AN ANALYSIS OF FOREIGN INVESTMENT IN INDIA

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Abstract
In this global integration process, the promotion of external trade, reduction of external debt and enhancement of foreign direct investment have assumed very crucial importance in the Indian economy. India has relaxed the FDI regulatory framework on a selective basis with reference primarily to the industrial sector since 1991. Such a positive and 'open-door' policy adopted by India towards foreign trade and investment is in contrast to its earlier ambivalent and restrictive approach. Likewise 'Trade or Perish' is the new mantra for the policy makers. The change in policy, as such, is a controversial one, but in the present day political climate, it is likely to continue in the coming years also. It is an issue, which needs more clarity and understanding. Moreover India is going to complete two decades of foreign investment very shortly. Therefore, it is apt to take a serious study on foreign investment in India.
Keywords: LPG, Foreign Investment, Portfolio Investment, GDP, Gross Fixed Capital Formation, Incurrence on Infrastructure, Exchange Rate, Degrees of Openness in Economy.

1. Introduction

For decades, India's external payments position has been under strain, punctuated by a number of episodes of extreme crisis when the country lived a hand to mouth existence. After the broad based reforms undertaken since 1991, the external sector is, in a sense, the true success story of Indian economic reforms. External sector is devoted to the policy changes in the field of both current account and capital account transactions, more especially foreign trade, foreign investment inflows, for ex reserves, external debt and the country's overseas investment. Prior to mid-1991, foreign trade of India suffered from strict bureaucratic and discretionary controls.

Similarly, the Government of India and the Reserve Bank of India tightly controlled foreign exchange transactions. At the beginning of mid-1991, the Government of India has introduced a series of reforms to liberalize and globalize the Indian economy. A reborn in the foreign investment of India is intended to integrate the Indian economy with the world economy and also should not be avoided. However, it needs to be managed, so that we can derive the maximum advantage from World markets".

2. Importance of the Study

Over a period of time, there has been a marked change in the ideology of the government towards integration of Indian economy with the World economy. The change in the ideology is reflected in the attitude of the government towards LPG policies. India is no exception to the changes taking place in the entire World. In this global integration process, the promotion of external trade, reduction of external debt and enhancement of foreign direct investment have assumed very crucial importance in the Indian economy.

India is one of the developing countries, which has introduced a liberalization policy and as a part of it, has relaxed the FDI regulatory framework on a selective basis with reference primarily to the industrial sector since 1991. Such a positive and 'open-door' policy adopted by India towards foreign trade and investment is in contrast to its earlier ambivalent and restrictive approach. Likewise 'Trade or Perish' is the new mantra for the policy makers. This paradigm shift is a serious issue to the scholars, economists and intellectuals of our country.

The change in policy, as such, is a controversial one, but in the present day political climate, it is likely to continue in the coming years also. It is an issue, which needs more clarity and understanding. Moreover India is going to complete two decades of foreign investment very shortly. Therefore, it is apt to take a serious study on foreign investment in India.

3. Statement of the Research Problem

As per the reviews made by the researcher on economic reforms and its impact on foreign investment in India, the liberalization process in India seems to be irreversible. While public opinion in India continues to move towards the view that liberalization of the economy has been good and more of it is needed, some scholars have turned skeptical. Economists Bradford Delong and Dani Rodrik, for example, argue that reforms cannot be credited with India's higher rates in recent years because the shift in the growth rate preceded the reforms of the 1990s.

In a related but slightly different vein, Joseph Stiglitz has contended that India also, like China, has bought the least into the globalization story that the IMF and others are selling. Recently Kamal Nayam Kabra in his article in alternative Economic Survey, India 2004-05 titled "Disequalising Growth". The Achilles Heel of Liberalisation highlighted the failure of reforms facts of Harsh Reality and listed a long list of evils of globalization process in India.

