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FOREIGN DIRECT INVESTMENT: AN IGNITE TO INDIA'S GROWTH

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ABSTRACT

Initially, the MNCs accustomed follow the standard resource or market seeking strategy. Thereafter it graduated to strategic asset-seeking and/or efficiency-seeking strategy, where production in the host country wasn't strictly associated with the resource base or the market size of the economy; rather, comparative cost factor became the principal propulsion. Riding on the wave of digital technology, now the strategy has become market-seeking again, but with a fresh outlook. With the remarkable shift in the importance of FDI during this digitized globe, the world is experiencing a momentous transformation in the pattern and trend of FDI inflows. External financial flows to any economy generally include personal capital investments, Foreign Direct Investments, foreign portfolio investments (FPI), and many others. The globe Investment Report (WIR) 2017, advocate by the world organization Conference on Trade and Development (UNCTAD), finds that FDI is always the most important as well as smallest amount and flexible sources of finance (from External sources) to the all under developed countries. Their consistent stability in and after the 2008-2009 global financial crisis is because of their minimalistic short term circular movements as well as lesser insensitivity, as compared to FPI and other means of foreign investments. The Objective with which this Research Paper is written is to find out the impact of Foreign Direct Investment on Growth of Economy and employment. With the help of various secondary data obtained from various published resources, and using descriptive Technique of analysis, the impact of Foreign Direct Investment on Growth of Economy and employment generation has been evaluated. With the introduction of Foreign Direct Investment in India, the primary sectors which attracted the Foreign direct Investment was Banking and Insurance followed by Telecommunication and Automobile. However, the contribution in employment generation of Foreign Direct investment is found higher in service sector than any other sector. However, the role of Foreign Direct Investment alone cannot be taken as the only factor in this growth. India's own captive employment generation is also played a significant role.

Keywords: *Investment, Manifestation, Consistent, Development, Financial, Economy, Employment.*

Introduction

The Foreign Direct Investment (FDI) phenomenon is a manifestation of international capital flows and economic interactions constitutes the financial dictum of this era. With the incredible explosion in transportation, information and communication technology together with incessant liberalization of trade and investments, the nations across the world have undeniably become more and more integrated. The centre of gravity of internationalization of endeavour has gradually shifted its base from commodity trading to swapping over of things of production. Sourcing, manufacturing and assembling from some foreign land in the variety of FDI became quite easy and customary nowadays. Furthermore, a paradigm shift has been observed since the appearance and widespread popularity of digital technology. During this era of knowledge, a transformation is being noticed in the roles of developed, transition, emerging and developing economies facing a digital divide. The digital economy is basically modifying the

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methods during which the companies manufacture and market products and services across the nations. The liberalized policy of government of India towards Foreign Direct Investment, in number of business sectors such as Defence, trading, Banking, Construction, Civil Aviation and other as well. Because of significant reforms adopted by Government of India, the Foreign Direct Investment inflow has extended with drastic level and has reached up to around thirty-five billion dollar in 2015. This is truly acceptable that Foreign Direct Investment is a major part in making the economic growth and a major source of employment generation.

Objective of Study

The Study has been conducted with the object to evaluate the impact of Foreign Direct Investment on employment generation, along with some other subsidiary objects including analysing the correlation between Foreign Direct Investment and Employment, to examine and evaluate the impact of GDP on employment generation with the global impact on Foreign Direct investment. With this backdrop, the principal objectives of conducting this study are:

- To produce a quick historical review of the change of Foreign Direct Investment in India;
- To check the status of FDI in India with other developed and emerging economies;
- To re-investigate the character and direction of causal relationship among FDI and other selected macroeconomic variables of India, both in the future also as short run.

Review of Literature

Mukherjee and Patel (2005) they found in their study that the foreign retailers are working with manufacturers especially with the small one for their in-house labels and making them available the technologies, Packaging and bar-coding facility. The foreign retailers are now obtaining the required products from Indian retailers with their own technology and their efficient supply chain management. This helps the Indian business retailers to get easy finance and to be the part of world business with Global business practices. Apart from all this there is no possibility of competition through the imports rather foreign investment is helping it out in better manner.

