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"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 of Indian and its future development, the role of Entrepreneurship is very pivotal and important as it take advantage of all the resources, opportunities for employment for the development of people who live in villages. This research examines the result of financial market, economic growth and development with the put in of foreign investment on entrepreneurship development sustained by manufacturing in Micro, small and Medium enterprises (MSME) and permanent funding in MSME for the period of late 1990s to 2017. With the help of the model which is called Error correction, the findings shows that investment under MSME is directly affect by financial development in the long run period. In short run period foreign investment and economic development both are directly affect with fixed investments in MSMEs. Production under MSME can be seen directly affected by economic development with financial development in the period of long run on the other hand in the short run no one of the chosen self reliant and independent variables affected production of MSMEs.

KEYWORDS: *MSME, Error Correction Model, FDI*

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INTRODUCTION

Since 1991economic reforms of India Liberalization, Privatization and Globalization (LPG) under Dr. Manmohan Singh the Finance Minister of India, Indian economy has been paced and a core appeal to foreign investments, its GDP, Gross Domestic product per capita has significantly increased, the financial market includes stock market underwritings has strongly implanted and these stimulus flows the money return back to economy. Under the economic development, liberalization and information passages puncturing the market had dense with creating new avenues for new entrepreneurs to scan the environment and avail and convert these problems into the opportunities. With economic reforms of Indian economy in 1991 there is free entry and exit of any multinational company by Indian government with a motive to increase foreign investment as wealth and resources providing globally reach. The financial and stock market with economy has also exploited from this as foreign investment which makes investment in India a profitable business. But does this development have a positive impact on Indian entrepreneurs?

Economic development both provides a standard quality in economy, investment opportunities in both national and international markets. The financial and stock market feeling becomes direct generating a reverberation in the market for new investments opportunities and creativity with innovation which are hardly any reasons of entrepreneurship. This has a effect like cycle continues with development in one another which benefits the former. This constructive attitude that is developed required for beginning a company to undertake the risk related with it. Needs, Capability and Opportunity, are the main elements of entrepreneurship (Davidsson & Honig,2003) economic development, financial increase, investment feeling and entrepreneurship strategy of the company surrounds the opportunity.

This analysis an aims to examine the association between entrepreneurship development with foreign market, financial growth and development and economic growth with economic development for the period of 1998 to mid 2017. Next paragraph attributes about literature review, prior to this is about research methodology, next section is about with results findings and discussions and last section is all about of conclusion about the research study.

LITERATURE REVIEW

There is a Broad study ended to realize the outcome of entrepreneurship on development of India economy but there is narrow study that looks only into the outcome of economic development and other estimates and measures on entrepreneurship most of these are deficient to developing economies.

A study by King and Levine under this topic (1993) their study says that the financial system influence the entrepreneur pursuit that influence in four ways:-

- Financial system picks the most optimistic projects after assessing.
- It helps in deploying of funds.
- Financial system permit investor to widen and diversify the risk associated with unknown innovative pursuits
- Financial system benefit to occupy in creativity and innovation comparative to endorsement of existing and former knowledge.

Greater financial system vitalizing encourages capacity growth and per capita output.

The Authors recommends that government policies may have an core effect on long term development toward the financial system.

Smallbone and Welter (2001) Entrepreneurs put up to economic development with reference to employment opportunities, creativity and innovation and foreign investment generation depending on priorities and various levels of market reforms. Both proposed uninterrupted support to Small and medium enterprises (SMEs) to control instant problems to strengthen their inherent for development and growth of economy.

Liu, Burridge, and Sinclair (2002) examined the natural links between business and trade, economic development with growth and ingoing foreign direct investment in other countries with china. When we see the quarterly data of these variables a strong and long run relationship is found between all these growth, export, import and foreign direct investment. He found Bi-facial reason between economic development and growth, FDI and export which strengthen economic reforms policy.

Alfaro et al (2004) Both the authors analyzed the bridges between Foreign direct investment, financial and capital market and growth considered that financial representatives either follow entrepreneurial activity or utilize wealth to get profits by employed for companies in the sector of foreign direct investment. Healthier financial market produces impetus for FDI. They created that FDI plays pivotal role in economic development and growth.

Carland and Carland (2004) examined the results of entrepreneurship on jobs and economic growth and development of the USA. They established that firms not more than 20 employees have had the significant impact for whole 1990's. They proposed that the firm has huge potential for future growth and development. Also, economic reforms changes should be particularly to enhance entrepreneurship development.

Agosin and Machado (2005) examines the scope of Foreign institutional investors(FII) in fill in and fill out internal investments with a board of data of 30 years for the developing parts of Asia, Africa and Latin America, they proposed that Foreign direct investment has nothing to do with internal or domestic investments for parts of period and parts of areas. With more investigated both of us established that FDI was found to fill-out domestic investment specifically in Latin America. FDI was found to be adverse to the fill in domestic investment.

Wennekers et al (2005) proposed a curved like U-shaped association between entrepreneurial kinematics and level of economic development. They recommended that for developed countries incentive system should be upgraded while developing countries should utilize economies of scale, promote FDI and foster management training.

Naudé (2008) Entrepreneurship has a pivotal role in developing a primarily orthodox or traditional economy to advanced economy. With creativity and innovation managed growth capacity is increased in developed countries. Businesses, startups and the debt market calculate the quality as well as quantity of entrepreneurship. They examined that minimum entrepreneurial activity subscribed to economic sluggishness and developmental variations.

