

# Foreign Direct Investment in India

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**Abstract** Foreign Direct Investment (FDI) is considered as an engine of economic growth. Before the Economic reforms the flow of foreign direct investment to India has been comparatively limited because of the type of industrial development strategy and the various foreign investment policy followed by the nation. Government policy towards foreign capital was very selective. Foreign investment was normally permitted only in high technology industries in priority areas and in export oriented areas. So the inflow of FDI before 1990's was very low. To fully utilize the country's immense economic potential, the government launched Economic reforms in 1991. The new government policies are simple, transparent and promote domestic and foreign investment. India's abundant and diversified natural resources, its sound economic policy, good market condition and high skilled human resources make it a proper destination for FDI. After long years of journey FDI was also introduced in various sectors and states in India. The Investment of FDI in various states and sectors leads to rapid growth of Indian economy. On this background, the paper analyses the sector wise and state wise inflows of FDI during the period 2000-2010.

**Keywords:** *Purchasing Power Parity, Industrial Policy, LPG Model, MRTP*

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## 1. Introduction

### *"Foreign Capital is a Good Servant, But a Bad Master"*

India is the Fourth largest country by Purchasing Power Parity. U.S. report on Global Governance has declared India as the Third most powerful nation after the United States and China. Global Wealth Report 2012 estimated India's Wealth as 13.5 Trillion. Foreign Capital is defined as transfer of capital resource from the developed to the developing countries to make a qualitative change in the structure of the economies. Foreign Capital can enter a country in the form of private foreign capital and public foreign capital. Private capital can be divided into Foreign Direct Investment and Indirect Investment. Foreign Direct Investment means investment in a foreign country where the investor retains control over the investment. It typically takes the form of starting a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Direct investors have direct responsibility with the promotion and management of the enterprise. If the investor has only a sort of property interest in investing the capital in buying equities, bonds, or other securities abroad is referred to as Portfolio Investment. In Portfolio Investment the investor uses his capital in order to get a return on it, but has no much control over the use of the capital. In recent years, FDI become a vital part in every country more particularly with the developing countries. This is due to availability of cheap labour, uninterrupted availability of raw material, less production

cost compared with other developed countries, quick and easy market penetration. The different types of Foreign Direct Investment are Greenfield Investment, Brownfield Investment, Mergers and Acquisition, Horizontal and Vertical Investment. Vertical Investment takes two forms: Backward vertical FDI and Forward vertical FDI.

### 1.1. Foreign Direct Investment in India

India started inviting Foreign Investment since independence. Investing Foreign Capital in FDI and FPI received prime importance in the New Economic Policy 1991.

### 1.2. An Overall View of FDI (After Independence)

The main aim of the Industrial Policy 1948 was to lay foundation of a Mixed Economy in which both private and public enterprises would join together to accelerate the growth of industrial development. In April 1956, one of the main objectives of the policy was to attract Foreign Capital and FDI. In December 1977, Janata Government reduced the limits on FDI. In 1980, Congress Government liberalized the licensing policy for large and big business and a more capital intensive path of development. Realizing the importance of FDI Congress government initiated the Economic Reforms to increase the Foreign Exchange resources for the development of Indian Economy. Economic Reforms has two phases.

### 1.3. Economic Reforms – The First Phase

Economic Reforms (1985-1990) was introduced by Prime Minister Mr. Rajiv Gandhi in 1985. He outlined the new trends in economic policy of the Government. The idea suggested by him was: Improvement in productivity, absorption of modern technology and fuller utilization of capacity. The basic thrust of the New Economic Policy was a greater role for the private sector.

To provide larger scope to the private sector, a number of changes in policy were introduced with regard to industrial licensing, export – import policy, technology up gradation, fiscal policy, foreign equity capital, removal of controls and restrictions, rationalizing and simplifying the system of fiscal and administrative regulation. All these changes were directed towards creating an uninhibited climate for private sector so that private sector investment could get a big boost to modernize the economy and in rapid growth. Professor K.N.Raj rightly sums up the focus of new economic policy: “There has been however a general agreement that a very distinctive feature of these policy changes taken as a whole is the greater scope for unfettered expansion they offer to the private sector, particularly in the corporate segment of manufacturing industry and the opportunities opened up to multi – national enterprises”.

