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REVIEW OF LITERATURE
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STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
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APPENDIX/ANNEXURE

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A STUDY ON THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH WITH SPECIAL EMPHASIS TO FOREIGN TRADE AND GROSS DOMESTIC PRODUCT

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ABSTRACT
Foreign direct investment is indispensable factor that helps in boosting the growth of Indian economy. With the introduction of liberalization by former finance minister Dr. Manmohan Singh in 1991, India has witnessed a change in the flow and direction of foreign direct investment in to the country. Foreign Direct Investment in India increased by 874 USD Million in February of 2017. Foreign Direct Investment in India averaged 1225.67 USD Million from 1995 until 2017. Present paper shows the impact of Foreign Direct Investment on Trade Balance (Export and Import) and Gross Domestic Product. Efforts have been made to collect data from reliable sources. Statistical tool like correlation has been used in order to reveal the results. The results show that there is both positive and negative relationship between different factors.

KEYWORDS
export, foreign direct investment, gross domestic product, import, trade balance.

INTRODUCTION
Foreign direct investment refers to net inflows of investment in an economy. It is the sum of equity capital, reinvestment of earnings short term and long term capital. It usually involves participation in management, joint ventures, transfer of technology and experience. GDP refers to the market value of all final goods and services produced in the country and trade balance is the difference between exports and imports. FDI plays a major role in the developing countries like India. 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. High growth rate and inflows of FDI is helpful in solving the structural imbalance of Indian Economy. Thus, we can say FDI is helpful in the development of India.

LITERATURE REVIEW
This section shows the previous researches conducted by different scholars in the field of foreign direct investment and its role in an economy.

Pardeep Agarwal (2000) founded that the increase in FDI inflows in South Asia were associated with a many-fold increase in the investment by national investors, suggesting that there exist linkage effects between FDI and GDP the impact of FDI on GDP growth is found to be negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and nineties.

Blomstrom and kokko (2003) concluded 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.

Nuzhat Falki (2009) examined the Impact of FDI on Economic Growth of Pakistan. She collected the data of FDI from the Handbook of Pakistan Economy-2005 published by the State of Pakistan and the World Bank Development indicators-2008 from 1980 to 2006 with variables of domestic capital, foreign owned capital and labor force. With the help of endogenous growth theory and applying the regression analysis, she concluded that FDI has negative statically insignificant relationship between GDP and FDI inflows in Pakistan.

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.

Chaturvedi Ila (2011), In this paper, analyze the FDI inflows with special reference to sector wise inflows in India. This paper also explore the sector wise distribution of FDI in order to know the dominating sector which has attracted the major share of FDI in India. And to find out the correlation between FDI and Economic Development, It reveals that there is high degree of significance between FDI and economic development.

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. They also highlight the impact of FDI on employment. In this research paper, the discussion between FDI and GDP as to asses that FDI helps in boosting growth of a country.

Anitha, R. (2012) concluded in her research paper entitled " Foreign direct investment and economic growth in India" that FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. Further, she suggests that India should sign the agreement of Double Taxation treaties with other countries in order to increase bilateral trade. And there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards.

Iram Khan (2012) concluded that there has been positive impact of FDI on overall growth of the economy. India has registered tremendous growth in FDI inflows during last decade and total inflows crossed the level of US$ 30 million. But when it is compared with other countries and continents the figure of FDI inflows are not encouraging. It can be observed from above analysis that sectoral level of the Indian economy, FDI has helped to raise the output, productivity and export in some sectors.

Singh, Jasbir. Chadha, Sumita. Sharma Anupama (2012) concluded in their research paper entitled "Role of foreign direct investment in India – An analytical study" that the foreign investment increased in both term i.e. FDI and FIIs. The FDI has better performance that attracts the 58.29 percent amount of total foreign investment inflow. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

Naruka, Jitendra Singh (2014) concluded in his research paper entitled "Foreign direct investment and Indian retail sector – Aspects on Indian Economy" that the foreign direct investment is necessary for Indian economy to sustain the growth. It is also helpful to improve the infrastructure of the country. But it must be supported by well-planned micro and macroeconomic policies. So that it can create the feasible investment environment for foreign investors. The foreign direct investment gives strength to Indian market to compete with world market. It helps the economy in the long run. He proposes that the foreign direct investment is very much required by the Indian economy for its own benefit along with the implementation of certain strict rules and regulations so that it does not become a curse for Indian economy.

