

Impact of FDI on Economic Indicators of India

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Abstract:- Foreign Direct Investment amongst other expedient renders capital inflows anticipated to rouse economic proliferation. FDI in India has able to culminate an explicit intensity of fiscal invariance; emergence and evolution to support and compete in the orbicular economy. Foreign Direct Investment is one and only stellar effectuation of enamoring International Economic Integration in any economy. It serves as an association between arbitrage and redeeming. Foreign speculation fluxes addition the scanty domicile arbitrage in evolving countries predominantly in India. Further this review endeavors to examine the Outcome of FDI on Paramount Economic Indicators in Indian Scenario.

Key Words: Foreign Direct Investment, Expedient, Capital Influxes, Economic Proliferation, Economic Integration, Arbitrage

I. INTRODUCTION

Investment plays an important role in accelerating economic expansion of any economy. Indian economy opened up to the universal world in 1991 through allowing foreign investors to invest in India. The foreign investments can be channelized either in the listed companies' share through financial markets (called Foreign Institutional Investors) or through directly investment in capital structure of the listed/unlisted companies in India (called Foreign Direct Investment). Foreign Direct Investment (FDI) plays more important role than FIIS in progress of any developing country especially like India. It contributes significantly to human capital such as managerial skills and research and development (R&D).

For the investors, India is being considered as the second most important FDI destination after China for transnational corporations during 2010-12. Although both types of investments provide an momentum for economic and industrial expansion, but now India give more emphasis on attracting FDI as it stays for longer period, for its exist policy is not as easy as for FIIs. Availability of highly qualified human resource, huge untapped potential domestic markets, low- cost manufacturing, makes India a favourable destination for foreign investors.

OBJECTIVE

To find out the impact of FDI on leading Economic indicators in Indian scenario

II. LITERATURE REVIEW

Mucuk and Demirsel (2013)⁵ conducted a study to find out the impact of FDI on the unemployment rate in seven developing countries. The result disclosed that, most of the foreign investors come to the country and associate with a company that are already existence, so FDI usually causes an negative effect on the unemployment rate in the country.

Laskiene&Pekarskiene (2011)⁴ conducted a study and shown that FDI has a positive effect on the investment of host country's labour productivity. But the growth of productivity is not the same in different areas of economic activity.

Balasubramanyam et al. (1996)² reveals significant results to support the assumption that FDI is more important for economic growth in export promoting than in importing substituting countries. This stated that the impact of FDI varies across countries and trade policy can affect the role of FDI in economic growth.

Alfaro et al. (2014)¹ reveal that FDI plays an important role in contributing to economic growth but the level of development of local financial markets is crucial for these positive effects.

Padhi, S. P. (2002)⁶ reveals that inflation, debt structure, and exchange rate significantly influence FDI flows in Nigeria. The study stated the government to pursue prudent fiscal and monetary policies that will be uplift towards attracting more FDI and enhancing overall domestic productivity.

III. ECONOMIC INDICATORS AND FDI

It has been a well established fact that the growth of foreign direct investment (FDI) escalates the economic growth of a country. The impact of FDI on the economic factors-GDP, Currency, Stock Market, Foreign Exchange Reserves, Interest Rate, Current Account, Exports, Imports, and Unemployment Rate has been phenomenal.

Market Size (Gross Domestic Product): if the market size (GDP) of a country is large it will attract more FDI and vice versa. There is positive correlation between GDP and FDI which is matched with the objective to achieve higher growth in terms of GDP and FDI.

Availability of Human Resources (Wages Paid): Availability of human resources is another factor which has influenced on any country's economy. It is noted there is positive correlation between Wages paid and FDI inflow, it mean if there is 1% change in wage rate it causes positive changes in FDI too.

Economic Stability (Deficit Balance of Payment): Balance of Payment is one of the pull factors of FDI inflow. The economic theory suggested the negative elasticity coefficient between FDI and Deficit in Balance of Position.

Government Policies (Trade Openness): Government policies are one of the major factors which determine the flow of FDI in Countries. Degree of trade openness means ratio of total

trade to real GDP of Economy. As the government policies are liberal then there is high probability of inflow of FDI into the country.

