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To Study the Role of FDI to Promote Economic Growth in India

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Abstract: *This research is based on the impact of Foreign Direct Investments (FDIs) on economic growth in India. There are certain components which influence the Foreign Direct Investments. It comprises Trade openness, Inflation rate, Economic stability, Investment policies, rules and regulations adopted, implemented Exchange rates, foreign reserves and Political stability of the country. Further, Foreign Direct Investments succeed to amplify trade and it dispenses financial aid too. Foreign Direct Investments have ameliorated Balance of Payment problems in the Indian economy. The foremost objective of this paper is to analyze the impact of foreign direct investment towards the growth of the Indian economy. Net Foreign Direct Investment inflows and Gross Domestic Product are taken as the variables for the study. Simple Regression and Pearson's correlation methods are used for the study to measure the impact of Foreign Direct Investments towards the Indian Economy. The study is based on Secondary data collected through the World Bank website from 1970 to 2019. According to the Empirical results it reveals that Foreign Direct Investments are significant for the growth of the Indian Economy and the positive association between FDI and GDP*

Keywords: Foreign Direct Investments (FDI), Gross domestic Product (GDP), Balance of Payments, Economic Growth

I. INTRODUCTION

Foreign Direct Investment (FDI) which is called as a non-debt financial capital is known as a most preferable way of capital inflow to any economy. Economic growth is the proliferation of production of goods and services over a period of time. GDP is estimated by percentage increase in real gross domestic product. The rate of economic growth means the growth between first and last over a period of time. Usually FDI plays a substantial role in proliferating the general capital formation in the Indian economy. Moreover, it is a much needed tool for converting technology and knowledge. Majorly, Foreign Direct Investments (FDIs) give rise to the returns in production through positive externalities towards sustainable economic growth. (Mengistu and Adams, (2007). However, this is pertinent to most of the developing countries. India is primarily investigated as the most captivating and common destination for Foreign Direct Investments. Indian Foreign Direct Investments had revolted up to 17800 USD Millions by August 2020. There are precise components which determine the Foreign Direct Investments. They are, truncated wage and labor, availability of raw materials, communications systems and FDI policies. Most of the Investors look up for low wage labor in South Asian countries such as India. Therefore low wage labor hypnotizes many Foreign Direct Investors. In addition communication skills among workers plays a significant role in tantalizing FDIs. In India since the Literacy rate is higher among the skilled labor leads to fascinate more investors towards India. Moreover, cheap resources and raw materials excite more FDIs. On the other hand, ease and alternation in Foreign Direct Investment Policies get more FDIs. Recently, Byju's made a USD 500 worth investment and Cashaa invested USD 5 million for the amplification of the crypto market. Further, the Government of Singapore offered USD 63.84 million for development of Phoenix Mills and Coralogix invested 30 USD million. Foreign Direct Investments play a paramount part in proliferating economic growth. FDIs escort new technological refinements which can be embraced to proliferate the production capacity. Moreover, FDIs furnish more capital to the economy too. FDIs lessen the balance of payment problems while proliferating new marketing strategies to economies. In addition, FDI gives rise to GSJ: Volume 8, Issue 10, October 2020 ISSN 2320-9186 1685 GSJ 2020 www.globalscientificjournal.com employment opportunities which further leads

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to proliferate economic growth. Moreover FDIs lead to the normal wage rate of the employees too. Further, FDI facilitates exports of host developing countries too. The Government of India has taken some new steps to boost Foreign Direct Investment in various sectors. Indian Government has altered the Foreign Direct Investment Policy in August 2020 which engrossed on commercial coal mining. Further, it grants 100 permission Foreign Direct Investments in coal mining activities in 2019. However, the Government of India has proliferated the Foreign Direct Investment for defense manufacturing. They have proliferated the percentage from 49 to 74 percent. Moreover, the Indian Government has altered the Foreign Direct Investment Policy on taking over companies from other nations. However, Non-Residents in India are granted permission to get 100 percent stake from Air India.

