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STUDY OF ECONOMIC GROWTH IN RELATIONSHIP OF FOREIGN DIRECT INVESTMENT

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ABSTRACT

One of the key health indicators of any economy is its gross domestic product (GDP). It shows the size of the economy. It also helps in determining and comparing the growth of the economy with the growth of different economies in different periods. Investment is a key factor in GDP growth. An increase in the level of investment has a multiplier effect on the level of employment and income. The role of foreign investment is important in an open economy. Such investments can be direct or indirect. The purpose of the present study is to find out the relationship between the growth rate of foreign direct investment (FDI) in India and the growth rate of GDP in India. Correlation analysis and regression analysis were used in the study. It found that there was a negligible correlation between FDI growth and economic growth. Also, the results of the regression analysis did not show any significant effect of the growth rate of FDI on the growth rate of GDP.

KEYWORDS : *Economic Growth, GDP, FDI.*

INTRODUCTION

Foreign direct investment (FDI) is the long-term involvement of management, joint venture, technology and skills transfer in country B. Economics Literature The economic literature which draws on the theory of intrinsic growth suggests that the level of development of the economic sector has a direct effect on foreign investment and its impact on the spread of technology in the host country, thus increasing the rate of economic growth. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in net FDI inflows (positive or negative) and "foreign direct investment stocks", which are aggregate numbers for a given period. Direct investment excludes investments made by buying shares. Many policymakers and academics say that FDI could have a significant positive impact on the host country's development efforts. In addition to direct capital financing, FDI can be a valuable source of technology and information, and in developing relationships with local companies, it can help the economy jump. Based on these arguments, industrialized and developing countries have encouraged foreign direct investment in their economies.

Due to the low income and low risk tolerance of the people in the country, developing nations generally face the problem of low investment. Foreign direct investment (FDI) is expected to play an important role in boosting investment in developing economies and putting them on the path to higher growth. Theoretically, it is plausible that an increase in FDI should accelerate economic growth. However, studies have found that positive, negative and no effect between growth in FDI and GDP growth.

The growth of Indian economy after independence can be studied in two phases before the first liberalization i.e. 1947 to 1990 and after liberalization i.e. after 1990. Prior to the 1990s, India's industrial infrastructure was economically and technically weak. The new economic policy of the 1990s not only deregulated domestic industry but also eased FDI-related policies. The barriers previously imposed on foreign direct and indirect investment were removed. The process required to obtain approval for cooperation, including technical and financial, was completely revised. The country's central bank was given the authority to grant automatic approval to a number of specified industries. This has increased the competitiveness of the industry and also the growth rate of the Indian economy.

Foreign investment can play a major role in boosting India's economic growth. Foreign investors, through the establishment of multinational companies, can help meet the local demand of the country, create employment opportunities and consolidate local capital and entrepreneurs. Through research and optimization, they can also help to use and refine local raw materials as product input. With further expansion, they will be able to create the necessary technical and industrial base for the country and the necessary base for the country's export trade.

LITERATURE REVIEW:

Balasubramaniam and others. (1999) presented an analysis of the role of foreign direct investment (FDI) in driving economic growth and suggested that the interaction between FDI and human capital has a significant impact on development performance.

Rahman and Chakraborty (2015) assessed whether causality exists between foreign direct investment (FDI) and gross domestic product (GDP). The study focused on Bangladesh. Researchers used integration testing techniques to confirm the presence of long-term equilibrium relationships. Granger causal testing was implemented to ensure the presence of directional causality from FDI to GDP. The results indicated that in relation to neighboring countries, the inflow of FDI was very low. The country needed political stability to develop developed facilities and infrastructure, skilled workers, abundant power generation, macroeconomic framework to support investment and attract foreign investment.

Sokang (2018) examined the effect of foreign direct investment on Cambodia's economic growth. The author uses time series data from 2006 to 2016. The data thus collected were evaluated by correlation analysis and multiple regression analysis. The study found that FDI has a positive impact on the economic development of selected countries. In this study, the government has recommended to start reforms in the domestic market to bring more FDI in the country.

