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A STUDY ON ROLE OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMIC GROWTH WITH SPECIAL REFERENCE TO SERVICE SECTOR

Arthi Pentkar[1]
Research Scholar, Department of Business Administration
Annamalai University, Chidambaram,Tamilnadu.
and
Assistant Professor, School of Management Studies,
Sreenidhi Institute of Science and Technology, Ghatkesar, Hyderabad.
Email - arthi.pendkar@gmail.com

Dr.P.Raj Mohan,[2]
Assistant Professor, Department of Business Administration
Annamalai University, Chidambaram, Tamilnadu.

Abstract:

FDI is a Global Phenomenon, whereas One Country Lends their support to other County with an expectation of Share in the Returns earned. FDI is Driving force which Leads to the Economic Development of the Nations. Policies governing foreign direct investment (FDI) have a significant impact on the global economic development of poor nations. As a result, attracting FDI inflows through conductive policies has emerged as a major conflict zone in emerging nations. The Study tries to Analyse Foreign Direct Investment and its impact on Indian Economic Growth with Special Reference to Service Sector. Year-wise Data is collected from Various Secondary Sources like Rbi.org, Dpiit.com, magazines, newspapers etc., Various Statistical techniques like Correlation, Regression, Time Series Analysis are used in the study and the results show that there exists no positive correlation between the FDI, GDP, Exports, and Imports. The study concludes that GDP shares Positive relation with FDI in Service Sector, whereas Exports and Imports doesn't share much relation with FDI in Service Sector.

Keywords: FDI, Exports, Imports, GDP, Economic Growth
JEL Codes: F21, O47,O11, P44

1. INTRODUCTION:

Foreign Direct Investment (FDI) is a wide word that refers to any long-term investments made by a company that is not based in the host country. Typically, the investment is made over a long period of time, with the goal of leveraging the host country's advantages, which could include access to better (and lower-cost) resources, access to a consumer market, or access to talent specific to the host country - all of which lead to increased efficiency. Both the investor and the host country profit from this long-term partnership. The investor profits by receiving larger returns on his investment than he would have received in both his home nation and the host country.
Foreign Direct Investment (FDI) is a long-term investment instrument in which businesses, governments, and investors from one country participate in the production of another. The country that funds the investment is referred to as the home country, while the country in which the investment is made is referred to as the host country. Both the host and the home nation profit in different ways. For example, the host country benefits from capital formation, funds for

development, technology exchange, infrastructure, employment, and many other things, while the home country benefits from high returns on investments. Increasing Foreign Direct Investment (FDI) is frequently considered as one sign of growing economy because it plays a favourable role in the process of economic growth. FDI is one of the most beneficial ways for developing countries to grow.
Allowing a large amount of FDI inflow is one of the healthy ways for developing countries to bridge the savings-investment gap. Because each sector has its own FDI ceiling, FDI working in all sectors cannot be uniform. For emerging economies, FDI is a vital engine of economic growth. Overseas investment does more than just move money from one country to another; it also: 1) diversifies an investor's portfolio, 2) promotes stable long-term lending, 3) provides technology to developing countries, 4) generates employment by broadening job opportunities, 5) brings in managerial expertise, 5) improves existing infrastructure, and 6) increases return without increasing risk.

Methods of FDI

- Mergers and acquisitions
- Acquiring voting stock in a foreign company
- Joint ventures with foreign companies
- Starting a subsidiary of a domestic firm in a foreign company
- By incorporating a wholly owned subsidiary or company

FOREIGN DIRECT INVESTMENT POLICY IN INDIA

FDI is restricted in areas such as (a) retail (excluding single-brand goods retailing) and (b) lottery (including government and commercial lotteries, internet lotteries, and so on). (c) Gambling and betting, which includes casinos and other similar establishments. (d) Chit money (e) Nidhi Company (f) Transferable Development Rights (TDR) trading (TDRs) a) Farm house construction or real estate business h) Tobacco or tobacco substitutes are used in the manufacture of cigars, cheroots, cigarillos, and cigarettes. Foreign technology partnership in any form, including franchise licencing, trademark, brand name licencing, and management contract licencing, is illegal in the lottery business, as well as gambling and betting operations.

