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ROLE OF FOREIGN DIRECT INVESTMENT (FDI) ON GROWTH OF INDIAN ECONOMY

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ABSTRACT

Main objective of this paper is to explore the relationship between growth of the Indian economy and the Foreign Direct Investment in Indian Industries. Most of the countries in the world considered international economic integration as one of the most powerful tool to boost their economies and increase their Gross domestic Product (GDP). With tune of the other economies, Indian government also laid a major foundation stone for international economic integration with new industrial policy 1991. With this new Industrial policy and subsequent amendments in the related statutes provide the more liberalized policies to attract the Foreign Direct Invest (FDI). This move has accelerated the growth, face of the Indian economy. Indian GDP has been increased from 274.8 billion US$ in 1991 to 2.384 trillion US$ for the year 2016, Per-capita income also increased from 310 US$ to 1,820 US$ during the period. Flow of funds in various industries like services, insurance, financial services, infrastructure and real estate served as catalyst for growth of the Indian economy. Political stability, steady growth of economy, single digit inflation rate, low cost trained manpower, infrastructure facilities, regulatory frame work, and government encouragement made the path very easy, solid for foreign players to invest in India, when compared to other countries. Flow of funds is increased in each and every sector which is allowed to invest by the foreign inventors. Number of foreign companies, foreign collaborations are increased in every sector. This urges me to take this study to investigate the influence of FDI on Growth of Indian Economy.

Key words: *Foreign Direct Investment, Indian Economy, Economic Integration, Foreign Investment ,FDI*

INTRODUCTION

The role of foreign direct investment in the growth of economy has been a significant topic in many countries. International economic integration boosts the economies. FDI is a vital factor of the efforts of international economic integration. The growth of the national economies is driven by the economic and technological factors which are imported from other economies. It also driven by the ongoing liberalization of foreign direct Investment and trade policies. One of the outstanding features of globalization has been the circulation of private investment, funds flow in the form of foreign direct investment into emerging countries. Since 1990 most of the developing economies has been recognized the importance of foreign investment in the growth of the economies. Since then economies open the doors for the global players with the most liberalized economic policies and financial incentives. Governments around the world in both advanced and developing countries have been attracting MNCs to come the respective countries with their FDI. So MNCs have come out as major actors in the globalization context. Most of the government moved to amend the legislatures and labialized the regulatory policies to attract the Multinational corporations. In this context, Globalization offers unparalleled opportunities for developing countries like India to attain the quicker economic growth through international trade and investment.

India's Foreign Direct Investment (FDI) policy has been gradually liberalized to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For an economy like India which has tremendous potential, FDI has had a positive impact. FDI inflows supplement domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. India has received total foreign investment of US$ 310,258 million since 2000. During FY 2015–16, India attracted FDI worth US$ 40,001 million. Tourism, pharmaceuticals, services, chemicals and construction were among the biggest beneficiaries India GDP was very low before the 1990, from 1990 onwards with the help of world economic integration Indian GDP was recorded wonderful growth. My present study is aimed at to identify the relationship between Indian GDP and FDI flows to India.

REVIEW OF LITERATURE

Klaus E Meyer (2003) in his paper "Foreign Direct investment in Emerging Economies" focuses on the impact of FDI on host economies and on policy and managerial implications arising from this (potential) impact. The study finds out that as emerging economies integrate into the global economies international trade and investment will continue to accelerate.

John Andreas (2006) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discusses the potential of FDI inflows to affect host country economic growth. The paper argues that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. Performing both cross – section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications that FDI inflows enhance economic Growth in developing economies but not in developed economies.

Tomsaz Mickiewicz, Slavo Rasosevic and Urmas Varblane (2005), in their Study, "The Value of Diversity: Foreign Direct Investment and Employment in Central Europe during Economic Recovery", examine the role of FDI in job creation and job preservation as well as their role in

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changing the structure of employment. The paper also find out that the increasing differences in sectoral distribution of FDI employment across countries are closely relates to FDI inflows per capita.