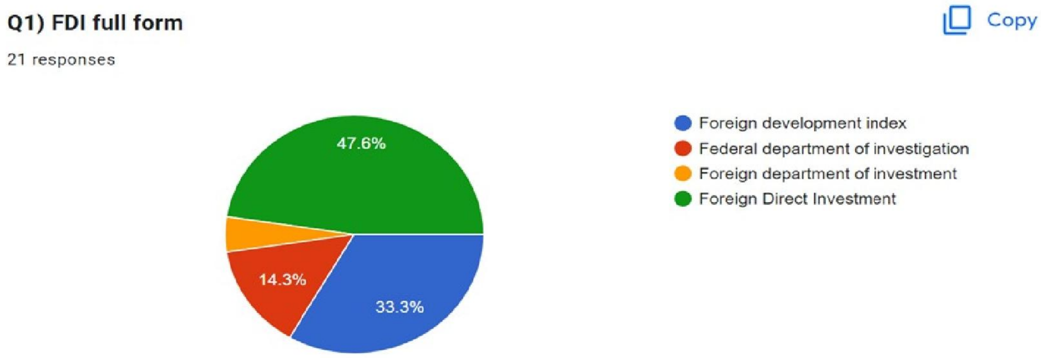
II. OBJECTIVES OF THE STUDY

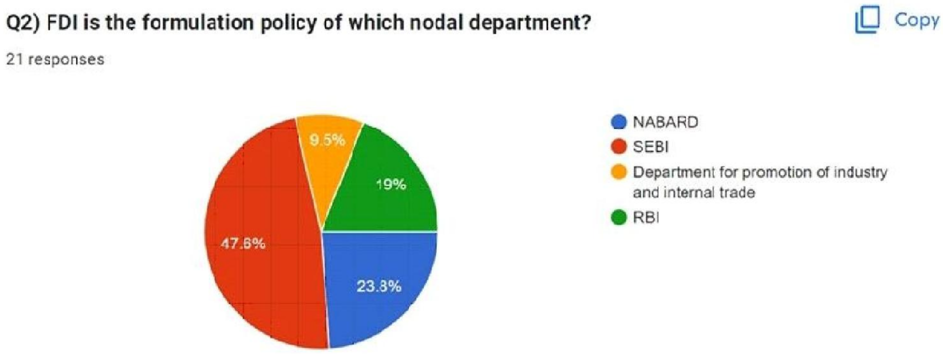
- To study about the factors which influence the Foreign Direct Investment to India
- Role of FDI on Economic Growth
- To investigate the empirical relationship between Foreign Direct Investment and Economic growth in India.

III. RESEARCH METHODOLOGY

The research data is based on secondary sources. The data is collected from the World Bank Website. The main study period is from 1970 to 2019. There are two variables used to measure the impact. Foreign Direct Investment is taken as the independent variable whilst Gross Domestic Product is taken as the dependent variable. Pearson's correlation is used to figure out the association between Foreign Direct Investments and Gross Domestic Product. However, the Simple Regression Model is used to measure the impact of Foreign Direct Investments on Indian Economic Growth. Economic growth is measured by Gross Domestic Product. The simple Regression Model can be mentioned as follows.
$YYtt = \alpha + \beta\ XXtt + \mu ttGGGGGGtt = \alpha + \beta\ FFFFFFtt + \mu ttYYtt$ = Dependent Variable (GDP according to this study) α = Autonomous Variable β = Regression Coefficient $XXtt$ = Independent Variable (FDI according to this study) μtt = Error term.

IV. FINDINGS





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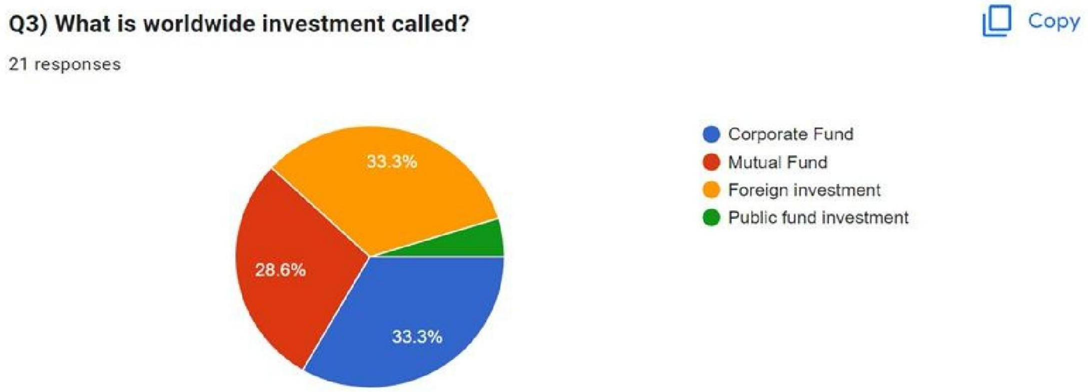

