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ROLE OF FOREIGN DIRECT INVESTMENT (FDI) ON INDIAN ECONOMIC GROWTH WITH SPECIAL REFERENCE TO TRADING SECTOR - AN EMPIRICAL ANALYSIS

D. Radha Kumari
Assistant Professor, Department of Management Studies,
KG Reddy College of Engineering & Technology, Hyderabad, Telangana, India

J. Sangeetha
II MBA, KG Reddy College of Engineering & Technology, Hyderabad, Telangana, India

Nishad Begum
II MBA, KG Reddy College of Engineering & Technology, Hyderabad, Telangana, India

V. Mamatha
II MBA, KG Reddy College of Engineering & Technology, Hyderabad, Telangana, India

ABSTRACT

FDI's impact on the Indian economy is the focus of this research, which examines the impact on the country's trading industry. The study has focused to know about the relationship, impact and future movement of the FDI with the Indian Economy. E-views software was used in the research, and the statistical methods used include VECM, OLS, and VAR. The research looked at secondary data from 2011 to 2021, which was taken into account. The findings of the research show a favorable correlation between FDI and trading. An increase in FDP will boost GDP since GDP and FDI have a positive connection. FDI's long-term impact on the trading sector, as well as its short-term impact on GDP, were affected favorably by the research. According to the findings of the research, the impact of FDI on GDP should be beneficial in the future.

Keywords: Foreign Direct Investment, Trading sector, Economic Growth.

JEL Codes: G1, F21, F43, O43, O47.

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1. INTRODUCTION

Economic growth in the host nation is aided greatly by foreign direct investment (FDI); hence, governments want to attract a significant amount of FDI that can expedite the process of economic development by bringing in additional money, technology, innovative management techniques, and job creation. As a result, policymakers should concentrate on FDI drivers since they may help policymakers comprehend the volume and direction of FDI flows (Muhammad & Khan, 2019; Singhania & Saini, 2021). It allows them to develop a foreign investment policy that is most favorable to attracting FDI (Malik et al., 2020; Sabir et al., 2019). India started allowing foreign direct investment into its economy in the early 1990s, after many decades of being closed off (FDI). India's economic liberalization included allowing foreign direct investment in a variety of areas. FDI has poured into India since it opened up its economy in 1991, when it became the first country in the world to do so. For several ASEAN nations, FDI inflows have been outpacing those to India during the last few years (Demena & Afesorgbor, 2020). China, on the other hand, is the region's top recipient of foreign direct investment (FDI) (Fang et al., 2021). India has made considerable strides in telecommunications access since opening its market in the early 1990s. In spite of this, India's benefits have been less than predicted throughout the period of market reform. Investment in the telecommunications industry has been hindered by a delayed implementation of liberalization, inequities between urban and rural regions, and complex legislation (Demena & Afesorgbor, 2020). A chronology of Indian Telecommunications Import substitution was a common practice in India before to 1991. Nearly every significant area of the Indian economy was successfully limited by this technique. Balance of payments problems occurred in 1991 when India's foreign currency reserves fell to dangerously low levels (Demena & Afesorgbor, 2020). As a result of the crisis, the Indian government implemented a structural adjustment plan in order to preserve long-term economic development and stabilize the balance of payments. Increasing market efficiency and reducing the influence of the government are two of India's main goals. Opening the economy to international investment and fostering privatization in formerly state-dominated sectors were among the primary outcomes of the strategy. Import taxes and licenses have also been reduced. In the past, Indian telecommunications services were supplied by state-owned companies. All Indian communications, both short- and long-distance, were supplied by government contractors. Prior to the 1990s economic liberalization, private investment, both from outside and inside the country (Ramar et al., 2019).

2. REVIEW OF LITERATURE

FDI in India and its impact on the Indian economy have been the subject of several studies. Our study's purpose is to examine the impact of FDI on more than just Indian economic growth measures, but also on other elements such as the human development index and population. Researcher was curious as to how much FDI is accountable for changes in their individual variation. Researcher learns that FDI has a significant influence on the HDI, population, and Sensex index. Though there is some influence on imports and exports, it is not significant. The research revealed the primary factor driving FDI inflows to India, which is comprised of numerous factors gathered under FDI and Indian economy(Sultana et al., 2019).

