

IMPACT OF FOREIGN DIRECT INVESTMENT ON POVERTY IN MADHYA PRADESH, INDIA

Vandana Dhingra*
Dr. P.K. Jain**

ABSTRACT

The intention of this study is to look into the connection between Foreign Direct Investment (FDI) and Poverty in the state of Madhya Pradesh in India. The indirect impact of FDI on decrease of poverty is through economic expansion which results in the progress of living standards due to the increase in GDP, improvement of skill and output, as well as the economic environment. According to the DPIIT, FDI inflows in the state Madhya Pradesh, between April 2000 and March 2020 summed up to US\$ 1,512.65 million. The study highlights the major impact areas of FDI and its key findings suggest that we still have a long way to go to achieve its benefits. It would be important to ensure inter-state healthy competition in create a center of attention domestic and Foreign Direct Investment. For the intention of study secondary data and reports are being used which are collected by reports published by RBI, DPIIT. To extract the results, Linear Regression Model has been used with the help of SPSS Software. The outcome of study is reliant on the limited selected period of the researcher which may differ from another analysis.

Research Implications: *This study undertaken will draw the attention of the Academicians, Policy Makers and Research Scholars. It will further highlight the role of FDI towards the Poverty from where it draws resources and society which gives it the human capital.*

Keywords: *Foreign Direct Investment, Foreign Investment Promotion Board, Reserve Bank of India.*

Introduction

Foreign Direct Investment is the venture made in production or business by the country in another country by either purchasing a company or getting higher its own business in the foreign country. FDI refers to the capital inflows from foreign countries that invest in the production capacity of an Economy and these inflows are usually preferred over other forms of external finance, because such inflows are non-obligation creating, non-fickle and their returns depend on the performance of the projects financed by the investors.

A continuous supply of trained labor force a nonviolent industrialized occupation environment, raw materials and a positive government have made Madhya Pradesh an attractive industrial alternative. Madhya Pradesh is the second largest and green state of India. Madhya Pradesh with a part of 308000 square kilometers, geographically, has more land for agriculture and industrial use. Agriculture is the mainstay of state's economy as 74.73% of the people are bucolic.

* PhD Research Scholar, Department of Commerce, Barkatullah University, Bhopal, India.

** Professor & Head, Department of Commerce, Government Hamidia Arts & Commerce College, Bhopal, India.

As much as 49% of the total land is cultivable. The production of key crops like rice, wheat, pulses has also been high-quality. The national horticultural operation has been implemented in 31 districts. Industry and minerals-Madhya Pradesh has entered the area of high- tech industries such as electronics telecommunications, automobile, information expertise etc. The state produces ocular fiber for telecommunications. Many automobile industries have been well-known in Pithampur near Indore. The major industry in the public sector in the state are Bharat Heavy Electricals Ltd. (BHEL) at Bhopal, Security paper mill at Hoshangabad, Bank note press at Devas. The Government of India has set up a Special Economic Zone (SEZ) in Indore. FDI is being promoted by implementing the comprehensive Economic Development Policy. The State Government has announced an Industries Promotion Policy which offers attractive impetus for venture in the State. Madhya Pradesh is also a mineral rich State.

Justification of Research Paper Topic

In this Research Paper, the topic has been taken to analyze the concept of Impact of Foreign Direct Investment on Poverty in Madhya Pradesh. The only concept of Poverty is not enough its analysis and interpretation done through examining the Impact of Foreign Direct Investment on Poverty of Madhya Pradesh. This study will give the framework for those states where reduction of Poverty is not as per the expectation. This research will give the fair picture of Impact of Foreign Direct Investment on Poverty in the state of Madhya Pradesh, India. There is very small research on a direct correlation between FDI and poverty.

Review of Literature

Meltem, engün Ucal (2014) This study aims to investigate foreign capital and whether or not it reduces poverty in developing countries. **Valuation of FDI and scarcity Relationship** Data investigation and comparison integrated in this section examine the relationship between FDI and scarcity. FDI in the host country may have direct and indirect effects on poverty reduction.

Borensztein et Al., (1998) in his paper studied that the effect of FDI on economic growth is mainly dependent on the person resources available in the host country and FDI is a vehicle for the adoption of new technologies. FDI would result from a combination of advanced management skills and modern technology. FDI may be the main feed through which highly developed technology is transferred to developing countries in a framework of cross- country regressions for 69 developing countries over the last decade.

Campos and Kinoshita (2002) investigated that there is no empirical evidence to test positive relationship between impacts of FDI with economic growth in the host country. The effects of FDI on 25 transitional economies of the earlier Soviet Bloc transition between 1990 and 1998 was studied and found that FDI is a noteworthy factor in economic enlargement.

