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The impact of foreign direct investment on India's economic growth

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Abstract
FDI is a significant tool for the transfer of capital and technology and is considered to be a powerful factor in encouraging economic growth of the country. This research investigation highlights the impact of FDI on the economic growth of India. The study describes important characteristics which are helpful in defining the role of FDI in the economy of India. Deficiency of capital and technology, in spite of enormous amount of resources and labor, leads to dependency on other developed countries for its fulfillment. For own resource utilization we are dependent on other technologically advanced countries. The policy makers, economists, academicians and researchers believe that this issue can be sorted out with FDI. The present research study assess me the role of FDI on the growth of the Indian economy. The study utilizes data from secondary sources. GDP is selected as a gauge for the assessment of economic growth. Regression analysis and ANOVA have been used for studying the relationship between GDP and FDI.

Keywords: Liberalization, influx, growth, development, technology

Introduction
In the past few decades, India has witnessed numerous changes in the economic and financial policies, which can be attributed to the developing significance of foreign investment. Economists and financial experts have recognized the importance of FDI in the economic growth and development of the country. The liberalization of the ancient and flawed investment policies has led to this growth and development. In present times India is regarded as the pivotal center of foreign investment in the world. With the implementation of the liberalization policy in 1991, India has observed huge foreign direct investment which has resulted in the improvement of the economy. The Indian Foreign Investment Policy can be segmented into four stages:

- **Stage I (1948-66):** The first stage of the policy was followed after independence. It was cautious and guarded reception policy until the late sixties' crisis.
- **Stage II (1967-1979):** The second stage, which is more restrictive, was followed in 1966 following the oil crisis. It lasted for about three years.
- **Stage III (1980-1990):** This stage was marked by slender liberalization policy.
- **Stage IV (1991-onwards):** The second stage was characterized by an open door policy and liberal investment environment.

India is defined as a liberalized economy with enormous skilled workers and large consumer market with characteristic ever increasing purchasing power is drawing the attention of more foreign direct investment. The entry of foreign cash has allowed India to improve its infrastructure, increase productivity, and increase employment. FDI has served as a vehicle for attaining sophisticated technology and mobilizing foreign exchange reserves. The present study focusses on FDI in India.

Objective
The present research study has been framed to assess the interrelationship between FDI and its impact on Indian economy. The study highlights the relationship between FDI & GDP in Indian perspective.

Literature Review

In 1998, Borensizein [2] and colleagues conducted a study that showed that if technology is available in a host country, then foreign direct investment (FDI) contributes to economic growth.

De Mello, 1999 [4], the study analyzed the impact of FDI on the recipient economy's capital accumulation and total factor productivity. It revealed that although it is expected to boost long-term growth, the extent to which it is growth-enhancing depends on the degree of technological upgrade and substitution between domestic and foreign investments.

Alfaro, 2003 [1], examined the effects of FDI on various sectors. Although it may seem natural to suggest that attracting foreign direct investment is beneficial for host countries, the study revealed that the effects of FDI vary widely across industries. The study noted that total FDI has an ambiguous effect on growth. It was able to study the effects of FDI on the primary sector and the manufacturing industry.

Hansen and Rand, 2006 [5], analyzed the relationship between foreign direct investment and the level of gross domestic product in 31 developing countries from 1981 to 2006. They show that foreign direct investment has a long-run impact on the gross domestic product. This finding supports the theory that FDI is an important driver of economic growth. They also find evidence suggesting that the adoption of new technology and knowledge transfers can help boost GDP.

Chowdhury and Mavrotas, 2006 [3], the relationship between foreign direct investment and economic growth was studied using an econometric method. The method was based on the Toda-Yamamoto test, which is a method used for assessing the causal relationship between a given variable and an event. The empirical findings indicated that GDP is the main driver of FDI in Chile, Thailand, and Malaysia. The results were confirmed through a bootstrap test.

Mishra, 2012 [7], mentions that foreign direct investment (FDI) make significant contributions in the positive growth of the country due to the investment by another country or country's personnel's. The effectiveness and efficiency of Global economy depends upon the investor's perception, if investment seen with the purpose of long terms investment in the social-economical development then it is said that the investment contributes positively towards global economy, if it is short term for the purpose of making profit then it may be less significant than that long term and disinvestment leads negative effect. The FDI may also be affected due to the governmental trade barriers and policies for the foreign investments and leads to less or more effective toward contribution in economy as well as GDP and GNP of the country. In this paper, our aim is to point out the negative and positive implications which affect the economic scenario and also measure the level of predominance by the factors for economic contribution of particular country with special reference to India. This study also examined the international investment regime and their relation with Indian economy.

Malhotra, 2014 [6], examined the impact of foreign direct investment on India's economy was studied after two decades of reforms. The study provided a comprehensive analysis of the various challenges that the country faces in competing with other nations for FDI.

Berthelemy and Demurger study analyzed the relationship between China's economic growth and foreign direct investment. It found that the role of foreign investment in the country's development is very important

Thomas, 2016 [8], define Foreign Direct Investment is an investment made by a company in another country. It is often preferred over other forms of foreign investment. It provides a new source of capital and can stimulate various economic activities such as skill enhancement and technological up gradation. However, it has also brought about certain negative effects on the Indian economy. For a study spanning 15 years, the flow of FDI was compared with the country's Gross Domestic Products and Stock Market Indices. It was concluded that the flow of foreign capital has a significant impact on the Indian stock market.

