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FDI Impact on Employment Generation and GDP Growth in India

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Abstract

In the era of homogenization of development all over the globe, capital has become crucial aspect and major concern for countries, especially for the developing ones. Foreign funds inflow has become one of the major resources for this. Countries are in a constant race to attract more of foreign fund inflows or foreign direct investment (FDI).The objective of this paper is to study the impact of FDI in India on the employment generation capacity and GDP growth it also tries to correlate GDP growth with employment trends, it will go through sector-wise inflow of FDI in India and analyze its ability to generate employment and productivity in India.

Keywords: Foreign direct investment, Elasticity of employment, Employment, GDP growth.
JEL Classification: F16, F21, G11, O30, O43.

Contents

1. Introduction **41**
2. Foreign Direct Investment Scenario of India **41**
3. Employment Generation Scenario in India **43**
4. Employment Generation Capacity of FDI **45**
5. Conclusion **48**
References **48**
Bibliography **48**

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1. Introduction

There have been significant amount of research that have been carried out in almost all the developing countries especially African and Indian sub-continent since China grew past all the economies since 1970's, while the total FDI inflow in China surpassed its previous record every year during those days. It is pretty obvious that the main forces that triggered such growth were not only FDI but also its labor reforms with infrastructure development and opening of its economy, South Korea also miraculously grew at a growth rate of 12% during that phase using similar methodology.

After the liberalization of the Indian economy since 1991 in the wake of balance of payment crises there has also been emphasis on FDI in India, as India strived to follow the same objective of economic growth many leaps and bounds followed it. Employment generation and starting of new firms have always converged as empirical evidences indicate[1], India on the other hand was struggling to help start new firms as it always had problems with the license system that it followed since its independence. There have always been concerns regarding this subject in India however after the liberalization of the economy this pessimism has definitely reduced and high hopes have gradually taken its place. India also had credibility issues that took a toll on its economic growth in the first half of 1990's but later they were also slowly resolved with new reforms such as in rupee convertibility, fiscal reforms, flexible exchange rate and etc. After the realization by Indian planners about the fact they cannot keep going in the same fashion of regulation of foreign trade and neglect their responsibilities about the balance of payment in the early 90's they started liberalizing norms on foreign exchange as a result of gradually the FDI inflow incremented come to think of it-- not much time has really passed since then and India has accumulated a cumulative FDI of U.S$ 364,785 million[2] by January 2015.

Employment generation ability in India has been dominated by agriculture as even in 2009-10 the percentage share of agricultural employment is 53.2%, while the share of manufacturing/ non-manufacturing and service sector are 11%/10.5% and 25.3% respectively.[3] It is not hard to see that the majority number of hands to feed a population of 120 billion has always been dominated by agriculture, even with the low earning that is derived from agriculture the economy has not only sustained but is also growing at a rate of 7% in 2015-- it is miraculously true. Even with a cyclic raising CPI the low wages derived from agriculture were able to sustain a jaw dropping population of 120 billion. In the context of the relation between population growth and employment generation we can say that it is significantly dependent on demographic factors that we cannot go into a detail about in this section, however we will mention the document of the World Bank (http://data.worldbank.org/indicator/SL.EMP.TOTL.SP.ZS) in this regard.

The relation between employment generation and FDI is very significant to understand in respect of Indian scenario due to more or less stagnated employment share of agriculture. It is pretty puzzling that despite of the migration of people to urban areas in search of employment why are there such low employment share of service sector even after high FDI inflows? Moreover, what are the factors that relate FDI to employment in India? These are key question that we will try to find answers to in this paper, after the liberalization of the Indian economy much has changed governments launch ambitious programs like MGNREGA (Mahatma Gandhi national rural employment guarantee scheme) and many other such programs further it reduces barriers to trade and allows FDI in all sectors this definitely spreads optimism in the domestic as well as foreign markets, we seek to know how far has India got riding on the back of much debated Foreign Direct Investment.

2. Foreign Direct Investment Scenario of India

The importance of FDI can be explained by analyzing its need and influence on Indian economy, the need for FDI is pretty simple, as right after the balance of payment crises it became pretty clear that India will not have much domestic investment unless the private sector is liberalized and supported by the government. Even if big bang reforms take place it will need some time to settle things down, so for the time being the major investment had to come from elsewhere i.e. FDI liberalization schemes must be rolled out. However, due to credibility issues in the international market it was pretty difficult for India to begin with such an idea but later on as India began to advertise about its huge market with approximately 95 billion consumers in telecommunication sector (in 1996)[4] for example things began to become more clear to the multinational companies.

