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The Role of Foreign Direct Investment in Shaping the Digital Economy in India

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ABSTRACT

The role of Foreign Direct Investment (FDI) can be considered a significant contribution to the economic development of India, in particular, to accelerating the development of its digital economy. Over the past decade, India has experienced a foreign inflow of investment in such sectors as digital infrastructure, telecommunications, e-commerce, and information technology. The investments have brought about technological advancements, improved innovation systems, and enhanced digital networks across the nation. The study paper examines the effect of foreign direct investment (FDI) on the digital economy of India with a focus on its role in supporting the development of digital infrastructure, technological innovation, employment opportunities, and global value chains. The study looks at the policy framework governing FDI in India, where under the Union Budget 2026-27, the government has introduced major reforms, in particular, the tax holiday of a record four years up to 2047 on foreign cloud companies using Indian based data centres. The findings indicate that FDI has significantly accelerated the process of digital-based economy in India. Still, the issues of regulation and the financial unpredictability of the global economy continue to have an impact on the investment patterns of people. The 2026-27 Budget is a significant shift in the manner in which India attempts to draw in digital foreign direct investment (FDI). It provides an unprecedented tax predictability in the long term, and India is a well-placed rival of cloud computing, artificial intelligence infrastructure and semiconductor manufacturing.

Keywords: *Foreign Direct Investment, Digital Economy, India, Union Budget 2026-27, Data Centres, Artificial Intelligence, Tax Certainty, Digital Infrastructure.*

Introduction

The digital economy has become a significant economic growth driver in the 21 st century due to digital technologies such as information and communication technologies (ICT), e-commerce, digital platforms, and data-driven services. India boasts of being one of the fastest growing digital market places in the world. By 2025, the number of Indians who are online is more than 1.05 billion which means that the country is a massive source of data to digital ecosystems and AI applications (Economic Survey, 2026).

It is pertinent to note that Foreign Direct Investment (FDI) is extremely relevant to this change because it introduces money, new technology, talent, and entry to global markets. India is now among the most sought after destinations of foreign direct investment (FDI) in the planet during the past decade. The Foreign Direct Investment in India was USD 748.38 billion in 2014-2025. This represented a 143 per cent growth compared to the last 11 years (PIB, 2026). The inflow of FDI has increased to more than 80 billion in years after 2013-14, which is approximately 36 billion.

India has gotten good returns on its digital economy through foreign investments in digital services, telecommunications, data centres, as well as, computer software. This has been accelerated by the Union Budget 202627 which contains large tax breaks that would make India a global hub in cloud computing, artificial intelligence infrastructure and semiconductor manufacturing. Such policies involve tax holiday up to 2047 on international cloud companies which use data centres in India, safe harbour provisions of transactions between related parties, and certain exemption of non-resident suppliers of capital equipment to the electronics manufacturers (Ministry of Finance, 2026).

The paper determines the role of foreign direct investment (FDI) in the growth of the digital economy and evaluates its economic and social impact, with a particular emphasis on the policy changes that were suggested in the 2026-27 Budget. The research gap that the study addresses is the need to examine the long-term tax certainty impact on foreign investment decisions in capital intensive digital infrastructure sectors.

Literature Review

Foreign Direct Investment (FDI) theoretical basis could be traced to the Eclectic Paradigm (1988) by Dunning, which states that organizations invest abroad in those instances when they possess ownership, location and internalization benefits. The favourable location benefits of India in the context of the country include a huge market, human resource base, and developing digital infrastructure, which make India an appealing destination of FDI.

Borensztein, De Gregorio and Lee (1998) emphasize the significance of FDI as a means of transfer of technology and economic development. They conclude that FDI is more effective in growth than domestic investment provided that there is adequate human capital which should be the case with India since it has good IT strong capabilities.

Reddy and Swapna (2014) examine the trends in the FDI inflows in India in the past 20 years, and found that it fluctuated but followed an upward trend. Their examination demonstrates that the large investments are the ones of countries such as Mauritius and Singapore especially in the software and hardware industry. They also lay stress on the contribution of government reforms towards enhancing investment inflows.

The authors Mahesh Sharma and Rashi Mittal (2015) discuss the contribution of the EXIM Bank to the foreign trade of India. According to their results, institutional financial assistance in form of export-import financing and policy compatibility is instrumental in increasing the trade performance and supplementing the FDI inflows.

According to the Economic Survey (2022), there is a structural change in the FDI patterns to digital sectors, and the investments towards digital sectors are increasing significantly between 2017 and 2021. This is an indication of the increased relevance of technology-based industries like telecommunications and digital platforms.

