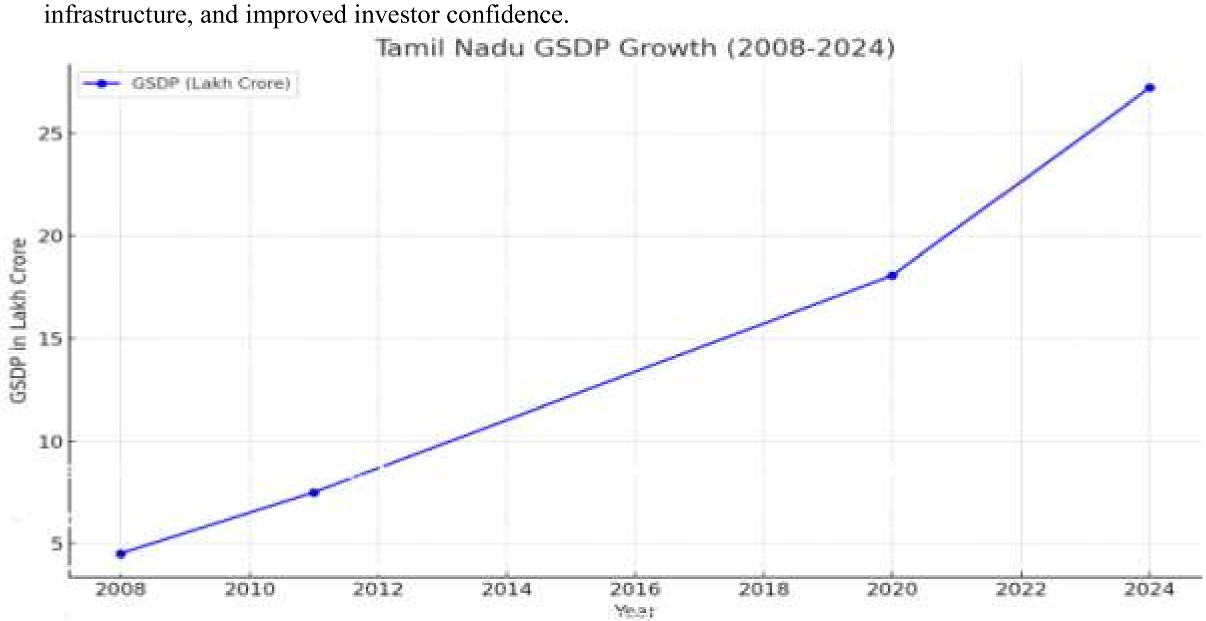


Madhya Pradesh's GSDP Growth from 2008 to 2024:
1. GSDP tells us how much money Madhya Pradesh makes from goods and services each year.
2. In 2008, the GSDP was around ₹1.2 lakh crore, and it slowly grew to ₹1.75 lakh crore by 2011.
3. By 2020, it had increased to about ₹4.5 lakh crore — a gradual rise.
4. From 2020 to 2024, there was a very sharp jump, reaching ₹27 lakh crore in 2024.
5. The graph shows slow growth at first, but a big boost after 2020, suggesting rapid economic development in recent years.



West Bengal GSDP graph (2008–2024):

1. GSDP (Gross State Domestic Product) measures the total economic output of West Bengal in a given year, shown here in ₹ crore.
2. In 2008, West Bengal’s GSDP was approximately ₹3.5 lakh crore, indicating a modest economic base.
3. By 2011, the GSDP increased to ₹5.5 lakh crore, reflecting positive growth due to political transition and improved investor sentiment.
4. Despite the COVID-19 pandemic, the state's GSDP reached ₹12 lakh crore in 2020, showing resilience and the impact of structural reforms like GST.
5. In 2024, the GSDP rose sharply to ₹20 lakh crore, suggesting accelerated economic growth, better infrastructure, and improved investor confidence.



Tamil Nadu's GSDP Growth from 2008 to 2024:
1. GSDP is the total income Tamil Nadu earns from goods and services in a year.
2. In 2008, Tamil Nadu's GSDP was about ₹4.5 lakh crore.
3. By 2011, it increased to nearly ₹7.5 lakh crore, showing steady economic growth.
4. In 2020, the GSDP reached around ₹18 lakh crore, and then jumped significantly.
5. By 2024, the GSDP grew to about ₹27 lakh crore, showing fast and strong economic growth in recent years.

