JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue

JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)

An International Scholarly Open Access, Peer-reviewed, Refereed Journal

"THE STUDY ON THE IMPACT OF INTERNATIONAL CAPITAL MOVEMENTS ON ECONOMIC GROWTH"

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1.1 Abstract :

Global economic growth patterns have been significantly impacted by the increasing cross-border capital mobility brought about by the financial markets' recent globalisation. Using a thorough analytical approach, this research article seeks to investigate the complex link between global capital flows and economic development.

This study explores the ways via which foreign capital flows impact economic growth patterns by thoroughly examining theoretical frameworks and empirical investigations. It specifically looks at how different types of capital, such portfolio investments and foreign direct investment (FDI), either support or obstruct economic progress.

1. INTRODUCTION

1.1 Conceptual Framework

Trade on a global scale and the flow of productive resources like money, labour, and technology are mutually exclusive. A nation like the United States, which has a comparatively large amount of capital, may export capital or capital-intensive exports.

Countries with little capital are forced to import capital-intensive commodities or get the necessary capital flow from outside due to their current circumstances.
International capital movement is the movement of financial and investment resources from one to another nation, either to enhance a country's output or to adjust Balance Of Payment/BOT imbalance. International capital movements denote the transfer of money and financial assets across borders, serving as a critical component of the global economy. These movements exert influence over exchange rates, interest rates, investment patterns, and overall economic stability.

1.2 Historical Context

International capital movements have a rich historical backdrop, tracing back to ancient times when traders and merchants engaged in cross-border transactions. However, the contemporary era of globalization has markedly accelerated these movements, bolstered by advancements in technology, communication, and financial innovation.

1.3 Drivers of International Capital Movements

a. **Profit Maximization**: Investors seek to optimize returns on their investments by diversifying their portfolios across different countries and asset classes.

b. **Risk Management**: Diversification serves to spread risk, as investing in multiple countries can mitigate exposure to country-specific economic downturns or political instability.
c. **Market Integration**: Increasing globalization has fostered greater interconnectedness between financial markets worldwide, encouraging capital flows across borders.

d. **Interest Rate Differentials**: Disparities in interest rates between countries incentivize investors to allocate capital to jurisdictions offering higher returns. e.

e. **Economic and Political Stability**: Countries characterized by stable economic and political environments tend to attract more foreign investment, offering predictability and security for capital deployment.

1.4 Types of International Capital Movements

a. Foreign Direct Investment (FDI): Foreign direct investment involves acquisition of significant ownership stake in an enterprise located in another country. This form of investment entails a long run commitment and participation in management and operations of the foreign business entity. FDI can take various forms like greenfield and brownfield investment, mergers and acquisitions, joint ventures.
Key characteristics of FDI include:

- Long-term commitment: FDI typically involves substantial investments aimed at establishing or expanding business operations in foreign markets.
- Control and management: Unlike portfolio investments, which involve passive ownership of financial assets, FDI enables investors to exert control and influence over the strategic direction and management of the invested enterprise.
- Technology transfer: FDI often facilitates the movement of technology, skills, and techniques from the investing company to the foreign subsidiary, contributing to economic development and industrial upgrading in the host country.
- Strategic motives: Companies engage in FDI to access new markets, gain competitive advantages, secure access to key resources, and diversify their operations globally.

b. Foreign Portfolio Investment: FPortfolio investment refers to acquisition of financial assets such as equity, bonds, and other securities issued by foreign firms. Portfolio investment do not involve direct control or active participation in management of the underlying assets. Instead, investors allocate capital across different nations and asset classes with the aim to achieve diversification and to maximise returns. Portfolio investment can be categorized into equity investments and debt investments, each with its own characteristics:

- Equity investments: involve purchasing shares or ownership stakes in foreign companies listed on stock exchanges. Equity investors may benefit from capital appreciation, dividends, and voting rights but bear the risk of price volatility and market fluctuations.
- Debt investments: entail buying bonds, treasury bills, or other fixed income securities issued by foreign corporations, governments, or any financial institutions. Debt investors get quarterly or periodic interest payments and repayment of principal upon maturity, but they are revealed to various market risk, interest rate risk, currency risk, and credit risk.

c. Foreign Aid & Remittances: Foreign aid refers to financial assistance provided by international organizations, non-gov. organizations (NGOs), or gov. organizations to support development projects, alleviate poverty, and address humanitarian needs in recipient countries. Foreign aid can take the form of endowments, concessional loans, technical assistance, capacity building programs, and technical assistance. Key features of foreign aid include:

- Development objectives: Foreign aid aims to promote economic growth, social welfare, and sustainable development in recipient countries by funding education, healthcare, infrastructure, and other priority areas.
- Donor-recipient relationships: Foreign aid involves bilateral or multilateral partnerships between donor countries or organizations and recipient countries. Donors provide financial resources and technical expertise, while recipients implement projects and programs to achieve development goals.
- Aid effectiveness: The effectiveness of foreign aid depends on factors such as transparency, accountability, governance, and alignment with recipient countries' priorities. Effective aid coordination, monitoring, and evaluation are essential to maximize the impact of aid interventions and ensure accountability.