Research Methodology

The study followed a sequenced step method for the analysis of the impact of FDI on Indian economy. The study was completed in the below mentioned steps-

1. For evaluating the effect of FDI inflows on India's economic growth GDP was selected as a marker for measuring economic growth.
2. Data related to FDI inflows & GDP was procured from secondary sources.
3. ANOVA was used to analyze the relationship between the FDI Inflows & the Gross Domestic Products.

Data Analysis & Interpretation

The following hypothesis have been suggested in order to study the impact of FDI on the growth of the economy. GDP per capita was used which is regarded as a relatively true measure of economic growth of the country.

H_0: There is no significant impact of FDI Inflows on GDP per Capita.

H_1: There is a significant impact of FDI inflow on the GDP per Capita.

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

Year	FDI Inflows	GDP per Capita	Year	FDI Inflows	GDP per Capita
1993	75	316.2889852	2006	5778	616.0236666
1994	252	311.336615	2007	7622	709.7680483
1995	532	297.9889148	2008	20328	790.9944417
1996	974	334.8101583	2009	25350	991.3467178
1997	2151	372.7542668	2010	47102	1048.161005
1998	2525	385.4836315	2011	35634	1068.62321
1999	3619	410.8021088	2012	27417	1340.910324
2000	2633	405.8719722	2013	36190	1500.853109
2001	2168	424.9286763	2014	24196	1473.301818
2002	3588	430.7277284	2015	28199	1499.382472
2003	5478	437.0571735	2016	34582	1576.058753
2004	5630	449.2611259	2017	44064	1629.233446
2005	4321	517.4687782	2018	44486	1706.457685

Source: moneycontrol.com

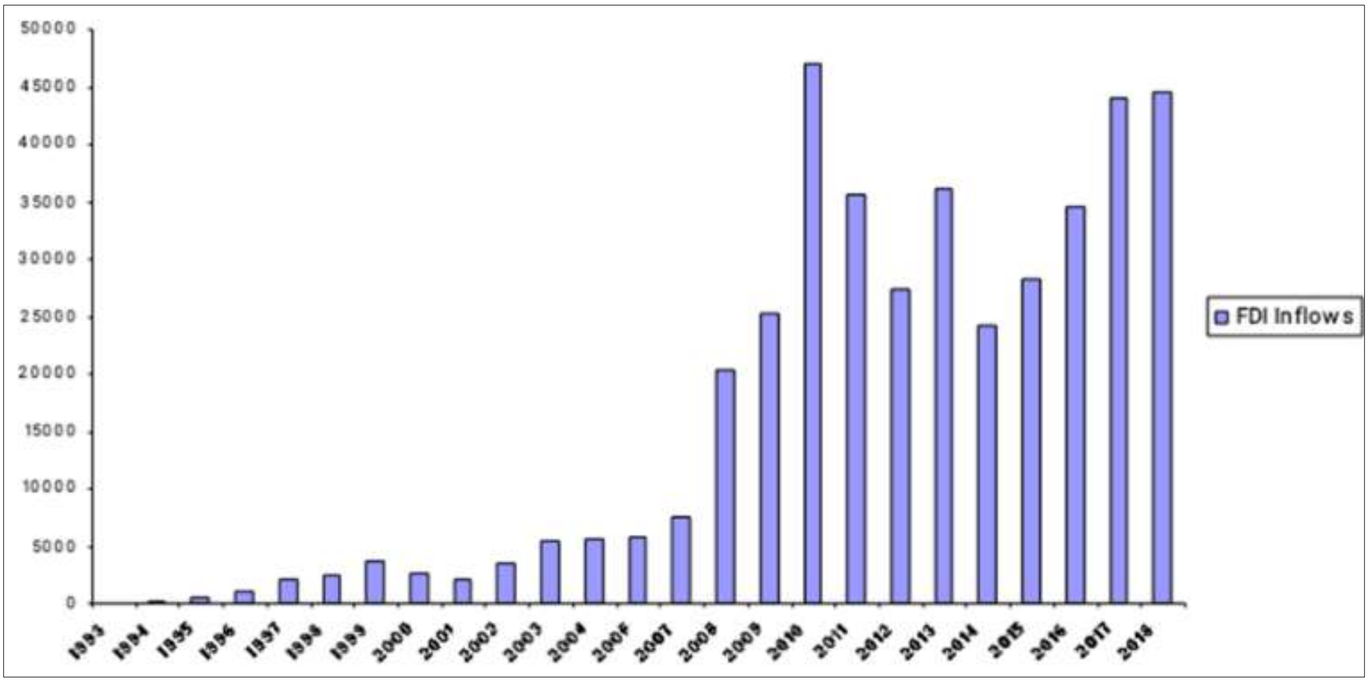

Fig 1: Yearly FDI Inflows

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

The study outcome is primarily based on 26 observations. The FDI inflow is considered as an independent variable and is calculated as a per capita measure. 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=b0 + b1FDI 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.
Inconsistent with the Null Hypothesis, we find that the FDI inflow has a positive impact on the country's economic growth.

Conclusion and Recommendations

The study demonstrates that FDI and GDP are significantly associated with each other i.e. they are highly and positively correlated. Linear relationship is present between 'FDI inflows' & 'GDP per Capita' at 5% level of significance. FDI can be considered as the approach for transferring technology to developing countries like India. FDI can result in extensive amalgamation of India with markets around the globe. Hence the government should take into consideration the favorable impacts of FDI and take necessary required steps for its promotion with certain precautions without ignoring it limitations. Government should cautiously design the policy framework for maximum economic development and growth. Before permitting FDI in any specific sector the government should consider the sector individually for the benefits and limitations posed by FDI on that specific sector.

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