Kusairi et al. (2023) show that productivity and economic growth is boosted by the combination of FDI and digital infrastructure. They find that better internet coverage and mobile connectivity reinforce technology potentials and information nexus in favor of the emergence of a digital economy.

In the article by Rashid et al., the authors examine the correlation between FDI and economic growth in India using the ARDL model (Rashid et al., 2023). They conclude that there is a strong long-run dependence existing between FDI and the growth of the GDP indicating that FDI will aid in the sustainable growth of the economy, but the short-term impacts are still not consistent.

Prasad and Baitha (2025) examine how the FDI caps in the insurance industry in India are going to be increased. Their results indicate that liberalization has positively influenced the capital inflows, service quality, and job creation and some risks have also been introduced by it like foreign dominance and complexity in regulation.

According to reports by the reserve bank of India (2025), India has emerged to be one of the top destinations of greenfield investments in the digital sector with high inflow of capital and has become a major participant in the digital value chain across the globe. In line with this, NASSCOM (2025) emphasizes how digital platforms can help millions of MSMEs increase their market and lower their operations expenses.

According to UNCTAD (2025), digital infrastructure, especially the data centres are acquiring a prominent role in investment projects across the globe with a substantial portion of investments going into it. This is an indication of the growing global competition to receive digital investments.

Both Economic Survey (2026) and Budget 202627 note that consistent taxation and regulatory clarity are necessary to facilitate the digital transformation of India and a steady inflow of the FDI. Chen (2026) also points to the sectoral effects of the digitalization process by indicating that on the one hand, service industries can be seen as benefiting due to higher productivity, and on the other hand, manufacturing industries might experience temporary problems related to labour mobility.

Research Gap

Despite the mentioned literature highlighting the importance of foreign direct investment (FDI) to the development of the digital economy, a lack of research on the relevance of long-term tax certainty on investment decisions in capital-intensive sectors of the digital infrastructure remains. This research is addressing this gap by examining the modifications implemented in the Union Budget 2026-27 in India and the effects they might have on the position of the country in global digital value chains.

Research Objective

The specific aims of the research are:

- To look at how Foreign Direct Investment in India has changed and grown over the past ten years.
- To look at how foreign direct investment has helped India's digital economy grow, focusing on things like data centres, cloud computing, and AI infrastructure.
- To evaluate the transformative potential of the Union Budget 2026-27 policies, encompassing the tax exemption for foreign cloud companies until 2047, safe harbour legislation, and incentives for electronics manufacturing.

Hypothesis of the Study

Based on current research, economic trends, and the changes made in the Union Budget 2026-27, the following hypothesis is put forward:

H1: *Foreign Direct Investment has a significant effect on how fast India's digital economy grows. Long-term tax stability measures, like those in Budget 2026-27, make India a more appealing place to invest in digital infrastructure.*

Research Methodology

Research Design

The research design is descriptive and analytical in this research study in order to explore the impact of FDI in developing the Indian digital economy. The descriptive approach is useful in comprehending the pattern and trend of inflows of FDI in digital sectors whereas the analytical approach assesses the effects of such investments on technological growth, digital infrastructure and economic growth.

Data Sources

The study will depend primarily on secondary sources of data to guarantee reliability and accuracy. The sources of data have been taken in form of different credible and authoritative sources which include; publication by the government and international organisations as well as scholarly journal.

Data Analysis Technique

Qualitative and quantitative methods of data analysis have been employed in analysing the collected data.

Quantitative Analysis is one that analyzes the numerical data that entails:

- FDI inflows in India and their trend in the past years.
- Investment in the online field, especially in data centres and cloud computing.

- Expansion of the digital infrastructure and number of internet users.
- Estimated AI and data centre expansion requirements.

Qualitative Analysis Examines:

- Government policies in the field of FDI and digital development.
- Case studies Multinationals technology companies who have invested in India.
- Effects of tax certainty policies on investment choices.
- Regulatory systems and their effects on foreign investors.

Methodological Limitations of the Study

Despite the fact that the research will be a detailed analysis, there are some limitations:

- The research uses the primary data collection methods predominantly secondary and this could fail to reflect the actual current trends or investor level choices.
- The measures of the Union Budget 2026-27 came in force in February 2026; thus, their full effect will occur within a number of years and, therefore, will have to be studied longitudinally.
- There may be some investment data that does not distinctly separate digital and non-digital sectors.
- The technological changes could change trends after time elapses and the time frame of the study is taken.
- Economic uncertainties and institutional political instabilities across the globe might affect patterns of investments in a manner that cannot be well explained by domestic policy analysis.

Conceptual Framework

This theoretical framework explains the relationship that exists between FDI and the growth of the Indian digital economy. The studies of this field employ foreign direct investment (FDI) as an independent and digital economy development as a dependent variable. The policy certainty is moderating variable in the Union Budget 2026-27 to curb the adverse impacts of foreign direct investment (FDI) on the outcome of the digital economy (Figure 1).