But De Rato the former, IMF Managing Director compared India's current economic boom to the early stages of the 'take off previously expressed by other Asian Economies. Moreover, he argued that if India can boost annual growth from 6 to 8 per cent annually, it can double average incomes in 11 rather than 16 years, dramatically rising living standards. Who's right? To test the move, i.e, the way, the foreign investment of the Indian economy is moving the researcher has chosen this vibrant topic for the study.

4. Objectives
The specific objectives of the study are:

1. To analyse the dynamics and connection between Foreign Direct Investment and Economic growth under liberalization in India.
2. To examine the growth, determinants foreign investment in India

5. Review of literature

Rudra Prakash Pradhan (2005) made an attempt to analyse the impact of globalization, argues that globalization is nothing but an increasing integration of economies around the world. However, the developments that have been taking place since the early 1990s are mainly with respect to free movement of only one factor input-capital, commonly known as Foreign Direct Investment (FDI), and free movements of goods, particularly from developed to developing countries. The paper, seeks to examine the inflows of FDI in the Indian economy during the decade 1990s. The study finds that the expansionary impact of FDI inflows in the Indian economy has been well managed during the globalization era.

Chandana Chakraborty and Peter Nunnenkamp (2006) have argued that the Foreign Direct Investment (FDI) has boomed in post-reform India. Moreover, the composition and type of FDI had changed considerably since India has opened up to world markets. This has fuelled high expectations that FDI may serve as a catalyst to higher economic growth. They assessed the growth implications of FDI in India by

subjecting industry-specific FDI and output data to Granger causality tests within a panel of co integration framework. It turns out that the growth effects of FDI vary widely across sectors. They found evidence to prove that industrial disputes and the prospects of currency depreciation did have a negative impact of DFI in Asia.

Shiralashetti. A.S and Hugar. S.S. (2009) have empirically stated that capital is the life blood of any production and distribution activity, and it plays an important role among the factors of production. The need of capital arises not only at the beginning of the venture, but also throughout the life span of the venture. However, capital, especially when in short supply, can be the limiting factor for starting, expansion and diversification of a venture. According to the Reserve Bank of India (RBI), India has received total Foreign Direct Investment (FDI) inflows of $50.1 billion since 1991. There has been tremendous progress in the various sectors of the Indian economy due to the inflow of foreign capital.

Srinivasan et al. (2010) used, Johansen co integration technique followed by the Vector Error Correction Model (VECM) and Standard Granger Causality test to investigate the causal nexus between Foreign Direct Investment (FDI) and economic growth in Association of South East Asian Nations (ASEAN) economies. The evidence from standard Granger causality test for rest of the ASEAN economies shows that there was no causality between GDP and FDI for Burnei Darussalam and Lao People's Democratic Republic. For Myanmar and Thailand, the test results show that there is a one-way short run Granger causal link from FDI to GDP and GDP to FDI, respectively.

6. Research Gap

The above analysis clearly shows that there are many studies in India and abroad regarding a particular aspect of the foreign investment. A comprehensive study covering the various aspects of foreign investment is missing. A holistic study combining the various elements of the foreign investment and a critical study of the selected foreign investment variables is the need of the hour. To achieve this objective, the researcher has chosen this vibrant topic for the study.

7. Methodology

Methodology refers to the method or methods used to conduct a research. When researcher design the research, it is necessary to plan all the procedure and methods to be used. As per the requirement of the paper, methodology for this paper comprises the following

7.1 Reference Period

The period of the study taken for analysis is 8 years (2010-11 to 2017-18). However, much emphasis has been given for India's external sector after the economic reforms process initiated after 1991 to assess the impact of external sector reform on Indian economy.

7.2 Data Source

This study is completely based on secondary data, since it requires aggregate time series data over a period of time. The secondary data has been obtained from various published and unpublished sources. The information required for the study has been collected from Reserve Bank of India Bulletin, RBI Report on Currency and Finance, Economic Survey, Statistical office records, annual reports available in government and non-government websites, various Indian Economy and Econometrics books, articles published in

Economic and Political Weekly, Global Economic Prospects, International Monetary Fund's Balance of Payments Statistics. Articles published in the Journal of Econometrics, International Review of Applied Economic Research, the Journal of World Economic Review, Asian African Journal of Economics and Econometrics.

