



An Empirical Study on Trends & Patterns off DI & FII on Indian Economic Growth in Connection with Pre and Post Crisis Period

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Abstract

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA). This step was taken to add some source of capital formation in India as other developing economies were already in this practice. As a result inflow of Foreign Capital has become striking measure of economic development in both developed and developing countries. Now the developing countries are witnessing changes in the composition of capital flows in their economies because of the expansion and integration of the world equity market. FDI and FII thus have become instruments of international economic integration and stimulation. The Indian stock markets are also experiencing this change. FDI & FII are becoming important source of finance in developing countries including India. It is widely assumed that FDI & FII along with some other external factors such as global economic cues, Exchange rate and Internal factors such as demand and supply, market capitalization, EPS generally drive and dictates the Indian stock market. The current paper makes an attempt to study the relationship and impact of FDI & FII on Indian stock market using statistical measures correlation and regression analysis. Sensex and CNX Nifty were considered as the representative of stock market as they are the most popular Indian stock market indices.

This study conducted Based on 10years data starting from 2004 to 2014, it was found that the flow of FDI has no significant impact on stock market but FII in India determines the trend of Indian stock market.

KEYWORDS: *Foreign Direct Investments, Stock Market, Determinants, , Sensex.*

Introduction:

To understand the FDI means in Indian context, we have to look into our history, in early 1498 when a Portuguese Vaskodigama arrived at Calicut. He saw the prosperity of Indians. He introduced India in whole world. Later people started to visit India. Portuguese, Dutch, British and French established their premises in India and started trading with Indian people and dynasties. Sir Tomas Roe was the first British who came as the ambassador of British emperor and get the permission of trading in Mughal India. After this they created the 'East India Company' and started their business. It was the initial form of FDI in India. Later it got many changes according to the world's financial status and become more popular word as foreign direct investment. But due to bad experiences of 'East India Company' at the time of independence, the attitude towards foreign capital was

one of fear and suspicion. This was natural on account of the previous exploitative role played by it in 'draining away' resources from this country.

Foregine Direct Investment (FDI):

FDI is a controlling ownership in a business enterprise in one country by an entity based in another country.

Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the Financial Times, "Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies.

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Moreover, control of technology, management, even crucial inputs can confer de facto control."

The origin of the investment does not impact the definition as an FDI, i.e., the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country.

Foreigne Institutional Investors(FII):

FII are organizations which pool large sums of money and invest those sums in securities, real property and other investment assets. They can also include operating companies which decide to invest their profits to some degree in these types of assets.

Typical investors include banks, insurance companies, retirement or pension funds, hedge funds, investment

advisors and mutual funds. Their role in the economy is to act as highly specialized investors on behalf of others. For instance, an ordinary person will have a pension from his employer. The employer gives that person's pension contributions to a fund. The fund will buy shares in a company, or some other financial product. Funds are useful because they will hold a broad portfolio of investments in many companies. This spreads risk, so if one company fails, it will be only a small part of the whole fund's investment.

An institutional investor can have some influence in the management of corporations because it will be entitled to exercise the voting rights in a company. Thus, it can actively engage in corporate governance. Furthermore, because institutional investors have the freedom to buy and sell shares, they can play a large part in which companies stay solvent, and which go under.

I. Financial Year-wise Fdi Inflows Data:

A. As Per International Best Practices:

(Data on FDI have been revised since 2000-01 with expended coverage to approach International Best Practices)

FINANCIAL YEARS 2000-01 TO 2018-19								
S.No	Financial year	AR	EC	RIE	OC	Total FDI Flows	% Growth	FII's
1	2000-01	4,029	61	1,350	279	4,029	-	1,847
2	2001-02	6,130	191	1,645	390	6,130	(+) 52 %	1,505
3	2002-03	5,035	190	1,833	438	5,035	(-) 18 %	377
4	2003-04	4,322	32	1,460	633	4,322	(-) 14 %	10,918
5	2004-05	6,051	528	1,904	369	6,051	(+) 40 %	8,686
6	2005-06	8,961	435	2,760	226	8,961	(+) 48 %	9,926
7	2006-07	22,826	896	5,828	517	22,826	(+) 155 %	3,225
8	2007-08	34,843	2,291	7,679	300	34,843	(+) 53 %	20,328
9	2008-09	41,873	702	9,030	777	41,873	(+) 20 %	(-) 15,017
10	2009-10	37,745	1,540	8,668	1,931	37,745	(-) 10 %	29,048
11	2010-11	34,847	874	11,939	658	34,847	(-) 08 %	29,422
12	2011-12	46,556	1,022	8,206	2,495	46,556	(+) 34 %	16,812
13	2012-13	34,298	1,059	9,880	1,534	34,298	(-) 26%	27,582
14	2013-14	36,046	975	8,978	1,794	36,046	(+) 5%	5,009
15	2014-15	45,148	978	9,988	3,249	45,148	(+) 25%	40,923
16	2015-16	55,559	1,111	10,413	4,034	55,559	(+) 23%	(-) 4,016
17	2016-17 (P)	60,220	1,223	12,343	3,176	60,220	(+) 8%	7,735
18	2017-18 (P)	44,857	664	12,542	2,911	60,974	(+) 1%	22,165
19	2018-19 (P)(up to Dec.-18)	33,493	495	9,973	2,663	46,624	-	(-) 13,694
CUMULATIVE TOTAL		4,12,027	15,267	1,36,419	28,374	5,92,087	-	2,02,781
(from April, 2000 to Dec, 2018)								

