

AN ECONOMIC ANALYSIS OF RELATIONSHIP AND IMPACT OF NET FOREIGN DIRECT INVESTMENT AND NET PORTFOLIO INVESTMENT ON TOTAL FOREIGN DIRECT INVESTMENT OF INDIA

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ABSTRACT

This research concentrates on the relationship and the impact of net FDI and net portfolio direct investment on total FDI in India. The statistical tools used for the study are correlation and simple linear regression. It is observed that there is significant relationship between the net foreign direct investment and net portfolio investment of total investment. Moreover, the results show that there is significant linear regression analysis inferred that significant impact of net foreign direct investment and net portfolio investment of total investment in India. The foreign direct investment may have a positive effect on net FDI and net portfolio investment on total investment growth.

Key words: *FDI, Correlation, Regression, Portfolio, Positive Growth.*

INTRODUCTION

Foreign direct investment is the process by which the residents of source country get ownership of assets in another country for the main reason of controlling the country of production, distribution, and other activities of a firm. Foreign Portfolio investment is the purchase of securities of foreign countries, such as stocks and bonds, and exchange.

REVIEW OF THE LITERATURE

Sharil Sharma, Manpreet Kaur, Preeti Sharma, Sukhmani Sandhu (2020) in their entitled "A Study of relationship and impact of foreign direct investment on economic growth rate of India", This paper studied the relationship and impact of growth rate of FDI in India on growth rate of GDP in India. This study used correlation and regression analysis. It found that there existed insignificant relationship between FDI and GDP growth rate. From this analysis we get to know it indicated the significant impact of growth rate of FDI on growth rate of GDP. This study provided that an impetus to boost production, advancement of new technology. However, foreign direct investment may have negative impact on growth as it may lead to disruption of competition.

STATEMENT OF THE PROBLEM

The problem of insufficient domestic investment, savings and growth hence give reason for the need for foreign direct investment in the country to boost India's economic inward investment development. Still with more foreign direct investments, the problem again is in trying to investigate the effect of FDI on the economy. The present study is therefore an attempt to fill this gap.

OBJECTIVES

The specific objectives include the following:

- To analyze and measure the relationship and impact of net FDI and net portfolio direct investment on total FDI in India.

METHODOLOGY

This research study includes the analysis of the data related to net foreign direct investment (US \$ Million) and net portfolio investment (US \$ Million) of total FDI (US \$ Million) in India for a

period of financial year from 2000-2001 to 2020-2021. This study includes the data for the variables from the study acquired from the hand-book statistics on the Indian economy (RBI). The statistical tools used for the main reason of the study are correlation and simple linear regression.

HYPOTHESES

The hypotheses devised to appraise the significance of association between net FDI and net portfolio investment of total FDI investment in India and significance of impact of net foreign direct investment and net portfolio direct investment on total foreign direct investment of India have been stated as:

H₁: There is a significant relationship between the significance of association of net foreign direct investment and total foreign direct investment of India.

H₂: There the significant relationship between the significance of association of net portfolio direct investment and total foreign direct investment of India.

H₃: There is a significant impact of net foreign direct investment and total foreign direct investment of India.

H₄: There is a significant impact of net portfolio direct investment and total foreign direct investment of India

DATA ANALYSIS

Relationship between net foreign direct investment and total FDI of India

NET FOREIGN DIRECT INVESTMENT

Net Foreign Direct Investment is the inward direct investment value made by non-resident investors in the coverage economy, as well as reinvested earnings and intra-company loans, net of repatriation of capital flows and repayment of loans.

Table No.1 which is given below shows the correlation analysis of net foreign direct investment and total FDI in India from 2000-2001 to 2020-2021

TABLE NO.1, RESULT OF CORRELATION ANALYSIS OF NET FOREIGN DIRECT INVESTMENT AND TOTAL FDI OF INDIA

Variables	Net FDI	Total investment
Pearson Correlation	1	.738**
Sig. (2-tailed)		.000
N	21	21
Pearson Correlation	.738**	1
Sig. (2-tailed)	.000	
N	21	21

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

To determine the relationship between the net foreign direct investment and total foreign direct investment (FDI) of India, the study uses the analysis of correlation. The above Table No.1 results infers that the correlation of positive between net foreign direct investment and total foreign direct investment in India, $r = 0.738$, $p > 0.01$. The correlation value was found to be positively significant. Hence, it reveals that there is significant relationship between the net foreign direct investment and FDI total investment of India is accepted hypothesis (H₁).