The framework depicts that FDI is a booster that promotes various aspects of digital development:

- According to this model, foreign direct investment (FDI) becomes the "Engine," which provides the capital required to build the huge digital assets.
- The moderating variable is Union Budget 2026-27 (Tax Certainty). The 21-year tax exemption and 21-year designation of Digital Infrastructure is a stimulus, which lacks this assurance FDI can be cautious about.
- The framework has also noted three areas that are specifically converted into value with FDI
- Infrastructure: Construction of the 5G towers and Data Centres that we have discussed.
- On the one hand, Innovation: Investing in AI and semiconductor design (e.g., the Foxconn/HCL venture).
- Platforms: Development of e-commerce and UPI-based services in the rural areas.
- Intermediate Outcome: Generation of Employment.
- Dependent Variable: The Development of the Digital Economy.

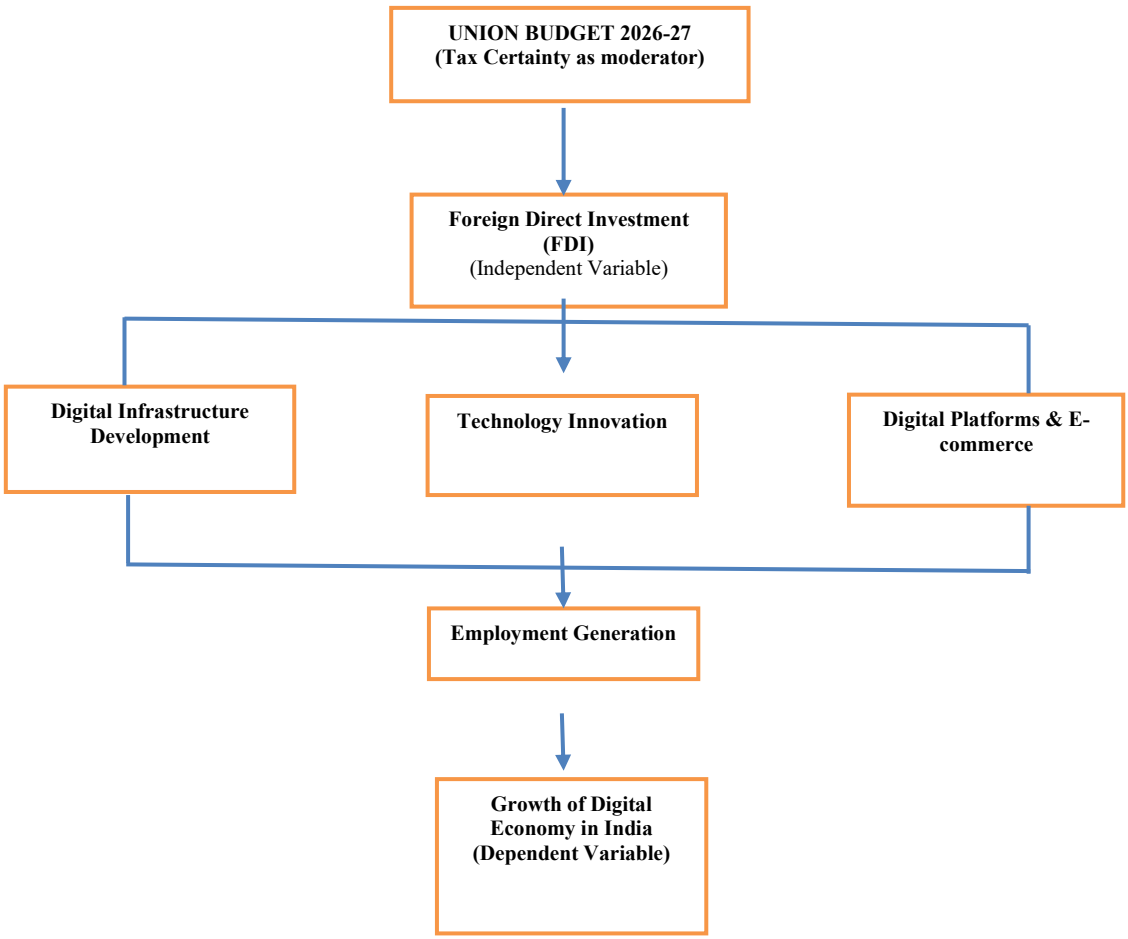

Figure 1: Graphical Presentation of Variables and Moderators

Source: Develo*ped by the Author*

Evolution of FDI in India

Since the 1991 economic reforms, there has been a massive liberalization of India in the FDI policy.

