Employment Generation Dynamism of Foreign Direct Investment in India

***Rajni Saluja **Payal Bassi**

**Associate Professor, University School of Management, Desh Bhagat University, Mandi Gobindgarh.*
***Associate Director, University School of Management, Desh Bhagat University, Mandi Gobindgarh.*

Abstract

FDI is one of contributory factor in economic growth of the host countries. It strengthens nation domestically as well as internationally. In India, post the 1991 economic reforms, the regulatory environment in terms of foreign direct investment has been consistently eased to make it more and more investor friendly and to supplement domestic capital, technology and skills. Recent FDI policy pronouncements in various sectors of the economy are expected to attract chunk of investments and create additional jobs as well as induce employment and spur up the make in India program. The objective of the research paper is to study the impact of FDI in employment generation in India. The study also observes relationship between FDI and GDP. The study is descriptive and analytical in nature. The study is secondary data based and is taken from the data base of the Reserve Bank of India, Ministry of Labour and Employment, India and World Bank. The time period taken for the study is 2006-07 to 2016-17. Statistical and mathematical techniques such as simple growth rate, compound growth rate, correlation and regression is used. It is observed that there exists positive correlation relationship between FDI and employment, FDI and GDP. But the impact of FDI on total employment is not significant. It is observed that pro-active reforms oriented decisions taken by the government particularly for easing of FDI rules in various sectors of the economy are going to push employment generation, youth empowerment and boost overall economic growth in the coming years.

Keywords: *Foreign Direct Investment, Employment Generation, Economic Growth*

Introduction

In today's wealth driven world, capital is the powerhouse of economic growth of a country. Countries, especially developing ones, strive to generate capital through various sources, that is, by exporting their output (raw material) to industrialized countries, receiving foreign aid, raising loans from foreign banks, etc. But in a reversal of trend in recent years, the tendency to generate capital by means of routes as mentioned above are steadily declining and Foreign Direct Investment (FDI) has gained importance as a preferred source.

FDI has proven to be an 'engine of growth' of a country in the modern era. In today's liberalized and globalized world economy, a growing number of countries have received significant capital flows, mainly in form of FDI. Foreign Direct Investment can be defined basically as an investment of foreign assets into domestic structure, equipment and organization. In exchange for this ownership, the investing company usually transfers some of its financial, technical, managerial, trademark and other relevant resources to the recipient country.

A Foreign Direct Investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. FDI is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds by the element of control. Entities making direct investments typically have a

Significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

Table 1: FDI Inflows in India (Rs. Crore)

Year	FDI Inflows	Growth Rate
2006-07	56390	-
2007-08	98642	74.93
2008-09	142829	44.79
2009-10	123120	-13.80
2010-11	97320	-20.95
2011-12	165146	69.69
2012-13	121907	-26.18
2013-14	147518	21.01
2014-15	189107	28.19
2015-16	262322	38.71
2016-17	291696	11.19
CAGR (%)	**16.11%**	

Source: Various issues of Economic Survey, RBI Bulletin

Table 1 shows that compound annual growth rate of FDI Inflows in India over a period of time (2006-07 to 2016-17) is 16.11 percent

Table 2: Gross Domestic Product at Factor Cost in India (Rs. Billion)

Year	**GDP at Factor Cost**	**Growth Rate (%)**
2006-07	39532.76	-
2007-08	45820.86	15.90
2008-09	53035.67	15.74
2009-10	61089.03	15.18
2010-11	72488.60	18.66
2011-12	839161.91	15.76
2012-13	99440.13	11.88
2013-14	112335.22	11.54
2014-15	124451.28	10.78
2015-16	136820.35	9.94
2016-17	151837.09	10.97
CAGR (%)	**13.01%**	

Source: Various issues of Economic Survey, RBI Bulletin.

Table 2 indicates that compound annual growth rate for GDP at factor cost over a period of time (2006-07 to 2016-17) is 13.01 percent.

