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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

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   APPENDIX/ANNEXURE

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IMPACT OF FDI ON INDIAN ECONOMY: AN INTER- COMPARATIVE STUDY BETWEEN CHINA AND USA

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ABSTRACT

Foreign direct investment (FDI) as a strategic component of investment is needed by the countries for achieving the economic reforms and maintains the pace of growth and development of the economies. The role of FDI has transformed from a tool to solve the financial crises to a modernizing force. Foreign direct investment (FDI) has grown dramatically as a major form of international capital transfer over the past decade. The wave of liberalization and globalization sweeping across the world has opened many national markets for international business. The global recession is hastening the shift of focus to developing countries as they remain the only source of growth in the world economy. Recent beguiled financial recession impacted the whole world but surprisingly much negativity has not been witnessed in India. The Indian economy has now come out of the recessionary menace whatsoever. In post-liberalization regime India has experienced tremendous growth in total FDI inflows from an average of US$5-6 billion during previous five years; it has crossed the level of US$ 30 billion. But it still receives far less FDI flows from china and the USA in terms of GDP (gross domestic product) or Gross Fixed Investment. This research paper thread bear examine the impact of FDI on Indian economy in terms of GDP growth rate and export. The empirical study compares the impact of FDI inflows from China and the USA on India's growth rate. The paper has been analyzed by making use of correlation and multiple regressions between the variables. It also seeks to discuss the bi-directional relation between FDI and GDP in the three countries in order to access whether FDI is causing growth or growth rate is prerequisite for attracting FDI in case of India.

KEYWORDS
FDI, GDP, Growth Rate, Export, India, China, USA.

INTRODUCTION

Foreign Direct Investment (FDI) means investment by non-resident entity/person resident outside India in the capital of the Indian company under schedule 1 of FEMA (Transfer or Issue of Security by a Person Resident outside India) Regulation 2000 (Government of India, 2010). It is a high indicator of economic health of a country. Foreign Direct Investment plays an important role in the long term economic development of a country by augmenting availability of capital, enhancing competitiveness of a domestic economy through transfer of technology, strengthening infrastructure, raising productivity, generating new employment opportunities and boosting exports. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. This unprecedented growth of global FDI in 1990 around the world make FDI an important and crucial component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows.

There is therefore a clear strong worldwide competition for attracting FDI. As a corollary, world saw the adaption of liberalization, Privatization and Globalization regime by India 1991, which not only helped the country in opening shackles restricting its growth and development, but also in registering surge in FDI inflows, with an expectation of fulfilling aspirations of both the host and home countries. China and India enjoy a lot in common: long histories, giant market, huge population and soaring growth rate. Both are in the process of liberalizing their economies as they open up to foreign direct investment which is not at the same track. FDI has increasingly been considered as a catalyst to market growth for the developing countries, like China and India. More significantly, besides supplementing capital, FDI, as a principal conduit of technology upgrade, know-how transfer and managing skills exchange, heralds the globalization of host economies (UNCTAD 2005; UNCTAD 2006). According to UNCTAD, India has emerged as the second most attractive country of FDI. During previous five years, India has experienced tremendous growth in total FDI inflows from an average of US$5-6 billion and it has crossed the level of US$30 billion in post liberalization. But it still receives far less FDI flows than China and USA or much smaller economies in Asia in terms of GDP or Gross Fixed Investment. It is not surprising as India's growth strategies have been reliant primarily on domestic enterprises; during last decade only, mindset appears to have changed.

REVIEW OF LITERATURE

The following are compact reviews of literature on subject matter of FDI that presented variegated dimensions of FDI inflows and were found to be hovering around impact of FDI on economic growth of the recipient country. We can say that impact of home country's FDI (viz. U.S.A., and China) on GDP of host country (India).

