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# A study on FDI and its Impact on Indian Economy

**Ms. Janu Bhakta[1] and Dr. Vijay Gondaliya[2]**

[1]Student, B.V. Patel Institute of Management, Uka Tarsadia University, Bardoli- Surat, Gujarat, India.
[2]Assistant Professor BBA, B.V. Patel Institute of Management, Uka Tarsadia University, Bardoli- Surat, Gujarat, India.

***Abstract:*** *This research paper aims to analyze the impact of FDI on the Indian economy by studying its correlation with various economic indicators such as GDP, exchange rates, inflation, import and exports. The study is based on secondary data collected from various sources including RBI and World Bank from the period of 2001-2021. The research plan includes five chapters, starting with an introduction to the topic and followed by a literature review. The third chapter covers the research methodology which includes the sampling method and data collection process. The fourth chapter discusses the analysis and interpretation of the data collected, and the final chapter concludes with the findings of the study and its implications.*

***Keywords:*** *FDI, FII, GDP, Inflation, Import, Export, FOREX, India, Economy, Exchange rates,*

## 1. Introduction:

Foreign direct investment (FDI) is an investment made by an entity living outside the country, which contributes to economic growth and facilitates the inflow of new technology, managerial expertise, new ideas, skills, knowledge, more employment, and improved infrastructure. FDI has been beneficial to India in various ways, such as creating Employment opportunities and enhancing Human resources. India has recorded its highest ever annual FDI inflow of USD 83.57 billion in 2021-22, surpassing last year's FDI by USD 1.60 billion. Singapore is at the top of the list of top investor nations for FDI Equity inflow, with Computer Software & Hardware being the leading recipient sector.

| Financial Year | Amount of FDI inflows (USD billion) |
|---|---|
| 2018-19 | 62.00 |
| 2019-20 | 74.39 |
| 2020-21 | 81.97 |
| 2021-22 | 83.57 |

**Table 1: FDI Inflow from FY 2018-19 to FY 2021-22**

## 2. Review of Literature:

**Dr. Rajender Singh, Thiththalapitige Natasha Manieshi Fonseka (2020):** He suggested that the impact of Foreign Direct Investments (FDIs) on economic growth in India. There are certain components which influence the Foreign Direct Investments. It comprises of 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 succour to amplify trade and it dispense financial aid too. Foreign Direct Investments have ameliorated Balance of Payment problems in 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.
**Chand Singh (2017):** In the study he stated that Foreign direct investment(FDI)plays a crucial role in channelizing transfer of capital and technology and perceived to be a potent factor in promoting economic growth in developing countries like India. They act as a long-term source of capital as well as a source of advanced and developed technologies. The investors also bring along best global practices of management. As large amount of capital comes in through these investments more and more industries are set up. This helps in increasing employment. FDI also helps in promoting international trade. This investment is a non-debt, non-volatile investment and returns received on these are generally spent on the host country itself thus helping in the development of the country.

This paper tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India.

**Mohammad Zain Khan and Dr Rana Zehra Masood (2022):** The author in the study examines the impact of Foreign Direct Investments and Foreign Institutional Investments on the Indian economy. It has established the fact that Foreign Direct Investments has deeper rooted and long-term impact on the economy and it proves to be more essential for economic growth of the country. The paper has employed the data from the year 1990-2021 to evaluate the impact of inflow of FDI and FII on the Indian economy. The paper concludes that both FDI and FII are essential for the economy, but FDI is more crucial for the economy and is therefore called as ‘engine of growth’.

**Dr Shikha Singh (2019):** She concludes that the Service Sector especially banking, financial and nonfinancial, Insurance, Outsourcing, Research and development of India has attracted maximum FDI followed by manufacturing sector. Higher volumes of FDI have come in electronics, hardware, automobiles, pharma, etc. In the paper the Indian economy is one of the top emerging markets of the world. Five years ago, it was considered as part of the fragile five, but no longer. Since 2014, it has emerged as of the one top foreign destination in the world with a significant rise in FDI. The journey of attracting foreign investments started way back in 1991 with New Economic policy and India has unprecentedly scaled new heights in the level of FDI during 2000’s. The paper focuses on secondary data based Sectoral analysis of the inflow of FDI in India from 2000 to 2018. In this paper the author also aims to look at different facets of positive FDI spill overs in the country.

**Abhay Pratap Singh, Deepti Pandey, Mandavi, Suraj Kumar (2022):** In the study the authors suggested that the investments made in the form of FDI; it was happened in certain areas only. That is why those areas only developed, whereas remaining areas like Agriculture, Drugs & Chemicals, Power, Automobile, and Hotel & Tourism still in underdeveloped sectors. These Sectors also plays a prominent in the economies like India. There should be considerable, investments in Agricultural sector, growth rate of the economy can be determined by the GDP of the country. If the GDP of the country increases, the per capita income of the country will increase, so the living standard of the people will gradually increase, the investments must be by industry and there should be a clear analysis of the investment in the industry. Their main objective of the study was to know the impact of FDI on Indian economy and different sectors of the country. They used 10 years data in this study which is from 2010-11 to 2019-20.