Khan A.Q. and Siddiqui Ahmad Taufeeque (2011), studied the impact of FDI on Indian economy and a comparison with China & USA. The paper have also been ventured into carving out set of strategies to deal with the issues & problems in attracting FDI for promotion & growth of international trade. The double log model has been used to find elasticity between different factors in this paper. They also highlight the impact of FDI on employment. In this research paper, the discussion **Khan A.Q. and Siddiqui Ahmad Taufeeque (2011),** studied the impact of FDI on Indian economy and a comparison with China & USA between FDI and GDP as to asses that FDI helps in boosting growth of a country.

Bhanagade D.B, Shah A. Pallavi (2011), they said in their paper that the impact of FDI on Indian Economy where they also emphasize on the investments, sectors attracting highest FDI inflows and FDI leads to Generation of Employment opportunities. Therefore the growth of inflow of FDI would lead to positive growth of Gross capital formation. In India, the growth of GDP is largely influenced by FDI.

Chaturvedi Ila (2011), in this paper, analyze the FDI inflows with special reference to sector wise inflows in India. This paper also explore the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India. And to find out the correlation between FDI and Economic Development, It reveals that there is high degree of significance between FDI and economic development.

METHODOLOGY

This paper is designed to analyze the relationship between the Foreign Direct investment and its role on the growth of the Indian economy. To analysis this relation correlation was considered as the technical to measure the correlation between the GDP and Foreign Direct Investment. For this following data was extracted from the reports of Government of India (GOI) (2014). FDI Statistics.

- Annual FDI inflow in India(from year 1991-2014)
- Annual GDP at factor cost(from 1991-2014)

CORRELATION

Correlation is a statistical measure that indicates the extent to which two or more variables fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel; a negative correlation indicates the extent to which one variable increases as the other decreases. When the fluctuation of one variable reliably predicts a similar fluctuation in another variable, there’s often a tendency to think that means that the change in one causes the change in the other. However, correlation does not imply causation. There may be, for example, an unknown factor that influences both variables similarly.

Correlation Coefficient Interpretation

Coefficient Range	**Strength of Relationship**
0.00 - 0.20	Very Low
0.20 - 0.40	Low
0.40 - 0.60	Moderate
0.60 - 0.80	High Moderate
0.80 - 1.00	Very High

Formula Simply Used To Find Out Correlation Coefficient:

In real practice we use formula that is mathematically identical but is much easier to use. This is the computational or raw score formula for the correlation coefficient. The computational formula for the Pearson an r is:

$$r = \frac{N\sum XY - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2}\sqrt{N\sum Y^2 - (\sum Y)^2}} \quad \textbf{(1)}$$

Where *r* represents the correlation between depended variable *X* and the independent variable *Y*

FOREIGN DIRECT INVESTMENT (FDI) IN INDIA

India has among the most liberal and transparent policies on FDI among the emerging economies. High growth prospects, in terms of increased consumption in the India as well as increasing demand for exports are expected to lead to more Foreign Direct Investments in this sector. Further to avoid misunderstanding, the study focuses on the how the inflow of FDI will lead to play a role in economic development of the country. How well the FDI contributes for economic growth.

Table –I

SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS *(Financial years): Amount in crores (US$ in Million)*

Ranks	*Country*	***2014-15** (April – March)*	***2015-16** (April – March)*	***2016-17** (April,16 – September, 16)*	***Cumulative Inflows** (April '00 - September '16)*	***%age to total Inflows (in terms of US $)***
1.	**MAURITIUS**	55,172 **(9,030)**	**54,706 (8,355)**	39,136 (5,850)	519,500 **(101,760)**	**33 %**
2.	**SINGAPORE**	41,350 **(6,742)**	**89,510 (13,692)**	31,282 (4,680)	287,949 **(50,560)**	**16 %**
3.	**U.K.**	8,769 **(1,447)**	**5,938 (898)**	6,436 (964)	122,028 **(24,072)**	**8 %**
4.	**JAPAN**	12,752 **(2,084)**	**17,275 (2,614)**	18,745 (2,795)	129,416 **(23,760)**	**8%**
5.	**U.S.A.**	11,150 **(1,824)**	**27,695 (4,192)**	9,618 (1,437)	104,193 **(19,380)**	**6 %**
6.	**NETHERLANDS**	20,960 **(3,436)**	**17,275 (2,643)**	10,795 **(1,615)**	105,328 **(18,929)**	**6 %**
7.	**GERMANY**	6,904 **(1,125)**	**6,361 (986)**	3,936 (588)	48,806 **(9,217)**	**3 %**
8.	**CYPRUS**	3,634	**3,317**	2,546	45,227	**3 %**