UtsavMasharu (2018): For this research, we looked at the impact of deregulation and FDI policies on retail in the Indian economy in the 1990s. Unorganized retail and FDI flows in the single- and multi-brand retail sectors are also examined in this study. Descriptive statistics from 1991 to 2013 were used to examine the evidence in this area in great detail.

The conclusions were that FDI liberalization policy has shown that Indian economy, especially retail sector, has diversification and sustainable development, which is considered one of the most important. It is also vital to stimulate further investments in other industries in order to continue economic development by liberalizing restrictive restrictions.

FDI has had a significant influence on the Indian economy for two decades, and this study examines the issues India has in competing for FDI from across the world. The study discusses the key policy implications of this research, as well as the difficulties in understanding FDI statistics in India (Malhotra, 2014).

Study relied on secondary data from 1991 to 2012. From US$133 million in 1991-92, total FDI inflows grew to US$27841 million in 2008-09, with direct foreign investment accounting for 65.79 percent of total FDI inflows and portfolio investment accounting for 34.21 percent. Total FDI inflows are expected to reach $ 46098 million in 2015-16, according to projections. The service sector attracted the most FDI to Mauritius and Singapore, which came in #1 and second, respectively, in terms of FDI inflows. Economic indicators connected to the Indian economy are positively influenced by these factors. If the Indian government is serious about increasing the amount of FDI into the country, (FDI), it should do so by implementing favorable laws and eliminating ambiguity (Teli, 2014).

Renuka R & Ganesh M(2012) Before joining the multi-brand commerce, companies must first generate employment in rural India. Unrestricted FDIs in retail certainly outweigh the inherent drawbacks, as proven by successful trials in countries like Thailand and China, in which there were initially unceasing protests on FDIs permitting in the retail sector but which later were one of the most promising political experiments. Companies must have developed jobs in rural India before entering the multi-brand trade. FDI in the retail sector has been subject to objections from its inception, but successful trials in countries like Thailand and China have proved that it was one of the more promising political, as evidenced by successful experiments. The benefits of permitting limitless foreign direct investment (FDI) in the retail sector outweigh the drawbacks.

Riken Mehta (2012): This presentation will attempt to outline the developments that India has gone through in its economic liberalization from 1991. Furthermore, it will show how India has progressed both socially and economically as a result of FDI support, by comparing the country's record to that of other growing nations. Finally, it will demonstrate how foreign direct investment has aided India's Trading development initiatives, as well as the obstacles the nation still has in achieving a level of life equivalent to the developed world.

3. STATEMENT OF THE PROBLEM

As a result of the country's tremendous potential and rising relevance for FDI, but as one of the world's fastest-growing nations (BRICS), FDI inflows failed to meet the expectations. The data from 2000 to the present shows an increase in Indian FDI every year. Global FDI growth is increasing, while Indian FDI growth is not. Many academics have investigated this topic, however the importance of institutional elements in the development of FDI flows sector-wise has not been explored. Bottlenecks in the shape of Indian economic variables and institutional constraints prevent FDI from flowing aggressively into all industries.

4. OBJECTIVES OF THE STUDY

1. To examine the effect of FDI flows on Indian Economy and Trading Investment.
2. To predict the future movement of Indian Economy on FDI flows.

5. HYPOTHESES OF THE STUDY

H0: There are no Impact of FDI flows on Indian Economy and Trading sector.

H1: There is an Impact of FDI flows on Indian Economy and Trading sector

6. RESEARCH METHODOLOGY

Sources of Data: Secondary data is the foundation of our investigation. World Investment Publications and Asian Development Bank reports provided the necessary information, several Reserve Bank of India Bulletins, Ministers of Trade, the Government of India's publications, Asian and Pacific Economic and Social Surveys, the Asian Development Perspective, Country Reports, and the Commercial Practices Bureau. The data were obtained in the offices and libraries from numerous newspapers, periodicals, the internet and several documents which have been published or not.

Period of the Study: For empirical analysis between 2001-2002 and 2020-2021 the study employs FDI statistics and other related data. The study incorporates some significant information about foreign investment, economic characteristics and different FDI inflows in trading sectors. A stumbling block of analyses is the lack of continuity in the availability of data regarding the different components of the investigation. The study therefore focused heavily on the 2001-2002 and 2020-2021 periods.

