



THE TREND AND ROLE OF FOREIGN DIRECT INVESTMENT IN INDIAN ECONOMY

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ABSTRACT :

FDI is a significant vehicle for the transfer of technology from the developed countries to the rest of the world. Since 1991, the government of India started introducing changes in its economic policy and liberalised its policies towards foreign direct investments. Even before 1991, the foreign investors identified India as an important hub for foreign investment. Once the economy was opened, the inflow of investments into the country increased 20 times more than the previous periods. These investments lead to economic growth through creating new employment opportunities, developing new managerial expertise, new markets and new network for distribution. FDI inflow into India has helped to reach a certain degree of stability in its financial status; its ability to compete with the global economy. Above all the flow of the FDI into the Indian economy made India as a central point of global production chains of MNCs, across various production locations spread around the world. The study finds a strong positive interaction between FDI and India's international trade.

KEYWORDS : FDI Inflow, GDP, Import, Export, Economic Growth.

INTRODUCTION:

FDI is "A form of long term capital movement at international level, for productive purposes with the intention of participating and controlling the management of foreign firm" FDI provide non-debt resources of finance for the economic development of a nation. FDI is a significant vehicle for the transfer of technology from the developed countries to the rest of the world. It means the transfer of technological knowledge and developing employability of existing human resources of the nation. India has emerged as a lucrative FDI destination, not only for the industry but also in the area of the services sector.

Some argument states that FDI brought economic modernisation and laid the path to increase the strength of the economy and leads to self-sufficiency. At the same time, there are plenty of arguments raised for and against FDI. The impact of FDI on an economy can be analysed in terms of its GDP, domestic and international trade. FDI stimulates domestic investment along with infrastructure, quality human capital and institutions in the host countries. This article analyses the trends in foreign direct investment and its

relationship with international trade and economic growth in India.

In this regard, this article attempts to analyse the influence of FDI regarding the trends in GDP, export and import since the post-liberalisation era in India.



LITERATURE REVIEW

Qaiser Abbaset al. (2011) attempted to study the role of FDI on the Growth among SAARC member countries. Their study found a positive relationship with economic growth and the FDI. The growth of the economy is measured by using GDP as an indicator. A strong industrial and agricultural base helped India to reach the top of the SAARC countries regarding its GDP growth. The study uses GDP as dependent and FDI and CPI as the independent variables. Multiple regression models were applied to test the relationship between the selected variables.

Sami Ullah et al. (2014) analysed economic growth determinants in the case of Pakistan from 1980 to 2009. The autoregressive distributed lag model (ARDL) and error correction model (ECM) was employed to test the long run, and short-run parameters between economic growth and its significant determinants are highly significant on the country's economic growth but lesser than that of domestic investment and literacy rate effects.

Sanghamitra. Sand Venkatrama RS (2016) state that Foreign Direct Investment occurs either when a business enterprise makes their investment in a foreign country by acquiring a business or starting a new business in any foreign country. The study found that trade, GDP, Reserves GDP, Exchange rate, are the main factors responsible for the FDI inflows into an economy.

Dinesh Kumar (2016), found that real GDP (RGDP), the labour force (L), the share of domestic investment (INV), domestic credit (DC), inflation (INF), trade openness (TRAD), FDI are the main determinants of GDP. It is necessary to keep all the determinants to keep the long-term climatic growth in mind.

Mohammed E.H and Mahfuzul H (2016), investigated the relationship between FDI e-trade and per capita GDP growth rate in Bangladesh. The study used time series data for the period from 1973 to 2014. The results from the VECM model state that there is a positive relationship between these variables in the end. The study concludes that the per capita GDP is having a positive influence with the trade and FDI.

OBJECTIVES

1. To study the trend of flow of FDI in India from 2000 to 2017
2. To study the impact of FDI in India regarding Import and Export.
3. To study the impact of FDI regarding GDP.

METHODOLOGY

Secondary Data is used for the present study. The time series data for the period from 2000 to 2017 are collected from World Development Indicators and the Reserve Bank of India Bulletin. A log-linear Regression function has been applied to analyse the impact of FDI in India regarding GDP.