Current Employment Scenario in India

Employment Generation is the first priority for Govt. of India. After going through a decade of jobless growth our Govt. is working on a comprehensive strategy to bring employment to the core of development strategy, promoting industrial activity through Make in India, enhancing employability through Skill India and encouraging innovation and entrepreneurship through Start up India are a few examples of transformative initiative that the Govt. has taken in last 2 years. It is well known that policy makers in India attach a high priority to the objective of employment. In pursuing that objective, a number of programmes (including the nation- wide programme of guaranteeing 100 days of employment per family per year) have been and are being implemented.

India's economy grew by 8.0 percent in fiscal year 2016, the fastest pace since 2011-12. However, in 2016-17 the GDP growth rate slowed down to 7.1 percent mostly on account of deceleration in gross fixed capital formation. On the employment front, the challenge continues to be to ensure that economic growth translates into better labour market conditions. The vast majority of workers in India are in informal jobs. Although there has been a shift out of agriculture, construction has absorbed more workers than other sectors in recent years.

India has the world's largest youth population, with 354.4 million people aged between 15 and 29, representing a population share of 27 per cent. In order to reap the demographic dividend this offers, the education and skills of youth are vital so that they can maximize their productive contribution.

What is more concerning is that, most of the new jobs being created in the formal sector are actually informal because the workers do not have access to employment benefits or social security. In addition, notable disparities in the labour force participation rates of men and women persist.

Table 3: Indian Labour Market Indicators

Labour Market	**2004-05**	**2009-10**	**2011-12**	**2013-14**
Employment (million)	457.9	459.0	472.9	NA
Unemployment (million)	113	9.8	10.8	NA
Labour force participation rate (%)	63.7	57.1	55.9	55.6
Male	84.0	80.6	79.8	75.7
Female	42.7	32.6	31.2	31.1
Unemployment rate (%)	2.3	2.0	2.1	3.4
Male	2.1	1.9	2.1	2.9
Female	2.6	2.3	2.3	4.9
Share of employment in manufacturing (%)	11.6	11.0	12.5	10.7

Male Female	12.0	11.1	12.2	10.7
	11.0	10.8	13.2	10.6
Share of regular wage and salaried workers (%)	14.4	15.7	17.9	15.4
Male	17.3	17.8	19.9	16.5
Female	8.4	10.2	12.8	12.1
Working poverty rate (%)				
< US$ 1.90 per day	35.3	28.4	17.9	NA
>=US$ 1.90 &<US$ 3.10 per day	36.5	37.5	35.0	NA
Average real daily wage index (2004-05= 100)				
Rural	100.0	111.7	122.8	NA
Urban	100.0	129.4	NA	NA

Source: wcms_496510.pdf. www.ilo.org

The Employment Challenge

In order to form an idea about the employment challenge faced by an economy, it would be necessary to estimate the number of jobs that would need to be created in order to absorb all new additions to the labour force as well as the backlog of unemployment. However, in an economy like that of India, the incomes of a large number of the employed population fall below poverty line and they are usually referred to as working poor. It would be important to find ways and means of transferring such workers to more productive and remunerative employment and that has to be regarded as part of the employment challenge. India has witnessed an impressive and steady economic growth in last few years. Prospects of a continuation of such growth in the coming years are promising and yet, the challenge of employment, especially of productive employment in the formal segments of the economy, remains formidable.

Table 4: Employment in Public and Organised Private Sectors (In Million)

Year	Public Sector (end-March)	Private Sector (end- March)	Total (Public & Private Sector)	Number of Persons on the live register (end-December)
2006-07	18.00	9.24	27.24	39.97
2007-08	17.67	9.88	27.55	39.11
2008-09	17.80	10.38	28.18	38.15
2009-10	17.86	10.85	28.71	38.83
2010-11	17.55	11.45	29.00	40.17
2011-12	17.61	12.04	29.65	44.49
2012-13	NA	NA	NA	46.80
2013-14	NA	NA	NA	48.26
2014-15	NA	NA	NA	NA
2015-16*	NA	NA	NA	44.85
2016-17	NA	NA	NA	NA

*As on September 30, 2015 (Provisional)

