

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

G.Sudha Rani, Research Scholar, Sunrise University, Rajasthan
Dr. Bawna Garg, Supervisor, Sunrise University, Rajasthan

ABSTRACT

Outside Direct Investment (FDI) assumes an imperative part in the improvement of the country. It is particularly imperative on account of immature and creating nations. A commonplace normal for these creating and immature economies is the way that these economies don't have the required level of funds and pay to meet the required level of venture expected to maintain the development of the economy. In such cases, outside direct speculation assumes an imperative part of crossing over any barrier between the accessible assets or stores and the required assets or assets. It assumes an imperative part in the long haul improvement of a nation as a wellspring of capital as well as for upgrading aggressiveness of the household economy through exchange of innovation, reinforcing base, raising profitability and creating new vocation open doors. In India, FDI is considered as a formative instrument, which helps in accomplishing confidence in different areas and in general improvement of the economy. India subsequent to changing and globalizing the economy to the outside world in 1991, there was a huge increment in the stream of remote direct speculation. This paper examinations FDI inflow into the nation amid the Post Liberalization period. Further, the patterns of FDI inflow into the nation are anticipated for a period of five years from 2010-11 to 2014-15 utilizing Autoregressive Integrated Moving Average (ARIMA) estimating method. The paper tries to inspect the different arrangement of factors which impact the stream of FDI Identifying the foundations for low inflow and suggestive healing measures to expand the stream of FDI in India with that of other creating countries on the planet.

KEYWORDS: *Determining factors, Foreign Direct Investment, Pre & Post Liberalization period.*

INTRODUCTION

Outside direct venture (FDI) has assumed a vital part during the time spent globalization amid the previous two

decades. The fast extension in FDI by multinational undertakings since the mid-eighties might be credited to noteworthy

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

changes in advancements, more prominent progression of exchange and venture administrations, and deregulation and privatization of business sectors in numerous nations including creating nations like India. Capital arrangement is an imperative determinant of economic growth. While local speculations add to the capital stock in an economy, FDI assumes a correlative part in general capital development and in filling the crevice between household reserve funds and venture. At the large scale level, FDI is a non-obligation making wellspring of extra outside accounts. At the small scale level, FDI is relied upon to support yield, innovation, expertise levels, occupation and linkages with different segments and locales of the host economy.

In India FDI inflow made its entrance amid the year 1991-92 with the plan to unite the proposed speculation and the genuine reserve funds of the nation. To seek after a growth of around 7 percent in the Gross

Domestic Product of India, the net capital streams ought to increment by no less than 28 to 30 percent in general. Be that as it may, the reserve funds of the nation stood just at 24 percent. The hole shaped between expected venture and the real reserve funds

of the nation was lifted up by portfolio speculations by Foreign Institutional Investors, credits by remote banks and different spots, and outside direct speculations. Among these three types of money related help, India lean towards and also has the most extreme measure of Foreign Direct Investments. Thus FDI is considered as a formative device for growth and advancement of the nation. Along these lines, this study is attempted to dissect the stream of FDI into the nation distinguishing the different arrangement of factors which decide the stream of FDI.

REVIEW OF LIERATURE

Balasundaram Maniam and Amitiava Chatterjee (1998) concentrated on the determinants of US outside interest in India; following the growth of US FDI in India and the changing mentality of the Indian Government towards it as a part of the progression program. Nagesh Kumar (2001) presumed that the extents of inflows have recorded amazing growth, as they are still at a little level contrasted with the Mahambre (2003) reasoned that FDI is a decent means for the exchange of innovation and ability to the creating nations. Birendra Kumar and Surya Dev (2003) with the information accessible in the Indian setting demonstrated

that the expanding pattern in the total compensation of the laborer does not prevent the expanding stream of FDI. Laura Alfaro (2003) finds that FDI streams into the distinctive divisions of the economy (to be specific essential, assembling, and administrations) apply diverse consequences for economic growth. FDI inflows into the essential area have a tendency to negatively affect growth, while FDI inflows in the assembling part a positive one. Proof from the outside interests in the administration part is vague. Sebastin Morris (2004) has talked about the determinants of FDI over the districts of a vast economy like India. He contends that, for all speculations it is the areas of metropolitan urban areas that draw in the greater part of FDI. Peng Hu (2006) investigations different determinants that impact FDI inflows in India which incorporate economic growth, local interest, coin dependability, government arrangement and work power accessibility against different nations that are pulling in FDI inflows.

