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e-ISSN: **INTERNATIONAL JOURNAL OF PROGRESSIVE RESEARCH IN ENGINEERING MANAGEMENT** 2583-1062 **AND SCIENCE (IJPREMS)** (Int Peer Reviewed Journal)

Vol. 05, Issue 01, January 2025, pp : 1654-1658

Impact **Factor**: 7.001

RELATIONSHIP BETWEEN ECONOMIC GROWTH. FOREIGN DIRECT INVESTMENT, AND EMPLOYMENT GENERATION IN INDIA FROM 2020 TO 2024

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DOI: https://www.doi.org/10.58257/IJPREMS38382

ABSTRACT

This study investigates the relationship between economic growth, foreign direct investment (FDI), and employment generation in India from 2000 to 2024. Over the past two decades, India has witnessed significant FDI inflows, driven by liberalization reforms and its growing market potential. The analysis examines how FDI contributes to economic growth and its role in generating employment opportunities across various sectors. Empirical evidence reveals that while FDI has positively impacted GDP growth, its influence on employment generation remains uneven, varying across industries and regions due to factors like skill requirements and capital intensity. The study underscores the need for targeted policies to enhance the employment benefits of FDI, focusing on labour-intensive sectors and skill development programs. This comprehensive analysis provides insights for policymakers to optimize FDI's contribution to inclusive economic growth and sustainable job creation.

Keywords: Economic Growth, Foreign Direct Investment, Employment Generation, India, Labor Market, Skill Development, Inclusive Growth

1. INTRODUCTION

Foreign Direct Investment (FDI) is a critical driver of economic growth and a catalyst for employment generation in emerging economies. In the case of India, FDI has played a pivotal role in transforming the economic landscape since the liberalization reforms of the early 1990s. By attracting foreign capital, advanced technology, and global expertise, FDI has contributed significantly to enhancing productivity, infrastructure development, and industrial expansion. However, its impact on employment generation remains a topic of ongoing debate, particularly in a diverse and populous country like India.

Economic growth and employment are closely linked to FDI inflows. FDI fosters economic growth by injecting financial resources into the domestic economy, promoting innovation, and enabling integration with global markets. Simultaneously, it has the potential to generate both direct and indirect employment opportunities by creating new jobs and supporting ancillary industries. However, the extent of its influence depends on factors such as the sectoral composition of FDI, the level of labour intensity, and the absorptive capacity of the local workforce.

In India, the period from 2000 to 2024 provides a valuable case study to examine the interplay between FDI, economic growth, and employment generation. During this time, India has emerged as one of the top destinations for FDI, driven by policy reforms, improved ease of doing business, and initiatives like "Make in India" and "Digital India." While FDI has fuelled economic expansion, its impact on employment generation has been uneven, with notable disparities across regions and industries.

This study aims to explore the relationship between economic growth, FDI, and employment generation in India, focusing on the period from 2000 to 2024. By analyzing secondary data and empirical evidence, the study seeks to understand the underlying factors that influence this relationship and provide actionable insights for policymakers. The findings will highlight the need for strategic interventions to ensure that FDI not only drives economic growth but also contributes to inclusive and sustainable job creation in the Indian context.

2. REVIEW OF LITERATURE

The relationship between foreign direct investment (FDI), economic growth, and employment generation has been extensively studied across different economies. This section reviews key theoretical and empirical studies, with a specific focus on India, to provide a comprehensive understanding of the interplay among these variables.

FDI and Economic Growth

FDI has long been recognized as a key contributor to economic growth, particularly in developing countries. Borensztein et al. (1998) argue that FDI serves as an important vehicle for technology transfer and boosts economic productivity, particularly when the host country possesses a sufficient level of human capital. Similarly, Dunning's Eclectic Paradigm

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editor@ijprems.com	Vol. 05, Issue 01, January 2025, pp : 1654-1658	7.001

(1988) emphasizes the significance of location-specific advantages, such as market size, infrastructure, and policy incentives, in attracting FDI and stimulating growth.

In the Indian context, Agrawal and Khan (2011) found a strong positive relationship between FDI inflows and GDP growth, particularly in post-liberalization years. They argue that policy reforms such as the removal of restrictions on foreign investments and sectoral caps have been instrumental in fostering economic growth. Studies by Chakraborty and Basu (2002) also highlight that FDI inflows in India have had a multiplier effect on various sectors, contributing to sustained economic growth over time.

FDI and Employment Generation

The impact of FDI on employment is multi-faceted and context-dependent. Lipsey (2002) emphasizes that FDI generates direct employment through the establishment of new enterprises and indirect employment through supply chains and ancillary industries. However, the scale of employment generation varies significantly depending on the sector and the labour intensity of FDI projects.

Jenkins (2006) notes that FDI in labour-intensive sectors, such as manufacturing, has a more significant impact on employment generation compared to capital-intensive industries. In India, Nayak (2018) observed that FDI inflows in sectors like retail, textiles, and manufacturing contributed substantially to job creation. However, FDI in technology-driven and service sectors, such as IT and telecommunications, often benefits skilled workers more, leading to a disparity in employment opportunities for unskilled and semi-skilled labour.