Influence of FDI can be understood by the inferiority complex that almost all the South East Asian countries felt after the rapid growth of China and South Korea, there is no denying the fact that FDI inflow in China was one of the major factors responsible for this along with other reforms that took place during that period[5].

[1] Birch (1987).
[2] dipp.nic.in/English/Publications/FDI.../2015/india_FDI_January2015.pdf
[3] http://planningcommission.nic.in/data/datatable/Sectoral%20Break-up%20of%20Employment%20&%20Value%20Added%20per%20Worker%20(93-94,%2099-00;%2004-05%20&%2009-10)
[4] Foreign Direct Investment in India: A Critical Analysis of FDI from 1991-2005 by Kulwindar Singh Centre for Civil Society, New Delhi Research Internship Programme, 2005
[5] Chen, Lawrence and Yimin (1995).

Table-1. From APRIL, 2000 to FEBRUARY, 2015 – RBI

Amount Rupees in crores (US$ in million) Ranks	**Country**	**2012-13 (April - March)**	**2013-14 (April – March)**	**2014-15 (April '14- February, 2015)**	**Cumulative Inflows (April '00 - February '15)**	**%age to total Inflows (in terms** of US $)
1.	MAURITIUS	51,654 (9,497)	29,360 (4,859)	51,530 (8,447)	422,015 (86,972)	35 %
2.	SINGAPORE	12,594 (2,308)	35,625 (5,985)	39,393 (6,429)	165,200 (31,874)	13 %
3.	U.K.	5,797 (1,080)	20,426 (3,215)	7,463 (1,237)	108,348 (22,001)	9 %
4.	JAPAN	12,243 (2,237)	10,550 (1,718)	10,507 (1,725)	91,151 (17,993)	7 %
5.	NETHERLAN DS	10,054 (1,856)	13,920 (2,270)	20,076 (3,294)	76,374 (14,530)	6 %
6.	U.S.A.	3,033 (557)	4,807 (806)	10,360 (1,697)	66,090 (13,625)	6 %
7.	CYPRUS	2,658 (490)	3,401 (557)	3,596 (592)	39,325 (8,038)	3 %
8.	GERMANY	4,684 (860)	6,093 (1,038)	6,485 (1,058)	38,091 (7,577)	3 %
9	FRANCE	3,487 (646)	1,842 (305)	3,626 (594)	22,332 (4,472)	2 %
10.	SWITZERLAD	987 (180)	2,084 (341)	2,040 (333)	15,188 (3,040)	1 %
Total FDI Inflows From All Countries *		121,907 (22,423)	147,518 (24,299)	175,886 (28,813)	1,220,316 (246,516)	-

Source: Fact Sheet on Foreign Direct Investment (FDI)

2.1. Trends in FDI Inflow

India astoundingly way back in 1983 came a long way when we think only in terms of methodology adopted to bring in capital inflows some light on the situation can be thrown in by bilateral tax treaty between India and Mauritius (Dr. Manmohan Singh, 2007 IMF working paper) an example for recent development regarding this issue can be of India-Singapore comprehensive economic corporation agreement 2003. After reviewing the above given data it is very easy to interpret the crucial role played by bilateral tax agreement between India and Mauritius i.e. FDI inflow of Mauritius is not only highest but also 35% of FDI, similarly Singapore constitutes of 13% of it. But that of the western countries constitute less than 50% of FDI even on summation. The impact of such treaties and agreement between countries is huge, sometimes big enough to over shadow many reforms that countries like India go through like labor reforms etc.

The free trade agreement have played a significant role in developing countries of Asia and Africa especially when we consider political economy FTA Consolidation in Asia—(As a group, the number of concluded FTAs in Asia increased from only three to 61 during that time).[6]

What impact did these FTA have on India? The increased integration of India with Asian countries has expanded its presence in global markets where as the shares of Asian developing countries in India's exports and imports have raised but its share with developed countries has come down, despite of this fact they continue to be important destination for Indian exports[7]. India's FDI policy turned out to be beneficial for not only Singapore and Mauritius but also for other Asian countries.

While with the African partners there have been appreciable amount of investment from India instead, for instance investments by Tata motors in South Africa are market seeking because the cars built in South Africa are sold in the country.[8]A look over the below given data can help in understanding that there have been constant increase in investment by India into the African countries as we see that US$ million 1,400 in 2006-07, US$ million 1,627 in 2007-08 and US$ million 2,555 in 2008-09, however the net outflow of FDI in India was just 0.4% of GDP in 2014 according to World Bank data so we can conclude there is very little outflow of FDI in contrast to FDI inflow 3% of GDP in 2014. Never the less India is surly on the path that was set as an objective during the liberalization of 1991.

