**A STUDY ON IMPACT OF FINANCIAL DEVELOPMENT ON FOREIGN DIRECT**

**INVESTMENT IN G-20 COUNTRIES**

**A project Report submitted to**

**JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY ANANTAPUR**

**IN Partial fulfilment of the requirements**

**For the award of the degree of**

**MASTER OF BUSINESS ADMINISTRATION**

**BY**

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**CERTIFICATE**

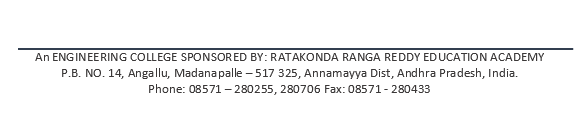
This is to certify that the project report entitled “**A STUDY ON IMPACT OF FINANCIAL DEVELOPMENT ON FOREIGN DIRECT INVESTMENT IN G-20 COUNTRIES”** submitted by  **K.MAHESH KUMAR REDDY(Reg.No.20691E0083**) under the guidance of **Dr G.SOMASEKHAR**,**MBA., Ph.D., Associate professor** Department of Management studies for the award of **Master of Business Administration** to **Jawaharlal Nehru Technological University Anantapur, Anantapuramu,** is a record of independent project work undertaken by him under my supervision and guidance and the project has not been submitted either in partial or whole for the award of any other degree or diploma of any university.

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INTERNAL EXAMINER EXTERNALEXAMINER





DECLARATION

I hereby declare that the project entitled “**A STUDY ON IMPACT OF FINANCIAL DEVELOPMENT ON FOREIGN DIRECT INVESTMENT IN G-20 COUNTRIES**” is a bonafide work submitted to Jawaharlal Nehru Technological University Anantapur, Ananthapuramu under the guidance and supervision of **Dr G. SOMASEKHAR**, **MBA., Ph.D.,** Department of Management Studies, Madanapalle Institute of Technology & Science, Madanapalle, for the award of **MASTER OF BUSINESS ADMINISTRATION. It**  is a record of original work done by me and that the project has not previously formed the basis for the award of any degree.

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**CHAPTER-1**

**INTRODUCTION**

**Introduction**

FDI in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private business to take benefits of cheaper wages and changing business environment of India. Economic liberalization started in India in wake of the 1991 economic Disaster and since then FDI has steadily increased in India. Man Mohan Singh and P. V Narasimha rao Who brought FDI in India. India overtook China and us as the top destination for the FDI.UK a raises as largest FDI Investor to India among all G20 countries (54 billion)

The investment made by an investor in a firm doing business overseas to acquire a strong long term tangible control in the operations of the entity is termed as Foreign Direct Investment .International monetary fund(IMF) defines foreign direct investment as a type of investment which is undertaken for obtaining durable/lasting stakes in businesses functioning beyond the investors home country(IMF,1993),when 10% or more investment is received from an abroad investor intending to manage the firm, it is known as FDI(world bank 1992).

FDI is Estimated to play a dynamic role in industrial technological progress and economic growth of a nation. It is an important and major component of financial resources flowing to the developing countries. Especially, post 2009 re.cession.it is becoming the chief external source of foreign financing in developing nations.

**Five major FDI determinants are**

* Market size of a country.
* Its development level.
* Openness of the economy.
* Infrastructure availability and
* Its skilled human capital

Other supporting factors effecting inward FDI include political stability, double taxation treaties, trade agreements, Macroeconomic stability, bilateral investment treaties and the health of domestic governing institutions.

The G-20 primary focus has been control over the global economy. G-20 established in 1999,in the stir of the 1997 Asia financial crisis to bring together major

Advanced and emerging economic stability the global finance market with the inception of global financial crisis in 2008, the G-20 was seen the most effective forum to lead global efforts to stem the crisis and mitigate its effects.

In their 2 April 2009 summit, Group of Twenty(G-20) members pledged to maintain an open trade and investment management and to avoid a retreat into protectionism,

Reiterating the earlier commitment made at the Washington summit in response to the global economic and financial crisis. They are called on “WTO, together with other international bodies, within their respective mandates, to monitor and report publicly

on adherence to these undertakings on a quarterly basis”. In the same manner, The G-20 also pledged to “take, at the same time, whatever steps we can to promote and facilitate trade and investment”.

This is against the background of a continuing fall of global foreign direct investment flows. UNCTAD(United Nations Conference on Trade and Development)

Estimates advice that the 2008 decline of 15 percent will worsen considerably in 2009, reaching a 50 percent decline in global inflows,60 percent in inflows to developed countries,40 percent in inflows to transition economies and 26 percent in inflows to developing countries. This is also reflected in the estimated more than 66 percent decrease in cross border mergers and acquisitions expected for 2009, Given the Important role of G-20 members in global investment flows(they accounted for 86percent of global inflows in 2007-2008),the estimated decline is likely to affect the G-20 members the most.

UNCTAD is the directed crucial point within the united nations for all matters related to foreign investment and development. It has over 30 years of experience and expertise in collecting data and undertaking research and trends to investment flows and policies, both nationally and internationally with an prominence on helping countries to make investment work for development

**Development of FDI flows**

After a strong rise in 2015, global FDI inflows lost growth drive in 2016,declining to USD 1.75 trillion .Inflows to G20 members reached a record of approximately USD 1.2 trillion for the first time. Global FDI inflows continued to lose drive in the first half of 2017 from 2016, falling just below USD 800 billion.so far in 2017, FDI

Inflows to G-20 countries fell to an average of around USD 200 billion per quarter from around USD 300 billion per quarter in 2016.

**Investment policy Trends**

Investment policy making is getting more complex, more differing and more uncertain. sustainable development considerations make investment policies more challenging and multidimensional. Policy making is also becoming more contrary, reflecting the variety of approaches with which societies and governments respond to the effects of Globalization. This, together with more government interventions, has also reduced the predictability of investment policies for investors. A rules based investment system that is credible has broad international support and aims at sustainability and comprehensiveness can help reduce uncertainity and improve the stability of investment relations.