The New Economic Policy focused its attention on dismantling the control so as to remove unnecessary hurdles in securing licenses, in adjusting output to administered prices and in denying industrial licensing to MRTP companies. The Government initiated a number of measures in this regard to improve and attract direct investment.

### 1.4. Economic Reforms – The Second Phase

Economic reforms were introduced under Rajiv Gandhi regime did not yield the desired result. The balance of trade deficit instead of narrowing down increased. Whereas the average deficit in trade balance during the Sixth Plan (1980-85) was Rs.5, 930 crores, it raised to Rs. 10,840 crores during the Seventh Plan (1985-90). There was also decline in the receipts on invisible account, from Rs.19, 070 crores during the Sixth Plan to Rs. 15,890 crores during the Seventh Plan. Consequently, the country was faced with a serious balance of payments crisis. Thus, India was forced to approach the World Bank and the IMF to provide a huge loan of about \$ 7 billion to bail India out of the crisis. While agreeing to provide assistance to India, the World Bank – IMF insisted that the Government must put its economy back on rails.

The Congress Government, on June 21, 1991, adopted a number of stabilization measures that were designed to restore internal and external confidence. Monetary policy was tightened further through increase in interest rates, the exchange rate of the rupee was adjusted by 22 percent and major simplification and liberalization of trade policy was announced. The Government adopted, as the centerpiece of the economic strategy, a program to bring about reduction in fiscal imbalance to be supported by reforms in economic policy that were essential to impart a new element of dynamism to the growth process in the economy.

Dr. Manmohan Singh, the Finance Minister submitted the Memorandum on Economic policies to IMF proposed:

“The thrust will be to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the scope of the public sector, and to reform and modernize the financial sector so that it can more efficiently serve the needs of the economy”. The International Financial Institution insisted the Government to follow the LPG model to reduce the balance of payment deficit.

LPG model of development was introduced in 1991 by the Finance Minister Dr. Manmohan Singh with a big bang was intended to charter a new strategy which emphasis on Liberalization, Globalization and Privatization (LPG). Several major changes at the domestic were introduced.

- Areas reserved for the public sector were opened to private sector.
- Permitting the private sector to set up industrial units without taking a license.
- Abolishing the limits of assets in respect of MRTP companies, the government freed the business houses to undertake investment without any ceiling.
- To facilitate direct foreign investment, the government decided to grant approval for FDI up to 51 percent in high priority areas.
- To improve the performance of public sector enterprises and greater autonomy was given to public sector unit managements.

LPG model of development emphasizes a bigger role for the private sector. It envisages a much larger quantum of Foreign Direct Investment to supplement our growth process. During August 1991 and August 1998 the government approved total foreign investment of Rs.1, 73,510 crores, about 137 times the Rs. 1,270 crores of foreign investment in the last decade (1981-1990). According to the World Investment Report (WIR) the target rate of FDI inflows in the Eleventh plan will be around 16 billion.

### 1.5. FDI Monitoring and Reviewing Agencies

The inflow and outflow of FDI into India is monitored by Ministry of Commerce and Industry, Reserve Bank of India (RBI), Foreign Investment Promotion Board (FIPB) and Department of Industrial Policy and Promotion (DIPP).

### 1.6. Focus of the Study

The main objective is to examine the Sector - wise and State – wise FDI inflow, the trend and growth of FDI and the link between FDI and GDP during the period 2000-2010.

## 2. Review of Literature

A good number of studies have investigated on FDI issues. However, the following deserve a special mentioning, since they have gone deep in to the crux of the FDI issues.

