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A study on the impact of foreign direct investment (FDI) on gross domestic product (GDP) in India

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Abstract
This paper examines the impact of foreign direct investment inflows on Gross Domestic Product in India. For that purpose FDI and GDP are variables used in this paper and also yearly data for a period between 2000-2017 is considered for analysis. Regression is the tool applied in this paper. The result of the study confirms that 79.5% variation in the dependent variable (FDI) is explained by the independent variable (GDP). Thus there is a significant relationship between FDI and GDP in India.

Keywords: FDI, GDP, regression

Introduction

The need of Foreign Direct Investment to any country is highly appreciated. It is a well known source of capital, technology and managerial skill. The developing countries like India are attracting more amount of FDI for the economic growth as well as for sustainable development. There are a number of studies have been identified the impact of FDI on economic growth. (Raju *et al*. 2012) [1].

The relation between FDI and GDP always helps in the formation of some developmental strategies. If FDI leads economic growth then FDI is considered as an agent for economic growth. (Aggarwal 2016) [2]. The positive impact of FDI is encouraged through the use of new technology and inputs in the recipient economy. Thus it is very important for all countries to attract more and more FDI inflows because FDI is an important factor for economic growth and development. The impact of FDI on economy can be analyzed by micro economic or macroeconomic perspectives. This study considered the macroeconomic perspective. (Jena 2011) [3].

Review of literature

Mahapatra *et al*. (2014) [7] empirically proved that the impact of FDI on GDP was very strong and 74.4% variation in FDI was explained by GDP in India. This was confirmed with the help of regression analysis.

Yameen *et al*. (2015) [8] highlighted the impact of FDI on GDP of India during the liberalisation periods. The study covered the data for a period between 1991 to 2015 and analyzed with the help of regression. The study results revealed that there was highly significant statistical relation between FDI and GDP and further it was found that 92 % variation in the Gross Domestic Product of India was explained by Foreign Direct Investment (FDI).

Objectives of the study

1. To find the impact of Foreign Direct Investment (FDI) on Gross Domestic Product (GDP) in India.

Formulation of hypothesis

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

Null Hypothesis (Ho): There is no significant impact of FDI on GDP

Alternative Hypothesis (H1): There is significant impact of FDI on GDP

Research Methodology

Type of research: Descriptive

Data: The data used for conducting this study is collected from hand book of Indian statics and economy published by Reserve bank of India and the FDI inflow values collected from Department of Industrial Policy and Promotion (DIPP) website. Data period chosen in this paper is 2000-2016 yearly values.

Tool Used for Analysis: Regression

Software technology: SPSS version 16.0

Analysis and Interpretation

Table 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 2: Regressions showing the impact of FDI on GDP model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.891[a]	.795	.781	8994.561

a. Predictors: (Constant), GDP
b. Dependent Variable: FDI

Interpretation

The above table shows the strength of the relationship between dependent and independent variables. The value R represents the coefficient of correlation and the value of R square represents the squared value of the correlation coefficient. The value of R^2 in this study is. 795. It means that the current regression model is able to explain 79. 5% variation in the FDI (Dependent Variable). Remaining variations i.e.20.5% variations in FDI are due to some other factors. Thus there is a significant relationship between FDI and GDP. Similar study results found by Naveen Sood (2015) [4].

Conclusion and The key findings of the study

The study finds that 79.5 % variation in the FDI is because of GDP. Remaining 20.5 % variations in FDI is due to some other macroeconomic factors, micro economic factors and other factors. Thus there is a significant relationship between FDI and GDP in India. India's economy is mixed economy. So the foreign capital inflow towards India is influenced by all the economic factors.

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