

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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FOREIGN DIRECT INVESTMENT INFLOWS INTO USA

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ABSTRACT

Foreign Direct Investment (FDI) of the USA is growing very rapidly in recent years and the FDI will be posing a lot of problems to the USA in the years to come. Hence a perspective plan is necessary to mobilize investment for the servicing of FDI. Projection of FDI will help to get a clear idea about our future commitments and then to plan accordingly. This research work clearly analysed how the FDI of the USA has grown during the period from 1971 to 2010 and what would be USA FDI in the near future besides it would also help to get a clear picture about the Economic Growth through using the tools of Regression, Correlation analysis and Time Lag model were used to overcome the various work also analyses to overcome the various problems of inflows of USA FDI.

KEYWORDS

Foreign Direct Investment, Regression, Correlation, and Time Lag.

1. INTRODUCTION

Foreign direct investment (FDI) is defined as a long term investment by a foreign direct investor in an enterprise resident in an economy other than that in which the foreign direct investors is based foreign direct investment (FDI) is also defined as investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a multinational corporation (MNC). In order to qualify as FDI has investment must afford the parent enterprise control over its foreign affiliate. The UN defines control in this case as owning 10 per cent or more of the ordinary shares or voting power an incorporate firm or its equivalent for an unincorporated firm lower ownership shares are known as portfolio investment foreign direct investment (FDI) flows have increased dramatically in last few decades. As developed economics. Particularly in USA remove restrictions and implement policies to attract FDI inflows. Trade and investment have become increasingly intertwined. As such there have been growing calls for a multilateral framework of foreign investment rules to be negotiated under the auspices of the world trade organization (WTO).¹

FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills, and technology." It is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependent on the policies of the host government) "...triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use."²

As such it may take money forms. Such as a direct acquisition of foreign form construction of a facility or investment in a joint venture or strategic alliance with a local firm with attendant input of technology, licensing of intellectual property. In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to changes in technology growing liberalization of the national regulatory framework governing investment in enterprise and change in capital market scope and methods of FDI. New information technology system, decline in global communication costs have made management of foreign investment far easier than in the past. The sea change in trade and investment policies and the regulatory environment globally in the past decade including trade policy and tariff liberalization easing of restrictions on foreign investment and acquisition in many nations, and the deregulation and privatization of many industries has probably been the most significant catalyst for FDI's expanded role.³

Foreign Direct investment is new facilities or the expansion of existing facilities Greenfield investment are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how and can lead to linkages to the global market place. The organization for international investment at the benefits of Greenfield investment (or insourcing) for regional and national economies to include increased employment often at higher wages than domestic firms investments in research and development and additional capital investments criticism of the efficiencies obtained from Greenfield investments include the loss of market share for competing domestic firms. Another criticism of Greenfield investment is that profits are perceived to hypes /ball economies and instead flow back entirely to the multinational's home country. Critics contrast this to local industries whose profits are seen to flow back entirely into the domestic economy.⁴

This is especially applicable for the economically developing countries. During the decade of the 90s foreign direct investment was one of the major extreme sources of financing for most of the countries that were growing from an economic perspective.

Foreign direct investment also permits the transfer of technologies. This is done basically in the way of provision of capital inputs. The importance of this factors use in the fact that this transfer of technologies cannot be accomplished by way of trading of goods and services as well as investment of financial resources. It also assists in the promotion of the competition within the local input market of a country.

The countries that get foreign direct investment from another country can also develop the human capital resources by getting their employees to receive training on the operations of a particular business. Foreign direct investment helps in the creation of new jobs in a particular economy or country. It also helps in

¹. Preet Kamal, (2009) "Foreign Direct Investment", <http://preetkamal.hubpages.com/hub/pks>

². Dr. Khandare V.B. Dr. S. N. Babar, 2012, "Structure of Foreign Direct Investment in India during globalization period", Indian Streams Research Journal, 2, III, pp 1-4.

³. Jeffrey P. Graham and R. Barry Spaulding, 2004, "Understanding Foreign Direct Investment," Going Global, http://www.going-global.com/articles/understanding_foreign_direct_investment.htm

⁴. Benefits of FDI the International Trade Administration. Retrieved on 2010-03-10.

increasing the salaries of the workers. This enables them to get access to a better life style and more facilities in life. Foreign direct investment can also bring in advanced technology and skill set in a country. These are also some scope for new research activities being undertaken.

