

An analysis of the impacts of macro-economic variables on the inflow of Foreign Direct Investment (FDI) in India under liberalisation and its sustainability

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Abstract

Liberalisation has increased Foreign Direct Investment (FDI) in India, both inward and outward. However, over these years, India has remained a net recipient of FDI. This paper seeks to examine the differential impacts of the variables on FDI inflows enforced in turn by Liberalisation policy in the country over these 30 years and above period. The study, used the Vector Error Correction model (VECM) depending on the long term Co-integration between the variables. It has used different macro-economic variables which are the exports and imports, the Gross Domestic Product, the Gross fixed capital formation, outward foreign direct investment etc as well as their lagged values over the years as some relevant factors, which in turn are impacted by Liberalisation policy in the country, to study their effect on this very vital source of non-debt capital inflows into the country. The lagged variables are used as many of these time series variables manifest their full impact only after a period of time. It has also highlighted the status of FDI inflows both during and after the Covid pandemic upheaval. The unprecedented pandemic ignited a financial crisis as Liberalisation has integrated all global economies, forcing every country to develop strategies to absorb the shock waves and gradually sail back to normality. However, it has also exposed the businesses to an environment of uncertain unsystematic risks and returns. As FDI inflows form a very vital component of a nation's overall investment capital, it is relevant to assess its state in this liberalised world. It finds that, 'Liberalisation' significantly affects the inflows of FDI in the short run in a negative way, but it indirectly enhances the FDI inflows in the long run, by having a significant positive impact on all the variables in the short run, which in turn influences FDI inflows positively like the market size, domestic investment, exports, imports and current account balances which their expected results. For sustainability of this vital source of non-debt capital for any economy, streamlined policies to impact the explanatory variables as per the findings will enable the full realisation of the impact of liberalisation of the inflows of FDI, besides making these parameters stronger to withstand crisis, like the recent exemplified by the Covid pandemic. This is a major contribution towards supporting the 17th Sustainable Development Goals (SDGs), which is to 'Strengthen the means of implementation and revitalise the global partnership for sustainable development'.

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1. Introduction

Since 1991, when India adopted the New Economic Reforms, the Liberalisation, Privatisation and Globalisation(LPG) policy has a significant role to play in any of its development strategies. The government adopted policies like increasing the limit of equities for foreign investments, long-term business and trade policy, allowing partial convertibility, removing protective measures like tariff reduction, free trade policies having immediate impacts on exports, imports etc, to promote and implement LPG policy. Its reform measures covered various stabilising strategies for macro-economic parameters addressing issues of current account balances, exchange rate regimes, fiscal issues etc. It deregulated industries to promote competitiveness and efficiency.

While India needed foreign capital of mostly stable nature, as characterised by the FDI, its various macro-economic variables had their own ways of manifestation at the face of liberalisation. Over these years, though both inward and outward FDI in India has increased, how far this is due to the impact of liberalisation, over the span of the three decades, is to be assessed [5]. This paper seeks to examine the differential effects of the variables on FDI inflows, enforced in turn by Liberalisation policy in the country. It will also highlight the status of FDI inflows, both during and after the Covid pandemic upheaval. The unprecedented pandemic ignited a financial crisis in a Liberalised era, with the integration of all global economies, forcing every country to develop strategies for absorbing the shock waves and gradually sailing back to normality. However, it has also exposed the businesses to an environment of uncertain unsystematic risks and returns. As FDI inflows form a very vital component of a nation's overall investment capital, it is relevant to assess its state in this liberalized world. Though those in favour of Liberalization, do argue that free capital mobility will lead to its optimization, critics do opine that it also exposes the economies to every global crisis, destabilizing the macro-economic parameters if they are not strong enough to withstand them. Now which of these two possibilities is actually true for India, will have an important impact on its policy implications, not only with respect to FDI, but also for these explanatory variables.

2. Objectives

The aim of the current study are:

- i. To, study the impact of structural break due to Liberalisation policies on inflows of FDI in India.

- ii. To study the effect of vital macro-economic variables on FDI inflows in India under Liberalisation.
- iii. To analyse the effect of the COVID19 pandemic on the inflows of FDI in India.

