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FDI INFLOWS INTO INDIA AND THEIR IMPACT ON SELECT ECONOMIC VARIABLES USING MULTIPLE REGRESSION MODEL

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Abstract

The 21st century has witnessed a tremendous flow of international investment, trade and financial transactions along with the integration and openness of international market across the globe. The developing countries are trying to attract foreign capital to boost up their domestic rates of investment and also to acquire new technology and managerial skills. Foreign Direct Investment (FDI) is a long term investment made by a firm or individual in one country with all the risks and profit opportunities. It is an outcome of the mutual interest of multinational firms and host countries. Free flow of FDI eventually attracts huge foreign exchange, promotes industrialisation and international trade, enhances the GDP and Per Capita income and accelerates the socio-economic development of people and the nation as a whole. In the context of India, introduction of LPG on one hand and proactive and positive mind set of the planners on the other have further opened the economy for free inflow and outflow of investment into its different sectors. India is also considered, as the best investment destinations even by the trade block economies. Besides, free flow of FDI is considered as an indicator for economic development that results in increase in GDP, leads to trade openness, generates huge employment, enhances per capita income, boosts exports, and reduces wholesale price index and also exchange. Though scores of studies were carried out on FDI but studies on FDI inflows and their impact on the select economic variable using Multiple Regression Model are very scarce and scanty. The current study is an attempt to fill this gap.

Keywords: *Foreign Direct Investment, GDP, Multiple Regression Model, Economic Development.*

Introduction

In the recent decades, FDI has become a topic for serious discussion, debate and research among the policy-makers, international financial agencies, academicians and researchers across the globe and more importantly in developing countries like India. Besides, the beginning of the 21st century has witnessed and marked a tremendous growth of International Investment, trade and financial transactions along with the Integration and openness of International market across the world. Countries of the world, particularly developing economies, are vying with each other to attract foreign capital to boost their domestic rates of investment and also to acquire new technology and managerial skills[1]. **Peter F Drucker**, who is considered as the father of Modern Management in his book entitled "Managing for the Future" observes that increasingly world investment rather than world trade will be driving the international economy in the decades to come. In a Union Budget 1990-91, in his speech **Dr. Manmohan Singh** the then Union Finance Minister of India strongly supported the Foreign Direct Investment (FDI) inflows to India reiterated that the Foreign Direct Investment provides access to capital and technology that could contribute to economic growth of India[2]. Therefore, the FDI has been attracted as a subject of topical interest and wide attention by the policy-makers, economists, financial institutions and above all the attention of the academics and researchers both in developed and developing economies.

FDI: Changing dimensions

Foreign Direct Investment can be understood as an outcome of the mutual interest of multinational firms and host countries. According to **OECD,** FDI is "A category of cross-border investment made by a resident entity in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.", **According to International Monetary Fund** "FDI a category of international investment that reflects the objective of obtaining the lasting interest by a resident entity in one economy. The everlasting interest implies the existence of a long term relationship between the direct investor and the enterprise having a significant degree of influence by the investor in the management of enterprise[3]." **According to World Bank**, **"**Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

"To sum up, the FDI can be referred as a long term investment made by a firm or individual in one country, with all risks and profit opportunities. It also includes mergers and acquisitions, building new facilities, reinvesting profits earned from global operations, transfer of technology and enterprise participation in management and intra company as well. In the context of FDI, it is possible for an investor to invest in an enterprise in another country, as well as starting a new business, complete its investment through direct acquisition or even technical know-how transfer only [4]."

Statement of the Research Problem

The beginning of the 21st century has marked and witnessed a tremendous growth of international investments, trade and financial transactions along with the integration and openness of international markets. This has tangibly been seen among the developing countries including India. Free flow of foreign investments eventually attracts huge foreign exchange, promotes industrialization and thereby creates large scale employment, increases production and workforce productivity, allows resource transfer and exchange of knowledge and skills, promotes international trade, shifts the burden of risk of an investment from domestic to foreign investors, enhances the per capita income and gross domestic product and as a whole accelerates economic development. The post-independent India witnessed intensive pace progress of industrialization and new phase of development. With the introduction of the new economic reforms such as Liberalization, Privatization and Globalization (LPG) in 1991 and thereafter a new phase of development happened in the flow of foreign capital. In the recent decades India is recognized as one of the world's fastest developing economies and considered as a feasible destination for free flow of FDI. More importantly, in the new millennium, India has become one of the best investment destinations and even ranked top among the SAARC nations. In the recent past, it observed that there has been a substantial growth of FDI flows from different Trade Blocks into different sectors into India and witnessed a spectacular progress in attracting FDI more than ever before. In the light of the above, the present study aims to analyse the current status of FDI in India for a decade period i.e. 2011-2021 and to assess the impact of FDI on select economic variables using Multiple Regression Model and also aimed to suggest the policy measures to attract much more foreign inflows into India as the Indian economy is likely to emerge and trying to establish as a global leader by the end of the 21st century.

