INFLUENCE OF FOREIGN DIRECT INVESTMENT AND DOMESTIC CONTRIBUTION ON INDIAN ECONOMIC GROWTH

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Abstract

The impact of foreign direct investment on the economic growth of developing country is new phenomenon in the recent period. The study has been carried out with such motive to examine for a nation that has been practicing relatively more laissez-faire economic policies during the past three decades. The study has employed ARDL co-integration approach to identify the long-run relationship and short-run dynamics amongst foreign direct investment, domestic investment, trade freedom, and labour availability. The study considered period from 2000-01 to 2018-19 to collect relevant data. Results found that it has long-term relationship amongst the selected variables. Foreign direct investment has positive correlation with long-run and short-run economic growth of the nation. However, foreign direct investment is not an important factor to contribute desired level of economic growth. Economic growth is result of whole contribution of local investment, liberty in trade and continuous availability of labour. The study suggested that India should make foreign direct investment related reforms so as to attract extraordinary investment to promote economic growth.

Key words: Foreign Direct Investment, Labour Availability, Trade Freedom, Domestic Investment, Economic Growth.

1. INTRODUCTION

Foreign Direct Investment (FDI) is considered as a main driving force for economic growth of a nation. Since implementation of policy on economic liberalization during early 1990s, India has registered as a fast growing economy in the world. It attracts sizeable foreign direct investment from different countries into both manufacturing and services sector. FDI is a main source of capital flow and a leading external finance for developing nations like India (Mahmood, 2013). FDI involves importing capital from different sources that can be most effective rather than being limited to a bilateral basis. India has introduced liberalization, privatization and globalization in 1991 and, in part, selectively relaxed the regulatory framework for foreign direct investment (Aregbesola, 2014). FDI plays an imperative role in developing economies, as it is a non-volatile source of long-term non-debt generating capital (Srivastava & Srivastava, 2017). It acts as a stimulant for competition, savings, modernism, and capital formation leading to job formation, industrial development, and economic growth (Awolusi & Adeyeye, 2016). There are dichotomous views on the impact of foreign direct investment on economic growth. It generates many positive impacts, while some have emphasized its impact on capital formation to a nation (Hakimi & Hamdi, 2016).

Foreign direct investment plays main role in transformation of advanced technology from developed nations to developing nations (Wijeweera et al., 2010). FDI develops the efficiency of human capital and institute in host economy inspiring domestic investment (Ezeji et al., 2015). FDI makes more stable funds, promote trade and employment; develops backward and forward associations across industries with the innovative technology. The impact of FDI on economic growth relied on how a host country could be able to attract and utilize foreign capital, managerial expertise, technology linkages (Agrawal, 2015). Adoption of liberal policy concerning foreign direct investment creates more economic growth. Such

policy of positive openness with regard to foreign investments contrasts sharply with its initial restrictive approach. Due to the bad experience of British colonialism, some economic and social thinkers have criticized foreign investment. In this sense, it is very important to examine the relationship between foreign direct investment and India's economic growth, which will be useful for policy makers to assess and implement appropriate policies (Dash & Parida, 2013).

Inflow of foreign direct investment is always a matter of high significance to India. Trade policy liberalization during last two decades has led India to become an investment friendly nation. Foreign direct investment in India has taken on crucial importance in the context of liberalization (Singh, 2019). In recent period, the destination sectors for foreign direct investment have become more varied. In very few sectors, the Indian government does not allow FDI. Needless to say, FDI inflows have proven to be very beneficial for the overall growth of the Indian economy (Adeniyi et al., 2012). On many fronts, it is beneficial for India, which is to say in terms of investment, taxes, and job creation at a certain level. Both manufacturing and service sector can be a major contributor to India's gross domestic product (Singh & Paul, 2014). Domestic investment and FDI are the twin drivers of economic growth of the nation. Growth and protection of domestic sector is the main factor in rising national savings. Foreign direct investment is equally important for rapid economic growth of the nation (Ekeocha et al., 2012). But for a developing economy like India, it can function as an additional source of finance. Therefore, there is a rationale for studying FDI growth, trends and structure in India, on one hand, and analyzing FDI performance in terms of economic growth of the India, on the other hand (Koner et al., 2018).