Nyatepe-Coo (1998) also conducted a similar study on relationship between the contributions of FDI to economic expansion during the period 1963 to 1992 in Southeast Asia, Latin America and Sub-Saharan Africa following the work of **Borensztein et al., (1998)**.

Wang (2002) in his study conducted similar study on FDI inflows and economic enlargement by using data from 12 Asian economies over the period of 1987- 1997 and found that total FDI inflows in manufacturing sectors significantly affects the economic growth.

Bhattacharyya Jita et Al. (2012) studied that there was a extended-phrase association between FDI, merchandise, service trade and the economic expansion of India. Bi-directional causality is observed between commodities deal and economic enlargement, economic enlargement and services trade. Unidirectional causality is observed from FDI to economic expansion and FDI to commodities trade. A oneway causality is also observed from commodities trade to services trade.

Singh J. (2010) studied the context of increasing competition among different countries to attract FDI. This work also analyzed the emerging trends and patterns of FDI inflow into India in response to various policy measures announces by the Government of India since mid-1980s and later. The empirical analysis suggested that the FDI inflows, in general, show an increasing trend during the post-reform period.

Banga, Rashmi (2009) studied the collision of financial incentives offered, elimination of restrictions and signing of bilateral and regional investment agreements with developing and developed countries on the inflows of foreign investments. Financial incentives were not found to have any significant impact on combined FDI. On the other hand, elimination of boundaries attracts

aggregate FDI. However, FDI from developed and developing countries are to different selective policies. The main finding of the study is that FDI has to various degree lead to diversification of exports for Indian states.

Kumar N. (2007) in his paper Investigated that the pointed increase in FDI since 1991 has been accompanied by a move in the physical and sectoral center of Indian investments. Enterprises which are previously occupied in exporting are more probable to be external investors. automatically, the policy liberalization of the 1990s has optimistic Indian enterprises to business enterprise out of the country

Pradhan, Prakash J. et Al. (2004) studied the service and earnings sound effects of FDI in Indian industrialized. The conclusion recommend that overseas firms do not have any adverse things on the developed service in India as compared to their domestic defy parts while they appreciably pay comparatively advanced to their human resources. Therefore, this study tends to involve that labor in fact had benefited from foreign venture in India.

Srivastava S. (2004) Studied and investigated the contact on FDI inflows in the direction of India as a consequence of growing completion from another major emerging market economy, i.e. China in the come around of its succession to the WTO.

Objective of the Study

In the light of the abovementioned discussion, the objective of present study can be stated as follows:

- To study the Impact of Foreign Direct Investment on Poverty in the state of Madhya Pradesh, India
- To give the suggestions based on the Findings of the study.

Hypotheses of the Study

Null Hypothesis: There is no significant Impact of Foreign Direct Investment on Poverty in Madhya Pradesh.

Research Design

This Research Paper is analytical in nature. This would investigate the theoretical perspective relating to appearance of FDI from Madhya Pradesh. The task of defining the research problem is the preparation of the design of the research project, popularly known as the research design. Research design is needed because it facilitates a blueprint. Research design is like a machine, which we need in advance to plan the methods to be adopted collecting the relevant data and techniques to be used in its analysis for preparation of research paper.

Limitation of the Study

Every Research have their own constraints and pains in these lights this research study also have some limitations which given as follows:

- Non availability of Sufficient Literature and Data's.
- The Reliability and Authenticity of Data only depends on audits.
- This study has been carried out basis of secondary data.
- This study has been covered limited time period and also limited area of Madhya Pradesh.

Analysis of Repercussions of FDI on Poverty in Madhya Pradesh

- **Poverty in Madhya Pradesh:** Data from several studies and reports shows that the number of people afflicted with food shortage in Madhya Pradesh is increasing fast The latest food spending patterns present a depressing picture of unending lack of food in Madhya Pradesh, which is the second biggest state in India with a population of 86 million people. According to the Indian State Hunger Index released in 2008, Madhya Pradesh has a score of 30.9, the highest score in the country. Therefore, this is the only state grouped in the "exceptionally upsetting category of food shortage. Madhya Pradesh, with a little less than 6% of country's population, is inhabited by the largest number of hungry people in the count. Madhya Pradesh has the highest rate of cases of Malnutrition and Infant Mortality in India as well as in the world.

