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Study of Foreign Direct Investment and Foreign Exchange Reserve (FOREX) in India

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Abstract – Foreign direct investment (FDI) serves as a facilitating factor for economic growth of various countries. FDI has been associated with the growth and development of a country. By the higher growth rate, a host country can attract FDI in large amount. Foreign exchange reserve is the reserve of foreign currencies held by the central bank of a country for manage their currencies 'value and for the payment of their liabilities. In this research paper, growth rate of forex reserve and growth rate of FDI is studied. The relationship between FDI and FOREX reserve is computed with the help of correlation. For this, secondary data is used from 2001 to2018.

Key Words: FDI=Foreign direct investment; FOREX=Foreign Exchange; Foreign exchange reserve; Currency

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INTRODUCTION

Foreign Direct Investment (FDI) is a type of investment in to an enterprises in a country by another enterprises located in another country by buying a company in the target country or by expanding operations of an existing business in that country. In the era of globalization FDI takes vital part in the development of both developing and developed countries.

Many developing countries, reforms their rules, regulation regarding the role of globalization. They change their views regarding FDI also. South Asian countries such as china have implemented open door policies during 1980's; but India liberalized its policies during 1991.before liberalization India followed conservative policies to protect the indigenous investors and industrialist. The growth has not been achieved. In 1991, then congress government had implemented liberalization policies to restructure the Indian economy.

Foreign exchange reserves are the foreign currencies held by the central bank of country. They are also called foreign currency reserves or foreign reserves. There are many reasons of holding reserves. The most important reason is to manage their currencies' values. Reserves are used to maintain liquidity and to provide confidence. The central bank assures foreign investors that it's ready to take action to protect their investments. It will also prevent a sudden flight to safety and loss of capital for the country. In that way, a strong position in foreign currency reserves can *prevent* economic crises caused when an event triggers a flight to safety.

Reserves are always needed to make sure a country will meet its external obligations. These include international payment obligations, including sovereign and commercial debts. They also include financing of imports and the ability to absorb any unexpected capital movements.

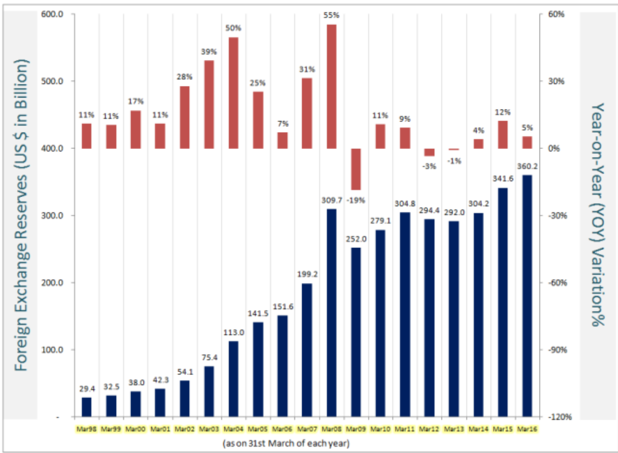
OBJECTIVE

- Growth rate of FDI
- Growth rate of FOREX reserve.
- Association between FDI and FOREX reserve.

RESEARCH METHODOLOGY

The present study is based on the objectives like how foreign investment is associated with FOREX reserve. To fulfill objective data has been gathered from secondary sources like reports and publication of Govt. and RBI relating to foreign Investment, economic journals, books, magazines and internet etc.

DATA ANALYSIS AND FINDING



Above Graph are explained detailed in this table.

YEAR	TOTAL FOREX RESERVE ($ IN BIL.)	YOY VARIATION (IN %)
MARCH 2001	42.3	11
MARCH 2002	54.1	28
MARCH 2003	75.4	39
MARCH 2004	113.0	50
MARCH 2005	141.5	25
MARCH 2006	151.6	7
MARCH 2007	199.2	31
MARCH 2008	309.7	55
MARCH 2009	252.0	-19
MARCH 2010	279.1	11
MARCH 2011	304.8	9
MARCH 2012	294.4	-3
MARCH 2013	292.0	-1
MARCH 2014	304.2	4
MARCH 2015	341.6	12
MARCH 2016	360.2	5
MARCH 2017	369.95	3
MARCH 2018	424.36	15

Source: Reserve bank of India.

From the above table, it can be conclude that from 2001 to 2004 forex reserve increase with increasing rate. From 2004 to 2006 forex reserve increase with decrease rate .Forex reserve decrease in 2009, 2012 and 2013.

Highest growth rate of FOREX reserve in 2008.

YEAR	FDI (USD IN MIL.)	FDI(IN %)
MARCH 2001	4029	3
MARCH 2002	6130	65
MARCH 2003	5035	-33
MARCH 2004	4322	-19
MARCH 2005	6051	47
MARCH 2006	8961	72
MARCH 2007	22826	125
MARCH 2008	34843	97
MARCH 2009	41873	28
MARCH 2010	37745	-18
MARCH 2011	34847	-17
MARCH 2012	46556	64
MARCH 2013	34298	-36
MARCH 2014	36046	8
MARCH 2015	45148	27
MARCH 2016	55559	29
MARCH 2017	60082	8
MARCH 2018	44857	3
TOTAL	529208	17.2(CAGR)

Source: Department of Industrial Policy & Promotion

It can be noted that the FDI inflow into India has increased from US$ 4.03 billion to US$ 60.08 billion during the period considered for the research registering a compounded annual growth rate (CAGR) of nearly 17.2 per cent. This indicates that the economic reforms in India.

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International Research Journal of Management and Commerce (IRJMC) ISSN: (2348-9766) have enhanced the FDI inflows into India during the period of research. It can also be inferred from Table 1 that India was able to attract nearly US$ 529.2 billion since April, 2000. It can further be inferred from Table that FDI inflow into India has witnessed steep increase from 2005 onwards after India completed the transitory 10 year period after it became a signatory to WTO agreement effective from 1 January, 1995.

Correlation coefficient of FDI and FOREX Reserve =.08424

From this, it can be conclude that FDI and FOREX Reserve are highly correlated. Change in one factor either FDI or FOREX affect other factor at very high rate.

CONCLUSION

The quantum of foreign exchange reserves essentially exhibit a long run or short run correlation with the FDI in case of Indian economy. Although the accumulation of foreign reserves are unprecedentedly high thereby exhibiting a marked departure from the thumb rule ratios suggested by several researchers, it does not have a direct bearing on the FDI as suggested by some authors and there could be many other parameters that contribute to excessive fluctuating in the foreign direct investment. The foreign exchange reserve accumulation in the Indian context could have been largely in anticipation of overcoming financial crisis than a tool for regulating the FDI. It could also be looked upon as a face lift to the Indian economy through enhanced credit ratings which in turn would attract investors to India in the form of foreign direct investment and portfolio investments thereby supplying the much needed capital for stimulating economic growth.

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