7.3 Data Analysis and Tools Used

The collected data have been processed both manually and with the help of computer software systems, Microsoft EXCEL and Statistical Package for Social Sciences (SPSS) for the analysis of data and testing the hypotheses. The following, appropriate statistical tools have been used in this study.

The methodology adopted to analyse the dynamics of foreign investment are briefly presented as follows.

8. Foreign Direct Investment (FDI)

FDI is an important component of every nation's effort towards economic development and also is an integral part of the globalization of the world economy. All nations eagerly try to attract FDI. The success of any nation in attracting foreign investment is directly proportional to that nation's resources and the existence of lucrative investment opportunities.

8.1 India's FDI Growth

As a result of policy changes and government efforts, foreign investment in India is showing a positive trend. The growth of FDI is depicted in Table

Table 1:   Growth of Foreign Investment in India from 2010-11 to 2017-18(US $ Million)

Year	Direct Investment (A)	Portfolio Investment (B)	Total (A+B)
2010-11	4029	2760	6789
2011-12	6130	2021	8151
2012-13	5035	979	6014
2013-14	4322	11377	15699
2014-15	6051	9315	15366
2015-16	8961	12492	21453
2016-17	22079	7003	29082
2017-18	32435	29395	61830

Source: Reserve Bank of India Bulletin

Table1 shows that FDI has improved considerably over the years. FDI in India increased sharply from US $ 103 million during 2010-11 to US $ 61830 million during 2017-18 on the strength of expansion in domestic activity, positive investment climate, progressive liberalization of the FDI policy regime, and simplification of procedures. In line with international best practices, FDI includes equity capital, reinvested earnings (retained earnings of FDI companies) and other 'direct capital' (inter-corporate debt transactions between related entities). Data on equity capital include equity of unincorporated entities (mainly foreign bank branches in India and Indian bank branches operating abroad), besides equity of incorporated bodies. The improvement of FDI flows reflect the impact of recent initiatives aimed at creating an enabling environment for FDI and for encouraging infusion of new technologies and management practices. If we take 2010-11 as the base, the growth in FDI is impressive.

8.1.1 The Regression Results of FDI

Table 2 shows the regression results of FDI from 2010-11 to 2017-18. The value of 'b' is 1152.19, which shows that the FDI had increased at an absolute rate of US $ 1152.19 million per annum after the liberalization of economic reforms in India. The value of R2 is 0.54, which shows that 54 per cent variation in dependent variable is explained by independent variable. The semi-log model shows the value of 'b' is 0.2745, which means that the FDI had increased at an absolute rate of 27.45 per cent. The compound growth rate is 31.58 per cent.

8.1.2 The Regression Results of FPI

In post-reform period FPI had decreased at an absolute rate of 910.29 million per annum. The value of R4 is 0.46, which shows that 46 per cent variation found in dependent variable is explained by the explanatory variable.

8.1.3 The Regression Results of Total FI

The value of 'b' is 2062.48, which shows that the Foreign Investment had increased at an absolute rate of US $ 2062.48 million per annum. The value of R' is 0.55, which shows that 55 per cent variation found in dependent variable is explained by the explanatory variable. The semi-log model shows the value of 'b' is 0.2743, which shows that the FI had increased at an absolute rate of 27.43 per cent. The compound growth rate is 31.58 per cent.

8.2 Determinants of FDI in India

The aim of the Government of India is to maximize the flows of FDI into India. It is essential to identify the major determinants of FDI in India so that corrective steps could be taken to maximum the inflows. As stated in the methodology part, the following model is adapted to identify the determinants of FDI.

