

## **“ROLE OF ENTREPRENEURS IN INDIA’S ECONOMIC GROWTH AND DEVELOPMENT WITH FOREIGN MARKETS INVESTMENT” A STUDY OF ENTREPRENEURSHIP DEVELOPMENT IN INDIAN CONTEXT**

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### **ABSTRACT**

*As far as economic growth and development of India, the role of Entrepreneur is very crucial and core as it take benefits of all the resources, avenues for employment for the growth and development of people who live in small places in towns. This study investigates to put in of foreign direct investment on entrepreneurship growth and development protected by production in MSME( Micro, small and medium enterprises) and consistent funding in MSME for the period of around between (1990-91 – 2017-18). Through the help of the formulated model of economics which is called Correction of Error, the results finds that amount investment under MSME is positively affected by financial growth and development in the period of long run. In contrast of short run foreign direct investment and economic growth and development both are positively and direct affected with constant or fixed investments in MSMEs. Manufacturing under the scheme of MSME can be visible positively affected by economic growth and development with financial development in long run on the other hand in the period of short run no one of the chosen self dependent and independent elements or variables affect the manufacturing and production of MSMEs.*

**KEYWORDS:** *MSME Correction of, Error Model, FDI*

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### **INTRODUCTION**

After 1991 industrial and economic policy of India Our Finance minister Dr. Manmohan Singh open our economy under the belt of LPG Liberalization, Privatization and Globalization, Economy of India has been walked and an important plead to foreign countries to invest, its Gross Domestic product has remarkably changed positively, the global financial markets which consists various stock markets capitalizing has explosively imbibed and these impetus moves the funds with a return to the economy. Under the economic growth and development, liberty and details transits piercing the market had thick with creating new opportunities for naive entrepreneurs to inspect the environment and benefit and transform these problems into the avenues. After the economic policy in 1991 there is no restriction of any MNC to enter and exit in Indian economy with an intent to pace our foreign direct investment as wealth and resources access globally. The financial market of the economy has also make most of use as foreign direct investment which makes funding in India a lucrative business. But does this impact of development shows a positive mark on entrepreneurship of India?

Economic growth and development both supply a level quality in economy, investment avenues in both domestic and international market. The financial market feel straight providing a resonance in the market for new investments

avenues and innovation with creativity which have no reasons of entrepreneurship. This has an impact like continuous cycle effect with growth and development benefitted to each other. This positive intends that is enlarged need for starting a company to initiate the risk linked with it. Wants or desire, capacity and avenues and opportunities, are the main variables of entrepreneurship development (Davidsson & Honig, 2003) economic growth and development, financial infusion, investment feeling and entrepreneurship policy of the company nearby the avenue.

This study aims to analysis the consortium between entrepreneur's growth and development with foreign market, financial development and economic growth with development for the period around (1998-99 – 2017-18). I will describe about review of literature, before this research methodology, the next section is all about with results and findings and comprehensive discussions and last not the least section relates to conclusion of this research study...

## REVIEW OF LITERATURE

There is a comprehensive study concluded to understand the result of entrepreneurship growth and development of Indian economy but there is confine research that seems only into the consequence of economic growth and development and other approximates on entrepreneurship development most of these lacks in developing economies like India.

A research thesis by “**King and Levine**” under this title in 1993 their research described about the financial system how they influence the entrepreneur chasing that impact in four ways:-

- Financial system collects the most hopeful projects after evaluating.
- It helps in infusing of funds.
- (3) Financial system allows investor to broaden and expand the risk associated with unrevealed innovative chases.
- (4) Financial system avails to inhabit in creativity and innovation relative to support of existing and former knowledge.

Faster financial system rejuvenating and motivates capability of growth and development per capita .The writers and authors of this study advocates that policies of government may have an pivotal impact on development under long term towards financial system.

Under another study of “Smallbone and Welter” (2001) Entrepreneurs creates with employment opportunities, creativity and innovation and foreign investment creation depending on needs and various sizes of market reforms. Both suggested unbroken aid to (SMEs), Small and medium enterprises to check spontaneous challenges to reinforce their inborn for growth and development of economy.

Another study of “Liu, Burrige, and Sinclair” (2002) studied the common bridges between trade and business, economic growth and development and ongoing foreign investment in various countries with china. When we find the data of one quarter on these variables you find a powerful relationship between all variables of growth, export, import and foreign investment. He found simplex reason between economic growth and development, foreign investment and import and export which reinforce economic policy reforms.

