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IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN EXPORT: AN ANALYSIS

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ABSTRACT

The international trade provides an opportunity to all countries to utilize their advantage in various lines of production. The economic development has taken place simultaneously with growth in international trade. The developing economies, having abundance in natural resources, face shortage of capital to exploit these resources. This shortage of capital can overcome through Foreign Direct Investment (FDI), which enables an economy to exploit her resources optimally and contribute to economic growth. Indian economy has shown fast growth since 1991, when economic reforms were initiated with the progressive opening of the economy to international trade and investment. Objective of the study is to analyze the trend and impact of FDI Inflow on export of India. The study is based upon secondary data. Correlation and regression analysis and ACGR has been used for the analysis of data. The study shows positive relation between export and FDI and positive impact of FDI on export. FDI is considered as an important means of promoting export of India.

I. INTRODUCTION

The international trade provides an opportunity to all countries to utilize their advantage in various lines of production. The economic development has taken place simultaneously with growth in international trade. The developing economies, having abundance in natural resources, face shortage of capital to exploit these resources. This shortage of capital can overcome through Foreign Direct Investment (FDI), which enables an economy to exploit her resources optimally and contribute to economic growth. It further supplements domestic savings and smoothen inter-temporal consumption which could strengthen the growth process and foster employment generation in the recipient country. Hence, FDI boost aggregate demand and leads to an increase in aggregate output and income.

FDI has become a key component of national development strategies for all most all the countries over the Globe. FDI is considered to be an essential tool for jump-starting economic growth through its bolstering (support) of domestic capital, productivity and employment. So many literatures highlight the benefits and costs of FDI for the host country, especially a developing one. The arguments for the positive impacts of FDI center around three prevalent benefits that are important to a developing country namely inflow of physical capital, technology spillovers and employment. Inflow of physical capital in the form of FDI could also increase the rate of economic growth particularly for developing one, where capital is scare. The leakage of technology spillover from MNEs enables domestic firms to improve their productivity and that allows the host country to enhance its long-term economic development. The growth enhancing capability of FDI also depends on the selected mode of FDI. Greenfield FDI can result in an increase in the host country's stock of capital whereas the Brownfield FDI (M&A) can only result in positive externalities of technological spillover.

The developing countries are now shifting their priorities from import substitution towards structural adjustments via free market economies and increasing emphasis on FDI. FDI is now accepted as panacea for all types of scarcities of financial capital, technological know-how, efficient managerial techniques, organizational skill and access to market abroad. FDI is a source of creation of tangible and intangible assets, employment and wealth; these are highly beneficial to the host country's economic growth. FDI has also been viewed as a vehicle to economic growth, particularly in developing countries (*Blomstrom, et al.1994; Balasubramanyam et al., 1996; Borensztein et al. 1998; De Mello, 1999*).

FDI inflows can be a tool for bringing knowledge, managerial skills and capability, product design, quality characteristics, brand names, channels for international marketing of products, etc. and consequent integration into global production chains, which are the foundation of a successful exports strategy (BlomStrom, Kokko and Zejan, 1994; Borensztein, De Gregorio and Lee, 1998; De Mello, 1999; UNCTAD 1999; Lall, 2000; OECD 2002, Lipsey, 1999). For all these reasons, FDI is regarded as a vital instrument for economic development particularly for developing economies. FDI flows are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. In this competitive world and speedy technological change, investor's complimentary and catalytic role can be very important.

