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FDI Flow Assessment in The Post Reform Period of Indian Economy

Abstract

FDI plays an important role in economic development of any nation. In India FDI shows an incremental flow after post reform period. After liberalization the inflow of FDI shows an upward trend. In this paper researcher examine the FDI flow in the post reform period in Indian economy and try to assess the trend of FDI flow after post reform period. After LPG (Liberalization Privatization and Globalization) in 1991 the influx of FDI has significantly increases and most of the researches show that there is positive correlation between FDI and GDP.

Keywords: FDI, Economic Development, Indian Economy.

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Introduction

FDI is distinguished in case of external investment, a submissive and yielding investment in the securities of some other country like public stocks and bonds, by the segment of "control". There has been a spectacular booming FDI in the global economic landscape has been turned into a World market. Growth of global FDI in the 1990s all across the world today makes FDI a very pivotal and decisive part of the overall growth and development strategy for both developed and developing economies. Now-a-days it has also been observed that if markets of any economy are not developed well, that Nation are unable to cater to the capital requirements for vast investment projects. Moreover, it is also extremely difficult to line up locally the needed money, which is essentially required for buying investment goods. This is where Foreign Direct Investment provides instant and speedy solution because it is a extended source of external capital for a development of a nation.

FDI also acts to bridge the gap between the desired level of foreign exchange needed and those obtained from net export earnings (Fry 1993). This is possible because of the fact that the FDI helps bring in foreign denomination currency, thereby, helping increase the domestic country's forex reserve. FDI is also credited with creating employment in plethora of sectors in developing countries, especially, India (Lahiri and Ono 1998). In case, the host country applies some kind of domestic content requirement on the foreign limits, the foreign firms are required to employ the underemployed and unemployed people of the domestic country. Overseas firms bring with them better technology and knowhow, thereby, reducing the set up cost in host countries. This results in low prices and improved quality goods to consumers in these countries (Sahoo et al., 2003).

The influx of FDI in India increased significantly after 1991 and rose to the peak in the year 2008. Majority of the existent literature on FDI in India revealed that there is a positive correlation between FDI and GDP (Gross Domestic Product). India as a liberalized economy along huge skilled manpower, consumer market with increasing purchasing capacity is attracting more and more FDI inflows. Now our objective is to check how FDI inflows are influencing India's economic growth. Foreign Direct Investment (FDI) is a vital catalyst for economic growth. Over the years, FDI has developed impressively in its significance for Indian economy especially after liberalization. Various studies have highlighted the importance of Gross Domestic Product (GDP) as one of the main indicators of economic performance of a country.

Thus, keeping all these views of FDI in Economic growth, our main objective is to study the impact of FDI flow in the post reform period. Before exploring the objective of the study, we want to explain how FDI helps in accelerating the rate of economic growth and it is presented as follows:

Provides Capital

For development of a country needed capital can't be manage without FDI because developing economies need higher investment to achieve increased and targeted growth in their national income. Most of the developing countries normally have not possessing adequate savings and hence, in addition to additional savings of these countries foreign savings are needed through FDI. Thus, Foreign Direct Investment is an functionally fruitful source of this additional capital which invested by the external players in his own risks.

FDI removes Balance of Payments Constraint

It has been seen that external investment which comes through FDI provides 'inflow of foreign exchange resource and removes the constraints on balance of payment of a nation where it's invested. Additionally, most of the developing countries suffer from deficit of balance of payments. Foreign exchange resources has potential to remove the constraint of developing countries who seeking higher growth rates by providing FDI inflows. Not only this, FDI has an effective and clear cut advantage over the external borrowings and therefore can be considered from the balance of payments perspectives. As we know that Loan and any type of debt creates fixed liability and such liability have to repay by the Governments. This emerges debt of the government and the corporation parts a fixed liability on BoPs. It means country have to repay loans along with interest over borrowing period while in the context of FDI this fixed liability is not there. The external investor is supposed to be able to generate adequate resources to finance outflows on account of the enterprise causes by the FDI. These external player will also bear the risk in his own risk too as well.

FDI brings Technology, Management and Marketing Skills

FDI brings along with it assets which are crucially either missing or scarce in developing countries. These assets are technology and management and marketing skills without which development cannot take place. This is the most important advantage of FDI. This advantage is more important than bringing capital, which perhaps can be had from the international capital markets and the governments.

FDI promotes Exports of Host Developing Country

FDI has been considered as a great promoter of exports because foreign enterprises influencing global markets such as having their global network of marketing, keeping marketing information to exploit these strengths to promote the exports of developing countries.

