IMPACT OF FDI ON EXPORT AND GROWTH: AN INDIAN PERSPECTIVE

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ABSTRACT

India as a diversified economy has shown rapid growth and remarkable resilience since 1991, when economic reforms were initiated with the progressive opening of the economy to international trade and investment. Foreign direct investment has proved helpful to enhance the productivity and efficiency of the economy through technology transfer (in the form of the Knowledge, technical and marketing skills organization and management systems, new materials, products and market) and effective promotion of comparative advantage through Exports. The paper has been organized into five sections. In opening section of the paper there is introduction. Section IInd deals with objective, methodology and hypothesis of the study. Section IIIrd deals with the benefits and needs of FDI. Section IVth discussed the impact of FDI on Export and growth. At last by analysis data through various statistical tools conclusion are set out in the concluding section.

INTRODUCTION

The relationship between exports and economic growth has been a research interest in both the theoretical and empirical literature for some time now. The literature on export –led growth hypothesis postulates trade as the main engine of growth. Most studies of economic globalization emphasize the rise in the degree of world trade openness since 1980, that is, the amount of trade in relation to overall economic activity. The shift in the structure of international trade – both to more intermediates and increasingly outside the confines of the multinational enterprise – poses challenges to both theory and policy. The theoretical challenge is to the traditional theories of international trade and foreign direct investment. With the rise of international capital mobility and trade in intermediate goods, the theoretically harmonious world of comparative advantage gives way to the competitive struggle of absolute advantage and the relative desirability of a location for the production of a part of the production process.

FDI would be a direct investment by a corporation in a commercial venture in another country. A key to separating this action from involvement in other ventures in a foreign country is that the business enterprise operates completely outside the economy of the corporation's home country. The definition of FDI originally meant that the investing corporation gained a significant number of shares (10percent or more) of the new venture.

According to history the United States was the leader in the FDI activity dating back as far as the end of World War II. Businesses from other nations have taken up the flag of FDI, including many who were not in a financial position to do so just a few years ago. The practice has grown significantly in the last couple of decades, to the point that FDI has generated quite a bit of opposition from groups such as labor unions. These organizations have expressed concern that investing at such a level in another country eliminates jobs. Legislation was introduced in the early 1970s that would have put an end to the tax incentives of FDI. But members of the Nixon administration, Congress and business interests rallied to make sure that this attack on their expansion plans was not successful. One key to

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understanding FDI is to get a mental picture of the global scale of corporations able to make such investment. A carefully planned FDI can provide a huge new market for the company, perhaps introducing products and services to an area where they have never been available. Not only that, but such an investment may also be more profitable if construction costs and labor costs are less in the host country.

The time has to came for India to realize its potent as a top destination for FDI. As per Forbes report India secure 77th place ahead of china 90th in its list of best business in 2010.UNCTAD reports. on the world investment prospects survey 2010-2011 and Japan bank Kearney FDI confidence rate as the most promising country for investment and Business . India has not only survived the global financial crises but also received its growth rate which has been done to 9% in recent quarter. Here in this study the researcher try to reveal the role of FDI in accelerating the Export.

LITERATURE REVIEW:

Sharma, Kishor (2000) by analyzing the data from 1970 to 1998 has a viewed that the Export growth in India has been much faster than GDP growth over the past few decades. Several factors appear to have contributed to this phenomenon including foreign direct investment (FDI). However, despite increasing inflows of FDI especially in recent years there has not been any attempt to assess its contribution to India's export performance one of the channels through which FDI influences growth.

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.

Branstettter, L.G(2002)The focus of development efforts shifts from public to private, it is clear that one of the barriers will deeply entrenched role of state-owned enterprises of the country to increase export through FDI.

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 advantage of FDI is that it allows for 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 32nd in 1978 to the 3rd largest exporting country in the world in 2004.

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Prasanna.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. Recently, a much optimistic view on the role of Foreign Direct Investment (FDI) on export performance in the host country has evolved.

METHODOLOGY :

The study is based upon secondary data which have been collected mainly from the Economic Survey of India. Annual reports of RBI, Department of Industrial Policy and Promotion of India and various governmental institutions. For studying the impact of FDI on Export and growth in the Indian context ,the paper attempts to study the relationship of export and FDI with analysis of period from 1991 To 2010 FDI and Export figures and a separate study which reconfirm that FDI leads export and export lead growth.

OBJECTIVE OF THE STUDY:

- To study the concept and theories of FDI.
- To highlight the need of Export in developing countries
- To analysis the relationship between FDI, Export and GDP.
- To offer some suggestions for the FDI inflow and Export increment in a country.

WHY FDI IS NEED TO ACCELERATE THE EXPORT?

Upliftment of export depends on various factors and FdI is the one of the measured to yield the higher export growth. Export is taken as an important element in a way of developmental process of the developing countries, In order to export, firms must obtain information about foreign tastes following are the reason which has to overcome for expanding the export of an economy and FdI play vital role in accelerating the export :-

Scarcity of resource: In the view of scarcity of capital resources due to inadequate capital formulation in the country, the export is adversely affected, that's way foreign capital is urgently needed to support various investment projects.