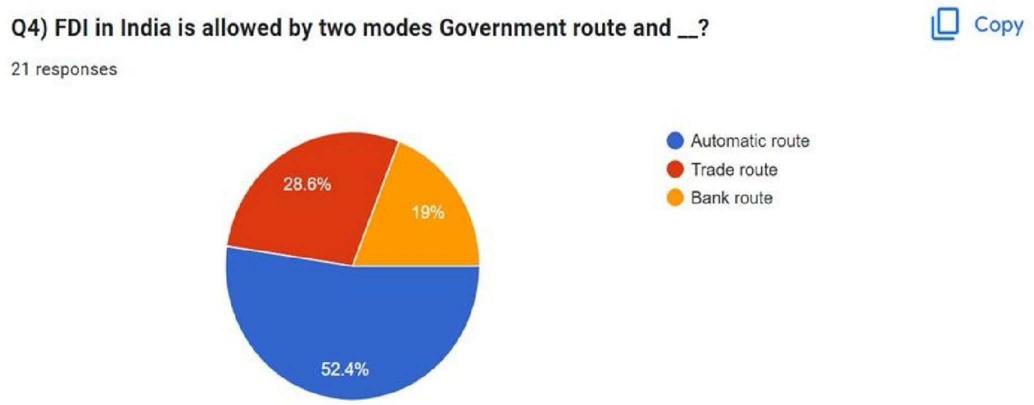

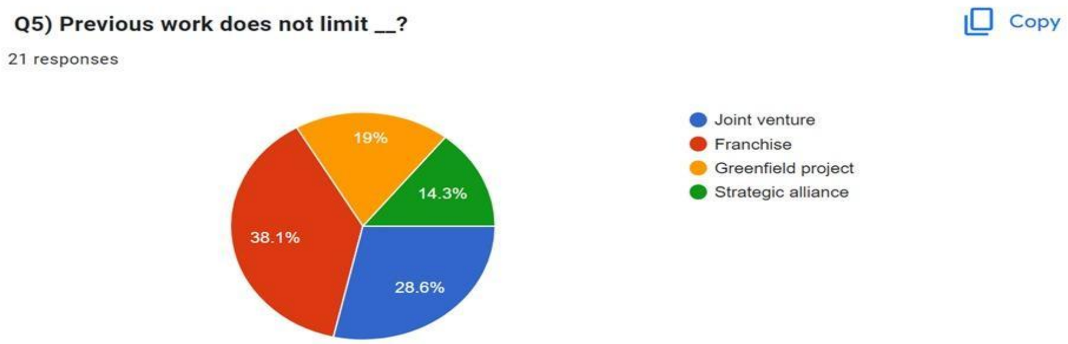

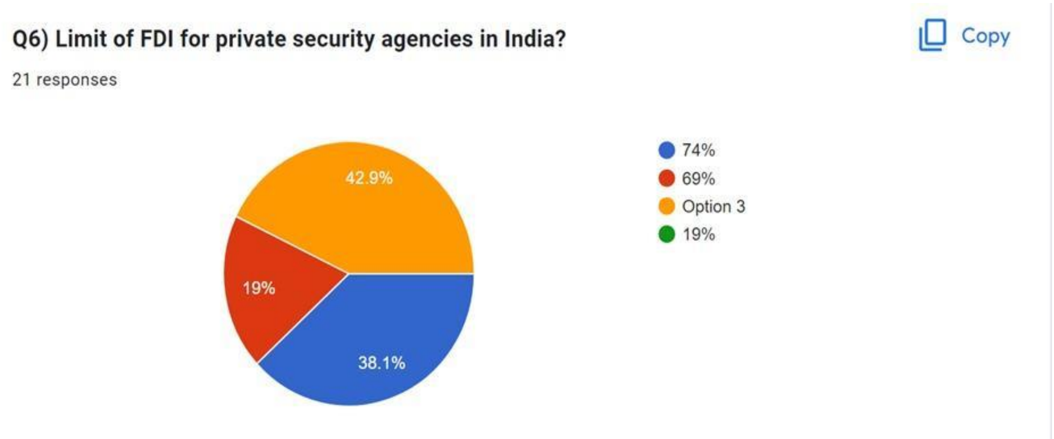

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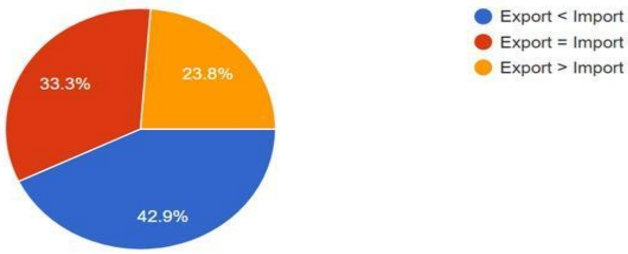
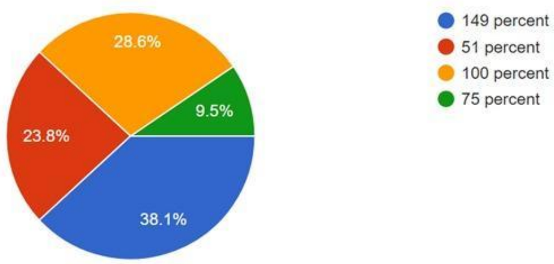
Q7) **In foreign trade, an adverse balance of trade occurs when __?** Copy

21 responses



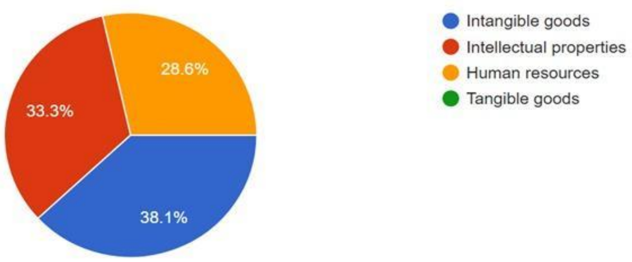
Q8) The Indian government declared in November 2015 that FDI in 'News and current affairs networks' would be increased from 26 percent to . Copy

21 responses



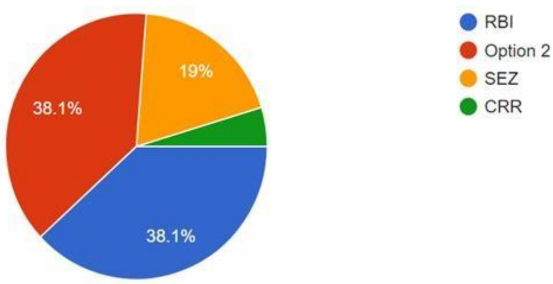
Q9) _ is foreign direct investment ? Copy

21 responses



Q10) **An _____ is a financial investment made by a company or individual in another country's business interests.** Copy

21 responses



V. MAIN CONTENT

Gregorio, and Lee, (1998) have examined how Foreign Direct Investments influence economic growth. Further Basu, Chakraborty and Reagle (2003) have proven that for 23 developing countries from the year (1978 to 1996) that there is a co integration relationship between Foreign Direct Investment and Gross Domestic Product. Chowdhury and Mavrotas (2005) proven their results as mixed in the direction of causal relationship between Foreign Direct Investment and economic growth. Moreover Pais in his paper has stated that "Foreign Direct Investment: Impact on Indian Economy" has a positive impact on Indian economy by Foreign Direct Investments. In addition to that Pradeep (Foreign Direct Investment and Industrial Development in India) in the thesis that there is a high coefficient of correlation