PARTY-WISE & VARIABLE WISE COMPARISON:

1) Jammu and Kashmir:
Between 2008 and 2024, Jammu and Kashmir's economy saw a mix of progress and challenges, shaped by changing politics and global events. In 2008, under JKNC rule, agriculture was the backbone of the economy, and the Gross State Domestic Product (GSDP) stood at around ₹27,304 crore. Although the region was relatively calm, the global financial crisis made it hard to attract investments.

By 2011, a coalition between JKNC and Congress focused on improving roads and tourism, which helped economic activity and raised the GSDP to about ₹62,029 crore. However, unemployment and low industrial growth remained big challenges. In 2019, Article 370 was removed, and J&K was made a Union Territory. The COVID-19 pandemic in 2020 was another major setback, especially for tourism and small businesses. That year, GSDP was around ₹85,893 crore, with foreign investment at only ₹1.15 crore.

In 2024, with JKNC back in power, political stability has improved, and there are early signs of recovery. Inflation remained low at around 2.87% in housing, while the rupee weakened to ₹83 per USD. The government is refocusing on tourism, infrastructure, and services. Over the years, J&K's economy performed better during periods of local stability, while central interventions and global issues slowed growth. Inflation mostly followed national trends, and while GST improved tax structure, revenue collection remained a concern. Low foreign investment reflected investor concerns about security and infrastructure. Moving forward, building trust, improving safety, and strengthening services will be key for growth

2) Tamil Nadu:
From 2008 to 2024, Tamil Nadu's economy showed stable and steady growth with a few challenges along the way. In 2008, under DMK rule, the GSDP was around ₹4.52 lakh crore. A strong base in industries like automobiles and textiles helped the state handle the global financial crisis better than many others.

In 2011, when AIADMK came to power, the focus shifted to welfare schemes and infrastructure, increasing the GSDP to ₹7.51 lakh crore. However, inflation remained a challenge for households. By 2020, Tamil Nadu expanded its economic footprint, with GSDP reaching ₹18.08 lakh crore. The pandemic brought difficulties, but the state responded quickly with healthcare measures and relief programs.

By 2024, the DMK returned to power, focusing on industrial development and infrastructure expansion. The economy grew strongly, reaching ₹27.22 lakh crore. Inflation eased to around 5.22%, though a weaker rupee (₹83/USD) made imports costlier. Tamil Nadu continued to attract foreign investors, with FDI reaching ₹1.08 lakh crore, showing trust in the state's potential. Over these years, both major parties contributed to progress, while inflation followed national trends. GST brought clarity to the tax system, although detailed data on tax collection remains limited. Overall, Tamil Nadu's steady rise shows the benefits of consistent leadership, practical governance, and investment in industries.

3) Uttar Pradesh:
From 2008 to 2024, Uttar Pradesh has seen steady economic growth despite many challenges. In 2008, under Mayawati's BSP, the GSDP was around ₹4.74 lakh crore. With agriculture as the core, the state was somewhat protected from the global financial crisis.

By 2011, the GSDP increased to ₹7.24 lakh crore, but issues in governance slowed reforms and infrastructure projects. By 2020, under BJP's Yogi Adityanath, the economy grew to ₹17.00 lakh crore. The pandemic slowed this progress, affecting livelihoods and businesses, but the state rolled out support programs to help recovery.
In 2024, UP's economy bounced back, reaching ₹28 lakh crore. Inflation stayed around 5%, although the falling rupee made imports costlier. Foreign investment reached ₹2,000 crore, showing growing investor confidence. Over

the years, strong leadership, focus on infrastructure, and targeted development helped UP grow steadily, even when faced with challenges.

4) Delhi:
Delhi's economy between 2008 and 2024 saw solid growth, even during tough times. In 2008, under Sheila Dikshit and Congress, Delhi's GSDP was ₹1,43,911 crore, driven by the service sector, including IT, finance, and trade. The global financial crisis had a limited impact due to this diverse economy.

