P: ISSN No. 2231-0045 RNI No. UPBIL/2012/55438 VOL.-7, ISSUE-1, August-2018

E: ISSN No. 2349-9435 Periodic Research

Aspirations of Indian Stock Market in Relations with Foreign Direct Investment (FDI) in India

Abstract

FDI has a long term impact on development of any economy .There are many macro variables which have direct or indirect relationship with FDI flows .In his research paper a relationship between FDI equity inflows and performance of stock market i.e sensex – an indicator of BSE (Bombay stock exchange) has been tested .Descriptive research design has been followed and secondary data from relied sources have been taken to prove research objective..Results have been positive and it has been found there is a significant correlation between FDI equity inflows and sensex.

Keywords: Gross Domestic Product, Sensex, Foreign Direct Investment, Micro Variables, Impact on Performance of Equity Market, Stock Exchange.

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Introduction

Foreign direct investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. (https://www.investopedia.com/terms/f/fdi.asp). According to Gupta P, Singh A (2016) FDI as a source of funds has gained very high importance in recent years. FDI is associate degree investment involving a long relationship associate degreed reflective an enduring interest and management of a resident entity in one economy in an enterprise resident in economy apart from that of the foreign direct capitalist. people furthermore as business entities could undertake FDI. Such investments involve the initial group action between the two entities and every one resultant transactions between them and among foreign affiliates. Khatun F & Ahamad M (2015) in their research concluded FDI flows comprise equity and non-equity sorts of investment. The equity capital flows comprise the foreign direct investor's purchase of shares of associate in Nursing enterprise and conjointly embrace the foreign direct investor's purchase of shares in reinvested earnings. Besides, the equity sort of FDI conjointly includes short or long run intra-company loans and debt transactions between foreign direct capitalist and therefore the affiliates.

According to Bransteeten L, Fisman R, Foley C, Saggi K (2007) , FDI involves the ownership and control of a foreign company in a foreign country. In exchange for this ownership, the investing country usually transfers some of its financial, technical, managerial, trademark and other resources to the recipient country. The international transfer of funds need not be prerequisite for this exchange. The Government of India, in March 2003 revised the FDI definition in line with international practices. The revised FDI data now includes 'equity capital' including that of unincorporated entities, non-cash acquisition against technology transfer, plant and machinery, goodwill, business development, control premium, and non-competition fees. It also includes re-invested earnings' including that of incorporated entities, unincorporated entities and reinvested earnings of indirectly held direct investment enterprises. Bernstein and others (1995) tested the effects of FDI on economic growth in across-country regression frame work, utilizing data on FDI levels from industrial countries to 69 developing countries over two traders. Their results suggest the following conclusions. 1-FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment.2- FDI to produce higher productivity than domestic investment, the host country must have a minimum threshold stock of human capital. The study carried out has got much significance for following theoretical and practical concern. Theoretically, the present study seeks to explore the variables of FDI attractiveness, impact of FDI on macroeconomic indicators particularly Stock market. The findings of the study may reveal a distinct new pattern of relationship between different variables and may thus help in finding hidden facts related to FDI and growth of Indian economy. The study has viewd the FDI in light of macroeconomic variables .Since not much research has been done in India in the field of FDI and its relationship with macroeconomic factors, this research might have a significant contribution in the existing body of knowledge. Practically, the results of the study will enable the practicing managers of Indian companies particularly to focus on various internal and external factors influencing FDI and its impact .The results may help certain companies to make their policies aligned with new changes of external environment .The findings of study may help to understand the merits and demerits of FDI in the light of macroeconomic variables. It will help Indian policy makers to draft their FDI policies which promote economic growth and stability in Indian market. The research problem has got jurisdiction in general management and Finance area and research has focused on FDI impact on selected macroeconomic indicators i.e performance of stock market and GDP in India. In India, foreign direct investment (FDI) is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. India is identified as one of the most attractive long-term investment destinations. This research has also focused on impact of FDI inflows on stock market performance .The findings of this research would be beneficial for readers who are into policy making, research scholar who love to extend this research further to forecasting of stock market performance and GDP forecast, academicians who would like to have deep insights of the concepts of FDI and its impact on economy etc.

