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Significance of FDI in forex transactions reference to Indian automobile industry

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Abstract

The impact of foreign direct investment (FDI) inflows into developing countries have been concerned that the influence and control of foreign direct investors and the consequences of FDI for the host countries go far beyond that is captured by national FDI statistics. FOREX transactions are foreign exchange transaction made by an organization towards exchange of goods or service. In this thesis ten companies have been selected from automobile industry (passenger car) those who were receiving FDI through different modes. Thus this paper investigates the effect of FDI in FOREX transactions recorded in selected automobile companies

Keywords: FDI, FOREX, Automobile Industry

1. Introduction

FDI is generally refers to the long term beneficial involvement of one country with another country. This usually involves participation in joint-venture, management, transfer of expertise and technology etc. FDI is now a fundamental part of the global financial system and it plays a key role in the economic development of country. There are various national policies and plans designed for the having an effective government control on FDI. There are many benefits of FDI both for the investors and the country where investment is being done. The Indian automobile industry seems to come a long way since the first car that was manufactured in Mumbai in 1898. The automobile sector today is one of the key sectors of the country contributing majorly to the economy of India. It directly and indirectly provides employment to over 10 million people in the country. The Indian automobile industry has a well established name globally being the second largest two wheeler market in the world, fourth largest commercial vehicle market in the world, and eleventh largest passenger car market in the world and expected to become the third largest automobile market in the world only behind USA and China. The automobile industry accounts for 22 per cent of the country's manufacturing gross domestic product (GDP). The auto sector is one of the biggest job creators, both directly and indirectly. It is estimated that every job created in an auto company leads to three to five indirect ancillary jobs. India is expected to become a major automobile manufacturing hub and the third largest market for automobiles by 2020

2. Problem Statement

Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. ... The government will therefore welcome foreign investment which is in the interest of the country's industrial development. The purpose of this paper is to present and explore the role of FDI in FOREX transaction for the immense development of automobile industry in India.

3. Related Works

Aglietta, M. (2005), [2] explores that regime has fostered remarkable growth, but at the cost of mounting financial imbalances. The imbalances are concentrated on the United States because of the asymmetric nature of the international monetary system that can be labeled a semi-dollar standard.

Luo, R. (2012), [59] ignited the discussion of the re-emergence of Shanghai as a leading international financial center (IFC). Shanghai to catch up with established centers such as New York and London, including capital markets and opening itself up to cross-border capital flows.

Karamata, T. (2013), [48] investigates an economic logic that capital allocation is more

efficient in the absence of exchange control and barriers to competition in financial markets, standard economic theories postulate the view that free movement of capital across international borders carries profound and widespread benefits.

Rajan, R. S. (1999), [84] explores that generated a great deal of support for proposals to add some frictions to the wheels of international finance, as part of overall reforms to the global financial architecture.

4. Results & Discussion

Effect of Fdi in Forex Transactions on Selected Automobile Companies

FOREX transactions are foreign exchange transaction made by an organization towards exchange of goods or service. In

this thesis ten companies have been selected from automobile industry (passenger car) those who were receiving FDI through different modes. In this section summary statistics and simple linear regression analysis has been carried out to evaluate the effect of FDI in FOREX transactions recorded the selected automobile companies.

FOREX – Summary Statistics

Selective factors of FOREX statement analysis indicates the foreign exchange transactions happened during the study period. The following table describes the summary statistics of FOREX earnings during the study period.

Table 1: Summary Statistics – FOREX Earnings

FOREX Earnings	2008	2009	2010	2011	2012	Average
Fiat	3.68	5.33	2.36	234.28	105.32	70.19
Ford	70.25	90.94	167.71	144.54	156.44	125.98
General Motors	105.29	109.11	233.97	411.81	210.92	214.22
Nissan	0.42	0.76	0.37	0.49	1.34	0.68
Honda	2.89	1.75	1.23	1.23	26.56	6.73
Hyundai	3958.70	8859.13	10170.18	7905.85	8651.25	7909.02
Mahindra	3.74	12.99	15.43	9.00	1.49	8.53
Maruti	741.30	1502.20	4557.30	3498.80	3691.80	2798.28
Toyota	439.64	438.46	396.80	498.23	572.46	469.12
Volkswagen	5.42	4.81	7.72	4.14	6.43	5.70
Mean	533.13	1102.55	1555.31	1270.84	1342.40	1160.85
SD	1228.73	2764.80	3337.54	2562.28	2805.98	2520.90
CV	230.47	250.77	214.59	201.62	209.03	217.16

The above table depicts the summary statistics of FOREX earnings (amount in crores) in automobile industry during the study period. The mean & standard deviation of FOREX earnings as follows; 533.13±1228.73 in the year 2008, 1102.55±2764.80 recorded in the year 2009, 1555.31±3337.54 recorded in the year 2010, 1270.84±2562.28 recorded in the year 2011, 1342.40±2805.98 recorded in the year 2012. The co-efficient of variance denotes the consistency of FOREX earnings and during the study period the financial year 2011 had shown

high consistency of earnings. The average column exhibits an abstract of FOREX earnings among the selected automobile companies during the study period.

The financial year 2010 has reached the top FOREX earnings of 1555.31±3337.54 during the study period among selected automobile companies. It is also observed that Hyundai had recorded highest earning of 7909.02 crores.

The subsequent table describes summary statistics of FOREX expenses recorded during the study period.