1.5 Regulatory Framework and Policy Responses

a. **Capital Controls**: Governments may implement various measures to manage the flow of capital in and out of their economies, such as restrictions on currency conversion, limits on foreign investment, or taxes on capital inflows or outflows.

b. **Bilateral and Multilateral Agreements**: International agreements and organizations like the World Trade Organization (WTO) International Monetary Fund (IMF) aim to promote stable and orderly international capital movements through coordination, surveillance, and policy dialogue.

c. Prudential Regulation: Financial regulators implement prudential measures to mitigate risks associated with international capital movements, such as capital adequacy requirements for banks, stress testing, and supervision of cross-border financial institutions.

2. REVIEW OF LITERATURE

1. **Benton Massell (1992)** looked at the influence of foreign and global capital flows on the pace of economy and growth in terms of national income of the country importing the capital. The main conclusion is that the economy is expanding faster now than it would on its predicted growth trajectory.

2. **Kenneth J. Kopecky and George H. Borts (1992)** In the literature on international economics, the examination of capital flows has acquired an uncommon position. Because of this perception of an external disturbance, early research on balance-of-payments adjustment and the first theories pertaining to the adjustment process were developed.

3. **Yusuke Onitsuka (1994)** This work expands on earlier developments in theory of international or global capital flows and adopts a more comprehensive approach.

4. **Jeffrey Kentor (2003)** Scholars have been debating the impact of foreign investment on emerging countries' economies for a while now. Some make a compelling case that foreign investment strengthens the home economy, whereas others hold the opposite view. This study offers a new perspective on foreign capital reliance that might resolve this dispute: The percentage of a host country's foreign direct investment equity that is owned by the largest investing nation is known as foreign investment concentration. The claim is that a high degree of investment concentration limits the capacity of political and corporate leaders to

behave in the long-run best interests of domestic growth. Using information gathered between 1970 and 1995 at five-year intervals from 39 less developed countries.

5. Research by **Eswar Prasad, Raghuram Rajan, and Arvind Subramanian (2006)** finds that non-industrialized countries that have dependence more on foreign aid have not developed more rapidly over the long period. On the other hand, growth and foreign financing levels are positively correlated in industrialised countries. We argue that this discrepancy might be caused by non-industrialized countries' limited ability to absorb foreign capital.

6. **Shen Chung-Hua, Lee Chien-Chiang, and Lee Chuan (2010)** This research re examines the connectivity between global capital flows and economy growth in light of many potential "conditional factors" that might influence these relationships. There is strong evidence that growth is only positively benefited by FDI, and that growth is significantly, if not severely, impacted by FPI. The conditional elements of financial liberalisation, high income, twin crises, decreased corruption, and human capital lower the growth-promoting impacts of foreign direct investment (FDI).

7. **Eswar S. Prasad, Arvind Subramanian, and Raghuram G. Rajan** Keep track the "uphill" financial flows that have occurred recently from nonindustrial to industrialised countries and determine whether or whether this pattern of capital flows has impeded the development of nonindustrial economies that export capital. Surprisingly, we find that current account balances and growth in non-industrialized countries are positively connected, indicating that quicker growth is associated with less reliance on foreign capital.

8. **Evans, Martin D.D. (2014)** Foreign capital flows have increased during the 1980s, with the bond and equity markets playing a major role in this rise. These developments are to the increasing interconnectivity of the world's financial market. This model allows us to investigate how capital flows and returns are affected by growing global financial market integration. In the initial stages of financial integration, when bonds are the primary international asset traded asset class, our model projects large (absolute value) and highly variable foreign capital flows.

9. **Von Hagen, Jurgen (2014)** We offer a tractable model of the overlapping generations of two nations and show how differences in financial growth between the countries might account for 3 recent actual patterns of capital flows: Despite having inverse net foreign investment positions, the United States gets direct net investment income as net money flows from impoverished to wealthy nations. comparatively wealthy nations get financial capital from comparatively poorer nations, whereas foreign direct investment goes the other way.