Ragavendra Jha (2003) analyses the recent trends in FDI flows in India. He finds that FDI flows to India have not been commensurate with her economic potential and performance. The GOI revised its computation of FDI

figures in line with the best international practices, which has led to a substantial improvement in FDI figures. The quality of FDI as manifest in technological spillovers, export performance etc. is more important than its quantity.

Rashmi Banga's (2003) found that FDI has not played a significant role in exports of the Indian manufacturing sector in the post reform period and concludes that FDI in India has led to export diversification.

N.S. Siddharthan and K.Lal (2004) argues in favor of using an unbalanced panel that takes into account the entry and exit of the firms. Firms with better endowments in terms of productivity and technology benefited from liberalization and MNC presence. Firms with large productivity gaps became the victims.

Nidhiya Menon and Paroma Sanyal (2004) investigate how labour conflict, credit constraints and indicators of a state's economic health influence location decisions of the foreign firms. Results indicate that labour unrest is highly endogenous across the states of India, and has a strong negative impact on foreign investment.

Kulwinder Singh (2005) reveals that while FDI shows a gradual increase and has become a staple of success in India, the progress is hollow. He finds that in the comparative studies the notion of infrastructure has gone a definitional change. FDI in sectors is held up primarily by telecommunications and power and is not evenly distributed.

Mohan Guruswamy, Kamal Sharma (2005) discusses the retail industry in India in their study on FDI in the retail sector. They focus on the "labour displacing" effect on employment due to FDI in the retail sector. The primary task of the Government in India is still to provide livelihood and not create so called efficiencies of scale by creating redundancies.

Vinoj Abraham and Pradhan (2005) examine the patterns and motivations behind the overseas mergers and acquisitions by Indian enterprises. It is found that the main motivation of Indian firm's overseas acquisitions have been to access international markets and overcome constraints from limited home market growth.

Peng Hu (2006) analyses various determinants that influence FDI inflows to India. Analyzing the new findings it is interesting to note that India has some competitive advantage in attracting FDI inflows, like a large pool of high quality labour force. In consequence this study argues that India is an ideal investment destination for foreign investors.

Francoise Hay (2006) finds that the FDI from the Indian firms were principally addressed to the developing countries and Russia, however, the share of the industrialized countries was on the rise and the manufacturing and non-financial sectors accounted for the bulk of it.

Chandana Chakraborty and Peter Nunnenkamp (2006) assess the growth implication of FDI in India. They find that the growth effects of FDI vary widely across sectors and only transitory effects of FDI on output in the services sector which attracted the bulk of FDI in the post-reform period.

### 3. FDI in India

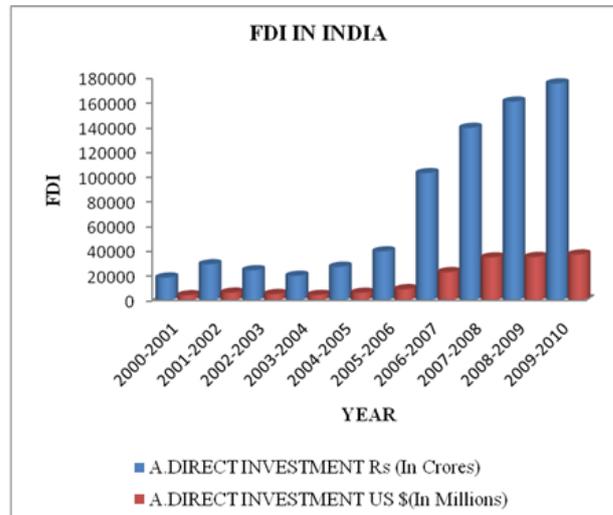
The FDI inflow into India is increasing trend after the post liberalization regime.

Table 1 clearly reveals that, FDI inflow during the period 2000-2010. It has been increased from Rs.18406 crores to Rs.176304 crores and from US \$ 4029 Million to US \$ 37182 Millions. During 2000-2001 to 2009-2010 Total FDI was estimated as Rs.740117 Crores and in US \$164551Millions. The inflow of FDI has been increased by 53.66 times. Annual Average of FDI has been Rs.74011.7 Crores and in US \$16455.1Million.

