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How influential are FDI, exports and capital formation in pushing the economic growth of India: A panel data analysis

Ajay Gupta

Abstract
Introduction: GDP is the indicator of wellbeing. Production requires money, machines and customers (domestic and international). More is the availability of these variables, and more generation of goods and services can be initiated in the nation.
Research Methodology: A panel data is assembled from the year 1991 to 2017. 1991 has been taken as starting year because it was the year when India opened its economy for the world and subscribed to the phase of liberalisation, privatisation and globalisation. To examine the association between the variables, correlation and regression are used.
Findings: Out of the variables chosen from the literature review, it is found that out of exports, FDI and capital formation, only exports push GDP to increase significantly. Although the collective influence of independent variables on GDP is concerned, a significant impact is observed from the research.
Originality Value: Data is accumulated from the formal website of WTO for the intention of meeting the research goals.

Keywords: FDI, exports, capital formation, GDP, regression

Introduction

The Indian marketplace subscribes to a "productive growth period," By December 2017, GDP progress is anticipated to accelerate to 7.9%, led by affirmative foreign demand, improvements in corporate balances moreover private CAPEX restoration. The prolific growth process is delineated as a time for growth enhancement, while macro stabilisation continues to be regulated and is usually the stage for a sustainable growth cycle (*India's GDP Growth to Rise to 7.9% by December 2017: Report - The Economic Times*, n.d.). GDP is an essential index for economic wellbeing. This makes it necessary to identify the parameters that significantly impact GDP trends. GDP is the ultimate amount of the goods and services created within the terrestrial borders during a particularised cycle, generally a year. GDP growth rate is an essential indicator of a country's monetary performance. Various factors influence production in a nation. Production requires money, machines and customers (domestic and international). More is the availability of these variables, and more generation of goods and services can be initiated in the nation.

As far as money is concerned, if a nation lacks the money to be invested, other countries can invest as FDI in the country. FDI means foreign investment by a corporation in another country in a country's enterprise. FDI can be done either by the purchase in the host country or by expanding the activities of an established company therein. The retail business may then be the interface between the manufacturer and the specific buyer for personal use. In the last few years, the services market has become the most lucrative for foreign direct investments, with 21% of inflow from the non-financial and financial sectors, led by computer hardware and software (8%) and telecom, building and immobilisation, each accounting for 7%. Power only had 5% while oil and associated fields had only 2%. The FEMA 1999 shall be regulated by regulating the FDI declared by the Government of India. Except for a few areas/activities where prior authorisation is required of the Indian central bank or FIPB, alien financiers are free to invest in India FDI has played a significant part in the internationalisation of the industry decade (Ubale & Ubale, 2012) [19].

Investment is the formation of wealth, purchase or development of resources for output. The national income statements include an incorporation to private, residential and non-residential capital stocks (e.g. fixed investment), machinery and facilities used in manufacturing (e.g. fixed company investment) and a year-long adjustment inventory stocks. The investment consists of sacrificing the current usage to maximise potential consumption. Classical and neo-classical economics has highlighted the importance of investment in the future. *Investment* is the expenses flow that contributes to the capital's physical stock (it is a flow concept because it is concerned with creating new capital, whereas capital is the stock concept because it is concerned with capital accumulation). Investment usually applies to the purchase of financial or physical properties. In macroeconomics, investment has a narrower technical significance: investment is an expenditure flow contributing to the physical capital stock (Ali, 2017) [6].

Exports are very significant to modern-day financial system since they offer far more prospects for their exports to individuals and industries. The support of economic trade, exports moreover imports for the good of both trade groups are among the key roles of diplomacy and foreign policy between governments.