OBJECTIVES

- Department of Industrial Policy and Promotion (DIPP)

This study is based on the following objectives-

- To compare FDI inflow during the post liberalization period with pre liberalization period and to forecast FDI inflow to India for a future period of 5 years.
- To identify the factors which influence the flow of FDI in India?
- To identify the problems relating to inflow of FDI and to make suitable suggestions for attracting more FDI inflow to India.

METHODOLOGY

SOURCES OF DATA COLLECTION

- The study is based on published sources of data collected from various sources. The data was extracted from the following sources:
- Handbook of Statistics on the Indian economy, RBI, various issues
- Economic Survey, Government of India, various issues
- Secretariat of Industrial Assistance (SIA)

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

➤ Central Statistical Organization (CSO)

PERIOD OF STUDY

The greatness of FDI inflows is investigated amid the Pre and Post Liberalization period, consequently the study is embraced for a period of 30 years from 1980-81 to 2009-10. The factors which impact the stream of FDI into the nation is broke down amid the Post Liberalization period i.e., from 1991 to 2010.

TOOLS USED FOR ANALYSIS

The Annual Growth Rate (AGR) and Compounded Annual Growth Rate (CAGR) are utilized to dissect the FDI inflows amid the Pre and Post Liberalization period to discover the size of FDI inflows. Further, Autoregressive Integrated Moving Average (ARIMA) model is utilized to figure FDI inflows. Factors which impact FDI into India are investigated by utilizing Multiple Regression examination.

FDI INFLOWS DURING PRE & POST LIBERALIZATION PERIOD IN INDIA

The principal objective on which the study is made is to break down the size of FDI

Inflows in India. In this setting, the period of study from 1980-81 to 2009-10 is separated into two stages, Phase I is the Pre-Liberalization period, that is, FDI inflows from 1980-81 to 1990-91 are considered. The Phase II is the Post-Liberalization period from 1991-92 to 2009-10. The yearly and aggravated growth rates amid the Pre and Post Liberalization period are computed to discover the greatness of FDI inflows into the economy amid the periods.

Table1 demonstrates the Annual Growth Rate (AGR) of FDI inflows for every last year and Compounded Annual Growth Rate (CAGR) amid the pre and post progression period. The Annual Growth Rate is computed by utilizing the equation:

$$\text{AGR} = (\text{X2} - \text{X1}) / \text{X1}$$

Where, X1 = first value of variable X

X2 = second value of variable X

Further, Compounded Annual Growth Rate (CAGR) for the Pre liberalization and Post Liberalization period is calculated by using the formula:

$$\text{CAGR} (t_0, t_n) = (\text{V}(t_n) / \text{V}(t_0))^{1/t_n - t_0} - 1$$

Where, $V(t_0)$: start value, $V(t_n)$: finish value, $t_n - t_0$: number of years

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

(AMOUNT IN US \$ MILLION)

FDI Inflows during Pre-Liberalization Period			FDI Inflows during Post-Liberalization Period		
Year	Amount	Annual Growth Rate (AGR) %	Year	Amount	Annual Growth Rate (AGR)
1980-81	8	-	1991-92	129	-
1981-82	10	25.00	1992-93	315	144.18
1982-83	60	500.00	1993-94	586	86.03

1983-84	60	-	1994-95	1314	55.40
1984-85	60	-	1995-96	2144	63.16
1985-86	160	166.67	1996-97	2821	31.57
1986-87	196	22.50	1997-98	3557	26.09
1987-88	190	-3.06	1998-99	2462	-30.78
1988-89	267	40.52	1999-00	2155	-12.46
1989-90	330	23.60	2000-01	4029	86.96
1990-91	97	-70.60	2001-02	6130	52.14
			2002-03	5035	-17.86
			2003-04	4322	-14.16
			2004-05	6051	40.04
			2005-06	8961	48.09
			2006-07	22826	154.72
			2007-08	34835	52.61
			2008-09	35180	0.99
			2009-10	37182	95.69
CAGR		25.46%	CAGR		34.73%

