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IMPACT OF FDI ON INDIAN CAPITAL MARKETS

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ABSTRACT

Foreign Direct Investment (FDI) plays an essential successive role in the economic development of both advancing and advanced countries. Unprecedented neo-globalizations have witnessed double-digit economic increasing prosperity resulting in ferocious competition and accelerated pace of improving innovations. An immense number of the nations are integrated and pursuing their international operations due to foreign direct investment. Rapid developing economies like China, Singapore, Korea, etc. have registered splendid increases on the set of FDI. FDI offers a get entry to foreign capital; however, those also allow providing the most modernized technologies to be had, numerous exceptional kinds of equipment of innovations. The government now plays a critical role in drafting and implementing various growth policies relating to FDI inflows.

The government's FDI policies would serve as an incentive for foreign investors to come to India. Hence, FDI inflow will contribute to our economic growth and also impact the Indian capital market. The study examines the effect of foreign direct investment on the Indian capital market. The study is based purely on secondary sources of data, 19 years of data used from 2001 to 2019, and used various statistical instruments like Coefficients of correlation and regression methods. Sensex and Nifty reflect the Indian capital market, hence used to investigate the effect. The paper concludes that the flow of FDI was affluent between 2001 and 2019, and the flow of FDI in India defines the pattern of the Indian capital market.

Introduction

A large number of countries have seen their economic growth accelerate. After investigating the reasons, it came to known that FDI plays a vital role in developing and developed countries. Developed country's economic development via FI and FDI various countries are incorporated into the current global competitive climate. In addition to economic growth and job creation. FDI help provide the most modernized technology available in the sector and economic growth and job creation in a region. The Indian government created an incentive or favourable conditions in 1991(NEP)when it opened the doors for foreign capital inflow into India through foreign direct investment. Unprecedented globalization resulted in double digital economic growth resulting in fierce competition and a faster rate of innovation. Governments of advanced and emerging countries have been wooing MNCs to invest their FDI in their respective countries. This information was critical for India, which has emerged as one of the most exclusive and appealing capital investment destinations. Foreign Direct Investment is the investment made by a company based in one country into a company based in another country; companies that make their investments in the fixed assets have a substantial amount of effect and regulate over the business in the other country.

The Government trade barriers and policies for foreign investments may also impact FDI, resulting in less or more productive contributions to the economy and GDP. On the other hand, the increase of foreign capital delivers prospects for technical improvement, gaining access to the global management expertise and practices, maximizing human resources use, and competing globally with the highest productivity to Indian trade sectors. The considerable number of empirical studies on the position of FDI in host countries indicate that foreign capital, like domestic private Investment, is generally correlated with new job opportunities and augmentation of technology transfer and boosting general economic growth. It observed that there is a triangular causal relationship:

- FDI stimulates the economic growth
- Economic growth encourages capital market development and
- FDI is associated with the capital market.

Need for FDI in India:

The expansion of infrastructure such as Roads, Banking Services and Insurance Services, Railways, Warehouses, Sea Ports are essential for economic growth. Therefore, India needs a large amount of foreign capital in the form of FDI. Furthermore, rapid industrialization and connectivity have increased the need for foreign capital in various sectors. Many developing countries face severe funding shortages in infrastructure, and allow international capitalists to invest in it can solve. To put it another way, fluctuations in the cost of capital are also a significant factor in attracting foreign capital in India; to put it another way, fluctuations in the cost of capital are also an important factor in attracting foreign capital to India. In India, for example; Interest rates are higher than in developed economies. Interest rates in most countries range from 2% to 5%, while in some countries, such as India, interest rates are as high as 15% to 20% per year.

REVIEW OF LITERATURE

Indian economy triggered the Balance of Payments crisis in 1990; consequently, the economy drained, external debts and exports added to the economy's woes. Since India is on the verge of defaulting on its external payments, putting its gold reserves at risk, Indian economists have opted for a more liberal and global approach to FDI inflows. International investors have also gained interest as a result of liberalization and globalization policies and initiatives.

John Andreas (2006) The impact of FDI inflows on host countries in economic development was explored by John Andreas, dataset covering 90 countries, he uses cross-section and panel data analysis. Technological spill overs and physical capital inflows result from FDI inflows. Thus, FDI should have a favourable impact on economic development, according to the report. The empirical section of the research looks at evidence showing FDI inflows boost economic growth in developing countries but not in wealthy countries.

Nitin K. (2008) examined the effect of FDI &FII on India. This study aims to uncover trends and patterns in foreign direct investment (FDI) into India from various countries between 1991 and 2007. During the post-liberalization phase & the effect of foreign institutional investors on the movement of the Indian stock exchange from 1991 to 2007. The study finds that net FDI inflows into India increased by 200 percent between 2000 and 2005, and net FDI inflows in 2005-2006 totalled $15.7 billion. Mumbai and New Delhi receive nearly half of all FDI. In the researcher's opinion, the economic reform process, which began in July 1991, has opened several sectors to financial institutions. The report concludes that foreign direct investment had a significant effect on the Indian capital market.