HYPOTHESIS

The study has been taken up for the period 2000-2017 with the following hypothesis

1. The flow of FDI shows a positive trend.
2. FDI has a positive impact on Export and Import of the country.
3. FDI has a positive impact on the economic growth of the country.

Ho: There is no significant impact of FDI on Indian economy in term of GDP.

Ha: There is a significant Impact of FDI on Indian economy regarding GDP.

Ho: There is no significant Impact of FDI on Indian economy in term of Export and Import.

Ha: There is a significant impact of FDI on Indian economy regarding GDP.

FINDING AND ANALYSIS

Table.1
Trend and Inflow of FDI in India

YEAR	FDI (CURRENT US \$)	GDP (CURRENT US \$)	PERCENTAGE OF GROWTH - FDI INFLOW	PERCENTAGE OF GROWTH - GDP
2000	3584217307	462147000000	-	-
2001	5128093562	478965000000	43.07	3.64
2002	5208967106	508069000000	1.58	6.08
2003	3681984671	599593000000	-29.31	18.01
2004	5429250990	699689000000	47.45	16.69
2005	7269407226	808901000000	33.89	15.61
2006	20029119267	920317000000	175.53	13.77
2007	25227740887	1201110000000	25.96	30.51
2008	43406277076	1186950000000	72.06	-1.18
2009	35581372930	1323940000000	-18.03	11.54
2010	27396885034	1656620000000	-23.00	25.13
2011	36498654598	1823050000000	33.22	10.05
2012	23995685014	1827640000000	-34.26	0.25
2013	28153031270	1856720000000	17.33	1.59
2014	34576643694	2039130000000	22.82	9.82
2015	44009492130	2102390000000	27.28	3.10
2016	44458571546	2274230000000	1.02	8.17
2017	39966091359	2597490000000	-10.10	14.21

Source: World Development Indicators, 2018

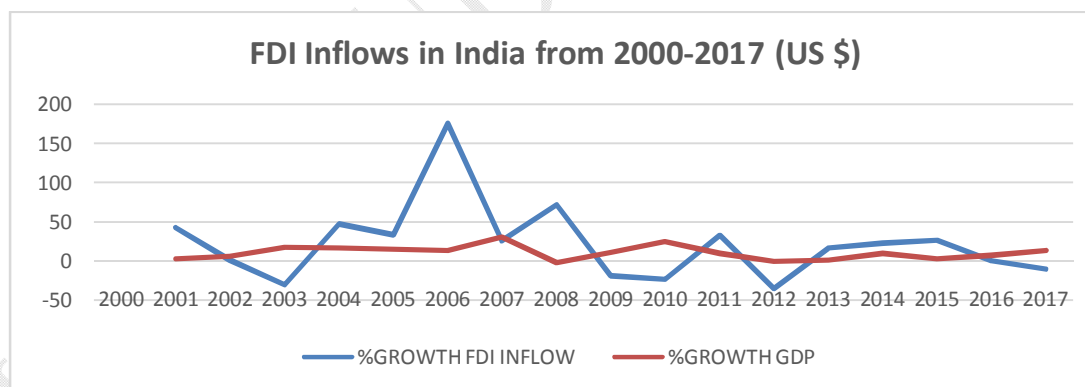


Table 1 depicts trends and inflow of FDI in India for a period of 18 years from 2000 to 2017. The inflow of FDI has a fluctuating trend throughout the study period. The period has witnessed 43.07 per cent growth in FDI inflow in the year 2001 with only 1.58 per cent increase in the succeeding year. Negative growth of -29.31 per cent was recorded in 2003. The percentage growth of FDI inflow increased substantially to 47.45 per cent in the year 2004. Succeeding year. The percentage growth of FDI inflow was the highest at 175.53 per cent in the year 2006. The following year recorded 25.96 per cent growth in FDI, and it increased to 72.06 per cent in the year 2008. The following two years 2009 and 2010 recorded negative growth of -18.03 per cent and 23.00 per cent. The positive growth of 33.22 per cent was recorded in 2011. The year 2012 witnessed a negative growth of -34.26 per cent. The following three years 2013 to 2015 showed an increasing trend in FDI growth by 17.33 per cent, 22.82 per cent and 27.28 per cent respectively. In 2016 the

percentage growth of FDI inflow was only 1.02 per cent. The final year of the study recorded a negative growth of -10.10 per cent.