Table 1. FDI INFLOW DURING THE STUDY PERIOD

YEAR	A.DIRECT INVESTMENT	
	Rs (In Crores)	US \$(In Millions)
2000-2001	18406	4029
2001-2002	29235	6130
2002-2003	24367	5035
2003-2004	19860	4322
2004-2005	27188	6051
2005-2006	39674	8961
2006-2007	103367	22826
2007-2008	140180	34835
2008-2009	161536	35180
2009-2010	176304	37182
<b>TOTAL</b>	<b>740117</b>	<b>164551</b>
<b>ANNUAL AVG</b>	<b>74011.7</b>	<b>16455.1</b>

Source: "Hand Book of Statistics on Indian Economy" RBI (2003-2004).



#### 3.1. Trends in FDI inflow in India

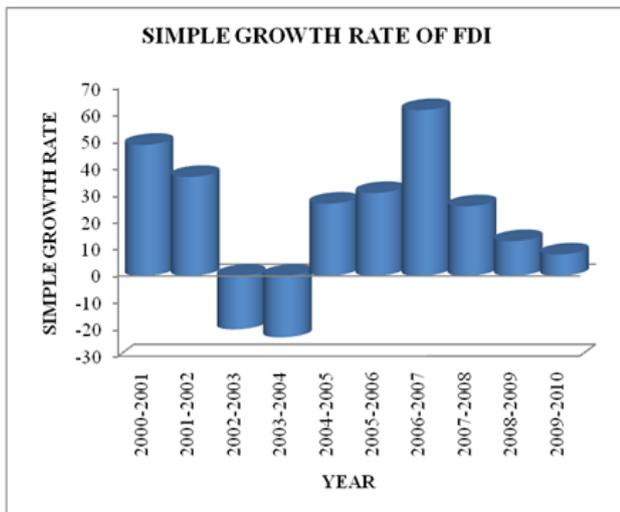
A simple Growth Rate of FDI inflow for the period 2000-2010 has been calculated. Table 2 examines that, the growth rate of FDI ranged between -20% to 62% and reached the highest point 62% in the year 2006-2007 and the lowest point -20% in the year 2002-2003. The Annual Average growth rate of FDI was found to be 30%. Recently the FDI trends have been come down because of the main impact of the global crisis during the year 2007-08. It is found that, 4 year of FDI growth rate has exceeded the annual average growth rate. FDI growth rate remained negative in the year 2002-2004 (-20%, -23%). But during 2003 and 2004 FDI inflows declined due to the sanctions imposed on India as a consequences of nuclear explosion

test froze FDI inflows to India. The FDI inflow again showed increasing trend from 2004-2009. The FDI inflow show cyclical trends.

**Table 2. TRENDS IN FDI INFLOW**

YEAR	FDI (IN CRORES)	CHANGES	SIMPLE GROWTH RATE (%)
2000-2001	18406	9068(+)	49
2001-2002	29235	10829(+)	37
2002-2003	24367	4868(-)	-20
2003-2004	19860	4507(-)	-23
2004-2005	27188	7328(+)	27
2005-2006	39674	12486(+)	31
2006-2007	103367	63693(+)	62
2007-2008	140180	36813(+)	26
2008-2009	161536	21356(+)	13
2009-2010	176304	14768(+)	8
TOTAL	740117	185716	296
Annual Avg	74011.7	18571.6	29.6

Source: "Hand Book of Statistics on Indian Economy" RBI (2003-2004).



Foreign Investment is done through two important ways, Investing Foreign Capital in FDI and FPI.