3. Review of Literature

Using quarterly Foreign Direct Investment(FDI) inflows data of Australia, analysed its dynamic relationship with a set of endogenous variables like exports and imports,domestic investment,a change of GDP among others from 1985 to 2003 using the VEC model [1]. It finds that in the long period, an increase in FDI increases domestic investment, leads to to the growth of GDP as well as FDI itself, but reduces the growth of exports. It led to an increase in the growth of imports through its indirect effects on the growth of GDP. [2] finds that without the liberalisation policy of 1991, it would have been very difficult to break the monopolies of the government. With liberalisation of trade, technology transfers became easy due to access to cheaper technologies through import of machines. The speedy diffusion of technology and fast growth was possible after the mid 90s due to the Liberalisation policy.

The Covid pandemic had hit several sectors hard, leading to closures, slow down of activities and, most vitally,it impacted the flow of financial capital via the FDI channel, worldwide. [2] forecast the inflows of FDI over the next 10 years, under the impact of emerging to normal, from the Covid upheaval using the ARIMA modelling technique. Recent research has also examined the role of FDI in channeling sustainable finance into renewable projects, reinforcing its contribution to long-term economic and environmental stability [7]. Throwing light on its future buoyancy and potentiality, they find that, over the next 10 years from 2020 to 2030 , the long-run forecast represents a continuation of the upward trend of the FDI inflows in India, throwing a silver lining.However, it is found to be more skewed towards its lower limits. Thus, the authors suggested, adopting a streamlined policy, to tap and encourage its buoyancy, so as to recognise its trend towards its upper limit, if not beyond.

4. Research Methodology

The study is based on the secondary time series data of the selected variables from the World Bank database [6]. It has taken the data from the

year 1980 to 2022¹. It has used the VECM model depending on the long term Co-integration between the variables. It has used the different macro-economic variables which are the exports and imports, the Gross Domestic Product, the Gross fixed capital formation and OFDI as well as their lagged values over the years as some relevant factors which in turn are impacted by liberalisation policy in the country, to study their effect on this very vital source of non-debt capital's inflows into the country. The lagged variables are used as many of these time series variables manifests their full impact only after a period of time. It is to be mentioned here that we had selected 10 variables for this study, to find their impacts on inflows of FDI (dependent variable) post liberalisation. Out of these, 6 variables could withstand the stability tests, and showed significant results. So the analysis has been carried forward with these 6 variables excluding the inflows of FDI, selected from a thorough review of literature. These 6 variables including inflows of FDI are the :

1. FDI_inflows: Net inflows of Foreign direct investment (BoP, in current US\$)
2. GDPConstant: Gross Domestic Product at constant prices in US\$, used as a proxy for the market size. It is taken at constant prices to do away with the inflation effect.
3. CAB: Current account balance ((BoP, in current US\$):
4. GFCF: Gross fixed capital formation (constant 2015 US\$), used as a proxy for domestic investment.
5. OFDI: Net outflows of Foreign direct investment (BoP, in current US\$)
6. XPTS: Exports of Goods and services (at constant 2015 US\$) and
7. MPTS: Imports of goods and services (at constant 2015 US\$)

5. Data Analysis and Findings:

Since the time series data are, by their nature, non-stationary, the unit root was tested by the Augmented Dickey Fuller (ADF) test. The test result showed that, all the series were non-stationary at level, and stationary after their first order differentiation (Table 1).

¹ Data are available from 1970 but not for all of the selected variables. Some are zero and some were missing like of outward foreign direct investment. So 1980 onwards data has been taken as all were available.

Table 1
Unit Root Test Results By Using The Augmented Dickey-Fuller Test

S.N	Variable	Status of Null Hyp	Probability and Status Ho: Series is Non-stationary H _A : Series is Stationary	Probability after first order Difference	Status of Null Hyp Ho: Series is Non-stationary H _A : Series is Stationary	Status of time series data
1	FDI_inflows	Ho: FDI_inflows has a unit root	0.8793 Ho: accepted	0.0000	DFDI_inflows has a unit root is rejected, as the p-value<0.05	FDI_inflows series is stationary
2	GDPConstant	Ho: GDPConstant has a unit root	1.0000 Ho: accepted	0.0017	DGDPConstant has a unit root is rejected, as the p-value<0.05	GDPConstant series is stationary
3	CAB	Ho: CAB has a unit root	0.9968 Ho: accepted	0.0032	DCAB has a unit root is rejected, as the p-value<0.05	CAB series is stationary
4	GFCF	Ho: GFCF has a unit root	0.9998 Ho: accepted	0.0000	DGFCF has a unit root is rejected, as p-value<0.05	GFCF series is stationary
5	OFDI	Ho: OFDI has a unit root	0.5773 Ho: accepted	0.0000	DOFDI has a unit root is rejected, as p-value<0.05	OFDI series is stationary
6	XPTS	Ho: XPTS has a unit root	0.9999 Ho: accepted	0.0019	DXPTS has a unit root is rejected, as the p-value<0.05	XPTS series is stationary
7	MPTS	Ho: MPTS has a unit root	1.000 Ho: accepted	0.0004	DMPTS has a unit root is rejected as the p-value<0.05	MPTS series is stationary

