

A STUDY ON THE RELATION BETWEEN FOREIGN DIRECT INVESTMENT (FDI) AND GROSS DOMESTIC PRODUCT (GDP) OF INDIA

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Abstract: This research paper is an attempt to find the relation between Foreign Direct Investment and Gross Domestic Product of India. For this purpose correlation tool have been applied between FDI and GDP of India. In this present study yearly data for a period from 2000-01 to 2016-17 have been considered .The findings of the study shows that there is a high level of dependency between the FDI inflow and GDP in India.

Key Words: FDI, GDP, Correlation.

1. INTRODUCTION:

Foreign direct investment (FDI) always played a major role in many of the economies .There is a strong belief among policymakers that foreign direct investment (FDI) improves the productivity of host countries and promotes development. There are several studies done on FDI and economic growth. Their findings differ from other research works because they may adopt different tools and techniques in each study. Some of the researchers found that FDI has a positive effect on economic growth.

Foreign direct investment (FDI), being considered as a non-debt financial capital in any of the economy. FDI plays a complementary role in overall capital formation by filling the gap between domestic investments and savings. It raises the level of investment in the host economy, by which multiplier effect leads to increase in employment, income and savings; and thus contributes to the economic growth of that economy. Besides, FDI is an important vehicle for the transfer of technology and knowledge. It also generates increasing returns in production via positive externalities and productive spillovers which if utilized efficiently also leads to sustainable economic growth.

2. LITERATURE REVIEW:

Vikram (2015) emphasised with the main objective to show the extent of FDI Impact on Indian economic growth by considering the country's experience from the year 2000 to 2014. Correlation had been considered as a tool for analysis. The study results showed that there were no positive relation between FDI inflows and economic growth rate.

Netra et. al (2013) in their paper aimed to understand whether the creation of employment opportunities and an improvement in the GDP is dependent on the inflow of FDI in India. For that purpose, data for a period of 38 years had been considered and analysed by using regression tool. The results of this study revealed that the relation between FDI and GDP was positive and between FDI and employment the relation was not significant. So this study concluded that government should concentrate on FDI improvement for increasing the employment opportunities and for enhancing the economic growth.

3. OBJECTIVES OF THE STUDY:

- To find the association between Foreign Direct Investment (FDI) and Gross Domestic Product (GDP) of India
- To know about the trend of FDI inflow and GDP in India

4. FORMULATION OF HYPOTHESIS:

In order to satisfy the objectives of the study the following hypothesis have been formulated.

- **Null Hypothesis (H₀):** There is no significant relationship between FDI and GDP
- **Alternative Hypothesis (H₁):** There is significant relationship between FDI and GDP

5. METHODOLOGY:

This research is descriptive in nature. The study is based upon secondary data which have been collected mainly from the handbook on Indian economy, Annual reports of RBI, Department of Industrial Policy and Promotion of India and various government institutions. In order to find the relationship between FDI and GDP correlation

coefficient has been used. The study covers the time period from 2000-01 to 2016-17. SPSS package is used for statistical results

6. ANALYSIS&INTERPRETATION:

Table1.1 Table showing the FDI inflow values and GDP of India between 2000-01 to 2016-17

Year	FDI INFLOW(In US Dollar Million)	GDP OF INDIA (Rupees Billion)
2000	4029	5255.79
2001	6130	5697.38
2002	5035	6163.40
2003	4322	6886.56
2004	6051	7873.52
2005	8961	8966.86
2006	22826	10322.93
2007	33843	11808.50
2008	41873	13304.39
2009	37745	16243.58
2010	34847	21840.82
2011	46556	23032.55
2012	34298	24503.43
2013	36046	26342.46
2014	45148	28466.72
2015	55559	30493.69
2016	60082	31822.23