Review of Literature

Here under an attempt is made to review the literature on the impact studies of FDI into India and overseas and identified the emerging need for the current study.

Nedra Baklouti and YOunes Boujelbena (2014)[5] investigated the factors that encourage and inhibit FDI inflows to Middle East and North Africa (MENA). The results of the study indicated that the quality of the institutional environment is a relevant factor in the attraction of FDI while corruption and regulatory quality are the negative indicators.

In an attempt on Impact FDI on Imports & Exports Jaya kumar et al(2014)[6] sought to elucidate the link between FDI inflows, exports and imports in India. The findings of the study established an adequate and statistical significant evidence of positive linkage between FDI and Exports and Imports.

Bhavya Malhotra (2014)[7] while attempting the impact of FDI on Indian economy tried to analyse the trends and pattern of FDI inflows and assessed its determinants and evaluated the impact of FDI on Indian economy, economic growth and also identified financial resources, equity, political factors and the federal challenges facing larger part of FDI.

In an analytical study of FDI in India Vyas (2015)[8] focused on the trends of FDI country-wise inflows in India in different sectors for 15 years. The study is based on secondary data collected through reports of the Minister of Commerce & Industry, RBI, World Bank & websites. The data was analysed by using simple percentages to analyse the growth rate of India. The data on sectoral composition of FDI led us to find that the largest recipient of FDI is in service sector . The share of this sector in cumulative FDI inflows is found as 27% of the total inflow of FDI. Upon critical analysis , It is found an impact of FDI on raising of output, productivity and employment in some sectors especially in the service sector.

Sreenivasulu et al (2016)[9] in their paper on impact on FDI in India established that FDI inflow had a positive relationship with exports made by the country. Further, found that the CAGR of GDP of the country was 13.68 per cent which is a welcoming trend. Finally, the authors concluded that FDIs had a significant impact on the Indian economic growth in terms of Exports, GDP and Foreign Exchange Reserves.

Moira Singh & Amandeep Kaur (2017)[10] in their research paper "FDI in India" throws a light on various aspects such as, country vise sources of FDI inflows to India,

Sector-wise analysis, distribution of FDI among the top six regional attracts like impact of FDI on the economies of Maharashtra, Delhi, Kolkata, Tamil Nadu, Kerala states. The region wise analysis spelt out that Mumbai was on the top with 29% of total FDI of India, wherein, the higher inflows of FDI were from Service Sector.

Epaphra and M Wakalasya (2017)[11] is an exclusive study on "The analysis of FDI, Agricultural sector and Economic Growth in Tanzania" and attempted on the effect of FDI on agricultural. They also examined the declining trend of agricultural to real GDP growth despite the fact that the sector employs more than 70 per cent of the total labour force. They found that there is no significant effect of FDI inflows on agriculture value added-to-GDP ratio in Tanzania despite the fact that FDI inflows in economy have been outstanding. However, the relationship between FDI and Real GDP growth is positive.

Vo Thi Van Khanh (2020)[12] stated that FDI and Tourism Development are co-integrated and have a long-run equilibrium relationship but further found that FDI showed a slightly negative impact on Tourism Development especially in Vietnam.

"A Study on Analysis of FDI in India: Post-Liberalisation ERA" by Uppal (2020)[13] focused on trend and pattern of FDI inflow in India, share of FDI in the Capital Account of India. The study established that FDI in India is increasing with the time but the CAGR is falling and further found that though FDI in India has been increasing in absolute terms but relatively it is not upto the mark.

Sahu et al (2021)[14] in their paper FDI in health care sector and economic growth in India discussed the rate of FDI in health sector and GDP in India. The results of the study revealed that there is a casualty relationship between economic growth to net FDI and the expenditure made on health.