In India, FDI in most of the sectors is now permitted 100 percent under the automatic route without any previous government permission. Its effect can be traced in the growth in investment and enterprises in India: between 2014-25, India received USD 748.38 billion in FDI, which is 143 percent more than the last 11-year wave (PIB, 2026).

The number of registered companies that are in operation rose to 1.98 lakh today (as of 3 February 2026) compared to 1.55 lakh in 2020-21, which represented a growth of about 27% over the five years (PIB, 2026). This growth attributes to the friendly business environment that has been built through perpetual regulatory and institutional changes.

Over the past years, India has been working towards attracting greenfield investments in developing digital sectors like artificial intelligence, cloud computing and semiconductor manufacturing. India has led in the Greenfield digital investment in the Global South between 2020 and 2024, which shows the strategic role of this country in the global digital economy (UNCTAD, 2025).

- **Union Budget 2026-27: A Paradigm Shifts in Digital FDI Attraction**

The Union Budget 2026-27 is a groundbreaking text in the way India has been trying to draw foreign investment in the digital infrastructure. The budget presents a synergistic array of initiatives that

are aimed at making India a world centre in the fields of cloud computing, artificial intelligence, and semiconductor manufacturing.

Tax Holiday Until 2047 for Foreign Cloud Companies

The key element of the digital strategy of the Budget 2026-27 is a plan to offer a tax holiday until 2047 to eligible foreign cloud service providers who will use the infrastructure of data centres based in India (Ministry of Finance, 2026). The features can be the following key:

- The income earned by qualified foreign cloud service providers on the global cloud business channeled to India-based data centres until March 31, 2047 will not be subject to taxation by India.
- The Indian customers should be served by an Indian reseller entity, where the domestic transactions are to be taxed.
- The exemption is given to the foreign companies who have been informed by the central government that they are purchasing data centre services of the Indian companies that run notified data centres.
- The services of data centres have to be offered at the facilities that have been informed by the Ministry of Electronics and Information Technology (MeitY).

The policy identifies data centres and cloud infrastructure as key digital infrastructure, equal to roads and power, to facilitate exports, AI adoption and expansion of digital services (Financial Express, 2026). Tax holiday (2026-27-2046-47) is a 20-year policy horizon to capital-intensive investments that must have a long-term commitment to the company over decades.

Safe Harbour Provisions for Related-Party Transactions

Budget 2026-27 proposes a 15 percent safe margin of cost on the expenditure in which the Indian data centre operator is related to the foreign company (Ministry of Finance, 2026). This provision counteracts any ambiguity on transfer pricing that has previously made the cross-border technology investments very difficult to make. Its importance can be the following:

- Offers an unchanging transfer pricing standard to multinational technology firms.
- Varies litigation risk on long term projects of technology infrastructure.
- Provides effective tax planning of combined international operations.
- Supplies the tax holiday with an operation certainty.

This measure has been embraced by the industry executives. Pratap Mane, the President and Country Head - India, Colt DCS, said that it is making international operators who construct in India less complex, making life simpler and cost-effective in a high-growth environment (quoted in Butani, 2026).

Enhanced Safe Harbour for IT Services

The budget also increases provisions on safe harbour on IT services that are currently one of the biggest exports in India, and the exports do not fall short of USD 220 billion (NASSCOM, 2025). Key enhancements include:

Grouping software development services, IT-enabled services, knowledge process outsourcing, and contract R&D services under one category, namely, Information Technology Services.

- Widespread safe harbour of 15.5 percent.
- Raising the limit of availing of safe harbour to 300 crore to 2000 crore.
- Authorizations by a rule-based system.
- Accelerating the procedure of Unilateral Advance Pricing Agreement (APA).

These actions give more assurance to multinational companies which are present in India and less compliance to technology service providers.

Electronics Manufacturing Incentives

Budget 2026-27 has been coming with specific efforts to enhance the electronics manufacturing ecosystem in India that supports the development of digital infrastructure. It is suggested that income received by non-resident entities in the provision of capital goods, equipment, or tooling to Indian contract

manufacturers within Indian customs bonded facilities will be tax-exempted during five years until tax year 2030-31 (Ministry of Finance, 2026).

This exception applies to issues on permanent establishment exposure dealing with cases where foreign suppliers keep ownership of high valued equipment in the Indian facilities.

Safe Harbour for Component Warehousing

The budget suggests a 2% safe harbour margin of non-residents warehousing electronic components in bonded warehouses in India leading to an effective tax incidence of about 0.7% lower than the competing jurisdictions (India Briefing, 2026). This action expedites just in time supply chain and minimizes logistic friction of electronic manufacturing.