[6] The ASEAN-India Free Trade Agreement: A sectoral impact analysis of increased trade integration in goods* Smitha Francis

[7] Smitha Francis,"The ASEAN-India Free Trade Agreement: A sectoral impact analysis of increased trade integration in goods", [Online] Available: http://www.networkideas.org/ ideasact/dec09/pdf/smitha_francis_paper.pdf

[8] CUTS CCIER Working Paper No. 1/2012 Indian Foreign Direct Investment in Africa Anusree Paul*

Table-2. Indian FDI to African countries

Country	1996-2002	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Botswana	3.46	0	0.05	0.02	0.02	0	2.3	8.11
Burkina Faso	0	0	0	0.05	0	0	0	0
Cameroon	0	0.02	0	0	0	0	0	0
Ethiopia	0.54	0.57	0.22	0.2	1.8	1.8	2.52	1.49
Ghana	0.03	0.33	0.01	0	0.66	0.66	1.69	1.09
Ivory coast	0.01	0	0	7.24	6.85	0.39	0.27	0.5
Kenya	12.75	0.59	1.77	0.19	0.32	0.2	0.33	133.15
Libya	30	0	0	0	25.28	75	0.02	12.67
Liberia	0.28	0	0	0	154.94	0	17.74	16
Mauritius	618.34	133.35	175.59	149.38	332.67	1162.79	1506.29	2086.97
Morocco	32.49	0	0	0	0	0	0.44	2.65
Mozambique	0	0	0	2.55	7.52	0	3.23	3.77
Niger	0	0	0	0	0.01	0	0	0.5
Nigeria	6.69	4.08	2.16	7.53	4.3	11.64	27.2	237
Namibia	0.06	0	0	0	0	0	0	0
South Africa	21.56	0.07	0.79	2.88	10.42	23.29	46.19	12.37
Sierra Leone	0	0	0	0.01	0	0	0	0
Senegal	22.24	0	0	0	1	0	0.03	0
Sudan	0	750	162.03	51.55	63.05	118.15	8.3	38.06
Tanzania	4.02	0.01	0.08	0.34	0	0	10.47	0
Tunisia	0	0	0	0	0	5.24	0	0
Uganda	2.44	0	0.01	0.19	0	0	0	1
Zambia	2.35	0	0	0.11	0	0	0	0.05
Zimbabwe	1.11	0	0	0.18	0.3	0.95	0	0
AFRICA	758.37	889.02	342.71	222.42	609.14	1400.11	1627	2555.37

Source: http://finmin.nic.in/the_ministry/dept_eco_affairs/investment_div/invest_index.htm#Actual_Outflows (accessed on February 28, 2012)

FDI has always been concerned with developed economies. As they attract a comparatively higher share of world-wide FDI than developing countries. In recent years, however, the increase in FDI flows to developing countries turned out to be higher than the increase in FDI flows to developed countries. Average annual FDI flows to developing countries soared eight-fold[9] and India had a big role to play.