OBJECTIVES OF THE STUDY

The main objectives of this paper is to

1. Study the relationship between Gross FDI and exports in India.
2. Study the relationship between total outflows (Repatriation and FDI by India) and Imports in India.
3. Study the relationship between Net FDI and Trade Balance (Difference between exports and imports) in India.
4. Study the relationship between Net FDI and GDP in India.
5. Give suggestions, if any.

RESEARCH METHODOLOGY

In order to conduct the research, data is collected from secondary sources such as websites (websites of Reserve Bank of India and world bank), books, journals, research papers and newspapers. Statistical tool like Karl Pearson's correlation has been used in order to reveal the results. Data include the time period (post liberalization) from financial year 2000-01 to 2015-16. Following are the variables which have been studied.

Selected Factors	Symbols
Gross Foreign Direct Investment in India (Gross Inflows) {Independent Variable}	**X1**
Foreign Direct Investment by India (Gross Outflows) {Independent Variable}	**X2**
Net Foreign Direct Investment in India (Gross Inflows – Gross Outflows) {Independent Variable}	**X3**
Exports in India {Dependent Variable}	**Y1**
Imports in India {Dependent Variable}	**Y2**
Trade Balance (Exports in India-Imports in India) {Dependent Variable}	**Y3**
Gross Domestic Product In India (In Percentage) {Dependent Variable}	**Z**

Relationship will be studied between X1Y1, X2Y2, X3Y3 and X3Z with the help of correlation.

FOREIGN INVESTMENT FLOWS IN INDIA

STUDY OF INDEPENDENT VARIABLES

In order to achieve above said objectives, we will study the foreign investment flows (both inflows and outflows). Here gross inflows refer to total foreign direct investment by other countries in India. Total outflows refer to total foreign direct investment by India and repatriation. Here repatriation refers to the transfer of corporate money or property including earnings from a foreign country back to its home country. Some foreign governments restrict this action to prevent a drain of capital or exploitation by the company to its home country. Net foreign direct investment refers to foreign inflows--foreign outflows. Following table will show the scene of India in terms of foreign direct investment.

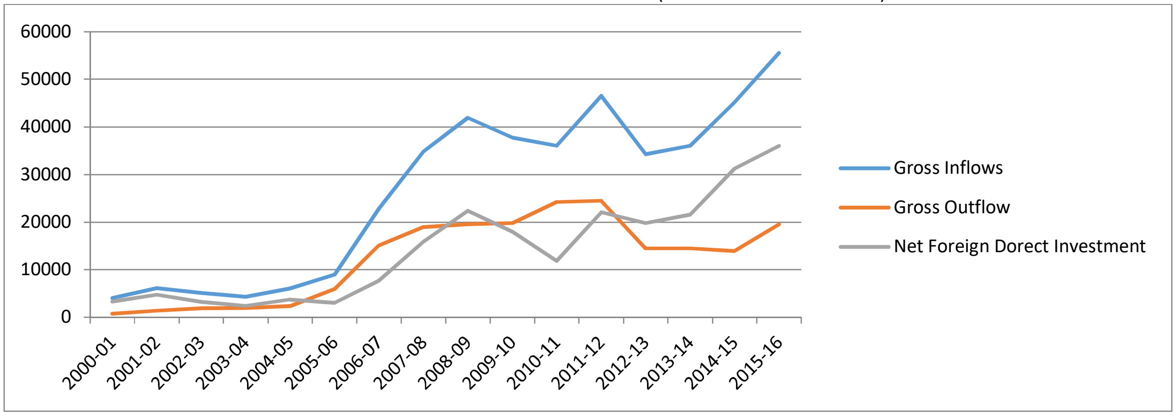
TABLE 1: FOREIGN INVESTMENT FLOWS (BOTH INFLOWS AND OUTFLOWS) Amount in US $ Million