2. REVIEW OF LITERATURE

Reenu Kumari (2021)[1] in the article "Determinants of Foreign Direct Investment in Developing Countries,". Although it is commonly known that FDI has a positive link with economic development, there is no consensus as to which factors are the most important predictors of FDI influx in developing countries, according to a panel data analysis. Several earlier researches have yielded conflicting results. In the study it was identified that the most important determinant of FDI FLOW is market size. Other influences include the rate of inflation, the openness of the trading market, interest rates, human capital, and infrastructure. It was observed from the study that factors such as market size, trade openness, and human capital, also have a detrimental impact on FDI flow. It was concluded that there are several economic opportunities and non-economic factors which have direct influence on the FDI flow.

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Ahmad Khalid Khan (2019)[2] in their article “impact of demonetization on outwards foreign direct investment of India special reference of Asian countries”. The study focused on the influence of demonetization on India's outbound FDI indicated that, despite being a developing country, India has a plethora of investment opportunities and options both in India and overseas in terms of FDI. India's outward direct investment (ODI) has grown and developed at a breakneck pace, particularly since the global financial crisis. Some sluggishness in the Indian economy appeared after demonetization, but according to the study, recession is only temporary, as evidenced by the lowering growth seen in the analysis. Following demonetization, India's foreign direct investment (FDI) has plummeted due to a lack of liquidity and a complicated tax structure (GST). It was found that in 2017-18, India's OFDI fell by around 26% to USD 5665.18 million, down from USD 7657.55 million in 2016-17. Except for two sectors, Electricity, Gas, and Water, and Financial, Insurance, and Business Services, researchers have carefully examined and observed some very significant deviations during the post and pre-demonetization period in India, and all remaining sectors have displayed gloomy outcomes in the form of expansion.

Piyali Roy Chowdhury, Anuradha(2021)[3]in the article titled ' Relationship of Foreign Direct Investment (FDI) Inflows and Exchange Rate in the Context of India: A Two-Way Analysis Approach' Discussed that Market size, growth, trade openness, labour cost and productivity, infrastructure, and taxation are all factors that influence FDI flow in a country. There is no explicit mention of the exchange rate as a factor in determining FDI flow in emerging nations. It was found that FDI influx has advantages and disadvantages, but it can be supported in a significant amount regardless of currency fluctuations in order to increase employment, productivity, GDP development, and alleviate poverty, which is a goal set by the Indian government for 2032. It is concluded that there is no strong evidence that exchange rates have a stronger impact on inward FDI, and international investors are enticed to invest in India only when the rupee falls too low.

Saileja Mohanty and Narayan Sethi(2019)[4] in their investigation paper entitled ' Does Inward FDI Lead to Export Performance in India? An Empirical Investigation '. found that allowing a large amount of FDI inflow is one of the healthy ways for developing countries to bridge the savings-investment gap. In order to comprehend the differences and establish their sector specific FDI policies, policymakers must first understand how FDI works in each area. It was suggested that a country expecting more FDI should maintain a high level of law and order in order to attract more FDI, and that the government should encourage more export oriented FDI to have a direct effect on export growth, which would lead to economic growth, and in which India excels in the right way.

Pooja Sengupta and Roma Puri (2018)[5] in the article named ' Exploration of Relationship between FDI and GDP: A Comparison between India and Its Neighbouring Countries' revealed that Inflows of foreign direct investment (FDI) have accelerated economic growth in a number of countries. The pattern of FDI flows into India and its neighbours has been diverse, as has their impact on economic progress in each country. Since liberalisation, FDI has consistently had a beneficial influence on GDP, with India attracting the majority of FDI. Except for Pakistan, FDI plays an important role in boosting economic growth in the other four countries, which include India, Nepal, Sri Lanka, and Bangladesh. The results of FDI in India have been very favourable. For international investors, India has consistently been listed among the top five worldwide investment locations. FDI reached a new high of 84 billion $ in Bangladesh and Bangladesh was ranked the third in the list of top recipients of FDI in the South Asian region.

