EFFECT OF LPG POLICY, 1991 ON INFLOWS OF FII AND ECONOMIC GROWTH IN INDIA

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ABSTRACT

Economic reforms and the far-reaching political changes have resulted in very substantial changes in the international capital flows. Foreign direct investment (FDI) now constitutes to a significant share of the domestic investment, employment generation, exports, etc. in a number of economies. The best example is China where FDI had contributed about 15 per cent of domestic investment, 41 per cent of the total exports, 19 per cent of industrial output, 13 per cent of tax revenue and 18 million employments in 1997. However, the reality is that it is not easy to draw any conclusions about the relation between FDI and economic growth because a number of factors come into play to determine the growth and development effects of FDI of countries. In theory economic growth may induce FDI inflow, and FDI may also stimulate economic growth. Therefore it is important to discuss about the interaction between the two. Therefore this paper is an attempt to investigate the existing and nature of causality or causal relationship between FDI and economic growth in India since 1991, using time series data for the period 1991-2015. The paper finds long term relationship between FDI and GDP in India, using Co-Integration test and Granger Causality tests.

KEYWORDS: Foreign Direct Investment, Gross Domestic Product, Granger Causality, Unit root tests etc.