II. REVIEW OF LITERATURE

Alguacil, M.T., (2002) in his study conclude that the involvement of foreign firms had a higher export propensity than local firms. It also suggests a type of FDI -led export growth linkage and thus the integration of India in the world economy is being fostered by the export orientation of foreign firms. Rob and Vettas, (2003) A MNC can serve the foreign demand by two modes or by a combination thereof. It can export its products or it can create productive capacity via FDI. The main benefit of FDI is that it allows for the lower marginal cost than exporting does. The disadvantage is that FDI is irreversible and hence entails the risk of creating under-utilized capacity in case the market turns out to be small. An internal solution may be the MNC both export and makes FDI under certain conditions. Zhang, K.H (2005) has tried to place proper emphasis on the role of FDI in the export promotion by studying the china's economy. He stated in his findings that China's export boom was accompanied by substantial inflows of foreign direct investment (FDI) and china brings the 32^{nd} in 1978 to the 3^{rd} largest exporting country in the world in 2004. Prasarma. N (2009) confirmed in his work that in a globalizing world, export success can serve as a measure for the competitiveness of a country's industries and lead to faster growth. In recent times, an optimistic view on the role of Foreign Direct Investment (FDI) on export performance in the host country has evolved. The present study is concerned with the impact of FDI on export in India.

OBJECTIVES OF THE STUDY

1. To find the relationship and trend of FDI inflow and export of India.
2. To analyze the impact of FDI on exports of India

HYPOTHESES OF THE STUDY

For these two objectives of the study, two null hypotheses have been formulated:

(1) There is no significant relationship between FDI and Exports

(2) There is not any significant impact of FDI on the exports.

METHODOLOGY

The study is based upon secondary data which have been collected mainly from the Handbook on Indian economy, Annual reports of RBI, Department of Industrial Policy and Promotion of India and various government institutions. In order to find the relationship between FDI and export correlation coefficient has been used. ACGR is calculated by using Semi log regression model. To access the impact of FDI on export growth in the Indian context, Double Log regression model has been used. The study cover the time period from 2004-05 to 2015-16. SPSS package is used for statistical results.

III. TRENDS OF FDI INFLOWS AND EXPORT OF INDIA

FDI has proved helpful to improve the productivity and efficiency of the economy through technology transfer in the form of the knowledge, technical and marketing skills organization and management systems. This helps the country to gives comparative advantage to promote exports. Data related to export, import, trade balance, GDP and FDI of India has been shown in table 1

Table No. 1: India's Export, Import, Trade Balance, GDP and FDI

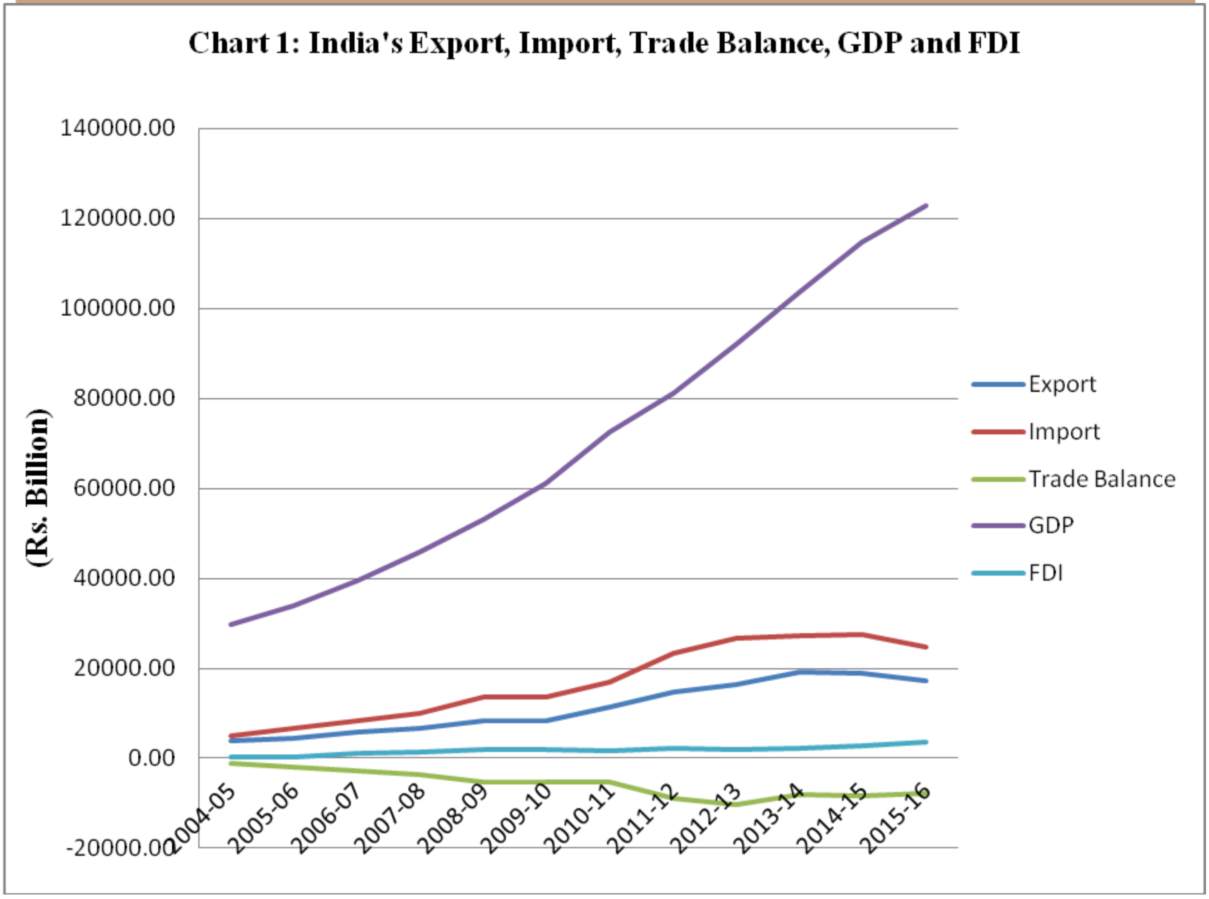
(Rs. Billion)