Exchange Rates: Exchange rate can be defined as the admiration of Indian Rupee in international market which encourages the foreign investors firms to obtain the specific assets required at cheap rates and earn higher profits.

Inflation: A reliable economy can be defined if the inflation rate is low. Any changes in inflation rates of home country and foreign country are probably alter the most favourable investment decisions and gives negative impact on FDI.

BSE & NSE index: Financial indexes are constructed to measure price movements of stocks, bonds, T-bills and other forms of investments. Stock market indexes are meant to capture the overall behaviour of equity markets. A stock market index is created by selecting a group of stocks that are representative of the whole market or a specified sector or segment of the market. An Index is calculated with reference to a base period and a base index value. FDI play an important role for the movement of these indices

IV. PROBING THE IMPACT OF FDI ON ECONOMIC INDIACTORS

The following Equations are being formulated to measure the relationship between FDI and other economic indicators. Where Economic indicators are dependent variable and FDI is independent variable.

$$1. \text{ GDP} = \alpha + \beta_1 \text{FDI} + e \quad (1)$$

$$2. \text{ NSE (NIFTY)} = \alpha + \beta_1 \text{FDI} + e \quad (2)$$

$$3. \text{ BSE (SENSEX)} = \alpha + \beta_1 \text{FDI} + e \quad (3)$$

$$4. \text{ FCA} = \alpha + \beta_1 \text{FDI} + e \quad (4)$$

Impact of FDI on GDP:

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.889 ^a	.791	.781	1109.18143

a. Predictors: (Constant), FDI

According to Table – 1, manifests the regression model fit summary, the value of R, .889, signifies that 88.9% of correlation is present between the dependent and independent variables. The value of R², 0.791 depicts linear regression and further explains that 79.1% of the variance in the dataset when the independent variable in the model affects the dependent variable, and the adjusted value of R², .781 depicts that 78.1% of variation is explained by only independent variables that in actuality affect the dependent variable.

Table 2: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	102240467.161	1	102240467.161	83.103	.000 ^b
	Residual	27066235.690	22	1230283.440		
	Total	129306702.851	23			

a. Dependent Variable:GDP

b. Predictors: (Constant),FDI

According to the Table – 2, the F-test depicts a high value of 83.103 along with degree of freedom (df), 23, which means there is no linear relationship between any of the two variables in the model. The p-value (Sig.) is .000 i.e. less than 0.05, which indicates that the regression model is statistically significant and predicts the outcome variable.

Table 3: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	949.110	321.318		2.954	.007
	FDI	.135	.015	.889	9.116	.000

a. Dependent Variable: GDP

According to Table – 3, the independent variable “FDI” is having a beta value of 0.135. Hence, a unit increase in the variable X1 (FDI) will lead to increase 0.135 unit in the variable Y (GDP).

$$Y = 949.110 + 0.135X_1$$

Impact of FDI on NSE:

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.889 ^a	.791	.781	1109.05906

a. Predictors: (Constant), FDI

Table – 4, manifests the regression model fit summary, the value of R, .889, signifies that 88.9% of correlation is present between the dependent and independent variables. The value of R², 0.791 depicts linear regression and further explains that 79.1% of the variance in the dataset when the independent variable in the model affects the dependent variable, and the adjusted value of R², .781 depicts that 78.1% of variation is explained by only independent variables that in actuality affect the dependent variable.

Table 5: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	102188118.031	1	102188118.031	83.079	.000 ^b
Residual	27060263.855	22	1230011.993		
Total	129248381.886	23			

a. Dependent Variable: NSE

b. Predictors: (Constant), FDI

According to the Table – 5, the F-test depicts a high value of 83.079 along with degree of freedom (df), 23, which means there is no linear relationship between any of the two variables in the model. The p-value (Sig.) is .000 i.e. less than 0.05, which indicates that the regression model is statistically significant and predicts the outcome variable.

