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FOREIGN DIRECT INVESTMENT AND MACRO-ECONOMIC DEVELOPMENT OF A COUNTRY: AN EMPIRICAL STUDY IN INDIAN CONTEXT

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Abstract

Foreign direct investment is a significant contributor to India's overall economic development. After globalization, it has evolved into an essential component for the expansion and development of the economy. The aim of this research is focused on to explore the factors that motivate foreign direct investment (FDI), its impacts on macroeconomic indices, and its contributions to India's economic growth, technical advancement, employment creation, and export performance. For erudition and understanding the major role played by the foreign direct investment in leveraging competitive advantages, strategic locations, and operational effectiveness, the eclectic paradigm (OLI framework) provides a theoretical underpinning. Investigators have looked at the complex relationship that exists between Foreign direct investment and various aspects of the economy, including foreign exchange reserves, inflation, gross capital formation, gross domestic product (GDP), trade openness, and exchange rates. Although there are concerns over the decrease in Foreign direct investment inflows since 2012, the study shows the potential advantages of FDI, which include the expansion of infrastructure, the transfer of knowledge, and the maintenance of regional balance. The conclusion highlights the beneficial effect that Foreign direct investment has on equitable and sustainable development. It also highlights the necessity of policies that promote a favourable investment environment, along with the expansion of infrastructure and the strengthening of human capital. For determining the role and influence of foreign direct investment on macroeconomic growth, a survey was administered to 230 individuals from a variety of business disciplines. The results advocates and led to the conclusion that FDI has a major impact on macroeconomic development.

Keywords: *Foreign Direct Investment, Macroeconomic Development, India, Economic Growth, Export Performance, Technological Advancement, Job Creation.*

Introduction

The impact of foreign direct investment as a catalyst for national economic development and growth has grown in recent decades. Foreign direct investment has emerged as a powerful instrument in the ever-expanding globalization toolbox, facilitating commerce, advancing technology, and boosting economic performance in general. This analysis looks at the many ways in which Foreign direct investment affects a country's macroeconomic growth, using India as a case study. An appropriate case study to analyze the effects of FDI on macroeconomic indicators and developmental results would be India's diverse and potentially enormous economy, which has seen a large inflow of FDI in recent decades. Foreign direct investment occurs when one company owns more than 10% of the shares in another company based overseas. The first one is known as the "parent enterprise" or the "investor," while the second one is called the "foreign affiliate." Foreign direct investment helps nations climb the socioeconomic

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ladder and strengthens their links to global trade networks. A country may be vulnerable to outside influences from foreign owners if it receives an excessive amount of FDI. The significance of foreign investment in India's economic growth is significant, and it is often prompted by incentives given by other nations. To overcome domestic saving limits and stimulate economic development, Foreign direct investment is crucial in closing the gap between saving and investment rates (Malhotra, 2014). Foreign direct investment differs from portfolio investment in that it often entails a high level of ownership and control, along with the transfer of technology, management skills, technology, and information. Greenfield investments, in which new facilities are built, and mergers and acquisitions, in which existing enterprises are acquired, are two examples of the many forms that Foreign direct investment may take. The long-term character of Foreign direct investment and its direct influence on local output, employment, and technology make it an important driver of economic growth; thus, it is vital to differentiate FDI from other types of international capital flows. Foreign direct investment and its possible advantages for both home and host nations are explained by a number of economic theories. Foreign direct investment may be thoroughly explained by John Dunning's eclectic paradigm, which is generally referred to as the OLI framework (ownership, location, and internalization benefits). Based on this model, companies bring in Foreign direct investment to take advantage of their ownership stake, seek out advantageous locations with access to markets or lower operating costs, and then internalize their operations in foreign markets to boost efficiency and cut down on transaction costs. This idea emphasizes the importance of Foreign direct investment in fostering economic growth and capitalizing on antieconomic synergies. The degree to which a country is able to compete industrially and experience rapid economic development is now measured by its export performance in the context of globalization. There has been a shift toward a more positive view of the impact of FDI on exports from host countries. Increasing Foreign direct investment into India began in the middle of 1991, marking a turning point in the country's economic trajectory (Prasanna, 2010). By tackling economic issues and concentrating on problem areas, it has also greatly contributed to the growth, stability, and development of India's finances. From $97 million in 1990–91 to $5,526 million in 2004–05, Foreign direct investment in India increased rapidly due to the country's progressive economic liberalization measures implemented in the aftermath of the 1991 economic crisis. Interestingly, while Foreign direct investment does not directly generate GDP, the inverse is also true, suggesting a two-way street. Foreign investors have been drawn to the country's enormous market, strong infrastructure, increasing domestic output, and large population as a result of the rising domestic economic activity (Jayaraj & Gupta, 2011). What this means for India's human capital, technology, and the number of jobs available is enormous. Jobs in information technology, manufacturing, and the service sector tend to increase when multinational corporations set up shop in a country. Gaining familiarity with international standards improves competence. Foreign direct investment quickens technological advancement since MNCs contribute specialized knowledge that encourages new ideas and improves existing procedures. Many different industries gain from knowledge spillovers. Increased domestic activity and Foreign direct investment are results of improved infrastructure, particularly in vital areas like telecommunications, electricity, and transportation. Foreign direct investment has a complex and significant role in India's macroeconomic growth. The influx of foreign money, technology, management know-how, and access to markets in India have all greatly aided economic development, job creation, technical progress, and export competitiveness. As a vehicle for equitable and sustainable growth, FDI has the ability to positively improve infrastructure development and regional balance.