RELATIONSHIP BETWEEN NET PORTFOLIO INVESTMENT AND TOTAL FDI OF INDIA

Net portfolio investment

Net portfolio investment excluding liabilities comprising authorities of foreign reserves covers transactions in equity securities and debt securities.

Following the Table No.2 correlation analysis of net portfolio investment and total FDI of India from 2000-2001 to 2020-2021.

TABLE NO.2, RESULT OF CORRELATION ANALYSIS OF NET PORTFOLIO INVESTMENT AND TOTAL FDI OF INDIA

Variables	Net Portfolio Investment	Total investment
Pearson Correlation	1	.777**
Sig. (2-tailed)		.000
N	21	21
Pearson Correlation	.777**	1
Sig. (2-tailed)	.000	
N	21	21

Source: Calculated by the researcher

Above the table No.2 shows that to determining the relationship between the net portfolio investment and total foreign direct investment in India, the study used the analysis of correlation. From the table results one might conclude the correlation value between net portfolio investment and total foreign direct investment in India, $r = 0.777$, $p > 0.01$. The correlation value was found to be positively significant. Therefore, it is known that there is significant relationship between the net portfolio investment and FDI total investment of India is accepted hypothesis (H_2). Next the table No.3 regression analysis of net foreign direct investment and total FDI of India from 2000-2001 to 2020-2021.

IMPACT OF NET FOREIGN DIRECT INVESTMENT AND TOTAL FOREIGN DIRECT INVESTMENT OF INDIA.

Dependent variable: Total FDI

Independent variable: Net Foreign Direct Investment

TABLE NO.3 RESULT OF LINEAR REGRESSION ANALYSIS OF NET FOREIGN DIRECT INVESTMENT AND TOTAL FDI OF INDIA

a value and standard error	b value and standard error	t	Significant	R ²
10012.358 (5785.237)	1.159 (0.243)	4.763	.000	0.54

Source: Calculated by the researcher

This Table No.3 is the linear regression analysis to determine the impact of net FDI and total FDI of India. It explains that the R square value is 0.544 entailing that the net foreign direct investments of the table clarify 54% of variation in the total investment. The net foreign direct investment has positive coefficient of 1.159 with t value 4.763 and thus an increase in portfolio investment would predictable confirm the technique to an increase in total investment of FDI (US \$ 1.159 Million) the results indicate that there is significant impact of net FDI on total investment in India, is accepted hypothesis(H_3).

Below the Table No.4 regression analysis of net portfolio investment and total FDI of India from 2000-2001 to 2020-2021

IMPACT OF NET PORTFOLIO INVESTMENT AND TOTAL FOREIGN DIRECT INVESTMENT ON INDIA.

Dependent Variable: Total FDI

Independent Variable: Net Portfolio Investment

TABLE NO.4 RESULT OF LINEAR REGRESSION ANALYSIS OF NET PORTFOLIO INVESTMENT AND TOTAL FDI OF INDIA

a value and standard error	b value and standard error	t	Significant	R ²
17733.378 (4141.640)	1.138 (0.212)	5.378	.000	0.60

Source: Calculated by the researcher

This table No.4 implies the linear regression analysis to determine the impact of net portfolio investment and total FDI of India. It explains that the R square value is 0.604 entailing the net portfolio investments of the table clarifies 60% of variation in the total investment. The net portfolio investment has a positively coefficient of 1.13 with t value 5.38 and hence an increase in portfolio investment would be expected as it shows the way to an increase in total investment of FDI (US \$ 1.13 million dollars).the results indicate that there is significant impact of net portfolio investment on total investment in India, is accepted hypothesis (H₄).

CONCLUSION

It found that there lived significant relationship between the net foreign direct investment and net portfolio investment of total investment. Moreover, the results that there lived significant linear regression analysis inferred that significant impact of net foreign direct investment and net portfolio investment of total investment in India. The foreign direct investment may have a positive effect on net FDI and net portfolio investment on total investment growth. it is because generally foreign direct investment travels from nations having abundant capital to the India having scarcity of capital. It also provides a force to boost production, and new technology.

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