In another study of “Alfaro et al” (2004) the authors examined the links between Foreign investment, financial market and growth examined that financial spokes-person either accompany entrepreneurial activities or exercise affluence to get maximum profits by working for companies in the foreign investment sector . Sound financial market produces pace for FDI. They generated that foreign investment plays an important role in economic growth and development.

In another study of “Carland and Carland“(2004) studied the findings of entrepreneurship development on generation of jobs and economic development of the United States of America. They settled that companies which have only 20 employees have had the important influence for year 1990-91. They suggested that company has enormous prospective for future development. This is also an economic reform which changes should be specifically uplift the development of entrepreneurship.

Another research of “Agosin and Machado” (2005) who studied the range of FII (Foreign institutional investors) in and out fillings of inner investments with a panel of data of around a huge number of 30 years for the parts of Asia, Africa and Latin America which are developing, they suggested that Foreign investment has no relation with inner investments. With more inspected both of us confirmed that FDI was noticed to complete the domestic investment specifically in developing countries like Latin America. Foreign direct investment was found to be negative to the complete the internal investment.

In another study of Wennekers et al (2005) examined a U-shaped liked consortium between entrepreneurial energetic and size and level of economic growth and development. They suggested incentive system of developed countries should be enhanced while developing countries must avail shrinkage, promote FDI and stimulate training of management.

At last but not the least the study of “Naudé” (2008) Entrepreneurship has an important role in shaping a true picture of economy to a very modernized or an advanced economy. With innovation and creativity controlled the growth capability is enlarged in developed countries. Small Businesses, and startups with the debt and capital market calculate the quantity and quality of entrepreneurs. They analysed that subsistence entrepreneurial activity endorsed to economic drowsiness and developmental fluctuations.

## **RESEARCH METHODOLOGY**

For Evaluating entrepreneurship development two substitutes production in Medium small and micro enterprises (MSME) and investment under Medium small and micro enterprises (MSME) have been taken, for financial growth and development issues market capitalization as proportion of Gross Domestic Product (GDP) and foreign direct investment(FDI) as proportion of Gross Domestic Product GDP has been taken. The model can be depicted as

$$Y_{t1} = f(\text{FDI}_t, \text{GDP}_t, \text{MCAP}_t) \quad Y_{t2} = f(\text{FDI}_t, \text{GDP}_t, \text{MCAP}_t)$$

Where  $Y_{t1}$  denotes investment /MSME,  $Y_{t2}$  denotes production / MSME, FDI is foreign direct investment, SMC is stock market capitalization. The econometric models are

### **Unit Root Test**

$\ln Y_{t1} = \alpha_0 + \alpha_1 \ln \text{FDI}_t + \alpha_2 \ln \text{GDP}_t + \alpha_3 \ln \text{MCAP}_t + u_t$   $\ln Y_{t2} = \beta_0 + \beta_1 \ln \text{FDI}_t + \beta_2 \ln \text{GDP}_t + \beta_3 \ln \text{MCAP}_t + v_t$  Where  $\ln$  is logarithmic transformation)

It is important to see for stationary of data when using with time series analysis otherwise it will lead to bogus regression the result will look fair with significant t- test but there would be no significant relation between the two variables. In order to check the unit root presence

Augmented Dickey–Fuller test (ADF) is used here.

### Co-Integration Test of Engle and Granger's

This notion was first established by Engle and Granger in early 80's (1981); this methodology is for testing the association and relationship between two time series which are non-stationary. Two non-stationary time series are said to be co-linked if they are non-stationary at level  $I(0)$  but both the series are stationary at linear compound i.e. at same transforming level  $I(n)$ . The linear mixture abandons out the imaginary trends of the two time series analysis; this is checked by ADF test. Run the regression analysis on the raw data and test or check for false regression the value of (coefficient of Determination)  $R^2$  should be smaller than D(Durbin Watson) value acquired in the regression analysis as a golden rule (Gujarati, 2003) or the residuals acquired should be stationary.

### Error Correction Model

This method was first used by Sargan and later popularized by Engle Granger after correcting for disequilibrium. It states that if two variables are cointegrated the relationship can be expressed as ECM (Gujarati, 2003)

$$X_t = \alpha_0 + \alpha_1 Y_t + \alpha_2 U_{t-1} + \epsilon_t$$

Where  $X$  is dependent variable at first differentiation  $Y$  is independent variable at first differentiation  $u_{t-1}$  is lagged value of error term obtained from Engle Granger cointegration test,  $\epsilon_t$  is the white noise. The  $\alpha_2$  is expected to be negative to restore  $X$  to equilibrium (Gujarati, 2003)

### Secondary Data

Data were obtained from different sources foreign direct investment taken for foreign investment (FDI expressed as a % of GDP) was obtained from UNCTAD, for economic growth GDPPC (gross domestic product per capita) was taken from world bank data, stock market capitalization as percentage of GDP was taken as proxy for financial development. For entrepreneurship measurement two proxies are used (a) average investment per MSME (b) average production per MSME. These data were taken from the annual report of the ministry of MSME.