Most investment policy measures introduced in 2016 aimed at investment promotion, simplification and liberalization. Some 58 countries and economies adopted at least 124 investment policy measures-the highest number since 2006.Entry conditions for foreign investors were liberalized in a variety of industries, and numerous countries updated registration procedures, provided new investment incentives lor continued privatization. About one fifth of the measures introduced new investment restrictions or regulations, considerably more than in the early stages of UNCTAD’s annual reporting in the 1990’s.They were manifested not only in new legislation but also in administrative decisions, especially in the context of merger controls involving foreign takeovers.

The G20 countries adopted the Regulatory principles for Global Investment policy making. Representation on UNCTAD’s investment policy framework for sustainable Development, the non-binding G20 principles represent the first time that multilateral agreement on investment matters has been reached between a varied group of developed, developing and transition economies, accounting for over two thirds of global outward FDI.

**FDI sets out five action areas**

Safeguarding the right to regulate,

While providing protection, reforming investment dispute settlement

Promoting and facilitating investment;

Ensuring responsible investment; and

Enhancing systemic consistency

**Key factors influencing future FDI flows**

Global economic growth is projected to accelerate to 2.7 percent in the coming year, compared with the post crisis low of 2.2 percent in 2016. Growth in Developed countries is likely to increase appreciations to the expected easing in fiscal policy and a rise in business confidence in the united states, as well as cyclical momentum in Europe and Japan. Evolving and Developing Economies are also forecast to recover significantly in 2017, led by growth in China and by a sharp economic expansion in natural resources exporting countries, as commodity prices are expected to increase, especially for crude oil. Gross fixed capital investment is expected to pick up strongly

In evolving and developing economies, but also in advanced economies. Moreover, more floating Economic activity will help boost world trade, which is forecast to expand by 3.8 percent in 2017, compared with just 2.3 percent in 2016.

The improvement in the global macro economic position and the modest rise in commodity prices had a direct effect on the profits and profitability of multinational enterprises (MNEs). After the decline in 2015, profits of the largest 5000 MNEs picked up significantly in 2016. Increased corporate profits, with a consequent increase in stock price, could boost the value of cross border M&A s announced in the first four months of 2017, which stood at about $600 billion or 35 percent higher than over the same period in 2016.

UK emerges has largest FDI Investor to India among G-20 countries. The latest data to confirm Britain increasing interest investing in India prime minister Narendra Modi a couple of months before on his earliest visit to the united kingdom UK has become the largest investor in India among all G20 countries with combined revenue of more than 54 billion in India. Between the year2000 and 2015 UK’s foreign direct investment to India amounts to 22 billion. In total G20 Nations invests 73.9 billion in India between 2000 to 2015.UK being the single largest G20 investor into India followed by Japan 18.3 billion, US 13.7 billion, Germany 7.6 billion and France 4.5 billion.

As India largest employer UK companies currently employee around 691000

Paypal across the country 5.5% of total organized private sector jobs in country. Between 2000 to 2015 UK FDI generated around 138000 direct jobs 7% of the total 1.96 million jobs generated by FDI in India enormous talent pool was the main reason for 63% of the British companies to believe in India’s potential recent growth story made 86% of them turn to interest towards the Asian giant .

English being an official language as helped too with 53% of the companies relying on it while 40% said it was the countries stable government. Confederation for British industry first sterling assets India report sponsored by PWC UK and brought out in association with the UK India business council says that Maharashtra and Delhi have attracted the Bulk of Britain FDI in to India 26% and 20% respective.

The chemical sector attracts the lion’s share of British investment in India at 5.78 million followed by the pharmaceutical sector at 3.76 billion and the food processing sector at 3.05 billion.

Katja hall, CBI deputy Director General said, the economic relationship between India and the UK is it fine fettle. The UK has played a significant role in India’s growth journey investing more and creating more jobs than any other G20 nations PM Modi’s steps to improve the comfort of doing business in India are a great boost and we look forward to the EU-India free trade agreements talks resuming.

British Prime minister David Cameron recently asked Modi to help the free trade agreement get going again enforce structural reform in India to help open up economy and leads to higher growth rates. Cameron meet the Indian prime minister on the Sidelines of the G20 summit in Brisbane recently Modi met and EU delegation who conveyed that the 28 nation bloc is keen to re engage beat India on trade.

**The mission of the organization for Economic cooperation and Development**

The OECD (Organization for Economic cooperation and Development) promotes policies that will improve the economic unsocial well being of people around the world the OECD provides a forum in which government can work together to share experiences 16 solution 2 common problems they work with governments to understand what drives economics social and environmental change in productivity and global flows of trade and Investment. We study and compare data to predict future trends. They said international standards and a wide range of things from

Agriculture and tax to the safety of chemicals they also look at issues that directly affect everyone daily life like how much people pay in taxes and social security and how much leisure time they can take the compare how different countries school systems are readying the young people for modern life and how different countries pension systems will work after their citizens in old age

India has remained ahead of China and the US as far as FDI Inflows were concerned in the last year said the FDI report 2017 compiled by FBI intelligence a division of the Financial times limited FDI bay capital investment saw an increase of 2% to USD 62.3 billion in 809 projects during 2016 in India. India manages to keep the Top as the world’s number one location for green field capital investment for the second year running ahead of China on the US.

The global Investment country side the report said has change considerably the report said has changed considerably in 2016 as FDI gravitated to locations experiencing the strongest economic growth why locations in recession are facing high level of uncertainty saw major declines. In 2016 Greenfield FDI continued to rise worldwide with capital investment increasing by morethan 6% 2 USD 776.2 billion its highest since 2011 alongside an increase in job creation by 5% 2.02 million. however the number of FDI projects declined 3% 212644.China has overtaken the US to become

Second largest biggest country for FDI by capital Investment recording USD 157.5 billion of announced FDI recorded in 2016 following an increase of 58% in value terms call and natural gas witnessed and inflow of USD 121 million followed by alternate and renewable energy at USD 77 billion.

**Global Trends of FDI**

The regional distribution of FDI shows that FDI inflows increased in both developed and developing countries during the period 1990-2008. However the developed countries remain the prime destination for FDI which accounted for 56.7% of global inflows in the year 2008, while the share of developing countries was found to be 36.6%. Annual compound growth rate of FDI inflows has been found to be 14% for developed countries and 13.3% developing countries with the due course of time.