By 2011, relaxed FDI rules in retail attracted more investment and created jobs. In 2020, under the Aam Aadmi Party (AAP), Delhi's GSDP grew to ₹7,92,911 crore. The pandemic disrupted daily life, but Delhi managed due to its digital infrastructure and strong services sector

By 2024, the GSDP increased to ₹11,07,000 crore. Inflation stayed around 5.22%, and despite a weaker rupee, foreign investors remained confident in Delhi. The city's growth shows how stable governance, innovative policies, and a strong services sector can help navigate modern challenges.

5) West Bengal:
Between 2008 and 2024, West Bengal's economy experienced notable changes due to political shifts and policy changes. In 2008, under CPI(M)'s Buddhadeb Bhattacharjee, the GSDP was ₹3,50,000 crore. High inflation (around 9%) and cautious foreign investors limited progress, with FDI around ₹1,000 crore.
In 2011, Mamata Banerjee's Trinamool Congress came to power, improving economic confidence. GSDP grew to ₹5,50,000 crore, and FDI increased to ₹1,500 crore, although inflation stayed high at 9.3% due to food and fuel prices.

By 2020, during the pandemic, growth slowed, but GST helped improve tax collection. GSDP reached ₹12,00,000 crore, and inflation dropped to 6.6%. By 2024, West Bengal recovered, with GSDP rising to ₹20,00,000 crore, inflation easing to 5.2%, and FDI increasing to ₹2,100 crore. The state's progress highlights how leadership, infrastructure development, and tax reforms can support growth during uncertain times.

6) Maharashtra:
Between 2008 and 2024, Maharashtra's economy was strong and adaptable. In 2008, under Vilasrao Deshmukh (INC), the GSDP was ₹4,15,000 crore. Inflation was around 5.5%, and while the rupee weakened to ₹49/USD, good infrastructure helped attract ₹8,000 crore in FDI despite the global crisis.

By 2011, under Prithviraj Chavan, the GSDP nearly doubled to ₹8,55,000 crore, but inflation rose above 9%, and foreign investment increased only slightly due to tax uncertainties.

GST in 2017 brought major changes. By 2020, despite the pandemic, Maharashtra's economy stayed strong, with tax collection reaching ₹1,38,224 crore and FDI increasing to ₹1,38,000 crore.

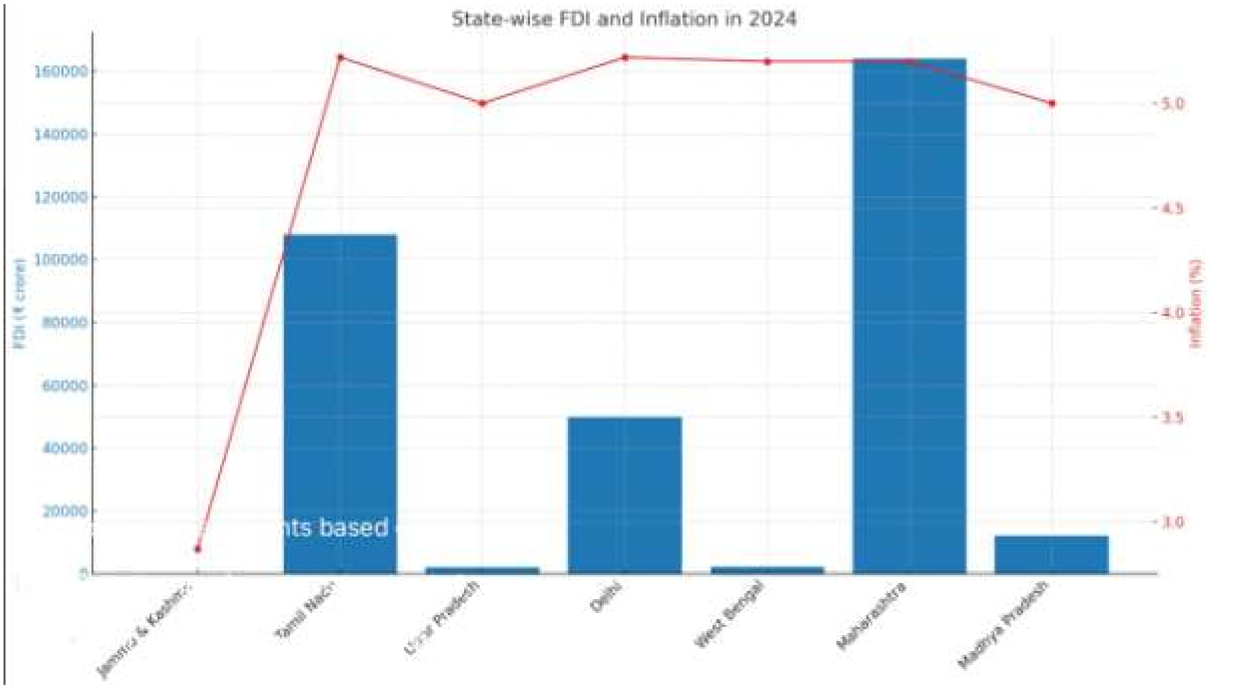
In 2024, GSDP soared to ₹43,95,000 crore, and FDI reached ₹1,64,000 crore. Inflation dropped to 5.2%. Thanks to GST and pro-business policies, Maharashtra became an economic powerhouse, proving how reforms and consistent policies drive growth.