Year	Gross Inflows / Gross Investments (X1)	Repatriation / Disinvestment (A)	FDI by India (B)	Total Outflows (A+B=X2)	Net Foreign Direct Investment (X1-X2=X3)
2000-01	4031	0	759	759	3272
2001-02	6130	5	1391	1396	4734
2002-03	5095	59	1819	1878	3217
2003-04	4322	0	1934	1934	2388
2004-05	6052	65	2274	2339	3713
2005-06	8962	61	5867	5928	3034
2006-07	22826	87	15046	15133	7693
2007-08	34844	116	18835	18951	15893
2008-09	41903	166	19365	19531	22372
2009-10	37746	4637	15143	19780	17966
2010-11	36047	7018	17195	24213	11834
2011-12	46552	13599	10892	24491	22061
2012-13	34298	7345	7134	14479	19819
2013-14	36047	5284	9199	14483	21564
2014-15	45147	9864	4031	13895	31252
2015-16	55559	10652	8886	19538	36021

Source: www.rbi.org.in

Above data states that gross inflows are increasing except in year 2002-03, 2003-04, 2009-10, 2010-11 and 2012-13. On the other hand, repatriation is 0 in the year 2000-01 and the reason behind zero disinvestment is the first year of liberalization. After that disinvestment is also increasing except in the year 2003-04, 2005-06, 2012-13 and 2013-14. One thing is to be kept in mind that gross inflows are directly related to the growth of economy and disinvestment is indirectly related to the growth of economy. FDI by India is also increasing except in the year 2009-10, 2011-12, 2012-13 and 2014-15. And overall net investment is also increasing except in the year 2002-03, 2003-04, 2005-06, 2009-10, 2010-11 and 2012-13. Following diagram will make the situation more clear.

DIAGRAM 1: FOREIGN INVESTMENT FLOWS (Both Inflows and Outflows)



Source: www.rbi.org.in

POSITION OF EXPORT, IMPORT, TRADE BALANCE AND GROWTH IN GROSS DOMESTIC PRODUCT IN INDIA

STUDY OF DEPENDENT VARIABLES

Now we will study the position of export, import and trade balance in India. Exports means send goods or services to another country for sale. Import means bring (goods or services) into a country from abroad for sale. And the trade balance, also known as the balance of trade (BOT), is the calculation of a country's exports minus its imports. Gross domestic product is studied in terms of growth rate and data is given in percentage. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus all subsidies not included in the value of the products. It is calculated without making deductions for depreciation. Following table will make the situation in India more clear.

This table shows that exports are continuously increasing in India except in the year 2001-02, 2009-10, 2012-13, 2014-15 and 2015-16. Imports are also continuously increasing except in the year 2009-10, 2013-14, 2014-15 and 2015-16. Again one thing is to be kept in mind that exports are directly related to the growth of any economy because exports generate foreign currency and helps Reserve Bank of India to fill their reserves and imports are indirectly related to the growth of any economy because we have to make payment of imports in foreign currency and these payment hamper the growth of RBI's reserves.

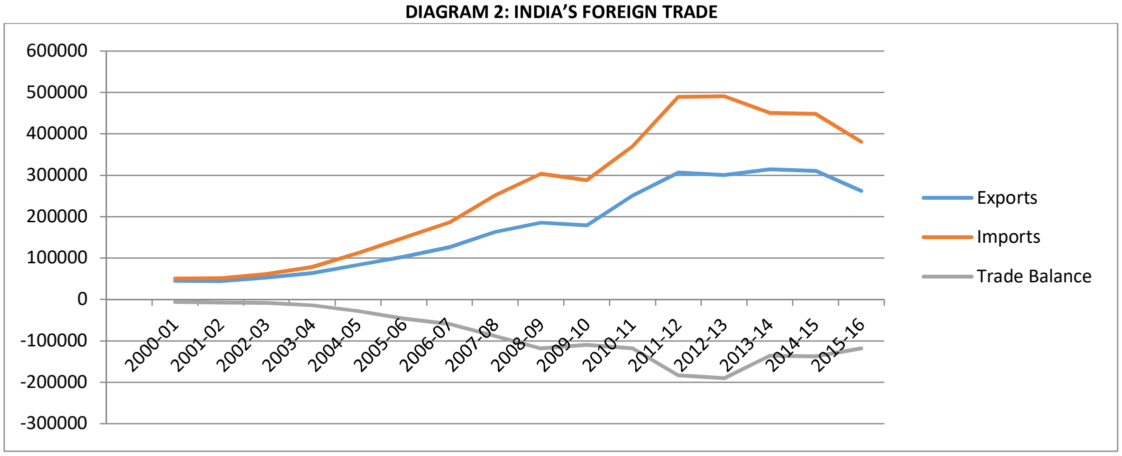
TABLE 2: INDIA'S FOREIGN TRADE AND GROSS DOMESTIC PRODUCT Amount in US $ Million and in %age