Source: Compiled by the author in Eviews

5.1 Impact Of Liberalisation On FDI Inflows:

As the data was taken from 1980 to 2022 , with the main objective of studying the impact of Liberalisation on the Indian economy, a structural break²³ was given in the year 1991, the year when the LPG concept was adopted by India under its New Economics Reforms. The time series variables chosen also showed structural breaks in the year 1991, when the Liberalisation policy was adopted. Here we have used the Chow Test for structural break, which is used when we already know about the break point/s⁴. The parameters estimated by the OLS may not be constant overtime, implying that the sum of the squared residuals are not the minimum. Here , if we get better parameter estimates by splitting our data into two, it indicates a structural break in our data generating process. The Chow test has the null hypothesis of no break-point in the time series data tested against the alternative hypothesis of the existence of a break-point in the data. It is rejected, if the p-value is less than 0.05. As can be observed from Table 2, the p-value of Chow test for FDI_inflows is <0.05, and so the null hypothesis of 'No break-point', is rejected.

Table 2
Chow Test of FDI Inflows

F-Statistics	13.03634	Probability (1,14)	0.0008
Log likelihood ratio	11.87165	Probability Chi-square (1)	0.0006
Wald Statistics	13.03634	Probability Chi-square (1)	0.0003

Table 3 show the chow test results and the CUSUMSQ test result of Current Account Balance(CAB) , showing its structural break in 1991.

2 A 'structural break' is observed when we see a sudden change in a given time series data or a sudden change in the relationship between variables of a time series.

3 We detect it exogeneously if we know the break periods and determine it endogeneously — if we don't know the exact break periods.

4 Instead of the Multiple break point test, used when there may be several breaks and which are unknown to us.

Table 3
Chow Test of CAB

F-Statistics	3.568028	Probability. F (1,14)	0.0460
Log likelihood ratio	3.588121	Probability. Chi-square (1)	0.0582
Wald Statistics	3.568028	Probability. Chi-square (1)	0.0589

Source: Compiled in Eviews

Table 4 show the chow test results and the CUSUMSQ test result of GDP at constant prices , showing its structural break in 1991.

Table 4
Chow Test of GDPconstant

F-Statistics	19.70353	Probability. F (1,14)	0.0001
Log likelihood ratio	16.87448	Probability. Chi-square (1)	0.0000
Wald Statistics	19.70353	Probability. Chi-square (1)	0.0000

Source: Compiled in Eviews

Table 5 shows the chow test result and the CUSUMSQ test result of Gross Fixed Capital formation(GFCF) , showing its structural break in 1991.

Table 5
Chow Test of GFCF

F-Statistics	14.81094	Probability. F (1,14)	0.000408
Log likelihood ratio	13.26111	Probability. Chi-square (1)	0.0002
Wald Statistics	14.81094	Probability. Chi-square (1)	0.0001

Table 6 shows the chow test result and the CUSUMSQ test result of Outward Foreign Direct Investment(OFDI) , showing its structural break in 1991.

Table 6
Chow Test of OFDI

F-Statistics	10.86955	Probability. F (1,14)	0.0020
Log likelihood ratio	10.11187	Probability. Chi-square (1)	0.0015
Wald Statistics	10.86955	Probability .Chi-square (1)	0.0010

Table 7 show the chow test result and the CUSUMSQ test result of Exports(XPTS) , showing its structural break in 1991.

Table 7
Chow Test of XPTS

F-Statistics	16.89	Prob.F(1,14)	0.000184
Log likelihood ratio	14.84	Prob.Chi-Square(1)	0.000117
Wald Statistics	16.89	Prob.Chi-Square(1)	3.9501

Source: Compiled in Eviews

Table 8 shows the chow test result and the CUSUMSQ test result of Imports(MPTS) , showing its structural break in 1991.