7) Madhya Pradesh:
From 2008 to 2024, Madhya Pradesh gradually became more investment-friendly and stable. In 2008, the GSDP was ₹1,20,000 crore, but the old VAT system, high inflation (\~8%), and low FDI (₹800 crore) slowed progress.
By 2011, the GSDP rose to ₹1,75,000 crore, though inflation stayed high. Tax collection improved, but a complex system discouraged big investors, and FDI increased only to ₹1,200 crore.

GST reforms in 2017 were a turning point. By 2020, GSDP grew to ₹4,50,000 crore, and FDI jumped to ₹8,000 crore despite pandemic challenges. Tax collections also improved to ₹50,000 crore.

By 2024, the economy reached ₹7,00,000 crore, inflation settled at around 5%, and FDI rose to ₹12,000 crore. GST, better infrastructure, and investor-friendly policies helped Madhya Pradesh attract businesses, showing how consistent reforms can transform slower-growing states.

Comparison:-



Over the years, Maharashtra and Tamil Nadu have really pulled ahead when it comes to bringing in foreign investment. They've built a solid image for being reliable, business-friendly, and well-connected—which is exactly what investors look for. By 2024, they were clearly leading the pack. On the other hand, Jammu & Kashmir has had a tough time attracting investment. Even though prices there (inflation) have stayed low recently, things like political uncertainty and weak infrastructure have made investors cautious. Delhi and West Bengal have done alright—FDI has grown at a steady pace, though not as quickly as the top performers. Meanwhile, Uttar Pradesh and Madhya Pradesh are trying to catch up. They've made some progress, but they're still not quite there yet .Inflation, or the rise in prices, has more or less followed the same trend across most states. It was pretty high back in 2008 and 2014—around 8 to 9 percent—but since then, things have cooled down. By 2020 and 2024, inflation was mostly around 5 to 6 percent, which is a lot more manageable.

State-wise Economic Comparison Table (2008, 2014, 2020, 2024)

State	GSDP 2008 (₹ Cr)	GSDP 2014	GSDP 2020	GSDP 2024	Inflation 2008	Inflation 2014	Inflation 2020	Inflation 2024	FDI 2008 (₹ Cr)	FDI 2014
Jammu & Kashmir	₹27,304	₹50,000	₹85,893	N/A	N/A	8.5%	N/A	2.87%	N/A	₹0.5
Tamil Nadu	₹4,52,000	₹11,50,000	₹18,08,000	₹27,22,000	N/A	6.0%	N/A	5.22%	N/A	₹40,000
Uttar Pradesh	₹4,74,000	₹11,00,000	₹17,00,000	₹28,00,000	N/A	8.2%	N/A	5.00%	N/A	₹800
Delhi	₹1,43,911	₹4,00,000	₹7,92,911	₹11,07,000	N/A	7.5%	N/A	5.22%	N/A	₹3,000
West Bengal	₹3,50,000	₹8,00,000	₹12,00,000	₹20,00,000	9.0%	9.3%	6.6%	5.20%	₹1,000	₹1,200
Maharashtra	₹4,15,000	₹12,50,000	₹16,86,000	₹43,95,000	5.5%	9.0%	6.6%	5.20%	₹8,000	₹10,000
Madhya Pradesh	₹1,20,000	₹2,50,000	₹4,50,000	₹7,00,000	8.0%	8.5%	6.0%	5.00%	₹800	₹2,000