Tanay Kumar Nandi and Ritankar Saher (2007) In their research they worked out the foreign Direct Investment in India with the set focus on retail trading activities and trade. They stressed in their paper regarding the need of Foreign Direct investment in India and also supported the fact that India need an extended form of Foreign Direct Investment in retail sector, Multiple Sectors **Ramaiah (2013)** conducted a quest on the economy of the state of Karnataka of India over a period of ten years during 2000 to 2010 to seek out out that the FDI flows had positively impacted both income and employment levels in Karnataka. FDI inflows had significantly impacted the state's economy both in terms of increase in the volume of investment and creation of job opportunities to plenty of unemployed technocrats. Hence, in step with the author, the state had an obligation to form a congenial and investment friendly environment to draw in higher volume of FDI inflows into Karnataka for betterment.

Bhanagade D.B, Shah A. Pallavi (2011), in their paper they said that the effect of Foreign Direct Investment on Indian Economy is at the greatest level to the extent of employment generation specially. They emphasized on those investment, Sectors and areas which attracts highest inflows from foreign Direct Investment and leads to generation of employment opportunities. This leads the Generation of highest employment opportunities, and hence leads the positive growth of highest capital formation. In developing countries, the growth of Gross domestic Production, is influenced by Foreign Direct Investment. In their literature they said that although number of researches have been conducted in the area of foreign Direct Investment, from different aspects, however no research or study have been conducted related to Foreign Direct Investment in context of Foreign Direct Investment in India. Hence, they in their research covered the context that how India's growth has been impacted by Foreign Direct Investment and how it has impacted the growth of Indian economy, along with employment generation.

Duan (2010) compared the general trends and industrial patterns of FDI inflows in Brazil, India, Russia and China (BRIC) and explained their determinants. The paper identified three main factors that determined the economic patterns of FDI inflows in the BRIC: stage of development, resources and also the business environment. Though the general trend of the FDI inflows in BRIC had been increasing over the past decade, the pattern of FDI inflows was different for every industry. In Brazil, Russia and India, the tertiary sector received the most FDI inflows, while the first sector received the smallest amount. But just in case of China, the secondary sector dominated the bulk of the FDI inflows and also the primary and tertiary sectors received only a small amount.

Karthik & Kannan (2011) investigated the impact of FDI and other major contributing factors on the SMD of India. The results supported the complementary role of FDI in the SMD of India. Other macroeconomic variables affecting SMD were found to be domestic savings, Gross National Product (GNP) per capita, and inflation.

Netrja Mehra his study more or less similar to the study of Gaurav Agrawal. However little bit different in the sense that he was tried to find out the relationship of Foreign Direct Investment and Gross domestic Production of India and Employment taken both of them together. He observed the impact of Foreign Direct Investment on gross Domestic Production is Maximum. According to his evaluation even one percent increase in Foreign Direct Investment, the proportionate increase in Gross Domestic Production should be around twenty three percent, however the impact of Foreign Direct Investment on employment is not at all satisfactory. This results in increase in the growth of country but jobless.

Andersen and Hainaut analyzed the effect of FDI on employment. They stated that the FDI outflows could not leads to losses the job opportunities and could not find enough evidence that leads to outflows decreases the jobs.

Role of FDI in India

India has become more integrated to the worldwide economy during the post-liberalization era, and hence is more liable to global meltdowns. The demographic profile and growth trends have made India a wise investment destination for the previous few years. Along with her changing stance on the FDI issue, improved investor-friendly investment climate and healthy competition among the states to draw in FDI inflows, India is predicted to be a fair more attractive FDI destination in the years to come back. A paradigm shift transpires in the FDI Policy of India in 2000 when most of the functions have been taken within the automated route of Foreign Direct Investment approval. Caps or maximum permissible limits for FDI have been expanded in various sectors. In 2010, in congruence with the rationalization process, all at present norms on foreign Direct investment is now aggregated in one document for easy reference. Most of the FDI activities in India have now been placed under the automated route of approval from the cumbersome Foreign Investment Promotion Board (FIPB) route. In November 2015, the FDI rules of India has been reformed again by relaxing investment restrictions in fifteen significant sectors of the economy including banking, defense, construction and single-brand retail trading with the intention of easing, rationalizing and simplifying the method of investing in India. More FDI proposals were placed under automatic route rather than government route, to avoid wasting the time and energy of the investors.

Hypothesis for Study

H_{01}: **Null Hypothesis:** There is no favorable impact of Foreign Direct Investment on employment generation.

