

“Impact of FDI on GDP of India”

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ABSTRACT

The present paper searches out the impact of FDI on GDP of Indian Economy. The relation between two variables is tested by applying INDEX NUMBER and CORRELATION COEFFICIENT. Here two variables are considered i.e. Foreign Direct Investment as independent variable and Gross Domestic Product as dependent variable. The data use for this study is ranging from year 2005 to 2015 of India. The result of this research shows the good relation between variables which is mentioned in final conclusion of research.

KEYWORD: FDI, GDP, Growth of Indian Economy, Domestic, Independent

INTRODUCTION

FDI (Foreign Direct Investment)

Foreign Direct Investment (FDI) is direct investment in abroad trade market where the investors have a complete power over their capital. It is a little difference between portfolio investment and foreign direct investment. Hence in case of FDI, the investors have their direct effective control or managerial involvement on their investing capital while in case of Portfolio investment; the investors have no managerial involvement and control.

Usually, FDI is made by large multinational corporations (MNCs) through merger and acquisition, or through the construction of a new facility. Moreover, FDI composes of three parts as given:

- Equity capital: It is the foreign direct investors' buying of shares of a firm in a country other than its own shares.

- Reinvested earnings: It is referred as the retained profits of affiliations those are not distributed as dividends or not remitted to the direct investor but used to reinvest.
- Intra-company loans refer taking loan and providing loan between parent enterprises and member enterprises in the short period or long-term period of time.

Thus, IMF (2003) defined that direct investment is comparatively more stable than the other forms of foreign capital inflows. This kind of investment does not change the investment environment quickly in the host country while the others form of investment make it sudden change.

Dunning (1994) reported that there are four main reasons for undertaking FDI abroad and these are follow as-

1] **Market Seeking:** Multinational Corporations' owners wish to go to abroad to find new purchasers for goods and services. The management authority of the MC understand that their product is better if they are in overseas markets and the owners look to take benefit of this opportunity, Moreover the owners simply wish to save the operational costs like transportation cost etc. For instance General Motors' investment in China is market seeking because the cars built in China are sold in China.

2] **Resource Seeking:** Penrose (1958) and Cantwell (1989) defined that the investors invest abroad to secure a more stable or cheaper supply of inputs. These include raw materials, petroleum, natural gas, or timber. Multinational Corporations take advantage of low cost of production in foreign market because of cheap inputs of production than at home.

3] **Strategic Asset Seeking:** Multinational Corporations invest in abroad in order to build strategic assets, such as distribution networks or new advanced technology. This may involve the establishment of partnerships with other existing foreign firms that specialize in certain aspects of production.

4] **Efficiency Seeking:** Multinational Corporations reorganize their overseas holdings in response to broader economic changes. For instance, the introduction of a new trade agreement among a group of countries rapidly make a facility located in one of those countries more competitive, because of access for the facility to lower tariff rates within the group. Variations in exchange rates may also change the profit calculations of a firm, leading the firm to shift the allocation of its resources.

GDP (Gross Domestic Product)

GDP has been defined as *"an aggregate measure of production equal to the sum of the gross values added of all resident, institutional units engaged in production."* An IMF publication states that *"GDP measures the monetary value of final goods and services - that is, those that are bought by the final user - produced in a country in a given period of time (say a quarter or a year)."*

Total GDP can also be broken down into the virtual contribution of each industry of the economy.

OBJECTIVE OF THE STUDY

- To found the relationship between FDI and GDP in India.
- To be familiar with the terms FDI and GDP.
- To find out answer the question such as FDI is beneficial in term of GDP or not.

LITERATURE REVIEW

Quiser Abbas and his co-author (2011) tried to show the impact of FDI on GDP of SAARC Countries which includes India also. They examined the data of FDI and GDP of SAARC countries from year 2001 to 2010. They

considered change in GDP as dependent variable and change in FDI as independent variable and relationship between different variables is tested by applying multiple breakdown models. Authors defined that growth of any country lies upon investments, increasing assets and infrastructure. Foreign Direct Investment in an economy shows that it is a good trend of investment which finally results in increasing the GDP and growth of the country as they have found in their research that increasing trend of FDI also increases the GDP of the country.

South Asian trading experience shows that the enlargement in FDI brings with it an abundant increase in the domestic investment show the existing connection between FDI and GDP. Before 1980, the FDI impact on gross domestic output growth is measured as negative, for early eighties a little encouraging and over the late eighties and nineties it remained strongly positive.