Foreign Investment

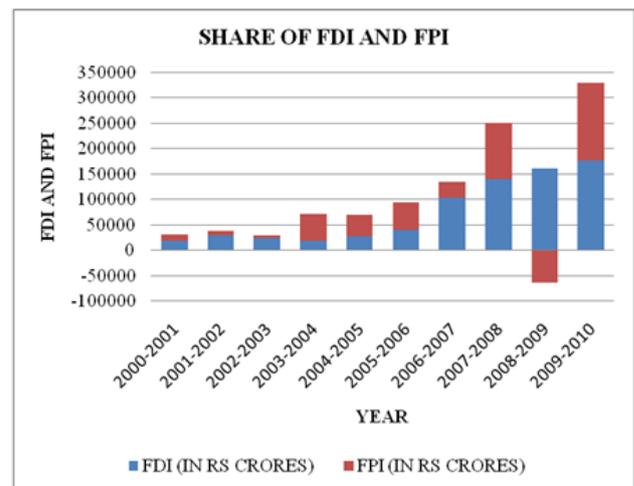
= Foreign Direct Investment

+ Foreign Portfolio Investment.

$$TFI = FDI + FPI$$

Analysis of the data gives the following inferences:

- Total Foreign Investment from the year 2000 to 2010 was Rs.1147890 Crores.
- Total FDI Inflow during 1990-2000 was RS. 740117 Crores.
- Total FPI during the study period was Rs. 4077733 Crores.
- The Share of FDI and FPI in Total Foreign Investment was 64% and 36%.
- In the year 2008-2009, the highest share of FDI has been 165% and the lowest share of FDI has been 28% during the period 2003-2004.
- The highest share of FPI was 72% in the year 2003-2004 and the lowest share of FPI has been -65% in the year 2008-2009.



### 3.2. Share of FDI and FPI in Total Foreign Investment

**Table 3. SHARE OF FDI AND FPI IN TOTAL FOREIGN INVESTMENT**

YEAR	TFI (IN RS CRORES)	FDI (IN RS CRORES)	FPI (IN RS CRORES)	SHARE OF FDI (IN RS CRORES)	SHARE OF FPI (IN RS CRORES)
2000-2001	31015	18406	12609	59	41
2001-2002	38874	29235	9639	75	25
2002-2003	29105	24367	4738	84	16
2003-2004	72139	19860	52279	28	72
2004-2005	69042	27188	41854	39	61
2005-2006	94981	39674	55307	42	58
2006-2007	135080	103367	31713	77	23
2007-2008	249921	140180	109741	56	44
2008-2009	97918	161536	-63618	165	-65
2009-2010	329815	176304	153511	53	47
TOTAL	1147890	740117	407773		
Annual Avg	114789	74011.7	40777.3		

Source: "Hand Book of Statistics on Indian Economy" RBI (2003-2004).

### 3.3. Trends in FDI AND Total Foreign Investment

To identify the growth of FDI and TFI, Compound Growth Rate has been estimated and semi log trend model have been used.

$$\text{Log } Y = a + bT$$

**Table 4. TRENDS IN FDI AND TOTAL FOREIGN INVESTMENT**

S. NO	VARIABLES	B	R <sup>2</sup>	CGR (%)
1	FDI	0.2810	0.854	32.45*
2	TFI	0.2466	0.823	24.97*

\* Significant at 5% level.

The above table shows that the annual compound growth rate of Total Foreign Investment was 24.97%. FDI annual compound growth was 32.45%. Compound growth rate of FDI was higher than Total Foreign Investment by 7.48%. FDI and Total investment are significant at 5% level.

### 3.4. State -wise FDI inflow in India

In India there are 28 States and 7 Union Territories. All the states give top priority to attract FDI on a large scale for developmental purpose. FDI inflow to states varies widely which leads to concentration of FDI inflow. To examine the FDI inflow received by top 10 states for the period 2000-2010 was calculated and given in the Table 5.