Developed countries observed a steady rise in FDI inflows but the developed countries

Show dominating position in this regard due to existence of comparatively sound Macro economic environment, appropriate institutions and basic infrastructure required for attracting the FDI flows The Developing countries received more FDI inflows as a percentage of gross Fixed capital formation than the developing countries. In the year 2008, World FDI flows accounted for 12.3% of Gross Fixed Capital Formation (GFCF) However Developed countries share of FDI as a proportion of GFCF (11.4%) is less than that of developing countries (12.8%). The share of Developed countries (93.2%) in FDI outflows was much more than the share of developing countries (7.2%) in the total world FDI outflows in the Year 1991.Developed countries still contribute a large share (81.1%) as compared to Very small share (15.7%) of developing countries In the total world FDI out flows in The Year 2008.It means developed countries hold very strong position as compared to developing countries in terms of present share in total world FDI outflows. United States appeared as the largest beneficiary of FDI in 2008 followed by France, China, United Kingdom, Russian federation, Spain, Hong Kong China, Belgium, Brazil, Canada, Sweden, India, Saudi Arabia, Germany, Japan, Singapore, Mexico, Nigeria, Turkey and Switzerland. During this year the top five receivers contributed 44.8% of the total world FDI inflows.Russia received less amount of FDI as associated to other countries of this group like China and Brazil, but it has exceeded both of these countries as a FDI host as the growth rate of FDI Inflows is concerned. Annual compound growth rate of FDI Inflows in Russia has been estimated to be 28.09% from the year 1991-2008.India is in last position among BRIC countries in quantitative terms of FDI inflows, Yet its performance in terms of annual compound growth rate (30.1%) with the period of time is very comprehensive. This further indicates that India has Improved its position in this aspect of FDI inflows through so many economic reforms under liberalized policy regime which has caused positive tendency in foreign investors towards Indian Economy.

**CHAPTER-2**

**FINANCIAL DEVELOPMENT AND**

**FDI POLICIES IN G-20 COUNTRIES**

**Financial Development**

Financial development and economic growth have of course, been active for many years. This topic has been of strong relevance for emerging economies, particularly against the background of increased capital flows in recent years. Exposure to high capital flows carries both potential benefits and risks, and the ability to deal with these flows successfully will depend partly on the level of complexity of the domestic financial system.

In turn, it can be argued that openness to international capital flows can, under certain circumstances, encourage the growth and escalating of domestic financial systems. often, but not always, the growth of financial system will also be associated with the development of a dominant or even several leading financial centres.

**Financial development involves improvements in**

1.producing information about possible investments and allocating capital.

2. Monitoring firms and exerting corporate governance.

3.Trading, diversification and management of risk.

4.utilization and pooling of savings.

5.Easing the Exchange of Goods and services.

These financial functions influence savings and investment decisions and technological innovations and hence economic growth.

**Financial Development and the Economy**

The relationship between financial development and the economic growth is under constant examination by economists and the policy makers alike.

**In broad terms there can be said to be three components**

The first proposes that financial development depends on real growth, with the range of financial instruments and institutions.The second position suggests the Financial development precedes economic growth, encouraging economic activity by offering new products and initiatives.The third view is that finance and real activity accompany each other in a simultaneous, interactive way, each responding to the signals from the other. But there is some argument to be made that the relative importance of finance grows as GDP increases. On the basis of a comprehensive survey of studies on economic growth and the factors affecting it, the study gives emphasis on:

(1) Financial Development

(2) Foreign direct investment.

A brief outline about each of them is given below.

**Defining Financial Development**

Financial development in the fiction is defined as an improvement in Quantity, Quality and efficiency of financial services. I basically signify the development of overall financial sector. The world Economic Forum defines financial development as the factors, policies, and Institutions that lead to effective financial intermediation and markets, and deep and broad access to capital and financial services. As is understood from the previous studies, Financial Development is a multivariate concept and involves number of factors from financial institutions and market. The study uses the following financial development indicators from banking sector, stock market and bond market for our analysis.

**OPERATIONAL DEFINITIONS**

**Market size**

Market size is the number of entities in a particular market who are potential consumers for a product or service. GDP determines the economic size of the host country. Bigger markets are expected to provide more opportunities for sales. So there is a progressive relation is created between FDI inflows and the market size.

**Development Level**

There are different types of fluctuations such as gross fixed capital formation, per capita Income and per capita GDP are used as substitutes for measuring development level of a country. GDP per capita is used as an indicator of the resident’s living standard. It measures the performance of one nation in comparison to others.

**openness**

Trade volume as a segment of GDP as well as imports and Exports of a host country are used as allocations for openness. Aggregate commerce is the total exchange of services and commodities between people for various countries. Higher trade signifies relative economic openness of the FDI host nation and its commercial and industrial incorporation with the world. Assuming that with increasing globalization of the world Nations are becoming more independent thus a positive relationship is expected between GDI and openness.

**Human capital**

Different alternates like life expectancy income per capita, average years of schooling literacy rates at primary secondary and Teritary levels and school enrollment ratios are used for measuring a nations human capital. In current research education accompolishment and registration at the three different levels are used as alternative proxy measures of human capital to find its effect on FDI. Multinationals require the presence of trained and educated labor force for the better utilization of their Technology and management practices consequently a positive relationship is expected.

**Infrastructure availability**

Multi national need a certain inception level of infrastructure availability for the optimum utilization of their imported technology. Tele density is used as a proxy for infrastructure in the current study. Telecommunication infrastructure adopts and create progressive network externalities unlike bridges; road transit routes, airports and sewage system that get mobbed with increasing number of consumers. In telecommunication infrastructure the value derived by current users multiplies with new entrants. This characteristic distinguishes it from the other kinds of public infrastructure the Expected return on investment for the MNC’s shall thus is higher in the economies ensuring telecommunications infrastructure functionality and availability.