Year	Export	Import	Trade Balance	GDP	FDI
2004-05	3753.40	5010.65	-1257.25	29714.64	272.34
2005-06	4564.18	6604.09	-2039.91	33905.03	397.30
2006-07	5717.79	8405.06	-2687.27	39532.76	1030.37
2007-08	6558.64	10123.12	-3564.48	45820.86	1398.37
2008-09	8407.55	13744.36	-5336.81	53035.67	1914.19
2009-10	8455.34	13637.36	-5182.02	61089.03	1796.42
2010-11	11429.22	16834.67	-5405.45	72488.60	1642.55
2011-12	14659.59	23454.63	-8795.04	81066.56	2200.00
2012-13	16343.18	26691.62	-10348.44	92100.23	1868.69
2013-14	19050.11	27154.34	-8104.23	103808.13	2185.95
2014-15	18964.45	27370.87	-8406.42	114724.09	2764.00
2015-16	17144.24	24859.27	-7715.03	122794.10	3641.46

Source: Handbook of Statistics on Indian Economy 2015-16

Data presented in table 1 shows that there is a increasing trend of export, import, GDP and FDI. Export of India increases from 3753.40 Billion Rs. to 17144.24 Billion Rs. from the time period 2004-05 to 2015-16, with 19.1 percent ACGR (Annual compound growth rate). Similarly, GDP of India increases from 29714.64 billion Rs. to122794.10 billion Rs. from the time period 2004-05 to 2015-16, with 16.4 percent ACGR). However, FDI of India increases from 272.34 billion Rs. to 3641.46 billion Rs. from the time period 2004-05 to 2015-16, with 23.9 percent ACGR. Trends of India’s export, import, trade balance, GDP and FDI have been shown in the chart 1 given below:

Chart 1 shows increasing trend of export, import, GDP and FDI of India during the time period 2004-05 to 2015-16, whereas, trade balance shows decreasing trend during the above said time period.



IV: RESULT AND DISCUSSIONS

To examine the relationship of FDI with exports and growth, firstly Karl Pearson's correlation coefficient is computed between export and FDI, exports and GDP. The results are calculated by considering the values of FDI inflows and exports of India from the period 2004-05 to 2015-2016 and shown in table 2 and 3.