All the values of variables were taken in US dollars at current price.

### Finding and Results

Stationarity and Integration test: To test for stationarity and integration ADF test was used the result is reported in table 1

**Table 1: Stationarity Test Results**

Variable	Differencing	t-Statistic	P - Value	Inference
LFDI	Level	-2.728	0.0878	Non-stationary
	First difference	-3.1128	0.0472*	Stationary
LGDP	Level	1.771	0.999	Non-stationary
	First difference	-2.952	0.0589***	Stationary
LMCAP	Level	-1.9868	0.2895	Non-stationary
	First difference	-5.25	0.0006**	Stationary
LINVEST	Level	-1.146	0.6746	Non-stationary
	First difference	-3.0655	0.0477*	Stationary
LPROD	Level	-1.068	0.705	Non-stationary
	First difference	-4.258	0.0044**	Stationary

The ADF unit root test shows that the entire five variables are carrying unit root at level and are stationary at first difference. Lfdi and linvest are significant at 5%, lncap and lprod are significant at 1% while lgdp is significant at 10%. The results of the ADF test show that the variables are integrated at first order i.e. (1). This shows that co-integration exists among the variables.

### Long run Equation

The equation that is formed in this paper is  $linvest = \alpha_0 + \alpha_1 \ln FDI_t + \alpha_2 \ln GDP_t + \alpha_3 \ln MCAP_t + u_t$   $lprod = \beta_0 + \beta_1 \ln FDI_t + \beta_2 \ln GDP_t + \beta_3 \ln MCAP_t + v_t$  The results obtained from this is

$$lprod = 5.4416 + 0.37084 \ln gdp + 0.12389 \ln cap + 0.04426 \ln fdi \quad (6.87) \quad (3.22) \quad (2.19) \quad (1.00)$$

$$(0.00) \quad (0.0053) \quad (0.0436) \quad (0.3319)$$

$$R^2 = 0.91 \quad d = 1.25$$

Production per MSME is found to be influenced by economic development, stock market capitalization however foreign direct investment fails to influence entrepreneurship development. If per capita GDP is increased by 10% the average production is also increased by 3.7% significantly, whereas a 10% increase in market capitalization per GDP increases production of MSME by 1.2%. The Durbin Watson value d is greater than  $R^2$  the long run equation is non spurious as rule of thumb (Gujarati, 2003)

$$linvest = 6.984 - 0.0827 \ln fdi + 0.289 \ln cap + 0.034 \ln gdp \quad (3.218) \quad (-0.682) \quad (1.869) \quad (0.109)$$

$$(0.0054) \quad (0.504) \quad (0.08) \quad (0.9145) \quad R^2 = 0.2816 \quad d = 0.647$$

Investment per MSME is influenced by market capitalization at 10% significance level; however foreign direct investment and economic growth failed to influence investment per MSME. It is found statistically that 10% increase in market leads to 2.8 % increase in investment per MSME. The Durbin Watson value d is greater than  $R^2$  the long run equation is non spurious as rule of thumb. (Gujarati, 2003)

Both the equations were tested for multicollinearity variance inflation factor (VIF). Variables with VIF value greater than 10 requires further analysis but here VIF were found to be less than 10. So the long run equation was free from multicollinearity

### Short Run Equation

The short run equations formed in this paper are

$$Invest = \alpha_0 + \alpha_1 \ln FDI_t + \alpha_2 \ln GDP_t + \alpha_3 \ln MCAP_t + u_{t-1} + \beta_0 + \beta_1 \ln FDI_t + \beta_2 \ln GDP_t + \beta_3 \ln MCAP_t + v_{t-1} +$$

Where  $u_{t-1}$  is the lagged value at first differentiation of variables,  $u_{t-1}$  and  $v_{t-1}$  are lagged values of the error term and  $v_{t-1}$  is the white noise. The results obtained from this short term equation are

$$lprod = -0.0697 + 0.0168 \ln FDI_t + 1.443 \ln GDP_t + 0.04 \ln MCAP_t + -0.603 v_{t-1}$$

$$(-1.022) \quad (0.345) \quad (1.56) \quad (0.789) \quad (-2.334)$$

$$(0.3238) \quad (0.7349) \quad (0.1388) \quad (0.4431) \quad (0.035)$$

$$R^2 = 0.36 \quad d = 1.38$$

In the short run average production per MSME is not influenced by foreign investments, economic development and market capitalization. The lagged error term has a negative coefficient and significant at 5% as desired for the equation.