Ray sarbapriya (2012) analyze the casual relationship between FDI and Economic growth in India by using co integration approach for the period 1991 to 2011 that confirmed the long run equilibrium relationship between the two. The result suggests that there is positive relationship between FDI & GDP and Vice-versa by using least square method. It further shows that FDI has not contributed much to the economic growth for said period in India. Finally, the granger causality test confined the unidirectional causality which runs from economic growth to FDI. Therefore it is imperative for the government to a policy for attracting FDI in such a way that it should be more growth enhancing rather than growth retarding in India.

Devajit Mahanta (2012) studied the impact of FDI on economic growth in India. The paper also tries to find out how FDI as an important economic catalyst in order to stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer. The minimal result is shown due to the low flow of FDI at macro level as well as at sectoral level in India. Therefore it is advisable to focus on export oriented sector so that the higher growth of the economy could be achieved in India.

Sharma Chandan & Dash Kumar Ranjan (2011) studied the relationship and linkage between the FDI, Trade and Economic growth by using (VAR) a vector auto regression model applying the Granger causality test for the period of 1997 to 2006 and found favorable growth effect in FDI. The paper found presence of bidirectional causality between FDI & Economic growth, unidirectional causality between FDI & Export; and complementary relation between FDI & Import. It further found that FDI is domestic market seeking rather than export seeking in India.

Khan A.Q. and Siddiqui Ahmad Taufeeque (2011), studied the impact of FDI on Indian economy and a comparison with China & USA. The paper has also been ventured into carving out set of strategies to deal with the issues & problems in attracting FDI for promotion & growth of international trade. The double log model has been used to find elasticity between different factors in this paper. In research paper impact of FDI on employment has also been analyzed in India. It also seek to discuss the bi directional relation between FDI and GDP in the three countries in order to assess whether FDI is causing growth or growth rate is prerequisite for attracting FDI in case of India. It resulted that there has been positive impact of FDI on overall growth of the economy. But when it is compared with china and USA the figures of FDI inflows are not encouraging, indeed situation is miserable. It is advisable to have huge financial resources to attain and maintain double digit growth rate and overall economic development of the country.

Bogdanovska Djurovic, Andrijana, "FDI Impact on the Economic Growth in the Developing Countries (2000-2010)", (July 10, 2011). The aim of the study is to analyze the impact of inward FDIs onto the economic growth in developing countries for the past decade. The research methodology used is based on the deductive research approach, based on quantitative data generated from secondary sources and a time-series analysis on a sample of developing nations. The results provide an updated analysis on the impact of FDI on the economic growth through the application of several control factors. Findings are inward FDIs were attracted to the developing nations with higher availability of educated labour, higher government spending and more efficient quality of governance.

Bhanagade D.B, Shah A. Pallavi (2011), they said in their paper that the impact of FDI on Indian Economy where they also emphasize on the investments, sectors attracting highest FDI inflows and FDI leads to Generation of Employment opportunities. Therefore the growth of inflow of FDI would lead to positive growth of Gross capital formation. In India, the growth of GDP is largely influenced by FDI.
P.R.Bhatt (2008), analyzes the determinants of FDI in ASEAN. The empirical model is estimated five countries of ASEAN region as a whole for the period 1976-2003 by using pooled least square method and fixed effect method. It resulted that there is a positive and significant influence via FDI inflows on ASEAN.
Siu Alan, Fung K.C. (2005), "FDI Flows to Latin America, East and Southeast Asia and China:
Substitutes or Complements?" In this paper, we explore this important research and policy issue empirically and focus on East and Southeast Asia as well as Latin America. In other words, foreign direct Investments to our Asian economies are positively related to direct investment into China, while foreign direct investments to the Latin American economies have little systematic relationship with direct investment going into China. For Asia, we use data for eight Asian economies for 1990-2002 by using regression model. We then add China's inward foreign direct investment as an indicator of the "China Effect". Specifically, market size variables and policy variables such as the lower corporate taxes and higher degrees of openness play larger roles in attracting investment.
Blomstrom and kokko (2003), they said in their paper that least developed economies attracting less FDI. It suggests that the existence of threshold level of development is necessary for FDI. Having more attraction of FDI inflows in least developed economies that results in boosting the economy of a country.