**Table 5. STAE WISE FDI INFLOW IN INDIA**

States	Cumulative inflow (Rs in Billion)	% Share of State Inflow(Rs in Billion)
Maharashtra, Dam & Diu	2014707.4	44
Delhi, up, Harayana	1136890.8	24.5
Karnataka	366574.9	8
Gujarat	316932.1	7
Tamil Nadu, Pondicherry	308475.3	7
Andhra Pradesh	265618.2	6
West Bengal, Sikkim	63682.2	1
Chandigarh, HP, Punjab	46852.3	1
Goa	33258.4	1
MP, Cattishgar	30094.7	1
Total	4583086	100
Annual average	458308.6	

Source: FDI Data Cell.

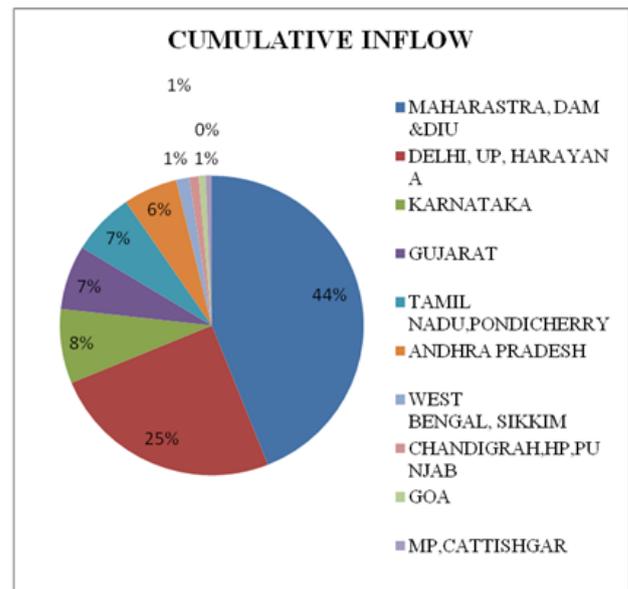
Examination of the table gave the following inference.

- The Cumulative Inflow of Maharashtra was Rs.2014707 billion.
- During the study period from 2000-2010 State Maharashtra received 44%, the highest share of State FDI Inflow in India.
- States Delhi, Karnataka, Gujarat enjoyed second, third and fourth places in FDI attraction receiving 24.5%, 8%, 7% of total FDI respectively.
- Other States Tamil Nadu, Andhra, West Bengal, Chandigarh, Goa, Madhya Pradesh attracted only 17% of FDI

- Study also reveals that the six states in India accounted for about 96% of FDI.
- Chandigarh, Goa, Madhya Pradesh and West Bengal attracted the lowest share of 4% State FDI Inflow in the year 2000-2010.
- Total FDI was Rs.4583086 Million and Annual Average was Rs.458308.6 Million.

The reason why these states are ahead of others in receiving FDI is because of favorable government responses, quick bureaucracy, good infrastructure facilities and rich heritage of entrepreneurship. The states like Punjab have locational disadvantage. FDI is uncovered due to poor infrastructure in big state like Bihar.

### STATE WISE FDI INFLOW IN INDIA



### State -wise FDI and National Comparison

Relation between state FDI and annual average is estimated and given in the Table 6.

**Table 6. STATE WISE FDI AND NATIONAL COMPARISON**

NATIONAL AVERAGE	STATES	%TOTAL INFLOW (RS IN BILLION)
ABOVE	2	69
BELOW	8	31
TOTAL	10	100

Source: FDI Data Cell.

- The National Average for 2000-2010 was Rs.458308.6 Billion.
- Only two states are above the National Average and their FDI was Rs.3151598 Billion.
- Other eight states are below the National Average and their FDI was Rs 1431488 Billion.
- 69% of the share of FDI inflow was attracted by Maharashtra and Delhi.
- It is further found that FDI is generally concentrated in south and north regions as they fall in the coastal region.

### 3.5. Association between State GDP, National GDP and FDI Inflow

Among the factors determining, attracting FDI, State GDP is considered as the main factors. To analyze the

relationship between state GDP and state FDI, correlation equation has been fitted between state GDP, share in national GDP and state FDI share in national FDI and the result are given in the Table 7.