$$\ln invest = -0.234 + 0.0979 \ln FDI_t + 3.02 \ln GDP_t + 0.017 \ln MCAP_t - 0.238 u_{t-1} \quad (-3.06) (1.88) (2.88) (0.29) (-2.306)$$

$$(0.0083) (0.081) (0.012) (0.77) (0.036) \quad R^2 = 0.643 \quad d = 1.98$$

In the short run, investing in MSME is influenced by foreign direct investment and GDP; these variables have immediate and positive effects on investment in MSME. The lagged error term is negative and significant at 5% as desired for this equation.

## RESULTS AND FINDINGS

Entrepreneurship plays an important role in the new economic structure to generate demand in the market to generate the employment to have a lead role in the economy of any country as India is struggling to give employment opportunities and guarantee of income to its citizens. Entrepreneurship gives an important part in the globe as well as interior economy by starting more industries in rural areas as, a contributor of inputs to large industries, providing employment opportunities. It is a core element which improves India as an agro based economy to secondary sector like manufacturing based which established it even more ruling for India, as it's ratio of the number of people in total population who live in rural areas like in villages which are deficient of basic amenities causes people migrate from villages to towns or another countries. There were all around of 448 lakhs established companies giving jobs to around 1050 lakhs of people in the year of 2016-17. their share in GDP is about 45% in total exports but only a small ratio of around 14% contribution in our GDP while in OECD (Organization for Economic Co-operation and development countries the contribution is all about 62-72% in the employment sector, and contribution is around 50-58% in overall in GDP. (Sources of Ministry of Finance, 2020) despite of the importance of the entrepreneurship development for introduce into it is not helpful in Indian economy even though it has radically enlarged significantly.

It is studied by many economists that foreign investment, economic growth and development have an inspiring change in motivating entrepreneurs. The results and findings tell that an average investor invests in medium small and micro enterprises (MSME) is strike by financial growth and development, this is because of two reasons:-

- Every entrepreneur wants to upgrade its business empire like as in public limited company and raise funds from the public issues which will also reduce the risk on the owners' capital.
- (MSME) Medium, small and micro enterprises contribution in large firms their growth saves growth and development of the all micro, medium and small enterprises. Investment is positively influenced by economic development in the period of short run. The positive economic and financial sphere provided reviving activities of entrepreneurship to obtain because of this growth and development.

In the period of long run Economic growth and development, financial growth and development has a powerful influence on production process in (MSME) medium, small and micro enterprises. Economic growth and development increases the prosperity of the people which develops new swings in markets for small scale firms. Small enterprises which

supply goods and services to big or large scale industries get benefit by this switch and these firms have increased production. Under Financial growth and development the same fashion generating new avenues for future funding. But in the period of short run nothing like such independent variables therefore under financial growth and development, economic development and foreign investment affect increased productivity of MSMEs medium small and micro enterprises. This is because of to the sudden result is not traced by the small industries.

In India Entrepreneurship plays a pivotal role in supplying safety and security of income and employment opportunities to their citizens. The country also promotes through its welfare schemes or programs like MNREGA PMRY, PMSRY and more to uplift and promote early entrepreneurs through their firms to give the economic and financial assistance to the new entrepreneurs but it is not same as in foreign countries who provided all facilities in financial assistance and various incubation facilities whether in other countries like Malaysia, China, and Bangladesh. The atmosphere of business should be provide as beneficial to entrepreneurs to provide various schemes that have to be authorized which attract foreign investments, and promote economic growth and development as well as financial growth and investment.

## **CONCLUSION**

This study examines the influence of economic growth and development, financial development, and foreign direct investment on development of entrepreneurs which is totally evaluated by production and investment. By the guidance of Engle and Granger method and due to this small sample size and parameters to be assessed. The results and findings show that there is a direct and positive impact of on economic growth and development and financial development in the long run period but in the short run micro, small and medium enterprises are not affected.

Financial growth and development is directly impacted in the period of long run by foreign Investment through Financial stock market financing as the ratio of GDP while in the period of short run GDP both are directly impacted a positive environment should be given to promote the entrepreneurs and gives them more facilities so that it minimizes the risk which assumes in it.

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