Literature Review

The need to reconsider the effect of economic variables on Foreign direct investment flows has been highlighted by the subprime mortgage crisis of 2007–2008, the European financial crisis, the Greek crisis, volatile oil prices, and geopolitical instability in the Middle East. As a result, these events have an impact on the growth of FDI-dependent economies like India's. The oversupply of money and inflationary pressures might be the result of inefficient utilization of foreign direct investment (Mishra, 2016). Direct investment from foreign sources is crucial to the success of India's economic reforms. Foreign direct investment in India surged when the country liberalized its regulations in 2005 (Devajit, 2012). Although Foreign direct investment has been the engine that has propelled India's economic growth throughout the 1990s, the decline in FDI after 2012 is cause for concern. Liberalization in 1991 caused sectoral transformations and promoted foreign investment, enhancing trade benefits, after India's inward-looking policies limited FDI after independence (Shah, 2012). Foreign Exchange Reserves (Forex) and Consumer Price Index (CPI) have the greatest positive impact on Indian FDI inflows; however, all three variables are important. FDI is impacted adversely by GDP. FDI is favourably impacted by GDP, "Trade Openness," and Exchange Rates; nonetheless, the regression model fails to detect a statistically significant relationship (Kumar & Suneel, 2014). International direct investment has boosted India's exports faster than GDP. No study has examined how FDI increases export performance. FDI has minimal influence on Indian exports, according to a 1970–1998 study, although lower export prices than global prices and currency appreciation hurt them (Sharma, 2000). Foreign direct investment opportunities in India's retail industry have grown in recent years due to the country's expanding middle class, increasing urbanization, and changing consumer preferences. Indian officials have opened the retail sector to overseas companies with caution, despite many voices raising concerns. There is more variety and lower prices at organized retail, and Foreign direct investment has the potential to raise standards, link India to the international retail industry, and increase job opportunities (Somwanshi & Das, 2013). Direct investment after reform The demographic make-up and monetary impact of India have evolved from its infancy. Panel cointegration's Granger causality tests are applied to data on industry-specific FDI and output. Foreign direct investment increases manufacturing production but has little effect on the primary sector. Production is momentarily impacted by services, which attracted substantial Foreign direct investment after reform. If sector dynamics are not addressed, it is unrealistic to expect FDI liberalization to bring about substantial growth (Chakraborty & Nunnenkamp, 2006). Discover two cointegrating vectors that show a consistent relationship between GDP, FDI, unit labour cost, and the percentage of tax income from import duties. Foreign direct investment results from GDP, not the other way around. Transiently increasing Foreign direct investment in India lowers unit labour prices and shifts the supply of workers (Chakraborty and Basu, 2002). There is just a one-way connection between exports and GDP growth. There is no direct correlation between exports, FDIs, and GDP growth. Growth rate is not a predictor of India's GDP growth, although foreign direct investment and exports do impact it exports (Jayachandran & Seilan, 2010). Compared to other countries, Bangladesh's GDP growth is positively correlated with foreign direct investment (FDI), although this correlation is not statistically significant, suggesting that FDI has not yet become a major expansion driver. FDI has failed to fuel economic growth in India and has a statistically negligible negative effect (Bari, 2013). Industries focused on exports are essential for India's economic development in the future, since Foreign direct investment increases growth (Sahoo & Mathiyazagan, 2003).It's clear that FDI has an impact, with the backward effect being more pronounced than the horizontal one. Keep in mind that technologies that have negative short-term impacts actually end up helping such technologies progress (Fujimori & Sato, 2015). The Indian pharmaceutical sector has thrived because to government incentives and international investments, however the relationship between FDI and the productivity of indigenous firms is complicated. Since businesses owned by foreigners tend to be more productive, no correlation exists between foreign direct investment and local firm productivity due to factors such as absorptive capacity, market structure, competition, trade policy, and technological advances (Bergman, 2006). Although the extent to which FDI decreases poverty varies between samples, most studies find that it does so. This variation is likely attributable to variations in methodology, poverty measurements, and sample sizes. The need for case-specific studies to disprove broad generalizations about the FDI-poverty reduction link is highlighted by research that has shown negative or insignificant benefits, despite the overall rising trend (Magombeyi & Odhiambo, 2017). Developing nations may be able to overcome capital limitations and produce jobs with the help of FDI’s. Foreign direct investment has complex direct and indirect workforce implications. One clear indicator of FDI's effect is the way it consistently affects employment. India's Foreign direct investment has grown substantially during the last 20 years, especially from emerging countries. Multiple macroeconomic research have shown that FDI boosts economic growth and employment (Someshu, 2015). Increases in Foreign direct investment led to higher employment rates since bigger factories employ more workers. Foreign direct investment boosts employment in the chemical, textile, wood, furniture, and metal industries. Large, unionized businesses with higher profits and productivity tend to pay more (Abor & Harvey, 2008). Promote FDI-friendly policies gently. FDI enhances growth due to the host economy's human capital. If a nation overuses FDI, GDP growth may stagnate. The type, speed, and grounds of industrialization affect FDI. Given the current data, comparing Chinese and Indian FDI growth rates may be misleading. To attract FDI, governments should improve market efficiency, labor standards, infrastructure, and human resources. India may profit more from licensing and technological collaboration than FDI. Despite