1.1. FDI IN USA

The United States is the world's largest recipient of FDI US. FDI totaled 194 billion of US dollars in 2010.84 per cent of FDI in the US in 2010 came from or through eight countries Switzerland, the united kingdom. Japan, France, Germany, Luxembourg, Netherland, and Canada US Dollar 2.1 trillion stock of FDI in the United States at the end of 2008 in the equivalent of approximately 16 percent of US gross domestic product (GDP).

Inflow of FDI in USA deals with during 1971 to 2010. During 1971 the inflow of USA FDI was 870 million of US Dollars it was increase in 1980 16918 million of US Dollars. In 2001 the FDI inflow of USA was 159477.6 million of US Dollars. It was increase during 2010, 228249 million of US Dollars finally conclude that the inflow of FDI in USA comparatively increasing between the time period of 1971 to 2010.⁵

At a time when job creation is paramount, it is outstanding news that global companies one pumping. The dramatic increase in such investment is a clear sign that these companies have a decidedly positive outlook for the American economy of particular note the new statistics shows that the US operations of global companies are reinvesting what they earn back into their US plants and factories Re invested earnings more than tripled from 28.5 billion of US Dollars in 2009 to 93.1 billion of US Dollars in 2010.⁶

1.2. INFLOW FDI IN DEVELOPED COUNTRIES

In developed countries increase the FDI over the period of year during 1971 state FDI in Developed countries 10050.6 million of US dollars (8.17 per cent) increasing the FDI in developed countries in 1980,46575.81 million of US Dollars (36.32). The last decade FDI was increase during the period of 2010. It comparatively differs between two periods. In 2010 developed countries FDI was grew up 601905.9 million of US dollars (37.92 per cent). FDI flows bounced back slightly in the second quarter of 2009, but remained low for the rest of the year. According to UNCTAD's Global FDI Quarterly Index, however, foreign investment showed renewed dynamism in the first quarter of 2010. Cross-border mergers and acquisitions (M&As) – still low at \$250 billion in 2009 – rose by 36 per cent in the first five months of 2010 compared to the same period in the previous year. This suggests that annual FDI flows are likely to recover in 2010, thanks to higher economic growth in the main home and host countries, improved corporate profitability, and higher stock valuations.⁷

2. REVIEW

Economic literature enumerates a number of studies on the various aspects of FDI inflows into USA (Glen Biglaiser and David Lektzian (2011), Rao V. Nagubadi, Daowei Zhang (2011), Theresa M. Greaney. Vao Li (2009), Axel Grossmann, Marc W. Simpson, Cynthia J. Brown (2009), Miguel D. Ramirez (2006), Reid W. Click (2005), Rahim Bang (2004), Kai Carstansen and Faid Toubal (2004), Setni, SE Gusinger, SE Phelan and DM Berg (2003), Wilbur Chung Juan Alcales (2002), Murray S. Simpson (2001), James H. Love and Francisco large-Hidalgo (2000), J. Myles Shaves and Fredrick Flyer (2000), J. Myles Shaver. Will Mitchell and Bernard. Yeung (1997), Hong Y. Part (2000), Manuel G. Serapio Jr. Donald .H. Dalton (1999), Marjam Svetetic, Matija Rojec (1999), Joseph Friedman Daniel A Gerlowski. Jonathan silberman (1996), Benjamin Tan, Ilan Verinsky, (1996), John .B, Goodman Debora Spar and David B. Yoffie (1996), Francis M. Ulgad (1994), Andrew Solochal, Mark D. Soskin, Mar J. Kasoff (1990), In this work on (1988), Grosse (1988), Jaffrey S. AR pan, B. ,David A. Ricks, (1981), John. M. Stopford (1980), and James E. Mc Connell (1980)). However, the extent of trend analysis through time lag model in FDI inflows into USA, have not been studied.