10. **Cimenoglu, Ahmet (2014)** The major purpose of this research is to know the impact of foreign capital inflows on the economy of Turkey. Some says that capital inflows can increase both private household consumption and investment spending by firms. An increase in consumer demand causes a relative price increase in nontradable sectors relative to tradable sectors. In the end, this causes a change in the structure of investments, moving them away from trade industries and towards nontradable ones. Increased investment in nontradable industries does not improve a country's ability to create foreign cash, and as a result, a country's susceptibility to currency shock eventually rises. This might lead to serious problems including significant current account deficits, currency crises, recessionary economies, and significant capital outflows.

11. **Greg Okoye Onuora (2019)** The case study examined how Nigeria's capital market impacted the nation's economic expansion and spanned the years 2001–2017. Time series data were used in the analysis to capture capital market revenue for the time period under consideration. The data for the study, which examined it using the ordinary least squares regression technique, came from the World Bank and the CBN statistics bulletin. The investigation found no evidence of a positive association between several indicators of economic progress and the Nigerian capital market. link between capital market revenue and GDP growth rate; capital market revenue and suitable security exhibit a strong, positive correlation; nevertheless, there was no significant correlation between capital market revenue and transportation.

12. **Colin Stoneman (2021)** presents and tests a new, simple model that looks at how foreign capital—specifically, foreign direct investment—affects the pace of economic growth in developing countries. This approach's attempt to separately account for the structural economic effects and the immediate impact on the balance of payments position is one of its characteristics.

13. **Richard H. Clarida (2022)** A neoclassical model of government investment, international capital flows, and economic growth is presented by Richard H. Clarida. Since governmental capital is non-traded and partially substitute for private capital, the economy can only gradually converges to the Slow and steady state, despite the truth that the international capital movability is complete. Along the convergence route, the economy encounters a current account deficit in BOP brought on by an increase in public spending.

3. RATIONALE OF THE STUDY

Even though this topic has been the subject of several studies, this one was performed by taking a variety of elements into account. The New Economic Policy of 1991, which includes globalisation, privatisation, and liberalisation, is to blame for the notable growth in global or direct investment (FDI) and foreign portfolio investment (FPI) influx. The goal of the current research is to determine how foreign capital movements—specifically, FDI and FPI—affect the pace of economic growth.

4. OBJECTIVE OF THE STUDY

The following are the study's primary goals:

a. To comprehend how international capital movements affect the economy.
b. To understand the impression of global capital flows on economic growth.

5. METHODOLOGY

5.1 The Study

The study is descriptive in nature.

5.2 Hypothesis

Null hypothesis (H0): There is no association betwixt International Capital Movements and economy growth.

Alternative hypothesis (H1): There exists a relationship betwixt International Capital Movements and economy growth.

5.3 The Sample

Last 11years (2013-2023) data has been collected to determine the technical analysis and different statistical relations.

5.4 Tool for Data Collection

The data is secondary in nature and hence it is collected from relevant sources such as Journals, Open Government data, World Bank, RBI and other government and related websites etc.

5.5 Tools for Data Analysis

Paired T –test on Excel is used, correlation analysis involves Pearson Analysis, time series analysis including line graphs and series ogives and fundamental and technical analysis to determine the effect on economic growth.

6. RESULTS AND FINDINGS

- **T-test** on the impact of flows on GDP proves that there is not much impact on GDP from foreign investments but do have impact on National Income and Balance of Payment of a Country.
- The **Karl Pearson Correlation** was identified to know the trend on Foreign Inflow of Investment and its influence on the growth of economy. The result was the high degree of correlation between them.
- The import and export have been seen continuously rising and leaving a greater impact on economy. However the rate of Import is more which will drain the Indian wealth outside the country.
- The exchange rate have been seen continuously fluctuating but during the year 2023, the Indian currency have been depreciated which increases the foreign flow of capital.

7. CONCLUSION

To summarise, our research has looked into the complex relationship between global capital flows and economic development. Firstly, it is clear that global capital flows have a notable influence on the rates of economy growth in many regions and countries. Foreign capital inflows, whether in the form of FDI, portfolio investments, or other financial flows, have the potential to serve as economic growth catalysts by promoting investment, increasing productivity, and allowing knowledge transfer. While poorly managed or unstable capital flows can exacerbate macroeconomic imbalances, make a nation more vulnerable to external shocks, and hinder long-term development opportunities, well-managed capital inflows can help to maintain growth.

8. LIMITATION OF THE STUDY

1. The study relies on secondary data, raising the possibility of manipulation.
2. Combined use of primary and secondary data may lead to inaccurate results.
3. Time constraints are a restriction in this investigation.
4. Modern research is complicated, which can lead to technique mistakes.

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