Sources:



(i) RBI's Bulletin February, 2019 dt.13.02.2019 (Table No. 34 - Foreign Investment Inflows).

AR : Automatic Route/Acquisition Rate

EC : Equity Capital

RIE : Re Invested Earnings

OC : Other Capital

Statement of the Problem:

The present study tries to assessing the Trends & Patterns of FDI & FII on Indian Economic Growth in connection with Pre and Post Crisis Period.

Objectives of the Study:

1. To find out the growth rate of FDI, FII.
2. To examine the relation between FDI and FII on Indian Economy.
3. To identify the pre-crisis and post-crisis period and examine the flow of FDI and FII
4. To test the difference in terms of FDI and FII with respect to pre and post crisis period.

Hypotheses of the Study:

Ho = There is no significant difference in terms of FDI inflows and FII's with respect to pre-crisis and post crisis.

H1 = There is significant difference in terms of FDI inflows and FII's with respect to pre-crisis and post crisis.

Scope of the Study:

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India. The study works out the

trends and patterns, main determinants and investment flows to India. The study also examines the role of FDI on economic growth in India for the period 2004-2014. The period under study is important for a variety of reasons. First of all, it was during July

2014 India opened its doors to private sector and liberalized its economy. Secondly, the experiences of South-East Asian countries by liberalizing their economies in 2014s became stars of economic growth and development in early 2014s. Thirdly, India's experience with its first generation economic reforms and

the country's economic growth performance were considered safe havens for FDI which led to second generation of economic reforms in India in first decade of this century. Fourthly, there is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. Fifthly, increase in competition for FDI inflows particularly among the developing nations.

Research Methodology:

With a view to achieve the objectives of the present study, the secondary sources of information have been utilized. The history, genesis, components, growth, performances etc. of the Foreign Institutional Investments and Indian capital market have been examined on the basis of secondary data like periodicals, magazines, text books, journals, reports, office records of various organizations like SEBI, RBI and ministry of finance, and different websites containing information and data of FIIs and Indian Capital market. Thus, research work is heavily banked on the secondary source of information.

The following tools were used in this research is;

Correlation analysis,

Descriptive statistical analysis,

Review of Literature:

Bhattacharyya Jita, Bhattacharyya Mousumi (2012), "Impact of Foreign Direct Investment and Merchandise and Services Trade of the Economic growth in India: an Empirical study" , the study revealed that there was a long term relationship between FDI, merchandise, service trade and economic growth of India. Bi-directional causality is observed between merchandise trade and economic growth, services trade and economic growth. Unidirectional causality is observed from FDI to economic growth and FDI to merchandise trade. A unidirectional causality is also observed from merchandise trade to services trade.

Singh S., Singh M. (2011), "Trends and prospects of FDI in India"

This study investigates the trend of FDI inflow to India, during 1970-2007 using time series data. This paper aims to study the reasons behind the fluctuations of the FDI inflow in India and to search the cause that is responsible for the fluctuations of the trends of FDI.

Singh Y., Bhatnagar A. (2011), "FDI in India and China; A comparative analysis"

The study found that both enjoys healthy rates of economic growth but FDI inflow in china is higher than India.



Figure 1: Impact of FDI and FII on Indian Stock Mark

Data Analysis And Interpretation:

Table Represents Descriptive Statistics of FDI And It's Determenents:

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Fdi	120	127	6041	1680.41	1220.08
Bse	120	4759.62	22386.3	14664.5	4817.14
Fii	120	10742.3	128151	60964.6	27464.9
Valid N (listwise)	120				

Source: RBI bulletin 10 Years data (Monthly data from 2004-2014)

Interpretation:

The above table represents descriptive statistics of FDI, BSE and FII used in this study. It found that the Mean FDI is Rs.1680.4083 cr in India during the period of study (2004-2014). The average net investment by FII's in stock market is found to be Rs.60964.6007 cr. Industrial Growth rate is seen higher. BSE Sensex averaged at Rs.14664.4795 cr since 2004-2014 as shown by the table.