Research gaps and the emerging need for the study

It is obviously witnessed from literature reviewed above that there have been voluminous research studies were made by the individual researchers and institutions. Further observed that many of the such studies have assessed the impact of FDI on one or two economic variables by either using simple regression model or Augmented-Dick Fuller (ADF) model. However, no study has so far been made analysing the impact of FDI on important economic variables such as Gross Domestic Product (GDP), Trade Openness, Exports, Exchange Rate, Per capita income

and Wholesale Price index (WPI) using Multiple Regression Model. These variables have been purposefully selected for assessing the impact of FDI inflows as these variables constitute and influence on the economic development especially among the developing economies like India. The present study is, therefore, an endeavour in this direction.

Objectives of the study

1) To identify and analyse the current status of FDI inflows in India during 2011-2021, and
2) To analyse the impact of FDI inflows into India on selected economic variables such as GDP, Exports, Trade Openness, WPI, Exports, Exchange Rate, Per Capita income using Multiple Regression model.

Time Period

In order to assess the impact of FDI inflows into India on selected variables of the data on FDI inflows and the economic variables for a decade period has been considered for analysis. Hence, an analysis in this paper is confined only to assess the impact of FDI inflows into India limiting to selected economic variables.

Data Sources

The FDI inflows and economic variables' data in the study are primarily based on secondary data collected from RBI annual reports, UNCTAD Data Centre, DIPP FDI reports, Research publications/reports published by various Government bodies and institutions, World Bank reports, etc.

Statistical Techniques used in the study

In order to analyse the impact of FDI inflows into India, the collected data has been analysed using Multiple Regression Model, descriptive statistics like Mean, Standard Deviation, Minimum and Maximum range, Skewness and Kurtosis and inferential statistics were used to arrive at meaningful inferences and conclusions.

i. Descriptive Statistics

It is a formal guideline to analyse descriptive statistics before performing the Multiple Regression Model . Descriptive statistics provides information about the status of the mean and variability of the variables selected in the study. These descriptive statistics analysis covers how to summarise, oraganise and present the raw data and its emphasis is on describing the raw data rather than interpreting and judging.

ii. Multiple Regression Model

It is a set of statisctical process for ascertaining the relationships between dependent variable (outcome) and one or more independent variables (predictors)

Formulation and Testing of hypothesis

H_o: There is no significant difference between FDI inflows over the years into India and among the select economic variables into India

Economic variables used in the study

1. **Gross Domestic Product (GDP)**

   GDP is a monetary related proportion of the market value of definite labor and products created and sold in a particular time span to assess its economic health.

2. **Employment**

   It is an agreement between two parties (employer and employees) which governs the provision of compensated labour services.

3. **Exports**

   Exporting is the process by which business from one nation sell their products and services to businesses or consumers in another nation as part of global trade.

4. **Trade Openness**

   It is the primary metric for Trade Openness. It is calculated by dividing the sum of exports and imports divided by Gross Domestic Product.

   Trade Openness = $(\frac{Exports+Imports}{GDP})$

5. **Per Capita Income (PCI)**

   Per Capita Income is a metric used to figure out how much money each person in a country or area makes. The PCI of a geographical area can be calculated by dividing the total income of a population by the population of that area.

6. **Wholesale Price Index (WPI)**

   It is a measurement of the changes in the prices of goods overall before the goods are sold at retail places. It includes the prices charged by manufacturers and, often outside the country, wholesalers. It is an indicator for inflation.

7. **Exchange Rate**

   It is defined as the rate of amount at which the domestic currency is to be paid in order to get a unit of foreign currency. It is the relative purchasing powers of the two countries currencies.

Multiple Regression Model equation

The following Multiple Regression equation is framed to assess the impact of FDI inflows in India

$$\mathbf{Y}_{\text{Foreign Direct Investment inflows}} = \mathbf{a} + \beta_{\text{Gross Domestic Product}} + \beta_{\text{Trade Openness}} + \beta_{\text{Exports}} + \beta_{\text{Per Capita Income}} + \beta_{\text{Wholesale Price Index}} + \beta_{\text{Exchange Rate}} + \beta_{\text{Employment}} + \epsilon_t$$

Where,

Yi Stands for = Foreign Direct Investment inflows

$\beta_1.xi_1$ = Gross Domestic Product

$\beta_2.xi_2$ = Trade Openness

$\beta_3.xi3$ = Exports

$\beta_4.xi_4$ = Per Capita Income

$\beta_5.xi_5$ = Wholesale Price Index

$\beta_6.x_6$ =Exchange Rate

$\beta_7.xi_7$ = Employment and

ϵ_t = Error term

Multiple Regression Analysis is fitted by using proper econometric technique Multiple regression model. It is used to measure the impact of FDI inflows on the selected economic variables. Goodness of fit techniques such as determination of Co-efficient of R^2, Standard error of co-efficient are calculated to find out the best fit model.