Sectoral and Regional Variations

Several studies emphasize the uneven distribution of FDI benefits across regions and sectors in India. Kumar (2000) highlights that FDI has been concentrated in urban and industrially developed states such as Maharashtra, Karnataka, and Tamil Nadu, leaving rural and less developed regions relatively untouched. This has contributed to regional disparities in both economic growth and employment generation.

Goldar and Banga (2007) observed that the manufacturing sector has absorbed the maximum employment benefits of FDI due to its relatively high labor intensity. In contrast, the services sector, while attracting the largest share of FDI inflows, has created employment opportunities primarily for skilled workers, leading to a limited impact on overall employment generation.

Challenges in Employment Generation

Despite its potential, several challenges limit FDI's effectiveness in generating employment in India. Studies by Kumar and Pradhan (2002) suggest that low levels of workforce skill and education constrain the absorption of FDI-driven job opportunities. Additionally, automation and the adoption of advanced technologies in certain FDI projects reduce the demand for low-skilled labour, as noted by Javorcik (2004). The COVID-19 pandemic further exposed vulnerabilities in India's labor market. Unemployment rates peaked during the lockdowns of 2020, highlighting the need for sustainable job creation models that can withstand economic shocks. FDI inflows during this period were concentrated in digital and technology sectors, creating jobs for a limited segment of the workforce.

Policy and Institutional Framework

The role of policy and institutional factors in mediating the effects of FDI on economic growth and employment is widely recognized. Bala Subramanyam et al. (1996) argue that export-oriented economies benefit more from FDI compared to those following protectionist strategies. In the Indian context, initiatives such as "Make in India," "Skill India," and reforms in labour laws have aimed to maximize the benefits of FDI for both economic growth and employment. However, Basu and Srinivasan (2002) caution that bureaucratic inefficiencies and regulatory hurdles remain significant barriers to optimizing FDI's potential.

Gaps in Literature

While existing literature underscores the positive relationship between FDI and economic growth, its impact on employment generation remains underexplored, particularly at the regional and sectoral levels. Limited research focuses on the long-term implications of FDI for workforce skill development and labour market inequalities. Moreover, there is a need for a more nuanced analysis of the interplay between FDI, automation, and employment trends in the post-pandemic era.

3. CONCLUSION OF REVIEW

The reviewed literature establishes a strong foundation for understanding the relationship between FDI, economic growth, and employment generation. However, the complexity and context-specific nature of these relationships call for a more detailed empirical analysis. This study aims to bridge the identified gaps by examining the Indian experience from 2000 to 2024, providing actionable insights for policymakers to foster inclusive and sustainable growth.

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4. ANALYSIS

This section provides a statistical examination of the relationship between economic growth, foreign direct investment (FDI), and employment generation in India from 2000 to 2024. Secondary data on GDP growth rates, FDI inflows, and employment indicators are analyzed using statistical techniques to evaluate trends, correlations, and causal relationships.

1. Data Overview

The analysis utilizes annual data from reliable sources:

- GDP Growth: Annual growth rates in percentage from the World Bank and MoSPI.
- FDI Inflows: Annual FDI inflows (in USD billion) from DPIIT and UNCTAD.
- Employment: Unemployment rates (%) and workforce participation from NSSO and PLFS.

2. Descriptive Statistics

Variable	Mean (2000-2024)	Standard Deviation	Minimum Value	Maximum Value
GDP Growth (%)	6.5	2.3	-6.6	9.6
FDI Inflows (USD Billion)	38.7	22.1	2.3	85.0
Unemployment Rate (%)	7.8	3.2	2.7	23.5

Key Observations:

- GDP growth was highest in 2007 (9.6%) and lowest in 2020 (-6.6%) due to the COVID-19 pandemic.
- FDI inflows increased steadily, peaking in 2021-22 (\$85 billion).
- Unemployment rates showed significant fluctuations, with the highest levels during the pandemic.

3. Correlation Analysis

The correlation matrix evaluates the relationships between GDP growth, FDI inflows, and employment indicators.

Variables	GDP Growth	FDI Inflows	Unemployment Rate
GDP Growth	1	0.72	-0.56
FDI Inflows	0.72	1	-0.43
Unemployment Rate	-0.56	-0.43	1

Key Insights:

- A strong positive correlation (0.72) exists between GDP growth and FDI inflows, indicating that higher FDI inflows are associated with stronger economic growth.
- FDI inflows show a weak negative correlation (-0.43) with unemployment, suggesting some role in reducing unemployment.
- Unemployment rates are moderately negatively correlated (-0.56) with GDP growth, implying that higher growth rates reduce unemployment.

4. Regression Analysis

To explore causal relationships, we conduct multiple regression analyses with GDP growth and unemployment rates as dependent variables.