Technological Gap: There is huge gap in the technological knowledge prevailing in an underdeveloped country like India, leads to unproductive exports; the foreign capital is badly needed to update the traditional technology of production for attaining international competitiveness.

Initial Risk : The underdeveloped countries export are facing the lack of flow of domestic capital at initial stage of project due to lack of experience and expertise and high initial risk , the foreign capital undertaking the initial risk of the investment can arrangement flow of domestic capital to desired direction.

Building infrastructure: The expansion of export is largely depends on infrastructural facilities which require huge investment foreign capital can provide necessary support towards building such infrastructural facilities in the country .

Associated Assistance: - foreign capital brings with other factors like technical k knowledge, R&D facilities, business experience etc which are considered equally important for growth of export .

Market share :- major problem which the export of developing countries are facing is the market size for their product foreign investor not only provide the capital and technology but also give a large market for the product, which ultimate leads to accelerate the export

By the aforesaid ground one may conclude that many of developing countries have attracted FDI to exploit the resources of MNEs such as globally recognized brand names, best practice technology or by getting integrated with their global production networks among others for expanding their manufactured exports. To quote from government's Industrial policy statement of 1991"Foreign investment would bring attendant of technology transfer, marketing expertise, in production of modern managerial techniques and new possibilities for promotion of Exports**.**

HYPOTHESIS

In order to substantiate the Above Objectives the following Hypotheses have been formulated:

1- *Null Hypothesis:* There is no significance relationship between FDI and Export.
   Alternative Hypothesis: There is significance relationship between FDI and Export.
2- *Null Hypothesis:* There is no significance relationship between GDP and Export.
   Alternative Hypothesis: There is significance relationship between GDP and Export.
3- *Null Hypothesis:* There is no significance relationship between FDI and GDP.
   Alternative Hypothesis: There is significance relationship between FDI and GDP.

EXPLANATION OF FINDINGS

To examine the significance of foreign direct investment on the Export and Growth, a Coefficient of Correlation has been undertaken. The result are drawn by analyzing the values of Export, FDI and GDP, from the period of 1991 to 2010 and results shows that , there is an highly positive correlation between these three variables.

The correlation between Export and FDI is 0.95 which reveal a high degree of correlation among the two variables. Hence r = 0.95, so our null hypothesis is proved to be rejected.

The correlation between FDI and GDP is 0.93 which also reveal the same picture of correlation as in the case of Export and FDI. Here the null hypothesis is proved to be rejected.

The correlation between the Export and GDP is 0.99 which emphasis the higher degree of correlation and again our third null hypothesis is proved to be rejected. The value of correlation between export and GDP is higher then other two which reconfirm that there is an impact of FDI on export and Growth.

Suggestions

1- There is need of some more Special Economic Zone (SEZs) in the export manufacturing areas.
2- New initiatives like refinancing of costly debts prepayment of identified high cost debt and exploring possibility of using the financial products for hedging of risks for active management.
3- High level of export growth requires a major shift in our export strategies based on proactive measures.
4- Increasing the limits of FDI in export orientated products.
5- Establish the synchronization of FDI policy with export policy, to avoid a mismatch between the FDI sector and Export sector items.