FDI provides Increased Employment

Foreign enterprises by employing the nationals of developing countries provide employment. In the absence of this investment, these employment opportunities would not have been available to many developing countries. Further, these employment opportunities are expected to be in relatively higher skill areas. FDI not only creates direct employment opportunities but also through backward and forward linkages, it is able generate indirect employment opportunities as we

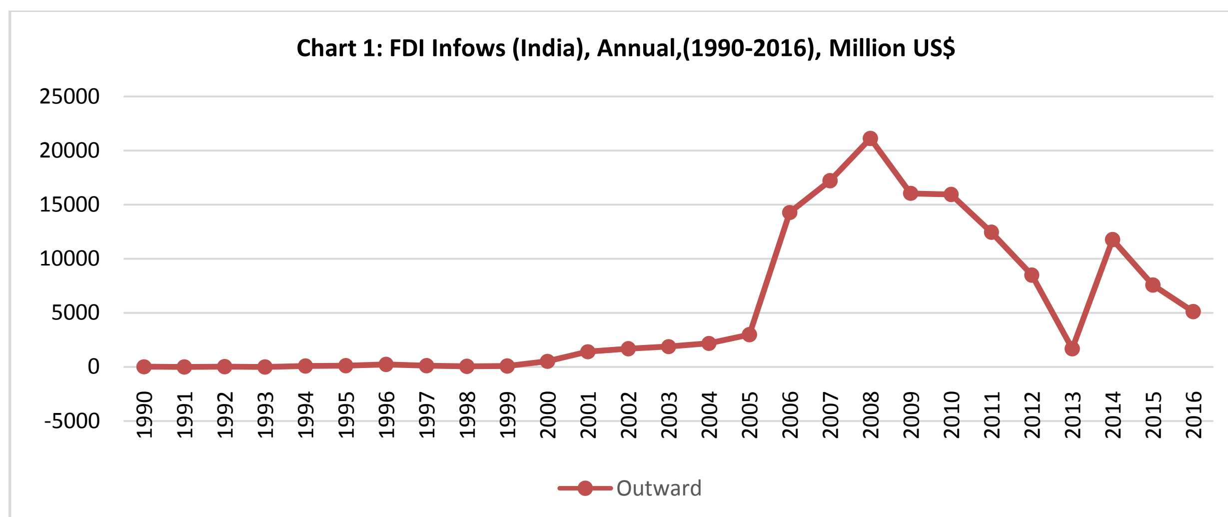
FDI results in Higher Wages

So far as results in higher wages are concern, it has been observed that Foreign Direct Investment promotes higher wages relatively higher skilled jobs would receive higher wages. Thus, they have been treated as not only employment generator but also higher wage payers too.

FDI generates Competitive Environment

In developing economy, entry of foreign enterprises creates a competitive environment evoking interest in national enterprises to compete with the external enterprises operating in their market. This help to higher efficiency and superior products and best services. Thus, the Consumer gets wider choices of products and services.

Thus on the basis of above phenomenon, the aim of this study is to analyze empirically and to investigate the impact of FDI inflows on GDP in India.



Source: UNCTADSTAT, http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740 accessed on 29 June 2018.

FDI inflows started increasing significantly since 2000 and reached its peak in the year 2008.

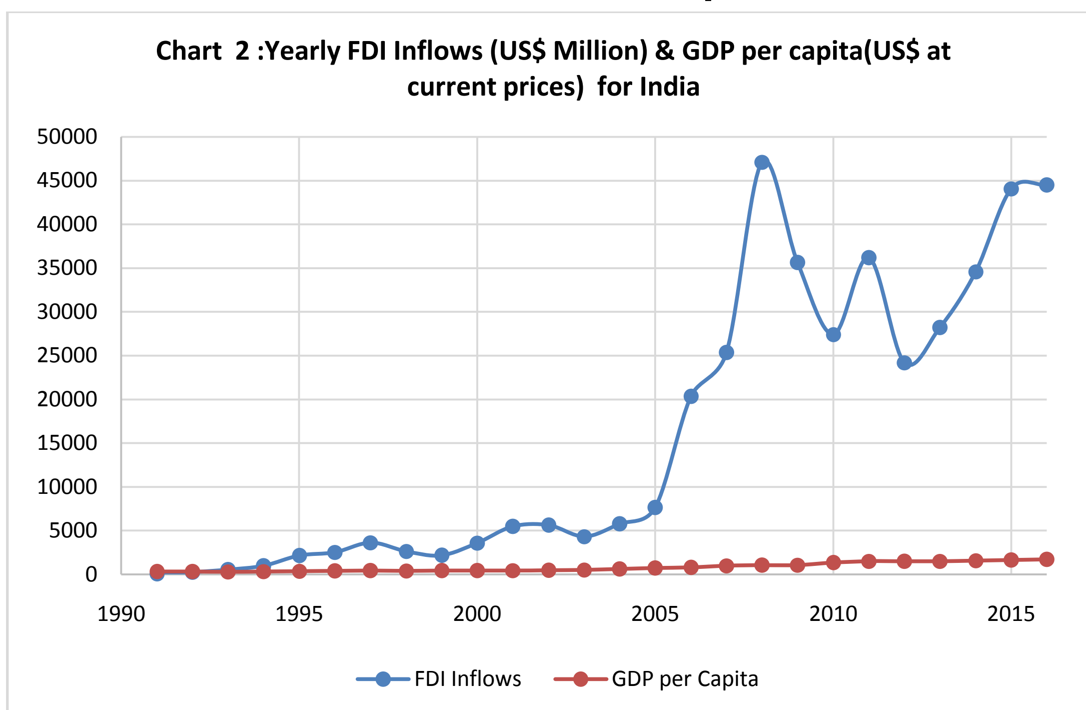


Table 1: Yearly FDI Inflows (US$ Million) & GDP per capita (US$ at current prices) for all India