3. Employment Generation Scenario in India

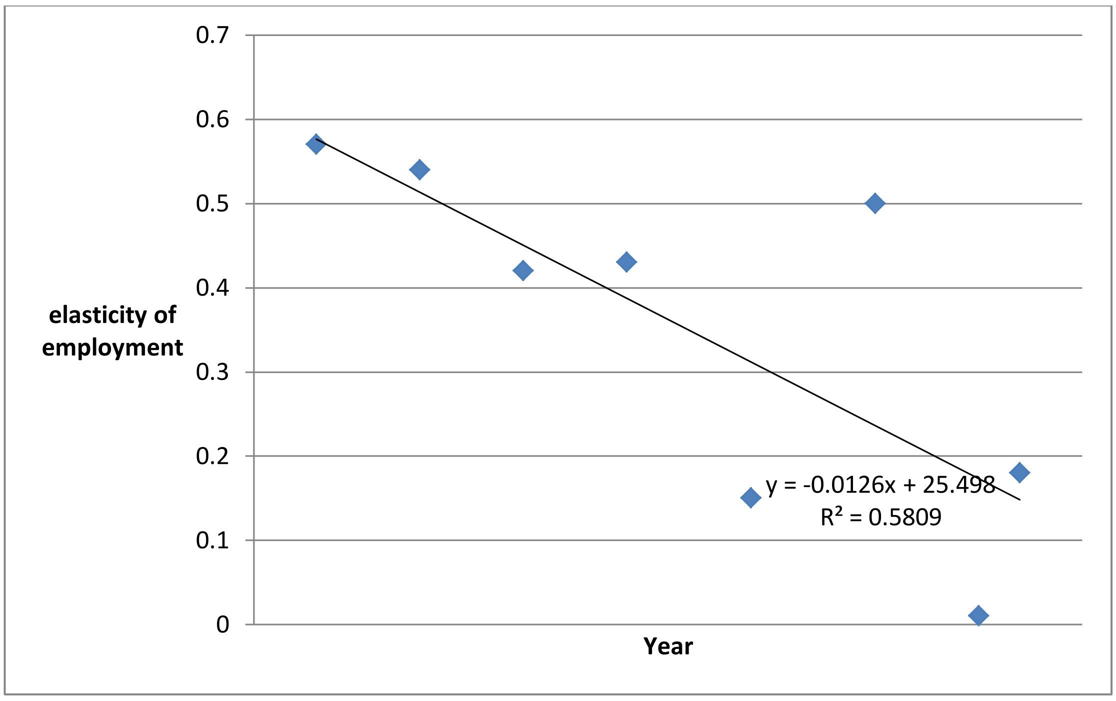
When we discuss about the trend of employment in India employment elasticity can be a very useful tool for analysis- Employment elasticity is a measure of the percentage change in employment associated with a 1 percentage point change in economic growth or we can say that $e = (\Delta L/L)/(\frac{\Delta Y}{Y})$[10].

Table-3. Employment elasticity: CAGR approach

Year	Employment growth(CAGR)	GDP Growth(CAGR)	Employment Elasticity
1972-73 to 1977-78	2.6	4.6	0.57
1977-78 to 1983	2.1	3.9	0.54
1983 to 1988-89	1.7	4	0.42
1988-89 to 1993-94	2.4	5.6	0.43
1993-94 to 1999-2000	1	6.8	0.15
1999-2000 to 2004-05	2.8	5.7	0.5
2004-05 to 2009-10	0.1	8.7	0.01
2009-10 to 2011-12	1.4	7.4	0.18
1999-00 to 2011-12	1.5	7.3	0.2
1993-94 to 2011-12	1.1	6	0.18