Variables Selection

For choosing the right combination of variables which are useful to find the variations in the flow of FDI into India were selected based on the theoretical rationale and literature on FDI to find out various alternative combinations of variables for estimation. This Multiple regression

analysis is done in 2 steps. In the first step, all the variables are considered in the estimable model, the second step insignificant variables are removed to keep out the problem of multicollinearity and in this way, the variables were selected. In the present paper the researcher included the macroeconomic variables like Gross Domestic Product (GDP), Trade Openness, Exports, Per capita Income, Wholesale Price Index (QPI), Exchange Rate and Employment and accordingly analysis is made.

Analysis, Interpretation of data and findings of the study

For a systematic analysis and interpretation of data and thereby to reach meaningful and logical findings, the collected data on select economic variables data for the study period are presented in Table 1. The table also depicts the results of the descriptive statistics such as mean, median, standard deviation; skewness and kurtosis are used for knowing the overall status of FDI inflows into India.

Analysis of Descriptive Statistics

The quantum of FDI inflows in any country is an indication for the presence of liberal policy of the host country that attracts FDI inflows and vice versa. More FDI inflows will accelerate the overall growth of the economy. The results of descriptive statistics are presented in table 1. From the table it is observed that FDI inflows in US $ Millions to India has been found increasing except in 2016-17 and 2020-21. Descriptive statistics results reveal that the dependent variable FDI inflows mean is 41694.7 and its standard deviation is 11275.69 i.e. variables on average disperse meagrely. The range of the dependent variable varies between 24196 to 64072. The mean of GDP is 2436993, its standard deviation value is 447189.529. It indicates that the data on an average disperse meagrely. It is further found that the GDP is increasing year by year except in 2019-2020. The GDP values range between 1860877 to 3171347. The Mean of the selected economic variables in table 1 Trade Openness, Exports, Per capita income, WPI (Whole Sale Price Index), Exchange Rate and Employment (1112007, 496057.6, 1788.2, 129.7, 65.5, 0.49) respectively. The SD (Standard Deviation) of the selected variables Trade Openness, Exports, Per capita income, WPI (Whole Sale Price Index), Exchange Rate and Employment is 143349.50, 65158.44, 280.85, 9.190, 6.62 and 0.024 respectively. The range of Trade openness varies from 94008 to 1419808, Exports range varies from 428577 to 643458, GDP Per Capita

income data ranges from 1434 to 2257, WPI ranges from 118 to 150, Exchange rate data ranges between 53 to 74 and the Employment per cent ranges from 0.44 to 0.52.

Skewness is a measure of the asymmetry of a distribution. A positive skewness indicates that the distribution of the variable is skewed to the right. On the other hand, negative skewness indicates that it has relatively lower values compared to the median. From the above table it can be detected that mean of FDI inflows, Trade Openness, Exports, and WPI (Wholesale Price Index) have relatively higher values compared to the median. GDP, and GDP per capita income have a slightly positive skewness, implying a similar pattern but to a lesser extent. On the other hand, Employment and Exchange Rate have a negative skewness, indicating that their mean has relatively lower values compared to the median.

Kurtosis measures the heaviness of the tails of a distribution compared to the normal distribution. A positive kurtosis indicates heavy tails, while a negative kurtosis indicates light tails. In this case, FDI inflows, Trade Openness, Exports, WPI and Employment have positive kurtosis values, suggest that the distribution of these variables has relatively heavier tails, indicating the presence of outliers or extreme values. GDP, GDP Per Capita Income, and Exchange Rate have negative kurtosis values, indicating lighter tails.