The below chart shows the change in Poverty Rate in Madhya Pradesh during the time period between 2005-06 and 2019-20:

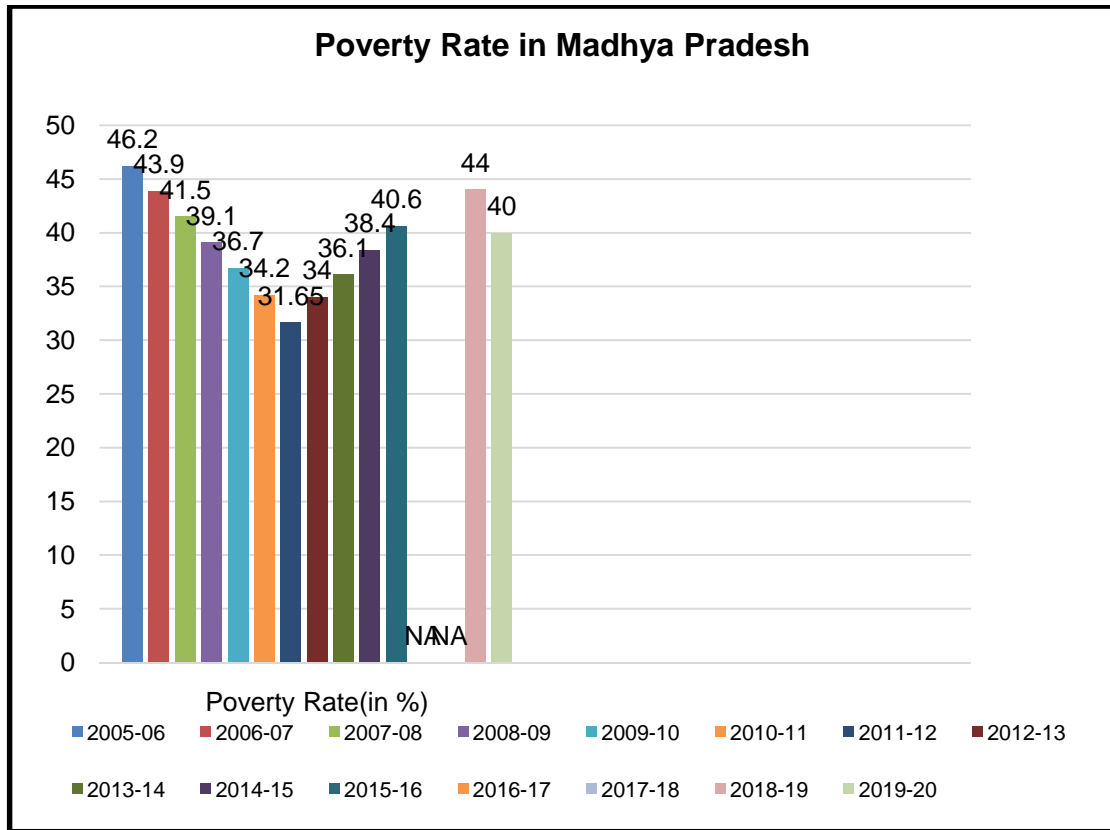


Chart 1: Poverty Rate in Madhya Pradesh, NA* Year 2016-17 & 2017-18 data is Not Available.

Relationship between Foreign Direct Investment and Poverty of Madhya Pradesh

To reflect the correlation between Foreign Direct Investment and Penury Rate, data set for 2005-06 to 2019-20 has been used.

Table 1: Descriptive Statistics

	Mean	Std. Deviation	N
Poverty	38.9500	4.02457	15
FDI US\$ millions	99.1167	111.22985	15

Table 2: Correlations

		LINT(Poverty)	FDI US\$ millions
Pearson Correlation	Poverty	1.000	-.637
	FDI US\$ millions	-.637	1.000
Sig. (1-tailed)	Poverty	.	.005
	FDI US\$ millions	.005	.
N	Poverty	15	15
	FDI US\$ millions	15	15

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.637a	.406	.360	3.21892	.406	8.885	1	13	.011

a. Predictors: (Constant), FDI US\$ millions

Table 4: ANOVA^a

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	92.062	1	92.062	8.885	.011b
	Residual	134.698	13	10.361		
	Total	226.760	14			
a. Dependent Variable: Poverty						
b. Predictors: (Constant), FDI US\$ millions						

Table 5: Coefficients^a

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	41.235	1.131		36.469	.000
	FDI US\$ millions	-.023	.008	-.637	-2.981	.011
a. Dependent Variable: Poverty						

The influence of the FDI upon Poverty in Madhya Pradesh can be revealed with the simple linear regression model, in which the Poverty Rate is the dependent variable, and the FDI is the independent variable. Here is such a model:

$$\text{Poverty Rate} = a + b (\text{FDI})$$

The two series have been processed with SPSS, and the parameters have been estimated with the least square's method.

Based on the parameters obtained (a and b), the regression model becomes:

$$\text{Poverty Rate} = 41.235 - 0.023 \text{ FDI} \dots\dots\dots$$

As seen, the influence of the FDI on the Poverty Rate in MP, it decreases by 0.023% with a unit change in FDI. To note, however that a high value of the free term indicates the existence of other significant factors of influence contributing to the descending evolution of the Poverty in Madhya Pradesh. The probability of this econometric model is relatively high. The values of the tests R^2 (0.406) and R^2 adjusted (0.360), while the value of test Prob (F-statistical) is 0.011, which is below the significant threshold of 5%. Based on these elements, we can say that the simple linear regression model can be successfully used in the above economic analyses. Thus, the analyses performed with regression models lead to the conclusions that the null

Testing of hypothesis that there is no significant impact of FDI on Poverty Rate in MP is rejected.