**Macroeconomic stability**

Macroeconomic stability is substitute by inflation exchange rate and budget deficit of the host nation macroeconomic Uncertainity as measured by the real interest rate and exchange rate Volatility signals financial distress causing the flight of capital. Importantly though high inflation at times lead to short term positive effects on output growth, still macroeconomic Uncertainity details inward FDI, especially in developing countries. Inflation and exchange rate are used as alternative measures of microeconomic stability and a significant control of the two on overseas investors is expected.

**Trade agreements**

Trade agreements systematically emphasize detailed responsibilities related to trade and investment liberalization. These commitments are expected to cause an increase in investment the directly expected effect of Tas (Trade agreements) on FDI is the immediate response of multinationals to the performing after several investment promoting measures mentioned in the agreement such as eradicating legal and regulatory barriers in global capital moments and permitting the overseas investors participation in local financial markets to acquire domestic firms. The performing of such investor’s friendly requirements shall normally foster FDI activity. The recent trade agreements have led to new sector openings, relaxing foreign proprietorship restrictions and changing or abolishing local content requirements assuming, these Factors to be beneficial to multinational activities the host a positive association is expected

**Bilateral investment treaties**

The first bilateral investment treaty was signed between Pakistan and Germany in 1959.A bilateral investment treaty establishes the rules and regulations for overseas investor operations in a foreign country. It usually contains sections ensuring their investment security and details on the businesses mutually granted to each other investors. In case of expropriation or removal of their properties they can file a complaint in the international council for settlement of investment disputes on top of the relaxation associated with assets protection and MNC operations. BIT’s (bilateral investment treaties) are cultivating a business friendly Global environment for the relocation repatriation and worldwide growth of FDI. The Treaties or valuable and beneficial to both the host and the foreign direct investors. The significance of the other factors that influence the investors investment security is a vital among them particularly in the developing world for the reason.it is anticipated that a BIT (Bilateral Investment treaties) shall positively affect inward FDI.

**Financial development**

The retail and wholesale financial services offering bodies collectively represent an economies financial sector. They facilitate the financial transactions between other financial institutions individuals and business consumers. The improvement in quality efficiency and quality of intermediary services lead to financial development. Moreover, competitive strengthening of financial services, expansion in the variety of existing financial facilities, growth in the range of monetary institutions functioning in the economy, strengthening an enhancement of the laws governing the financial sector also cause financial development. It is the primary explanatory variable after 6 proxy measures are uses to gauge its effect on FDI inflows in G20 region.

**Total listed companies**

The firms has listed shares by the year end on the local stock exchanges accounted in the listed companies. It includes both the foreign and local companies. Unit trusts, investment funds and firms with the primary function of holding shares of other business concerns are excluded from the list of irrespective that legal status. Forms with multiple share categories accounted once. Only business concerns listed on the stock exchange are included. It is used for the ease of access into the financial market available to new entrants and a positive influence on FDI inflows is assumed.

**Market capitalization of listed companies**

The total market value outstanding states of the listed companies is known as their market capitalization. It is calculated by multiplying the several share classes of firm’s share on their respective trading value per unit. Annual yearly data is obtained in dollar terms for campatability by taking the same year total capitalization and the end of the year foreign exchange rates. play the previous proxy it is included to measure the extent of stock market sophistication and competition in the FDI host economy.

**Broad money liquid liabilities**

Monetary Financial statements and cash that are used for recording money supply is the soul of an economies financial system. Three different terms are used for the same category such as road money or liquid liabilities. Total central bank deposits and currency as well as electronic currency and transferable deposits are included. saving and transferable foreign exchange deposits, securities repurchase agreements and deposit certificates, Traveller cheques, mutual fund shares, market funds and commercial papers are part of liquid libraries. broad money also includes demand deposits excluding federal governments and the quantity of domestic currency circulated out of the banks. Defined in whatever manner, money deposits are the banking system liabilities. It is different from other liabilities of the bank as it acts as the nations medium of exchange, store of monetary value as well as aunit of account.

**CHAPTER- 3**

**RESEARCH METHODOLOGY**

**RESEARCH METHODOLOGY**

**Statement of the problem**

In the past, a number of studies have been made to study the relationship between financial development and foreign direct investment. However, very few studies have been made in the context of G-20 countries.

Financial development can be influenced by many factors, which ultimately attracts more foreign direct investment in any country. So there is need to study the determining factors of FDI with special reference to financial development indicators.

**Need for the study**

Recently, India is attracting more foreign direct investments comparing to most of the developed countries. There is a need to study the factors leads to get more FDIs comparing to all developed and developing nations in G-20.

In the studies done so far, limited and repetitive financial development indicators from banks and stock market are usually taken. This leaves the scope for including other indicators especially from bond market. This may influence the foreign direct investment in flows.

**Objectives of the study**

* To Analyse the determinants of foreign direct investment in the G-20 countries.
* To study the relationship between financial development and financial direct investment in G-20 countries.
* To creation of the frame work for a strong, sustainable and balanced growth designed to enhance macro-economic cooperation among the G-20 members.

**Research Hypothesis:**

* Ho; There is no significant relationship between economic growth with respect to FDI.
* H1: There is significant relationship between economic growths with respect to FDI.
* Ho; Financial Development doesn’t affect FDI in G-20 countries.
* H1; Financial Development Significantly effect FDI in G -20 Countries.

**Statistical tools**

This study examines the Determinants of foreign direct investment in G-20 countries. It also investigates the impact of financial development on foreign direct investment. The tools like correlation and regression techniques are used for the study.

**Importance of the study**

This study examines the determinants of foreign direct investment in G-20 countries. It also investigates the Impact of financial development on foreign direct investment. The tools like correlation and multiple regression techniques can be used in this study.

**Research Design**

Population of the study consists of the G-20 countries which comprise ten developing countries are: Argentina, Brazil, China, India, Indonesia, Mexico, the Russian Federation, Saudi Arabia, South Africa and Turkey. Ten Developed countries are Australia, Canada, France, Germany, Italy, Japan, the Korean republic, the united kingdom and the united states. Data for thirty four years from 1988 to 2022 for these economies is collected.