Year	Exports (Y1)	Imports (Y2)	Trade Balance (Y1-Y2=Y3)	GDP of India (Z)
2000-01	44560.3	50536.5	-5976.2	3.8%
2001-02	43826.7	51413.3	-7586.6	4.8%
2002-03	52719.4	61412.1	-8692.7	3.8%
2003-04	63842.6	78149.1	-14306.5	7.9%
2004-05	83535.9	111517.4	-27981.5	7.9%
2005-06	103090.5	149165.7	-46075.2	9.3%
2006-07	126414.1	185735.2	-59321.2	9.3%
2007-08	162904.2	251439.2	-88535.0	9.8%
2008-09	185295.0	303696.3	-118401.3	3.9%
2009-10	178751.4	288372.9	-109621.4	8.5%
2010-11	251136.2	369769.1	-118632.9	10.3%
2011-12	305963.9	489319.5	-183355.7	6.6%
2012-13	300400.7	490736.7	-190336.0	5.1%
2013-14	314415.7	450213.7	-135798.0	6.9%
2014-15	310352.0	448033.4	-137681.4	7.3%
2015-16	262003.7	380356.3	-118352.6	7.6%

Source: www.rbi.org.in and www.data.worldbank.org

And as far as trade balance in concerned, India's trade balance is negative in all years which means imports are more than exports and this is very critical situation for an economy like India. And this negative amount is at increasing rate except in the year 2009-10, 2013-14 and 2015-16. Negative figure at increasing rate is again a very serious problem.

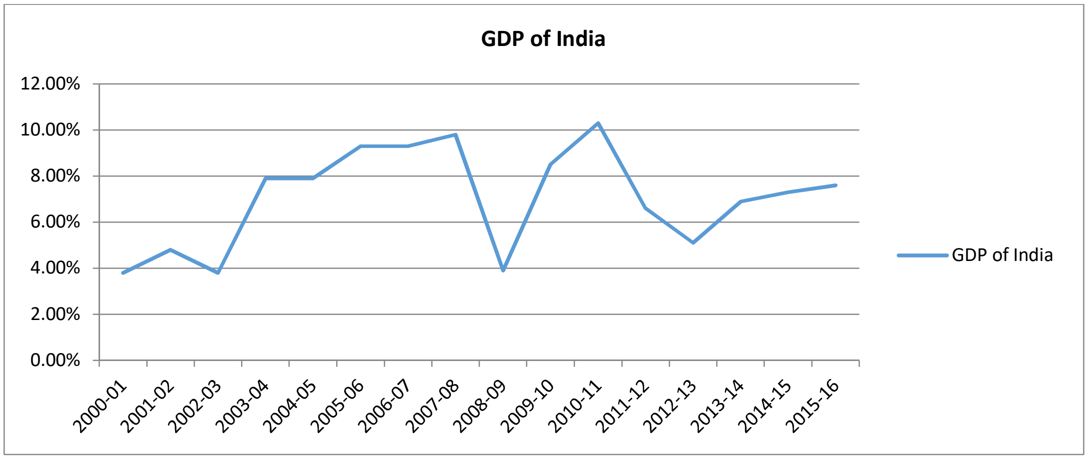
DIAGRAM 2: INDIA'S FOREIGN TRADE



Source: www.rbi.org.in

Above diagram is making the situation clear in the case of exports, imports and trade balance. Growth rate in GDP is also increasing except drastic fall in the year 2008-09 i.e. 3.9%. And again there is fall in the years 2011-12 and 2012-13. And there is constant GDP also in the year 2004-05 and 2006-07 with the rate of 7.9% and 9.3% respectively. Effective rate of GDP is must for the survival of any economy. Following diagram will make the situation clear in the case of growth rate of GDP.