Dr Ampu Harikrishnan(2018)[6] in the article entitled ' Evaluation of FDI in India as a Growth Engine of GDP in the Country ' found that the amount raised through FDI is largely vested in Infrastructure, Computer, Software & Hardware, and Drugs & Pharmaceuticals, and has a bigger beneficial influence on Indian GDP. Foreign direct investment (FDI) is geared toward improving export facilities, creating jobs, and expanding existing manufacturing enterprises. It was concluded that there should be means and ways to improve the usage of money obtained through FDI. This might be accomplished by investing the funds in international projects, realising FDI amounts as soon as feasible, and doing so in real time. The evolution of the bureaucracy, i.e., making it more responsive, should be prioritised.

Irene and Rozita (2015)[7] discussed the Evaluation of the impact of FDI on the level of globalization and they empathised that it differs according to the different features of the economy I.e., the size of the Country, is it investing or host Country, what is the level of the openness and the level of Economic development.Growing FDI flows are a significant aspect in the globalisation process, serving as both a driving force and a major consequence of globalisation. The examination of Lithuanian FDI indicators supports the hypothesis that, as a small open country, Lithuania's level of globalisation is more influenced by inward investment than outward investment. The economy of Lithuania is heavily reliant on foreign money.
Gulshan (2015)[8] in the Article "Inflows of FDI in India: pre and post reform period stated that FDI play multidimensional role in the overall development of the host Country Previously, FDI inflows were limited to a few sectors of the economy; now, as a result of liberalisation and government initiatives, FDI inflows have increased dramatically in practically all sectors of the economy. More than a decade of experience has gone into these policy adjustments aimed at making India an investor-friendly destination for FDI. The Indian government, on the other hand, has set some FDI limitations in order to defend the country's interests. Atomic energy, lottery business, gambling and betting are all illegal industries. However, FDI expanded at a CAGR of 19.05 percent during the pre-liberalization period, whereas it increased at a CAGR of 24.28 percent during the post-liberalization period. This demonstrates that India's FDI inflows have increased as a result of deregulation.
Bhavya Malhotra (2014) [9] in the paper entitled " Foreign direct investment: Impact on Indian Economy" discussed after two decades of economic growth, the influence of FDI on the economy Even though India was a latecomer to the FDI scene compared to other East Asian countries, its significant market potential makes it a desirable location for foreign investors.
India is unquestionably a lucrative destination for FDI, but there are still some obstacles and opportunities for development. India will not become the number one destination for FDI unless these sectors are perfected. This article focuses on the most recent and present issues that India is facing in the global market, such as resource challenges, equity challenges, political challenges, and federal challenges. India's policy on foreign direct investment (FDI) has been increasingly liberalised in recent years to make the market more investor friendly.
S Joseph (2014) [10] in the article entitled "Foreign direct investment in India" discussed thatDue to factors such as cheap labour, continuous availability of raw materials, lower production costs compared to other developed countries, and quick and easy market penetration, India is the fourth largest country by purchasing power parity, and he stated that it is extremely difficult to determine whether FDI inflow leads to economic growth or economic growth leads to FDI inflow. Both, however, are related or connected to one another. A country cannot achieve economic growth without FDI, and it cannot attract high levels of FDI influx without FDI. FDI investment in various states and sectors contributes to India's rapid economic growth.

3. RESEARCH METHODOLOGY

3.1 Need for the Study:

Foreign Direct Investment plays very important role in the development of nation, there have been reports for the past few years relating to Foreign Direct Investment and its impact on overall economy. So, the need is felt to study the impact of Foreign Direct Investment in Service Sector on Indian Economic Growth.

3.2 Objectives of the study:

- To Study the Foreign Direct Investment Impact on Indian Economic Growth with reference to GDP, Exports, and Imports
- To analyse the Factors which Influencing on Foreign Direct Investment in India

3.3 Hypotheses:

- H1 – There has been a significant impact of GDP on Foreign Direct Investment Flows in India
- H2 - There has been a significant impact of Exports on Foreign Direct Investment Flows in India
- H3 - There has been a significant impact of Imports on Foreign Direct Investment Flows in India

3.4 Scope of the Study:

The scope of the study is restricted to study the flow of Foreign Direct Investment in Service Sector of India. And to study the impact of Foreign Direct Investment on Indian Economic Growth with reference to GDP , Exports and Imports.