This table compares how 7 Indian states – Jammu & Kashmir, Tamil Nadu, Uttar Pradesh, Delhi, West Bengal, Maharashtra, and Madhya Pradesh – grew economically over 16 years (2008, 2014, 2020, 2024).

It focuses on:

•GSDP: Total income or output of the state.

•Inflation: How much prices increased.

•FDI: Money that came in from foreign businesses (foreign direct investment).

1. Jammu & Kashmir
- Income grew slowly (₹27,000 Cr in 2008 → ₹85,000 Cr in 2020).
- Prices were high in 2014 but got much better by 2024 (low inflation).
- Hardly any foreign investment came in due to security concerns.

2. Tamil Nadu
- Strong and steady growth in income: ₹4.5 lakh Cr in 2008 to over ₹27 lakh Cr in 2024.
- Prices went up in 2014 but got more stable later.
- Attracted huge foreign investments, especially in factories and industries.

3. Uttar Pradesh
- Big jump in income: ₹4.7 lakh Cr (2008) → ₹28 lakh Cr (2024).
- Handled inflation well; prices were under control by 2024.
- Got some foreign money, but not a lot compared to bigger industrial states.

4. Delhi
- Income grew well, especially through services like IT, finance, and retail.
- Prices were a bit high in 2014 but stabilized later.
- Foreign companies showed interest in investing, but exact numbers aren't clear.

5. West Bengal
- Grew steadily: ₹3.5 lakh Cr in 2008 to ₹20 lakh Cr in 2024.
- Prices were high in early years, then came down gradually.
- Foreign investors were cautious, but investment improved slightly by 2024.

6. Maharashtra
- Economic powerhouse: ₹4.1 lakh Cr in 2008 → nearly ₹44 lakh Cr in 2024.
- Inflation peaked in 2014 but was under control by 2024.
- Got the highest foreign investment due to strong infrastructure and business opportunities.

7. Madhya Pradesh
- Income grew from ₹1.2 lakh Cr in 2008 to ₹7 lakh Cr in 2024.
- Prices improved a lot over time.
- Slowly gained investor trust, especially after tax reforms (GST), bringing in more money from foreign companies.
- Every state earned more money over time, but the speed and stability varied.
- Prices were high around 2014 everywhere, but most states controlled inflation later on.
- Maharashtra, Tamil Nadu, and Delhi did really well because they had strong industries, better infrastructure, and attracted the most foreign investors.
- States like Jammu & Kashmir and Madhya Pradesh had slower growth, mostly due to political issues or weaker infrastructure.
- GST (new tax system) made things easier after 2017, helping states like MP and Maharashtra bring in more revenue and foreign money.

Correlation:-

HOW THE STATES' ECONOMIES ARE LINKED: PATTERNS AND INSIGHTS:

1. Leadership and Governance Drive Growth:

States that had steady political leadership — like Tamil Nadu, Maharashtra, and Delhi — generally saw more consistent economic growth. On the other hand, places with political uncertainty, like Jammu & Kashmir before 2024, struggled to grow steadily and attract investors.

2. GST Made a Big Difference:

After the Goods and Services Tax (GST) was introduced in 2017, states like Maharashtra and Madhya Pradesh saw big improvements in both tax collections and investment. A simpler, cleaner tax system made it easier for businesses to operate and encouraged more people to pay taxes.

3. Better Infrastructure Attracts More Investment:
Maharashtra and Tamil Nadu saw a lot more foreign investment than other states — mainly because they've built strong infrastructure and made their policies friendlier for businesses. In contrast, states like J&K and Madhya Pradesh saw less investment early on, mostly due to weaker infrastructure and investor hesitation.