The table also represents the minimum, maximum, mean and Standard deviation in the case of FDI, BSE and FII. Standard deviation in case of FII investment is found much higher as compared to FDI which shows that FII's investment are more volatile than FDI.

Table Represents Correlation Between FDI And Its Determinants:

Correlations				
		FDI	BSE	FII
Fdi	Pearson Correlation	1	.511**	-.306**
	Sig. (2-tailed)		0	0.001
	N	120	120	120
Bse	Pearson Correlation	.511**	1	-.547**
	Sig. (2-tailed)	0		0
	N	120	121	120
Fii	Pearson Correlation	-.306**	-.547**	1
	Sig. (2-tailed)	0.001	0	
	N	120	120	120

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

This table represents the karlpearson correlation between the FDI and its determinants like FII and SENSEX. As per the table FDI is having high positive correlation with BSE. In case of FII as per the table there is a low degree negative correlation with other determinants.

Crisis Descriptive:

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
PRE CRISIS FDI	48	127.00	5670.00	1019.7917	1208.36212
CRISIS FDI	12	1083.00	3932.00	2277.0000	895.25740
POST CRISIS FDI	60	1042.00	6041.00	2089.5833	1045.04661
PRE CRISIS FII	48	-10214.60	29195.80	7859.4917	10596.91295
CRISIS FII	12	2113.50	20606.90	9804.0083	6632.11919
POST CRISIS FII	60	-17326.30	18948.50	1897.2905	6599.53088
PRE CRISIS SENSEX	48	4759.62	20286.99	10860.3750	4449.22643
CRISIS SENSEX	12	8891.61	17287.31	12124.8025	3055.49713
POST CRISIS SENSEX	60	11403.25	22386.27	18087.0020	1917.90353
Valid N (listwise)	12				

Interpretation:

The above table represents descriptive statistics of post crisis period, crisis period and pre crisis period used in this study between the FDI, FII and SENSEX. It found that mean of pre crisis period is 1019.7917 in India during



the period of the study (2004-14), on crisis period mean is 2277 and post crisis period the mean is 2089.5833. The average net investment by FII in stock market in the pre crisis period is 7859.4917, crisis period is 9804.0083 and in post crisis period is 1897.2905. In the period of the study SENSEX on pre crisis period is 10860.3750, on crisis period is 12124.8025 and on post crisis period is 18087.0020

In case of standard deviation during the study we found that the FDI pre crisis period is 1208.36212, on crisis period is 895.25740 and on post crisis period is 1045.04661. The standard deviation of net investment by FII is on the pre crisis period is 10596.91295, on crisis period is 6632.11919 and on post crisis period is 6599.53088. In the period of the study standard deviation of SENSEX on the pre crisis period is 4449.22643, on crisis period 3055.49713 and on post crisis period is 1917.90353

Compared to three periods with FDI, FII and SENSEX in crisis period the mean of FDI and FII is high but in post crisis period SENSEX is high compared to pre crisis and crisis periods. In case of standard deviation with respect to three periods and FDI, FII and SENSEX the pre crisis period is having high standard deviation.

Findings & Suggestions:

- ✍ The FDI has the highest correlation between FII and BSE during the period 2004-14.
- ✍ There is a significant difference interims of FDI inflows with respect to PRE CRISIS and POST CRISIS periods, during the period of study.

- ✍ There is a significant difference interims of FII inflows with respect to PRE CRISIS and POST CRISIS periods, during the period of study.
- ✍ There is a significant difference interims of SENSEX inflows with respect to PRE CRISIS and POST CRISIS periods, during the period of study.
- ✍ During the pre, post and crisis periods with FDI, FII, SENSEX:

Crisis: mean of FDI & FII is high

Post Crisis: SENSEX is high

In case of Standard deviation with respect to the three periods the PRE CRISIS period is having high Standard deviation.

Conclusion:

The role of investment in promoting economic growth has conventional considerable concentration in India since independence. But the role of foreign institutional investment in the economic development of India is a recent topic of discussion among economists and development planners. Since the implementation of the new economic policies in early 1990s, India emerged as an important destination of global investors' investment. It is from September 14, 1992, FIIs have been investing on financial instruments in India and providing incentives for financial innovations in the country. Recently, FIIs have become the movers and shakers of the market. Given this growing importance of FIIs for the Indian economy, it is necessary that the energetic of such cross-border portfolio investment in the context of economic growth of the country be examined. It is with this aim an attempt has been made in this empirical research study.

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