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Foreign Direct Investment and Economic Growth: An Empirical Analysis

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Abstract: **This study analyzes the impact of Foreign Direct Investment (FDI) on Gross Domestic Product (GDP) growth in BRICS countries using secondary data over a period of 20 years. A quantitative research approach is adopted, employing statistical tools such as correlation and regression analysis with the help of SPSS software. The study considers GDP as the dependent variable, while FDI, inflation, and exchange rate are treated as independent variables. The results indicate that FDI has a positive and statistically significant impact on GDP growth, highlighting its importance as a major driver of economic development. Inflation is found to have a negative effect, whereas the exchange rate shows a positive influence on growth. The study emphasizes that maintaining macroeconomic stability along with attracting foreign investment is essential for achieving sustainable economic growth in emerging economies.**

Keywords: **FDI, GDP, Inflation, Exchange Rate, Macroenvironment.**

I. INTRODUCTION

Economic growth is one of main objective for every nation, as it reflects the overall development and improvement in the standard of living of people. Gross Domestic Product is widely employed as a key indicator to measure economic growth. In emerging countries particularly the BRICS countries(Brazil, Russia, India, China and South Africa) can understand the factors influencing GDP growth is important for formulating good economic policies. Among various determinants, Foreign Direct Investment (FDI), inflation and exchange rate plays a vital role in shaping the growth trajectory of these economies (Borensztein et al., 1998).

Foreign Direct Investment brings in capital, technology, and employment opportunities, which enhances the economic activity. At same time the inflation and exchange rate also influences the stability of the economy. Thus analyzing how these factors affect the GDP growth is an important for ensuring the sustainable economic development.

The economic growth also influenced by the macroeconomic stability, the factors like inflation and exchange rate plays a important role. Inflation which shows the rise in general price level, can negatively affect the economic growth if its not controlled. Rise in inflation reduces the purchasing power, discourages the investment and creates the economic uncertainty. The exchange rate also affects the international trade and capital flows (Reuter et al.,2025). A good stable and favourable exchange rate boosts the exports , attracts the foreign investment and thereby supports the economic growth.

The BRICS nations, its major emerging economies, it has experienced a significant economic transformation over the years. These countries have introduced several economic reforms to encourage foreign investment and ensure stability in their economies. The connection between FDI and GDP growth, along with the effects of the inflation and exchange rate, countries to be an important subject for analysis.

This study focuses on examining how the Foreign Direct Investment influences the GDP growth in BRICS countries, while also taking into account the role of the inflation and exchange rate as additional factors. The study is based on secondary data and aims to present clear evidence on how these variables are impact over the economic growth. This result will help the policy makers develop effective strategies to improve economic performance and promote sustainable development in BRICS nations.

II. REVIEW OF LITERATURE

Mashur (2025) examined the relationship between the FDI, trade openness, and economic growth in Bangladesh. The study employed econometric techniques found the FDI has a positive impact on economic growth.Trade openness also directly contribute to economic growth.Thus financial development plays a critical role as driver of economic performance.

Osuji etal., (2025).found that FDI has a positive and significant impact on economic growth in both the short and long run, suggesting that it plays important role in driving economic growth in the UK. The domestic investment positively significantly influenced on the economic growth. The exchange rate and inflation has the negative significant effect on the economic growth.

Hedwin(2024) study indicated that GDP, PPP, and Gross National Expenditure had a positive significant impact on FDI especially in China. FDI has the a positive coefficient but not statistically significant with economic growth. Inflation and exchange rates has a negative effect on the economic performance but statistically insignificant.

Sarker (2024) analysed the FDI impact of FDI on the economic growth in Bangladesh employed ARDL techniques. The study found that the FDI has a positive significant effect in both short run and long run. Trade also contribute a positively to growth. Thus FDI promotes economic development.

Shalini (2020) analysed the FDI role in India and its SAARC investment pattern across various sectors. The study found that the service sector attracted by the highest FDI inflows followed by the manufacturing and construction sectors. The sectors like telecommunication, trading as the major sectors receiving the foreign investment. Further they also analysed relationship between the FDI and GDP but the result showed that there is no significant relationship between the FDI inflow and GDP growth. The study concluded that FDI inflows are not significantly influenced by GDP.