between Foreign Direct Investments approvals and actual inflows.Malhotra (2014) Inspects the impact of FDI on Indian Economy. Particularly after two decades of economic reforms also analyses the challenges to position itselffavorably in the global competition of Foreign Direct Investments. Silajdzic and Mehic (2015) have figured out that Foreign Direct Investment directly influences economic growth by subscribing to the fixed capital formation and indirectly subscribing to the knowledge stocks. Moreover, in the traditional framework it implies that the Foreign Direct Investment directly affects economic growth. Though the Foreign Direct Investment is GSJ: Volume 8, Issue 10, October 2020 ISSN 2320-9186 1686 GSJ 2020 www.globalscientificjournal.com influencing the economic growth it will affect the shortage of domestic investments and investment shortages also. Further, the study shows that the foreign direct investments have a positive impact on economic growth. Further Alvarado, Iniguez, and Ponce (2017) figured out that Foreign Direct Investment has a positive impact on the product especially in high income countries, however, through this research it showed that in the upper – middle – income countries the effect is uneven and not significant. Sultana, Kagdiyal, Goyal, Chakkala, Parmar (2019) studied the impact of FDI on not only Indian growth variables but also on other factors which include human development index and population. The results of this study was that there is a considerable impact of FDI on HDI, population and Sensex index and some impact on imports and exports too.