Literature review

FDI

Recently, several academics have attempted to ascertain the sway of the EU on overall fiscal growth, like GDP per capita or the disparity of the disparity in wealth Felipe *et al.* (2012), The consequences of the study published findings suggest that a state's capacity to expand its commodity mix or grow specialisations in unrelated sectors is potentially impacted by the strength of (Lane & Milesi-Ferretti, 2006) [13] centrality. Firms located close to the new-to-foreign MNEs had lifted the transaction rates of these exports, e.g. a unit value of each transaction, with increasing frequency, however, it was found that multinational companies were far more likely to purchase the highest-quality firms within sectors and to spend more in process and operational creativity to boost productivity and exports. Additionally, internal FDI was found to have no substantial impact on China's degree of the maturity level of exports, which was influenced instead by greater allowances for investment and the country's development-oriented policies, including setting up technology parks with a good tax incentive. mixed results were published (Harding and Javorcik 2012) [2] During the 12 years spanning 1984 and 2000, they focused on determining whether FDIs (foreign direct investment) boosted the efficiency of export earnings among developed countries. A recent study revealed that the FDIs in these countries have a strong correlation with their total value of exports. This relationship no longer has an effect, as is has shown by Hausman *et al*. (2007) [3], but they may use the income from each export basket to express the degree of export maturity Regarding Turkish producers over the last ten years, Jarvocik *et al*. (2008) [4] concluded that they upgraded their products' output and became more complex because of increased FDIs in downstream industries. The activities of MNEs are important to institutional transformation (Brakman *et al*., 2010) [8] and creativity by enhancing the degree of product maturity of corporations. A lot of the evidence indicates that foreign direct investment will positively affect host economies. The effect has been studied both at the macro and micro levels, and examining both emerging and developed countries (see, for example, (Whalley, 2011) [20]. That is, in reality, an accurate statement; moreover, there are only three FDIs that look at the potential impact on the enterprise. In the first, part of the essay by Sweet and Eterovic (2015) [22], we investigate whether stronger intellectual property rights lead to higher IP creativity, also known as the EC index, has been significant in the analysis of 94 countries over 40 years in a study of 94 countries over the 1970s to 2005 time period. According to their theory, IPR laws boost a country's overall product maturity, but only when it is already developed, well-educated, and complex. The results of these models also provide the yearly inflow of foreign direct investment as a control, but the coefficient is not important (Schneider, 2005) [18].

Exports

Overall, there is strong evidence that more than two-thirds of export industries see significant increases in exports and GDP. Because of this, emerging governments do not discriminate against primary goods. Rather, strategies that focus on promoting the export of ideas should be implemented (Xu, 2000) [21].

To find out how increases in exports and imports affect the economy, (*(PDF) IMPACT OF EXPORTS AND IMPORTS ON ECONOMIC GROWTH: NEW EVIDENCE FROM PANAMA*, n.d.) Looks at the relationship between the three elements. Using Johansen co-correlation study and the Granger causality checks, the data from 1980 to 2015 was plotted over these 40 years and cross-scaled annually to show the results. According to the report, there is no correlation between economic development, Panama's export, and import trends. The conclusion of our investigation indicates that, on the other hand, there is significant proof of bidirectionality from import and export to theses. It shows that exports and imports play a vital role in Panama's economy. Economic and political policies reflected on the overall social stability of the economies' specifically, in the Indian sense, economic decisions have had a substantial impact on increasing the nation's growth and fostering inclusiveness.

In 30 years, in Bangladesh, the marketplace has improved a lot. Its GDP grows by 7 per cent a year on average, with a thriving textile sector now second in exports. We used the geometrical approach in this paper to measure the various growth rates, while the arithmetic mode is utilised for the one-year growth rate (annually). It has been found that exports have grown at a pace of 15.99% during the last 26 years from 1990 to 2016. Over the past 26 years, the export-to-GDP ratio has risen on average to 3.95% a year and has significantly impacted GDP (Mohammad & Mohaiminul, 2018) [14].

Gross capital formation

Without a deeper look at the augmentation of capital formation to Nigeria's prosperity, the growth trend in the Nigerian economy cannot be thoroughly analysed. This is because the capital formation was recognised as a significant factor determining the growth of the Nigerian economy. Without significant expenditure in capital development, no nation has experienced sustainable economic growth. To achieve economic prosperity worldwide, more remarkable capital formation has been emphasised. However, a fundamental precondition for developing a range of policy interventions to achieve economic development is to consider the factors of capital formation (Onyinye *et al*., 2017) [15].

(Gibescu & Octavia, 2010) [10] gave an overview of the links between Gross Domestic Fixed Capital Formation in different countries from 2003 to 2009. For this, the mathematical relation analysis approach is employed. The received results dispense a direct and robust association amongst commercial progress and gross fixed capital formation.