Table 1 Details of FDI inflows into India and the selected Economic variables data for a decade Period from 2011-2021

Financial Year	**FDI inflows in (US $ Millions)**	**Economic Variables**						
		GDP (US $ Millions)	**Trade Openness (US $ at current prices in Millions)**	**Exports in (US $ Millions)**	**GDP Per capita income (current US $)**	**WPI (%)**	**Exchange Rate (₹ value in US $)**	**Employ-ment in (%)**
2011-2012	24196	1860877	1079906	446990	1434	118	53	0.52
2012-2013	28199	1917054	1076308	468864	1438	124	59	0.51
2013-2014	34582	2042939	1086334	485577	1560	128	61	0.51
2014-2015	44064	2146759	961137	428577	1590	123	64	0.50
2015-2016	44481	2290591	940088	430435	1714	123	67	0.50
2016-2017	39904	2624329	1096108	489459	1958	127	65	0.50
2017-2018	42156	2761338	1232531	537095	1974	133	68	0.49

2018-2019	50558	2889949	1214253	546020	2047	135	70	0.49
2019-2020	64072	2664749	1013593	484101	1910	136	74	0.44
2020-2021	44735	3171347	1419808	643458	2257	150	74	0.46
Observations	10	10	10	10	10	10	10	10
Sum	416947	24369932	11120066	4960576	17882	1297	655	4.92
Mean	41694.7	2436993	1112007	496057.6	1788.2	129.7	65.5	0.49
Standard Deviation	11275.69	447189.529	143349.504	65158.448	280.852	9.190	6.621	0.024
Minimum	24196	1860877	940088	428577	1434	118	53	0.44
Maximum	64072	3171347	1419808	643458	2257	150	74	0.52
Skewness	0.366	0.188	1.057	1.338	0.161	1.152	-0.458	-1.560
Kurtosis	0.880	-1.268	1.235	2.039	-1.183	1.805	-0.323	2.023

Source: Data compiled from DIPP FDI reports and economic variables data from UNCTAD and World Bank reports, 2011-2021.

Multiple Regression Analysis

In order to perform Multiple Regression, underlying assumptions must be tested as a precondition, if not done, the regression results will be spurious. Hence, the Multicollinearity test and Breusch-Pagan test for Heteroscedasticity tests were administered as under.

Multicollinearity Test

This test was done for different variables of independent and the results were interpreted in table 2. To find the co-linearity of the variable the Variance Inflation Factor (VIF) is performed. In order to check co-linearity the threshold limit is 10, if VIF crosses 10 then problem of multicollinearity arise. It is evident from table 2 that VIF of the variables in the study is less than the threshold limit of 10. Hence, no multicollinearity is detected and that to vey low.

Table 2 Multicollinearity Test Results

	VIF
GDP	2.14
Trade Openness	1.65
Exports	1.07
GDP Per capita income	2.36
WPI	2.47
Exchange Rate	2.15
Employment	1.77

Source: R Programming software

Results of Multiple Regression Model on FDI inflows

In order to analyse the variables and to know whether is there any association between the predictor and outcome, multiple regression technique is done. In order to ensure whether the model is robust various assumptions underlying were taken care and done by doing various diagnostic tests.

Table 4 Regression Statistics

Multiple R	0.988745701
R Square	0.977618062
Adjusted R Square	0.899281279
Standard Error	3578.476641
Observations	10

The coefficient of determination, (R^2 is 0.97761) represents that 97.76 per cent of variation in dependent variable of FDI inflows is explained by the variables which are predicators such as Gross Domestic product, Trade Openness, Exports, Per capita income, Whole Sale Price Index (WPI), Exchange rate and Employment. It also indicates that the R^2 value 0.97761 is very closer to 1 and hence, the fitted regression line is a perfect fit.

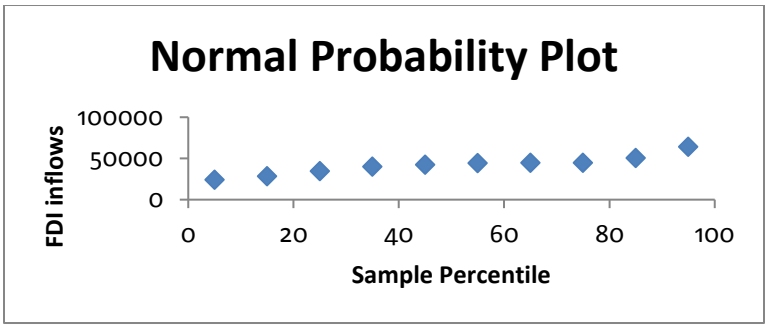

Fig: Normal Probability Plot of FDI inflows

Table 5 ANOVA Results

	df	SS	MS	F	Significance F
Regression	7	1118659452	159808493.1	12.47968097	**0.07616958**
Residual	2	25610990.14	12805495.07		
Total	9	1144270442			

The significance value of F-Statistics of regression model is **0.076169** which is greater than 0.05 (0.0761>0.05) at 95 per cent of significance. Hence, the model is insignificant.