The growth in GDP has a fluctuating trend throughout the study period. An increasing trend in growth of GDP was observed from 2000 to 2003. During the years 2004 to 2006, the growth in GDP marginally declined. The year 2012 witnessed an increase in GDP by 30.51 per cent. It was followed by a negative growth of -1.18 per cent in 2008. From 2009 to 2017 increasing and decreasing growth in GDP was recorded. The growth in GDP was the highest at 25.13 per cent in 2010 and the lowest at 0.25 per cent in 2012 while in 2008 the GDP growth was negative at -1.18 per cent.

IMPACT OF FDI ON GDP IN INDIA

To find out the fact that FDI Inflow in India is causing growth or not, the impact of FDI inflow on GDP growth has been studied in this paper. The FDI inflow and GDP of India from 2000 to 2017 is explained in the following table:

Table 2
Foreign Direct Investment (FDI) and Gross Domestic Product (GDP)

YEAR	FDI (CURRENT US \$)	GDP (CURRENT US \$)	LNFDI	LNGDP
2000	3584217307	462147000000	22.00	26.86
2001	5128093562	478965000000	22.36	26.89
2002	5208967106	508069000000	22.37	26.95
2003	3681984671	599593000000	22.03	27.12
2004	5429250990	699689000000	22.42	27.27
2005	7269407226	808901000000	22.71	27.42
2006	20029119267	920317000000	23.72	27.55
2007	25227740887	1201110000000	23.95	27.81
2008	43406277076	1186950000000	24.49	27.80
2009	35581372930	1323940000000	24.30	27.91
2010	27396885034	1656620000000	24.03	28.14
2011	36498654598	1823050000000	24.32	28.23
2012	23995685014	1827640000000	23.90	28.23
2013	28153031270	1856720000000	24.06	28.25
2014	34576643694	2039130000000	24.27	28.34
2015	44009492130	2102390000000	24.51	28.37
2016	44458571546	2274230000000	24.52	28.45
2017	39966091359	2597490000000	24.41	28.59

Source: World Development Indicators, 2018

LNFDI = NATURAL LOG OF FDI INFLOW; LNGDP = NATURAL LOG OF GDP

EMPIRICAL ANALYSIS

IMPACT OF FDI ON GDP IN INDIA

Coefficients

Model	Unstandardized Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	14.569	1.413		10.311	.000
LNFDI	.561	.060	.920	9.363	.000

Dependent Variable: LNGDP

Source: Through SPSS, based on table 2.

Testing Of Hypothesis

Ho: There was no significant impact of FDI in India.

Ha: The Alternative Hypothesis accepts that there is a significant impact of FDI in India.

In order to test the hypothesis, their values are converted into a natural log of LNIGDP as a dependent variable. Analysis of data shows that Independent variable is significant at any level of significance with the T value of 9.36 and on the other hand; constant, i.e., the significant value is significant at any level of significance with T value of 10.31. It is clear that the impact of FDI on GDP and some other unknown factors also play a significant role.

In table 2 the 'B' value is 0.51 per cent which indicates that the elasticity between FDI and GDP is 0.51 per cent. It resulted that a 1 per cent increase in FDI leads to a 0.51 per cent increase in GDP that helps in boosting the growth rate of India. If FDI increases by 10 per cent, then it may increase the GDP growth rate by 5.1 per cent. Therefore, Ho is rejected, and Ha is accepted as there is a significant impact of FDI and GDP in India.