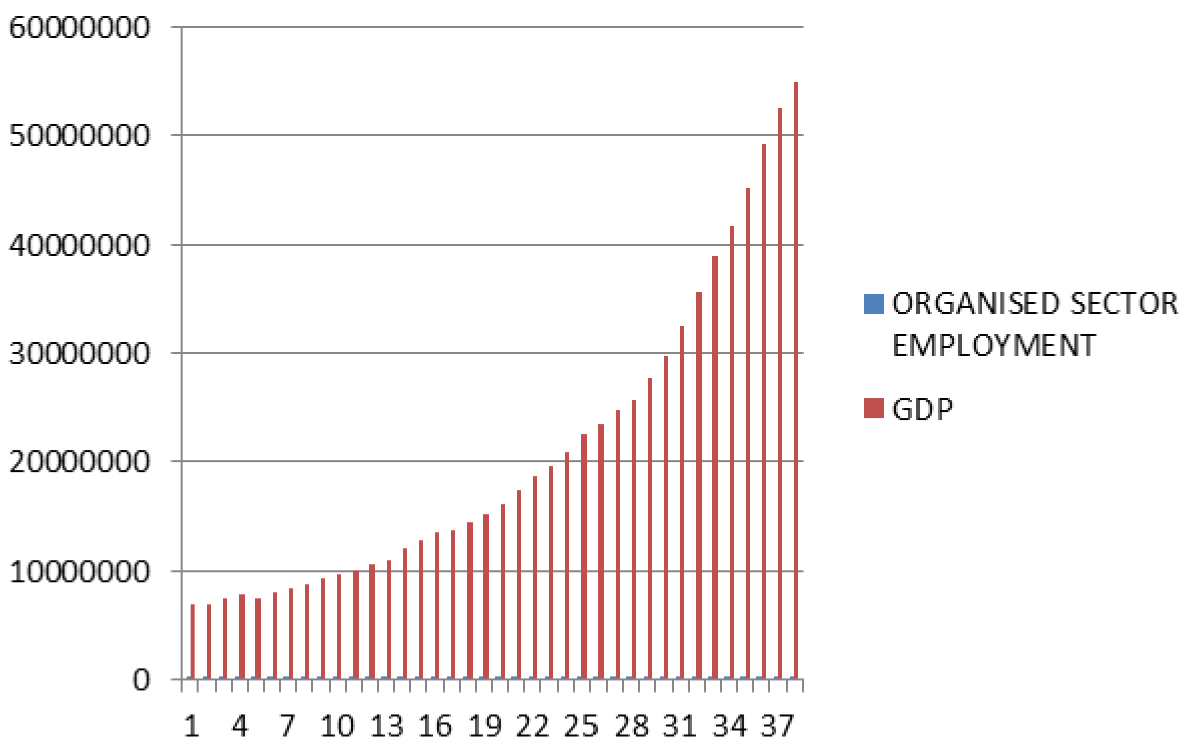
Computed values

[9] Azeem and Suhalia (2014).
[10] W P S (DEPR): 06 / 2014 RBI WORKING PAPER SERIES Estimating Employment Elasticity of Growth for the Indian Economy Sangita Misra and Anoop K Suresh DEPARTMENT OF ECONOMIC AND POLICY RESEARCH JUNE 2014



As we can see that there is a definite decline in the employment elasticity indicating that with increase in GDP growth rate there was lesser and lesser increase in overall employment in India. One of the logical explanations behind this can be that as the economy progressed, the labor force was being replaced by capital or marginal rate of technical substitution kept declining ($\frac{MPL}{MPK}$).

But when we take a look at the employment generation trend in organised sector (Table 4) we figure out that there is a positive growth in employment of organised sector since the past years with decreasing elasticity as shown ofcourse, now the below given bar chart can throw some light on the decreasing trend of labor contribution in GDP as on can easily make out that there is gradual but sure increase in tangent or first derivative of the curve given below (plot between GDP growth on Y and employment on X axis in scales of millions.)



Either way, we can confirm that there is not much increase in labor employment with respect to National income growth in India. Unorganized sector employment is doing fairly well if we see in terms of employment generation, but since data on unorganized sector is not available to us we can leave it at this optimistic expression.

There has been a great deal of debates on the topic of employment generation by small and new firms in national and international fronts, most of the researchers considered it to be true[11], this view has initiated a new program in India by the government, but we are yet to see the results.

[11] Do Small Businesses Create More Jobs? New Evidence for the United States from the National Establishment Time Series David Neumark University of California, Irvine, Public Policy Institute of California, NBER and IZA Brandon Wall Stanford University Junfu Zhang Clark University and IZA Discussion Paper No. 3888 December 2008

Table-4. Employment generation in India-organized sector

Year	Public sector(end-march)	Private sector(end-march)	Number of persons on the live register(end-december)
1975-76	13.63	6.79	9.78
1976-77	14.18	6.95	10.92
1977-78	14.73	7.11	12.68
1978-79	15.58	7.23	14.33
1979-80	15.12	7.24	16.2
1980-81	15.48	7.4	17.84
1981-82	16.28	7.53	19.75
1982-83	16.75	7.39	21.95
1983-84	17.22	7.36	23.55
1984-85	17.58	7.43	26.27
1985-86	17.68	7.37	30.13
1986-87	18.24	7.39	30.25
1987-88	18.32	7.39	30.05
1988-89	18.51	7.45	32.78
1989-90	18.77	7.58	34.63
1990-91	19.06	7.68	36.3
1991-92	19.21	7.85	36.76
1992-93	19.33	7.85	36.28
1993-94	19.45	7.93	36.69
1994-95	19.47	8.06	36.74
1995-96	19.43	8.51	37.43
1996-97	19.56	8.69	39.14
1997-98	19.42	8.75	40.09
1998-99	19.41	8.7	40.37
1999-2000	19.31	8.65	41.34
2000-01	19.14	8.65	42
2001-02	18.77	8.43	41.17
2002-03	18.58	8.42	41.39
2003-04	18.2	8.25	40.46
2004-05	18.01	8.45	39.35
2005-06	18.19	8.77	41.47
2006-07	18.06	9.24	39.97
2007-08	17.67	9.88	39.11
2008-09	17.8	10.38	38.15
2009-10	17.86	10.85	38.83
2010-11	17.55	11.45	40.17
2011-12	17.61	12.04	44.79
2012-13	NA	NA	46.8

Note: Data from 1990-91 to 1998-99 and for 2002-03 onwards are based on quarterly employment review. Also see notes on tables.
Source: Directorate general of employment and training. Ministry of labor and employment, Government of India.