The table shows the relationship between State GDP, National GDP and States Total FDI inflow. Delhi, UP

States attracted the highest 13.7% National GDP during the study period. Andhra Pradesh state attracted lowest percent of 0.06 National GDP. The correlation between National GDP and FDI inflow was 0.1188. There is a positive relationship between National GDP and FDI. If states allow more FDI inflow, State GDP will rise.

Table 7. STATE GDP AND STATE FDI ANALYSIS

STATES	STATE GDP (IN RS BILLION)	%NGDP (IN RS BILLION)	FDI (IN RS BILLION)	%AGE TOTAL INFLOW
Maharashtra, Dam & DIU	4453.21	1.2	2014707.4	44
Delhi, Up, Haryana	48712.09	13.7	1136890.8	24.5
Karnataka	17699.81	4.9	366574.9	8
Gujarat	20382.43	5.7	316932.1	7
Tamil Nadu, Pondicherry	26081.28	0.07	308475.3	7
Andhra Pradesh	24478.8	0.06	265618.2	6
West Bengal, Sikkim	26392.03	7.4	63682.2	1
Chandigarh, HP, Punjab	13835.96	3.9	46852.3	1
Goa	1292.72	0.36	33258.4	1
MP, Chattishgarh	16647.55	4.7	30094.7	1
Total	199975.88	50	4583086	100

Source: FDI Data Cell.

### 3.6. Sector-wise FDI Inflow

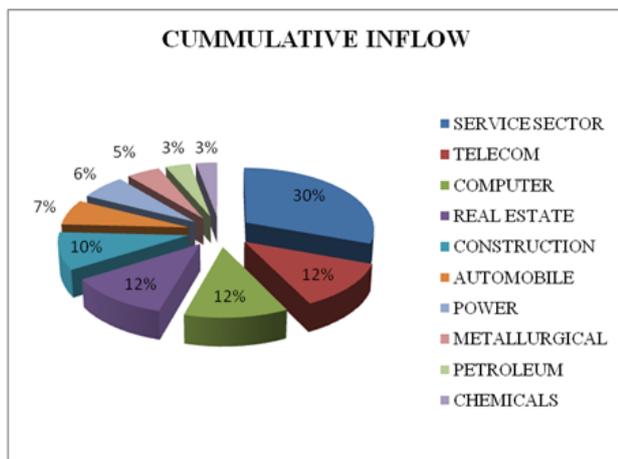
In India there are many sectors attracting FDI inflow. India is welcoming sector wise FDI as a part of its reform policies. Among them top ten sectors attracted high rate of FDI. Top ten sectors and their share in total FDI inflow in 2000-2010 is given in the Table 8.

Table 8. SECTOR WISE FDI INFLOW

SECTOR	CUMMULATIVE INFLOW (IN RS BILLION)	%TOTAL INFLOW (IN RS BILLION)
Service sector	1210668.6	30.5
Telecom	480664	12
Computer	463141	11.6
Real estate	462741.9	11.6
Construction	385658.1	10
Automobile	264390	6.6
Power	255362.9	6.4
Metallurgical	185876.2	5
Petroleum	136603.7	3.4
Chemicals	116769.9	3
<b>TOTAL</b>	<b>3961876.3</b>	<b>100</b>
<b>ANNUAL AVG</b>	<b>369187.6</b>	

Source: DIPP.

### SECTOR WISE FDI INFLOW IN INDIA



The table shows the top ten sector attracting FDI inflow. The share of service sector was 30.5% and their amount was Rs 1210668.6 Billion. The sectoral share of FDI lies between 3% to 30.5%. Chemical industry allowed only 3% of the total FDI. Seven sectors attracted the highest rate 77% of the FDI. The annual average of sector wise FDI inflow was RS 369187.6 billion. The trend shows that after the economic reforms were carried out FDI was heavily concentrated in manufacturing activities, which was due to the import substitution principle.