4. COVID Impact Varied by Sector:
States with strong service industries, like Delhi, recovered faster from the pandemic thanks to better digital infrastructure. In more agriculture-based states like Uttar Pradesh and Madhya Pradesh, the initial impact was smaller, but their recovery was slower since they didn't have as many industries ready to bounce back.

5. Rupee Value and Inflation Are Connected:
As the rupee weakened to around ₹83 per US dollar by 2024, it became more expensive for states to import goods — pushing up prices. States that rely more on local production, like Tamil Nadu with its strong manufacturing base, were better able to manage these cost increases.

6. Growth and Political Stability Go Hand-in-Hand:
Consistent leadership and a clear development plan — like in Tamil Nadu (DMK/AIADMK) or Uttar Pradesh (BJP) — helped these states grow steadily. On the flip side, major disruptions (like the removal of Article 370 in J&K or the shock of COVID-19) temporarily slowed down growth.

7. Inflation Followed National Trends:
Across all states, inflation patterns were pretty similar — rising around 2014 and falling to a more manageable 5–6% after 2020. States that improved their supply chains, like West Bengal and Madhya Pradesh, were able to control inflation better after the pandemic.

Policy Prescription

State-Wise Fiscal + Monetary Action Table

State	**Fiscal Policy**	**Monetary Policy**
Jammu & Kashmir	Special capex grants for cold chains, tourism; GST rebates	Low-interest loans for tourism MSMEs
Tamil Nadu	Green energy incentives, R&D tax credits	EV sector credit lines
Uttar Pradesh	Agro-processing cluster capex support	Priority lending for micro-enterprises
Delhi	Metro electrification via green bonds	Affordable housing finance support
West Bengal	Port and logistics capex support	MSME credit flow expansion
Maharashtra	Renewable energy tax incentives	Refinancing support for infra bonds

State	Fiscal Policy	Monetary Policy
Madhya Pradesh	Skilling and industrial cluster funding	Credit support for agro-industry

Policy Advancing Sustainable Growth Through Coordinated Action:
India's growth trajectory requires a harmonious balance of monetary and fiscal policy to improve GSDP, control inflation, and attract FDI sustainably across states. On the monetary front, targeted credit facilities for MSMEs, green industries, and renewable energy will stimulate growth without stoking inflation. Expansion of priority sector lending to digital infrastructure and renewables, combined with liquidity support for state infrastructure bonds, will ensure that productive sectors receive the necessary funding while preserving macroeconomic stability.

Fiscal policy should emphasize state-specific capital expenditure, focusing on green energy, EV manufacturing, agro-processing, and digital infrastructure. Tax incentives and rationalized GST rates on essential goods will further ease inflation pressures while promoting investment. Green bonds for sustainable infrastructure can channel investments toward metros, renewable parks, and waste management systems, reducing reliance on non-productive expenditures.

A coordinated strategy wherein states submit prioritized investment plans aligned with their sectoral strengths will maximize impact. The Reserve Bank of India can support these initiatives through targeted refinancing schemes, while the central government can provide capex grants and targeted welfare support. This synergy will enable India to achieve robust, inclusive growth while maintaining price stability.

For example, Jammu and Kashmir can focus on cold chains and tourism MSMEs, while Tamil Nadu can leverage its industrial base for green energy expansion. Uttar Pradesh can

prioritize agro-processing, Maharashtra and Delhi can expand green infrastructure, and Madhya Pradesh can emphasize skilling and industrial clusters. These targeted interventions will ensure that India's diverse states contribute effectively to national economic progress, ensuring sustainable development while managing inflationary challenges.Through these integrated efforts, India can secure a resilient economic future aligned with its demographic potential and environmental goals.

Monetary policy recommendations:-

Targeted Interest Rate Support for Productive Sectors:
- RBI can coordinate with banks to provide lower interest rates on loans for MSMEs, green industries, and agro-processing units, supporting states like UP, MP, and J&K where industrialization is needed.

Expand Priority Sector Lending (PSL):
- Broaden PSL norms to include renewable energy and digital infrastructure to channel credit to critical areas without adding inflationary pressures.