Electronics Components Manufacturing Scheme (ECMS)

Budget 2026-27 has allocated more than 22,000 crore ECMS to 40,000 crore. The scheme has already seen 149 applications which is greater than what was originally expected and portrays a great involvement in the industry (PIB, 2026).

India Semiconductor Mission 2.0

The budget declares the commencement of India Semiconductor Mission 2.0 which is an extension of the preceding attempts to create semiconductor manufacturing capacity. The program focuses on:

- Semiconductor equipment design and manufacture in India.
- Production of materials that are used in semiconductor manufacturing.
- Growth of the semiconductor design ecosystem.
- Enhancement of talent building programs.

In FY 2026-27 ISM 2.0 has been provided at ₹1,000 crore (Ministry of Finance, 2026).

Relief for Non-Resident Professionals

Budget 2026-27 suggests specific exemption of non-residents who offer services according to certain government programs. In the case of any individual who has not spent the last five years in India, all income earned outside India will not be subjected to Indian taxation in the next five years (Ministry of Finance, 2026).

Ease of Doing Business Reforms

The budget also strengthens the Ease of Doing Business agenda by India by putting in place measures that would boost the certainty of taxation, lessen the burden of compliance, and advance trust-based governance (PIB, 2026). Key reforms include:

- Rationalization of Minimum Alternate Tax (MAT) of a lower rate, 14%.
- Reduction of minor criminal acts that are procedural in nature.
- Combination of evaluation and punishment process in a unified order.
- Increased duty deferral period of trusted importers.
- Single and interrelated cargo clearance approval digital window.
- The deployment of a single digital platform, Customs Integrated System (CIS).

Role of Dlin India's Digital Economy

- Development of Digital Infrastructure

FDI has also played a major role in digital infrastructure development in India which includes broadband, data centres, and cloud computer systems. The capacity of the cloud data centre in India has attained about 1,280 MW and is expected to increase four to five times by the year 2030 due to increased demand in digital and AIs infrastructure (BW Businessworld, 2026). There are already investments to almost USD 70 billion in the data centre sector in India with another USD 90 billion in the announced investments.

India has about 130+ operational data centres as of end-2025 and is dominated by growing demand of cloud services, enterprise IT workloads and digitisation by industries. Mumbai has the highest number of data centres with 49, and then, Chennai and Delhi NCR (17 and 17 respectively), Bengaluru (15), Hyderabad (11), Pune (10), Kolkata (3) and others (8) (Butani & Goswami, 2026).

The global tech players have invested a lot in setting up of data centres and digital infrastructures in India. Microsoft and Google are some of the companies that have established more

cloud computing infrastructures and data services to accommodate the increasing digital ecosystem in India.

- **Growth of the IT and Software Industry**

The IT and software industry has been among the biggest beneficiaries of FDI in India. It is worth noting that since 2014, computer software and hardware industries have received around 95 billion FDI (DPIIT, 2025), which has accentuated the need to invest foreign capital in enhancing the Indian technology industry.

India has positioned itself in the world as a major centre in terms of IT services, outsourcing and software development. The presence of a skilled labour force and low cost of operation often makes foreign companies establish research and development centres, technology hubs, and service centres in India.

- **Expansion of E-commerce and Digital Platform**

E-commerce ecosystems in India have been able to develop faster with the help of foreign investment. The digital platforms help the small businesses to access broader markets, enhance their logistics efficiency and digital payment systems. In India, today, almost 1.6 million small and medium enterprises (MSMEs) serve new markets and customers via digital platforms (NASSCOM, 2025). As a new characteristic of the Indian digital retail environment, quick commerce (Q-commerce) allows delivering needed products in the shortest possible time with the help of hyperlocal supply chains, dark store infrastructure, and technology-powered logistics (The Dialogue, 2026).

- **Job Creation and Skill Development**

The digital platforms alone have generated more than 15 million jobs with a large proportion of such jobs going to women. This is the contribution of foreign investment to inclusive economic development. Besides the creation of employment, FDI also leads to skill and labour training.

- **Integration into Global Value Chains**

The integration of India in the global production networks is possible through foreign investors who open research centres, manufacturing facilities and service centres. This integration improves the competitiveness of India in the global markets and results in transfer of technology.

MNCs invest in Indian startups, data centres, and AI research centers, which enhance innovation and collaboration in the digital technologies across the globe. These companies facilitate knowledge sharing and technological networking between India and other nations by creating innovation centres and digital service hubs.

Analysis and Discussion

- **Trends in FDI Inflows in India**

The inflows of FDI in India have increased significantly since the early 1990s economic reforms. During the past years, the country has emerged as one of the most interesting countries to invest with considering its massive consumer market, growing digital infrastructure, and favorable government policies.