## 3. Research Methodology:

The research methodology for this study is based on a quantitative research approach. The study utilizes secondary data collected from various sources such as RBI and World Bank. The population or universe for this study is the inflow of FDI in India. The variables under study include GDP, exchange rates, inflation, import and exports, and FDI inflow. The data collection method used in this study is secondary data collection. Secondary data was collected from various sources such as RBI and World Bank. The data was collected for the period of 2001-2021. One of the limitations of this study is that the data collected is secondary data, which may have limitations such as limited applicability and doubtful accuracy. Another limitation is that only five variables were considered, which may not be sufficient to capture the complexity of the Indian economy. Additionally, the study uses time-series data, which may not capture the dynamic changes that occur in the economy over time.

## 4. Data Analysis:

The data collected was analyzed using various statistical tools such as correlation analysis, regression analysis, and causality tests. Microsoft Excel was used the Data analysis.

### a. Descriptive Statistics:

The mean or average values of the variables FDI, FOREX, inflation, GDP, imports, and exports are respectively 0.160, 0.0243, 0.473, 0.102, 0.412, and 0.136. The standard deviation values of the variables FDI, FOREX, inflation, GDP, imports, and exports are respectively 0.425338, 0.057862, 0.271096, 0.091119, 0.181933, 0.151026.

### b. Correlation Statistics:

The impact of Inflation, GDP, Imports and Export are 0.00121, 0.08786, 0.057899, 0.00620 respectively.

### c. Regression Analysis:

**i. FDI to FOREX:**

After making 20 observations, the standard error was 0.433. The ANOVA table showed that the FOREX coefficient was -0.93363455. and the significance level was 95%.

**ii. FDI to Inflation:**

After making an 20 observations, the standard error was 0.4370. The ANOVA table showed that the FOREX coefficient was 0.001899052. and the significance level was 95%.

**iii. FDI to GDP:**

After making 20 observations, the standard error was 0.4353. The ANOVA table showed that the GDP coefficient was 0.410125224. and the significance level was 95%.

**iv. FDI to Import:**

After 20 observations, the standard error was 0.4362. The ANOVA table showed that the Import coefficient was 0.135361338 and the significance level was 95%.

**v. FDI to Export:**

After making an 20 observations, the standard error was 0.4370. The ANOVA table showed that the Export coefficient was 0.436984748. and the significance level was 95%.

**d. Unit Root Test:**

| | ADF Test Statistic | | Critical Value at 5% level | DW Statistics |
|---|---|---|---|---|
| | t-statistics | Prob.* | | |
| Export | -3.134849 | 0.0165 | -3.1222 | 2.14 |
| Import | -3.581167 | 0.0090 | -3.1222 | 2.1 |
| FDI | -2.359478 | 0.0504 | -3.1222 | 2.170469 |
| GDP | -2.518444 | 0.0399 | -3.1222 | 1.77 |
| FOREX | -2.545250 | 0.0384 | -3.1222 | 2.28 |
| Inflation | -2.539304 | 0.0317 | -3.1222 | 2.65 |

**e. Ganger- Causality test:**

| SR. NO. | Hypothesis name | Type of Relationship |
|---|---|---|
| 1 | FDI does not Granger Cause EXPORT | no relation |
| 2 | FOREX does not Granger Cause EXPORT | no relation |
| 3 | GDP does not Granger Cause EXPORT | no relation |
| 4 | IMPORT does not Granger Cause EXPORT | no relation |
| 5 | INFLATION does not Granger Cause EXPORT | no relation |
| 6 | FOREX does not Granger Cause FDI | no relation |
| 7 | GDP does not Granger Cause FDI | Uni-lateral |
| 8 | IMPORT does not Granger Cause FDI | Uni-lateral |
| 9 | INFLATION does not Granger Cause FDI | no relation |
| 10 | GDP does not Granger Cause FOREX | Bi-lateral |
| 11 | IMPORT does not Granger Cause FOREX | no relation |
| 12 | INFLATION does not Granger Cause FOREX | Uni-lateral |
| 13 | GDP does not Granger Cause IMPORT | Uni-lateral |
| 14 | INFLATION does not Granger Cause GDP | Uni-lateral |
| 15 | INFLATION does not Granger Cause IMPORT | Uni-lateral |

## 5. Conclusion:

The research paper aims to analyze the impact of FDI on the Indian economy. The study concludes that FDI has a positive impact on the Indian economy and is positively correlated with GDP, exchange rates, and exports. However, the study also finds that there is a weak correlation between FDI and inflation and imports. The study recommends that policymakers focus on attracting more FDI in sectors that have the potential to create more jobs in the economy to address the issue of "jobless growth" in the Indian economy.

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