

## **ABSTRACT**

For over four decades, since independence, we have been practicing inward looking import-substitution led industrialization in line with the 'Swadeshi Ideology' infused long before during 1890. Unfortunately, till then, a low level of income, low savings-investment rate, current account deficit, the very low growth rate had become serious malaises for our country. Besides this attractive growth rate of Asian tigers, the then IMF strategy, many other phenomena compelled our policymakers towards liberalization and Globalization. So, there was a major policy shift, from close-cum-dormant to open-cum-adoptive policy as we all know, beginning from the early 1990s. However, India has come as a late entrant into the regime of foreign investment-led growth strategy with various positive fundamentals. Consequently, within a few years, India has experienced phenomenal growth in the volume of foreign investment and evident remarkable growth in GDP.

On this purview, the present study is first of its kind in India which seeks to foster evidences on the impact of inward foreign investment through macro level as well as basic three-sector level on the development of the Indian economy measured by real Gross Domestic Products under a time-varying parameter model with vector autoregressive specification. The principal findings at macro level analysis conclude that unprecedented growth in the inflow of foreign capital propels the growth of Indian economy and, consequently, the growth in the volume of GDP magnetizes foreign investors to capitalize their fund in Indian large unexplored market, this findings backed by the both short-run and long-run bidirectional causality between GDP and inward foreign investment observed under VECM and Granger causality

results and supported by the results of variance decomposition and impulse response function. Although, somehow at odds foreign institutional investment do not exerts any favourable impact on GDP in the short-run.

With the sector level analysis, study documents remarkably different findings for different sectors of the economy. Firstly, FDI in the agricultural sector fails to exert any favorable impact on the growth of this sector of the Indian economy having unidirectional causality running from output contribution of primary sector in GDP to inward agricultural FDI. This is mainly due to the fact that the primary sector in India, even after much government intervention and policy implications, is still suffering from feeble infrastructure and technology-base resulting into poor investment absorptive capacity and weak linkages among the intra-sectoral components.

Secondly, unlike the agricultural sector, the study finds significant bidirectional causality between FDI in the manufacturing sector and its growth for both in short-run and long-run. However, the FDI inflow into the manufacturing sector affects its output positively for the first few years of our study period and then it generates a negative impact. This is most likely because well-established foreign affiliates create cut-throat competition in the domestic market which compels the domestic firms to quit or subsequently, switch over towards the service sector, resulting in reduced sectoral output.

Thirdly, similar to the manufacturing sector, the study documents a bidirectional causality between service sector FDI and service sector growth both for short and long-run. This is obvious that service sector in India has been highly structured and organized and the biggest contributor to the national income and output. The sector is featured with high technology-base with utmost sophistication in operation, involvement of trained and skilled labour, less dependency on natural environment,

short payback period on investments, etc. Besides, the sector has high capital abortion capacity and potential to create linkage within its sub-sectors or constituent industries as well as the rest of the economy.

Based on the findings, the study suggests policy makers to rejuvenate the primary sector of India so that it can attract and absorb more inward FDI and ensure sustainable economic development. Besides, the agriculture led economic growth policy might be more reliant than service which is largely vulnerable to external shocks. Finally, the study documents imbalance sectoral development in India.