2. PROBLEM STATEMENT

India has introduced a comprehensive liberalized economic policy to promote foreign direct investment with the motive of rapid economic development. Often, Indian government amended its foreign direct investment policies so as to boost favourable environment for foreign investments. At present, Indian economy is facing many confronts in development arena. Moreover, the nation moves in the direction of debt trap because of its inability to service foreign loans and fiscal deficit during the past two decades. Economic growth highly requires the contribution foreign direct investment along with domestic contribution such as, investment, trade liberalization and labour availability. Development of strategies to mobilise investment both in domestic and abroad assists to attain rural growth and employment opportunity. India attracts considerable foreign direct investment from different countries, but at the same time, when compared it with the national population; it is still low to achieve the desired economic growth. Therefore, the country has employed many incentives such as, reforms and trade liberalizations in different industries to attract FDI. In this manner, the study tests the relationship between foreign direct investment and economic growth in India.

3. LITERATURE REVIEW

Foreign direct investment has become over the years the main source of external resource flows to developing nations and an important component of capital formation in developing nations (Falki, 2009). FDI increases export capacity in the host economy and leads to increased profits on a foreign exchange market, mainly in developing nations. It also increases the availability of funds for domestic investment, encourages the creation of new jobs, enhances technology transfer and boosts total economic growth (Dritsaki and Stiakakis, 2014). Foreign direct investment is seen as a means of transferring technology and capital from other developing countries and in particular from developed countries (Melnyk, et al.,

2014). FDI is the best known types of investment in the globe and its impact on economic growth is optimistic (Younus, et al., 2014). Silajdzic and Mehic (2015) found that FDI is supposed to directly influence economic growth by contributing to gross fixed capital formation and indirectly by providing knowledge stocks.

The study confirmed that foreign direct investment inflows and the development of human capital greatly contribute to the economic growth of the recipient country (Fadhil and Almsafir, 2015). Hong (2014) found that foreign direct investment has a positive impact on economic growth. In addition to that, human capital, economies of scale, infrastructure and wage levels and regional differences aggressively interrelate with foreign direct investment and encourage economic growth, while trade freedom does not significantly encourage foreign direct investment. Narayan (2013) showed that there is causal relationship found between inflow of foreign capital and economic growth in India. Odhiambo (2011) stated that inflow of foreign capital accelerates financial intensification and economic growth. Foreign direct investment effectively determines the economic growth (Umoh et al., 2012).

4. RESEARCH OBJECTIVES

The reason for this study is to analyze the impact of foreign direct investment on India's economic growth for the period 2000-01 to 2018-19. The study aimed to apply the ARDL approach to study the long-term relationship and the short-term dynamics amongst the variables.

5. RESEARCH METHODOLOGY

5.1. Model Specification

The study used the model to test the relationship between foreign direct investment and economic growth. The study used a model, which is derived in traditional method from a production function (Maliwa & Nyambe, 2015). The model can be expressed as:

$$logGDP_t = \beta_0 + \beta_1 logFDI_t + \beta_2 logDI_t + \beta_3 logTF_t + \beta_4 logLF_t + e_t$$

Where,

$logGDP_t$ = Log value of Gross Domestic Product

$logFDI_t$ = Log value of Inflow of Foreign Direct Investment

$logDI_t$ = Log value of Domestic Investment

$logTF_t$ = Log value of Trade Freedom

$logLF_t$ = Log value of Labour Availability

e_t = Error term

The Solow model (1957) as per Neoclassical Growth Theory describes the total production of the economy in terms of capital stock, labour efficiency, and total factor efficiency. According to this model, technology and workforce are exogenous variables. As a result, foreign direct investment enhances the capital stock promoting short-term economic growth. However, in endogenous growth theory, growth of economy in the long-run is endogenously described by technology and workforce contrary to the Solow model. The decline in return on capital is offset by the externalities of advanced technologies, so that FDI plays vital role in the transfer of advanced technologies available in developed economies to developing economies. Foreign direct investment is a source of capital and an engine for transfer of knowledge, both in terms of professional training and acquisition of skills. The basic model is based on the theory of endogenous growth where total production is the result of technology, personnel and capital. Foreign direct investment is considered in the model to signify spill-over effect and externalities. The variables such as, labour usage and domestic investment are the main elements of the production function and it also determine production level. Further, trade freedom as a control variable, will capture externalities related to foreign trade and will decrease the bias of the omitted variable. Annual time series data related to

gross domestic product, labour, trade and domestic investment were collected from RBI. The study covers period of 19 years from 2000-01 to 2018-19. Further, country wise and sector FDI inflows are examined.

