Chapter 2

2.1 Review of literature

The very important part of the study is always considered as literature review. A literature is an evaluative report of studies found in the literature related to topic. It gives a theoretical basis for the research and helps us determine the nature of our research. Review gives us an understanding about related research topic. Literature review not only survey what research have been done in the past on related topic but it also appraises, encapsulates, compares and contrasts and correlates various scholar research. Literature review is a relevant source that directly related to current research. There are some selected literature reviews related to "Impact of FDI on GDP growth in India:

2.2 In context of cross countries

Muskhlis and simanjuntak (2014) investigate the long run relationship between FDI and GDP in Indonesia economic since 1981 until 2012. Johansen co integration and granger causality test has been used. The result revels that the flow of FDI and GDP in Indonesia do not have a long run relationship. The higher the GDP, it is a signal to the flow of FDI in to Indonesia. This study **(2010)** investigates the causal long run relationship between FCIs, Gross domestic capital formation and economic growth of India by using time series data for a period of 1992-2010. Johansen co-integration results reveals that the long run relationship between the variables. The result shows that GDCF contributes positively to the GDP but FCI contributes negatively to the GDP because of the increase in highly risky and volatile portfolio investment. The granger causality test finds the causality between GDP growth, FCIs and GDCF. There is a bidirectional causality between FCI and GDP; GDCF and FCI but there is a unidirectional causality between the GDCF and GDP.

Yasin (2013) explores the export as well as compare to import, for the development of Pakistan by Foreign Direct Investment (FDI) and find out the impact of GDP growth. The objective of the study is, export increase against imports and to control the deficit problem of the country. This paper focus on the FDI- Led Growth hypothesis in the case of Pakistan economy. The required secondary data cover period from 1976 to 2010. Variables such as GDP, FDI and Export have been used. Auto Regressive Distributed Lag model (ARDL) and Least Square Method are applied to examine long run relationship between variables. Result finds that there is no long run relationship between dependent and independent variables. FDI and Exports volume less contribute for the economic growth.

Imoudu (2012) examines the relationship between 1980 -2009 through vector error correction methodology; it also examines the determinants of FDI in Nigeria. Result show that there is positive relationship exists between real growth and FDI in petroleum sector. The empirical result reveals that the impact of the disaggregated FDI on real growth in Nigeria in agriculture, mining, manufacturing and petroleum sectors is very low in comparison of the telecom sectors which has a good and bright future in the long run.

Louzi and Abadi (2011) examine the relationship between FDI and GDP using time series data through 1990 to 2009 from the Jordanian economy. The study finds that many studies have a positive link between FDI and growth. But econometric result shows that FDI inflows do not exert an independent influence on economic growth. The direction of causality from GDP growth to FDI. That is the direction growth impact of FDI on the Jordanian economy. The impact of DIN and TP on GDP growth rate is found to be positive. Result shows that FDI inflows do not exert an independent influence on economic growth. As a result, the investment climate in the country must be improved more through appropriate measures such as creating more transparency in the trade policy and more flexible labor markets and setting a suitable regulatory framework and tariff structure.

Agrawal and Khan (2011) this paper explore the effect of FDI on economic growth of China and India, in perspective of structural change in economy. Time period of the study is 1993-2009 and data has been collected from World Bank and UNCTAD, DIPP etcetera. Variables such as Gross Domestic Products (GDP), human capital, labor force, FDI and Gross capital formation have been used, among which GDP is dependent variable and rest are independent variables, Ordinary Least Square (OLS) Method is applied. The paper finds 1% increase in FDI will result in 0.07% increase in GDP of China and 0.02% increase in GDP of India and china's growth is more affected by FDI, than India's growth.

Tasneem and Aziz (2011) examine the relationship between FDI and Economic Performance of Pakistan by measuring the effect of FDI on growth rate, export-import, manufacturing, per capita income, and employment. The analysis based on annual time series data for the period of 1972-2008. Result reveals 1% increase in the FDI by growth rate increase 0.34%, export rises by 0.38%, import decrease by 6.23%, manufacturing production increase by 17.56%, per capita income increase by 0.0003% and employment change by 0.36%. The result show that FDI effect on domestic output, employment, trade income level and overall growth is positive. While impact on import is negative, if FDI concentrate on import substitution industries, then it effect import negatively and export positively.