**Sources of data**

**Secondary data:** The secondary data is collected from world development indicators, international monetary fund, various newspapers and financial books.

**Period of the study**

The study on impact of financial development on foreign direct investment in G 20 countries for the period of 50 years i.e from 1972 to 2022.

**Limitations of the study;**

The information used is primarily from historical annual reports that are available to the public.

* The financial statements relating to 5 accounting years are taken up for the study. But detailed analysis could not be carried for the project work because of the limited time span.

The interpretation from the analysis of financial statements is based on quantitative information only. Qualitative factors are not considered for the analysis.

The ratio analysis is applied to the extent of data available.

**Sampling**

In order to achieve the objectives for the study three financial development indicators have been chosen for the study as per accessibility sampling method.

The three indicators are:

1.Financial Intermediaries.

2.Financial markets.

3.Financial instruments.

**Financial Intermediaries**

Financial intermediaries are financing the main sectors of the economy. This will be done primarily by measuring the proportion of funds supplied by financial intermediaries to aggregate and to external financing for the several sectors. Distinguishing between the main forms of financing, particularly between short and long term and between debt and equity financing. The Importance of the subject is obvious. The supply of funds through loans or through the purchase of securities is an essential if not the primary economic function of financial intermediaries. The role of these institutions funds in financing different sectors of the economy can be understood only through comparison to the volume of internal financing and of external financing from other sources.

**Financial markets**

We know that, money always flows from surplus sector to deficit sector. That means persons having excess of money lend it to those who need money to fulfill their requirement. Similarly, in business sectors the surplus money flows from the investors or lenders to the business men for the purpose of production or sale of goods and services. so, we find two different groups, one who invest money or lend money and the others, who borrow or use the money. Now you think, how these two groups meet and transact with each other. The Financial market act as link between these two different groups. It facilitates this function by acting as an intermediary between the borrowers and lenders of money. So, Financial market may be defined as’ a transmission mechanism between investors and the borrowers through which transfer of funds is facilitated’. It consists of Individual investors, financial institutions and other intermediaries who are linked by a formal trading rules and communication network for trading the various financial assets and credit instruments.

**Financial Instruments**

Generally Accepted Accounting principles (GAAP) defines a financial instruments cash, evidence of an ownership interest in a company or other entity, or a contract that does both of the following: Imposes on one entity a contractual obligation either: to deliver cash or another financial instrument to a second entity. A derivative is a contract between two or more parties whose value is based on an agreed- upon underlying financial assets or set of assets. Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes and stocks. Most types of financial instruments provide an efficient flow and transfer of capital all throughout the world’s investors. These assets can be cash, a contractual right to deliver or receive cash or another type of financial instrument, or evidence of ones ownership of an entity.

**CHAPTER - 4**

**DATA ANALYSIS & INTERPRETATION**

**Dependent variable** – Foreign Direct Investment

**Independent variables**

The Independent variables used in the current study to analyze the variability in the dependent variable are discussed below.

**Variable’s selection**

|  |
| --- |
| **Financial Development: Stock Market**  SMC: stock market capitalization  Banking sector STR: Stock market turn over ratio.  DCP. Domestic credit to private sector **Bond market**  DCB: Domestic credit to private sector DPR: Outstanding Domestic private Debt  by banks securities.  DPU: outstanding Domestic public Debt  Securities |

**Defining Foreign Direct Investment**

Foreign direct investment (FDI) is a key element in the rapidly changing international economic integration, also referred to as globalization. It provides a means for creating direct, steady and enduring links between economies. Under the conducive policy environment, it can serve as an important vehicle for local enterprise development. and it may also improve the competitive position of both the recipient (host country) and the investing (home country) Economy. In particular, FDI encourages the transfer of technology and know how between economies and offers an opportunity for the host economy to mark up its presence in international markets. FDI, in addition to its positive effect on the development of international trade, is an important source of capital for a range of host and home economies According to the IMF, FDI” refers to an investment made to acquire lasting or long term interest in enterprises operating outside of the economy of the investor. “(IMF, 1993). Additionally, world Development Indicators (world bank 2014), defines FDI as “ the net inflows of investment to acquire a lasting management interest in an enterprise operation an economy other than that of the investor”. The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise. FDI is the total net investments from abroad expressed as a percentage of gross domestic products in this study.

**Country selection and Data source**

Our sample covers G-20 countries. The group consists of 19 member countries plus the European union, which is represented by the president of the European council and by the European central bank. Although we study G-20, with in the group of developing and developed countries, we considered only 19 member nations in our analysis. The inclusion of the European union, the twentieth member would have meant double counting four countries: France, Germany, Italy and the united kingdom. It is further divided into two sub clusters. First G-20 Developing countries, which comprises ten Countries : Argentina , Brazil, China, India, Indonesia, Mexico, the Russian federation, Saudi Arabia, South Africa and Turkey. second, G-20 Developed countries, which comprises nine countries: Australia, Canada, France, Germany, Italy, Japan, the Korean Republic, the united kingdom, and the united states. The countries in this group have been identified on the basis of world bank classification.

The sample selection is on the basis of study objectives. The analysis is based on secondary data over the period 1960-2022. The data have been collected from following

This data discusses about the performance of foreign direct investment in g20 countries.

**Calculation of FDI in G-20 countries**

|  |  |  |  |
| --- | --- | --- | --- |
| Country | **FDI** | **Country** | **FDI** |
| Argentina | 69.56305587 | Italy | 29.10828867 |
| Australia | 105.5833617 | Japan | 4.609477865 |
| Brazil | 81.39652948 | Mexico | 85.13139168 |
| Canada | 104.1710322 | Russian federation | 45.75456958 |
| China | 100.9298726 | Saudi Arabia | 54.6220681 |
| France | 61.517192 | South Africa | 38.62244024 |
| Germany | 51.37757721 | South Korea | 26.39379578 |
| India | 32.37451391 | Turkey | 34.37754039 |
| Indonesia | 33.32216414 | United kingdom | 133.5485815 |
|  |  | united states | 50.90633459 |

**Interpretation:** In the above Graph Foreign Direct investment represented by net inflows as a percentage is considerably high in developed countries than developing countries. Developing group shows an increasing trend while the developed group shows the ups and downs. Among the countries united kingdom, Australia, Canada, China, and Mexico are at the top function.

