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IMPACT OF FDI ON INDIA'S ECONOMIC GROWTH

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Abstract

FDI is treated as an important mechanism for channelizing transfer of capital and technology and thus perceived to be a potent factor in promoting economic growth in host countries. This research paper studies the impact of FDI on the economic condition of the Indian economy. It provides the relevant basis to understand the importance of FDI in India especially when it is under the transformation from a developing economy to a developed economy. it is very well known that India is very rich in resources and is a labour intensive economy but we are lacking in capital and technology for which we have to be dependent on the developed economies if we want to exploit our resources to its fullest utilisation i.e. maximum utilisation of resources. Hence FDI can be one of the best alternatives. This research paper is about to study that whether there is a positive impact of FDI or not on the growth of the Indian economy or not. GDP has been used as the indicator of economic growth.

Keywords: *Liberalisation, Influx, Growth, Development, Technology.*

Introduction

India has been quick to understand the importance of foreign investment in terms of its contribution to the economic growth and development, and hence, brought in a number of policy changes to woo them. There has been a liberalization of the old restrictive investment policies. India is generally regarded as one of the main hubs in the world for FDI. India has witnessed tremendous influx of FDI after the adoption of liberalisation policy in 1991. The Indian foreign investment policy framework is usually studied in the following four stages:

- Stage I (1948-66): Guarded and cautious reception policy since independence to the late sixties' crisis
- Stage II (1967-1979): Restrictive and Selective policy followed since the year 1967 and lasting till 1979, the year of the second oil crisis
- Stage III (1980-1990): Phase marked by slender liberalization policy and a forward looking approach towards regulation
- Stage IV (1991-onwards): An era of open door policy and liberalization demonstrating a highly liberal investment environment

India as a liberalized economy along huge skilled manpower, consumer market with increasing purchasing capacity is attracting more and more FDI inflows. Here in this paper, our objective is to check how FDI inflows are influencing India's economic growth.

Objective

Objective of present paper is to study the relationship between FDI & GDP in Indian context.

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Literature Review

Borensizein, et al. tested the effect of FDI on economic growth in cross countries and concluded that if advance technology is available in host country then FDI contributes to economic growth. **Berthelemy and Demurger** conducted a study on relationship between foreign direct investment and economic growth in china. The results show that the fundamental role played by foreign investment in provincial economic growth in China, and stresses the importance of potential growth in foreign investment decisions.

Research Methodology

To analyse the impact of fdi on india's economic growth following steps have been followed:

- To check the effect of FDI inflows on India's economic growth we will be using GDP as a measure of economic growth.
- Data related to FDI inflows & GDP can be obtained from secondary sources.
- Regression analysis & ANOVA will be used to draw relationship between GDP & FDI Inflows, where we are considering GDP as dependent variable & FDI inflows as independent variable.

Data Analysis& Interpretation

In this part of the study we want to check Null Hypothesis that FDI does not have any significant impact on GDP against alternative a positive impact on GDP of the country. Instead of taking GDP we are considering GDP per capita for relatively true measure of economic growth of the country.

H_0: FDI Inflows does not have any significant impact on GDP per Capita

H_1: FDI Inflows have a positive and significant impact on GDP per Capita

For this purpose we are going to use GDP per capita as a measure of economic growth. Below is the regression data analysis output from MS Excel.

Table 1: Yearly FDI Inflows (US$ Million) & GDP per capita for India

Year	FDI Inflows	GDP per Capita	Year	FDI Inflows	GDP per Capita
1991	75	316.2889852	2004	5778	616.0236666
1992	252	311.336615	2005	7622	709.7680483
1993	532	297.9889148	2006	20328	790.9944417
1994	974	334.8101583	2007	25350	991.3467178
1995	2151	372.7542668	2008	47102	1048.161005
1996	2525	385.4836315	2009	35634	1068.62321
1997	3619	410.8021088	2010	27417	1340.910324
1998	2633	405.8719722	2011	36190	1500.853109
1999	2168	424.9286763	2012	24196	1473.301818
2000	3588	430.7277284	2013	28199	1499.382472
2001	5478	437.0571735	2014	34582	1576.058753
2002	5630	449.2611259	2015	44064	1629.233446
2003	4321	517.4687782	2016	44486	1706.457685

Summary Output

Regression Statistics	
Multiple R	0.915
R Square	0.838
Adjusted R Square	0.831
Standard Error	205.649
Observations	26

ANOVA

	df	SS	MS	F	Significance F
Regression	1	5246887.117	5246887.117	124.065	5.74961E-11
Residual	24	1014993.738	42291.406		
Total	25	6261880.855			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	363.0335	56.859	6.385	1.333E-06	245.682	480.385	245.682	480.385
FDI Inflows	0.0280	0.003	11.138	5.750 E-11	0.023	0.033	0.023	0.033

Output is based on 26 observations. The FDI inflow is taken as independent variable and GDP per capita is dependent variable. We are interested in understanding if GDP can be functional represented and hence can be predicted using FDI Inflow.

Linear regression model for above case can be represented as

GDP per Capita=b_0 + b_1FDI Inflow

The slope b_1 in our case is found to be 0.0280 which is shown in last table of output in FDI inflows row & Coefficient column and this suggests that an increase in FDI inflows by one unit results in 0.0280 increase in GDP per capita income. b_0 is the estimated value of GDP per capita with "zero" FDI inflows. Thus for the case under consideration the regression line is

GDP per Capita= 363.0335 + 0.0280 FDI inflows

As Multiple R=0.915 so we can say 'FDI inflows' & 'GDP per Capita' are highly correlated and most of the data point clustered around regression line and 83.8% (R square=0.838) of variations in GDP per Capita can be explained by the above linear regression.

Further 95% confidence interval (0.023, 0.033) does not contain 'zero 'hence we can believe that linear relation between 'FDI inflows' and 'GDP per Capita' is this can also be observed from p-value for FDI Inflows.

Thus, we are rejecting Null Hypothesis against alternative at 5% level of significance and conclude that FDI Inflows have a positive impact on economic growth of the India.

Conclusion and Recommendations

FDI & GDP are found to be highly and positively correlated. Linear relationship And on the basis of analysis we can believe the existence of linear relation between 'FDI inflows' & 'GDP per Capita' at 5% level of significance. FDI appears to be a strategy for transfer of technology and knowhow to developing countries including India. FDI would lead to a more widespread integration of India with worldwide market. Hence the government should keep its eye on the favourable impacts of FDI and should take positive steps to promote it with certain precautions but should not ignore its limitations. Government should be very cautious in making policy framework so that our economy may utilize all kinds of assistance from various sources for its economic development and growth. Before allowing FDI in any certain sector government should focus on its limits as done earlier along with its long term effects on the economy.

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