Rakhmatullayeva etc. (2020) studied the impact of foreign direct investment on the economic growth of the host country, using Kazakhstan's economy as an example. The paper attempts to assess the impact of FDI through multiple regression models in the period 2000-2017. The results of the analysis did not show any negative impact of FDI on economic growth. However, the authors point out that the existence of positive relationships is not necessary to assess the growth of the national economy.

RESEARCH OBJECTIVES:

- The purpose of the study is to measure the relationship and impact of foreign direct investment on India's GDP growth rate.
- The study includes analysis of data related to foreign direct investment and India's economic growth rate for the period 2001-2019.

HYPOTHESIS:

- There is a significant correlation between FDI (net income) and India's GDP growth rate
- FDI (net income) growth has a significant impact on India's GDP growth rate

Table 1.1 Growth Rate of GDP in India (2001-2020)

Sr. No.	Year	Growth rate of GDP (%)
1.	2001	4.823966
2.	2002	3.803975
3.	2003	7.860381
4.	2004	7.922937
5.	2005	7.923431
6.	2006	8.060733
7.	2007	7.660815
8.	2008	3.086698
9.	2009	7.861889
10.	2010	8.497585
11.	2011	5.241345
12.	2012	5.456359
13.	2013	6.386106
14.	2014	7.410228
15.	2015	7.996253
16.	2016	8.256306
17.	2017	7.043821
18.	2018	6.119587
19.	2019	5.023875
20.	2020	5.168421

Source: http://api.worldbank.org/v2/en/country/IND?downloadformat=excel

Table 1.1 Growth Rate of GDP in India (2001-2020)

Sr. No.	Year	Growth rate of FDP (%)
1.	2001	43.07429
2.	2002	1.577068
3.	2003	−29.3145
4.	2004	47.45447
5.	2005	33.89337
6.	2006	175.5262
7.	2007	25.95532
8.	2008	72.05773
9.	2009	−18.0271
10.	2010	−23.0022
11.	2011	33.22191
12.	2012	−34.256
13.	2013	17.32539
14.	2014	22.81677
15.	2015	27.28098
16.	2016	1.020415
17.	2017	−10.1049
18.	2018	5.382962
19.	2019	20.15287