(Bal *et al*., 2016) [7] found, there has been a correlation between a higher amount of capital formation and faster economic development in India. This research studies the long-ending correlation between growth in capital and various control variables in an ARDL process to identify a period of long-long equilibrium. The error correction (EM) model claims that economic growth is enhanced by the increased capital accumulation, exchange rate transparency, and low growth by the exchange rate and total factor production. Since governments in most countries encourage more remarkable capital accumulation, they generally agree that they should do so to encourage economic development.

Research GAP

After progressing through various researches, it is observed that there is a strong and direct relation between FDI and GDP, Exports and GDP, Gross capital formation and GDP. Much research has been conducted in defining the relationships among these factors. Still, no research focuses on the weightage of these elements. Also, comparative analysis of all the variables with GDP has not been researched much. This paper focuses on carrying the research in the same direction and focuses on determining the importance of various variables in pushing GDP.

Objectives

1. To observe the impact of FDI, exports, gross capital formation on GDP
2. To evaluate the weightage of influence of the variables considered upon GDP

Hypothesis

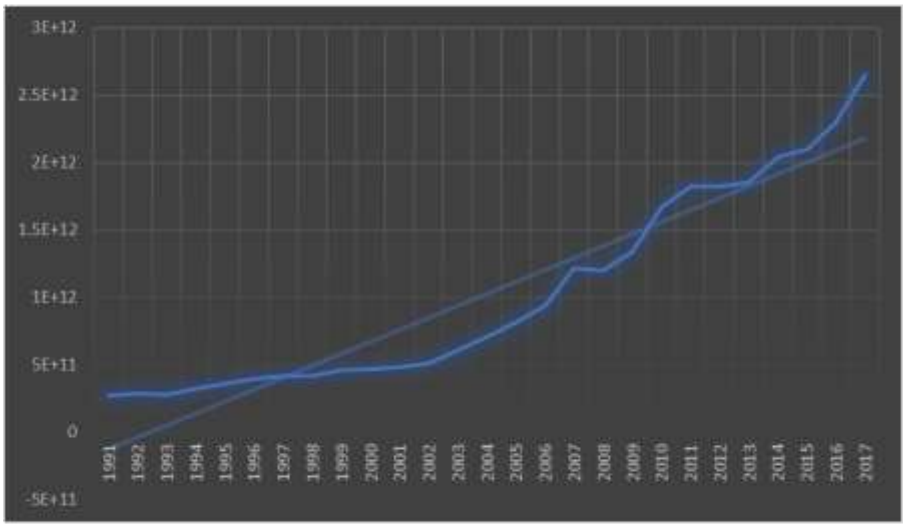
H_0- There is no significant effect of FDI, exports, gross capital formation upon GDP.
H_{0A}- There is no significant effect of FDI upon GDP.
H_{0B}- There is no significant effect of exports upon GDP.
H_{0C}- There is no significant effect of gross capital formation upon GDP.

Research procedure

To compare the significance of FDI, exports and capital formation on GDP, data collection of these variables in US $ is done from the official website of the world bank. To examine the association between the variables, correlation and regression are used. To observe the significance of the impact of these variables on GDP, the Beta coefficient is taken into consideration. Hence, to meet the research objectives, correlation, regression, and ANOVA are utilised. A panel data is assembled from the year 1991 to 2017. 1991 has been taken as starting year because it was the year when India opened its economy for the world and subscribed to the phase of liberalisation, privatisation and globalisation.