Table 6 Calculations of co-efficient, Standard Error, t-stat and P-value of the variables

Economic Variables	**Coefficients**	**Standard Error**	**t Stat**	**P-value**
Intercept	78132.63	180741.12	0.43	0.71
GDP	0.10	0.06	1.58	0.26
Trade Openness	-0.11	0.13	-0.84	0.49
Exports	0.04	0.46	0.08	0.94
Per capita income	-111.52	72.25	-1.54	0.26
WPI	817.38	2020.47	0.40	0.72
Exchange Rate	-725.55	1856.39	-0.39	0.73
Employment	-61824.84	159825.03	-0.39	0.74

Predictors: GDP, Trade Openness, Exports, Per Capita income, WPI, Exchange Rate, Employment

Dependent Variable: FDI Inflows

Source: R Programming and Microsoft Excel

The estimated co-efficient of GDP, Exports and WPI have positive co-efficient such as (0.10, 0.04 and 817.38 respectively), where as the co-efficient of Trade Openness, Per Capita Income, Exchange Rate and Employment have a negative co-efficient such as (-0.11, -111.52, -725.55 and -61824.84 respectively)

Heteroscedasticity Test

In order to test the validity of the data, the following null hypothesis is to be framed and tested

Null hypothesis Ho: Errors terms have constant variance

The Breusch-Pagan Test for Heteroscedasticity test results were presented in table 3. The test result depicts that the P-Value is less than the level of significance at 95 per cent (P-Value 0.0075 < 0.05). Hence, the null hypothesis is rejected it implies that there is Heteroskedasticity.

Table 3 Breusch-Pagan Test for Herteroscedasticity Test

Chi-Square	9.7762
P-Value	0.0075

Source: R Programming software

Major Findings

The following are the findings arrived based on the statistical techniques used for interpretation.

1. In the study period, it was found that the FDI inflows over the years have been showing an increasing trend except in 2016-17 and 2020-21. The Mean of the FDI inflows is 41694.7 and the range of FDI inflows is between 24196 to 64072.

2. The GDP of India in the study period showed a positive growth in all the years over previous years except in 2019-2020.
3. It was found in the study that the Trade openness in India was not consistent and it indicates that the economic growth and investments were not much stimulated by trade openness.
4. It was found that the value of exports from India witnessing an increasing year by year except in 2014-2015 and in 2019-2020.
5. Regarding the GDP Per Capita Income, it is also found that the same is increasing except in 2020-2021. This indicates that the per capita income of the people in the country found increased. This gratifies that increase in Per capita income would enhance the standard of living that ultimately would have impact on the economic development of the country.
6. The Wholesale Price Index in the study found increasing over previous years except in 2014-2015. It indicates that the prices of the products found increasing year by year over previous years. This leads to increase in the prices of the products in the country and leads to inflation in the country.
7. It is found in the study that the exchange rate of Rupee has been increasing in all the years except in 2016-2017. It implies that the value of rupee found decreasing. It is not a good indicator in the development of the economy.
8. It was surprisingly found in the study that there is a positive growth in the FDI inflows into India but the employment rate is found decreasing year by year.
9. Independent variables are contributing to the extent of 97% of the variation in FDI inflows. Hence, the model is found to good fit despite there is insignificant influence towards response variables.

Conclusion

Thus it can be summed up that though there has been an increase in FDI inflows in the country and also GDP over the years. Correspondingly impact could not be found statistically significant on the selected economic variables. Resulting in increase in Wholesale Price Index, decrease in Employment rate, increase in Exchange Rate and also Rupee value. Therefore, it is suggested that the FDI in MSMEs should be encouraged that ensures an increase in local

employment and a scope for increase in exports there by possibility to increase in Rupee value at global level.

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