4. Employment Generation Capacity of FDI

Foreign direct investments are long run programs initiated by multinational companies; they seek simple incentives such as markets, comparative advantage of labor in a country, cheaper raw material etc. but how does it increase employment?

There are basically two kinds of investment

1) Brown field investment—when a company purchases existing production facilities.

2) Green field investment—when a company builds a new production facility.

Either way there is bound to be increase in employment due to investments made. But the extent of the employment generation depends on the nature of business these firms want to do, with entry of new firms in the country there must be increase in competition in the domestic markets, this gives diversity to the consumers, other positive implication of FDI is the improvement of technology and knowledge.

In India most of the sector-wise distribution of FDI (appendix 1) has been in service sector (*Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier,)* i.e. 17.18% of total FDI. While in construction development India has 9.76% FDI inflows. Most of these industries are capital intensive in nature and we should not expect much growth in labor employment.

Agriculture sector— the primary sector employs 50% of the total employment directly while 12% indirectly, it has received about 0.16 % in agriculture services and 0.16% in agriculture machinery of FDI, though it is a small fraction of FDI it led to a steady growth in agriculture sector[12].

Keeping in mind that agriculture sector contributes up to 19% in GDP of India we should expect more inflow of FDI in this sector, but when we compare the ratio of GDP contribution of primary sector to the labor employment we find that the theory of disguised unemployment to be true, moreover most of the employment generated belongs to the unorganized sector. The productivity of labor in agriculture sector has depleted to an alarming extent and the only way to raise living standard may seem to be that prescribed by Professor Arthur Lewis in his Labor surplus model for

[12] Neeraj (2015).

developing countries. The FDI in other sector certainly seem to be pointing in the above mentioned direction of Professor Arthur Lewis model, when we take a closer look at the employment trend of agriculture in India we find that there has been a steady decline.

Table-4a. Employment shares of major sectors (%)

Sector	1972-73	1977-78	1983	1987-88	1993-94	1999-2000
Agriculture	74	72.3	68.4	65.5	60.38	56.7
Industry	11.4	12.3	13.7	15.5	15.82	17.56
Services	14.6	15.4	17.5	18.4	23.8	25.74

Source: NSSO database

The only way by which Indian agriculture sector can improve its labor productivity is by employing more of capital intensive technology. Such practices have already shown good results in U.S.A, Mexico etc.

Industrial sector—Indian industrial sector have had its leaps and bounds and is now expected grow at a much better pace though it has received a FDI share of 4.96% in automobile sector, 3.88% in power sector, 4.17% in fertilizers etc. it is still growing and contributed to 18% of employment in India. This share of FDI inflow in industrial sector does not reflect its incapacity by any means as the major benefit received by this sector has been transfer of technology and knowledge through multinational companies[13]. With this the productivity of Indian labor has improved tremendously, the national manufacturing policy (NMP) ratified by the Indian government aims at 25% contribution to GDP and 100 million employment by 2022, under such strong optimism this sector is likely to increase its share of FDI as well.

There has been a steady increase in index of industrial production (IIP)[14] in the recent past of the core industries of India and we can expect that this sector will do better in the future, with labor migrating towards the urban industrial areas in search of employment they need to increase their productivity which they are able to do as the results show.

Service sector—this sector is attracting a huge sum of FDI i.e. 17.18%, most of the FDI that came from Mauritius and Singapore was inclined towards the service sector but since the global financial crises in 2007-08 this percentage has dropped. It is clear that the service sector is sensitive towards the exports at least in India, with the plummeting service exports of -15% in 2015 this sector has gotten the worse hit since the crises, the rate of employment generation in this sector is pretty stable though. During the period of 2004-06 when the Indian GDP was growing at a rate of 8% the service exports played the most important role also FDI inflow it this sector was at its peak. Skilled labor from all over the country flooded into this sector but as soon as the exports were reduced this sector could not bear the labor cost and instead left it unemployed or did not hired them to begin with, moreover the FDI inflow was reduced to 2/3 of what it was in 2005.