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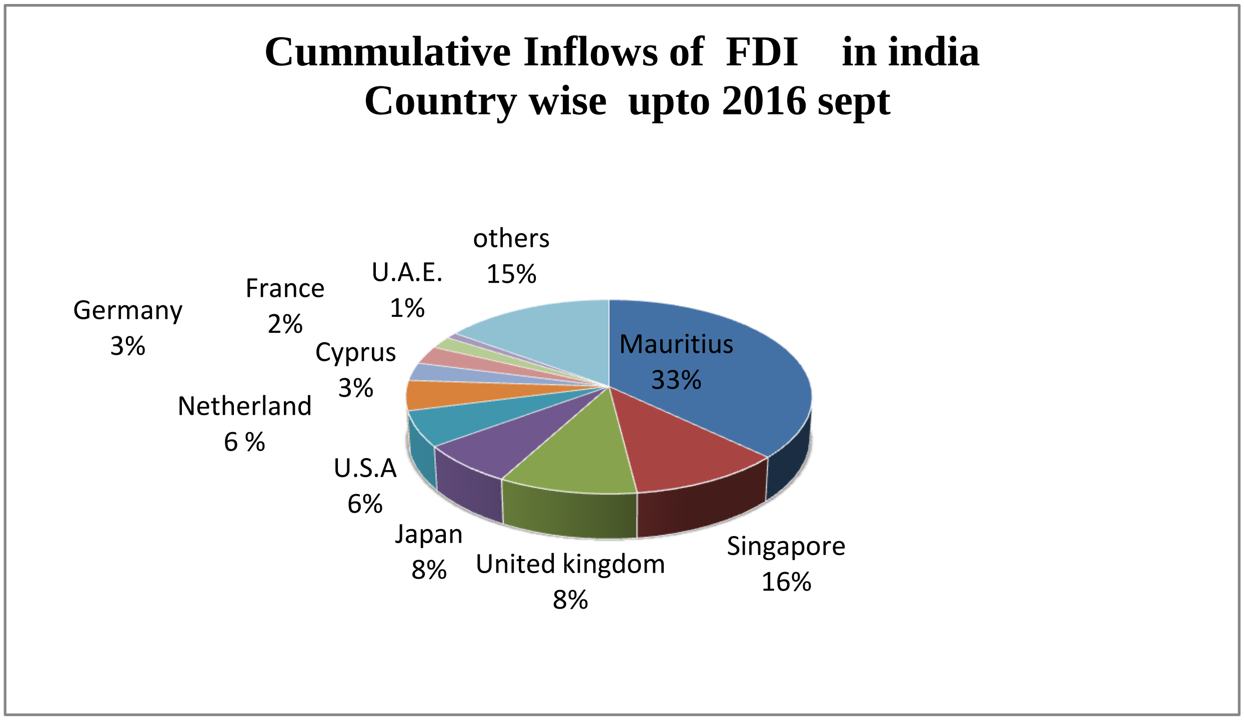
		(598)	**(508)**	(381)	**(8,933)**	
9	**FRANCE**	3,881 **(635)**	**3,937** **(598)**	1,225 (183)	27,750 **(5,294)**	**2 %**
10.	**UAE**	**2,251** **(367)**	**6,528** **(985)**	2,375 (355)	24,024 **(4,385)**	**1 %**
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		**189,107** **(30,931)**	**262,322** **(40,001)**	144,674 **(21,624)**	1,640,533 **(310,258)**	-

Source: Government of India (GOI) (2014). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