India's objections, the WTO has proposed an FDI compact (Silvestriadou & Balasubramanyam, 2000). Foreign direct investment would assist host nations more than short-term investments. FDI provides India with delayed advantages. Like other investments, FDI returns take time. Foreign direct investment boosts economic development after three years. India has to reduce corruption and provide political and economic stability to attract Foreign direct investment and economic development (Gupta, 2015). FDI improves industries now and in the future, but farming lacks infrastructure and technology. Unlike worldwide statistics, India's service sector is structured, technology-driven, and policy-supported, contributing considerably to the economy (Jana et al., 2019). Even with a solid banking system, FDI hurts India's balance of payments in the short term. A strong currency and foreign direct investment have propelled India to Asian superpower status. Investors trust and FDI flows into financially stable economies. To maximize development from foreign direct investment, India should emphasize infrastructure, human resources, indigenous entrepreneurship, and macroeconomic circumstances (Ray, 2012).

Objective

- To understand the impact and significance of foreign direct investment on the overall economic growth of a nation.
- To investigate how foreign direct investment has affected the expansion of India's economy and its infrastructure.

Methodology

In order to acquire a more comprehensive understanding of impact that Foreign direct investment plays and the impact that it has on the expansion of a nation's macroeconomic system, an investigation was carried out with two hundred thirty respondents hailing from a wide range of business sectors. The purpose of the investigation was to ensure that the findings of the investigation were accurate and reliable. To carry out an investigation that was based on surveys, this study made use of a customized questionnaire that was produced specifically for the purpose of conducting research in this particular subject. This questionnaire was intended to be used in order to carry out the inquiry. Our ability to arrive at the essential findings was made possible by using multiple linear regression to the main data that was acquired via the deployment of a random sample method. This allowed us to arrive at the conclusions that were necessary.