RESEARCH GAP, SCOPE AND OBJECTIVES
Number of studies had been conducted which were found to be hovering around the impact of FDI on Indian Economy. Moreover several researcher have raised the significant issues regards to FDI, but no one analyze the literature which reveals the impact of FDI on Indian economy and inter comparative study between China and USA.
However this research paper takes further step to study the impact of FDI in India compared to China and USA. It discuss the bidirectional relation between FDI and GDP, where it reveals that FDI is causing growth or growth rate is prerequisite for attracting FDI in India.
The following are the objectives have been pursued in this study,
1. To study the FDI in India as it has contributing to the growth of the economy.
2. To analyze the impact of FDI on Indian Economy in terms of GDP growth rate and Export.
3. To study the inter comparison study between China and the USA FDI inflows in respect to India's Gross Domestic Product (GDP).

HYPOTHESIS AND METHODOLOGY OF THE STUDY
1. **Ho:** The Null hypothesis assumes that there is no significant impact of FDI on GDP rate.
   Ha: The Alternative Hypothesis accepts that there is significant impact of FDI on GDP rate.
2. **Ho:** The Null hypothesis assumes that there is no significant impact of FDI on Export.
   Ha: The Alternative Hypothesis accepts that there is significant impact of FDI on Export.
3. **Ho:** The Null Hypothesis presumes that there is no significant impact of FDI in India compared to China and USA.
   Ha: The Alternative Hypothesis accepts that there is significant impact of FDI in India compared to China and USA.

The following statistical tools have been used to test the hypothesis:
Linear regression function has been applied in order to know the impact of FDI on Indian economy considering GDP growth rate and Export as variables to be test upon. And also analyze the impact of USA's FDI inflows and China's FDI inflows on India' GDP growth rate. The degree of significance of coefficient of regression verify by the application of **'T'** test. The strength of linear relationship between the dependent variable and independent variable measured by the coefficient of determination. The data analyzed in this paper has been collected and searched from the reliable sources i.e. journals, articles, research papers, economic survey, Ministry of commerce, Handbook of Statistics by the RBI, OECD library and scrutinized through statistical tools & techniques.

GROWTH OF FDI INFLOWS
Foreign direct investment (FDI) has grown dramatically of FDI-defined as cross-border expenditure to acquire or expand corporate control of productive assets-have approximately tripled. Foreign direct investment (FDI) has made a dynamic surge into the world economy in the last fifteen years by growing strongly at rate well above those of global foreign trade. FDI has become a major form of net international borrowing for Japan and the United States (the world's largest international lender and borrower, respectively). Direct investment has grown even more rapidly of late within Europe.
Among the developing countries in Asia, India and China are the two major economies that have adopted market oriented economic policies designed to attract FDI inflows. Both these economies are now getting increasingly integrated with the global economy as they open up their markets to international trade and investment inflows. Both countries have enjoyed high positive average GDP growth rate over the last two decades, although China substantially exceeds India.
China ventured into the path of liberalization in 1979 (Lemoine, 2000, Huang, 2002) by gradually liberalizing and opening up its economy. While FDI in 1980 was virtually minimal (about $ 596 million) within a span of 23 years, China's annual FDI inflows are way over $50 billion. By the end of 2002, only a year after joining the WTO, China overtook the United States (U.S.) in FDI inflows and became the foremost recipient of FDI inflows in the world. The lead position of China among the destinations of global FDI inflows has also been confirmed by the 2002 A.T. Kearney FDI Confidence Index Survey. China scored 1.99 in a scale from zero to three, while the United States ranked second with 1.89 and India scored 1.05 as per the results. The United States, Britain, Germany and France rounded out the top five, with Brazil falling to 13th place in 2002 from third in 2001. China has also remained the most preferred destination for FDI among the developing nations in the Asia and the Pacific.
China and India attract a significant portion of the global FDI; however, the magnitude of China's FDI flows is much larger than that of India's FDI. China's inward look so impressive that some economist have reportedly used the phrase "China Fever" to describe the inflows of FDI into the country. The special reason for China's super-magnetic attraction of FDI is intriguing. After a declivitous fall over three years, the global FDI flows regained its impetus in 2004. The two Asian giants, China and India attracted a significant portion of the global FDI. The United States is the leading foreign investor in India and the second major investor in China next only to Japan.