Table 8
Chow Test of MPTS

F-Statistics	17.25911	Prob.F(1,14)	0.000161
Log likelihood ratio	15.10712	Prob.Chi-Square(1)	0.000101
Wald Statistics	17.25911	Prob.Chi-Square(1)	3.2613

Source: Compiled in Eviews

The Johansen Test of Co-integration was applied, to find their long term co-integration, if any, because first order integration was found in all the variables. While, at a level of significance of 5%, the Trace statistics, results show the 4 co-integrating equations, the Max Eigen value tests show 3 co-integrating equations. For this study , we have gone by taking 3 co-integrating equations for further analysis in the Vector Error Correction Model(VECM).

The Johansen Test of Co-integration was applied to the selected variables to find their long-term co-integration, given that all variables exhibited first-order integration. The results of this test, when observed at a 5% level of significance, showed that the Trace statistics indicated four co-integrating equations, while the Max Eigen value tests indicated three co-integrating equations. For the purpose of further analysis in the Vector Error Correction Model (VECM), the study proceeded by utilizing three co-integrating equations

Thus, all the variables (except GDP at constant prices and current account balance) are found to be significantly influencing the FDI inflows. These variables are the The Gross Fixed capital formation(GFCF), the outward Foreign direct investment(OFDI), the exports(XPTS) and the imports(MPTS) all in their first lag form. The GFCF, which has been taken as a proxy for the domestic investment, is found to be significant in influencing the FDI inflows negatively. Thus, it is a substitute for the FDI inflows, where a high GFCF may lessen the need for a larger FDI inflows and vice-versa. Here, we can derive that with adequate domestic investment, the country may lessen its dependence on foreign investment for its development.

The analysis of the long-run co-integrating equations from the Vector Error Correction Model (VECM), as derived from the data, requires that the signs of the coefficients be interpreted in a reverse way. Based on these equations, it was found that the Gross Fixed Capital Formation (GFCF), Outward Foreign Direct Investment (OFDI), exports (XPTS), and imports (MPTS)—all in their first lag form—significantly influence FDI inflows. Variables like GDP at constant prices and the Current Account Balance (CAB) were not found to significantly influence FDI inflows. The results indicate that GFCF, serving as a proxy for domestic investment, significantly influences FDI inflows negatively. This suggests that adequate domestic investment may lessen the need for larger FDI inflows, making GFCF a substitute for foreign investment. In contrast, OFDI shows a significant positive influence on FDI inflows in the long run. Furthermore, both the volume of exports and imports significantly and positively influence FDI inflows

The other major factor is the OFDI , which has a significant positive influence on FDI inflows in the long run. Earlier research on this aspects has shown the link between the OFDI and FDI inflows, where a higher FDI inflows Granger causes higher OFDI after a lag and vice versa [3]. The comparative analysis of its inward and OFDI points to some underlying link between these two. The adoption of liberal policies towards these

sectors, to make them attractive as global FDI destinations, indirectly contributes to their enhancement to global competitive standards, themselves, turning into global investors in the long run [8].

Thus, this can be another way through which the FDI inflows can be increased. The country's proficiency in establishing itself as an international investor has a favourable impact on its larger FDI inflows at home, which may be a consequence of its better international print in attracting more investment. Both the volume of exports and imports are found to be significant in influencing FDI inflows positively. This is an expected result as more FDI inflows also requires more imports of its supply chains, while more exports leads to more earning of foreign exchanges for the country. Table 9 showing the Error correction short run equations, reflects the short run adjustments to the deviation from the equilibrium, which requires that there sign should be opposite to their sign in the long run equation. The adjustment coefficients shows the convergence back to equilibrium or corrections in the short run errors or deviations. All these variables selected are found to fulfil this criteria, indicating a good model.

Table 9
Error Correction Short Run Equations

Variable	Metric	D(FDI_inflows)
CountEq1	Coefficient	-0.723647
CountEq1	t-Statistic	-3.45768
CountEq2	Coefficient	0.056717
CountEq2	t-Statistic	3.52178
CountEq3	Coefficient	-0.586502
CountEq3	t-Statistic	-2.69399
D(FDI_inflows(-1))	Coefficient	0.088991
D(FDI_inflows(-1))	t-Statistic	0.47985
C	Coefficient	8.51E+09
C	t-Statistic	2.55782
Dummy	Coefficient	-6.09E+09
Dummy	t-Statistic	-2.92006