S. No	Sector	Amount of FDI inflows		%age of total inflows
		in rupees (crore)	in us $ million	
1	Service sector*	203,207.12	42,340.36	17.18
2	Construction development: townships, housing, build-up infrastructure and construction development projects	113,115.96	24,060.36	9.76
3	Telecommunications	83,829.32	17,015.99	6.91
4	Computer software and hardware	72,264.91	14,862.02	6.03
5	Drugs and Pharmaceuticals	63,910.56	12,901.33	5.24
6	Automobile industry	63,051.15	12,232.06	4.96
7	Chemicals(other than fertilizers)	48,847.60	10,262.87	4.17
8	Power	46,587.17	9,548.82	3.88
9	Metallurgical industries	41,025.74	8,527.34	3.46
10	Trading	43,076.80	7,944.67	3.22
11	Hotel and Tourism	40,744.64	7,862.08	3.19
12	Petroleum and Natural Gas	31,651.33	6,519.70	2.65
13	Food Processing industries	36,632.82	6,259.42	2.54
14	Miscellaneous mechanical and engineering industries	20,612.79	3,954.67	1.61
15	Information and Broadcasting (including print media)	19,197.30	3,897.50	1.58
16	Electrical equipment's	18,705.40	3,851.83	1.56
17	Non-conventional energy	18,898.83	3,582.16	1.45
18	Industrial machinery	18,753.01	3,569.30	1.45
19	Construction(infrastructure) activities	16,924.88	3,264.96	1.33
20	Cement and gypsum products	14,629.79	3,086.32	1.25
21	Hospital and diagnostic centers	15,424.26	2,932.17	1.19
22	Consultancy services	13,982.21	2,798.45	1.14
23	Fermentation industries	11,657.67	2,187.33	0.89
24	Rubber goods	9,642.98	1,754.55	0.71
25	Agriculture services	8,636.38	1,745.83	0.71
26	Mining	8,466.79	1,669.49	0.68
27	Ports	6,730.91	1,637.30	0.66
				Continue

[13] Choudhaury, Pyne and Chowdhury (2013).
[14] https://data.gov.in/resources/index-eight-core-industries-base-year-2004-05-upto-september-2015/download

28	Textiles(including dyed and printed	7,786.84	1,568.01	0.64
29	Sea transport	7,449.32	1,514.40	0.61
30	Electronics	6,795.56	1,424.32	0.58
31	Prime mover(other than electrical generator)	6,310.04	1,202.57	0.49
32	Education	5,717.84	1,082.47	0.44
33	Medical and surgical appliances	4,846.02	925.45	0.38
34	Paper and pulp(including paper products)	4,328.54	910.49	0.37
35	Soaps, cosmetics and toilet preparations	4,713.62	894.45	0.36
36	Machine tools	3,539.68	716.03	0.29
37	Ceramics	3,330.05	700.89	0.28
38	Diamond and gold ornaments	3,609.81	682.79	0.28
39	Railway related components	3,426.40	634.27	0.26
40	Air transport(including air freight)	2,762.57	569.44	0.23
41	Vegetable oils and vanaspati	2,896.93	547.42	0.22
42	Fertilizers	2,915.62	543.14	0.22