Source: SIA, Newsletter, various issues and compiled by the author

TABL

E 1: VOLUME OF FDI S DURING PRE & POST LIBERALIZATION

CHART 1: FDI INFLOWS DURING PRE LIBERALIZATION PERIOD

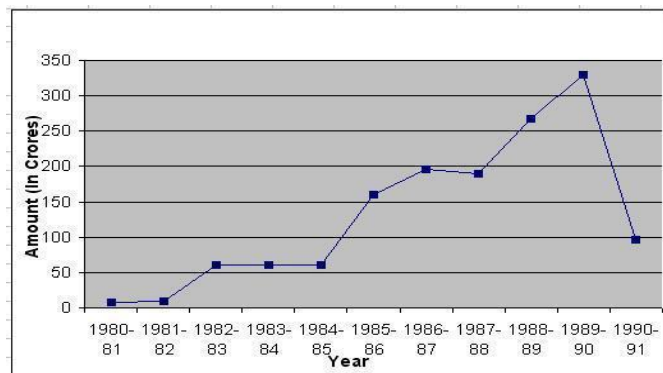
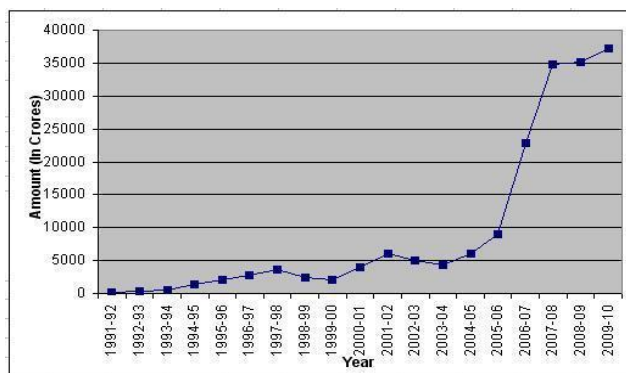


CHART 2: FDI INFLOWS DURING POST LIBERALIZATION PERIOD



The above table and graph demonstrates that FDI inflow into India before 1991 was insignificant with the Compounded Annual Growth Rate indicating just 25.46 percent. Amid this period, remote speculations into India were confined and permitted modestly in couple of parts. This is for the most part in view of the sort of approaches which the legislature of India has received throughout the years which

incorporates, 'inward looking system'; and reliance of outside borrowings.

PROJECTION OF FDI INFLOWS TO INDIA

In the wake of examining the volume of FDI Inflows in India, amid the Pre and Post Liberalization period the pattern in FDI inflows for next five years i.e., from 2010-11 to 2014-15 is being anticipated. The projection of FDI

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

inflow to the nation is evaluated by utilizing Autoregressive Integrated Moving Average (ARIMA) model. The consequences of the

model are condensed in table 2 and the evaluated FDI inflows from 2010-11 to 2014-15 is classified in table 3.

TABLE 2: RESULT OF ARIMA MODEL OF FDI INFLOWS

Model	Coefficient	Std. Error of Coefficient	t value	p value
AR1	1.449	0.189	7.649	0.000**
AR2	-.652	0.218	2.988	0.009**
Year	8409.651	2517.263	3.340	0.004**
Constant	-16780248.439	5037067.20	3.331	0.004**

****denotes significance at 1% level**

Log

Likelihood : - 206.973

Alkaline’s Information: 421.946 Criterion (AIC)

Schwarz’s Bayesian : Criterion 425.724 (SBC)

From the above result, the p-value of the constant, first and second lag is very less. This indicates that the fit is good. Further, Bayesian Criterion (SBC) both measure goodness of fit and account for model complexity. The ARIMA model equation is fitted as $(FDI)_t = -16780248.439 + 1.449 (FDI)_{t-1} - 0.652 (FDI)_{t-2} + \epsilon_t$ Where, $(FDI)_t$ = first order difference in FDI = $(FDI)_t - (FDI)_{t-1}$ the

TABLE 3: ESTIMATED FDI INFLOWS IN INDIA DURING 2010-11 TO 2014-15

(AMOUNT RS. IN CR.)