Table 2: Correlation between Export and FDI

Correlation coefficients			
		Export	**FDI**
Export	Pearson Correlation coefficient	**1**	**.863***
	Sig. (2-tailed)		**.001**
FDI	Pearson Correlation coefficient	**.863***	**1**
	Sig. (2-tailed)	**.001**	
* Correlation is significant at the 0.01 level (2-tailed)			

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Table 3: Correlation between Export and GDP

Correlation coefficients			
		Export	**GDP**
Export	Pearson Correlation coefficient	**1**	**.992***
	Sig. (2-tailed)		**.000**
GDP	Pearson Correlation coefficient	**.992***	**1**
	Sig. (2-tailed)	**.000**	
* Correlation is significant at the 0.01 level (2-tailed)			

Since the correlation coefficients between the export and FDI variables are high, therefore, the null hypothesis is rejected at 0.01 percent level of significance. The results clearly indicate that there is significant relationship between FDI & exports (table: 2). Moreover correlation coefficients between the export and GDP is also high which indicate that there is significant relationship between exports and GDP (table: 3).

REGRESSION ANALYSIS

In order to understand the impact of export on FDI, Double Log regression modal has been used as shown

Log EXP = $\alpha + \beta$ Log FDI + u …………………………………………… (1)

Where, α and β are coefficient to be estimated

EXP = Exports

FDI = Foreign Direct Investment

u = Disturbance term

Table: 4 Coefficients

Model	Coefficients		t
	β	Std. Error	
(Constant)	510.145	2193.819	.233
FDI	6.428	1.255	5.120
Dependent Variable: EXPORT			

Table 4: Result of Regression (Export and FDI)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.863[a]	.744	.716	3034.55101	.711
a. Predictors: (Constant), FDI					
b. Dependent Variable: EXPORT					

From the Model, it is found that β is statistically significant. The regression result confirms that FDI is an important factor for increase in exports of the country. It is observed from the results that elasticity coefficient between FDI and export is 6.428 which imply that 1% increase in FDI may cause 6.428% increase in exports. Hence, FDI positively influences exports. The coefficient of determination i.e., R^2 shows that the model has a good fit as 74.4 % of exports is being explained by FDI.

CONCLUSION

FDI is considered as an important means of promoting export of the host countries. By training the local work force and upgrading the technical and managerial skills, it helps in raising the efficiency and productivity of the factors and hence competitive strength in the international market. In addition to this, by facilitating access to large international market, FDI makes a significant positive contribution to the host country's exports. The study clearly reveals that FDI not only acts as a vehicle for accelerating the pace exports but it is also an important variable that alters the level of GDP of the host country. FDI have a capability to balance the local developmental efforts by increasing the export competitiveness, creating employment opportunity and strengthening the skill base, enhancing technological capabilities (transfer, diffusion and generation of technology), and increasing financial resources for development. It can also help plug a country in the international trading system, as well as promote a more competitive business environment. In this observation, India should continue to take steps to ensure an enabling business environment to improve India's attractiveness as an investment destination. India has a potential to attract FDI inflows is vast, although poor infrastructure, excessive bureaucracy, labour market inefficiencies, and interdepartmental wrangling slow the pace of opening in many sectors. Therefore, it is suggestion to the policy makers of India that drastic steps must be taken to improve infrastructural facilities and increase labour efficiencies which can be seen as a restructuring tool to increase FDI inflows in India. It is also suggested that focus should not be on the absolute amount of gross FDI inflows, but also the on the type of FDI inflow as it is seen that FDI inflow in India is mostly concentrated through M&A. There is hardly any Greenfield Investments being taken place so far. Finally, India should consciously work towards attracting greater FDI into R&D as a means of strengthening the country's technological capacities. Policy makers of developing countries are looking at FDI as the major source of finances, but they keep in mind that FDI is not the only way out of fast growth and development. India needs to put in place a comprehensive developmental strategy which includes being open to trade and FDI.

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