



Impact of Foreign Direct Investment on Economic Growth

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Abstract

Foreign direct investment plays an important part in developing countries' economic development. Improving the international economic transactions has become more critical than trade. Non-debt generating capital inflow from foreign investors encourages enhanced efficiency, technology development, and infrastructure strengthening and job creation opportunities. Therefore every economy seeks to attract FDI by establishing a favorable environment for foreign investment and providing the foreign investors with facilities and inducements. Increasing socio-economic determinants in an economy affect FDI. In this paper an attempt has made to study the impact of FDI on Gross domestic product, gross domestic saving, per capita income and Foreign exchange rate by using bivariate log-log regression.

Keywords: Foreign direct investment, Gross domestic product, Gross domestic saving, Per capita income, Foreign exchange rate etc.

1. Introduction

With over one billion inhabitants, India is one of the world's largest economies in terms of purchasing power and consumer spending. (FDI) plays an important role in encouraging exports and in transforming the Indian economy. Foreign Direct Investment (FDI) is well thought out as an imperative means of encouraging a multitude of countries to export. By increasing productivity and productive capacity, it is argued that exports are exercised by the FDI and technology transfer is also important for the upgrading of local workforce training. The Indian government has taken some important measures and the FDI policy reforms are being made to ease the businesses and to prepare the FDI in the years ahead. Today, FDI has become a tool of international economic integration. Yet globalization, before people obtain a clear understanding of how globalization impacts human welfare, is still debatable. Since economic growth has become an international measure of country welfare, people need to be better able to handle the effects of globalization on economic

growth. Globalization encompasses a wide range of economic activities, including international trade, international migration, and investment. An accurate assessment of whether globalization is good for economic growth requires that we look at the growth effects of all globalization's components. Not all of these components have been extensively studied, and empirical evidence indicates that each of the globalizing practices can have very different effects on development. Owing to a lack of resources and technology transfer, international investment is a strategic move for the country and is commonly well recognized as Foreign Direct Investment (FDI). Many policy-makers and scholars claim that FDI can have major positive impacts on the development initiative of a host nation. In addition to the direct capital support it offers, FDI can be a source of useful technologies and know-how while cultivating partnerships with local businesses that can help improve an economy. Industrialized and developing countries have offered incentives based

on these claims to promote foreign direct investment in their economies. Fueling this debate is that at both the micro and macro levels, empirical evidence for FDI producing positive spillovers for host countries is unclear. In this paper an attempt has been made to study the impact of FDI inflows in India on macro economic variables.

2. Review of Literature

Phiyal Kumar Ram and Sunuwar Seema (2018)¹The FDI 's role in economic growth has been widely studied in terms of growing employment opportunities and overall economic well-being, especially in developing countries such as Nepal. The entire outcome of the inferential analysis interprets that manufacturing, tourism and agriculture FDI has a very positive and important effect on GDP over the period from 2007 to 2016. Mishra.A and Aggarwal Amba (2017)² analyses the effect of Foreign Direct Investment (FDI) in five developed world countries that formed the BRICS organisation. This study aims to expose the effect of FDI in the BRICS countries (Brazil, Russia, India, China and South Africa) on economic growth and employment. The data used for the duration (2000 through 2015). For this study correlation analysis was applied to examine the types of relationships that exist between FDI and the BRICS country's economic growth and unemployment rise. The analysis shows that FDI does not have any major positive effect on growth rate in Brazil and China Rest BRICS nations FDI.

Rahman UR Zia (2014)³Studies the effect FDI has on Pakistan's economic development. Multiple regression technique is used which shows that Pakistan's GDP is positively affected by FDI when FDI inflows increase, and there is a negative relationship between GDP and CPI.

Akhtar Gulshan (2013)⁴ studies the relationship between FDI and pre- and post-reform era economic growth. FDI serves as a catalyst for domestic industrial development and is considered a major engine for economic growth. He suggests that the emphasis should be not only on the amount of FDI inflow, but also on the positive externalities that can be gained from it, like technological growth.

Teli .R.B. (2013)⁵ found that the correlation between FDI inflows and other relevant economic indicators such as GDP, Trade, etc. is very strong.