CONCLUSION

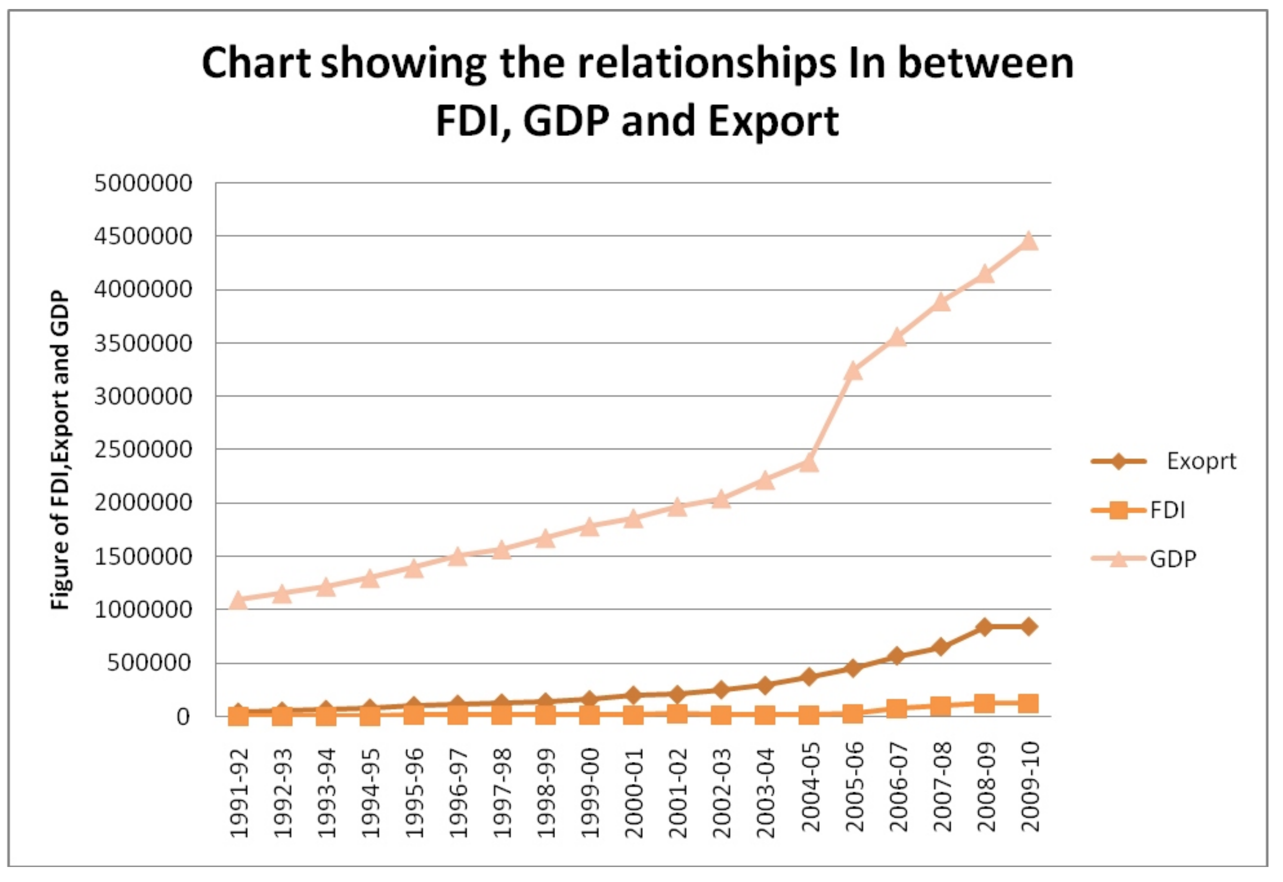
FDI has been viewed as an accelerator of host countries' economic growth. One of its major potential growth-contribution is to promote host countries' exports. This study attempts to empirically investigate the issue by using the Indian economy's data. The estimates indicate that
FDI indeed has a positive impact on India's export boom; its effects are much larger than those
of domestic capital. FDI improve the productivity growth through various means, like enabling the adoption of foreign technologies, resulting in greater

Year	Export	FDI	GDP	Change in export (%)	Change in FDI(%)	Change in GDP (%)
1991-92	44041.8	408	1099072	NA	NA	NA
1992-93	53688.3	1094	1158025	21.9	168.1	5.4
1993-94	69751.4	2018	1223816	29.9	84.5	5.7
1994-95	82674.1	4312	1302076	18.5	113.7	6.4
1995-96	106353.3	6916	1396974	28.6	60.4	7.3
1996-97	118817.1	9654	1508378	11.7	39.6	8.0
1997-98	130100.6	13548	1573263	9.5	40.3	4.3
1998-99	139753.1	12343	1678410	7.4	-8.9	6.7
1999-00	159561.4	10311	1786525	14.2	-16.5	6.4
2000-01	203571	12646	1864301	27.6	22.6	4.4
2001-02	209018	19361	1972606	2.7	53.1	5.8
2002-03	255137.3	14932	2048286	22.1	-22.9	3.8
2003-04	293366.8	12117	2222758	15.0	-18.9	8.5
2004-05	375339.5	17138	2388768	27.9	41.4	7.5
2005-06	456417.9	24581	3249130	21.6	43.4	36.0
2006-07	571779.3	70630	3564627	25.3	187.3	9.7
2007-08	655863.5	98664	3893457	14.7	39.7	9.2
2008-09	840755.1	123025	4154973	28.2	24.7	6.7
2009-10	845125.2	123378	4464081	0.5	0.3	7.4

Source: *Compiled from Handbook of statistics on Indian economy, 2010 Reserve Bank of India, Mumbai, SIA Newsletter, Govt. of India (2010),New Delhi.*

ANALYSIS OF DATA

Correlation between Export and FDI	**0.95**
Correlation between Export and GDP	**0.99**
Correlation between Export FDI and GDP	**0.93**



capital utilization and utilization of economies of scale and comparative advantage and helping create a conducive and stable macroeconomic environment through increasing employment, labour productivity and enhancement of the country's external earning power.

At the last section of the paper the researcher conclude his study by evaluating the whole segments of the paper, In the first section the introduction and meaning of the FDI has discussed and there after the objective and hypothesis of the study is framed. Here three hypotheses have framed and by the help of coefficient of Correlation the results have find. All the null hypothesis have prove to be rejected therefore alternative hypothesis have taken.

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