DIAGRAM 3: GROWTH RATE OF GDP IN INDIA



Source: www.data.worldbank.org

OVERALL ANALYSIS WITH THE HELP OF KARL PEARSON'S CORRELATION

TABLE 3

Variables	Correlation Coefficient	Degree	Description
X1Y1	0.8833	High Degree	+ve correlation
X2Y2	0.809	High Degree	+ve correlation
X3Y3	-0.8026	High Degree	-ve correlation
X3Z	0.0313	Low degree	+ve correlation

INTERPRETATION OF THE RESULTS

1. **Correlation between X1 and Y1 :** There is a strong positive correlation between gross inflows and exports which means that exports are increasing with the increase in gross investment. These variables are directly related to each other. Gross inflows are helpful in increasing exports.
2. **Correlation between X2 and Y2 :** There is a strong positive correlation between total outflows and imports which means that imports are increasing with the increase in total outflows. These variables are also directly related to each other. Total outflow of funds force an economy to import the goods.
3. **Correlation between X3 and Y3 :** There is a strong negative correlation between net foreign direct investment and trade balance which means trade balance is decreasing with the increase in net foreign direct investment. Both the variables are indirectly related to each other. Here one factor is increasing and other one is decreasing.
4. **Correlation between X3 and Z :** There is technically a positive correlation between these factors. The relationship between these variables is only weak (the nearer the value is to zero, the weaker the relationship) which means that net foreign direct investment has almost no effect on the growth of an economy. Our economy can survive even without foreign direct investment.

FINDINGS OF THE STUDY

Following are the findings of the study.

1. The study shows that gross inflows are continuously increasing which is a positive signal for Indian economy.
2. The study shows that total outflows, which includes disinvestment and FDI by India is also increasing. Here increase in disinvestment is a major problem. Foreign countries, which are investing in India, are also repatriating their funds including earnings back to their own countries. Whereas increase in FDI by India is a positive, point which shows that India has sufficient funds to invest in other countries. India is also contributing towards the development of other countries.
3. Result of net foreign direct investment is also on the increasing pace. But in many years it is less than the total outflow.
4. Exports are also increasing which is a good signal for Indian economy.
5. But along with exports, imports are also increasing.
6. Trade balance is a major problem as shown in the study. Every year we have negative balance of payment, which leads to deficit financing. In order to set off debt financing, India has to borrow funds from other countries.
7. Issue of new currency is another way to sort out the problem of debt financing but it will lead to inflation in an economy.
8. Growth rate of GDP is not constant. It is either increasing or decreasing. It should be on increasing pace, which shows the development of an economy.
9. The study shows that exports and imports are increasing with the increase in gross inflows and total outflows respectively. Means there is a direct relationship between these variables. Increase in independent variable leads to increase in dependent variable.
10. There is a high degree negative correlation between net foreign direct investment and trade balance, which is a serious problem. It shows that increase in net foreign direct investment leads to decrease in trade balance.
11. The study shows that net foreign direct investment has no effect on the growth of an economy. Our economy can survive even without foreign direct investment. There is a weak relationship between these two variables.

SUGGESTIONS

Following are some of the suggestions which can improve the situation of an economy.

1. Foreign countries should be encouraged to reinvest their earnings in the development of India. Repatriation of funds should be strictly prohibited.
2. Efforts should be made to increase exports and decrease imports. Only then balance of payment will be favorable.
3. Efforts should be made to improve the growth in gross domestic product which shows the development of an economy.
4. One thing is to be kept in mind that too much dependence on foreign funds should not be there.
5. Foreign investors and FDI should be encouraged but in controlled manner.

CONCLUSION

This research paper shows the relationship between various variables. FDI is helpful in foreign trade. Many foreign investors are investing their funds in India and our economy is using their funds for the development purpose. We are increasing our exports with the help of foreign funds. The paper also analyzes the impact of FDI inflows on GDP in India. The study highlights that there is no impact of FDI inflows on GDP. Various other studies have shown the fact that there are various sectors having highest attraction of FDI inflows and these are Service, Telecommunication, Real Estate, Construction and Computer Hardware & Software sectors. FDI inflows to these sectors are not very much impacting GDP in India. Hence, India needs to have financial resources to accomplish double digit growth rate and for overall development of the country. For the openness of trade and favorable environment, FDI plays a significant role so as to achieve the desired goals of the economy. This is a wide topic to be researched on.

LIMITATIONS TO THE STUDY

1. Only secondary data is taken into consideration.
2. The data related to growth rate in GDP is taken for the website of World Bank. This data is according to calendar year i.e. from January to December. Data related to FDI and Foreign trade is taken from the website of Reserve Bank of India. This data is according to financial year i.e. April to March. In order to reveal the results in best possible way, we are assuming that data of growth rate in GDP is according to financial year i.e. April to March. Means we are ignoring the effect of three months.

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