Findings

The respondent is broken down into its component parts in the following table. On the other hand, men make up 58.3 percent of the whole pool of 230 respondents, while females make up 41.78 percent of the total. Among the total population, those who are less than 40 years old make up 35.7% of the total population. While the remaining 23.5% of people are older than 48 years old, another 40.9% of people fall into the age group of 40 to 48 years old. The market for manufactured goods accounts for 31.7% of the total, while the market for services accounts for 38.7%, and the market for exports accounts for the remaining 29.6%.

Table 1: Demographic Details

Variable	Respondents	Percentage
Gender		
Male	134	58.3
Female	96	41.7
Total	**230**	**100**
Age		
Below 40yrs	82	35.7
40-48yrs	94	40.9
Above 48yrs	54	23.5
Total	**230**	**100**
Business sectors		
Manufacturing sector	73	31.7
Service sector	89	38.7
Export sector	68	29.6
Total	**230**	**100**

Table 2: "Foreign direct investment and macro-economic development"

S. No.	"Role of foreign direct investment in macro-economic development"
1.	The growth of the economy, advancements in technology, the production of new employment opportunities, and the enhancement of export performance are all benefited by FDI
2.	Enhances ties with global trade networks and offers support for the expansion of these networks.
3.	Encourages innovation in technology, boosts commerce, and improves economic output generally.
4.	Deal with the economy's problems and concentrate on what needs fixing.
5.	Target strategic locations (market access or cost savings) that offer benefits
6.	Reducing transaction costs and increasing efficiency may be achieved by moving activities within international markets.
7.	As a means of overcoming domestic saving constraints and boosting economic development, closing the investment gap is vital in policy goal.
8.	Introduction of innovative technologies and processes is a significant factor in the expansion of job opportunities in the local region, particularly in the fields of information technology (IT), manufacturing (MNCs), and services.
DV	The overall impact of FDI on macroeconomic growth FDI's &overall influence on economic development

"Multiple Linear Regression"

Table 3: "Model Summary"

"Model"	"R"	"R Square"	"Adjusted R Square"	"Std. Error of the Estimate"
1	.739[a]	.547	.530	.57894
a. Predictors: (Constant),FDI contributes to economic growth, technological advancement, job creation, and export performance, Enhances ties to global trade networks and supports their developmental trajectory, Fosters technological advancement, promote trade, and enhance overall economic performance, Address economic challenges and focus on areas needing attention, Target strategic locations (market access or cost savings) that offer benefits, Internalize operations in foreign markets to reduce transaction costs and increase efficiency, Fix the gap between saving and investment rates as it addresses domestic saving limitations and stimulate economic growth and Introduce advanced tech and methods lead to local employment growth, especially in IT, manufacturing, and services				

The Value of adjusted R square is 0.547 and the model explains around 53% of the variation.

"Table 4: ANOVA"

"Model"		"Sum of Squares"	"df"	"Mean Square"	"F"	"Sig."
1	Regression	86.846	8	10.856	31.644	.000b
	Residual	72.729	212	.343		
	Total	159.575	220			
DV: Overall effect of foreign direct investment in macro-economic development						
b. Predictors: (Constant), FDI contributes to economic growth, technological advancement, job creation, and export performance, Enhances ties to global trade networks and supports their developmental trajectory, Fosters technological advancement, promote trade, and enhance overall economic performance, Address economic challenges and focus on areas needing attention, Target strategic locations (market access or cost savings) that offer benefits, Internalize operations in foreign markets to reduce transaction costs and increase efficiency, Fix the gap between saving and investment rates as it addresses domestic saving limitations and stimulate economic growth and Introduce advanced tech and methods lead to local employment growth, especially in IT, manufacturing, and services						

The impact of independent variables on dependent has been explained in the table above and the value in the significance column 0.000 shows that one or more variables are significant on dependent variable.