Model Specification
In the study, the model has been specified as follows:

$$FDI = \Psi_0 + \Psi_1\, GDP_{t-1} + \Psi_2 \Delta GDP_t + \Psi_3\, GFCF_{t-1} + \Psi_4\, INF_{t-1} + \Psi_5\, OPN_t + \Psi_6 + XR_t + \Psi_7\, FD_t + \Psi_8\, D + \Psi_9(D*OPN)$$

Where,
FDI_t = FDI inflows to the country in time period t
GDP_{t-1} = Last year GDP level
ΔGDP_t = Change in the GDP level between years t and (t-1)
$GFCF_{t-1}$ = Gross Fixed Capital Formation in period t
INF_{t-1} = Incurrence on Infrastructure in (t-1) period
OPN_t = Degrees of Openness in Economy in period t
XR_t = Exchange Rate in time period t
FD_t = Fiscal Deficit.
D = Dummy variable taking value of 1 for period 1980-81 to 1990-91 and 0 for period 1991-92 to 2007-08.

Table 2:   Determinants of FDI in India   Rupees in crores

Year	FDI	GDPt-1	ΔGDPt	GFCFt-1	INFt-1	XRt	OPNt	GFD
2010-11	18405	1786525	77775	456380	166689	44.94	0.2534	118816
2011-12	29235	1864300	108306	490009	177965	47.19	0.2442	140955
2012-13	24367	1972606	75681	522592	206606	48.6	0.2791	145072
2013-14	19860	2048287	174471	593964	251324	46.58	0.302	123273
2014-15	27188	2222758	166010	705945	258597	45.31	0.3832	125794
2015-16	39674	2388768	227333	828986	297367	44.1	0.4439	146435
2016-17	99985	261601	255017	954350	339359	45.33	0.5031	142573
2017-18	130522	2871118	258599	1085618	421992	41.29	0.5229	143653

Source: Computed from data from RBI bulletin, Various issues, and Handbook of statistics on Indian economy, Various issues.

Table 3: Result of the Determinants of FDI in India

Variable	Coefficients	Standard Error	t Stat	P-Value
Constant	4443.885021	27475.87066	0.162	0.8732
GDPt-1	-0.163384*	0.055294	-2.955	0.0081
ΔGDPt	-0.081922	0.075475	-1.085	0.2913
OPNt	-127427.6285	97249.61156	-1.310	0.2057
GFCFt-1	0.597780*	0.111751	5.349	0.000
INFt-1	0.141758	0.146039	0.971	0.3439
FDt	-0.110743	0.250506	-0.442	0.6634
FDt	0.110743	0.250506	0.442	0.6634
XRt	1566942246	1179.500078	1.328	0.1998
D	11204.857256	12347.74663	0.907	0.3755

Source: Computed by the researcher   *5% level of significance

Table 3 shows that the result of the determinants of FDI in India. From the results, the size of the domestic market (GDPt-1) has a significant and negative impact on FDI inflows into the country. The change in the market size also has a negative impact on FDI and hasn't got any significant influence on FDI. However, the extent of capital formation in the country is observed to be highly significant and has positive sign. It is also observed that the infrastructure availability in the economy has a positive impact on FDI, but not to any significant extent. The variable exchange rate comes out with a positive sign and the variable openness has got a negative sign and there is no significance. As anticipated, the fiscal deficit shows negative sign with insignificant impact. This is quite revealing as it indicates how macroeconomic fundamentals can influence inflows of FDI. This brings out that, the response of FDI towards the policy change of 1991 has been substantial.

9. Causality Model for Export, FDI and GDP

Table 4 presents the growth of exports, FDI and GDP from 2010-11 to 2017-18. In calculating the results the FDI in million is converted in to crores.

Table: 4 Causality Model for Export, FDI and GDP

Year	Export (Rs. in crore)	FDI (US $ Million	GDP (Rs in crore)
2010-11	207852	6789	1864300
2011-12	213345	8151	1972606
2012-13	260079	6014	2048287
2013-14	303915	15699	2222758
2014-15	381785	15366	2388768
2015-16	465748	21453	2616101
2016-17	579128	29082	2871118
2017-18	637190	61830	3129717

Source: Hand Book of Statistics on Indian Economy 2019

9.1 Granger Causality

The Granger Causality test is generally applied to detect the direction of causality between economic variables of interest. This causality test captures the effect of short run changes in one variable on the changes in other variables and vice versa. In functional form, the standard Granger causality test is carried out with the following linear regression models.