IMPACT OF FDI ON EXPORT AND IMPORT

The impact of FDI on Export and Import has been studied in this paper. The FDI Flow and Export and Import of India from 2000 to 2017, is shown in the following table:

Table 3
Impact of Foreign Direct Investment (FDI), on Import and Export

YEAR	FDI	IMPORTS	EXPORTS	LNFDI	LNIMPORT	LNEXPORT
2000	3584217307	64971207881	60697346482	22	24.90	24.83
2001	5128093562	65065216525	60782221951	22.36	24.90	24.83
2002	5208967106	78314209114	73234279967	22.37	25.08	25.02
2003	3681984671	94848356578	90568215341	22.03	25.28	25.23
2004	5429250990	138983000000	126271000000	22.42	25.66	25.56
2005	7269407226	183305000000	160360000000	22.71	25.93	25.80
2006	20029119267	229415000000	199379000000	23.72	26.16	26.02
2007	25227740887	302093000000	252325000000	23.95	26.43	26.25
2008	43406277076	350103000000	288043000000	24.49	26.58	26.39
2009	35581372930	346362000000	272938000000	24.30	26.57	26.33
2010	27396885034	448917000000	374237000000	24.03	26.83	26.65
2011	36498654598	566667000000	447384000000	24.32	27.06	26.83
2012	23995685014	571307000000	448401000000	23.90	27.07	26.83
2013	28153031270	527555000000	472180000000	24.06	26.99	26.88
2014	34576643694	529240000000	468346000000	24.27	26.99	26.87
2015	44009492130	465096000000	416787000000	24.51	26.87	26.76
2016	44458571546	478367000000	439266000000	24.52	26.89	26.81
2017	39966091359	565595000000	490079000000	24.41	27.06	26.92

Source: World Development Indicators, 2018

LNFDI = Natural Log FDI

LNIMPORT = Natural Log Import

LNEXPORT = Natural Log Export

EMPIRICAL ANALYSIS

IMPACT OF FDI ON IMPORT IN INDIA**Coefficients^a**

Model	Unstandardized Coefficients		Standardised Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	7.848	1.762		4.454	.000
LNFDI	.782	.075	.934	10.474	.000

a. Dependent Variable: LNIMP

Source: Through SPSS, based on Table 3.

IMPACT OF FDI ON IMPORT IN INDIA**Testing Of Hypothesis**

Ho: There was no significant impact of FDI on Import in India.

Ha: There is a significant impact of FDI on Import in India.

Analysis of data in table 3 shows T value is 10.474 for the independent variable. It shows that there is a significant impact of FDI on Import. The B value is 0.78, which shows the elasticity between the FDI and Import is 0.78 per cent. It resulted that a 1per cent increase in FDI leads to a 0.78per cent increase in Import.

EMPIRICAL ANALYSIS**IMPACT OF FDI ON EXPORT IN INDIA****Coefficients**

Model	Unstandardized Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	8.664	1.721		5.035	.000
LNFDI	.742	.073	.931	10.173	.000

a. Dependent Variable: LNEXP

Source: Through SPSS, based on Table 3.

IMPACT OF FDI ON EXPORT IN INDIA**Testing Of Hypothesis**

Ho: There was no significant impact of FDI on Export in India.

Ha: There is a significant impact of FDI on Export in India.

Analysis of data in table 3 shows T value is 10.173 for an independent variable, i.e., the inflow of FDI is significance at 5 per cent level of significance. It shows that there is a significant impact of FDI on Export. The B value is 0.74 which shows the elasticity between the FDI and Export is 0.74per cent. It resulted that a 1per cent increase in FDI leads to 0.74 per cent increase in Export.

CONCLUSION

FDI has helped the Indian economy to grow, and the government continues to encourage more investment of this sort. FDI has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. Today, FDI inflows in India play a very significant role in the overall growth of the country. The FDI inflow in India shows a fluctuating trend during the last 18 years, i.e., 2000 to 2017. In the last 18 years, FDI shows a positive trend in 9 years and a negative trend in 9 years. The study concludes that there is a substantial positive impact of FDI inflow on the growth of GDP, import and export.

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