5.2. Variables Used

1. **Gross domestic product:** It is an important macroeconomic variable, often it is measured by total income or total output of a nation. Per capita income is measured dividing GDP of a nation by whole population; it indicates the standard of living.
2. **Foreign direct investment:** It is used as an explanatory variable to describe the relationship between economic growth and foreign direct investment. It is shown in balance of payment account and it is total of equity capital and reinvestment of earnings.
3. **Domestic investment:** It is the total of gross fixed capital formation (Chaudhry et al., 2013) and it measures the total values of purchase of new or existing fixed assets by government, household and business sector less disposable of fixed assets.
4. **Trade freedom:** It is estimated through the total of imports and exports as a proportion to GDP. It indicates the quantum of trade liberalization in the economy. Technology is an endogenous variable, therefore with the rise in freedom will rise productivity by utilizing technology.
5. **Labour availability:** It is the indication of availability of human capital in the nation. The availability of labour is used for raising gross domestic product of the nation.

5.3. Methodology Adopted

5.3.1. Unit Root Test

At the outset, before to apply econometric tool, it is important to check stationary of series. Working with non-stationary variable may generate incorrect inference; use of

Augmented Dicky-Fuller (ADF) unit root test will support the check order of integration of selected variable.

5.3.2. ARDL Co-integration Test

The Autoregressive Distributed Lag (ARDL) is employed to find the relationship between dependent variables and independent variables. The model has a reparameterization in error correction form (Engle and Granger, 1987, Hassler and Wolters, 2006). The existence of long-run / co-integration association can be analysed through error correction representation. ARDL co-integration test has many econometric advantages than other co-integration methods. It is a highly effective tool for the small and finite sample size. It is used for variables integrated into order zero [I(0)], order one [I(1)] or fractionally integrated. It helps to get unbiased estimates of the long-run model. The following model is used to measure long-run relationship and short-run dynamics of foreign direct investment and economic growth. The model can be expressed as:

$$\Delta logGDP_t = \beta_0 + \sum_{t=1}^{q} \beta_{1t} \Delta logGDP_{t=1} + \sum_{t=1}^{q} \beta_{2t} \Delta logFDI_{t=1} + \sum_{t=1}^{q} \beta_{3t} \Delta logDI_{t=1} + \sum_{t=1}^{q} \beta_{4t} \Delta logTF_{t=1} + \sum_{t=1}^{q} \beta_{5t} \Delta logLF_{t=1} + \beta_6 logFDI_{t=1} + \beta_7 logFDI_{t=1} + \beta_8 logDI_{t=1} + \beta_9 logTF_{t=1} + \beta_{10} logLF_{t=1} + e_t$$

Where,

q	= Optimum Lag Length
$\beta_1 - \beta_5$	= Short-run Dynamics
$\beta_6 - \beta_{10}$	= Long-run Elasticity
Δ	= First Difference Operator
e_t	= Error term

5.3.3. Error Correction Model

Engle and Granger (1987) had introduced this model to get information on causal factors distressing the variables in the model. Error correction model is the indication of error correction term. It shows the long-run relationship between the variables. The negative sign shows the convergence but positive sign shows divergence, therefore to get long-run association, the sign should be negative and significant. The following is the ARDL error correction model.

$$\Delta logGDP_t = \beta_0 + \sum_{t=1}^{q1} \beta_{1t} \Delta logGDP_{t=1} + \sum_{t=1}^{q2} \beta_{2t} \Delta logFDI_{t=1} + \sum_{t=1}^{q3} \beta_{3t} \Delta logDI_{t=1} + \sum_{t=1}^{q4} \beta_{4t} \Delta logTF_{t=1} + \sum_{t=1}^{q5} \beta_{5t} \Delta logLF_{t=1} + \lambda EC_{t=1} + e_t$$

Where,

Q1 – q5 = Optimum Lag Lengths

EC and λ = Error Correction Term and Speed of Adjustment Parameter

5.3.4. Wald Test Coefficient Restriction

The Wald test makes information on long-run coefficient of variables. The test generates the F-statistics values and it is compared with critical value of Pesaran et al. (2001), its table has upper I (1) and lower I (1) critical bounds. The value of F-statistics is more than upper critical bound leads to reject the null hypothesis and the f-statistics value is less than lower critical bound leads to accept the null hypothesis.

