TITLE: INPUT OUTPUT MODELING OF IMPACT OF FDI ON INDIAN ECONOMIC GROWTH

AUTHORS: PRAKASH, SHRI ; SHARMA, SHALINI; KASIDI, FARAJI

EMAIL: shri.prakash@bimtech.ac.in

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ABSTRACT:

Capital and human resources are the pivots of development. Growth of developing countries is affected by shortages of i) capital, ii) human capital, iii) foreign exchange, and iv) low technology. FDI mitigates these constraints to growth to some extent. FDI brings capital with foreign technology and modern managerial practices and organizational structures (Prakash and Balakrishnan, 2005). FDI and growth, like other variables, are bi-directionally related. Developed rather than developing countries may, therefore, be hypothesized to be the main suppliers of FDI, and hence, FIO.   Both micro and macro studies do not support the thesis of positive impact of FDI on growth. Balasubramanyam et.al. (1996) used production function to test the thesis that export promoting FDI promotes growth. Production function includes FDI, capital, labor, as inputs and FDI is treated as a source of technology and human capital to capture spill over effects and learning as externalities.   Borensztin et al. (1998) examined absorptive capacity augmentation effect of FDI through capital deepening.   Nair-Reichart and Weinhold (2001) postulate panel and time series estimates to impose homogeneity across countries. While empirical evidence shows considerable heterogeneity. They used (MFR) panel data estimation to test causal direction of FDI and growth. The results differ substantially from others. Traditional tests suggest significant and uniform impact of FDI on growth. This study finds the causal relationship between investment (foreign and domestic) and growth in developing countries to be highly heterogeneous. Domestic investment is strongly correlated contemporaneously with growth, though it does not affect growth. They find FDI to be more efficacies in open economies; it is highly heterogeneous across countries.   MODEL   As static model is inappropriate for growth accounting and investment, including FDI which is exogenous to the model, we estimate the model at two different points in time in terms of $(I-A_t)^{-1}$ and $(I-A_{t+1})^{-1}$, all other terms of the model remaining the same.   The following input - output model shall be used: $X = (I - A)^{-1} FDI$.....................(1) Where X is gross output vector, $(I-A)^{-1}$ is Leontief inverse, FDI is an element of final demand vector. All other components of final demand vector are treated as zero. This is one part of experiment. Then, we use all components of final demand vector, including FDI. Difference of these two solutions will isolate impact of other components of final demand.   DATABASE   Input output tables of

India and other public data sources related to industry wise official statistics shall be used. We propose to use 1993-94, 1998-99 and 2003-04 IO tables.