3. DATA AND METHODOLOGY

To study the extent of time series data on total FDI inflows into USA. to be more specific this study describe the FDI inflows in terms of actual value, FDI Index and annual growth rate and trend analysis through simple linear regression model and semi log linear regression model and semi log linear model. To the relationship between the FDI and Economic Growth through lagged regression models, first the regression model is fitted by taking the GDP as the dependent variable for the set of data on respective years. Secondly, a time lag is introduced and influence of FDI in GDP is studied. To study the advantages of FDI is that it will stimulate growth process and help to achieve a higher rate of growth, the time series data for a period 40 years, from 1971 to 2010 have been used. This period is divided into four sub periods consisting of first ten years from 1971 to 1980, the second ten years from 1981 to 1990, the third ten years from 1991 to 2000, and the fourth ten years from 2001 to 2010.

4. ANALYSIS

4.1. FDI TRENDS IN UNITED STATES OF AMERICA

Total FDI inflows, Index number and annual growth rates are given in table 1. During the decade from 1971 to 1980, USA's FDI inflow in dollar terms has increased more than 19-folds from 870 million of US dollars in 1971 to touched 16.92 billion of US dollars in 1980. Moreover the same period the highest annual growth rate was 101.72 per cent in 1978 and lowest annual growth rate was -30.95 per cent in 1972. During the same decade, the average value of FDI inflows and annual growth rate was works out to 4.78 billion of US dollars and 204.96 per cent per year respectively.

During the decade from 1981 to 1990, the value of FDI inflows in dollar terms has increased more than 2-folds from 25.20 billion of US dollars in 1981 to touched 48.42 billion of US dollars in 1990. Moreover the same period the highest annual growth rate was 121.974 per cent in 1984 and lowest annual growth rate was -45.187 per cent in 1981. During the same decade, the average value of FDI inflows and annual growth rate was works out to 37.83 billion of US dollars and 10.24 per cent per year respectively.

During the decade from 1991 to 2000, FDI inflows into USA have grown sizably. The value of FDI inflows in dollar terms has increased more than 13-folds from 22.80 billion of US dollars in 1991 to touched 314.00 billion of US dollars in 2000. Moreover in this decade the highest annual growth rate was 68.693 per cent in 1998 and lowest annual growth rate was -165.576 per cent in 1993. During the same decade, the average value of FDI inflows and annual growth rate was works out to 115.65 billion of US dollars and 141.91 per cent per year respectively.

During the decade from 2001 to 2010, the value of FDI inflows in dollar terms has increased more than 2-folds from 159.48 billion of US dollars in 2001 to touched 306.37 billion of US dollars in 2008 and then it started showing a declining trend. Moreover the same period the highest annual growth rate was 126.254 per cent in 2006 and lowest annual growth rate was -50.094 per cent in 2009. During the same decade, the average value of FDI inflows and annual growth rate was works out to 166.84 billion of US dollars and 4.7914 per cent per year respectively.

⁵ . US International Direct Investment, (2010)", Organization for International Investment, http://www.ofii.org/docs/FDIUS_2010.pdf

⁶ . James K. Jackson, 2012, "Foreign Direct Investment in the United States: An Economic Analysis", Congressional Research Service, <http://www.fas.org/sgp/crs/misc/RS21857.pdf>

⁷ . Dr. Khandare V.B. Dr. S. N. Babar, 2012, "Structure of Foreign Direct Investment in India during globalization period", Indian Streams Research Journal, 2, III, pp 1-4.

TABLE 4.1: FDI INFLOWS INTO USA DURING 1971-1980(millions of US dollars)

Year	USA	Index Number	Annual growth rate
1971	870	100	-
1972	1350	155.172	-30.952
1973	2120	243.678	55.172
1974	3330	382.759	57.037
1975	2560	294.258	-23.12
1976	3250	373.563	26.953
1977	2900	333.333	-10.769
1978	5850	672.412	101.724
1979	8700	1000	48.718
1980	16918	1944.598	94.459
Average	4784.8		204.955
1981	25195	100	48.92
1982	13810	54.8152	-45.187
1983	11518	45.715	-16.5977
1984	25567	101.476	121.974
1985	20490	81.326	-19.857
1986	36145	143.461	76.403
1987	59581	236.479	64.838
1988	68571	232.471	-1.695
1989	69010	273.904	-17.823
1990	48422	192.189	-29.834
Average	37830.9		10.2432

Source: UNCTDA.