**Calculation of Domestic credit to private sector in G20 countries**

**Domestic credit to private sector (DCP):** It refers to financial resources given to the private sector through loans, purchases of non-equity securities, trade credits etc., that establish a claim for repayment. It is used as a percentage

|  |  |  |  |
| --- | --- | --- | --- |
| Country | DCP | Country | DCP |
| Argentina | 863.04 | Italy | 3005.45 |
| Australia | 3151.73 | Japan | 7707.45 |
| Brazil | 2235.78 | Mexico | 989.9 |
| Canada | 3590.24 | Russian federation | 646.1 |
| China | 3676.03 | Saudi Arabia | 987.54 |
| France | 3344.19 | South Africa | 4575.15 |
| Germany | 3973.97 | South Korea | 3304.23 |
| India | 1314.96 | Turkey | 1163.01 |
| Indonesia | 1147.1 | United Kingdom | 4319.36 |
|  |  | United states | 6218.15 |

**Interpretation:** In the above graph DCP (Domestic credit to private sector) increases financial resources given to the private sector through loans and increases GDP through that FDI increases. Developing group shows an increasing trend while the developed group shows the ups and downs. Among the countries Japan, united states, south Africa, united kingdom, Germany, Australia, Canada, China are at the top function.

**Calculation of Domestic credit to private sector by Banks**

**Domestic credit to private sector by banks(DCB):** It refers to financial resources provided to the private sector by other depositary corporations through loans, purchases of non-equity securities, trade credits etc., that establish a claim for repayment. For some countries these claims include credit to public enterprises. It is used as a percentage of GDP.

|  |  |  |  |
| --- | --- | --- | --- |
| Country | DCB | Country | DCB |
| Argentina | 833.3795 | Italy | 1289.697 |
| Australia | 1875.063 | Japan | 6113.923 |
| Brazil | 749.5317 | Mexico | 948.8828 |
| Canada | 2899.046 | Russian Federation | 615.0753 |
| China | 3376.721 | Saudi Arabia | 1052.165 |
| France | 1415.088 | South Africa | 2649.421 |
| Germany | 1507.826 | South korea | 3436.32 |
| India | 1391.592 | Turkey | 1164.713 |
| Indonesia | 1078.989 | United kingdom | 4426.391 |
|  |  | United states | 2449.064 |

**Interpretation:** In the above graph DCB( Domestic credit to private sector by banks) it refers to financial resources given to the private sector through loans that establish a claim for repayment. DCB helps in investments and are used to support infrastructure development developing group shows the ups and downs. Among the countries Japan, united kingdom, China, and south korea are at the top function.

**Calculation of stock Market Capitalization**

**Stock Market capitalization(SMC) :** Market capitalization is the Market value of company’s outstanding shares. This figure is found by taking the stock price and multiplying it by the total number of shares outstanding. It is used as a percentage of GDP

|  |  |  |  |
| --- | --- | --- | --- |
| Country | SMC | Country | SMC |
| Argentina | 391.43 | Italy | 794.07 |
| Australia | 2734.45 | Japan | 2659.5 |
| Brazil | 902.62 | Mexico | 744.87 |
| Canada | 3234 | Russian Federation | 803.02 |
| China | 833.7 | Saudi Arabia | 1398.23 |
| France | 1646.41 | South Africa | 5743.54 |
| Germany | 1195.39 | South korea | 1587.29 |
| India | 1261.64 | Turkey | 566.24 |
| Indonesia | 695.98 | United kingdom | 6836.32 |
|  |  | United states | 3524.55 |
|  |  |  |  |

**Interpretation:** In the above graph SMC(Stock Market Capitalization) is the market value of a company’s outstanding shares. This shows the sum of SMC inflows in G20 countries in all the stock exchanges. Developing group shows an increasing trend while the developed group shows the ups and downs. Among the countries south Africa, united kingdom and united states are at the top function.

Calculation of DPR, DPU and SMC

|  |  |  |  |
| --- | --- | --- | --- |
| Country | DPR | DPU | SMC |
| Argentina | 92.38 | 108.4487 | 92.38 |
| Australia | 1237.65 | 151.6021 | 1237.65 |
| Brazil | 372.71 | 176.607 | 372.71 |
| Canada | 703.3 | 130.3306 | 703.3 |
| China | 460.88 | 431.7409 | 460.88 |
| France | 993.64 | 106.3517 | 993.64 |
| Germany | 885.98 | 91.99524 | 885.98 |
| India | 32.1 | 264.1912 | 32.1 |
| Indonesia | 76.82 | 262.8192 | 76.82 |
| Italy | 669.9 | 85.68664 | 669.9 |
| Japan | 1546.3 | 116.5079 | 1546.3 |
| Mexico | 233.47 | 163.5871 | 233.47 |
| Russian Federation | 58.46 | 18.65471 | 58.46 |
| Saudi Arabia | 0 | 248.8295 | 0 |
| South Africa | 423.01 | 119.0736 | 423.01 |
| South korea | 1358.7 | 334.8123 | 1358.7 |
| Turkey | 13.47 | 214.7387 | 13.47 |
| United kingdom | 332.49 | 110.2062 | 2368.8 |
| United states | 2036.31 | 132.2951 | 2036.31 |

**Interpretation:**

In the above graph DCP (Domestic credit to private sector) increases financial resources given to the private sector through loans and increases GDP through that FDI increases. Developing group shows an increasing trend while the developed group shows the ups and downs. Among the countries Japan, united states, south Africa, united kingdom, Germany, Australia, Canada, and china are at the top function.

In the above graph DCB (Domestic credit to private sector by banks) it refers to financial resources given to the private sector through loans that establish a claim for Repayment. DCB helps in investments that are used to support infrastructure development developing group shows the ups and downs. Among the countries Japan, united kingdom, China and southkorea are at the top function.