Source: www.rbi.org.in Data base on Indian Economy. 2017

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 labour 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 has been in service sector (Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier). Most of these industries are capital intensive in nature and we should not expect much growth in labour employment

Objectives of the Study

- To study the impact of Foreign direct investment on gross domestic product in India
- To study the impact of Foreign direct investment on employment in India

Hypothesis of the Study

H_{01}: Foreign Direct Investment does not have a statistically significant impact on Gross Domestic Product.
H_{11}: Foreign Direct Investment has a statistically significant impact on Gross Domestic Product.
H_{02}: Foreign Direct Investment does not have a statistically significant impact on Total Employment.
H_{12}: Foreign Direct Investment has a statistical impact on Total Employment

Database & Methodology

The study is descriptive and analytical in nature. The study is secondary data based and is taken from the data base of the Reserve Bank of India, Ministry of Labour and Employment, India and World Bank. The time period taken for the study is 2006-07 to 2016-17. Statistical and mathematical techniques such as simple growth rate, compound growth rate, correlation and regression is used.

Results & Discussions

A. Correlation Analysis

Correlation is observed between foreign direct investment, gross domestic product and employment. Table 5 indicates significant correlation between gross domestic product and employment (r=.990, p= .000). There is significant correlation between gross domestic product and employment (r=.737, p= .010). There exists direct and positive relationship between foreign direct investment and employment (r=.747, p>.01). It is observed that foreign direct investment affects employment generation indirectly through economic growth. Economic growth is indicated through proxy variable gross domestic product.

Table 5: Correlation Matrix

Indicators	FDI	GDP	EMPL
FDI Pearson Correlation	1	.737**	.747
Sig. (2-tailed)		.010	.088
N	11	11	6
GDP Pearson Correlation	.737**	1	.990**
Sig. (2- tailed)	.010		.000
N	11	11	6

B. Regression Analysis

Regression Analysis is done to see the impact of FDI on GDP.

Table 6: Regression Coefficient of FDI on GDP

Model	**Unstandardized Coefficients**		**T- Statistic**	**Sig.**
	B	**Std Error.**		
Constant	5.497E6	834807.040	6.585	.000
FDI	2.242	.686	3.271	.010

Dependent Variable: GDP

R square	.543	**F Statistic**	10.698
Adjusted R square	.492	**Sig.**	.010

Table 6 shows that the model is a relatively weak one having 49.2% (Adjusted R^2) of the data being explained by the regression equation. Since the result shows that the f –statistic is within the significance level of 5%, the null hypothesis is rejected and the alternate hypothesis is accepted.

This means that Foreign Direct Investment does have a significant impact on dependent variable Gross Domestic Product.

Null Hypothesis for is rejected as the slope of the coefficient is significantly different from 0 and has a value of 2.242 which is observed to be completely significant.

Table 7: Regression Coefficient of FDI on Employment

Model	Unstandardized Coefficients B	Std Error.	T- Statistic	Sig.
Constant	26.373	.939	28.082	.000
FDI	1.769E-5	.000	2.245	.088

Dependent Variable: EMPLY

R square	.558	**F Statistic**	5.042
Adjusted R square	.447	**Sig.**	.088

Table 7 shows that the model is a relatively weak one having 44.7% (Adjusted R^2) of the data being explained by the regression equation. The f –statistic results show that the model falls outside the significance level of 5%, hence, accepting the null hypothesis and rejecting the alternate hypothesis. This means that Foreign Direct Investment does not have a significant impact on dependent variable Total Employment.

Conclusions

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. Govt. should concentrate on other measures besides FDI to increase employment opportunities and enhance economic growth of the country. The results obtained on the impact of foreign direct investment on total employment are not very satisfactory. There is negligible amount of employment generated in both public and private sector, even though there is a large amount of FDI inflows in the economy.

With over 10 million people expected to enter the labour force each year for the next few years, it is recognized that not only could the rate of output growth be higher, but it could be more employment-intensive as well. Indeed, the challenge of translating the benefits of high rate of economic growth into a faster pace of poverty reduction through the generation of productive employment and decent work remains formidable

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