Table 1: Total FDI Inflows into India (Last Decade)

Year	FDI Inflows (USD Billion)
2014-15	45.1
2015-16	55.6
2016-17	60.2
2017-18	60.9
2018-19	62.0
2019-20	74.4
2020-21	81.9
2021-22	84.84
2022-23	**70.97**
2023-24	**71.28**
2024-25 (as on 31.12.2024)	**62.48**

Source: Compiled from Reserve Bank of India and
Ministry of Commerce data (data.gov.in)

In Table 1, it is indicated that the level of FDI inflows rose considerably after 2014 and reached its highest point in 2020-2022. To a large part, this investment has gone into technology, digital services and telecommunications that have helped India grow its digital economy. In 2014-25 the cumulative FDI amounted to USD 748.38 billion, that is, 143 percent more than in the 11 years before (PIB, 2026).

- **Sector wise Distribution of FDI**

Table 2: Sector Wise Distribution of FDI

Sector	% Share (approx.)
Computer Software & Hardware	17.90%
Services Sector	15.50%
Trading	6.20%
Telecommunications	5.40%
Automobile Industry	5.10%
Construction (Infra)	4.80%
Non-Conventional Energy	3.90%

Source: Compiled from Department for Promotion of Industry & International Trade data (DPIIT 2025-26).

Table 2 shows the leading sector that was receiving the FDI. Computer Hardware and Software industry has reclaimed the leadership, which was mostly fuelled by the global need of AI and digital Infrastructure. Here technology industries are significant in the Economic Growth of Indias.

- **Impact of Budget 2026-27 on Digital FDI Prospects**

The reforms proposed in Union Budget 2026-27 should make India very attractive to invest in digital infrastructure.

  - **Fast Tracked Localization of Cloud Infrastructure:** The tax break gives powerful fiscal force to international cloud providers such as Amazon Web Services (AWS), Microsoft Azure, and Google Cloud to add onshore capacity and accelerate new data centres. This will increase domestic deployments, decrease the use of offshore servicing, and eventually decrease cloud costs to Indian businesses and consumers (India Briefing, 2026).
  - **Improved Global Competitiveness:** India is better placed as a destination to house data centres in comparison to Southeast Asia and the Middle East with a long-term tax certainty of a holiday till 2047, stable prices due to a 15 percent safe harbour on related-party services and policy continuity on data centres as a core infrastructural facility (Financial Express, 2026).
  - **Scale of Investment:** Industry leaders forecast that India would become almost 10 GW data centre capacity in the next five years, to invest USD 70-100 billion (BW Businessworld, 2026). The build cost of USD 5 million per megawatt in India is significantly better than USD 10-12 million in various global markets, and this economic advantage is significant when it comes to AI and infrastructures related to semiconductor.

- Comparative Analysis: Indias position in Global Digital Infrastructure

Table 3: Global Data Centre Capacity Comparison

Metric	United States	China	India (2026)	India (2030)
Total Capacity	53.7 GW	31.9 GW	1.4 GW	8 GW
Global Share	35%	21%	3%	8%
Primary Driver	Hyperscale & Enterprise	State-led Digital Silk Road	FDI& Government Incentives	
FDI Influence	Mature Capital Market	Primarily Domestic	Top Sector for FDI (Software/Hardware)	

Source: Financial Express, Budget 2026 analysis, Author

India also produces nearly a quarter of the global data, yet now it has approximately 3 percent of the world data centres (Financial Express, 2026). This gap has been a great growth opportunity. The installed capacity will grow by 1.4 GW in the middle part of 2025 to 8 GW in 2030 due to the policy support and the growing need of AI and cloud services.

Based on the analysis of the Budget 2026, it is not only the optimism that the shift between 1.4 GW and 8 GW is supported by the capital flows which we may observe in the DPIIT data:

- FDI Synergy: Computer Software and Hardware being the largest recipient of FDI (17.9% share), the capital that is needed to establish these 8 GW facilities is already being pumped in.
- The AI Multiplier: As observed in the analysis above, the AI workloads currently use 35 percent of the capacity of India. It will need a switch to 8 GW to accommodate the ambitions of India to be a global hub in AI.
- Policy Push: The 21 year tax holiday implied in the Financial Express is actually calculated to generate the multi-billion-dollar investment that will propel the company to the 5-6% global share by 2030.