Source: Compiled by the author in eviews

The Error Correction Short Run Equations, often presented in Table 11, focus on Error Correction Short Run Equations, often presented in Table 11, focus on the short-run adjustments to deviations from the long-run equilibrium. A key finding derived from this analysis is the significant

impact of the dummy variable for Liberalisation. The Liberalisation dummy coefficient negatively influences the inflows of FDI into the country in the short run. However, Liberalisation is observed to have a significant positive impact on several key macroeconomic variables, specifically GDP at constant prices (proxy for market size), Gross Fixed Capital Formation (GFCF) (proxy for domestic investment), exports (XPTS), and imports (MPTS). Conversely, Liberalisation is found to have a profound negative effect on the Current Account Balance (CAB), reflecting a deficit in the CAB, and no significant effect on Outward Foreign Direct Investment (OFDI) in the short run. Therefore, while Liberalisation does not directly increase FDI inflows in the short run, showing a negative effect, it indirectly facilitates future FDI inflows by significantly and positively influencing the variables that, in turn, affect FDI inflows, such as market size, domestic investment, exports, and imports. The adjustment coefficients for the selected variables fulfill the criteria of having signs opposite to their long-run equation signs, indicating the convergence back to equilibrium or corrections in the short-run errors or deviations, which suggests a good model fit

The most noteworthy finding of this model, is the significant impact of the dummy variable as shown in table 11. The dummy coefficient of Liberalisation is found to be significantly influencing the inflows of FDI into the country negatively. However, it is also observed to have significant positive impact on the GDP at constant prices, the GFCF, which is the proxy for domestic investment and the exports and the imports. It also has a profound negative effect on the current account balance (CAB), which is a reflection of our deficit in the CAB. It is found to have no significant effect on the outward foreign direct investment (OFDI) of the country. Thus, the most important result from this analysis is that liberalisation does not directly increase the inflows of FDI in the short run, but rather shows a negative effect, but it indirectly facilitates its inflows by significantly influencing positively the variables, which in turn influence the inflows of FDI into the country. These variables which are positively affected by liberalisation are the market size for which GDP is the proxy. Thus larger the market size, more will be the inflows of FDI. The second factor is the GFCF, which is a proxy for domestic investment. Thus the increase in domestic investment facilitated by higher imports and exports, all impacted significantly by the Liberalisation policy in the short run, significantly influences the FDI inflows in the long run. Equation 1 focuses on the estimated long run equation with the coefficients of the variables.

Equation 1**Equations and Their Coefficients**

$$\begin{aligned}
D(\text{FDI_INFLOWS}) = & C(1) * (\text{FDI_INFLOWS}(-1) + 0.0714461016677 * \text{GFCF}(-1) - \\
& 0.442711299203 * \text{OFDI}(-1) - 0.171363412835 * \text{XPTS}(-1) - 0.0580739115649 * \text{MPTS}(-1) \\
& + 10704360651.6) + C(2) * (\text{GDPCONSTANT}(-1) + 7.77841914894 * \text{GFCF}(-1) + \\
& 58.2834252474 * \text{OFDI}(-1) - 20.5804154177 * \text{XPTS}(-1) + 0.16716543724 * \text{MPTS}(-1) \\
& + 131520380438) + C(3) * (\text{CAB}(-1) + 0.88117700666 * \text{GFCF}(-1) + \\
& 3.19253574327 * \text{OFDI}(-1) - 2.18745718692 * \text{XPTS}(-1) + 0.495613396689 * \text{MPTS}(-1) + \\
& 36738698916.3) + C(4) * D(\text{FDI_INFLOWS}(-1)) + C(5) * D(\text{GDPCONSTANT}(-1)) + \\
& C(6) * D(\text{CAB}(-1)) + C(7) * D(\text{GFCF}(-1)) + C(8) * D(\text{OFDI}(-1)) + C(9) * D(\text{XPTS}(-1)) + \\
& C(10) * D(\text{MPTS}(-1)) + C(11) + C(12) * \text{DUMMY}
\end{aligned}$$

5.2 Model Fit and Diagnostic Tests Results:

The model we have taken here to find the impact of the variables on the inflows of FDI in India under the impact of Liberalisation shows a good R-square value of 73% and an Adj R-square of 62%, which shows good model fit (Table 10).

Table 10
Model Fit Indicators

Indicator	D(FDI_inflows)
R-squared	0.726237
Adj_R_squared	0.622396
F-statistic	6.993725
Log_likelihood	-957.5201
Akaike_AIC	47.29367
Schwarz_SC	47.79520

Source: Compiled by the author in EViews

The Vector Error Correction Model (VECM) developed to analyze the impact of macro-economic Error Correction Model (VECM) developed to analyze the impact of macro-economic variables on the inflow of Foreign Direct Investment (FDI) in India under Liberalisation was assessed for its model fit using several indicators, which are typically summarized in Table 13. The results demonstrate that the model is a good fit. Specifically, the model exhibited a good R-square value of 73% and an Adjusted R-square of 62%. This high R-square value suggests that the model effectively captures the relationship between the chosen variables and FDI inflows. Furthermore, the model's appropriateness was further confirmed

through diagnostic tests, such as the Autocorrelation test and the Inverse Roots test for stability

Thus, the model for the impact of Liberalisation policy on the FDI inflows is found to be a good fit, It is further testified through some diagnostic tests. The Autocorrelation test between the variables as shown in Table 11 below.