3.5 Research Design: The data for the study is secondary data related to FDI collected through Journals, official reports , government websites like Ministry of Commerce and Industry, Government of India, and Reserve Bank of India. And the Statistical Tools used for analysis are Correlation, Time Series Model, and Regression models

Selected Economic Factors –

Gross domestic products (GDP) is a monetary measure of the market value of all the final goods and services produced in a specific time period, often annually, (GDP=C+1+(X-M))

An **export** in international trade is a good or service produced in one country that is bought by someone in another country. The seller of such goods and services is an exporter: the foreign buyer is an importer. Export of goods requires involvement of customs authorities.

An **import** is a good brought into a jurisdiction, especially across a national border from an external source. The person bringing in the good is called an importer, an import in the receiving country is an export from the sending country.

FDI is the investment made by one Nation in other Neighbouring Nations with a Hope of getting returns in the form of results achieved by investing them

3.6 Limitations of the study:

The study is focuses only on selected Sector i.e., Service Sector. And is limited to study the impact of flow of FDI on Indian Economy with special reference to GDP , Exports and Imports..

4. DATA ANALSYSIS AND INTERPRETATION

4.1 Correlation

From the Table 1 which reveals that Pearson product correlation of FDI and GDP was found to be High positive and statistically significant ($r = .701, p <.001$), correlation of FDI and Exports was found to be Very Low positive and statistically significant ($r = .245, p <.001$), correlation of FDI and Imports was found to be Moderately positive and statistically significant ($r = .557, p <.001$). Hence H1 is Supported, there is no clear evidence regarding the H2 acceptance as the Size of Correlation as Very Low and H3 can be Moderately Accepted.

4.2 Regression Analysis

1. Regression between FDI and GDP (Table -2) analysis revealed that the hypothesis tests, if Selected Economic Factors like GDP carries a significant impact on Foreign Direct Investment Flow in India. The dependent variable FDI was regressed on predicting variables GDP to test the hypothesis H1. They have not significantly predicted FDI, $F (3,7) = 2.4444$, $P < 0.005$, which indicates that the GDP can play a significant role in

shaping FDI. These results clearly direct the positive affect of the Selected. Moreover r^2 = 0.491 depicts that the model explains 49.1% of the variance in GDP.

2. Regression between FDI and Exports (Table- 5) analysis revealed that the hypothesis tests, if Selected Economic Factors like Exports carries an insignificant impact on Foreign Direct Investment Flow in India. The dependent variable FDI was regressed on predicting variables Exports to test the hypothesis H2. They have not significantly predicted FDI, F (3,7) = 2.4444, P > 0.005, which indicates that the Exports cannot play a significant role in shaping FDI. These results clearly direct the negative effect of the Selected. Moreover r^2 = 0.060 depicts that the model explains 6% of the variance in Exports.
3. Regression between FDI and Imports (Table- 8) analysis revealed that the hypothesis tests, if Selected Economic Factors like Imports carries as insignificant impact on Foreign Direct Investment Flow in India. The dependent variable FDI was regressed on predicting variables Imports to test the hypothesis H3. They have not significantly predicted FDI, F (3,7) = 2.4444, P > 0.005, which indicates that the Imports cannot play a significant role in shaping FDI. These results clearly direct the negative affect of the Selected.
4. Regression between FDI, GDP, Exports, and Imports (Table- 8) analysis revealed that the hypothesis tests whether the selected economic factors like GDP, Imports & Exports shares any relationship with foreign direct Investment flow in India. GDP carries a significant impact on foreign direct investment flow in India and others two factors namely exports and imports carries an insignificant impact on foreign direct investment. The dependent variable FDI was regressed on predicting variables like GDP, Imports and Exports, to test the hypothesis. They have not significantly predicted FDI, F (3,7) = 2.4444, P > 0.005, which indicates that they individually cannot play a significant role in shaping FDI. These results clearly direct the negative affect of the Selected factors individually. Moreover, the R2 = 0.512 depicts that the model explains 51.2% of the variance in GDP, Exports, and Imports. Therefore, H1 is Accepted and H2, H3 are Rejected.