TABLE 4.1:- FDI INFLOWS INTO USA DURING 1971-1980(millions of US dollars)

Year	USA	Index Number	Annual growth rate
1991	22799	100	-52.92
1992	19222	84.31	-15.689
1993	50664.65	222.223	-163.576
1994	45090.64	197.774	-11.00
1995	58772	257.783	30.342
1996	84460	370.455	43.707
1997	105405.7	453.554	22.43
1998	174438.8	765.116	68.693
1999	283676.4	1244.249	62.622
2000	313997.2	1377.241	10.689
Average	115652.639		141.91
2001	159477.6	100	--
2002	74500.56	46.715	-53.284
2003	53140.5	33.322	-28.641
2004	135849.8	85.184	55.642
2005	104809.3	65.720	-22.849
2006	237136	148.695	126.254
2007	215952	135.412	-8.9332
2008	306366	192.106	41.8676
2009	152892	95.871	-50.094
2010	228249	143.123	49.285
Average	166837.276		4.7914

Source: UNCTDA.

4.2.TREND ANALYSIS FOR THE FDI INFLOWS INTO UNITED STATES OF AMERICA

The results of the trend analysis reveal that the FDI inflows into USA increased per decade 1296.558 millions of US dollars during 1971 to 1980. The regression co-efficient of the semi-log linear model implies that the FDI inflows increased at the compound growth rate of 86.638 per cent per year. The regression co-efficient in the both models are significant at percent level. The value of adjusted R^2 in high in the simple linear model. It means that the FDI inflows of USA during 1971 to 1980 were not linear trend in this period. The FDI inflows into USA increased next decade by 5747.91 million of US dollars during 1981-1990. The regression co-efficient of the semi- log linear model implies that FDI inflows decreased at the compound growth rate of 48.594 per cent per year. The regression co-efficient in both models are significant at one per cent level. The value of adjusted R^2 0.706 is very high in this care. It means that the FDI inflows into USA had registered at linear trend in this period around 70 per cent of variations in the dependent variable are explained by the independent variable. The FDI inflows of USA independent variable. The FDI inflow of USA was increased 32069.51 million of US dollars during 1991-2000. The regression co-efficient of the semi log linear model implies that FDI inflows increased at the compound growth rate of 105.116 per cent per year. The regression co-efficient in both models are significant at one per cent level. The value of adjusted R^2 0.8 is very high in this case it means that the FDI inflows into USA had registered at not linear trend in this period and amount 82 per cent the inflow of FDI in USA was discussed in next decade during 2001 to 2010. The regression co-efficient of the semi-log linear model implies that FDI inflows decreased 17008.16 millions of US dollars the compound growth rate was 30.918 per cent per year. The regression co-efficient in both models are significant at five per cent level. The value of adjusted R^2 0.41 very low in this care it means that the FDI inflows into USA had registered at linear trend in this period around 41 per cent of variations in the dependent variable are explained by the independent variable. Comparing the four decades during 1971 to 2010. The FDI inflows into USA increased per decade by the highest amount of 32069.51 million of US dollars in the third decade during 1991 to 2000. The highest compound growth rate of 105.116 per cent was recorded during the same period.

TABLE 4.2: RESULTS OF TREND ANALYSIS FOR THE FDI INFLOWS INTO USA

Period	Model	a	b	SE _b	t	Sig	R ²	Adjusted R ²	CGR
1971-1980	Simple linear	-2346.267	1296.558	330.723	3.920	.004	.658	.615	-
	Semi log linear	6.625	0.271	.034	8.029	.000	.890	.876	86.638
1981-1990	Simple linear	5217.400	5747.909	1311.282	4.383	.002	.706	.669	-
	Semi-log linear	9.403	0.172	.042	4.140	.003	.682	.642	48.594
1991-2000	Simple linear	-60729.645	32069.506	5173.131	6.199	.000	.828	.806	-
	Semi-log linear	9.544	0.312	.025	13.544	.000	.958	.953	105.116
2001-2010	Simple linear	73289.160	17008.748	7096.322	2.397	.043	.418	.345	-
	semi-log linear	11.262	0.117	.049	2.355	.046	.409	.336	30.918

4.3. IMPACT OF FDI ON ECONOMIC GROWTH LAGGED MODEL APPROACH

4.3.1. INTRODUCTION

In this part an attempt is made to study the relationship between the FDI and Economic Growth through lagged regression models. First the regression model is fitted by taking the GDP as the dependent variable and FDI as the independent variable for the set of data on respective years. Secondly, a time lag is introduced and the influence of FDI on GDP is studied. The time lag is increased at each stage one by one to investigate whether the spillover effect increases or decreases, depending on the availability of data. The results of the analysis of the current data and lagged models are discussed for U.S.A in the section.