Data analysis

GDP: Trends of India

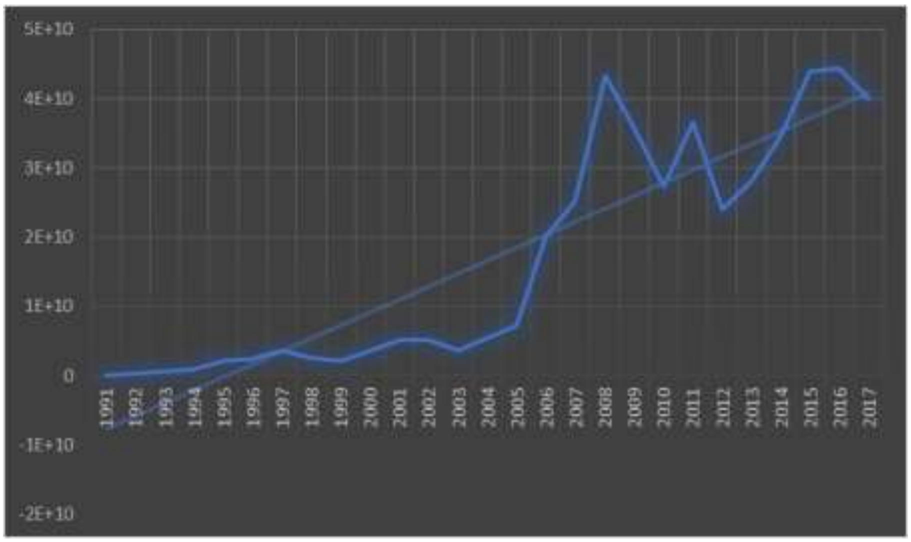


Source: World Bank

Fig 1: Trends in GDP (US $),

Indian economic growth has declined unpredictably in 2017-18, at the slowest rate in three years, to 5.7 per cent in the June period, emphasising the disruption of the turmoil associated with the enactment of GST, even as India's economy struggles with a shock demonetisation to rebound. In a survey of Reuters economists, GDP growth grew by 6.6% in the June quarter. In the previous three months, the gross domestic product rose 6.1%. Uncertainty about the 1 July rollout of GST, which occurred eight months after 86 percent of the money was cancelled by the government, saw the producers slashing demand and merchants giving discounts on products like automobiles. Because of it, production growth fell to 1.2% in June from 5.3% in the previous quarter, while mining activities shrank by 0.70%. Nevertheless, from the negative print (-03.7 per cent) in the March to two per cent in the June quarter, building activity recovers slightly, indicating that the effect of demonetisation is declining (*India GDP Growth Rate Slumps to 5.7% in Q1 in Challenge for Economy*, n.d.).

FDI: Trends of India

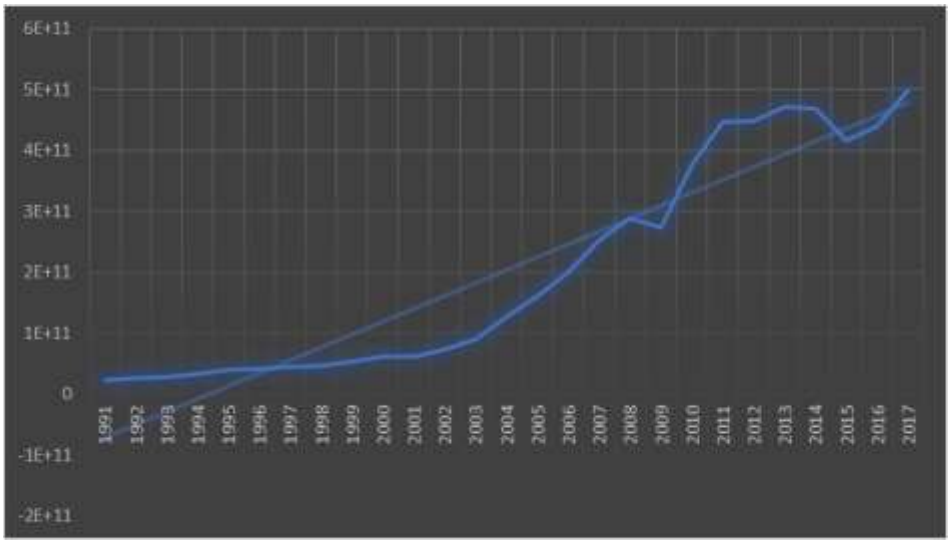


Source: World Bank

Fig 2: FDI (net inflows US$).