Tools used in the Study

Stationary of the Data: The present study has considered the time series data of the FDI, GDP and Tele communication sector data. Thus, both are observed to be time series data and applied the Augmented Dicky Fuller test. The below is the result depicting the result of stationary of selected variables.

VECM: Vector Error Correction (VECM) was used to examine the long and short term link between FDI and the Indian economy. According to the findings of this research, FDI in the trading sector correlates positively with GDP.

Granger Causality Test: Two or more-time series may be linked using the granger causality. Clive W Granger is the speaker at this event (1969). Basically, it implies that the reasoning does not precede the actual cause. Using Granger Causality, one may determine if one series can be used to estimate another.

Ordinary Least Square

The various independent factors on a single dependent variable were examined using the Ordinary Least Square approach. It was the goal of the study to establish the economic effect of foreign direct investment (FDI).

7. GLANCE ON FDI IN INDIA

- An important part of India's liberalization programme has been to loosen restrictions on foreign direct investment (FDI) in the industrial sector alone. This has been done selectively since 1991. India's economy relies heavily on FDI for long-term private capital infusions.
- As a result, it stimulates the creation of jobs, expansion in industry, and economic development. Because FDI supplies developing nations with a bundle of cash, foreign currency, technology, managerial knowledge, skills, and other inputs necessary to the growth of the Indian economy, economists feel it has a favorable influence. International capital allocation will be more equitable as a result of FDI.
- The country can bring new production technology and other inputs from the host economy through FDI, benefiting both the host and the source countries. The liberalization policy is likely to continue in the coming years, and the approach to FDI is also changing.

- In this situation, it is vital to examine the emphasis and importance of FDI in the direction of trading development and expansion, which will assist the nation in evaluating and implementing appropriate policies and approaches for the benefit of the economy in the coming period. Furthermore, the study will provide useful recommendations for attracting more FDI at the right time and in the right sector.

8. SCOPE OF THE STUDY

FDI investments and India's economy were the focus of the research project. Data from other studies has been used in this one. Secondary data covering the years 2011-2020, or a span of 10 years, was used in this investigation. The present study made an attempt to determine the relation, impact and VAR between FDI investments with Indian Economy. An effort to forecast the Indian economy's FDI flows has also been undertaken by the researchers in this study.

9. DATA ANALYSIS

Objective 1: To investigate the impact of foreign direct investment (FDI) on the Indian economy

For the first time, researchers can determine whether foreign direct investment (FDI) has a major influence on the Indian economy using the Causality Test. Foreign Direct Investment (FDI) and the Indian economy are intertwined, the researchers used the Ordinary least squares method. E-views software was used to implement these technologies in the research.

H0: There are no Impact of FDI flows on Indian Economy and trading sector.

H1: There is an Impact of FDI flows on Indian Economy and trading sector

Granger Causality of FDI to Trading-sector

H0: There is no directional effect of FDI on trading sector.

H0: There is a directional effect of FDI on trading sector

Table: 1 Pair wise Granger Causality Tests

Pair wise Granger Causality Tests			
Sample: 1 17			
Lags: 2			
Null Hypothesis:	Obs	FStatistic	Prob.
DTRADING does not Granger Cause FDI	14	0.76615	0.0029
FDI does not Granger Cause DINFRASTRUCTURE		0.29750	0.7497