Research Design

According to Sekaran (2003), the research design is the step aimed at designing the research study in such a way that the essential data can be gathered and analysed to arrive at a solution. Research design involves a series of rational decision-making choices. The research design was devised following a number of the researcher's decisions associated with the purpose of the study (exploratory, descriptive, hypothesis testing), where the study would be conducted (i.e., the study setting), the type of study it should be (type of investigation), the extent to which the researcher manipulated and controlled the study (extent of researcher interference), the temporal aspects of the study (time horizon),the level at which the data would be analysed (unit of analysis), sampling design (the type of sample to be used), how the data would be collected (data collection methods),how variables would be measured (measurement), and how they would be analysed to test the hypotheses (data analysis). This research has used descriptive research design to answer the objectives of study. Three main purposes of research are to describe, explain, and validate findings.As this is a secondary research, which the summary, collation and synthesis of existing research. Secondary research uses primary research sources as a source of data for analysis. For the purpose of analysis , data from period 2005 -2018 on FDI Inflow in India and sensex data of 30 blue chip companies is collected from various secondary online sources. The Correlation analysis is used to study the relationship between FDI and Sensex and the impact of FDI on sensex is analysed with help of Regession analysis.

Objectives of The Study

The present study has attempted to determine the relationship between FDI and Sensex in india.The study further investigate the impact on FDI on Stock market in India.

Hypotheses to Be Tested

On the basis of defined objective, the following hypothesis has been tested in the research study:

H 1

There exists significant relationship between FDI inflows and performance of Sensex

H 0

There exists no significant relationship between FDI inflows and performance of Sensex

3-Findings and Analysis of Data

Table 1

FDI and Sensex (2005-2018)

Year	FDI (Rs. In Billion)	Sensex
2005-2006	397.3	8280
2006-2007	1030.37	12277
2007-2008	1398.84	16568
2008-2009	1914.19	12365
2009-2010	1796.42	15585
2010-2011	1642.55	16605
2011-2012	2200	17422
2012-2013	1868.69	18202
2013-2014	2185.95	20120
2014-2015	2764	26556
2015-2016	3641.46	26322
2106-2017	4040.57	27338
2017-2018	3929	32396

Relationship between FDI Inflows and Performance of SENSEX

Table: 2

Correlation between FDI and Sensex

Variables		FDI	SENSEX
FDI	Pearson Correlation	1.00**	
	Sig. level	.000**	
SENSEX	Pearson Correlation	.930**	1.00**
	Sig. level	.000**	.000**

**Correlation is significant at the 0.01 level (2-Tailed)
FDI: Foreign direct investment

The table no. 2 represents the correlations between FDI and Sensex. The r value in case sensex is .861 that is significant at .01 level of significance. This means there is positive correlation between FDI and Sensex also during the period 2005-2017

Impact of FDI on Foreign Exchange Reserves & SENSEX

The analysis is done with a expectation that FDI have a positive impact on Sensex of stock exchanges. To have a investigation of impact of FDI on these variables, regression model is applied. The result of regression model presenting impact of FDI & Sensex is presented in table no 3.

Table 3
Impact of FDI on Foreign Exchange Reserves & SENSEX

Variables	Constant	R square	B	DF	F Value	Sign. Level
Sensex	6399.293	.864	.930	12	70.101	.000*

FDI and SENSEX

According to results represented by table 3 of model summary, the value of R square which is coefficient of determination is .864 which means that FDI accounts for 86.4% systematic change in sensex along with other factors during period of 2005-2018.The result of analysis are also approved and supported by F test of ANOVA table which gives a conformity of significance of R square.

The table no. 3 represents the regression analysis between FDI and SENSEX. The value of regression coefficient is 5.861 and constant value is 6399.293

Table 4
Regression Coefficients between FDI and SENSEX

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	6399.293	1720.546		3.719	.003
	FDI	5.861	.700	.930	8.373	.000

a. Dependent Variable: Sensex

According to the table of coefficients, the estimated regression line can be written as

SENSEX = 6399.293 + 5.861 FDI

The slope line 5.861 implies that if there is an increase in FDI by one unit the senex of Bombay stock exchange will be accelerated by 5.861 units. The value of constant 5.861 implies that if FDI is zero the sensex would be Rs 5.861 Billion. So the table shows that the FDI Inflows in an India has impact on sensex of India. The value of t (8.373) and significance level shown in the table of coefficient revealed that there is a significant relationship among FDI and SENSEX. So the on the basis of statistics of regression model we accept the hypothesis "there is a significant relationship between FDI and SENSEX".

Conclusion

Stock market of most of countries got significant investments through FDI route and it is quite interesting to know is there any relationship exists between two variables i.e. FDI and stock market. It has been found in this research that there exists a significant relationship between FDI equity inflows and performance of senex in india, which has been proved statistically. It can be concluded that FDI inflows influence the performance of equity market .Government or policy makers should formulate effective policies which encourage stabilize FDI inflows. Individual investors can choose those stocks of sectors which have maximum potential of attracting FDI. Indian companies dealing into equity market should keep a track of FDI inflows into market as this has a major influence on performance of stock market. Based on analysis recommendations for investors can be provided which will help them in capital appreciation in stock market.

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