Year	FDI Inflows	GDP per Capita	Year	FDI Inflows	GDP per Capita
1991	75	316.29	2004	5778	616.02
1992	252	311.34	2005	7622	709.77
1993	532	297.99	2006	20328	790.99
1994	974	334.81	2007	25350	991.35
1995	2151	372.75	2008	47102	1048.16
1996	2525	385.48	2009	35634	1068.62
1997	3619	410.80	2010	27417	1340.91
1998	2633	405.87	2011	36190	1500.85
1999	2168	424.93	2012	24196	1473.30
2000	3588	430.73	2013	28199	1499.38
2001	5478	437.06	2014	34582	1576.06
2002	5630	449.26	2015	44064	1629.23
2003	4321	517.47	2016	44486	1706.46

Source: UNCTADSTAT, http://unctadstat.unctad.org accessed on 17July 2018

Further, in this study we want to check Null Hypothesis that FDI does not have any significant impact on GDP against alternative a positive impact on GDP of the country. Instead of taking GDP we are considering GDP per capita for relatively true measure of economic growth of the country.

H_0

FDI Inflows does not have any significant impact on GDP per Capita.

H_1

FDI Inflows have a positive and significant impact on GDP per Capita.

For this purpose we have uses GDP per capita as a measure of economic growth. Regression data analysis output from MS Excel pertaining to table 1 is presented below separately as a Summary Out.

In this study, Output is based on 26 observations. The FDI inflow is taken as independent variable and GDP per capita is dependent variable. We are interested in understanding if GDP can be functional represented and hence can be predicted using FDI Inflow.

Linear regression model for above case can be represented as:

$$\text{GDP per Capita} = b_0 + b_1 \text{FDI Inflow}$$

The slope **b_1** in our case is found to be 0.0280 which is shown in last table of output in FDI inflows row & Coefficient column and this suggests that an increase in FDI inflows by one unit results in 0.0280 increase in GDP per capita income. **b_0** is the estimated value of GDP per capita with "zero" FDI inflows. Thus for the case under consideration the regression line is:

$$\text{GDP per Capita} = 363.0335 + 0.0280 \text{ FDI inflows}$$

As Multiple R=0.915 so we can say 'FDI inflows' & 'GDP per Capita' are highly correlated and most of the data point clustered around regression line and 83.8% (R^2=0.838) of variations in GDP per Capita can be explained by the above linear regression. Further 95% confidence interval (0.023, 0.033) does not contain 'zero', hence we can believe

that linear relation between 'FDI inflows' & 'GDP per Capita' is significant at 5% level of significance. This can also be observed from p-value for FDI Inflows. Thus we are rejecting Null Hypothesis against alternative at 5% level of significance and conclude that FDI Inflows have a positive impact on economic growth of the India.

Conclusion

FDI inflows have assumed a huge role in the development and advancement of an economy, especially in India. GDP of India has been growing four-crease since 1991. On the basis of regression analysis of this study it can be said that there is a long-run relationship between FDI inflows and GDP. Regression results imply that FDI has a positive and significant impact on GDP. The fact that India's limit as a host country in drawing FDI took off in the post-reform period supports the findings. However, the quantum of FDI inflows in respect to its size has been low when compared with other developing nations.

Moreover, elementry explanations behind low FDI inflows have been identified with the venture atmosphere, poor foundation, remote conversion scale variance and business help. May be it surrounded by pre-reform period FDI expanded at CAGR of 19.05% while in the middle of post-reform period it has developed at 24.28%. So, the results of empirical analysis of our study reveal that Foreign Direct Investment has a significant and positive relationship with India's National income which is taken as GDP in our study. Thus, it can be finally inferred that FDI is important not only for growth of national income but also for socio-economic development of India too as well.

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Regression Statistics

Multiple R	0.915
R Square	0.838
Adjusted R Square	0.831
Standard Error	205.649
Observations	26

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	5246887.117	5246887.117	124.0650913	5.74961E-11
Residual	24	1014993.738	42291.40575		
Total	25	6261880.855			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	363.0335	56.85914423	6.384786003	1.33315E-06	245.682	480.385	245.682	480.385
FDI Inflows	0.0280	0.002511652	11.13845103	5.74961E-11	0.023	0.033	0.023	0.033