The correlation between GDP and FDI is the highest for the set of data without any lag. It is 0.74. The correlation continues to be greater than 0.7 till the time lag t=25 and the correlation coefficient touches the highest value of 0.87 when t=27. Thus the influence FDI on GDP is high in U.S.A.

The regression coefficient is 36.41 when there is no time lag and it increases gradually when time lag is increased. The regression coefficient significant at one per cent level. Initially, FDI explains 55 per cent of variations in GDP. The explanatory power of FDI increases to 76 per cent when time lag is 27.

Initially, FDI is capable of explaining 54 per cent of variations in GDP. The explanatory power is slightly reduced at the middle of time lag. The value of adjusted R² also shows a cyclical pattern and it touched the highest value of 0.74 when t=27. Therefore, in the case of USA, FDI remains a significant variable in influencing the GDP and the effect of FDI on GDP shows a cyclical pattern as time lag is introduced. FDI is capable of explaining 74 per cent of variations in GDP when time lag is 27. That is, FDI has exerted the high influence on GDP after 27 years in USA.

TABLE 4.3.1: IMPACT OF FDI AND ECONOMIC GROWTH RESULTS OF LAGGED APPROACH MODEL

Year	time lag	R	A	B	SE _b	t-value	R ²	Adjusted R ²	F	DW
1971	t=0	0.743	372950.80	36.41	5.32	6.84	0.55	0.54	46.84	1.45
1972	t=1	0.726	4033685.25	36.10	5.62	6.42	0.53	0.51	41.22	1.07
1973	t=2	0.771	3824888.25	37.83	5.21	7.26	0.60	0.58	52.66	0.93
1974	t=3	0.755	4041593.17	40.19	5.90	6.81	0.57	0.56	46.41	0.81
1975	t=4	0.730	4372246.21	39.90	6.40	6.23	0.53	0.52	38.84	0.76
1976	t=5	0.686	4747419.08	39.45	7.29	5.42	0.47	0.45	29.31	0.71
1977	t=6	0.696	4964293.03	39.30	7.18	5.48	0.48	0.47	29.10	0.74
1978	t=7	0.702	5210319.89	39.38	7.17	5.51	0.49	0.48	30.19	0.65
1979	t=8	0.731	5332479.73	40.00	6.82	5.86	0.53	0.52	34.39	0.83
1980	t=9	0.745	5526958.22	39.84	6.62	6.02	0.56	0.54	36.22	0.84
1981	t=10	0.715	5901826.35	38.47	7.10	5.41	0.51	0.49	39.31	0.61
1982	t=11	0.693	6024025.89	47.46	9.50	5.00	0.48	0.46	24.98	0.73
1983	t=12	0.764	5476848.62	79.83	13.22	6.04	0.58	0.57	36.49	0.87
1984	t=13	0.792	5081260.23	113.01	17.43	6.49	0.63	0.61	42.06	1.06
1985	t=14	0.738	5381078.93	120.25	22.42	5.37	0.55	0.53	28.78	1.18
1986	t=15	0.732	5543216.63	132.13	25.64	5.15	0.53	0.52	26.55	0.99
1987	t=16	0.745	6173031.40	128.06	24.41	5.25	0.56	0.54	27.51	1.06
1988	t=17	0.77	6438738.92	130.24	23.93	5.44	0.59	0.57	29.63	1.20
1989	t=18	0.77	6754178.11	132.44	24.59	5.39	0.59	0.57	29.02	1.09
1990	t=19	0.81	6901310.49	134.13	22.70	5.91	0.65	0.63	34.91	1.48
1991	t=20	0.82	7164487.05	131.51	22.05	5.97	0.66	0.66	35.59	1.47
1992	t=21	0.76	7703168.05	124.26	25.64	4.85	0.58	0.56	23.48	1.19
1993	t=22	0.72	8058749.54	136.09	32.99	4.13	0.52	0.49	17.01	1.16
1994	t=23	0.68	8385190.42	152.02	41.84	3.68	0.47	0.43	13.20	1.14
1995	t=24	0.73	8105700.44	234.20	59.45	3.94	0.53	0.49	15.52	0.99
1996	t=25	0.86	9248178.29	225.16	37.63	5.98	0.73	0.71	35.79	1.50
1997	t=26	0.87	9726450.93	219.78	35.98	6.10	0.76	0.74	37.31	1.18
1998	t=27	0.84	10195862.35	229.03	45.12	5.08	0.70	0.68	25.77	0.82
1999	t=28	0.77	10830415.83	187.82	40.89	3.77	0.59	0.55	14.17	0.92
2000	t=29	0.71	11398866.66	157.82	52.99	2.98	0.49	0.44	8.87	0.36
2001	t=30	0.68	11624274.52	223.71	85.30	2.62	0.46	0.40	6.88	0.40
2002	t=31	0.74	11468311.36	434.05	151.23	2.87	0.54	0.48	8.24	0.64