Source: RBI&DIPP

Table 1.2 CORRELATION BETWEEN FDI INFLOW AND GDP OF INDIA
Correlations

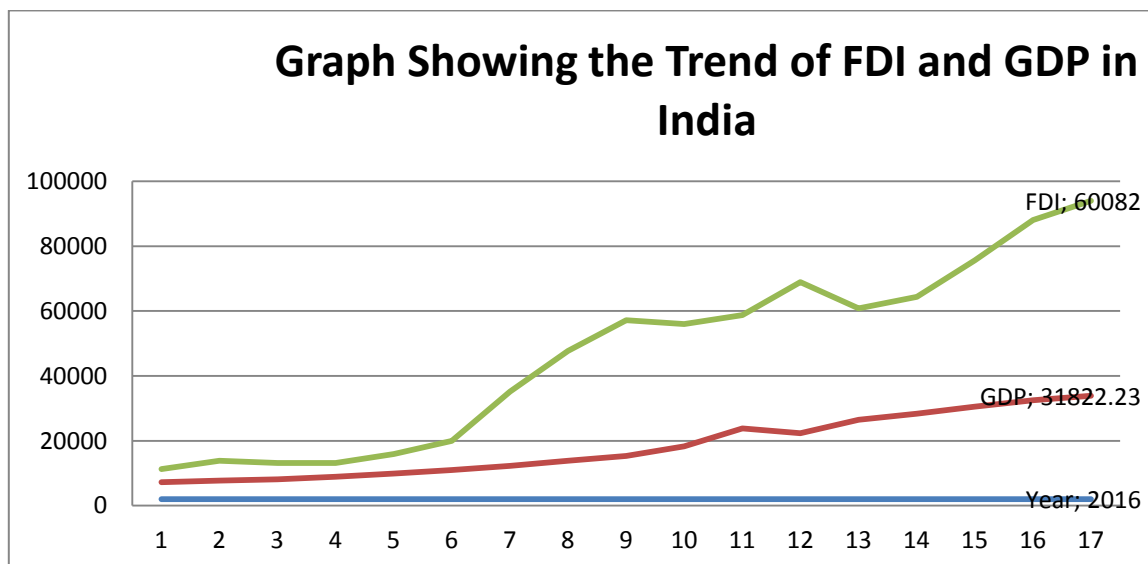
		GDP	FDI
GDP	Pearson Correlation	1	.891**
	Sig. (2-tailed)		.000
	N	17	17
FDI	Pearson Correlation	.891**	1
	Sig. (2-tailed)	.000	
	N	17	17

** . Correlation is significant at the 0.01 level (2-tailed).

INTERPRETATION

On performing a correlation between FDI and GDP of India from 2000-01 to 2016-17, using SPSS software, it has been found that there is a very high correlation between FDI and GDP $r=0.891$, $p < 0.01$. Thus it shows there is significant relationship between FDI and GDP. An increase in FDI has lead to a corresponding increase in the GDP level and similarly, increase in GDP has in turn attracted more and more FDI into the country. The results of the study is in line with Gunjan Malhotra (2015)

Figure 1.1 GRAPHS SHOWING THE TREND OF FDI INFLOW AND GDP IN INDIA



INTERPRETATION:

From above graph it is found that FDI inflows and GDP have shown an increasing trend during 2000 and 2016 periods. Both FDI and GDP values are highest in the period 2016. The highest value of FDI in the year 2016 is 60082 us dollar million and the highest GDP value in 2016 is 31822.26 Rupees Billion.

7. FINDINGS AND CONCLUSION:

The result of correlation between the FDI inflow and the GDP shows that there is a high level of dependency between GDP and the FDI inflow in the economy which means that the more FDI that flows into the economy the higher would be the GDP in India for that year and vice versa, i.e. an increase in GDP in India in a given year would attract more and more investors to invest in the Indian enterprises and indirectly it affects employment opportunities. Trend analysis shows that the highest value of FDI in the year 2016 is 60082 us dollar million and the highest GDP value in 2016 is 31822.26 Rupees Billion.

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