- Impact on Digital Economy Indicators

Table 4: Impact of FDI on Digital Economy Indicators

Indicator	Impact of FDI	Budget 2026-27 Enhancement
Internet Infrastructure	Expansion of Broadband & Cloud services	Tax holiday incentivizes data centres investment.
Digital Platform	Growth of e-commerce & digital market places	Safe harbour provisions support platform expansions
Employment	Creation of Jobs in IT, logistic & Digital services	Talent mobility provisions attract expertise
Innovation	Technology transfer & startup ecosystem development	Semiconductor mission supports deep-tech innovations
Global Integration	Participation in global digital value chains	Tax certainty enhances India's role in global digital Trade

Source: Analysed by the Author

As indicated in the table, FDI not only facilitates various aspects of digital economic development but also capital investment, but also technological advancement and creation of employment. The impacts are improved by budget 2026-27 measures with specific incentives and policy guarantees in the long term.

- **Growth of Internet Users in India**

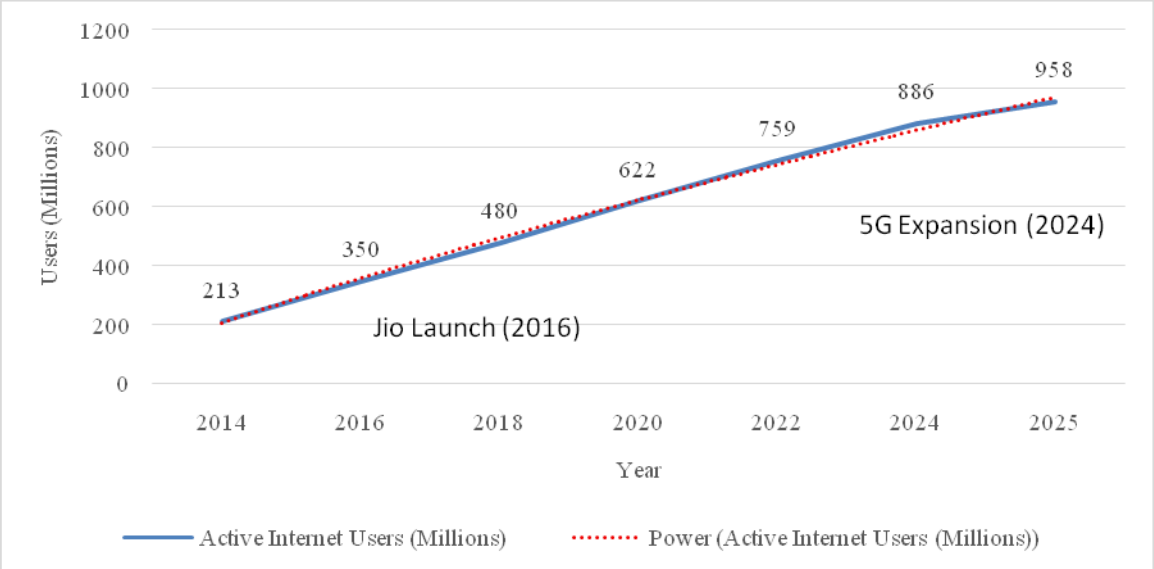

Figure 2: Growth of Internet Users in India (2014-2024)

Source: Developed by Author based on data from TRAI&IAMAI

In Figure 2, the value of internet adoption is growing at an alarming rate with the number of users increased by about 213 million users in 2014 to around 958 million users by 2025. This rise is an indication of prevalence of smartphones, better telecommunication infrastructure and availability of cheaper internet services. The current number of people who use AI-enabled features such as voice search, chatbots, and AI-enabled filters is about 44% of all Indian internet users, which is a significant milestone considering the target of one billion users is this year (See Fig. 11) Integrating AI-based features such as voice search, chatbots, and AI-enabled filters has reached 44 percent of all Indian internet users, which is the final frontier of the Viksit Bharat 2047 vision Despite reaching 958 million active users, about 579 By the beginning of 2026, the market has ceased to be based on connectivity, and instead, its focus is turning to sophisticated usage".

Summary of Analysis

It can be seen in the assessment that Foreign Direct Investment has greatly promoted the growth of the digital economy in India, through the improvement of digital infrastructure, increase in the IT and software industry, promotion of e-commerce, creation of job opportunities, innovation and technological advancement, and integration of India in the international digital economy.

The Union Budget 2026-27 has made a drastic shift in India in its effort to attract digital FDI. It provides fiscal stability on a long-term basis never experienced before, which makes India a competitive global destination in cloud computing, AI infrastructure, and semiconductor manufacturing. These measures not only respond to the need of tax reforms that can be found in the Economic Survey 2025-26 (Economic Survey, 2026) but also answer the need of the longstanding industry pleas of certainty in international tax treatment (Chandel & Jain, 2026).

These results support the Alternative Hypothesis (H 1), according to which there is a positive impact of FDI on the growth of the digital economy of India and that India is more appealing to investors in digital infrastructure owing to the policies of tax certainty in the long term.

