

# Impact of Foreign Capital on Economic Development in India: An Econometric Investigation

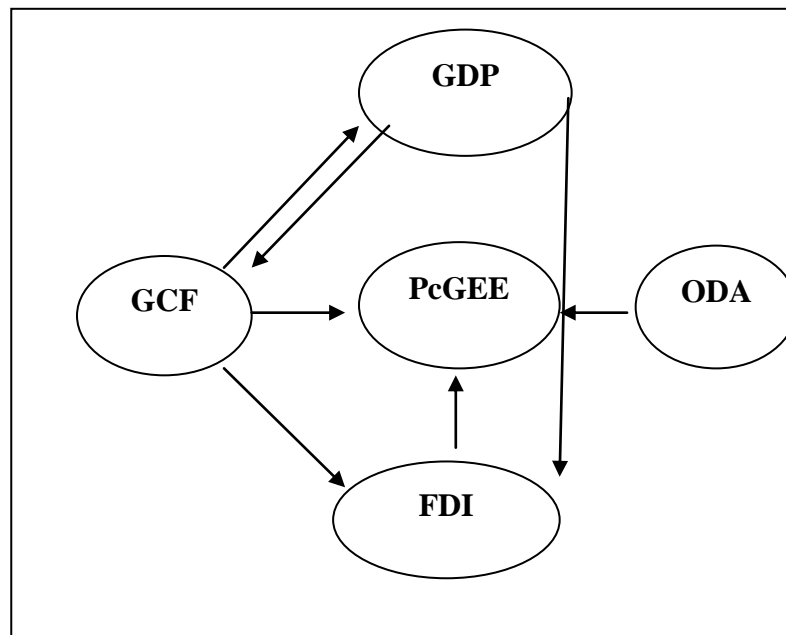
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## Abstract:

The present study empirically investigates the long run causal relationship between foreign capital and economic development in India by using the annual time series data from 1990-91 to 2013-14. The study uses some selected macro-economic variables like per-capita government expenditure on education (PcGEE, as an indicator of economic development), Gross Domestic Product (GDP, as an indicator of economic growth), Gross Capital Formation (GCF, as an indicator of domestic investment), Official Development Assistance (ODA, as indicator of foreign official inflows) and Foreign Direct Investment (FDI, as an indicator of foreign private investment) for its empirical analysis. By using the cointegration test and the VECM technique, this study finds that in the long run, domestic investment has shown significant and positive impact on economic development whereas, ODA, FDI and GDP have shown significant negative impact on it. It concludes that domestic investment, foreign capital along with economic growth has significant impact on economic development in India in long run. It suggests that the national developmental policy of India should focus on the productive utilization of both domestic and foreign capital along with it should give emphasis on effective transformation of growth benefits towards development process.

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## Causal Relationship among PcGEE, GDP, ODA, FDI and GCF in India



Source: Authors' calculation

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