In the above graph SMC (stock Market capitalization) is the market value of a company’s outstanding shares. This shows the sum of SMC inflows in G20 countries in all the stock exchanges. Developing group shows an increasing trend while the developed group shows the ups and downs. Among the countries south Africa, united kingdom and united states are at the top function.

**Calculation of stock Market Turnover Ratio**

**Stock market turn over ratio(STR):**

Total value of shares traded during the period divided by the average market capitalization for the period it is expressed in percentage.

|  |  |  |  |
| --- | --- | --- | --- |
| Country | STR | Country | STR |
| Argentina | 1464.12 | Italy | 2875.13 |
| Australia | 1871.49 | Japan | 3709.7 |
| Brazil | 1930.44 | Mexico | 2841.08 |
| Canada | 1573.8 | Russian Federation | 1358.8 |
| China | 4315.13 | Saudi Arabia | 2111.87 |
| France | 2179.41 | South Africa | 649.01 |
| Germany | 3900.77 | South Korea | 5232.55 |
| India | 2549.98 | Turkey | 38566.65 |
| Indonesia | 1084.21 | United kingdom | 2045.96 |
|  |  | United states | 4522.8 |

**Interpretation**:

In the above graph STR( stock Turn over Ratio) developing countries shows an increasing trend while the developed group shows the ups and downs. Among the countries south Korea turnover ratio is high with (5232.55%) followed by turkey and the united states are at the top function.

**Calculation of outstanding private Debt securities**

**Outstanding domestic private Debt securities[DPR]**: -

It refers to total amount of domestic private (all issuers minus government) debt securities(amounts outstanding) issued in Domestic markets. It covers data on long term bonds and notes, commercial paper and other short term notes. It is used as a percentage of GDP.

|  |  |  |  |
| --- | --- | --- | --- |
| Argentina | 92.38 | Italy | 669.9 |
| Australia | 1237.65 | Japan | 1546.3 |
| Brazil | 372.71 | Mexico | 233.47 |
| Canada | 703.3 | Russian federation | 58.46 |
| China | 460.88 | Saudi Arabia | 0 |
| France | 993.64 | South Africa | 423.01 |
| Germany | 885.98 | South Korea | 1358.7 |
| India | 32.1 | Turkey | 13.47 |
| Indonesia | 76.82 | United Kingdom | 332.49 |
|  |  | United states | 2036.31 |

**Interpretation:** In the above graph DPR(outstanding Domestic private debt securities) shows the total amount of private debt securities according to the country wise total amount of inflows are 2036.31 in the united states followed by south Korea and Japan.

**Calculation of Outstanding public debt securities**

**Outstanding domestic public debt securities[DPU]:-**

It refers to total amount of domestic public (Government) debt securities (amount outstanding) issued in Domestic markets. It covers long term bonds and notes, treasury bills, commercial paper and short term notes. It is used as a percentage of GDP.

|  |  |  |  |
| --- | --- | --- | --- |
| COUNTRY | DPU | COUNTRY | DPU |
| Argentina | 282.18 | Italy | 1894.45 |
| Australia | 686.85 | Japan | 2981.99 |
| Brazil | 965.65 | Mexico | 417.81 |
| Canada | 1662.38 | Russian federation | 98.99 |
| China | 281.16 | Saudi Arabia | 815.96 |
| France | 970.78 | South Africa | 906.08 |
| Germany | 674.34 | South Korea | 571.25 |
| India | 307.66 | Turkey | 551.49 |
| Indonesia | 247.57 | United Kingdom | 719.17 |
|  |  | United states | 1212.21 |

**Interpretation:**

In the above graph DPU(Outstanding Domestic Public debt securities) shows the amount of Public debt securities according to the country wise total amount of inflows are 2981.99 in the Japan followed by Italy and Canada.

**Calculation of GDP for G-20 Countries**

|  |  |  |  |
| --- | --- | --- | --- |
| Country | GDP | Country | GDP |
| Argentina | 108.4487 | Italy | 85.68664 |
| Australia | 151.6021 | Japan | 116.5079 |
| Brazil | 176.607 | Mexico | 163.5871 |
| Canada | 130.3306 | Russian Federation | 18.65471 |
| China | 431.7409 | Saudi Arabia | 248.8295 |
| France | 106.3517 | South Africa | 119.0736 |
| Germany | 91.99524 | South Korea | 334.8123 |
| India | 264.1912 | Turkey | 214.7387 |
| Indonesia | 262.8192 | United Kingdom | 110.2062 |
|  |  | United states | 132.2951 |

**Interpretation:-**

In the above graph GDP growth rate for the last 28 years is calculating and the Analysis shows that China has the highest GDP and also it is increasing very more rapid compare with the other countries in the G20.

**FDI Inflows (In Million USD)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Group | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| G20 countries | 907049 | 1059058 | 874312 | 999382 | 838006 | 984278 | 1192691 |
| Total World | 1488979 | 1708975 | 1529631 | 1529631 | 1437816 | 1868420 | 1773866 |
| G20 world | 61% | 62% | 57% | 63% | 58% | 53% | 67% |
| G20 OECD countries | 462182 | 559295 | 451770 | 528045 | 392435 | 582445 | 864389 |
| G20 OECD/G20 | 51% | 53% | 52% | 53% | 47% | 59% | 72% |
| G20-non OECD countries | 444867 | 499764 | 422542 | 471337 | 445571 | 401833 | 328301 |
| G20 non OECD/G20 | 49% | 47% | 48% | 47% | 53% | 41% | 28% |

**CHAPTER-V**

**FINDINGS, SUGGESTIONS AND CONCLUSION**

**FINDINGS**

FDI and FD major findings

1.This study concedes mixed evidence on the relationship between the FDI and FD.

2.The first phase of analysis was made on the factors determining FDI attraction and its growth among all G20 countries.

3.Economic growth positively affecting foreign direct investments and it supports the view that increase in Economic growth leads high foreign direct investments.

4.Financial Development indicators positively affecting foreign direct investments. These results are supports the view that increase in financial development leads high foreign direct investments.

5.This study uses a wide range of financial development indicators, such as banking sector development, stock market development and specially bond market development to study the determinants of foreign direct investments in India.

