

## FOREIGN DIRECT INVESTMENT: AN EARMARKED FOR INDIA'S GROWTH

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### ABSTRACT

*Since India is a developing Country, and it is encountering the problem of poverty and unemployment since independence. With the second largest Population in India, probably the employment resources generated over the period of 7 decades since independence are not enough to cater the problem of unemployment. Employment generation is always found as an important measure for enhancing the growth of any developing economy like India. Foreign Direct Investment may provide solution to number of issues of the economy one of them is unemployment especially in India. With intention to have a growth trend, the government of India has approved fifty one percent Foreign Direct Investment in Multi brand and hundred percent in Single Brand retail Sector. 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. The period set out for the research is taken as around last two decades. 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. Study shows that Foreign Direct Investment has shown around 3 times increase in growth compare to second decade with first decade. 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:** Investments, Foreign Direct Investment, Employment, Banking, Insurance.

### Introduction

This is now has accepted by the economist throughout the world that India is becoming the fastest growing economy not in Asia continental but also at globe. Its contribution towards Gross Domestic Production and Purchase Power Parity (which means the how much currency of any country is required for purchasing the same amount of Goods and services as they are available in US Dollars) has drastically improved over the period of last two decades. If we talk for contribution of India in world Gross Domestic Production it has reached up to a level of six percent around in 2013 from the level of seven percent around in 2015. Employment level has also increased by two percent in 2012 compare to 2011, against increase of only one percent in 2011 compare to 2010. This is not only in government sector but also in private sector. This could have possible due to several reasons but one of them is increased level of Foreign Direct Investment. The Government has undertaken significant reforms to attract the larger volume of Foreign Direct Investment without impacting the Local Market and Industries. The liberalized policy of government of India towards

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Foreign Direct Investment, in number of business sectors such as Defence, trading, Banking, Construction, Civil Aviation and other as well. The foreign Direct Investment policy of 2015-16 of the Indian Government has allowed Forty Nin Percent Foreign Direct Investment in Pension sector and a hundred percent in Medical instruments. 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 to analyse 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. The study has also emphasis the trend of Gross Domestic Production and employment over a selected period of time due to Foreign Direct Investment. The study has also reveals the policy making of government for supporting and enhancing the level of Foreign Direct Investment in India.

### **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 and the methods of increasing the Foreign Direct Investment in India.

**Bose, Jayashree (2007)**, this study has made a comparative analysis of Foreign Direct Investment of India and China. In their comparative studies, he made an analysis of various issues of foreign Direct Investment inflows and utilization in India and China. They also evaluated the impact of globalization, foreign factors, trends and various other issues on foreign Direct Investments in India and China. The comparison of impact of Foreign Direct Investment in both the countries has also been evaluated comparatively.

**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.

**Gaurav Agrawal (2014)** The researcher has analysed the relationship existing between Foreign Direct Investment and Economic Growth, especially in reference to BRICS Countries. Their primary evaluation was based on the consideration of role of Foreign Direct Investment in Economic Growth of the country. The Granger causality test proves the presence of bidirectional causality between FDI and economic growths. In his Study he found that there is a positive correlation between Foreign Direct Investment and Economic growth. However he has also stressed that instead of adopting various policies for attracting Foreign Direct Investment, efforts shall also be made to other measures of developing and growing the Economic Growth of the country. Other potential measures shall also be adopted.

**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.

### **Rational of Study**

Foreign Direct Investment always means a lot of significance for developing Country like India. The importance increased more when the economy of any developing country has performed at its best level and roving towards the world's largest economy. The higher number of population increases the importance of Foreign Direct Investment more, because of pressure of providing the large level of employment to the population. India has both the features i.e. having the second largest population in the world, as well as the fastest growing economy of the word which is near to becoming the largest economy of the world. Hence this subject matter has always remained a matter of attraction to researchers and analyst. As we discussed various studies and researches has been conducted on cited subject matter. However most of the studies has been conduced considering the relationship and correlation between Foreign Direct Investment and Gross Domestic Production. The stress of those studies is less on Employment generation due to Foreign Direct Investment. Hence a study is required which encompasses the correlation not only between Foreign Direct Investment and gross Domestic Production, rather should also cover the correlation between Foreign Direct Investment and employment and gross Domestic Production keeping both elements together. Hence this study has been undertaken with the same object.

### **Hypothesis for Study**

- H<sub>01</sub>:** **Null Hypothesis:** There is no favorable impact of Foreign Direct Investment on employment generation.
- H<sub>01</sub>:** **Null Hypothesis:** Foreign Direct Investment do not expands the employment of both organized and unorganized sector.
- H<sub>01</sub>:** **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 Gross Domestic Product along with employment generation in India. The data for the study collected for the period 2011 to 2019.

The required data of Foreign Direct Investment and Gross Domestic Product and employment has been collected from secondary sources. The Data Bank of world bank has been used for data of Foreign Direct Investment and Gross Domestic Production whereas the data of employment was collected form Economic survey of India and using the website of Ministry of Labor and Employment, the Director General of Employment and training.

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 2011 to 2019, 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	0.9854	0.8578
	Sig.(2-tailed)	--	3.4786	0.0015
	N	12	12	12
FDI	Correlation	0.9054	0.9524	0.8245
	Sig.(2-tailed)	4.1581	--	0.0004
	N	12	12	12
Employment	Correlation	0.8456	0.9112	.9532
	Sig.(2-tailed)	0.0001	0.0003	--
	N	12	12	12

Table 1 reveals the Pearson's coefficient of correlation between Foreign Direct Investment, Gross Domestic Product and Employment in India during 2011 to 2019. The Pearson's coefficient correlation between gross domestic product and employment is found to be 0.8578 with significance level of 0.01 percent. The coefficient of correlation 0.8578 shows the Gross Domestic Production has very strong correlation with employment in India during the period of 2011 to 2019. 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. 0.9112 percent during the period of 2011 to 2019. The significance level of 0.0003 indicates the coefficient of Foreign Direct Investment, variable is also highly significant. It is found from 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: Regression Results (Linear Model)**

Multiple R	R-square	Adjusted R Square	Std. Error of Estimates
0.8958	0.6988	0.7471	4.9258

Table 2 depicts the regression result of Foreign Direct Investment, and Employment. The regression analysis shows the accuracy between dependent and independent variables. The results are analysed as if the R-square value is more than fifty percent the used model is significant and if the R-square is less than fifty percent the model is insignificant. The regression coefficient value is 0.8958 between foreign Direct Investment and Employment. This indicates that the 89.58 percent change in dependent variable employment due to change in independent variable Foreign Direct Investment during the study period. The R value 0.8568 and R square value 0.69888 is higher than the level of sixty percent. It means the independent variable foreign direct investment influences highly, the dependent variable Employment during the selected period.

**Table 3: Results of Anova**

	Sum of Square	Degree of Freedom	Mean Square	F-Test	P-Value
Regression	762.325	1	712.54	25.8123	0.0004
Residual	265.548	9	26.008		
Total	1027.873	10			

The table 3 depicting the analysis of variance between Foreign Direct Investment and Employment 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 25.81 is larger than the p-value 0.0004. Hence the null hypothesis is rejected.

### Conclusion

To have a final conclusion, Opening the Indian economy for Foreign Direct Investment with full fledged 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 there investment and obtain the optimum scalable use of the asset in the long run

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