6. RESULTS AND DISCUSSIONS

6.1. Impact of FDI on Economic Growth

The study employed econometric tools to analyze the impact of FDI on economic growth. Before that ADF unit root test is executed to measure the order of integration of the identified variables.

Table-1: Results of ADF Unit Root Test

Variables	Status	ADF Statistics			
		Without Trend		With Trend	
		Trend Value	p-Value	Trend Value	p-Value
logGDP	Level	2.2332	0.9956	-0.5326	0.9544
logFDI	Level	-4.5126*	0.0020	-4.1125**	0.0098
logDI	Level	-0.2658	0.9665	-2.1895	0.4125
logTF	Level	-0.6135	0.8428	-1.1547	0.8745
logLA	Level	-0.8359	0.7679	-2.8119	0.1779
ΔlogGDP	First Difference	-4.1754*	0.0007	-4.7798*	0.0018
ΔlogFDI	First Difference	-6.2035*	0.0000	-6.0325*	0.0001
ΔlogDI	First Difference	-5.1044*	0.0003	-5.1229*	0.0008
ΔlogTF	First Difference	5.3235*	0.0002	-5.2986*	0.0005
ΔlogLA	First Difference	-7.0587*	0.0000	-7.0216*	0.0000

Source: RBI Bulletin/Computed

Note: * Significant at 1%, ** Significant at 5%.

Table-1 demonstrates the univariate test outcomes of ADF unit root test for identified variables. Results indicates that the variable log FDI is stationary on a level I(0) both for intercept and trend with intercept. Performing the same test for first difference, all the cases found at stationary with and without trend. Therefore, the unit root test proved that all the variables are stationary on I(0) and I(1) levels. However, such stationary results on different levels confirmed that no need to carry out other co-integration test so as to test its stationary level. It is streamlined of executing ARDL method to co-integration because of variables are stationary on I(0) and I(1) levels with the employment of small size of sample.

Table-2: Results of ARDL Estimation

Variables	Co-efficient Values	T-Statistics	p-value
Constant	-0.639	-1.112	0.316
logGDP (-1)	0.888	10.992	0.000
logFDI	0.001	0.464	0.644
logDI	0.166	5.115	0.000
logDI (-1)	-0.89	-2.448	0.020
LogTF	0.002	0.067	0.914
logLA	0.106	1.001	0.316
R^2 = 0.98 Adj. R^2 =0.97 AIC = -5.45 SIC= -5.21, *ARDL (1,0,1,0,0) based on SIC* LM test = 0.522 (0.558)		Normality test = 1.47(0.927) Heteroscedasticity test = 1.48(0.215) Durbin Watson Statistics = 2.679 F Statistics = 5375.12 Probability of (F-statistics) = 0.000	

Source: RBI Bulletin/Computed

Table-2 reveals the results of ARDL approach for co-integration test along with test results of equation. Based on Schwarz Criterion, the suitable lag is automatically selected and ARDL model identified is (1, 0, 1, 0, 0). The probability value of F-statistics is lower than 0.05 for short-run model, the model is significant. The validity of the data is determined by the diagnostic tests such as heteroscedasticity test, normality test and serial correlation test. The computed value of heteroscedasticity test is 1.48 and its probability level is fount at 0.215, which is more than threshold value of 0.05. It indicates the lack of heteroscedasticity value of the model. The results also reveal that the short-run model uses all the diagnostic tests. Results also indicate that there is no autocorrelation or serial correlation of the model and error term is normally distributed.

Table-3: Results of Long-run Coefficient Estimation

Variables	Co-efficient Values	t-statistics	p-value
Constant	-4.2699	-1.2554	0.1542
logFDI	0.0201	0.4414	0.6936
logDI	0.5485	3.2468	0.0011
LogTF	0.0100	0.0549	0.9156
logLA	0.7798	1.4252	0.1664

Source: RBI Bulletin/Computed

Table-3 exhibits the results of long-run coefficient estimation; it indicates the long-run relationship of the variables with the depended variable that is, log GDP. Results showed that in the long-run model, the sign of coefficient of all selected variables are found positive. However, results of domestic investment are significant at 1% level. The economic growth of the nation had positive correlation with foreign direct investment, trade freedom and labour availability in the long-run but it is not significant. It confirms the instability of macroeconomic factors, low level of productivity, less technology growth in the nation. Further, Wald test has been administered to compare the value of long-run coefficient along with lower bound and upper bound Pesaran critical value.