Table 11
Autocorrelation Test Result

Null Hypothesis: no residual autocorrelations up to lag h (Sample: 1980 2022)
Included observations: 41

Lags	Q-Stat	Prob.	Adj Q-Stat	Prob.	df.
1	38.97278	NA*	39.94710	NA*	NA*
2	74.18682	0.5697	76.96698	0.4796	77
3	112.9379	0.7912	118.7774	0.6634	126
4	168.8837	0.6160	180.7713	0.3667	175

* The test is valid only for lags larger than the VAR lag order.df is degrees of freedom for (approximate) chi-square distribution

* df and Prob. May not be valid for models with exogenous variables

Source: Compiled in Eviews

The Vector Error Correction Model (VECM) was subjected to diagnostic tests to confirm its appropriateness, including the Autocorrelation test, the results of which are typically summarized in Table 14. The results of this test showed a p-value greater than 0.05. This finding led to the acceptance of the Null hypothesis of no auto-correlation up to the 'h' lags tested. Consequently, the series, tested up to four lags, demonstrated no auto-correlation. Confirming the absence of autocorrelation is vital, as correctly specifying the lag length is necessary to prevent specification errors and autocorrelation problems within the model

The results shows p-value > 0.05 leading to the acceptance of the Null hypothesis of no auto-correlation⁵ test up to 'h' lags. Thus, the series tested up to 4 lags shows no auto-correlation.

⁵ It is very essential to choose the correct lag length as incorrect specification of lags will lead to specification errors and autocorrelation problems.

6. Conclusions

All the selected variables (except GDP at constant prices and current account balance) are found to be significantly influencing the FDI inflows. These variables are the GFCF, the outward FDI, the exports(XPTS) and the imports(MPTS) all in their first lag form. The GFCF, which has been taken as a proxy for domestic investment, is found to be significant in influencing the FDI inflows negatively. Thus, it is a substitute for the FDI inflows , where a high GFCF may lessen the need for a larger FDI inflows and vice-versa. Here, we can derive that with adequate domestic investment, the country can lessen its dependence on foreign investment for its development.

The dummy coefficient of Liberalisation is found to be significantly influencing the inflows of FDI into the country negatively. It is also observed to have a significant positive impact on the GDP at constant prices, the GFCF, which is the proxy for domestic investment and exports and imports. Thus, the above analysis showed the liberalisation policy to have significantly influenced the inflows of FDI indirectly through its positive impacts on factors like GDP, GFCF, exports and imports. However, it has a profound negative effect on the current account balance(CAB), which is a reflection of the deficit in the CAB of the country. All these factors were found to have a significant influence on the FDI inflows. Liberalisation is found to have no significant effect on the outward foreign direct investment(OFDI) of the country, in the short run. The adjustment coefficients of these variables in the short run, show the convergence back to equilibrium or corrections in the short run errors or deviations, in the long run. All these variables selected are found to fulfil this criteria, indicating a good model fit. The status of the FDI inflows in India, in the recent financial crisis due to the Covid pandemic have further shown to some extent the resilience of not only FDI but also its affecting variables. It affected FDI flows world-wide and also featured a re-distribution of its destinations. It exposed countries to unprecedented challenges and uncertainties. The FDI forecast for India during this period, shows a silver lining by its upward trend, though skewed towards its lower limit [2]. Streamlined policies to impact the explanatory variables as per the findings will enable the full realisation of the impact of liberalisation of the inflows of FDI, besides making these parameters stronger to withstand crisis, like the recent exemplified by the Covid pandemic. Sustainability of this very vital source of capital is needed for any economy. This is a major contribution towards supporting the 17th Sustainable Development Goals(SDGs), which is to 'Strengthen the means of implementation and revitalise the global partnership for sustainable development'. The Liberalisation policy has a

favourable impact in increasing domestic investment, outward foreign direct investment, exports, imports and the national output, all of which indirectly provide a suitable platform to the inflow of foreign direct investment and in unfolding its desired impact on the economy.

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