Interpretation

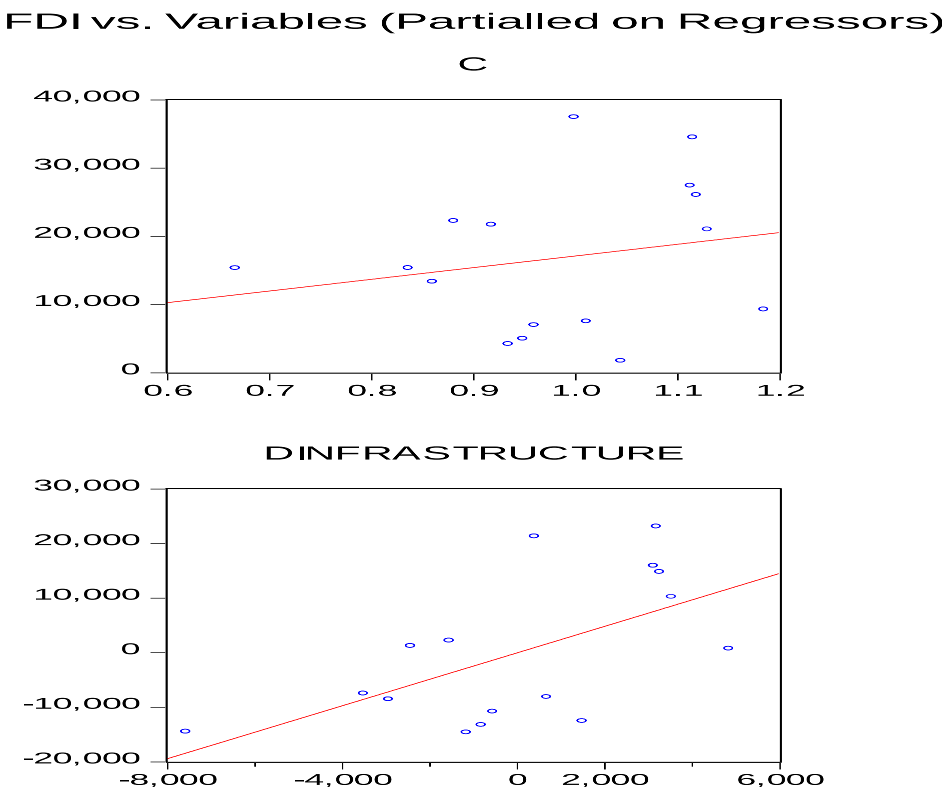
The table above it is describes regarding the unidirectional effect from the FDI to Infrastructure. Here, it is estimated the p-value lesser than 0.05 meaning that there is a positive influence between them and one side effect from FDI to Trading sector. Hence, there is a directional effect between the FDI and Trading Sector.

Ordinary Least Square of FDI to Trading Sector

H0: There are no Impact of FDI flows on Trading-sector.
H1: There is an Impact of FDI flows Trading-sector.

Table: 2 Impact of FDI on the Trading-sector

Dependent Variable: FDI				
Method: Least Squares				
Sample (adjusted): 2 17				
Included observations: 10 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	17130.99	2787.494	6.145658	0.0000
DINFRASTRUCTURE	2.425922	0.878613	2.761080	0.0153
Rsquared	0.652558	Mean dependent var		16113.31
Adjusted Rsquared	0.606312	S.D. dependent var		13269.72
S.E. of regression	11052.08	Akaikeinfocriterion		21.57509
Sum squared resid	1.71E+09	Schwarzcriterion		21.67167
Loglikelihood	-170.6007	HannanQuinn criteria.		21.58004
Fstatistic	7.623565	Durbin Watson stat		1.216566
Prob(Fstatistic)	0.015308			



Interpretation

The above study explains about Impact of FDI on the Trading-sector. The outcome signifies that there is positive influence of the FDI on trading-sector. There is a unit increase of the FDI sector due to the contribution by the Infrastructure. The coefficient value of the table implies the 2.425922and the p-value is tending to be less than 0.05 i.e. 0.01 meaning that there is an impact of the FDI on the Trading-sector.

The leverage plots shown in the above figure implies there is a rise in the Trading sector by the dots i.e. plots in shown in the above figure will results in the increase in the Trading sector will increase the FDI.

Granger Causality of FDI to Indian Economy

H0: There is no directional Impact between FDI and Indian Economy (GDP).

H1: There is a directional Impact between FDI and Indian Economy (GDP).

Table: 3: Pairwise Granger Causality Tests

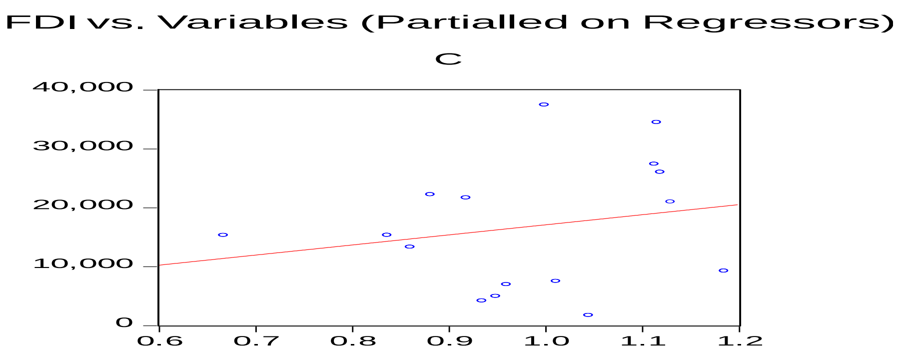
Pair wise Granger Causality Tests			
Sample: 1 17			
Lags: 2			
Null Hypothesis:	Obs	F Statistic	Prob.
GDP does not Granger Cause FDI	15	0.43600	0.0283
FDI does not Granger Cause GDP		1.32487	0.3087