Table-4: Results of Wald Test Coefficient Restriction

Test statistics	Value	Probability
F-statistics	8.733	0.0001
χ^2	35.42	0.0000
Significant Level	**Critical Value**	
	Lower bound	**Upper bound**
1%	3.29	4.37
5%	2.56	3.49
10%	2.20	3.09

Source: RBI Bulletin/Computed

Table-4 exhibits the estimated model present the results of Wald test coefficient restriction. F-statistic of the Wald test estimated is found at 8.733 and upper critical bound is 4.37, therefore the null hypothesis of no co-integration amongst the variables is rejected. It indicates that there is long-run relationships exist between the identified variables in the model. However, foreign direct investment has positive correlation with gross domestic profit; in the long-run it is not significant.

Table-5: Error Correction Method for ARDL Model

Variables	Coefficients	t-statistics	p-value
ΔlogDI	0.1800	7.8897	0.000
ECM (-1)	-0.1411	-11.946	0.000
R^2 = 0.586 Adj. R^2 = 0.574 Durbin Watson = 2.259 AIC = -5.784 SC = -5.659 HQC = -5.682 ARDL (1, 0, 1, 0, 0)			

Source: RBI Bulletin/Computed

Table-5 reveals the error correction model of the ARDL model. The short-run elasticity of the variables is indicated by the Δ sign. The estimation results disclose that Δlog DI is the significant factor for determining the quantum of foreign direct investment. Moreover, it shows the relationship between foreign direct investment and economic growth in the short-run in India. Indication of negative sign of the error term is the signal of

convergence concerning the equilibrium. Therefore, the identified model converges to the symmetry by correcting 14% in the first period. The computed value of R^2 is 0.586 and adjusted R^2 is 0.574, it indicates 59% of the variation of dependent variable, which is Δlog GDP by the independent variables. In addition to that Durbin-Watson test statistics concerning error correction regression is 2.259 and it is the sign of lack of autocorrelation between the variables.

The empirical findings on relationship between foreign direct investment and growth of economy in India found a positive and weak both in long-run and short-run perspective. The relationship between inflow of foreign direct investment and economic growth is relied on industry specific needs. Similarly, rising trend in contribution of foreign direct investment stimulates economic growth based on the functioning and performance of financial market. Moreover, foreign direct investment failed to contribute much for economic growth because of contract fee, overseas loan, interest settlement and profit repatriations. Put together, such factors are the reason for very weak relationship between foreign direct investment and economic growth; hence it has no significant effect on economic performance. The results are consistent with (Adams, 2009; Belloumi, 2013). The study found weak and insignificant causality exist between foreign direct investment and economic growth of the nation.

6.2. Country-wise Inflow of FDI

Foreign direct investment inflows by country-wise, in particular the main investing countries, are presented in table-6.

Table-6: Inflow of FDI

(Amount in USD Million)

Rank	Country	2016-17	2017-18	2018-19	2000-01 to 2018-19	% of Total Inflows
1.	Mauritius	15,728	15,941	8,084	1,34,469	32%
2.	Singapore	8,711	12,180	16,228	82,998	20%
3.	Japan	4,709	1,633	2,965	30,274	7%
4.	Netherlands	3,367	2,800	3,870	27,352	7%
5.	UK	1,483	847	1,351	26,789	6%
6.	USA	2,379	2,095	3,139	25,556	6%
7.	Germany	1,069	1,124	886	11,708	3%
8.	Cyprus	604	417	296	9,869	2%
9.	UAE	675	1,050	898	6,652	2%
10.	France	614	511	406	6,643	2%
Total FDI inflow		43,478	44,857	44,366	4,20,142	100%

Source: RBI Bulletin

Table-6 depicts the inflow of foreign direct investment from different countries. FDI from Mauritius has registered an inflow of 1,34,469 $ million from 2000-01 to 2018-19 and it accounts for 32% in total inflow of FDI. Followed by, Singapore has registered an inflow of 82,998 $ million, it has 20% share in total inflow of FDI. Japan has contributed 30,274 $ million and it occupies 7% in total inflow of FDI. Netherlands has contributed 27,352 $ million ad it accounts for 7% in total inflow of FDI. Similarly, UK 26,789 $ million (6%), USA 25,556 $ million (6%) and Germany 11,708 $ million (3%) contributed FDI to India. Further, Cyprus 9,869 $ million (2%), UAE 6,652 $ million (2%) and France 6,643 $ million (3%) contributed to India in this period. Total inflow of FDI to India is estimated to 4,20,142 $ million during 2000-01 to 2018-19.