Tomsaz M.S, Rasosevic, and Urmas Varblane (2005) In their study "The Value of Diversity: Foreign Direct Investment and Jobs in Central Europe During Economic Recovery," Tomsaz M.S, Rasosevic, and Urmas Varblane (2005) examine the role of FDI in job generation and job preservation, as well as their impact in modifying the employment structure. The study also analyzes the rising differences in the sectoral distribution of FDI jobs across nations linked to FDI inflows.

Kumar (2003) examined the influence of FII inflows on the Indian stock market "as expressed by the Sensex" using monthly data from January 1993 to December 1997. It concluded that FII investment is impacted by fundamentals rather than short-term market movements or technical positions. To see if Net FII investment has any effect on Sensex, a regression of NFI, the first difference of Sensex, and one lagged value of the error correction term the residual generated by estimating the regression between NFI and Sensex. A one-month lag was also advantageous in regression using the Sensex as the dependent variable.

Chopra (2001) investigates "the effect of policy changes on the FDI in India." The study conducted using annual data from 1980 to 2000. As explanatory variables of FDI inflows in India, the research includes policy-related variables such as the degree of openness of the economy, debt-service ratio, foreign exchange rate, and GDP. However, GDP is the most significant truth, according to empirical evidence.

Prasanna (2008) the impact of "foreign institutional investment, especially among companies including the Sensex of the Bombay stock exchange." was investigated. It looked at the connection between foreign institutional Investment and specific firm characteristics such as ownership structure, financial performance, and stock performance. It found that foreign investors put more money into companies with a high growth rate. Foreign investments and the promoters of holdings are inversely linked. Foreign investors prefer companies where the promoter's family owns a small percentage of the business—variables in financial performance that affected the FIs financial decisions.

Khan and Siddiqui 2011) investigated the impact of FDI on the Indian economy and comparison with China and the United States. The paper also attempts to carve out a series of methods for dealing with issues and problems attracting FDI to promote and grow foreign trade. In this paper, the effective double log model was used to determine the elasticity of various variables. They also emphasize the effect of FDI on jobs. The study founds that there is a positive relationship between FDI and employment in India.

Bhanagade, and Shah Pallavi (2011), examine the effect of FDI on the Indian Economy. The paper focused on investments in the sectors that attract the most FDI inflows and how FDI creates employment opportunities. As a result, increased FDI inflow would result in increased Gross capital accumulation in India. They found that FDI has a significant impact on GDP Growth.

Chaturvedi Ila (2011) study on FDI inflows with particular to sector-wise inflows in India looks at the sector-by-sector-wise distribution of FDI to determine which sector has attracted the most FDI in India. And, to determine the relationship between FDI and economic development, it was discovered that there is a higher degree of importance between FDI and economic development.

Objectives of the Study:

- To analyze the trends and patterns of foreign capital flow into India.
- To assess the effect of Foreign Direct Investment on the Indian capital market.

Research Methodology

Collection of Data: This Study depends on Secondary sources of data and required data related to FDI, Sensex, and Nifty collected from Bulletins in the Ministry of Commerce, SEBI reports, and other official websites.

Sample size: The present Study considers data of 19 years from 2001 to 2019 in India.

Tools of analyses: This collected data chronicled, evaluated, analyzed, and interpreted in the utmost significant manner with the help of SPSS software and Excel sheet. The Correlation and Regression statistical tools are used to analyze the relationship between FDI investment and selected capital market indices.

Data Analysis and Interpretation:

This data analysis and interpretation show the securities & commodities together are between the favorite pursuing spots of foreign stakeholders. These businesses plea to investors as they have long-term prospects and significant bets on the nation's growth. The flow-on FDI (independent variable) amplified the Indian economy and also provided utmost benefit opportunities to Indian different sectors (2^{nd} and 3^{rd}) for technological up-gradation, gaining access of practical immeasurable global managerial skills and implements, sufficient of enhancing utilization of human and natural resources and international competitive advantages with better efficiency. The most important thing is that FDI is central for India's amalgamation into global production chains, which includes production by MNCs spread across localities worldwide. The following table 1 presents the flow of FDI in India in terms of US $(dollar) million, Sensex, and CNX nifty in the capital market (dependent variables). The flowing of FDIs has shown an increasing trend, but absolute gain started from 2006-07 and kept moving 48501 USD upward in 2019. Similarly, the Sensex and the CNX nifty described the upward trend, implying that these four variables are positively connected.