Promote Financial Inclusion:
- Strengthen Jan Dhan, digital payment systems, and mobile banking in rural regions of Bihar, UP, MP to increase liquidity circulation, consumption, and formalize the economy.

Maintain Inflation Targeting with Flexibility:
- Use a flexible inflation target (4% ± 2%) while avoiding abrupt rate hikes, thus controlling inflation while ensuring sufficient liquidity for growth.

Support Local Currency Stability:
- Encourage currency hedging for exporters/importers, reducing the impact of rupee depreciation on inflation and import costs.

Liquidity Support for State Infrastructure Bonds:
- RBI can provide liquidity support or refinance windows for bonds issued by states like Maharashtra, Tamil Nadu, and Delhi for metro, water, and renewable infrastructure without crowding out private credit.

Fiscal Policy Recommendations:

State-Specific Capital Expenditure Boost:

- Allocate higher capital expenditure grants for states focusing on:
  - Logistics and roads (UP, MP, J&K)
  - Metro and water infrastructure (Delhi, Maharashtra)
  - Ports and green industrial parks (Tamil Nadu, West Bengal)

Tax Incentives for Priority Sectors:

- Provide time-bound GST concessions or tax holidays for industries such as EV manufacturing, green hydrogen, agro-processing, and solar module production to attract FDI and domestic investment.

Rationalize GST Rates on Essential Goods:

- Consider GST reduction on energy-efficient equipment and essential raw materials to control inflation while supporting local industries.

Outcome-Linked Fiscal Transfers:

- Tie part of central fiscal transfers to states to targets in skilling, women entrepreneurship, and MSME growth, ensuring effective use of funds.

Public Investment in Digital Infrastructure:

- Fund high-speed internet and data center projects in states with lower digital penetration (MP, J&K, UP), enabling them to attract IT and fintech industries.

Focused Social Spending without Fiscal Slippage:

- Continue targeted welfare (PM Kisan, food subsidy) while limiting blanket subsidies that add to the fiscal deficit, ensuring fiscal stability.

Green Bonds for Sustainable Infrastructure:

- Encourage states to issue green bonds for funding solar, waste management, and metro projects, reducing the burden on standard fiscal allocations.

Rationalize Non-Productive Expenditure:

- Gradual reduction of revenue expenditure like non-targeted subsidies to create space for infrastructure and capital expenditure.

Conclusion:-

This study set out to examine how political stability across India's states has shaped foreign direct investment (FDI) inflows over the past sixteen years, a period marked by coalition governments, policy reforms, and global economic disruptions. The experiences of states like Tamil Nadu and Maharashtra illustrate that consistent governance, steady leadership, and clear policy frameworks have been instrumental in attracting higher levels of FDI. This observation is consistent with the findings of Banga (2003) on the determinants of FDI in India and Kumar (2002) on liberalization and investment trends, both of which underscore how political predictability lowers investor risk and fosters long-term investment commitments.

Furthermore, the analysis of the seven states highlights that while national reforms such as the introduction of the Goods and Services Tax (GST) and initiatives like Make in India have created a more uniform investment landscape, the role of state-level political stability and governance efficiency has been pivotal in determining the pace and scale of FDI inflows. States experiencing political disruptions or governance uncertainties, such as Jammu and Kashmir, struggled to attract significant foreign investment despite broader national reforms. This aligns with the observations of Chakrabarti (2001), who argued that FDI is sensitive to local governance and political stability in addition to national policies. Additionally, this study supports the perspective highlighted in UNCTAD's World Investment Reports, which note that transparent policies and stable law-and-order conditions are critical for fostering a favourable investment climate.

In conclusion, the sixteen-year period analyzed in this study demonstrates that India's democratic framework, despite its complexity, has allowed states with stable and reform-oriented governments to draw foreign investment, contributing to employment generation, infrastructure growth, and technological advancement. It is imperative for both the central and state governments to maintain policy consistency, transparency, and security to sustain and expand FDI inflows. These findings reinforce the growing consensus within existing literature that political stability is not merely advantageous but essential for attracting meaningful foreign investment in emerging economies like India.

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