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ABSTRACT

The United Nations 1999 World Investment Report defines FDI as 'an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate).

In the recent years, Foreign Direct Investment (FDI) policies have become one of the central economic policies for the developing countries. Empirical studies on the impact of FDI on economic growth have shown mixed impacts in the host countries. Hence, it has become an area of great interest with empirical determinants of policy implications for enhanced FDI inflows and the mechanism through which it facilitates growth and structural change in recipient countries.

The present study focuses on the following objectives:

- To analyse the impact of FDI on sectoral growth rates of Indian economy and vice versa
- To analyse the trends and pattern of FDI inflows into India
- To understand the determinants of FDI inflows in India both at the macro and sectoral level
- To analyse and suggest policy measures for attracting FDI inflows in the country at the macro and sectoral level

In order to fulfil the above stated objectives, the study outlines the trends and patterns of FDI inflows in developed, developing and transition economies. It also explores the trends of FDI inflows in India from 2000 to 2014. The study also outlines the sectoral share in FDI inflows in India along with the country from which inflows were received over the fourteen year period. The study also conducts a review of existing FDI policy of India. The study also carries out a review of theories and existing literature. This review has helped in analysing the research gaps as well as improvising on the previous studies conducted. It also helped in

preparing the anatomy of the FDI inflows in the country. It also discusses the Determinants of FDI and growth. The study also lays emphasis on the relationship of FDI, growth and exports through theoretical and empirical reviews. The present study is an attempt towards examining the cause and impact relationship between FDI, growth and export in case of India at the aggregate and sectoral level. Time series data for the aggregate economy and Panel data for seven sectors over the period 2001-2014 has been taken into consideration. In the present study, availability of data is limited and it has been suggested by econometricians to use panel estimates in such cases.

This study is primarily based on the model that FDI leads to growth (Balasubramanyam, Salisu and Sapsford, 1996). This relation is further strengthened by other factors like new technologies, improving human capital, infrastructure, domestic investment, trade and institutions. The model has been modified to suit the present scenario of the Indian economy based on the literature review.

Thus, from analysis it is seen that the results at the sectoral level are similar to those at the aggregate level for the Indian economy while assessing the impact on FDI, growth and exports with slight deviations. It is seen that growth has an impact on FDI at the aggregate and sectoral level. At the aggregate level there is no causality from growth to FDI but it is present at the sectoral level. FDI impacts growth at the aggregate but not at sectoral level. FDI causes growth both the aggregate and sectoral level. Exports impact FDI and causality exists at the aggregate level alone.

Exports have no impact on growth at the aggregate level as against that at the sectoral level. Growth has no impact and causality on exports at the aggregate but has an impact at sectoral level. FDI impacts exports at the aggregate level and the sectoral level with no causality at aggregate level but causing exports at the sectoral level.

Human capital has emerged as a major factor impacting growth, FDI and exports. It is seen that the secondary level of education which has been taken as a proxy for human capital has an impact only on FDI and exports at the aggregate level sectoral level. Another important factor is the financial position of the country signified by institutional quality. It impacts mainly FDI and growth at the aggregate level along with macroeconomic stability. Thus, indicating the requirement of sound economic machinery.

Thus, it is clear that FDI, growth and exports alone do not have major impact on each other. Thus, other determinants like human capital, capital formation, macroeconomic stability and institutional quality are required for assessing the real impact.