FDI may have direct and indirect effects on poverty reduction. The indirect impact of FDI on the reduction of poverty is through economic growth which results in the improvement of living standards due to the increase in GDP, improvement of technology and productivity, as well as the economic environment. When we consider the relationship between FDI and poverty,

Future Outlook

Madhya Pradesh is well-off in instinctive capital - fuels, raw resources, agricultural and biodiversity. It is also the sole diamond producing state in the country. The government of Madhya Pradesh has taken various initiatives and has announced several industrial policies with a outlook to attract new funds in the state and contribute to the growth and to the overall economic contraction of the State. These policies provide a outline for guide the investors concerning the budding venture opportunities in Madhya Pradesh. The government has produced the policies with a observation to make available attractive Performance and Reward to the investors and to make advance funds. These industrial policies were announced with an aim to encourage investors wide-reaching to devote in the state by creating a admiring big business upbringing Some of the key industrial sectors in the state having spirited strength and the budding to attract new foreign investments are food processing industry and the cement industry. There is also a enormous capacity for venture in the textile industry and mining sector. In most of the states, poverty is still considered a huge problem. Proper planning and collective efforts are needed to battle poverty. To do so, states need adequate investment for job creation, workforce training (in order to increase productivity and improve human capital), and education and health improvements. These states often lack sufficient investment due to low state savings therefore; there is an imperative need to attract foreign investment.

References

- ✓ BANGA, R. (February 2006). The Export-Diversifying Impact of Japanese and U.S. Foreign Direct Investments in Indian Manufacturing Sector. *Journal of International Business Studies* , WORKING PAPER NO. 110.
- ✓ Borensztein, E., Gregorio, J. D., & Lee, J. W. (1998, July 18-07-2020). How does foreign direct investment affect economic growth? *Journal of International economies* , 115-135.
- ✓ Campos, N. F., & Kinoshita, Y. (2002, July 18-07-2020). Foreign Direct Investment as Technology Transferred:Some Panel Evidence from the Transition Economies. *William Davidson Institute* , 438.
- ✓ Kumar, N. (2007). Emerging TNCs:trends, patterns and determinants of outward FDI by Indian enterprises. *Transnational Corporations* , Vol. 16, No. 1.
- ✓ Report, S. *THE IMPACT OF FDI IN RETAIL ON SME SECTOR*. Confederation of Indian Industry.
- ✓ Sarisoy, I., & Koc, S. (2012). The Effect of Foreign Direct Investment on Poverty: Panel Regression Analysis for 40 Selected Underdeveloped and Developing Countries1. *Ç.Ü. Sosyal Bilimler Enstitüsü Dergisi, Cilt 21, Sayı3* , 225-240.
- ✓ Singh, ,. J., Chadha, ,. S., & Sharma, A. (October 2012). Role of Foreign Direct Investment in India: An Analytical Study. *RESEARCH INVENTY: International Journal of Engineering and Science ISSN: 2278-4721, Vol. 1, Issue 5* , PP 34-42.
- ✓ Singh, J. (December 2010). Economic Reforms and Foreign Direct Investment in India:Policy, Trends and Patterns. *The IUP Journal of Financial Economics, Vol. VIII, No. 4* , 59-69.
- ✓ Ucala, M. . (2014). Panel Data Analysis of Foreign Direct Investment and Poverty from the Perspective of Developing Countries. *Elsevier* , 1101 – 1105.
- ✓ Wang, M. (3-1-2009). Manufacturing FDI and Economic Growth:Evidence from Asian Economies. *Marquette University e-Publications @Marquette* , 1-24.
- ✓ <https://www.ibef.org/industry/retail-india.aspx>
- ✓ <https://www.cci.gov.in/>
- ✓ <https://www.ibef.org/industry/retail-india.aspx>
- ✓ <https://dipp.gov.in/>
- ✓ <https://www.rbi.org.in/>
- ✓ <http://des.mp.gov.in/en-us/DownloadData>
- ✓ <http://www.slbcmadhyapradesh.in/economy.aspx>
- ✓ <http://www.madhyapradeshstat.com/>
- ✓ <https://www.ibef.org/states/madhya-pradesh-presentation>
- ✓ <https://www.ibef.org/download/Madhya-Pradesh-April-2018.pdf>
- ✓ <https://www.prsindia.org/parliamenttrack/budgets/madhya-pradesh-budget-analysis-2019-2020>
- ✓ <http://simc-wire.com/history-of-fdi-in-india/>