6.3. Industry-wise Inflow of FDI

Foreign direct investment inflows by industry-wise, especially fund inflows on top sectors are presented in table-7.

Table-7: Industry-wise Inflow of FDI

(Amount in USD Million)

Rank	Industry	2016-17	2017-18	2018-19	2000-01 to 2018-19	% of Total Inflows
1.	Service sector	8,684	6,709	9,158	74,149	18%
2.	Software & Hardware	3,652	6,153	6,415	37,238	9%
3.	Telecommunications	5,564	6,212	2,668	32,826	8%
4.	Construction	105	540	213	25,046	6%
5.	Trading	2,338	4,348	4,462	23,021	5%
6.	Automobiles	1,609	2,090	2,623	21,387	5%
7.	Chemicals	1,393	1,308	1,981	16,582	4%
8.	Pharmaceuticals	857	1,010	266	15,983	4%
9.	Infrastructure	1,861	2,730	2,258	14,805	4%
10.	Power	1,113	1,621	1,106	14,316	3%

Source: RBI Bulletin

Table-7 describes that industry-wise inflow of FDI in India. Service sector are the main target of FDI inflow, it gets 74,149 $ million, it accounts for 18% of total inflow of FDI from 2000-01 to 2018-19. Software and hardware has registered a net inflow of 37,238 $ million and its relative share is 9% in total inflow of FDI. Telecommunications sector has attracted a net inflow of 32,826 $ million and it accounts for 8% in total inflow of FDI. Construction sector attracts 25,046 $ million and its relative proportion is 6% in inflow of FDI. Similarly, trading sector 23,021 $ million (5%), automobile 21,387 $ million (5%), chemicals 16,582 $ million (4%), pharmaceuticals 15,983 $ million (4%), infrastructure 14,805 $ million (4%) and power 14,316 $ million (3%) attracts FDI from various countries.

7. RESEARCH IMPLICATIONS

The study solely focuses on inflow of foreign direct investment to developing economies like India. The present study posits that foreign direct investment have effect on economic growth through domestic contribution. It is highly important to the economic experts and policy makers to consider on quantum of investment to a specific sector. Moreover, magnitude of investment should be planned so as to fulfil employment needs of the nation. Excess investment is dangerous and collapses the economic growth. It is also

important to the developing economies to recognise that foreign direct investment should not automatically ensure economic growth, as is insinuated by the experts of the nation. India should reconsider on effect of policies on technological transformation along with diffusion of knowledge through foreign direct investment from developed nations. Moreover, India should prioritise the expansion of human capital intellect to undertake employment and entrepreneurship to get more direct investment from overseas countries. Strengthening domestic investment, labour availability and trade freedom will also boost inflow of FDI and helps to achieve desired level of economic growth.

8. CONCLUSION

The study examined the relationship between foreign direct investment and economic growth in India from 2000-01 to 2018-19. The study also considered trade freedom, domestic investment and labour availability to measure the precise impact on economic development. The extent to which foreign direct investment promote economic growth on current environment was examined. The study employed ADF unit root test to measure the order of integration among the variables. The variables are found stationary at different levels I(0) and I(1), hence it directed to apply ARDL model to find co-integration and error correction model. It assisted to find the long-run connection and short-run dynamics amongst the variables. The computed f-statistics through Wald coefficient restriction test verified the long-run relationship between the variables. The error correction model was significant at 1% level. The identified model performs all diagnostic tests and confirms the absence of heteroscedasticity, serial correlation, and non-normality.

The findings of empirical study were consistent with the results of various earlier studies and confirmed a weak association between foreign direct investment and economic growth. Similarly, among the other variables, domestic investment contributes much to the economic growth of the nation. However, foreign direct investment had weak and positive

correlation in the long-run concerning economic growth of the nation. The study suggested that India should make suitable policy reforms in connection with foreign direct investment so as to attract more investment. It will directly increase economic development and establish new job opportunities and develop export performance in the manufacturing sector. Country-wise inflow of FDI discloses that Mauritius, Singapore, Japan, Netherlands, UK, USA, Germany, Cyprus, UAE and France have contributed 87% of total FDI to India. Sector-wise inflow of FDI found that service sector, software & hardware, telecommunications, construction, trading, automobiles, chemicals, pharmaceuticals, infrastructure and power attracts 66% of total FDI to India.

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