Two null hypotheses tested are as follows:

$$\Delta Y_t = \alpha_0 + \sum_{i=1}^{k_1} \beta_i \Delta Y_{t-i} + \sum_{i=1}^{k_2} \theta_i \Delta X_{t-i} + e_t \quad (4)$$

$$\Delta X_t = \delta_0 + \sum_{i=1}^{k_1} \tau_i \Delta X_{t-i} + \sum_{i=1}^{k_2} \phi_i \Delta Y_{t-i} + v_t \quad (5)$$

a) $H_O : \theta = 0, i = 1, 2, 3, \dots\dots\dots\dots\dots, K_1$
b) $H_O : \Phi = 0, i = 1, 2, 3, \dots\dots\dots\dots\dots, K_2$
It implies that Y_t does not grangers causes X_t in equation (5)

The standard F test is used to test the above null hypothesis.

9.2 Results of Unit Root Test for Exports (Levels)

Null Hypthosis: LnEX has a unit root
Exogenous: Constant
Lag length : 1 (Automatic based on SIC, MAXKAG = 2)
Augumented Dickey – Further test statistic   t- statistic Probability*
                        -0.064521   0.9458
1% level   -1.425362
5% level   -0.569741
Test critical values
10% level   -1.611531

*(1996) one sided p- values.

9.3 Results of Unit Root Test for FDI (Levels)

Null Hypthosis: LnFDI has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=2)

Augmented Dickey - Fuller test statistic	t-statistic Probability*
-0.345689	0.8499

1% level	-1.564789
5% level	-1.589743
Test critical values	
10% level	-1.254876 * (1996) one-sided p-values.

9.4 Results of Unit Root Test for GDP (Levels)

Null Hypthosis: LnGDP has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=2)

Augmented Dickey - Fuller test statistic	t-statistic Probability*
0.869542	0.9687

1% level	-1.621023
5% level	-1.453427
Test critical values	
10% level	-1.210263

* (1996) one-sided p-values.

9.5 Results of Unit Root Test for Exports (Differences)

Null Hypthosis: D (LNEX) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=2)

Augmented Dickey - Fuller test statistic	t-statistic Probability*
-2.45687	0.0021

1% level	-1.56879
5% level	-1.45896
Test critical values	
10% level	-1.324589

* (1996) one-sided p-values.

9.6 Results of Unit Root Test for FDI (Differences)

Null Hypthosis: D (LNFDI) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=2)

Augmented Dickey - Fuller test statistic	t-statistic Probability*
-3.145687	0.0000

1% level	-1.56878
5% level	-1.65478
Test critical values	
10% level	-2.36574

* (1996) one-sided p-values.

9.7 Results of Unit Root Test for GDP (Differences)

Null Hypthosis: D (LNGDP) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic based on SIC, MAXLAG=2)

Augmented Dickey - Fuller test statistic	t-statistic Probability*
-1.365878	0.0063
1% level	-2.036589
5% level	-1.45698
Test critical values	
10% level	-1.365472

* (1996) one-sided p-values.

9.8 Results of Co-Integration Relationships between Exports, FDI and GDP

Hypothesed rank (r) Eigen value Likelihood ratio 5% critical value Probability Race statistic for co integrating rank

	Eigen value	Likelihood ratio	5% critical value	Probability
R = 0	0.229783	17.54639	24.79707	0.3244
R ≤ 1	0.046908	1.009054	8.494710	0.6665
R ≤ 2	0.000265	0.008752	1.841466	0.5251
Maximum Eigen value statistic for co-integration rank				
R = 0	0.229783	14.53734	17.13162	0.1110
R ≤ 1	0.046908	1.000302	11.26460	0.5467
R ≤ 2	0.000265	0.008752	1.841466	0.5251

Mac-Eigen value test indicates no co-integration at the 0.05 level.