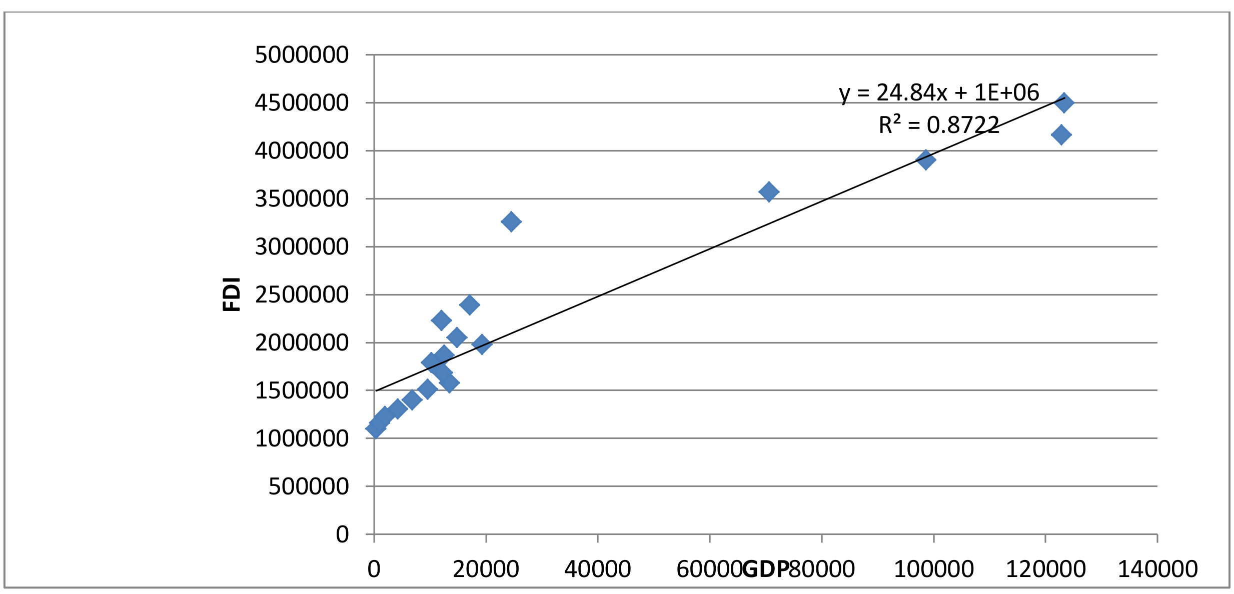
FDI Contribution in Indian GDP

We can classify the effects as direct and indirect effect of FDI on any economy, similarly in Indian context the direct contribution of FDI has been in balance of payments, and technology transfer etc. however the genrally disregarded effect of FDI is indirect effect.

The foreign direct investment can be regarded as inflow of capital. It can be explained by the use of Keynesian multiplier concept where $k = \Delta Y/\Delta I$ here, Y is national income and I is investment, explaination: if an investment of $100 is done, then the labor employed would earn $100 and consume say $80 on goods by purchasing it from certain person now this person earns $80 and similarly decides to purchase an item worth $64 from another person then this person earns $64 and story goes on until $0 is left to spend further, the total income generated here will be not be eual to $100 instead it will be 100+80+64… this concept is called the multiplier effect. Though this theory has its shortcommings never the less it is gives an effective explaination.

FDI contributes more to the economy this way and hence it becomes more important to understand its indirect effect, though direct effects should not be underestimated. Never the less, the cluster of points in the below given graph can be explained by the initial phase of opening of the Indian economy this part of the graph signifies that initially the growth of GDP was not increasing as rappidly in later phases also one can observe that FDI inflow did not follow a similar trend and continuosly increased with a few exceptions at the time of global slowdown indicating its sensitivity.

The below given data is does not throw any light on the indirect or multiplier effect of FDI in india though it is relevent.



FDI inflows,GDP and FDI/GDP ratio in India(1991-92 to 2011-12) years	FDI inflow in rupee crores	Growth rate of FDI inflow(%)	GDP	Growth rate of GDP(%)	FDI as a % of GDP
1991-92	409	0	1099072	0	0.037213
1992-93	1094	167.4817	1158025	5.363889	0.094471
1993-94	2018	84.46069	1223816	5.681311	0.164894
1994-95	4312	113.6769	1302076	6.394752	0.331163
1995-96	6916	60.38961	1396974	7.288207	0.49507
1996-97	9654	39.58936	1508378	7.974665	0.640025
1997-98	13548	40.33561	1573263	4.301641	0.86114
1998-99	12343	-8.8943	1678410	6.683371	0.735398
1999-00	10311	-16.4628	1786525	6.441513	0.577154
2000-01	12645	22.63602	1864301	4.35348	0.67827
2001-02	19361	53.1119	1972606	5.809416	0.981494
2002-03	14932	-22.8759	2048286	3.836549	0.729
2003-04	12117	-18.8521	2222758	8.517951	0.545134
2004-05	17138	41.43765	2388768	7.468649	0.717441
2005-06	24613	43.61652	3254216	36.22989	0.756342
2006-07	70630	186.9622	3566011	9.581263	1.980644
2007-08	98664	39.69135	3898958	9.336679	2.530522
2008-09	122919	24.58343	4162509	6.759524	2.953003
2009-10	123378	0.373417	4493743	7.957556	2.745551

5. Conclusion

India certainly can be considered as an emerging economic power and FDI has contributed to its growth in multidimensional way to it, but as far as the employment generation is considered there is yet to be methodology developed to establish a concrete relation between the two. We tried to establish a linier relation using OLS but the corelation coefficient was too low i.e. 0.65 which cannot be considered any good so we leave it at that.

But as far as the relation between GDP growth and employment generation is concerned we can be sure that there is a positive relation with decreasing rate of growth of labor employment, capital intensive technology is now taking up the major role as growth engine in India and there is expected to further reduction in elasticity of employment. We can also conclude from our study that agriculture sector though not contributing much to GDP might work wonders if capital intensive technology is provided this sector, it is not a surprise that manufacturing and service sector of India are on the rise and are likely to attract more investment and intelect from the world but since India skipped the traditional phase where it was suppose to have rise in manufacturing sector before the service sector it just might work fine as now the manufacturing sector is looking stornger than before. FDI in all these sectors clearly reflects the confidence of international community on the ablity of growth and incentive that it is likely to give.

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