4.4. FDI AND ECONOMIC GROWTH

One of the advantages of FDI is that it will stimulate growth process and help to achieve a higher rate of growth. However, FDI does not guarantee growth uniformly all the countries and at all points of time in all the developed countries USA also many factors influence the effect of FDI on growth in an economy. Hence in this chapter an attempt is made to study the relationship between FDI and Economic growth through correlation and regression analysis.

4.4.1. CORRELATION ANALYSIS

Correlation analysis generally helps to study the degree and direction of relationship between two variables. If FDI stimulates the growth process and a high growth rate is achieved. There will be strong positive correlation between FDI and GDP. If the growth of FDI does not yield adequate growth the correlation will be low or insignificant.

To study the correlation between FDI and GDP the time period taken for analysis is divided in to four sub periods. The first period is from 1971 to 1980 and the second period is from 1981 to 1990 and third period is from 1991 to 2000 and the final period is from 2001 to 2010. The Karl Pearson's correlation co-efficient is calculated for these four periods for the USA taken for analysis depending on the availability of data. The correlation co-efficient are tested against the null hypothesis that their value is equal to zero using the 't' test. A. positive and significant correlation implies a high degree of association between FDI and Economic growth. The correlation worked out for the USA for the four sub periods are given in the table 5.4.1

TABLE 4.4.1: FDI AND ECONOMIC GROWTH RESULT OF THE CORRELATION ANALYSIS

S.No	Country USA	First Period	N	Second Period	N	Third period	N	Fourth Period	N
1.	USA	-117 (.748)	10	.516 (.127)**	10	.634 (.049)*	10	.740 (.014)*	10

** significant at one per cent level.

* Significant at five per cent level.

During the first decade during the period from 1971 to 1980 the correlation co-efficient between FDI and GDP is not significant for USA. Even though the actual value of correlation for this period is negative. They do not indicate a statistically significant association between FDI and economic growth in these year.

In the second decade the period from during 1981 to 1990 the correlation co-efficient are significant at one per cent level for USA. The significant correlation indicates that FDI has been an instrumental factor in promoting economic growth in this country. However, in the care of third period during 1991 to 2000 the correlation co-efficient are significant at five per cent level for USA. The significant correlation indicates that FDI has been an instrumental factor in promoting economic growth in this country.

In last decade during the period from 2001 to 2010 deals with the correlation co-efficient are significant at one percent level for USA. The significant correlation co-efficient indicates that FDI has been an instrumental factor in promoting economic growth in USA.

4.4.2. COMPARISON OF CORRELATION CO-EFFICIENT

The correlation co-efficient value is negative during the period from 1971 to 1980. In this decade the correlation is not increased after 1980 to 2001 the correlation co-efficient was increased year by year. Hence, the influence of FDI on economic growth is improved since 1981 in the case of USA. The relationship between FDI and GDP has been good. Since 1990, it means that FDI bring out optimum benefits to promote growth in USA.

4.4.3. REGRESSION ANALYSIS

To analyze the relationship between the FDI and GDP, Simple linear regression model is used by taking the FDI as the independent variable and GDP as the dependent variable for the four sub periods separately FDI and GDP are measured in millions of US Dollars. The regression co-efficient in this case will measure the increase in GDP in millions of US Dollars if the FDI is increased by millions of US Dollars. The regression co-efficient is also tested for the null hypothesis that its value is zero. The co-efficient of determination, R^2 will measure the ability of the independent variable FDI to explain the variations in GDP.