Gdaro and Sheikh et al. (2010) this research paper aims to analysis the impact of foreign direct investment (FDI) in Pakistan for the period 1981 to 2010. Evaluate the Gross Domestic Product (GDP) growth performance and assess the historical trends of the Foreign Direct Investment (FDI) and Consumer Price Index (CPI) in Pakistan. The secondary data has been collected from World Bank, RBI, DIPP, World Bank etc., Variables are GDP, FDI and CPI, measure the relationship with the help of Multiple Regression Model. GDP known as dependent variable and FDI and CPI known as independent variables. The paper concludes if 1% changes in FDI then it will bring about 0.39% change in GDP while 1% change in CPI will bring 1.13% change in GDP by holding other variables constant. Result reveals that the model is significant positive relationship between GDP and FDI while a negative relationship find out between GDP and CPI.

Sridharan and Vijayakumar et. al (2009) examines the causal relationship between FDI and Economic Growth of the BRICS Countries by using quarterly data for Brazil from 1996 to 2007, Russia from 1994 to 2007, India from 1992 to 2007, China from 1994 to 2007 and South Africa from 1999 to 2007. The paper analysis the Industrial Production Index (IPI) as a measure of economic growth. Augmented Dickey Fuller (ADF) Test and Vector Error Correction Methods (VECM) have been applied to trace the existence of relationship. Result reveals that FDI lead growth bi-directionally for Brazil, Russia and South Africa and uni- directionally for India and China.

Max (2009) examines the benefit of china's using foreign capitals in perspective of FDI impact on GDP from 1985 to 2008. The study based on secondary data. Variables like saving and fixed assets investment have been used. Result reveals FDI, saving and Foreign Investment (FI) positively related to national income while national income negatively related with consumption.

The study find effect of FDI, saving (S) and FI for GDP is significant and foreign capital has a positive impact on GDP.

Katerina (2004) investigates the existence and the nature of the foreign direct investment on the rate of growth of a panel of transition economies. The required secondary data have been obtained from the world development indicators of the World Bank and the international finance statistic of the IMF. The study based on Bayesian analysis. Result indicates that FDI does not excerpt any influence on growth. Evidence from statically analysis suggests that foreign direct investment (FDI) does not have any significant relationship with economic growth for transition countries. Derive the same conclusion after splitting sample in to low and high income growth countries.

2.3 In context of India

Sharma (2000) examines whether or not FDI has made any significant contribution to India's export growth during the period of 1970 to 1998. The paper investigates short run-long run relationship between the contribution of FDI and India's export performance. Data has been undertaken from World Development Indicators, World Bank, Hand Book of Statistics 1997, and Monthly Statistic of Foreign Trade of India. Variables such as Foreign Direct Investment (FDI), Total Foreign Capital (TFC), and Gross Domestic Investment (GDI) have been used. The paper reveals that demand for India's export increase when its export prices fall in relation to world price. The study concludes an increase in India's export price relative to world export price and the price elasticity of export supply rises from 0.85 in the short run and 1.52 in the long run.

. **Sharma and Khurana (2003)** investigates the sectors wise distribution of FDI inflow to know which sectors is dominating and also discusses the direct proportionate of the economic growth of the economy. The secondary data collected from Fact sheet on Foreign Direct Investment, Annual Report of Reserve Bank of India, the website of UNCTAD and different Journals. The data used from 1991-92 to 2011-2012. Study suggests Indian economy is mostly based on agriculture so there is a most important scope of agriculture service and foreign direct investment in this sector should be encourage.

Mathiyezhagan (2005) examines the long run relationship of Foreign Direct Investment with the Gross Output (GO), Export (EX), Labour Productivity (LPR) in the Indian Economy at the sector level by using the annual data from 1990-91 to 2000-01. Panel Co-integration test (PCONT) reveals there is very minimal significant co-integration relationship among the variable like FDI, GO, EX and LPR in core sector of the economy. Panel Co-integration test reveals positive relationship between FDI and GO while negative relationship with export. The FDI has a positive as well as negative relation with LPR in different sectors. It also concludes FDI has not play a positive impact on the Indian economy at the sectoral level. FDI raise the output productivity and export in some sectors. The study suggests open up the export oriented sectors for FDI and a higher growth of the economy can be achieved through the growth of these sectors.