9.9 Pair-wise Granger Causality Tests

Pair wise Granger causality tests
Sample: 1991-2008
Lags 2

Null Hypothesis Obs	F-Statistic	Prob
LNFDI does not Granger cause LNEX	1.26180	0.1229
LNEX does not Granger cause LNFDI	1.12072	0.0598
LNGDP does not Granger cause LNEX	0.26954	0.76550
LNEX does not Granger cause LNGDP	2.18567	0.0552
LNGDP does not Granger cause LNFDI	1.53760	0.2325
LNEX does not Granger cause LNGDP	1.56760	0.0947

9.10 Unit Root Test

Lag lengths for the ADF tests are determined by the Schwartz Information Criterion (SIC).The results of this text suggest that all series contain a single unit root, which would require first differencing to achieve stationary. Prior to testing Co-integration and implementing the Granger Causality test, economic methodology needs to examine the stationary for each individual time series most macro economic data are non-stationary, i.e. they tend to exhibit a deterministic and/or stochastic trend. A series is said to be stationary if the mean and variance are time invariant. A non-stationary time series will have a time dependent mean or make sure that the variables are stationary, because if they are not, the standard assumptions for asymptotic analysis in the Granger test will not be valid. We should now perform test for unit root in potentially non-stationary time series (Nandita Das Gupta 2007). The ADF test is based on the following regression model that consists of running a regression of the first difference of the series against the series lagged once, sum of lagged difference terms, and a constant and a time trend.

The ADF regression test for the existence of unit root of Y, that represents all variables (in the natural logarithmic form) at time t. The test for a unit root is conducted on the coefficient of Yt-1 in the regression. If the coefficient is significantly different from zero (less than zero) then the hypothesis that y' contains a unit root is rejected. The null and alternative hypotheses for the existence of unit root in variable Ytis Ho;

9.11 Co-integration Tests

Having found that all the three variables in examination have unit roots (that is, they are integrated of order one), the next step is to determine whether or not there exists at least one linear combination of the non-stationary variables that is integrated of order zero (I(0)) or not. Co-integration, an econometric property of time - series variable, is a precondition for the existence of a long run or equilibrium economic relationship between two or more variables having unit roots (i.e., Integrated of order one). Two or more random variables are said to be co-integrated when two lags are used, the null hypothesis of no co-integration (=0) between LnEx, LnFDI and LnGDP is rejected at 5 per cent level. This test may be regarded as a long run equilibrium relationship among the variables. The purpose of the Co integration tests is to determine whether a group of non-stationary series is co-integrated of not. Co integration test based on the Maximum Likelihood method of Johnsen suggests two test (the trace test and the Maximum Eigen values test) statistics to determine the Co-integration rank.

9.12 Granger Causality

The results of the long run relationship between FDI inflows, exports and GDP for India, the next logical step for our purpose is to examine the Granger - Causal relationship among the variables, 'x' is said to "Granger - Cause" 'y' if and only if the forecast of Y is improved by using the past values of X together with the past values of Y, then by not doing so (Granger1969).According to Granger Causality test done by using annual data from 1991 to 2008 in India, FDI is not the causal exports. In other words, there is causality relationship from FDI inflows to exports. Economic growth (GDP) is not the cause of exports. In other words, there is no causality relationship from economic growth to exports. Economic growth (GDP) is not the cause of FDI. In other words, there is no causality relationship from economic growth to FDIs.

Thus, this study examines the direction of the relationship between economic growth rate, FDI and Exports by using Granger Causality test. According to the results of the study, there is no reciprocal causality relationship between these variables in India. The direction of causality relationship is from exports to growth rate and there is no causality relationship from FDIs to exports. The directions of causality relationship are from exports to growth rate and there is no causality relationship from growth rates to FDIs. In other words, FDI and exports in India is one of the factors affecting economic growth, however, the high or low economic growth rate does not have an effect on the presence of FDIs and Exports in India.