ANALYSIS AND INTERPRETATION
This research paper examines the impact of FDI in India and seeks to discuss the impact of FDI on GDP in order to assess whether FDI is causing growth or growth rate is prerequisite for attracting FDI in India. For examining the impact, linear regression analyses has been used to find out the level of significance. Table-1 explains that the flow of FDI in respect of the GDP growth rate during the year 2000 to 2012 in India. According to data taken from DIPP, illustrates that FDI was US$ 4029 million in the year 2000-2001 that increased to US$ 6130 million with growth rate of 52% in the year 2001-02.
The investment amounted to US$ 5035 million and US$ 4322 million with negative growth rate of 18 % and 14 % respectively as it was noticed the downward trend in years i.e. 2002-03 and 2003-04. The reason for negativity was the unfortunate event of 9/11 attack in US leading to cascading effect on almost all the countries of the world. In most of the economies even including India the stock market went into bearish mode. Then the recovery begins from2004-2005 and2005-2006 with growth rate of 40%and 48% and investment amounted to US$ 6051 million and US$ 8961 million. In the year 2006-2007, FDI registered skyrocketed growth rate of 146 % with investment amounting to US$ 22826 million. During this period tremendous growth can be ascertained in Indian economy. This trend of growth goes continued with investment amounting to US$ 34835 at growth rate of 53% in the year2007-2008. In the succeeding year i.e. 2008-2009, the growth rate declined to the level of 20%. This is all because of global financial recession but it is satisfactory for India in compare to other countries at least it is positive. Strong economic fundamentals and controlled privatization are able to maintain positive growth rate. The impact of crises adversely affect the Indian economy as it is noticed that in the year 2009-2010 and 2010-2011, the growth rate goes negative at -10% and -8% with investment

amount of US$ 37745 million and US$ 34847 million. In the year 2011-12, FDI inflows to India is increased to US$ 46553 million with growth rate of 34% as shown in appendix 1. In order to test the hypothesis, the variables has been taken as independent and dependent variables to know the impact of FDI on GDP growth rate & export and by separately comparing India's GDP growth rate with FDI inflows of the countries under study.

In Table 1, the null hypothesis assumes that there is no significant impact of FDI on GDP growth rate. It is stated that independent variable is significant at any level of significance with T value of 1.01 and on other hand dependent variable is significant at any level of significance with T value of 5.9. The significance value for FDI inflows in India is 0.334 which is higher than the critical value of 0.05. We conclude that there is no significant impact of FDI inflows on GDP growth rate.

In Table-2, the independent variable i.e. FDI inflows is significant at any level of significance with T value of 7.57 and export taken as dependent variable with T value of 2.2. Therefore it implies that there is clear impact of FDI on Export in India but the relation is indirect. The value of 'b' communicates the elasticity between FDI and Export.

TABLE-1: IMPACT OF FDI ON GDP GROWTH RATE (COEFFICIENTS)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.406	1.072		5.975	.000
	FDI Inflows	4.855E-5	.000	.306	1.015	.334
a. Dependent Variable: GDP growth rate						

TABLE-2: IMPACT OF FDI ON EXPORT (COEFFICIENTS)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	35809.432	16260.419		2.202	.052
	FDI Inflows	4.624	.611	.923	7.573	.000

a. Dependent Variable: Export

The null hypothesis presumes that there is no significant impact of USA FDI Inflows on India's GDP growth rate during the period under study. It is discernible from **Table-3** that independent variable is significant at 18% level of significance which is higher than 5% level of significance. Therefore, there is no impact of USA FDI Inflows on GDP growth rate of India.