The UNCTAD study has in recent times indicated that FDI in India declined from 44 billion USD in 2016 to 40 billion USD in 2017. The study states that outflows from India, the principal supplier of FDI in South Asia, have more than 2 times to USD 11B. UNCTAD Secretary-General Mukhisa Kituyi said: "Recent FDI burden and global value chain slowdown are of great concern to policy-makers around the world and particularly in developing countries." Maximum international inflow in the past fiscal year has been recorded across the principal areas: logistics (USD 6.7B), electronics and hardware (USD 6.15 billion), telecoms (USD 6.21B), trade (USD 4.34B), automotive construction (USD 2.73 billion) and electricity (USD 1.62B). Maurice is the most significant FDI outlet in India with 15.94B USD in 2017-2018, led by Singapore (12.18B USD), the Netherlands (2.8B USD), the United States (2.1B USD), and Japan (USD 1.61B) (Pasupathi *et al.*, n.d.).

Exports: Trend in India

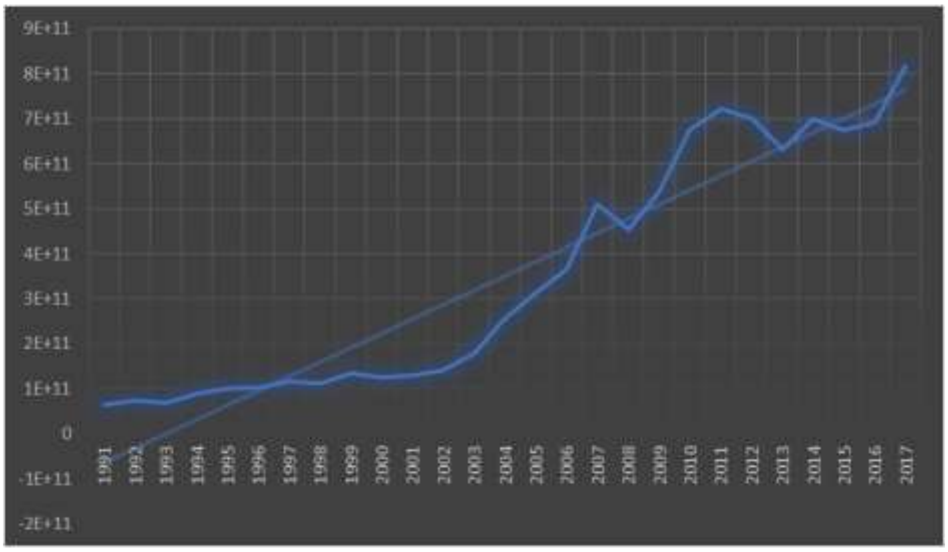


Source: World Bank

Fig 3: Exports (US$).

India's cross-border sales rose more than seventeen folds in the time phrase of 1991-2017, from US$ 18.1B in 1990-91 to the US $ 309 billion in 2014-15, and India's cross-border purchases rose 19 times, from US$ 23.5 billion in 1990-91 to US$ 447 billion in 2014-15. India's share of global exports has risen from just 0.6% at the start of the 1990s to 1.7%. Similarly, India's share in global imports grew from about 0.6 per cent in the early 1990s to 2.4 per cent today. India's exports increased in the first decade of the same era (1990-91 to 1999-2000) by 8.1 per cent, while imports grew by 8.7 per cent. In the next decade (2000-01 to 2009-10), exports rose at 16.8% and importations at 21.5% annually, a genuine rise was seen. This pattern lasted until 2011-12, after which exchange declined steadily due to the global recession. Exports decreased by 1.8% in 2014-15, while imports decreased by 0.4%. Over the first 11 months of the 2015-16 financial year, exports and imports have declined sharply. Although exports were lower by 16.7% y-y, cross-border purchases decreased by 14.8% y-y (FICCI Research, 2016) [9].

Gross capital Formation: Trends in India



Source: World Bank

Fig 4: Gross capital formation (US$).

Capital is the main engine of economic development. Gross Capital Training (GCF) comprises three components, Gross Firm Capital Training (GFCF), stock shift and value (gold). The central part is GFCF, which implies spending on vehicles, machinery and housing. The GFCF trend since the early 2000s, as seen in Figure 5. The figure indicates that the spending boom from GFCF to GDP rose from 30.7% to 34.7% in 2008 during 2004-2008. Following the international monetary crisis, this ratio is 2013 directed to 31%. The GFCF-GDP ratio has tended to moderate over the last few years. The percentage fell from 30.1% in 2014 to 28.6% in 2017. A rapid decline in investments in housing and structures contributes to a slump in building activities that then slows down in a variety of allied industries, such as steel and cement. The analysis of project-level data is another way to assessing the status of expenditure in the economy. But the pipeline of programmes in progress has stagnated since 2012. The development of new ventures is additionally observed to be modest contrasted to the high growth shown before 2011. A series of disruptive shocks from the political side has negatively influenced the investment situation. The defiance of changes is to rekindle the condition of economic investment (Patnaik & Pandey, n.d.).