### 3.7. Trends of FDI Main Sectors

To study the growth rate and trend pattern of FDI in main sector during the study period straight line trend equations, semi log linear model was used. Variables are regressed on time. Straight line trend equation was fitted for seven main sectors for the period of eight years from 2002- 2010. Straight lines were fitted by using the model.

$$Y = a + bT$$

Y = Dependent Variable

T = Time

a is the intercept term, b is the regression co-efficient showing the annual growth rate.

Table 9. TREND OF FDI IN MAIN SECTORS

S.NO	VARIABLES	EQUATION	R <sup>2</sup>	SIGNIFICANT
1	Service Sector	$Y = -1422.94 + 688.98T$	0.57	2.82**
2	Telecom	$Y = 355.20 + 72.12T$	0.73	1.21 <sup>IS</sup>
3	Computer H.D	$Y = -747.99 + 367.12T$	0.19	4.12*
4	Automobile	$Y = -14.59 + 142.58T$	0.69	3.72*
5	Metallurgical	$Y = 37.44 + 235.56T$	0.14	1.00 <sup>IS</sup>
6	Chemical	$Y = 28.44 + 106.19T$	0.27	1.51 <sup>IS</sup>
7	Power & Petrol	$Y = -372.88 + 224.51T$	0.83	5.52*

\*\* - Significant at 5% Level

\* - Significant at 1% Level

IS- Insignificant.

Analysis of the above table revealed the following interpretation:

- During the study period trend of FDI in Power & Petrol sector was highest with  $R^2$  value 0.83.
- The trend of Metallurgical sector was lowest with  $R^2$  value 0.14.
- Two sectors namely Telecom and Automobile sectors trend remains moderate.
- It is further inferred that the trend value of the seven main sector is less than the trend value of total FDI during the study period

### 3.8. Foreign Direct Investment and Gross Domestic Product

To examine whether there is any relationship between FDI and GDP the regression equation in terms of least square method have been fitted. In this regression, GDP is taken as dependent variable and FDI as independent variable. The results of GDP on FDI are estimated.

**Table 10. RELATIONSHIP BETWEEN GDP AND FDI**

S.NO	VARIABLE	C	B	R <sup>2</sup>	F.T
1	GDP	1980536.3	21.087	0.93066	10.362

\*Significant at 5% Level.

The regression coefficient B is positive, value of B is 21.087 crores with t value 10.362.  $R^2$  is 0.93066 which implies high relationship between GDP and FDI. It further indicates that FDI leads to Economic growth.

### 3.9. Relationship between FDI and GDP

To test the inverse relationship between GDP and FDI, the regression equation in terms of least square method has been fitted. In this regression model, FDI is taken as dependent variables and GDP as independent variable. The results of FDI on GDP are estimated.

**Table 11. RELATIONSHIP BETWEEN FDI AND GDP**

S.NO	VARIABLE	C	B	R <sup>2</sup>	F.T
1	FDI	-82276.58	0.04413	0.93066	10.362

\*Significant at 5% Level.

The regression coefficient B is positive, value of B is 0.04413 crores with t value 10.362.  $R^2$  is 0.93066 which implies high relationship between FDI and GDP. It indicates that Economic growth of a country leads to more attraction of FDI. There is a inverse relation between GDP and FDI.

So it is controversial to identify whether FDI leads to economic growth or Economic growth of a country leads to FDI inflow. However both are interlinked or interconnected to each other. Without FDI a country

cannot achieve Economic growth and without Economic growth a country cannot attract high level of FDI inflow.

## 4. Conclusion

The idea of the economic power of the multinationals can be had from the fact that "Today, with the solitary exception of India whose national income is only twice the annual income of General Motors, economic resources of all other under developed countries are much less than those of multinational corporation." Foreign collaborations do have a positive role in certain fields like power generation, steel, aluminum, petroleum, cement etc., but they should not be allowed to proliferate in consumer goods, needed by the upper strata of Indian society. The activities of multinationals which increase our dependence on foreigners and drain away our resources should be restricted. But a much bolder and persistent policy has to be followed to get rid of them.

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