TABLE 4.4.3: FDI AND ECONOMIC GROWTH RESULTS OF THE REGRESSION ANALYSIS

Year	Model	a	b	SE _b	t	sig	R ²	Adj R ²	F
1971-1980	Simple linear	3355357.366	-82.016	246.904	-0.332	0.748	0.014	-0.110	0.110
1981-1990	Simple linear	2544270.038	38.274	22.488	1.702	0.127	0.206	0.174	2.897
1991-2000	Simple linear	5321834.683	15.434	6.659	2.318	0.049*	0.402	0.327	5.373
2001-2010	Simple linear	10225594.950	14.800	4.752	3.114	0.014*	0.548	0.492	9.699

** Significant at one per cent level.

* Significant at five per cent level.

In the initial stages, FDI can promote the GDP by a larger amount and as the inflows of FDI increase continuously. The impact of FDI and GDP may decline in absolute terms. The estimated regression co-efficient its standard error co-efficient of determination and other important results for the four sub-periods for the various USA is above in table 5.4.1.

For USA, in the first period the regression co-efficient is not statically significant. The value of adjusted R^2 is also negative. Further FDI could not influence the GDP significantly in the first period. However, in the second period, the regression co-efficient 38.274 and this is significant at five per cent level of significance FDI now is capable of explaining 21 percent of variation in GDP. Hence GDP increased by 38.274 million of US Dollars. If FDI is increased by millions of US Dollars in the second period in USA. And FDI influence the GDP significantly in the second period in USA.

In third period, the regression co-efficient of USA is 15.434 and this co-efficient is statistically significant, the value of adjusted R^2 0.32 and hence FDI could explain 40 per cent of variations in GDP for USA in the third period. The inflow of FDI in USA during the period 1991-2000 was decreased 15.434 millions of US Dollars compares to the previous period. The third period the correlation co-efficient significant at one per cent level. FDI is capable of explaining 40 per cent of variation in GDP. Thus the influence of FDI on GDP is significant in the third period and FDI is capable of explaining the variation in GDP to a lower extent.

In fourth period, the regression co-efficient of USA is 14.800 and this co-efficient is statistically significant, the value of adjusted R^2 0.49 and hence FDI could explain 55 per cent of variation in GDP for USA in the fourth period. The inflow of FDI in USA during the time period from 2001 to 2010 was decreased 14.800 millions of US Dollars compared to the previous period. The fourth period the correlation co-efficient significant at one per cent level FDI is capable of explaining 55 per cent of variation in GDP. Thus the influence of FDI on GDP is significant in fourth period and FDI is capable of explaining the variation in GDP to a low level extent.

In overall period compared to the first period is negative value of inflows of FDI. In second period increased 38 million of US Dollars USA FDI inflows were decreased. The adjusted R^2 was negative during the first decade from 1971 to 1980 the next period was increased slowly for adjusted R^2 . The correlation co-efficient of FDI in USA was significant at one per cent level. The FDI influence GDP in slow rate.

5. CONCLUSION

Foreign direct investment in the United States in 2009 rose slightly over the amount invested in 2008, but set a record in nominal terms for the most amount of foreign direct investment in the economy in a year. Other countries have experienced a similar turnaround in foreign direct investment inflows, especially some of the less developed economies where there is a great potential for investment. As the rate of growth of the U.S. economy improves relative to other advanced economies, interest rates stay low, and the rate of price inflation stays in check, foreign direct investment in the United States likely will continue to increase. Of particular importance will be public concerns over foreign direct investment in the economy as a whole and on the overall phenomenon referred to as "globalization," with its impact on jobs in the economy.⁸

In general liberal policies along are not enough to attract FDI. Well-developed communication and infrastructure facilities, technological foundation, availability of skilled labour at low wages are some of the factors which would help to attract more FDI. Besides opening more sectors innovative skills, broad based research and development activities are also needed. Undeserving cases even a cent percent FDI can also be permitted if it can contribute for growth and provide employment without posing heavy burden on economy in future USA designing their FDI policy and utilize the benefits of FDI to the maximum possible extent for the upliftment of the welfare of the people.

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