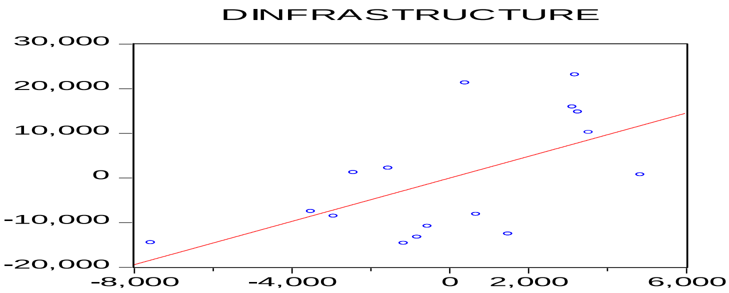
Interpretation: The FDI-to-GDP relationship is shown to be one-way in the table above. Here, it is estimated the p-value lesser than 0.05 meaning that there is a positive influence between them from FDI to Indian economy i.e. GDP. The outcome symbolizes the number of observations as 10 and the f-statistic value as 0.0283. Accordingly, it suggests that FDI (Foreign Direct Investment) and the Indian economy (GDP) have a direct impact on each other.

Ordinary Least Square of FDI to GDP

Table: 4: Impact of FDI on GDP

Dependent Variable: FDI				
Method: Least Squares				
Sample: 1 17				
Included observations: 17				
Variable	Coefficient	Std. Error	t Statistic	Prob.
C	16201.82	3337.878	4.853927	0.0002
GDP	2.94E-06	5.25E-06	-0.561071	0.0030
Rsquared	0.620555	Mean dependent var		15695.59
Adjusted Rsquared	0.644741	S.D.dependent var		12963.28
S.E. of regression	13250.10	Akaikeinfocriterion		21.93153
Sum squared resid	2.63E+09	Schwarzcriterion		22.02955
Loglikelihood	-184.4180	HannanQuinn criter.		21.94127
Fstatistic	10.314801	Durbin Watson stat		1.518660
Prob(Fstatistic)	0.003034			





Interpretation:

The study evaluates the Impact of the FDI upon the Gross domestic product i.e. the Indian Economy factor. The study result has determined the positive influence i.e. with the coefficient value as 2.9406. The p-value is tending to be lesser than 0.05 meaning that there is a significance between the independent variables. The independent variable is FDI and dependent variable is tending to be GDP.

The study has evaluated that GDP is being increasing through the rise of the FDI investments. The leverage plots are observed to be having the increase in their values. According to the research, FDI has a beneficial influence on the Indian economy, i.e. GDP flows.

Objective 2: To predict the future movement of Indian Economy on FDI flows.

The study portrays the change in the FDI flows by Indian Economy. The study has illustrated that prediction of the future rise and decrease of the foreign direct investments are being evaluated through the Vector Auto Regression through the support of E-views software.

Vector Auto regression of FDI to Indian Economy

Table: 5. Based on GDP, the VAR Lag Order Selection Criteria on the Foreign Direct Investment

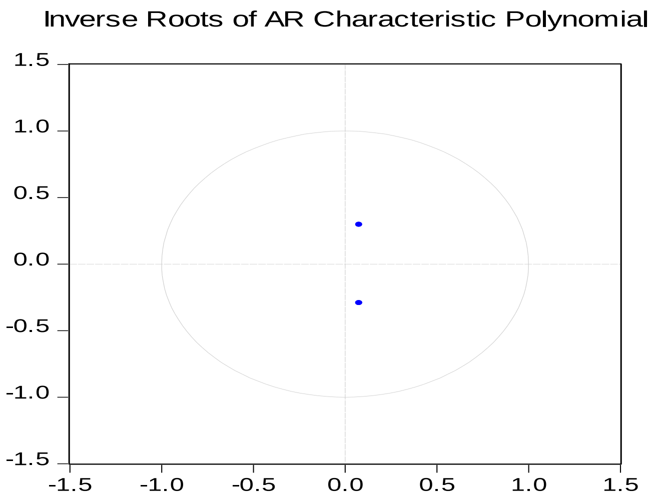
VAR Lag Order Selection Criteria						
Endogenous variables: FDI GDP						
Exogenous variables: C						
Sample: 1 17						
Included observations: 16						
Lag	LogL	LR	FPE	AIC	SC	HQ
0	-520.7682	NA*	8.22e+25*	65.34602*	65.44259*	65.35097*
1	-518.3986	3.850525	1.02e+26	65.54983	65.83955	65.56466
* indicates lag order selected by the criterion						
LR: sequential modified LR test statistic (each test at 5% level)						
FPE: Final prediction Error						
AIC: Akaike Information criterion						
SC: Schwarz Information criterion						
HQ: Hannan Quinn information criterion						