5. FINDINGS:

- From the Study, it is observed that FDI in Service Sector is not much influenced by the Economic factors like GDP, Exports and Imports Individually, but when they are together, we observe an influence of 51.2% on FDI
- India is one of the emerging nations that attract the greatest FDI inflows. The service sector is becoming increasingly appealing. It has observed a strong correlation between FDI inflow and the GDP (service sector). It has discovered that attracting FDI inflows increases the service sector's GDP. We are aware that the service sector has seen an increase in FDI inflows over the past few years.
- India was not exempt from the turbulence caused by the Covid-19 pandemic. GDP shrank by 22.6 percent in the first quarter of FY-20. All economic sectors were negatively impacted by this reduction, including FDI, which fell by 59 percent in the first quarter of FY-20. However, as a result of the government's supportive business environment and adjustment of FDI laws, FDI inflows saw a 16 percent increase in the following months, primarily driven by investments in technology and telecommunications. Additionally, Foxconn and other companies have invested in India's self-reliance programme (Atmanirbhar Bharat) to build manufacturing facilities there.

- Exports, Imports, GDP, and FDI in Service Sector have witnessed the fall in their numbers with the impact of COVID-19 Pandemic.
- Maximum Contribution to GDP is from the Service Sector followed by Manufacturing Sector. Service Sector Contribute Maximum FDI inflow in India of about 30% of total inflow. Service Sector Contributes maximum in the Exports.
- Most of FDI inflows are through automatic route because of government policies and enactment of SEZ Act which attracted a lot of foreign companies to India.
- From the Study it found that GDP shares a Positive relationship with FDI whereas Exports and Imports have less relationship with FDI.
- As part of Service Sector, Insurance Industry may witness 100 percent Foreign Direct Investment in new lines of Insurance business to expand the scope of the business and as of FY2021, Finance Minister Nirmala Sitharaman announced Raising the Cap of FDI to 74% from 49%.
- For the period 2014-2015, India witnessed massive drop in the Exports and Imports due to various reasons like Government Policies, Political Change, Economic Instability and Others
- Indian GDP, Exports and Imports are now grooming themselves after the drastic impact of Covid-19.

6. SUGGESTIONS

- To stabilise the economy (e.g., improve financial position, facilitate exports, stabilise exchange rates, supplement domestic savings and foreign reserves, stimulate R&D activities, lower interest rates and inflation, etc.), FDI should be directed to form deeper links with the economy. This will also provide investors with a stable and reliable macroeconomic environment. In actuality, there should be means and techniques to enhance the usage of the money obtained through FDI, which may be done by investing the same in international projects and realising the FDI amounts as soon as is practical, ideally in real time. More emphasis should be placed on the bureaucracy's development, namely how to make it more responsive. From the base of the economic pyramid up, steps could be done to reduce corruption.
- There is a sizable labour force in India. However, there is still a severe talent deficit as a result of the poor quality of basic and higher education. This element has detrimental effects on both domestic and international business. Less than 1% of FDI goes to the education sector. FDI in this sector needs to be promoted given the state of primary and higher education in the nation. To assure quality, though, the proper steps must be done. Priority needs to be given to addressing the structural, regional, and commercialization of education challenges.