H_{01}: **Null Hypothesis:** Foreign Direct Investment do not expand the employment of both organized and unorganized sector.

H_{01}: **Null Hypothesis:** There is no Correlation between Foreign Direct Investment and employment Generation.

Research Methodology

This study is mainly undertaken with the object to study the relationship of foreign direct investment and its impact on India's Growth. The data for the study collected for the period 2016 to 2021.

The required data of Foreign Direct Investment and Gross Domestic Product and employment has been collected from secondary sources. For the purpose of analysis of Data, the multiple regression method and karl's pearsons correlation Method has used. At the same time two regression equations used to make a correlation between role of Foreign Direct Investment in role of Gross Domestic Production and employment generation.

Results and Analysis

By using the various data related to Gross Domestic Production, Employment and Foreign Direct Investment, for the period 2016 to 2021, the following Correlation and Regression analysis has been done. The below Table 1 indicates the results of Correlation and Table 2 indicates the results of Regression analysis.

Table 1

Variables		GDP	FDI	Employment
GDP	Correlation	1	0.9548	0.8481
	Sig.(2-tailed)	--	3.8465	0.0016
	N	12	12	12
FDI	Correlation	0.8451	0.8597	0.8515
	Sig.(2-tailed)	3.9855	--	0.0004
	N	12	12	12
Employment	Correlation	0.7956	09153	.9458
	Sig.(2-tailed)	0.0001	0.0003	--
	N	12	12	12

Table 1 reveals the pearsons coefficient of correlation between Foreign Direct Investment, Gross Domestic Product and Employment in India during 2016 to 2021. The pearsons coefficient correlation between gross domestic product and employment is found to be 0.8481 with significance level of 0.01 percent. The coefficient of correlation 0.8481 shows the Gross Domestic Production has very strong correlation with employment in India during the period of 2016 to 2021. The low level of significance (0.0001) shows the coefficient Gross Domestic Production variable is highly significant. Same as the coefficient of correlation between foreign direct investment and employment is also shows strong correlation i.e. 0.8515 percent during the period of 2016 to 2021. The significance level of 0.0003 indicates the coefficient of Foreign Direct Investment, variable is also highly significant. It is found form the coefficient of correlation result that the significance level of Gross Domestic Production with employment (0.01%) is higher than the significance level of Foreign Direct Investment 0.03 percent.

Table 2: Results of ANOVA

	Sum of Square	Degree of Freedom	Mean Square	F-Test	P- Value
Regression	801.565	1	812.455	29.565	0.0004
Residual	271.567	9	27.508		
Total	1073.132	10			

The table 2 depicting the analysis of variance between Foreign Direct Investment and Growth in India during our study period. The above analysis indicating the relationship between dependent variable and independent variable. As per our analysis the F value is 29.565 is larger than the p-value 0.0004. Hence the null hypothesis is rejected.

Conclusion

Once India had depicted herself collectively of the founder-members of the world Trade Organization (WTO) in 1995, she is left with no much option but to open up her economy to the external possibilities likewise as threats. There's no looking back. Post-independence, India was not open to FDI as much as is today. It took decades for this devastated colony to develop, mature and become competitive and gradually privatize, liberalize and globalize the economy. As attribute is susceptible to be proof against change, such move gave birth to enormous skepticism and apprehension in the minds of the Indians. Fear was looming large that the economy will falter and crash down miserably. But somehow, it didn't happen. We managed to cope up and welcome the change pragmatically. Presently, India is one amongst the foremost wanted investment destinations. To have a final conclusion, Opening the Indian economy for Foreign Direct Investment with full fledge manner is not at all a necessity for the India government concerning the context of employment specially. It is undoubtedly acceptable that foreign Direct Investment has increased Employment Opportunities to the greatest extent. However, the government has already opened number of sectors of Indian Economy including Banking and Insurance, in the retail market as well. However, opening of entire economy for Foreign Direct Investment is never advisable for any economy whether developing or developed. Especially it shall not exceed fifty one percent for retail sector. In the few sectors such as single brand it can be allowed for hundred percent but for other it should not be. The other sector should open gradually and in phased manner. In sensitive areas like defence, foreign direct investment should be strictly prohibited. After having integration with global economy the government shall made it mandatory for foreign Investors to come with technology and management and develop the domestic resources with the help of it. The trained Human resource will be their investment and obtain the optimum scalable use of the asset in the long run.

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