Interpretation

The above study has analyzed that there are number of lags appeared to be to lag 0, Lag zero is used to determine the following phase, which is Vector Error Estimates, to determine the FDI-GDP link (Indian Economy).

Table: 6 Vector Error Estimates GDP on the FDI

Vector Auto regression Estimates		
Sample (adjusted): 2 17		
Included observations: 16 after adjustments		
Standard Errors in ( ) & t-statistics in [ ]		
	FDI	GDP
FDI(-1)	0.167408	17343.78
	(0.26821)	(13071.8)
	[0.62416]	[1.32681]
GDP (-1)	5.44E-06	-0.010977
	(5.4E-06)	(0.26239)
	[-1.01042]	[-0.04184]
C	14505.04	-76208643
	(5426.49)	(2.6E+08)
	[2.67301]	[-0.28816]
Rsquared	0.112254	0.122957
Adj. Rsquared	-0.024322	-0.011973
Sum sq. resids	2.34E+09	5.57E+18
S.E.equation	13430.13	6.55E+08
Fstatistic	0.821913	0.911264
Loglikelihood	-173.1260	-345.8329
AkaikeAIC	22.01575	43.60411
SchwarzSC	22.16061	43.74897
MeanDependent	16113.31	1.83E+08
S.D.Dependent	13269.72	6.51E+08
Determinant residcovariance (dof adj.)		7.20E+25
Determinant resid covariance		4.76E+25
Loglikelihood		-518.3986
AkaikeInformationCriterion		65.54983
Schwarzcriterion		65.83955
Numberof coefficients		6



Interpretation

The table and figure describes that there is a GDP prediction through the FDI. Thus this study implies the rise of GDP is observed to positive as the dots observed in the graph are tend to be closer to the middle of the circle and there are some dots near to the centric point. Here, it examines there will be a rise in the FDI through the GDP in the further. The future movement is observed to be having the positive direction through the FDI upon the Indian Economy (GDP).

10. FINDINGS OF THE STUDY

- According to the findings, foreign direct investment (FDI) has a good long-term link with the trading sector and a short-term relationship with GDP. Hence, it implies that there is an increase in the FDI by the increase in the Trading sector.
- FDI has a beneficial influence on the trading sector, and the GDP has a favorable impact on the FDI.
- In this study have found to be having the increase of the GDP in the further years by the increase in the FDI as the country's foreign direct investment will depend upon the Indian Economy which will significantly raise the Trading sectors investments.

11. SUGGESTIONS OF THE STUDY

- The government's recent actions, including as the captive port policy and the land policy for major ports, are helpful in removing barriers, but they must be reinforced by pending reforms, such as the port regulatory authority bill and burdensome approval procedures.
- The Indian economy now has a robust yearly growth rate, deep capital markets, and a liberalized framework for foreign direct investment. India's economy has consistently grown at a rapid pace, making it an appealing investment destination.
- It is advised that the Indian government strive for the rapid improvement of Trading sector requirements, which are critical for business diversification.
- India should encourage foreign direct investment in the privatization process. The FDI investment ceiling on many sectors can be liberalized, with the exception of sensitive and security sectors that serve the nation

12. CONCLUSION

The study examined how foreign investment affected India's commercial industry. FDI with the trading sector and GDP are linked positively, according to the study's findings. The study has found that positive effect of FDI has increased the Trading sector and positive effect of FDI with GDP. The study has concluded that there will be a future positive movement in the GDP with the effect of the foreign direct investment.

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