10 FINDINGS

The findings are as below:

10.1 FDI

One of the the significant impacts of external sector reform is the growth of foreign capital in India. FDI in India increased sharply from US $ 103 million during 2010-11 to US $ 61830 million during 2017-18 on the strength of expansion in domestic activity, positive investment climate, progressive liberalization of the FDI policy regime, and simplification of procedures.

10.2 Non- Debit Creating Flows

Another notable impact is the impressive growth of non-debt creating flows. From a mere of 1.5 per cent in 2010-11, it has increased to 41.5 per cent in 2017-18. The reverse has occurred in favour of debt creating flows. It has declined from a massive figure of 83.3 per cent in 2010-11 to 49.6 per cent in 2017-18.

10.3 FPI

A negative share coincided with the outflow of FPI from the East Asian Financial Crisis. Then FDI slowly increased from the level of 41.59 per cent in 2010-11 to 75.20 per cent in 2011-12 and declined to 27.58 per cent in 2013-14, but it shows the increasing trend, in the year 2017-18, FDI has increased to 32435 million dollars.

10.4 Determinants of FDI

The size of the domestic market (GDP(-1)) has a significant and negative impact on FDI inflows into the country. The change in the market size also has a negative impact on FDI and has not got any significant influence on FDI. The variable exchange rate comes out with a positive sign and the variable openness has got a negative sign and there is no significance. Fiscal deficit shows negative sign with insignificant impact. This is quite revealing as it indicates how macroeconomic fundamentals can influence inflows of FDI.

10.5 Causality Test

This study examined the direction of the relationship between economic growth rate, FDI and Exports (Y) using Granger Causality Test. According to the results of the study, there is no reciprocal causality relationship between these variables in India. The direction of causality relationship is from exports to growth rate and there is no causality relationship from FDIs to exports. The direction of causality relationship is from exports to growth rate and there is no causality relationship from growth rates to FDIs. In other words, FDI and exports in India are the factors affecting economic growth; however, the high or low economic growth rate does not have an effect on the presence of FDIs and Exports in India.

11. SUGGESTIONS

The analysis clearly shows that in India's vibrant economy change is palpable; business leaders and citizens are brimming with confidence and investors are taking note. But more needs to be done, if the country is to progress at an even more drastic rate.

The composition of the private capital has to be monitored. The country has to mould its policy on capital flows. The short-term deposits and portfolio flows are prone to instability. Appropriate taxation policies-

taxing the short-term capital gains at a high rate should be formulated and pursued to control the flow of these types of capital outside the country.

Formulation of a policy allowing for flexibility in the labour market has been a consistent demand put forward by foreigners. Exit policy should be framed in such a manner that it should not adversely affect the level of the large chunk of the labour force, and therefore, it is necessary to frame a rational and scientific exit policy.

Violent separatist movements and Maoist movements exist in Kashmir and some of the North-East States and the States of West Bengal, Jarhand, Orissa, Madhya Pradesh, Chattisgarh and Andhra Pradesh, the relationship between India and Pakistan continue to be strained. An improvement of the situation in these areas will create a congenial atmosphere for foreign investment.

12. CONCLUSION

Economic policies in India have formulated with the twin objectives of growth and social justice. The economic reform process has placed the economy on a strong growth path. An average GDP growth of about 8 percent since 2003-04 is particularly noteworthy. Revival of industry after a transition phase has generated new optimism about its inherent strength to compete in the global market. Growth of the foreign investment in India has signalling good prosperity. Growth of exports has played a key role in the current high growth phase. While the proportion of the poor in total population has come down, the absolute number of poor people remains high. India's rank in terms of Human Development Index and Gender Development Index continues to be low when compared to many developing countries. There is a need for linking growth with development and fill the gap between macro economic performance and social sector development.

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