Kumar (2005) present overviews the evolution of Indian government's attitude toward FDI, examines the trends and patterns in FDI inflows during the 1990s and has considered its impact on a few parameters of development in a competitive East Asian perspective. The changing policy framework has affected the trends and patterns of FDI inflow receive by the country. FDI inflows has increased in the absence of policy direction and invest in to services and software technology, consumer goods industries bringing the share of manufacturing and technology intensive among them down in sharp contrast to the East Asian Countries. During reforms, Indian govt. announced FDI policy with the abolition of industrial licensing, creation of a system of automatic clearance of FDI proposal and opening of new sectors such as mining, banking, insurance, telecommunication, construction and management of ports, roads and highways, airlines, and defense equipment to foreign –owned companies subject to sectoral caps. The importance of FDI as a source of capital and output generation has risen, its impact on direct investment and growth is mixed. India experience with respect to fostering export-oriented industrialization with the help of FDI has also been much poorer than that of East Asian Countries. Analysis suggests that MNEs are beginning to take a serious look at the India's potential as base for export oriented manufacture. In terms of technology and R&D, manufacturing affiliates of MNEs in India seem to be spending a relatively smaller proportion of their turn-over on R&D activity after controlling for extraneous influence. The evidence presents in the paper suggests that the government policies play an important role in determining the quality or development impact of FDI and in facilitating the exploitation of its potential benefits by host country's development. The export oriented FDI minimize the possibilities of crowding –out of domestic investment and generates favorable spillovers for domestic investment by creating demand for intermediate goods.

Panda (2010) explores the effect of FDI on economic growth using yearly and quarterly time series data from 1980 to 2009. Variables such as Gross Domestic Product (GDP), Domestic Investment (DI), Foreign Direct Investment (FDI) and Openness (OP) have been used. Data has been collected from Handbook Of Statistics On Indian Economy 2009-10 and Annual Report, publications of Reserve Bank Of India, National Accounts of Statistic Publications of Central Statistical Organization (CSO), Department of Industrial Policy And Promotion (DIPP), published by Ministry of Commerce And Industry, World Development Indicators Publication of

World Bank. Unit root test is applied. The study reveals, in the country wise distribution, Mauritius is the major source of FDI inflow to India and sector wise; service sector is the most FDI attracting sector.

Chaturvedi (2011) in their paper examines the sector wise and country wise impact of FDI during 2006 to 2010. The study is analytical and based on secondary data. The data has been collected from the report of The Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Reserve Bank of India, World Investment Report. The data analysis the country wise inflow of FDI in India is 83% by 9 countries while remaining 17% by the rest of world, Government of India (GOI, 2009) (DIPP). Mauritius emerges as the most dominant source of FDI in the country. In the sectoral analysis, greater FDI inflow in the service sector including telecommunication, information technology, travel and many others. Karlpearson co-relation shows high degree of positive correlation between the FDI and Economic Development.

Bhattacharya and Nath (2011) investigate the casual relationship between the volume of Merchandise Trade and FDI influences economic growth during the period 1996-97:Q1 to 2008-09:Q3. Quarterly data has been collected from BOP Statistics published by RBI Bulletins. Variables like GDP, FDI and MERTRADE have been used. The result reveals that FDI is growth enhancing in the same way as domestic investment and a statistically significant positive effect on the level of GDP. It can be concludes that India’s capacity to progress will develop on the country’s performance in attracting foreign capital.

Kumar and Rao (2012) the paper analyze FDI inflows in the country and also discusses the direct proportionate of the economic growth of country through the period 1991-2010. The study based on time series secondary data. Data have been collected from various source such as world Investment Report, Asian Development Bank‘s Reports, Various bulletins of Reserve Bank of India, publication from Ministry of Commerce, Government of India. Simple Regression Method is applied to measure the impact of FDI inflow on Economic Growth in India. The study observes a positive relationship with FDI and Research and Development (R & D) while Gross Domestic Product (GDP) and exchange rate variables exhibit a negative relationship with FDI inflow. The analysis is successful in identifying those variables which are important in attracting FDI inflow to country. The study evaluates FDI is a significant factor for economic growth in India, it also contribute to GDP and foreign exchange performance of the country.