VI. REVIEW OF LITERATURE

Gregorio, and Lee, (1998) have examined how Foreign Direct Investments influence economic growth. Further Basu, Chakraborty and Reagle (2003) have proven that for 23 developing countries from the year (1978 to 1996) that there is a co integration relationship between Foreign Direct Investment and Gross Domestic Product. Chowdhury and Mavrotas (2005) proved their results as mixed in the direction of causal relationship between Foreign Direct Investment and economic growth. Moreover Pais in his paper has stated that "Foreign Direct Investment: Impact on Indian Economy" has a positive impact on Indian economy by Foreign Direct Investments. In addition to that Pradeep (Foreign Direct Investment and Industrial Development in India) in the thesis that there is a high coefficient of correlation between Foreign Direct Investments approvals and actual inflows.Malhotra (2014) Inspects the impact of FDI on Indian Economy. Particularly after two decades of economic reforms also analyses the challenges to position itself favorably in the global competition of Foreign Direct Investments. Silajdzic and Mehic (2015) have figured out that Foreign Direct Investment directly influences economic growth by subscribing to the fixed capital formation and indirectly subscribing to the knowledge stocks. Moreover, in the traditional framework it implies that the Foreign Direct Investment directly affects economic growth. Though the Foreign Direct Investment is influencing economic growth it will affect the shortage of domestic investments and investment shortages also. Further, the study shows that the foreign direct investments have a positive impact on economic growth. Further Alvarado, Iniguez, and Ponce (2017) figured out that Foreign Direct Investment has a positive impact on the product especially in high income countries, however, through this research it showed that in the upper – middle – income countries the effect is uneven and not significant. Sultana, Kagdiyal, Goyal, Chakkala, Parmar (2019) studied the impact of FDI on not only Indian growth variables but also on other factors which include human development index and population. The results of this study was that there is a considerable impact of FDI on HDI, population and Sensex index and some impact on imports and exports too.

VII. CONCLUSION

Foreign Direct Investments is an investment done from one nation to another nation with many different expectations. Foreign Direct Investments plays a significant part of Indian Economic Growth. Foreign Direct Investments have both positive and negative impacts towards an economy. Most of the time it proliferates economic growth. FDIs proliferate

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the employment opportunities, it reduces imbalances between balances of payment problems. It helps to strengthen the local currency with the help of foreign reserves too. However, there are many negative impacts as well. Foreign Direct Investments lead to lessen the domestic competition among the domestic producers. On the other hand ForeignDirect Investments are focused on the growth aspect of the country and it does not consider the developmental aspect of the country. According to the empirical analysis it directly showed that there is a significant impact on Gross DomesticProduction by Foreign Direct Investmentsin India. Inthe simple regression analysis it has proven that nearly 90 percent of the changes in Gross Domestic Product is due to the changes in Foreign Direct Investments. In addition, by the correlation analysis it has shown that Foreign Direct Investments and Gross Domestic Product have a positive correlation between each other. However, concerning the FDI policy, India amended it in August 2020. Since India had refurbished the Foreign Direct Investment policy in the coming years there is a trend that India is going to be the most attractive market for FDI investors .This has been proven by a EMPEA survey (Emerging Market Private Equity Association) Further, according to a UBS report annual Foreign Direct Investment will be increased up to by 75 US Dollar Billion after next five years. Moreover, India is trying to achieve more than this target by next two years.

1. Economic Development Stimulation.

Foreign direct investment can stimulate the target country's economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

2. Easy International Trade.

Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

3. Employment and Economic Boost.

Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources.

One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

5. Tax Incentives.

Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

VIII. ACKNOWLEDGMENT

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