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

$Y_{t1} = f(FDI_t, GDP_t, MCAP_t)$ $Y_{t2} = f(FDI_t, GDP_t, MCAP_t)$

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

$\ln Y_{t1} = \beta_0 + \beta_1 \, l \, FDI_t + \beta_2 \, l \, GDP_t + \beta \, l \, MCAP_t + u_t$ $\ln Y_{t2} = \beta_0 + \beta_1 \, l \, FDI_t + \beta_2 \, l \, GDP_t + \beta \, l \, MCAP_t + v_t$ Where l 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 and Engle and Granger in early 80's (1981); this methodology is for trial 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 co integrated the relationship can be expressed as ECM (Gujarati, 2003)

$$\Delta X= \alpha_0+\alpha_1\Delta Y+\alpha_2 U_{t-1}+\varepsilon_t$$

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 co integration test, ε_t is the white noise. The α_2 is expected to be negative to restore ΔX 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 take 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

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 %, lmcap 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 I (1). This shows that co integration exists among the variables.

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

Long Run Equation

The equation that is formed in this paper is

linvest = $\beta_0 + \beta_1$ ln $FDI_t + \beta_2$ ln $GDP_t + \beta$ ln $MCAP_t + u_t$ lprod = $\beta_0 + \beta_1$ ln $FDI_t + \beta_2$ ln $GDP_t + \beta$ ln $MCAP_t + v_t$

The results obtained from this is

lprod = 5.4416+0.37084 lgdp+0.12389lmcap+0.04426lfdi (6.87) (3.22) (2.19) (1.00)

(0.00) (0.0053) (0.0436) (0.3319)

R^2= 0.91 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= 6.984-0.0827lfdi+0.289lmcap+0.034lgdp (3.218) (-0.682) (1.869) (0.109)

(0.0054) (0.504) (0.08) (0.9145) R^2=0.2816 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

Δ Invest = $\beta_0 + \beta_1$ Ln $FDI_t + \beta_2 \Delta$ ln GDP + β ln $\Delta MCAP_t + u_{t-1} + \varepsilon$ Δ Prod = $\beta_0 + \beta_1$ Δln FDI_t + β2 Δln GDP_t + β Δln $MCAP_t + v_{t-1} + \varepsilon$

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

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

(-1.022) (0.345)(1.56) (0.789) (-2.334)

(0.3238) (0.7349) (0.1388) (0.4431) (0.035)

R^2= 0.36 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.

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

(0.0083) (0.081) (0.012) (0.77) (0.036) R^2=0.643 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.

FINDINGS

Entrepreneurship plays a pivotal role in the modern economic framework to create demand in the employment market to have a presiding role in the economy of the country as India is brawling to give employment avenues and security of income to its nationals or citizens. Entrepreneurship gives a core part in the world as well as internal economy by starting more industries in rural and villages as backward areas, as a provider of inputs to large scale industries, proving employment avenues. It is a major element which modifies Indian agriculture based economy to manufacturing based which built it even more dominant for India, as it's percentage of people in total population lives in villages which lacks of basic facilities compel people migrate from villages to cities or another countries. There were around 448 lakhs working companies providing jobs to around 1013 lakhs of people in 2016-17. Their contribution is about 43 % in total Indian exports but only a meager of around 17 % contribution in our GDP while in Organization for Economic Co-operation and Development (OECD) countries the contribution is all about 60-70 % in employment, and contribution is more than 50-55 % in overall in GDP. (Sources of Ministry of Finance, 2018) In spite of the relevance of the entrepreneurship domain for put forward into it is not beneficial in Indian context even though it has drastically upgrade remarkably.

It is examined by various economists that foreign investment, economic growth and development and financial growth have a motivating change in encouraging entrepreneurship. Their findings tell that an average investment in medium small and micro enterprises (MSME) is hit by financial growth and development, this can of two causes,

Every entrepreneur desires to enlarge its business so convert it to a public limited company and raise funds from the investors which will also minimize the risk on the owners. 2) Medium, small and micro enterprises (MSME) contribution in large industries their growth revives growth of the all Medium, small and micro enterprises. Investment is directly impacted by economic growth and development in the short run. The direct economic and financial domain provided stimulates entrepreneurial activities to earn because of this development.

In long run period Economic growth and development, financial development has a Great impact on production in medium, small and micro enterprises (MSME). Economic growth development raises the purchasing power of the people which evolves new trends in markets for small companies. Small scale enterprises which provide goods and services to both markets of big industries get advantage by this change and these firms have more production. Financial growth and development does in the same fashion providing new opportunities for future investment. But in short period time no independent variables i.e financial growth and development, economic growth and development and foreign direct investment impact productivity of medium small and micro enterprises (MSMEs). This can be due to the prompt outcome is not detect by the small scale industries.

Entrepreneurship in India plays a vital role in providing their citizens safety and security of income and employment. The country promotes through its schemes or programs like PMRY, MNREGA, PMSRY and many more to promote Entrepreneurs through their organizations to provide the financial assistance to the new Entrepreneurs but it is not like that other countries who delivered all facilities in Finance and other incubation facilities whether technical or other countries like Malaysia, China, etc. The Environment of business should be made favorable to entrepreneurship schemes that have to be commissioned which allure foreign direct investments, and promote economic growth and financial growth with investment.

CONCLUSIONS

This research investigates the impact of economic growth and development, financial growth and development, and foreign investment on development of entrepreneurship which is totally assessed by investment and production. Through the help of Engle and Granger due to this small sample size and parameters to be evaluated. The findings show that there is a positive effect of on economic development and financial development under the long run period but MSME is not affected in short run.

Financial development is positively influenced in the period of long run by Investment through Financial market of stock and issues capitalization as the proportion of Gross domestic product while in short run Gross domestic product (GDP) both are positively influenced., a Favorable atmosphere should be provided to promote the entrepreneurs and provides them maximum facilities so that it minimizes the risk which inherits with that.

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