Jasbir (2012) attempt to know how much amount of FDI is required for India’s economic growth and to analysis the trend and role of FDI and FII in improving the quality and availability of goods. It also discusses how the status of economy has improved after economic reforms through the period 1992-93 to 2010-11. Data has been collected from secondary sources like Report and Publication of Government, RBI relating to Foreign Investment, Economic journals, books, magazine and internet etc. The paper reveals that the saving rate is less then investment rate. Maximum global foreign investment’s flow is attracted by the developed countries then developing and under developing. The highest amount of FDI has gone to financing, insurance, real estate and business service and minimum went research and scientific service. Main reason of this shifting (priority to non-priority industries) is high risk and low profit in concern sectors. But there is an upward trend in the flow of foreign investment particularly in study period. The paper suggests better environment should be providing for attracting the foreign investment through direct as well as indirect methods. Inflow of foreign investment in such a way that it should be convenient and favorable for Indian economy and enable to achieve cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making country's balance of payment favorable.

Saiyed (2012) examines the empirical relationship between FDI and economic growth in India from 1990 to 2011. The impact of FDI on economic growth depends on the degree of capacity of the host country to use FDI as efficiently. It is a challenge for developing countries to find out the appropriate direction for the role of FDI and trade liberalization in economic growth. The paper use annual secondary data over the period 1990-91 to 2011-12 by applying computer software package, t statistic, R square, F value and the regression coefficient. Result reveals there is a strong positive correlation between FDI and growth of GDP and FDI play a significant role in the economic growth of India .

Devajit (2012) Endeavour to explore that how FDI an important catalyst of Indian economic growth and explore the country wise share of FDI in India from 2008 -9 to 2010-11. The study based on secondary data source such as DIPP, FIPB, RBI. Variable like FDI, GDP, Economic Growth have been used. FDI is a component of investment by India for its sustained economic growth and development through creation of jobs, manufacturing industries, health care, education, research and development (R & D) etc. The paper says FDI can help by raise the output productivity and export at sectoral level of the Indian economy. To sum up, open up the export oriented sectors and higher growth of the economy can be achieved through the growth of these sectors.

Ray (2012) attempt to analysis the casual relationship between Foreign Direct Investment and Economic Growth and tries to analysis and empirically estimate the effect on economic growth in India, using the co-integration approach for the period, 1990-91 to 2010-11. The empirical analysis on the basis of ordinary Least Square Method, unit root test, Granger Causality test and Vector Error Correction Method (VECM). Variable of the study are economic growth and foreign direct investment. All necessary data for the sample period obtained from the Hand Book of Statistics on Indian Economy, 2010-11 published by Reserve Bank of India. The unit root properties of the data are examines using the Augmented Dickey Fuller test (ADF), Phillips-Person (PP) test ,Kwiatkowski, Phillips, Schmidt ND Shinn (KPSS) test after which the co-integration and causality tests are apply. OLS Method suggests that there is positive relationship between foreign direct investment and GDP. Co-integration test confirmed that economic growth and foreign direct investment are co-integrated, indicating existence of long run relationship between variables. Granger causality test confirmed the presence of the uni-directional causality. Result show that FDI has not contributed much to the economic growth in India for the time period 1990-91 to2010-11, therefore it is imperative for the govt. of India to make a policy for attracting FDI in such a way that it should be more growth enhancing than growth retarding impact of FDI on productivity and growth to generate the resources. The government leads programs that improve social safety nets and provide basic social service. It is imperative for govt. to create the precondition for FDI inflow in the country. But improvement will occur only if the domestic actors are capable of responding to the new incentives.

Rajput (2012) analysis important dimensions of FDI in India and evaluates the impact of FDI on the economy during 1991-2011. Data is collected from World Investment Report, Publication from Ministry of Commerce, and Asian Development Bank's Reports, Reserve Bank of India Bulletins. Result suggests FDI consider as tool of filling the saving, foreign exchange reserve, revenue, trade deficit, management and technological gap. It impact on economic growth depends on country's domestic policy and foreign policy. In order to study the impact two models are frame and fit. The Foreign Direct Investment model shows the factors influencing on FDI and growth model depicts the contribution of FDI to economic growth. There is direct relationship between the market size and FDI inflows. Result reveals the elasticity coefficient between FDI & Trade GDP is 10.65 means 1% increase in GDP causes 10.65% increase in FDI inflow in India, 1% increase in reserve GDP causes 2.23% increase in FDI inflow, 1% increase in financial position causes 13-02% of FDI inflow to the country. Another variable shows negative relationship with FDI is exchange rate. The elasticity coefficient between FDI and exchange rate is 7.06 which show that 1% increase in exchange rate leads to a reduction of 7.06% of FDI inflow to the country. The finding of the growth model show that FDI is a vital and significant factor influencing the level of growth in India. The results of FDI Model reveal that Trade GDP, Reserve GDP and FI Position, exhibits a positive relationship with FDI while exchange rate exhibits a negative relationship with FDI inflow.