Table 5: Coefficients

"Model"	"Unstandardized Coefficients"		"Standardized Coefficients"	"t"	"Sig."
	"B"	"Std. Error"	"Beta"		
(Constant)	.152	.288		.527	.599
The growth of the economy, advancements in technology, the production of new employment opportunities, and the enhancement of export performance are all benefited by FDI	.076	.037	.096	2.043	**.042**
Enhances ties with global trade networks and offers support for the expansion of these networks.	-.001	.051	-.001	-.029	.977
Encourages innovation in technology, boosts commerce, and improves economic output generally.	.120	.052	.131	2.321	**.021**
Deal with the economy's problems and concentrate on what needs fixing.	-.056	.048	-.060	-1.175	.241
Target strategic locations (market access or cost savings) that offer benefits	.136	.063	.148	2.148	**.033**
Reducing transaction costs and increasing efficiency may be achieved by moving activities within international markets.	.279	.073	.275	3.831	**.000**
As a means of overcoming domestic saving constraints and boosting economic development, closing the investment gap is an important policy goal.	.304	.070	.302	4.329	**.000**
The introduction of new technologies and processes is a significant factor in the expansion of job opportunities in the local region, particularly in the fields of information technology (IT), manufacturing (MNCs), and services.	.101	.045	.106	2.221	**.027**
a. DV: Overall impact of FDI on macroeconomic growth FDI's &overall influence on economic development					

This table displays six out of the total eight variables. The other variables may be found in the table positioned above this one. There are a grand total of eight factors that are carefully considered. Reducing the disparity between savings and investments is crucial as it may alleviate the limitations of domestic saving and stimulate economic growth with a beta value of just 0.302. When considering the global market, the process of internalization (also known as internationalization) and similar steps may enhance efficiency and reduce transaction costs. If you have a desire to acquire knowledge on leveraging the advantages offered by strategic locations, such as proximity to the market and cost savings, it is recommended that you peruse this article. Contributes to the enhancement of economic performance, business investment, and the generation of novel goods (.131). A positive association exists between Foreign direct investment and the following factors: higher GDP, technological advancement, employment, and successful exports (beta = .096). Foreign direct investment refers to investments made by foreign investors from different countries. The area is seeing a rise in employment prospects, namely in the manufacturing, service, and information technology (IT) sectors (.106). The implementation of cutting-edge technological processes and equipment fosters the expansion of local job opportunities, thereby explaining the observed phenomenon.

Conclusion

India's experience with Foreign direct investment has been remarkable, as the inflow of funds by international investors to the nation's economic development and prosperity have been of critical importance. The phenomenon known as Foreign direct investment has arisen as important factor that has the ability to change the entire economic status of countries. India is a perfect example of this phenomena. The incorporation of foreign capital, technological advancements, managerial expertise, and market access have all played a significant role in propelling India's economic growth and development. The advantages of Foreign direct investment extend well beyond the provision of cash capital. Additionally, they include significant advancements in the areas of job creation, the cultivation of human capital, the advancement of technology, and upsurge of export competitiveness. Understanding the reasons behind Foreign direct investment accomplished with the use of the OLI framework (ownership, location, and internalization) which offers a holistic approach. The extensive network of links that impact investment dynamics is brought to light by the interplay between Foreign direct investment and macroeconomic factors. These variables include foreign exchange reserves, inflation, and gross capital formation that are examples of macroeconomic variables. However, it is essential to exercise caution since the impacts of Foreign direct investment may not appear immediately, and the benefits of FDI do not become completely obvious until after a certain amount of time has passed. In order for India to make full use of the potential of Foreign direct investment for long-term and equitable economic growth, the country must give priority to the development of infrastructure, the upgrading of human capital, the encouragement of local entrepreneurship, and the establishment of a macroeconomic climate that is favourable. FDI helps bridge the gap between the rates of saving and investment, as per findings of a research that investigated the influence of Foreign direct investment on the growth of the macroeconomy. Additionally, it makes it easier to integrate corporate operations in international marketplaces, which ultimately results in reductions in transaction costs and improvements in efficiency. Foreign direct investment is directed toward attractive places that provide a variety of advantages. In addition to this, it encourages the development of new technologies, increases the volume of commerce, and eventually improves the overall functioning of the economy. India has become a major force in the world economy as a result of Foreign Direct Investment, resulted in the capitalization of the country, the introduction of technical improvements, the development of managerial expertise, and the creation of new market opportunities.

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