Table 6: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	950.157	321.283		2.957	.007
FDI	.135	.015	.889	9.115	.000

a. Dependent Variable: NSE

According to Table – 6, the independent variable “FDI” is having a beta value of 0.135. Hence, a unit increase in the variable X1 (FDI) will lead to increase 0.135 unit in the variable Y (NSE).

$$Y = 950.157 + 0.135X_1$$

Impact of FDI on BSE:

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.898 ^a	.807	.798	1362.78613

a. Predictors: (Constant), FDI

Table – 7, manifests the regression model fit summary, the value of R, .898, signifies that 89.8% of correlation is present between the dependent and independent variables. The value of R², .807 depicts linear regression and further explains that 80.7% of the variance in the dataset when the independent variable in the model affects the dependent variable, and the adjusted value of R², .798 depicts that 79.8% of variation is explained by only independent variables that in actuality affect the dependent variable.

Table 8: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	170746350.187	1	170746350.187	91.938	.000 ^b
	Residual	40858092.714	22	1857186.032		
	Total	211604442.900	23			

a. Dependent Variable: BSE

b. Predictors: (Constant), FDI

According to Table – 8, the F-test depicts a high value of 91.938 along with degree of freedom (df), 23, which means there is no linear relationship between any of the two variables in the model. The p-value (Sig.) is .000 i.e. less than 0.05, which indicates that the regression model is statistically significant and predicts the outcome variable.

Table 9: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1663.323	394.785		4.213	.000
	FDI	.174	.018	.898	9.588	.000

a. Dependent Variable: BSE

According to Table – 9, the independent variable “FDI” is having a beta value of 0.174. Hence, a unit increase in the variable X1 (FDI) will lead to increase 0.174 unit in the variable Y (BSE).

$$Y = 1663.323 + 0.174X_1$$

Impact of FDI on FCA:

Tab 10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.842 ^a	.709	.695	4587.27417

a. Predictors: (Constant), FDI

Table – 10, manifests the regression model fit summary, the value of R, .842, signifies that 84.2% of correlation is present between the dependent and independent variables. The value of R², .709 depicts linear regression and further explains that 70.9% of the variance in the dataset when the independent variable in the model affects the dependent variable, and the adjusted value of R², .695 depicts that 69.5% of variation is explained by only independent variables that in actuality affect the dependent variable.

Table 11: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1126443847.440	1	1126443847.440	53.530	.000 ^b
Residual	462947855.605	22	21043084.346		
Total	1589391703.045	23			

a. Dependent Variable:FCA

b. Predictors: (Constant),FDI

According to Table – 11, the F-test depicts a highvalue of 53.530 along with degree of freedom (df), 23, which means there is no linear relationship between any of thetwo variables in the model. The p-value (Sig.) is .000 i.e. less than 0.05, which indicates that the regression model is statistically significant and predicts the outcomevariable.

Table 12: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3585.179	1328.885		2.698	.013
FDI	.447	.061	.842	7.316	.000

a. Dependent Variable:FCA

According to Table – 12, the independent variable “FDI” is having a beta value of 0.447. Hence, a unit increase in the variable X1 (FDI) will lead to increase 0.447 unit in the variable Y (FCA). $Y = 3585.179 + 0.447X_1$

V. CONCLUSION

1. This assay manifested that FDI have positive impact on stock market development indicators (BSE and NSE). The correlation result depicts that there is a positive correlation among the economic indicators FDI, BSE and NSE (0.798, 0.781) and are also statistically significant with p value being less than 0.05. Dhiman& Sharma (2013)³ probed that the influx of capital in terms of foreign direct investment (FDI) has a positive impact on the economy as well as the capital markets. They concluded that there is strong degree of correlation between FDI & Sensex, and FDI & Nifty.
2. Another observation of this assay manifested that FDI have positive impact on GDP in India. The correlation result depicts that there is a positive correlation among the economic indicators FDI and GDP (0.781) and is also statistically significant with p value being less than 0.05. Yameen& Ahmad (2015)⁷ have conducted a study and concluded that there is a strong positive relation among FDI andGDP.
3. The third and the last observation of this assay manifested that FDI have positive impact on FCA in India. The correlation result depicts that there is a positive correlation among the economic indicators FDI and FCA (0.695) and is also statistically significant with p value being less than 0.05. Kotishwar (2016)⁸ found that FII and FDI are having the significant impact on foreignreserves.

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