7. CONCLUSION

The study focuses on the causes of and necessity for FDI in the Indian context, as well as many facets of FDI in India over the past 10 years. One of the growing nations, India was able to maintain positive GDP growth even during the recession. Comparatively speaking, it has done better than the global GDP's average growth rate. To make the market more welcoming to investors, India's Foreign Direct Investment (FDI) policy has been increasingly liberalized. The outcomes have been positive. According to a United Nations (UN) assessment, the nation is currently continuously ranked among the top three worldwide investment destinations by all international organizations, including the World Bank. FDI has a good effect on the Indian economy, which has a lot of potential. FDI inflow augments domestic capital as well as existing enterprises' technological and skill sets. New business creation benefits as well. Each of these supports the Indian economy's expansion. The study's findings indicate that FDI and GDP are related, but that FDI is less affected by exports and imports than by GDP overall. FDI plays a crucial role in accelerating the economies of the countries. However, the economic policies of the individual nations limit the amount of the flow, which causes varied GDP. It is debatable to say whether FDI causes economic growth or whether economic growth of a country causes FDI influx because the study shows the total influence of many selected economic factors on FDI. Both, however, are linked to or connected to one another. Without FDI, a nation cannot experience economic growth, and a nation cannot draw significant FDI inflows without experiencing economic growth.

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ANNEXURE:

Table – 1-CORRELATION ANALYSIS

Variables	Details	FDI	GDP	EXPORTS	IMPORTS
FDI	Pearson Corelation	1			
	Sig. (1 - tailed)	.			
	N	11			
GDP	Pearson Corelation	0.701	1		
	Sig. (1 - tailed)	0.008	.		
	N	11	11		
EXPORTS	Pearson Corelation	0.245	0.204	1	
	Sig. (1 - tailed)	0.234	0.274	.	
	N	11	11	11	
IMPORTS	Pearson Corelation	0.557	0.643	0.783	1
	Sig. (1 - tailed)	0.37	0.16	0.002	.
	N	11	11	11	11

Table – 2: Regression between FDI and GDP

Model	Variables Entered	Variables Removed	Method
1	GDP	.	Enter

a. All requested variables entered.

b. Dependent Variable: FDI

Table – 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.701[a]	0.491	0.435	1.656	1.707

a. Predictors: (Constant), GDP

b. Dependent Variable: FDI

Table – 4: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)					
GDP	-2.369	2.833	0.701	-0.836	0.425
1	0.004	0.001		2.948	0.016

Table – 5: Regression between FDI and Exports

Model	Variables Entered	Variables Removed	Method
1	EXPORTS[a]	.	Enter

a. All requested variables entered.

b.Dependent Variable: FDI

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Table – 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.245[a]	0.06	-0.044	2.251	1.111

a. Predictors: (Constant), EXPORTS

b. Dependent Variable: FDI

Table – 7: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	0.451	7.156		0.063	0.951
EXPORTS	0.01	0.013	0.245	0.758	0.468

a. Dependent Variable: FDI

Table – 8: Regression between FDI and Imports

Model	Variables Entered	Variables Removed	Method
1	IMPORTS	.	Enter

a. All requested variables entered.

b. Dependent Variable: FDI

Table - 9 : Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.557[a]	0.311	0.234	1.928	1.707

a. Predictors: (Constant), IMPORTS

b. Dependent Variable: FDI

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Table – 10: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-9.878	7.833		-1.261	0.239
IMPORTS	0.033	0.016	0.557	2.014	0.075

a. Dependent Variable: FDI

Table – 11: Regression Between FDI, GDP, Exports, and Imports

Model	Variables Entered	Variables Removed	Method
1	IMPORTS,GDP, EXPORTS	.	Enter

a. All requested variables entered.

Table – 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.715[a]	0.512	0.302	1.84	0.512	2.444	3	7	0.149	1.837

a. Predictors: (Constant), IMPORTS, GDP, EXPORTS

Table – 13: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-6.353	8.01		-0.793	0.454
GDP	0.003	0.002	0.549	1.234	0.257
EXPORTS	-0.003	0.022	-0.069	-0.126	0.903
IMPORTS	0.015	0.042	0.258	0.369	0.723

a. Dependent Variable: FDI

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Table – 14: Table shows the Summary of the Findings.

Hypothesis	Regression weights	Beta coefficients	T	P- value	Hypothesis supported
H1	GDP → FDI	.015	.369	.723	YES
H2	Exports → FDI	-.003	-.126	.903	NO
H3	Imports → FDI	.003	1.234	.257	NO