In Table-4, the null hypothesis assumes that there is no significant impact of China FDI Inflows on India's GDP growth rate. It is stated that independent variable is significant at any level of significance with T value of 0.26 and on other hand dependent variable is significant at any level of significance with T value of 0.76. The significance value for FDI inflows in India is 0.80 which is higher than the critical value of 0.05. We conclude that there is no significant impact of China FDI inflows on GDP growth rate. However, the present paper focuses on analyzing the impact of country-specific FDI inflows (viz.USA and CHINA) on GDP of the recipient country (India). The results reveal that the FDI inflows from the two giant countries do not significantly affect India's GDP.

TABLE-3: IMPACT OF USA FDI INFLOWS ON INDIA'S GDP GROWTH RATE (COEFFICIENTS)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-17.473	36.140		-.483	.640
	USA FDI Inflows	.000	.000	.436	1.451	.181

a. Dependent Variable: India's GDP growth rate

TABLE-4: IMPACT OF CHINA FDI INFLOWS ON INDIA'S GDP GROWTH RATE (COEFFICIENTS)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	23.977	31.407		.763	.465
	CHINA FDI Inflows	6.281E-5	.000	.087	.261	.800

a. Dependent Variable: India's GDP growth rate

CONCLUSION

There is a clear strong worldwide competition for attracting FDI because it has been accepted worldwide that FDI can boost efforts for development in several ways, for instance boosting export, creating new employment, increasing technological capabilities and increasing total financial resources for overall development of the economy. Analysis in this research paper illustrates that there has been positive impact of FDI on overall growth of the economy. But when it is compared with other countries like China and USA, the FDI figure is not encouraging, indeed situation is miserable. In today's cut-throat economic environment, there are several factors that affect the gross domestic product inflows of any country, particularly in case of developing nations. However, the present paper focuses on analyzing the impact of country-specific FDI inflows (viz.USA and CHINA) on GDP of the recipient country (India). The results reveal that the FDI inflows from the two giant countries do not significantly affect India's GDP. Various studies suggest that India is still an explored market from FDI's point of view and holds enormous opportunities for FDI. India requires having huge financial resources to attain and maintain double digit growth rate and overall economic development of the country. We need to have development strategies which include openness for trade and favorable business environment for FDI.

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APPENDICES

TABLE 5: FOREIGN DIRECT INVESTMENT, GROSS DOMESTIC PRODUCT GROWTH RATE AND EXPORT (Million US$ & %)

Years	FDI	Growth Rate	Export
2000-01	4,029	-	44560.3
2001-02	6,130	(+) 52	43826.7
2002-03	5,035	(-) 18	52719.4
2003-04	4,322	(-) 14	63842.6
2004-05	6,051	(+) 40	83535.9
2005-06	8,961	(+) 48	103090.5
2006-07	22,826	(+) 146	126414.1
2007-08	34,843	(+) 53	162904.3
2008-09	41,873	(+) 20	185295.0
2009-10	37,745	(-) 10	178751.4
2010-11	34,847	(-) 08	251136.2
2011-12	46,553	(+) 34	304623.5

Source: FDI factsheet of DIPP from April 2000 to January 2013 & Handbook of Statistics (RBI)

TABLE 6: FDI INFLOWS TO INDIA FROM U.S.A., CHINA AND THEIR GDP GROWTH RATES (Million US$ & %)

Years	USA	Growth Rate	China	Growth Rate
2000-01	321274	4.2	38399	8.4
2001-02	167021	1.1	44241	8.3
2002-03	84372	1.8	49308	9.1
2003-04	63750	2.6	47077	10.0
2004-05	145966	3.5	54937	10.1
2005-06	112638	3.1	79127	11.3
2006-07	243151	2.7	124100	12.7
2007-08	221166	1.9	160100	14.2
2008-09	310091	-0.4	175100	9.6
2009-10	150443	-3.5	114200	9.2
2010-11	205831	3.0	185000	10.3
2011-12	233988	1.7	228600	9.2

Source: I:\OECD International Direct Investment Statistics - Statistics - OECD iLibrary.mht

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