Model 1: GDP Growth as the Dependent Variable

GDP Growth= $\beta 0 + \beta 1$ (FDI Inflows) + ϵ

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Constant	3.2	0.45	7.11	< 0.01
FDI Inflows	0.08	0.02	4.00	< 0.01

Interpretation:

FDI inflows have a statistically significant positive effect on GDP growth, with a coefficient of 0.08, indicating that a \$1 billion increase in FDI inflows contributes to a 0.08% increase in GDP growth.



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2583-1062 Impact **Factor**:

e-ISSN:

Vol. 05, Issue 01, January 2025, pp : 1654-1658

7.001

Model 2: Unemployment Rate as the Dependent Variable

Unemployment Rate= $\beta 0+\beta 1$ (FDI Inflows) + ϵ

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value
Constant	9.5	0.85	11.18	< 0.01
FDI Inflows	-0.05	0.02	-2.50	0.02

Interpretation:

FDI inflows have a statistically significant negative effect on unemployment rates, with a coefficient of -0.05, suggesting that every \$1 billion increase in FDI inflows reduces the unemployment rate by 0.05 percentage points.

5. Sectoral Impact Analysis

Using sectoral data, the contribution of FDI to employment and GDP growth in key industries such as manufacturing, IT, and services is examined.

- Manufacturing: Strong positive impact on employment due to high labor intensity. .
- IT and Telecommunications: Significant GDP contribution but limited job creation due to automation. •
- Services: FDI inflows benefit GDP growth but create jobs mainly for skilled labour.

6. Trend Analysis (2000-2024)

FDI and GDP Growth Trends

- FDI inflows surged after 2000, particularly after policy reforms (e.g., 2005 automatic route changes). •
- A dip during the 2008 global financial crisis was followed by a strong recovery. •
- Post-COVID recovery (2021-24) saw record FDI inflows driven by digital and green investments. •

FDI and Employment Trends

- Direct employment generation was strong in labour-intensive sectors until 2011.
- Post-2012, automation and sectoral shifts (towards IT and services) slowed employment growth. •
- The COVID-19 pandemic temporarily disrupted employment, with a recovery trend post-2022.

7. Key Findings

- 1. FDI inflows significantly contribute to GDP growth in India.
- The impact of FDI on employment is positive but limited by sectoral disparities and skill mismatches. 2.
- 3. Automation in capital-intensive industries reduces FDI's employment-generating potential.
- Regional disparities in FDI distribution hinder equitable employment opportunities. 4.

Suggestions

1. Enhancing Sectoral Diversification:

FDI inflows have a more significant impact on employment generation in labour-intensive sectors such as manufacturing and textiles. To maximize employment benefits, India should encourage FDI in sectors that require low-to-medium skilled labour, especially in rural and semi-urban areas. Policymakers should focus on attracting FDI into industries like agriculture, small-scale manufacturing, and retail, where there is potential for substantial job creation.

Investment in Skill Development: 2.

The lack of skilled labour in certain sectors limits the employment benefits of FDI, especially in high-tech and capital-intensive industries. A comprehensive skill development strategy is essential to prepare the workforce for the demands of new industries, particularly in sectors such as IT, electronics, and services. Policies should focus on vocational training programs, partnerships with global corporations for on-the-job training, and education reforms to bridge the skill gap.

Promoting Regional Equity in FDI Distribution: 3.

FDI tends to be concentrated in developed regions such as Maharashtra, Karnataka, and Tamil Nadu, leaving underdeveloped regions at a disadvantage. India should create targeted incentives for FDI in less developed regions to reduce regional disparities.

This can be achieved through infrastructure development, ease of doing business reforms, and offering tailored incentives to attract foreign investors to rural and less industrialized areas.

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4. Encouraging Green and Digital Investments:

As the global economy transitions towards sustainability and digitalization, India should actively attract FDI in green technologies, renewable energy, and digital infrastructure. Such investments will not only contribute to GDP growth but also create jobs in emerging sectors like clean energy, digital marketing, and e-commerce.

5. Strengthening Policy Frameworks:

India's policy framework should be streamlined and made more investor-friendly while ensuring that the benefits of FDI extend to broader segments of the population. The government should continue to ease regulations, ensure transparency, and promote the ease of doing business while safeguarding workers' rights and promoting inclusive growth.

5. CONCLUSION

This study has explored the relationship between economic growth, foreign direct investment (FDI), and employment generation in India from 2000 to 2024. The analysis reveals a strong positive relationship between FDI inflows and economic growth, confirming that foreign investments have been a key factor in India's economic transformation. However, the impact of FDI on employment generation has been less consistent, with notable variations across sectors and regions. While FDI has contributed to job creation in labor-intensive industries, its role in generating employment in more capital-intensive sectors has been limited, particularly due to automation and the skill gap. Furthermore, regional disparities in FDI inflows have exacerbated inequalities in employment opportunities. To ensure that FDI serves as a tool for inclusive growth and sustainable employment, India must focus on attracting FDI to sectors that offer the potential for substantial job creation, invest in skill development, and promote regional equity. Additionally, policies should be tailored to harness the potential of emerging sectors such as green technologies and digital infrastructure, which promise new avenues for growth and employment.

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