India's Foreign Direct Investment has been gradually liberalized to make the market investor friendlier. Indian economy has incredible potential; FDI has had a positive impact. FDI inflows supplements domestic capital, as well as technology and skills of existing companies. It helps to establish new companies. All of these make a pavement to economic growth of Indian Economy.

RESEARCH METHODOLOGY

The researcher has conducted this research to observe the relationship between FDI and GDP in India. For this, the researcher collected the data of FDI in India and GDP of India of last ten years i.e. from year 2005 to 2015. He went through two different variables i.e. FDI as independent variable and GDP as dependent variable and tried to make a simple conclusion.

The researcher has also used two statistical tools for two different purposes in this study

- To examine the gradually development in FDI and GDP by using INDEX NUMBER
- To establish and express the relationship between FDI and GDP by using CORRELATION COEFFICIENT.

DATA ANALYSIS

Evaluation of FDI and GDP in India during (2005 to 2015)

YEAR	FDI(in USD BILLION)	GROWTH RATE OF FDI (%)	GDP(in USD BILLION)	GROWTH RATE OF GDP
2005	4.356	-	834.2	-
2006	14.212	226.26	949.1	13.77
2007	15.921	12.02	1238.7	30.51
2008	33.027	107.44	1224.1	-1.18
2009	26.818	-18.8	1365.3	11.53
2010	21.007	-21.67	1708.5	25.13
2011	28.875	37.45	1835.81	7.45
2012	17.554	-39.21	1831.78	-0.22
2013	26.535	51.16	1861.8	1.63
2014	28.974	9.19	2048.52	10.02
2015	36.698	26.65	2073.54	1.22

To describe the relationship between FDI and GDP I calculate CORRELATION COEFFICIENT by considering FDI as independent variable and GDP as dependent variable and the result is as follow:

	<i>FDI</i>	<i>GDP</i>
<i>FDI</i>		
<i>GDP</i>	0.675185	

Correlation coefficient of FDI and GDP is **0.675** which is positive and nearer to 1(one)

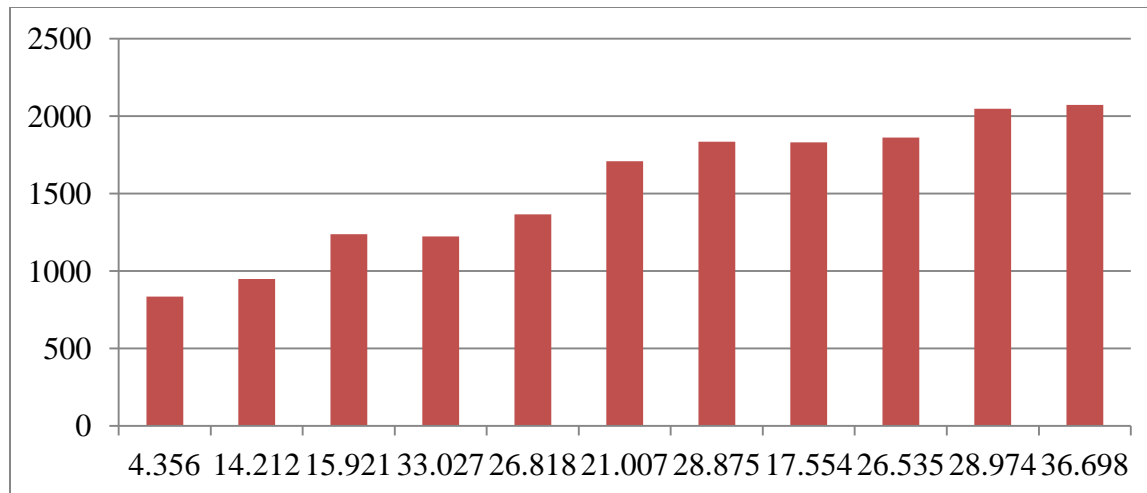


FIG: 1. Relationship between FDI and GDP.

CONCLUSION

As per analysis of data collected the researcher finds the correlation coefficient of variables is 0.675 which is positive and the present result of correlation coefficient can be interpret as a good indicator.

Changes occurred in FDI affect the GDP of country which means that increase in FDI shows the positive impact on the GDP of India. Thus, Foreign Direct Investment is healthier for Indian economy in term of Gross Domestic Product.

LIMITATION

Main drawback of this paper is that the researcher considers the impact of FDI on only one dimension i.e. GDP but FDI also affects other dimensions like Employment, Small Scale Industry (SSI) etc. which I ignore.

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