Table-1 Trends of FDI, Sensex and Nifty

year	FDI (USD million)	SENSEX	CNX NIFTY
2001	4029	3262	1236
2002	6130	6602	1093
2003	4322	9387	1054
2004	5035	5838	1340
2005	8961	4378	1567
2006	6051	9647	1897
2007	22826	13763	2080
2008	34837	20286	2863
2009	41873	17464	3372
2010	37745	19427	3696
2011	34843	20509	4256
2012	46556	18675	5487
2013	36396	13787	5784
2014	55457	15454	6314
2015	46557	17985	6932
2016	34298	21170	7354
2017	48032	19426	8182
2018	49457	26117	8283
2019	48501	27499	9159
Source- DIPP			

Impact of FDI on the capital market of India

In this part, we examine the impact of FDI on SENSEX and NIFTY from 2001 to 2019. Foreign Direct Investment Taken as Independent Variable, SENSEX and NIFTY are taken as the dependent variable. Hence to examine the impact of FDI on Capital Markets OLS method has been applied by utilizing the SPSS software.

Model Building

$$Y=\alpha+\beta X \qquad \text{--------(1)}$$

$$\text{Sensex}= \alpha +\beta \text{ FDI} \qquad \text{--------(2)}$$

$$\text{Nifty}= \alpha +\beta \text{ FDI} \qquad \text{--------(3)}$$

Where, Y= Dependent Variable, X=Independent Variable, α =intercept and β=slope,

Impact of FDI on SENSEX

The table-2, reveals the model summary, r shows the correlation of coefficient, the value of r is 0.877, and it shows a positive correlation between the FDI and SENSEX. r^2 is the coefficient of determination that shows the ratio of the

Total Variation of the dependent variables. It indicated that the model explains 79.2 percent of the variation as adjusted R square attempts to yield a more important realistic picture of the fit of regression value to estimate the R square.

Table-2 Efficient Modal Summary

Model	R	r Square	Adj r Square	Std. Error of The Estimate
SENSEX	0.877a	0.792	.757	4171.71594

Table-3 ANOVA

Model	Sum of Squares	df	mean square	F	sig
Regression	885409793.305	1	885409793.305	50.896	.000b
Residual	261048208.224	15	17403213.882		
Total	1146458001.529	16			

Table-4 Coefficients a Model

Coefficients of Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(constant)	3365.787	1887.517		1.783	.095
FDI	.405	.057	.877	7.133	.000

dependent Variable: Sensex

The table-3 Anova Depicts test for the acceptability of the model, f statistic is found significant, and since the P-value is less than 0.05 so that alternative hypothesis is accepted, this shows that there is a significant relationship among the FDI and SENSEX, in Table-4, the β value for the FDI is 0.405. it means if Foreign Direct Investment increases 1unit, Sensex will increase by 0.045.

Impact of FDI on SENSEX

Table-5 Efficient Modal Summary

Model	R	r Square	Adj r Square	Std. Error of The Estimate
NIFTY	.876a	.771	.755	1254.73332

Table-6 ANOVA

Model	Sum of Squares	df	mean square	F	sig
Regression	79287072.431	1	79287072.431	50.362	.000b
Residual	23615335.569	15	1574355.705		
Total	102902408.000	16			

Table-7 Coefficients a Model

Coefficients of Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
(constant)	1060.912	567.711		1.869	.081
FDI	.122	.017	.878	7,097	.000

The table-5 reveals the model summary, r shows the correlation of coefficient, the value of r is 0.876, and it shows a positive correlation between the FDI and NIFTY. r^2 is the coefficient of determination that shows the ratio of the Total Variation of the dependent variables. It indicated that the model explains 71.1 percent of the variation. Finally, the table-6 Anova Depicts test for the model's acceptability, f statistic is found significant. Hence the Probability value is less than 0.05, the alternative hypothesis is accepted; it indicates a significant linear relationship between the FDI and SENSEX; in Table-4, the β value for the FDI is 0.122. it means if Foreign Direct Investment increases 1unit, Sensex will increase by 0.122.

Major findings

• Between 2001 and 2019, the flow of FDI has shown an upward trend.
• The FDI Sensex and the Nifty have a positive and linear relationship.
• Foreign direct investment (FDI) has a substantial impact on the Indian capital market.

Conclusion

The Flow of FDI boost The Indian economy and as well as provided more opportunities to Indian sectors and most importantly 3rd and 2nd sector of Industries for technological up-gradation attainment access to be Global managerial Skills and Competitive practices, augmenting utilizations of human and natural resources. This study powerfully depicted a solid positive and direct linear correlation between FDI & Sensex and FDI & CNX nifty. In The first model, Sensex is a dependent variable, and FDI is a significant interpreter. The study revealed that FDI had been a considerable predictor to measure the trend in the capital market.

Hence, it concluded that the most impact of FDI flow on the Indian Capital Market is important. The Inflow of FDI means a strong trend in the Capital Markets. This Statistical tool, tenancies such as Coefficient of Correlation and Regression analysis have the significant effect of FDI inflow on the capital market. Therefore the performance of foreign capital has influenced the behavior of capital market indices in India. Consequently, it's has been suggested that the government of India, besides its executing and regulatory bodies, should make further efforts to attract much more FDI for the smooth and rapid development of the capital market and the economy as a whole world.

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