Abbas et al.(2011) examined the FDI impact on the GDP in SAARC countries used the data from 2001 to 2010.The multiple regression analysis is employed and finding revealed that positive and significant relationship exist between the FDI and GDP suggesting that higher FDI inflow contribute economic growth. Inflation is insignificant relationship with GDP.

III. OBJECTIVE

To analyse the impact of Foreign Direct Investment on the Gross Domestic Product growth in BRICS countries.

IV. RESEARCH METHODOLOGY

This study adopts a quantitative research design to analyze the impact of Foreign Direct Investment on GDP growth in BRICS countries. The study adopts secondary data method for the collection of data for the past 20 years. The study includes five major economies, namely Brazil, Russia, India, China, and South Africa, which are collectively known as BRICS. These countries are selected due to their significant contribution to global economic growth and increasing attractiveness for foreign investment. The variables considered in the study include GDP growth as the dependent variable, while FDI, inflation rate, and exchange rate are treated as independent variables. The correlation analysis, regression analysis were used, using SPSS. The data used of these macroeconomic factors on economic growth in the BRICS.

V. DATA ANALYSIS & INTERPRETATION

i. Correlation Analysis

Table.5.1 Correlation Analysis

Variables	GDP	FDI	Inflation	Exchange Rate
GDP	1.000	0.732**	-0.418*	0.356*
FDI	0.732**	1.000	-0.295	0.421*
Inflation	-0.418*	-0.295	1.000	0.188
Exchange Rate	0.356*	0.421*	0.188	1.000

Source: Computed Data

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The correlation matrix shows the relationship between GDP growth, FDI , Inflation, and exchange rate in BRICS Countries. The result indicated a strong positive correlation between the GDP and FDI (0.732), suggest that higher FDI inflows positively contribute to economic growth. There is negative relationship between the GDP and Inflation indicating that higher inflation reduces the economic growth due to economic instability. The exchange rate has the positive relationship with GDP, suggesting that exchange rate influences the GDP. Overall the table indicate that GDP has a positive relationship with FDI and exchange rate while negative relationship with the inflation.

ii. Regression Analysis

Table.5.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.794	.631	.619	1.842

Source: Computed Data

The above table shows the overall fit of the regression model. The R value of 0.794, with R square 0.631 shows the 63.1 % of variations in GDP growth. The Adjusted R square of .619 and standard error of estimate 1.842.

Table 5.3 Anova

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	595.624	3	198.541	58.47	.000
Residual	347.926	96	3.624		
Total	943.550	99			

Source: Computed Data

The ANOVA table shows the overall significance of the regression model.The F statistic value of 58.47 with a significance value of 0.000 indicates the model is statistically significant. This means that FDI , Inflation and Exchange Rate have a significant impact on the GDP growth.

Table 5.4 Coefficient

Model	Unstandardized Coefficients	Std. Error	Standardized Beta	T	Sig
(Constant)	3.214	0.842	-	3.82	.000
FDI	0.487	0.106	0.521	4.59	.000
Inflation Rate	-0.152	0.058	-0.243	-2.62	.010
Exchange Rate	0.021	0.009	0.187	2.33	.022

Source: Computed Data

The coefficient table explains the impact of each variable on GDP, the coefficient of FDI (0.487) is positive and statistically significant (p=0.000), indicating that an increase on FDI leads to higher economic growth. The inflation rate coefficient (-0.152) is negative and significant (p=0.010), suggesting that higher inflation tends to reduce GDP growth. The exchange rate movement also influence the economic growth. Over all the results show that FDI and exchange rate positive influence the GDP but the inflation has negative impact on the GDP.

VI. CONCLUSION

The study concludes that Foreign Direct Investment (FDI) plays a crucial role in influencing economic growth across countries. The empirical results clearly indicate that FDI has a positive and statistically significant impact on GDP growth, suggesting that higher inflows of foreign investment contribute to increased production, technological advancement, employment generation, and overall economic development. Thus, FDI acts as an important driver of growth, especially in emerging economies. However, the study also highlights that economic growth is not solely dependent on FDI, but also on the stability of key macroeconomic factors. Inflation and exchange rate play a significant role in shaping the economic environment. Furthermore, the findings emphasize the importance of maintaining macroeconomic stability alongside promoting FDI inflows. A well-balanced economic environment enhances the effectiveness of foreign investment and ensures sustainable growth. Therefore, policymakers can focus on creating a favourable investment climate by implementing supportive policies, improving infrastructure, and ensuring political and economic stability.

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