Table 2: Summary Statistics – FOREX Expenses

FOREX Expenses	2008	2009	2010	2011	2012	Average
Fiat	25.27	795.50	1547.31	803.96	333.81	701.17
Ford	261.98	185.53	200.66	249.20	452.51	269.98
General Motors	427.00	526.14	1513.24	1584.40	1842.93	1178.74
Nissan	742.03	637.79	854.81	708.20	980.52	784.67
Honda	1027.21	1489.06	1675.53	1850.21	1565.92	1521.59
Hyundai	3972.61	4725.40	4555.48	5059.98	6265.37	4915.77
Mahindra	15.24	37.55	27.39	34.71	42.54	31.49
Maruti	2793.30	3778.30	4001.90	6242.70	6761.20	4715.48
Toyota	1328.84	1364.74	1176.70	1918.90	1972.64	1552.36
Volkswagen	63.89	179.98	211.82	175.17	204.10	166.99
Mean	1065.74	1372.00	1576.48	1862.74	2042.15	1583.82
SD	1327.22	1607.12	1549.45	2127.45	2456.86	1783.85
CV	124.54	117.14	98.29	114.21	120.31	112.63

SD – Standard Deviation, CV – Coefficient of Variation

The above table depicts the summary statistics of FOREX expenses (amount in crores) in automobile industry during the study period. The mean & standard deviation of FOREX expenses are as follows; 1065.74±1327.22 expenses made in the year 2008, 1372.0±1607.12 expenses in the year 2009, 1576.48±1549.45 expenses in the year 2010,

1862.74±2127.45 expenses in the year 2011, 2042.15±2456.86 expenses in the year 2012. The co-efficient of variance denotes the consistency of FOREX expenses as 124.54 in 2008, 117.14 in 2009, 98.29 in 2010, 114.21 in 2011, 120.31 in 2012 and during the study period the financial year 2008 had shown high consistency. The average

column exhibits an abstract of FOREX expenses among the selected automobile companies during the study period. The financial year 2012 has reached huge FOREX expenses of 2042.15+2456.86 during the study period among selected automobile companies. It is also observed that Hyundai had recorded highest expense of 4915.77 crores.

FOREX – Regression Analysis

H₀: FDI inflows received in passenger car segment has no significant impact on the FOREX earnings of selected automobile companies.

Table 3: Regression: FDI in Passenger Cars and FOREX Earnings

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.628 ^a	.395	.193	347.36749

a. Predictors: (Constant), FDI in Passenger Cars

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	850.537	270.824		3.141	.052
	FDI in Passenger Cars	.152	.108	.628	1.399	.256

a. Dependent Variable: FOREX Earnings

Simple linear regression analysis has been carried out between FDI in passenger cars and FOREX earnings of selected automobile companies during the study period. The model summary table depicts the co-efficient of determination (0.395) which means 39.5% of variation in FOREX earnings is explained by FDI inflows received in passenger car segment and this equation appears to be less useful for making prediction since the value of R² is far away to 1. In this regression model FOREX earnings is dependent variable and FDI in passenger car is predictor. The coefficient table shows the beta value for constant 850.537 and FDI in passenger car is 0.152. The t-value of FDI in passenger car shows 1.399 and its p-value is 0.256, which is

greater than the level of significance 0.05. Therefore the null hypothesis is accepted.

Key finding states that FDI in passenger car has no significant impact on FOREX earnings in the selected automobile companies. It is concluded that FDI investments received from other countries are not influential in the FOREX earnings of the respective companies.

Following table shows the regression analysis between FDI in passenger cars and FOREX expenses from the selected automobile manufacturing companies during the study period.

H₀: FDI inflows received in passenger car segment has no significant impact on the FOREX expenses of selected automobile companies.

Table 4: Regression: FDI in Passenger Cars and FOREX Expenses

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.015 ^a	.009	-.333	447.604

a. Predictors: (Constant), FDI in Passenger Cars

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1576.199	348.974		4.517	.020
	FDI in Passenger Cars	.004	.140	.015	.027	.980

a. Dependent Variable: FOREX Expenses

Simple linear regression analysis has been carried out between FDI in passenger cars and FOREX expenses of selected automobile companies during the study period. The model summary table depicts the co-efficient of determination (0.009) which means 0.9% of variation in FOREX expenses is explained by FDI inflows received in passenger car segment and this equation appears to be less useful for making prediction since the value of R² is far away to 1. In this regression model FOREX expenses is dependent variable and FDI in passenger car is predictor. The

coefficient table shows the beta value for constant 1576.199 and FDI in passenger car is 0.004. The t-value of FDI in passenger car shows 0.027 and its p-value is 0.980, which is greater than the level of significance 0.05. Therefore the null hypothesis is accepted.

Key finding states that FDI in passenger car has no significant impact on FOREX expenses in the selected automobile companies. It is concluded that FDI investments received from other countries are not influential in the FOREX expenses of the respective companies.

5. Conclusion

The result also depicts that the FOREX trading has not significantly influential at present. It may be happens due the frequent money inflows for internal and infrastructural development of the respective companies. Increasing the period of study or the stagnation of new investment may found influential effect on FOREX trading. The source countries/ companies are primarily trying to capitalize the potential of Indian population for their development. Hence, government should carefully considering companies offering great eco-friendly products to sustain the healthy environment.

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