Garg (2012) analysis the trends of inflow during 1991-2011 in India and to know about the global scenario and to examine the relationship of liberalized regime pursued by the countries with the level of FDI Stock. Regression analysis reveals a significant relationship between FDI restrictiveness Index and level of FDI Stock. It is consider a tool for accessing the market of emerging economies. In the study period FDI equity flows reaching the peak in 2008-09, showing a decline in 2010 and 2011. This is happened by rising mergers and acquisitions of Indian companies by foreign companies. There are a number of factors contributing to this contemporary trend with special reference to being its demographics, with a young population there is a huge consumer base that is to be tapped, the growing middle class, increased urbanization and awareness, rising disposable incomes. There is fall in the investment in the year 2010-11, for this many global factors are responsible but it will recover very quickly owing to the advantages FDI can give to the emerging economies like India. India is now opening its policies even more to attract the foreign investment inflow. Regression equation on 2009 FDI Stock and 2010 FDI Index, both show significant relationship of the two equation , showing if economy is more open with less of restrictions the inflow of FDI will more and vice versa.

Gola and Dharwal et al. (2013) investigates the pattern and the trends of the main determinants and dimensions of investment flow and the role of FDI on economic growth in India for the period 1991 to 2011. The required secondary data has been collected through various sources such as World Investment Report, Asian Development Bank's Report, Ministry of Commerce, various bulletins of RBI. The larger portions of FDI inflows received in India come from Mauritius, Singapore, U.K., Japan, U.S.A., Netherlands, Cyprus, Germany, France and U.A.E. and the service sector has received the larger portions followed by computer hardware and software, telecommunication etcetera. The paper concludes that large number of changes that are introduce in the country's regulatory economic policies heralded the liberalization era of the FDI policy regime in India and brought about a structural breakthrough in the volume of FDI inflow in to economy maintained a fluctuating and unsteady trend during the study period.

Sourangsu (2013) Analysis the merits and demerits of FDI upon negative perspective in respect of Indian Economy and FDI job opportunities as well as effect on domestic firms. In positive way FDI ensure a quantum amount of domestic capital, production level, vehicle of new advance technologies, employment opportunities and its improve the quality of product and increase the export of host country by made the product national level in the developing countries. It effect trade employment and skills level, technology and knowledge transfer. In negative way, foreign competition harms domestic firms use new and advanced technology that India has not acquired.

FDI use technologies which beat domestic firms and reduce the cost of products and crowding out the domestic firms from market.

Chaudhry (2013) endeavor is to compare and contrast the FDI within different states and sectors in India as well as to study the pattern of FDI in comparison of rest of the world through 2000-2013. Data has been collected from Handbook of Statistics on Indian Economy by RBI, World Investment Reports, Asian Development Bank's Reports. Data reveals that India is lacking behind many of other close competitive developing countries. India is able to attract more of FDI as unequal inflow in different regions may further rise to disparities in growth also. Data reveals that inflow are not equally spread, few part are able to attract much more FDI while most receive only negligible amount. Study shows that FDI in India grew unevenly with uneven pattern.

Hameedu (2014) states the sectors-wise distribution of FDI inflow to know about which has concerned with the chief share, and scenario and role and scope of foreign direct investment in India. FDI as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansions of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development. Result reveals that FDI pay attention only in some selected sectors which generate growth disparity in different parts of country.

2.3 Relevance of the reviewed Literature

A huge amount of literature is available on FDI in various sectors in India. But I found very few literature reviews related to my topic. According to these reviewed, create some confusion in my mind, some study revealed that there is positive relation between FDI and GDP Growth in India while some study said that there is no relation between FDI and Economic Growth. By this study I want to clear that what type of relation occur between these variables.