Year	Estimated Amount	% of Growth in FDI over Previous year	95% Confidence Limit	
			Lower CL	Upper CL
2010-11	178,110	1	146,101	210,120
2011-12	172,800	-3	111,528	234,071
2012-13	165,622	-4	79,279	251,966
2013-14	160,380	-3	55,166	265,595
2014-15	159,161	-1	41,180	277,142

CHART 3: PROJECTION OF FDI INFLOWS IN INDIA FROM 2010-11 TO 2014-15

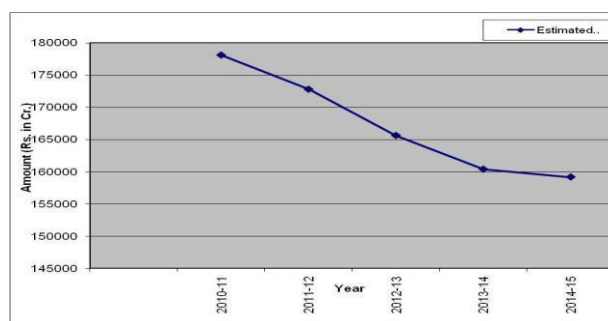


Table 3 demonstrates a negligible increment of one percent in FDI inflow as when contrasted with the period 2009-10. At that point from the period 2011-12 to 2014-15 a downtrend of FDI inflow is watched. FDI inflow into India is evaluated to be Rs.172800 crore in 2011-12 as against

Rs.178110 crore in 2010-11, that is, the growth pattern of FDI inflow into the nation demonstrates a decrease of 3 percent in 2011-12 as when contrasted with 2010-11. This fall in FDI inflow into the nation is relied upon to further decay amid 2012-13, that is, a 4 for every penny decrease will be

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

expected as against the earlier year. Amid 2013-14 and 2014-15, the fall in growth rate of FDI inflow is observed to be lessened to 3 percent and one for every penny as against the earlier years. The projection of FDI inflow in India for the following five year period from 2010-11 to 2014-15, demonstrates that FDI into the nation will have a descending pattern from 2011-12 onwards. Hence, Government ought to find a way to conquer this circumstance.

DETERMINANTS OF FDI INFLOW TO INDIA

The FDI inflows into India have gone up particularly in the post-change period. The offer of FDI inflows to India is not noteworthy when it is contrasted with other creating economies. Be that as it may, India is a rival in the business sector for FDI inflows with the other creating nations. In this connection, it is germane to survey the deciding powers of the FDI inflows into India in order to take approach activity to make an ideal air for FDI. Accordingly, the present area tries to investigate the deciding factors of FDI inflows into India at the full scale level and the factors are known as the draw factors of FDI inflows.

HYPOTHESIS

The null hypothesis framed for the study is that there are no significant factors which influence FDI flow into the country.

SELECTION OF VARIABLES

Macroeconomic indicators of an economy are considered as the major pull factors of FDI inflows to a country. The analysis of various theoretical rationale and existing literature provides a base in choosing the right combination of variables that explains the variations in the flows of FDI in the country. In order to have the best combination of variables for the determinants of FDI inflows into India, different alternative combination of variables were identified and then estimated.

The alternative combinations of variables included in the study are in tune with the famous specifications given by United Nations Conference on Trade and Development, (UNCTAD 2007).

In order to choose the best variables, firstly, the major factors which influence the flow of FDI into the country are identified. Then, proxy variables representing the factors are selected for the purpose of analysis.

However, the following are the factors and analysis
the proxy variables which are selected for

S.N	Factors	Proxy Variables
1.	Market size	Gross Domestic Product (GDP)
2	Availability of natural resources	Coal Production
3	Availability of human resources	Total Wages paid
4	Infrastructure	Electricity generated
5	Economic stability	Inflation, Deficit in Balance of Payment
6	Government policies	Trade Openness

LACK OF DECISION MAKING AUTHORITY WITH THE STATE GOVERNMENTS:

The change procedure of changing the economy is amassed for the most part in the Center and the State Governments are not given much power.

ADEQUATE INFRASTRUCTURE: It is referred to as a noteworthy obstacle for FDI inflows into India. This bottleneck as poor foundation demoralizes remote speculators in putting resources into India. India's supply of power. Power cuts are considered as a typical issue and numerous ventures are compelled to close their business.