Challenges and Limitation

Despite the amendments introduced in Budget 2026-27, the digital FDI of India continues to have issues. The National Single Window System is aimed at simplifying the situation by reducing the volume of both state and federal approval and simplifying the rules. Concerns at home with regard to unjust incentive package that generates preference to foreign investors and fear among foreign firms regarding privacy of data and online regulations. The inflows are still being influenced by the global economic turmoil and the geopolitical tensions as well as the clear difference in infrastructure between urban and rural areas. And the final weakness is a severe deficiency in expert capacity in advanced digital technologies and the potential lag in implementing new standards is a major issue of future development.

Future Prospects

The outlook of the digital foreign direct investment (FDI) in India is rather positive due to the revolutionary policies in the Union Budget 2026-27. As a result of the AI workloads, it is projected that the scope of data centre space will increase by 2030 with 8 GW of data centre space as compared to the current 1.4 GW. This would cost an investment of up to 100 billion. New technologies such as AI, finance, and cloud computing are going to attract a lot of foreign money. This framework makes India a digital infrastructure hub in the world due to its 21-year tax reduction and relaxed regulations. According to the experts, the legislation could resemble the IT services boom that would give rise to an enormous ecosystem where global businesses and domestic suppliers can co-exist and co-operate.

Conclusion

Foreign Direct Investment (FDI) has been one of the important elements in the economic modernization of India. It is what has contributed to the accelerated growth and qualitative transformation of the digital economy in India in the last decade. This discussion shows that FDI does not only provide the required capital, it also provides high-tech technology and management expertise, which plays an important role in developing digital infrastructure, expanding digital platforms and enhancing the total technology industry in India. International technology companies have played a key role in floods of funding that have been used to set up data centres, further extend cloud computing services, and enhance digital connection, to allow both businesses and consumers to be active participants within a complex digital ecosystem.

Among the most significant aspects that our study has discovered is that the Union Budget 2026-27 is a pivot in the approach of India toward digital FDI attraction. The government has also provided international cloud businesses operating on India-based data centres with an unprecedented tax break up to 2047. This will provide them with long-term policy and tax stability to invest in capital-intensive digital infrastructure investments that will be decades-long. According to those in the business, this is a notable shift that can be compared to the incentives which brought the boom in IT services in India in the early 2000s. This new framework, which contains superior initiatives to electronics manufacture and safe haven measures is anticipated to introduce USD 70 billion to USD 100 billion of data centre infrastructure investment within the upcoming five years. This will cause India to become the global hub of cloud computing, AI infrastructure, and semiconductor manufacturing.

Additionally, e-commerce and the digital market place have increased rapidly due to FDI. Multinationals have invested much on logistics and digital infrastructure, and this has enhanced accessibility by all to the market. The number of small and medium-sized businesses (MSMEs) that are utilizing digital platforms to access more customers is close to 1.6 million. The labor market has transformed as well; online platforms have already generated over 15 million jobs in such specialties as software development, data analysis, logistics, and customer care. The MNCs have also established state-of-the-art research and development facilities in India, which assist in transfer of valuable knowledge and technology development.

Despite this robust development, the report identifies key issues that should be addressed by the government on a regular basis. These are complex regulations, concerns about data privacy and cybersecurity, and economic uncertainty in the world that may lead people to alter their investment patterns. Furthermore, bridging the digital disparity between urban and rural areas should also be fixed in order to ensure that all people can enjoy the benefits of digital progress. The imbalance in incentive system between foreign and local businesses is one of the critical issues that are beginning to emerge. This should be corrected by policymakers to maintain the level playing field. To continue this trend, India and continue to develop, it must continue to work on clarity of regulation, better infrastructure and educating its population on new skills in areas such as AI and semiconductor design. To conclude, India can leverage foreign direct investment (FDI) as one of the major instruments in executing the vision of Viksit Bharat in 2047, a developed India on the eve of its 100 th anniversary of independence, which is closely associated with its global digital leadership. It is due to the radical action of Budget 2026-27 and an ongoing strategic intentions.

Recommendations

It is on the basis of the analysis and findings that some recommendations can be given to the policy makers and other stakeholders, which include:

- The 2047 tax holiday should be immediately implemented and clarified by using MeitY of who can get the benefit so that policy objectives can be transformed into an immediate investment. Meanwhile, they ought to be developing a comprehensive National Data Centre Policy to control the regulatory environment.
- What the people who work in the industry must put in place are infrastructures and training of the local labour and they must continue to communicate with lawmakers how to implement the regulations.
- Future research: Future impact studies should be carried out to monitor the real investment outcomes after Budget 2026-27, compare the trends of investments in the pre-budget phase and micro-level, firm-specific analysis in addition to comparative international studies with other competing digital hubs such as Singapore and Ireland.

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