20.	2020	18.54201

Source: http://api.worldbank.org/v2/en/country/IND?downloadformat=excel

Figure 1.1 Growth rate of GDP in India

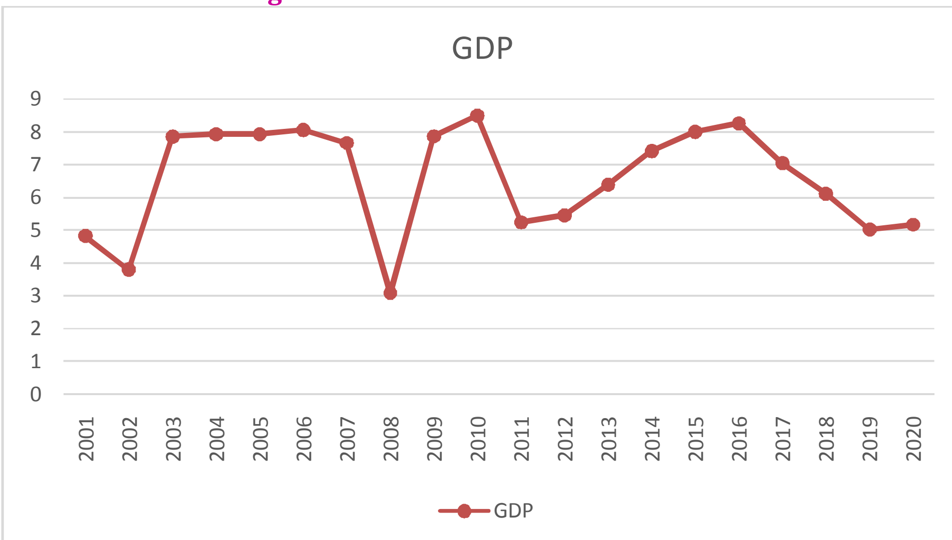
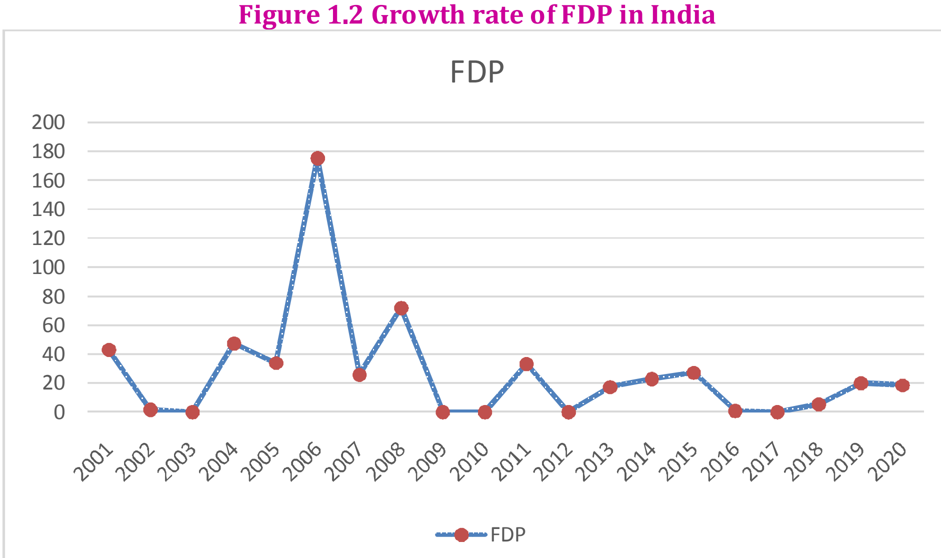


Figure 1.2 Growth rate of FDP in India



Figures 1.1 and 1.2 show a graphical representation of the growth rate of GDP and FDI in India. The Indian economy has grown by 6.65% during the period 2001-2020. In 2008, the country recorded the lowest annual growth rate of only 3.09% during this period. From 2001 to 2020, FDI in India has grown at an average rate of 21.69%. During the period under study, India recorded the highest annual growth rate of FDI, i.e. 175.5262% in 2006. The country has reported negative growth rates in 2003, 2009, 2010, 2012, 2016.

Table 1.3 Corelation Analysis

		Growth rate of FDI	Growth Rate of GDP
Growth rate of FDI	Pearson Corelation	1	-0.049
	Significant		0.879
	N	20	20
Growth rate of	Pearson Corelation	-0.049	1

GDI	Significant	0.879	
	N	20	20

Table 1.4 ANOVA

	Sum of Square	Df	Mean Square	F	Sig
Regression	72.06	1	72.547	0.052	0.902*
Residual	39417.157	18	2309.472		
Total	397542.251	19			

To determine the relationship between growth rate FDI (net income) and India's GDP growth rate, the study used correlation analysis. Table 1.2 shows the negative correlation between growth rate FDI (net income) and India's GDP growth rate, $r = -0.049$, $P > 0.05$. The value of the correlation was not found to be significant. Therefore, the results suggest that there is no significant correlation between the growth rate of FDI net inflows and India's GDP growth rate. Therefore, the hypothesis H1: Growth rate is a significant correlation between FDI (net flow) and India's GDP growth rate.

ANOVA results that indicate whether the whole regression model is suitable for the data. The results show that the growth rate of FDI (net income) does not predict a statistically significant increase in GDP. The results show that the growth of FDI (net income) has no significant effect on the GDP growth rate of India. Therefore, the hypothesis, H2: FDI (net income) growth has a significant effect on India's GDP growth rate, has been denied.

CONCLUSION:

Ideologically, foreign direct investment can have a positive effect on development. This is because foreign direct investment (FDI) generally travels from countries with abundant capital to countries with low capital. It promotes the advancement of new technologies to increase productivity. However, foreign direct investment can have a negative impact on growth as it can disrupt competition. This can benefit the transferring country and hamper the growth of the receiving country.

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