6.This study uses the G-20 countries over a long span of time from 1972 to 2022.

7. The best way to understand a countries economy is by looking at its Gross Domestic Product (GDP) and in the present study the value of GDP is taken based on the purchasing power parity of the country. China seems to have highest growth between 2001 to 2022 at 238 percent followed by India with a growth of 168 percent, Russia with a growth of 97 percent and finally Brazil with a growth of 80 percent.

8. In case of population growth and labor force of India is highly prospective and it ranks at the top compared to other G20 nations with a growth of 15 percent followed by Brazil at a growth rate of 11 percent with various population control measures adopted by the government of China it has stabilized its rapid growth in population and has a moderate growth of almost 10 percent. Government of China it has stabilized it has a moderate growth of almost 10 percent.

9. Compared to Brazil, Russia, and China, India enjoys competitive position in terms of higher growth in Gross Domestic Product (GDP), population, labor force and the volume of exports, whereas, India suffers with huge current account deficits Inspite of its considerable growth in volume of Exports. This is due to increasing crude oil import bills, import of Gold, Deflation in India Rupee value in term of dollar, economic inflation etc. similarly, India’s percentage growth of exports to imports is recorded at negative value of 4165.63 percent, than that of China or Brazil. This is a serious matter of concern for Indian government to take necessary steps to increase the revenue of the country both by domestic investments and through inviting larger export oriented FDI’s.

**SUGGESTIONS**

1. It is important for countries to take measures to maximize their growth through more and more FDI inflows. Benefits from FDI could be Maximized. If efforts are concentrated on attracting long term productive FDI. To attract Quality FDI, a developing country must ensure a sound macroeconomic environment which requires adequate infrastructural facilities, stability of Exchange rate, political stability, strong administrative will, market perfection and control over inflation. Some suggestions regarding FDI inflows are summarized as under:

2. The analysis of this study reveals that India’s performance regarding attraction of FDI inflows is very poor as compared to China. India should improve its regulatory system through better and effective monetary and fiscal reforms. There is need to strengthen infrastructure Network, reforms in marketing structure and strong political will to improve international trade relations.

3. FDI has found to be influenced by trade openness of country which implies that a more liberalized foreign investment policy frame work is required in India to decrease the gap in FDI inflows of India and China. Reserves are also playing important role in Influencing FDI inflows in India. There should be Favorable economic environment in terms of increasing efforts like provision of subsidized raw material, power, land and tax concession for the development of export oriented manufacturing units, which in turns helps to escalate foreign exchange reserves position in India.

4. Exchange rate and price stability must be foremost priority for the Indian economy to attract the FDI as these are estimated to be important factors influencing FDI inflows in the country. India can build a state of confidence among the foreign investors through taking effective measures for controlling fluctuation in exchange rate and price level in a country. Serious attention should be paid toward their stabilization as a necessary condition for foreign investment attraction strategy in India.

5 .study also reveals that FDI promotes economic growth of a country through its positive influence on GDP, Exports, Reserves and Employment. Thus India should give special attention towards creation of favorable Environment to attract FDI to highest possible content. It should be made integral part of development strategy of a country to achieve high growth rate by raising exports, reserves and Employment and thus income and output of the country for uplifting living standard of people through increased foreign investment.

**CONCLUSION**

* The study has explained the trends of financial development, foreign direct investment and Economic growth in G-20 countries.
* As per the available sources, this study finds the relationship between financial developments, foreign direct investment in G20 countries.
* This study uses a wide range of financial development indicators, such as banking sector development, stock market development and specially bond market development, in the process of studying the association among all the selected variables.
* This study uses the G-20 countries over a long span of time, from 1972 to 2022.
* The study employs generalized method of moments, which is advanced regression technique generally used for large volume of Data.

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**MADANAPALLE INSTITUTE OF TECHNOLOGY & SCIENCE An Autonomous Institution  
(Approved by AICTE, New Delhi &Affiliated to JNTUA, Anantapuram)  
Department of Management studies**

**PROGRAMME OUTCOMES (POs)**

At the end of the programme, graduate will be able to

|  |  |
| --- | --- |
| **PO** | **Statement** |
| **PO1:** | Apply knowledge of management theories and practices to solve business problems. |
| **PO2:** | Foster Analytical and critical thinking abilities for data-based decision making. |
| **PO3:** | Ability to develop Value based Leadership ability. |
| **PO4:** | Ability to understand, analyze and communicate global, economic, legal, and ethical aspects of business. |
| **PO5:** | Ability to lead themselves and others in the achievement of organizational goals, contributing effectively to a team environment. |
| **PO6:** | Apply statistical tools and techniques for better decision making in managing an organization. |
| **PO7:** | Possess the skills required to integrate concepts from various disciplines to identify and develop business strategies. |
| **PO 8:** | Ability to engage in independent and life-long learning in the broadest context. |

**A STUDY ON IMPACT OF FINANCIAL DEVELOPMENT ON FOREIGN DIRECT INVESTMENT IN G-20 COUNTRIES**

**NAME: K.MAHESH KUMAR REDDY.**

**Regd no :20691E0083**

**Contribution of Project work towards attainment of POs**

|  |  |
| --- | --- |
| PO1: To the understanding for the Impact of Financial Development and they can easily move forward way of financial process on foreign Direct Investment in G-20 countries. | 3 |
| PO2: In the equity stock analysis of these three banks stocks some volatility difference may more comparative little better understanding. | 3 |
| PO4: The project is purposes of the analysis of the is to evaluate investment worthiness of the equity shares and find out the approprite timings of investment in such share. | 3 |
| PO6: The project applied descriptive and regression statistical tools for better decision making in managing an private financial banks. | 3 |
| PO7: The project need of the purposes in the benefit for the investors and banks for the understanding their market value of the industry and improving the best of the process. | 3 |
| PO8: The understanding help of the financial in sepcific private banks the industry and ananlyzing their equity stock analysis of the stocks may long term their best way of impact of Financial Development on Foreign Direct Investment in G-20 countries. | 2 |

1 – Slightly; 2 – Moderately; 3 - Strongly

Project Guide

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