Above table no 1 was furnished the FDI flows of top ten countries to during the year 2014-15, 2015-16 and 2016-17 upto September. Form this one can interpret that India's 86% of cumulative FDI is contributed by ten countries while remaining 14 % by rest of the world. The analysis of country wise inflows of FDI in India indicates that during 2000-2017, the total amount of $ 1,640,533 million of FDI was received from these 10 countries.. Mauritius emerged as the most dominant source of FDI contributing 33 % of the total investment in the country and investment was during the year 2000-2014 was 519,500 million in US dollars . Singapore was the second dominant source of FDI inflows with 16% of the total inflows. UK occupied third position with 8% followed by JAPAN with 8%, However, USA is in fifth position by contributing 6% of the total inflows. the other countries like NETHERLANDS with 6%, CYPRUS with 3%, GERMANY with 3%, FRANCE with 2% and U.A.E with 1% of participation in investment of FDI in the country. Total foreign direct Investments in India increased from year to year It has been observed that some of the countries like Israel, Thailand, Hong Kong, South Africa and Oman increased their share gradually during the period under study. It is also interesting to note that some of the new countries such as Hungary, Nepal, Virgin Islands, and Yemen are making significant investments in India.

Figure -I



Following table no II interpret about the various sectors, and the ranks of the FDI flows from the year 2000 to 2016 September . In India top 10 FDI attracting sectors are service sector with 18% of the total foreign investment, and was followed by construction development sector with 8%, telecommunication with 7%, computer software and hardware with 7% and Drugs& pharmaceuticals with 5%, and chemicals, Power, and Trading with 4%.

Table -II

Sectors attracting highest FDI Equity Inflows from the year April 2000 to 2016 September

Amount in crores (US$ in Million)

Ranks	Sector	Cumulative Inflows (April '00 – September '16)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR **	293,722 (56,080)	18 %
2.	CONSTRUCTION DEVELOPMENT:	114,350	

	TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	(24,250)	8 %
3.	COMPUTER SOFTWARE & HARDWARE	119,087 (22,050)	7 %
4.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	111,388 (21,169)	7 %
5.	AUTOMOBILE INDUSTRY	86,259 (15,793)	5 %
6.	DRUGS & PHARMACEUTICALS	74,367 (14,490)	5 %
7.	TRADING	78,772 (13,354)	4 %
8.	CHEMICALS (OTHER THAN FERTILIZERS)	63,116 (12,433)	4 %
9.	POWER	56,357 (11,035)	4 %
10	HOTEL & TOURISM	53,207 (9,750)	3 %

Source: Government of India (GOI) (2016). FDI Statistics, Ministry of Commerce & Industry, Department of Industrial Policy and Promotion

Table –III Yearly flow of FDI and GDPFC

Year	FDI Inflow (in Rs. crore)	GDP at factor Cost(in Rs.crore)
1991-1992	408	613528
1992-1993	1094	703723
1993-1994	2018	817961
1994-1995	4312	955386
1995-1996	6916	1118586
1996-1997	9654	1301788
1997-1998	13548	1447613
1998-1999	12343	1668739
1999-2000	10311	1847273
2000-2001	12645	1991982
2001-2002	19361	2167745
2002-2003	14932	2338200
2003-2004	12117	2622216
2004-2005	17138	2971464
2005-2006	24613	3390503
2006-2007	70630	3953276
2007-2008	98664	4582086
2008-2009	123025	5303566
2009-2010	123377	6108903
2010-2011	88520	7266967
2011-2012	165146	8353495
2012-2013	121907	9461979
2013-2014	147518	10344507
Correlation between FDI & GDPFC		**0 .93**

Summary of Correlation results

	FDI Inflow (in Rs. crore)	*GDP at factor Cost*
FDI Inflow (in Rs. crore)	1	0.932184263
GDP at factor Cost	0.932184263	1

Test results: Correlation between the Foreign direct investment and the Gross domestic Production of India from the year 1991 to 2014 was positively very strongly correlated. It clearly evident from the test results is 0.93 correlations. Growth of Indian economy is strongly dependent on the foreign investment flows. As India is one of the most promising FDI Destination for Multi Nation

Corporation (MNC). FDI flows to India are very high and total growth in the various sectors also robust.

CONCLUSION

Investment is the most vital factor in the growth of the economy. Investment by the foreigners must be accompanied with in the border investment. Indian growth was greatly related with the foreign investment flows in the name of Foreign Direct Investment. Present paper investigated the relationship between the foreign direct investments with the Gross Domestic Product with correlation. The test results showed that the .93 correlation indicates these two are most strongly positively correlated. Explains the strong dependency of Growth of GDP with foreign direct Investment.

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