The Government of India should take cautionary measures thus allowing for various industries, such as multi-brand retailing in India. Regulatory policies should be made favourable and policy makers should avoid uncertainties for boost line FDI in India and ultimately to raise GDP, Trade and Foreign reserves of the country.

3. Objectives:

1.To study the various determinants affecting FDI.

2.To study the impact of FDI on Gross Domestic Product, Gross Domestic Savings, Per capita Income and Foreign Exchange rate.

Collection of Material

The analysis was conducted using secondary data. The investigator obtained data that had been written from different sources, viz. RBI bulletins, World Investment Report (UNCTAD), World Bank, Handbook on Indian Economic Statistics (RBI), Department of Trade and Industrial Development, etc. In addition to these various journals, this research paper also consulted magazines, articles, and books.

Research Methodology

An attempt was made in this paper to investigate the impact of FDI inflows from 1991 to 2019 on major economic factors in an economy such as GDP, GDS, PCY, and FER. Using the log-log bivariate regression model, a descriptive analytical method was used in this analysis to identify the effect of FDI inflows in India on those variables. Analysis of Data.

Table 2 shows the results of regressions to study the impact of FDI on major economic variables. The result reveals that there is a positive relation between Gross domestic product and foreign direct investment in India. It also shows the elasticity of GDP to FDI is 0.42, which is found statistically significant. The impact of FDI on GDP is positive and significant.

FDI in India is also showing positive and significant relation with gross domestic savings in Indian economy. A one percent change in FDI inflow could lead to 0.48% change in gross domestic product.

There is also a positive and significant relation between FDI and per capita income and foreign exchange rates. With one percent increase in FDI could lead to 34% and 69% change in PCY and FER, respectively.

TABLE-1.DATA OF FDI, GDP, GDS, PCY AND FER from (1991-2018)

(Amount in US\$ MILLION)

Years	FDI	GDP	GDS	PCY	FER
1991-92	129	270,105	61818	309	9220
1992-93	315	288,208	68940	324	9832
1993-94	586	279,296	60542	307	19254
1994-95	1314	327,275	76251	353	25186
1995-96	2144	360,281	91262	382	21687
1996-97	2821	392,897	83628	408	26423
1997-98	3557	415,867	98582	424	29367
1998-99	2462	421,351	93809	422	32492
1999-00	2155	458,820	116462	451	38036
2000-01	4031	468,394	110687	452	42281
2001-02	6130	485,441	122063	461	54106
2002-03	5095	514,937	125780	481	76100
2003-04	4322	607,699	157394	558	112959
2004-05	6052	709,148	221522	641	141514
2005-06	8962	820,381	263068	729	151622
2006-07	22826	940,259	310483	817	199179
2007-08	34844	1,216,735	421403	1050	309723
2008-09	41903	1,198,895	372840	1023	251985
2009-10	37746	1,341,886	422163	1125	279057
2010-11	36047	1,708,460	549452	1388	304818
2011-12	46552	1,823,052	595976	1472	294398
2012-13	34298	1,827,637	542253	1450	292046
2013-14	36047	1,856,721	550397	1455	304223
2014-15	45147	2,039,127	599619	1596	341638
2015-16	55559	2,103,588	642950	1639	360176
2016-17	60220	2,289,754	695269	1761	369955
2017-18	60974	2,652,245	795327	2014	424545

Source: [World Bank](#) - World Bank national accounts data, and OECD National Accounts data.

Table 2 Results of bivariate regression equations of Impact of FDI on GDP, GDS, PCY and FER in India During 1991-2018

Independent Variable: Ln FDI

Log-Log Model

Ln FDI _t	Ln GDP	Ln GDS	Ln PCY	Ln FER
Constant	9.81	7.89	3.46	5.22
Coefficient	0.42	0.48	0.34	0.69
R ²	0.89	0.898	0.87	0.93
SE of Coefficient	0.26	0.29	0.23	.031
p-value	.000	.000	.000	.000

Conclusions

From the empirical analysis, it is found that FDI has positive and significant impact on major economic variables. As FDI will increase in the economy it could increase the gross domestic product by contributing more in production activities and when production will increase it would help in increasing income and savings of individuals. With the rise in National income per capita income will improve. FDI increases the demand for currency and hence helps in appreciation of domestic currency or foreign exchange rates. So by theoretical as well as empirical analysis it can be concluded that FDI inflows affect all these economic variables.

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