Sectoral optimisation of India's foreign direct investment inflows – does it support economic development?

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Abstract: Due to insufficient domestic savings, emerging market policy makers look to foreign direct investment (FDI) to increase investment and capital formation. Irving Fisher (1930s) argued that economy without money stagnates; so if flow of money slows down in domestic market it needs policy initiatives from policy makers to attract FDI. The study seeks to put forth mathematical arguments for optimising foreign direct investment (FDI) inflows to emerging market economies in the context of India. We use primal and dual linear programming techniques with regard to the sectoral FDI inflows to India for the period 2002–2010. The study shows that FDI inflows during the period are not optimally utilised and, consequentially, require intervention for improving its optimal solutions potentials.

Keywords: foreign director investment; capital allocation; variance-covariance matrix; VCM; optimisation model; data envelopment analysis; DEA; India; FDI inflow; economic policy.

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