STRINGENT LABOR LAWS: Large firms in India are not permitted to conserve or cutback any specialists, or close down the unit without the authorization of the state government. These laws secure the specialists and upset true blue endeavors to rebuild business.

DEFILEMENT: Corruption is found in almost every open administration, from guard to conveyance of financed nourishment to the destitute individuals, to the era and transmission of electric force. Kumar (2000) watches that a blend of legitimate obstacles, absence of institutional changes, bureaucratic basic leadership and the claims of defilement at

ECONOMIC GROWTH IN INDIA WITH REGARDS TO FOREIGN DIRECT INVESTMENT

the top have dismissed outside financial specialists from India.

CONCLUSION

FDI assumes a vital part in the long haul advancement of a nation as a wellspring of capital as well as for improving aggressiveness of the household economy through exchange of innovation, fortifying framework, raising efficiency and producing new livelihood open doors. India rises as the fifth biggest beneficiary of remote direct speculation over the globe and second biggest among all other creating nations (World Investment Report 2010). The enormous business sector size, accessibility of exceedingly gifted HR, sound economic approach, copious and differentiated common assets every one of these factors empower India to draw in FDI. Further, it was found that despite the fact that there has been expanded stream of FDI into the nation amid the post progression period, the worldwide offer of FDI in India is less when it is contrasted with other creating nations. Absence of appropriate framework, instable government and political environment, high corporate expense rates and constrained fare preparing zones are thought to be the real issues for low FDI

into the nation. To conquer this circumstance, the Government ought to overhaul the sectoral top and bring more areas under the programmed course. Further, India ought to consent to the arrangement of Double Taxation settlements with different nations keeping in mind the end goal to increment two-sided exchange.

REFERENCES

1. Balasundaram Maniam and Amitiava Chatterjee. "The Determinants of US Foreign Investments in India: Implications and Policy Issues," *Managerial Finance*, Vol. 24, No. 7, 1998, pp. 55-62.
2. Nagesh Kumar, "Liberlization and changing patterns of FDI. Has India's relative attractiveness as a host of FDI improved?" *Economic Developments in India*, 2001, pp. 79- 99.
3. Balasubramanyam. V.N. and Vidya Mahambre "Foreign Direct Investment in India," Working Paper No.2003/001, Department of Economics, Lancaster University Management School, International Business Research Group, 2003.

4. Birendra Kumar Nayak and Surya Dev. "Low Bargaining Power of Labour Attracts Foreign Direct Investment in India", Social Science Research Network, No.431060, 2003.
5. Laura Alfaro, "Foreign Direct Investment and Growth: Does the Sector Matter?", Working Paper Harvard Business School, April, 2003.
6. Sebastin Morris. "A Study of the Regional Determinants of Foreign Direct Investment in India, and the case of Gujarat," Working Paper No. 2004/03/07, 2004, Indian Institute of Management.
7. Rajih Kumar Sahoo, "Foreign Direct Investment and Growth of Manufacturing Sector: An Empirical Study on Post Reforms India", is a doctoral thesis submitted to the University of Mysore, 2005.
8. Peng Hu "India's suitability for Foreign Direct Investment". Working Paper No.553, 2006, International Business with special reference to India, University of Arizona.
9. Chandana Chakraborty, Peter Nunnenkamp (2008), "Economic Reforms, Foreign Direct Investment and Economic Growth in India: A Sector Level Analysis," World Development, Volume 36, Issue 7, July 2008, pp. 1192-1212.
10. Chew Ging Lee, "Foreign direct investment, pollution and economic growth: evidence from Malaysia," Applied Economics, No. 41, 2009, pp. 1709-1716.
11. A.S.Shiralashetti & S.S.Huger, ICFAI Journal of Managerial Economics, Vol.VII No.1, pp. 261- Reserve Bank of India (RBI), Handbook of Statistics on Indian Economy, RBI, Mumbai. 13. Reserve Bank of India (RBI), Monthly Bulletin, various issues.
12. Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India, various issues.
13. Ministry of Finance, Department of Economic Affairs, Government of India. 16. Annual Survey of Industries, Ministry of Statistics and Programme Implementation, Government of India, various issues.