Table 1: Corelation Matrix,

	FDI (net inflows US$)	Exports (US$)	Gross capital formation (US$)	GDP (US$)
FDI (net inflows US$)	1			
Exports (US$)	0.915173013	1		
Gross capital formation (US$)	0.925673084	0.989164605	1	
GDP (US$)	0.918903831	0.981545507	0.9799048	1

Source: Author's Calculation

Table 2: Regression Statistic.

Particulars	
Multiple R	0.983976
R^2	0.968208
Adjusted R^2	0.964061
Standard Error	1.4E+11
Observations	27

Source: Author's Calculation

Table 3: ANOVA Statistics.

ANOVA					
	df	**SS**	**MS**	**F**	**Significance F**
Regression	3	1.38E+25	4.6E+24	233.4856	2.32673E-17
Residual	23	4.53E+23	1.97E+22		
Total	26	1.43E+25			

Source: Author's Calculation

Since p value < 0.05. Hence null hypothesis is rejected.

Table 4: Relation between dependent and independent variable.

	Coefficients	Standard Error	t Stat	P-value
Intercept	1.55046E+11	56488032452	2.74475554	0.01154
FDI (net inflows US$)	3.789141486	4.404619281	0.86026538	0.39852
Exports (US$)	2.374645959	1.053964798	2.25306003	0.03409
Gross capital formation (US$)	0.935899925	0.748774384	1.24990911	0.2239

Source: Author's Calculation

From the calculation it can be interpreted that, H_{0A} and H_{0C} is accepted whereas H_{0B} is rejected.

Table 5: Beta.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	155045916677.591	56487589465.486		2.745	.012
	FDI	3.789	4.405	.085	.860	.399
	X	2.375	1.054	.571	2.253	.034
	GCF	.936	.749	.337	1.250	.224
a. Dependent Variable: GDP						

Source: Author's Calculations

Results and discussion

Regression statistics: Table 2 consists of the calculations of composite correlation and the values of R^2 and adjusted R^2. From the analyses, it can be observed that there is a high degree of positive correlation between the variables, i.e. 0.983976. Apart from this value of adjusted R-square: 0.964061 also shows a favourable relation between dependent and independent variable. The adjusted R^2 is a remodelled variant of R^2 customised for the number of predictors in the model.

Correlation matrix: All kinds of combination between the variables show a high degree of positive correlation. The highest correlation is demonstrated between gross capital formation and exports, whereas the lowest but acceptable correlation has been shown between FDI and exports. Table 1 hence indicates that all the variables have positively interacted.

Significance of relation between variables: "p" and "t" values of Table 4 explicitly reveals that out of 3 independent variables, only exports have a significant bearing on progressing the value of GDP. On the other hand, it can be observed that FDI and Gross capital formation are not significantly impacting GDP.

BETA: When the values of table 5 are evaluated, standardised coefficient Beta revealed that exports are the most critical variable to influence GDP. In contrast, FDI has the lowest impact amongst exports and gross capital formation to drive the nation's GDP. The highest is that the value of standardised Beta is the variable important for influencing the other variable. Thus, exports with a value of .571 are associated as the most significant GDP influencer.

Conclusion

The research conducted reveals the significance of exports in the nation's economic growth. Exports are incredibly significant to global economies since they provide far more opportunities for their exports to individuals and companies. One of the leading roles of state diplomacy and foreign policy is to encourage commerce, exports and imports to all business partners. But also, on the other hand, if we focus on different variables, i.e., FDI and gross capital formation, one thing can't be ignored that they are having a high degree of correlation. So for the economic well-being of a nation, all the factors that influence GDP must be taken care of through proper government implementation, and more incentive schemes for export promotion must be developed.

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