ORIGINAL RESEARCH PAPER

Commerce

EFFECT OF FDI ON EXPORTS OF INDIA

KEY WORDS: FDI, exports, Economic Development, Economic Growth.

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ABSTRACT

This study explores the impact of Foreign Direct Investment (FDI) on the exports of India. It highlights the importance of exports for generating foreign exchange and improving a country's competitiveness in the global market. FDI has acted as a catalyst in fostering innovation, improving infrastructure, and promoting competitiveness, all of which contribute to the positive correlation between FDI and India's export growth. The symbiotic relationship between FDI and exports underscores their collective impact on India's economic development. The paper also discusses how developing countries can upgrade their export activities through skill and technology inputs, either by improving domestic enterprises or attracting FDI. The study uses regression analysis to test the hypothesis that there is no significant impact of FDI on total exports from India.

INTRODUCTION-

International commerce serves various purposes for countries, and exports play a crucial role in generating foreign cash for importing products and services. Exporting also helps countries achieve economies of specialization, size, and scope in production, as well as gain valuable experience in export markets. It's important to note that the success of emerging nations' exports has been concentrated in a few countries, while many developing nations still rely on raw commodities and labor-intensive manufacturing. As these nations grow and gain resources and expertise, they need to shift their competitive base towards higher-value-added goods and advanced export-oriented operations, which require expertise and technological involvement. Countries can achieve this through domestic skill development or by attracting Foreign Direct Investment (FDI) into export activities and gradually upgrading them. Different countries use varying combinations of these approaches for export development. It's not an easy task, but it's definitely worth pursuing. The Indian government recognized the potential of Foreign Direct Investment (FDI) as a source of finance and assets that could address various economic challenges such as low income growth, savings and investment shortfalls, exports, and unemployment. FDI was seen as a way to bring in capital, technology, market access, employment opportunities, skills, management techniques, and environmentally-friendly practices. It was believed that FDI would help India expand its production, enhance its commerce, and maximize the benefits of global integration. Export orientation has also been praised as a development driver, as seen in the success of countries like Singapore, Hong Kong, and Taiwan. Economists and researchers expect to have a positive effect of Foreign Direct Investments (FDIs) on the growth of developing nations. This growth can be done through technology transfer and learning innovative systems that may be beneficial for the local/domestic industry (Shrivastava .A. 2019). The introduction of the New Economic Policy in 1991, driven by the need for macroeconomic reforms and structural changes, led to increased FDI inflows into India. The influence of FDI on export performance can vary. While FDI has historically played a significant role in natural resource exports and is expanding its involvement in processed agricultural goods and services like tourism, the focus here is on manufacturing-oriented exports. Manufacturing goods are crucial for a growing country as they indicate long-term dynamic growth in exports and the overall economy. So, FDI can have a favorable influence on India's export performance, particularly in the manufacturing sector.

Literature review-

Kishor Sharma (2000) in his research concluded that, India's export growth has been influenced by various factors such as lower export prices, the depreciation of the rupee, and strict monetary and fiscal policies to control domestic prices and demand. The study suggests that although foreign investment doesn't have a statistically significant impact on India's export performance, the coefficient of FDI shows a positive sign. The authors emphasize the importance of efficient infrastructure facilities in attracting FDI that enhances efficiency in developing countries. However, the study doesn't find evidence to support the claim that infrastructure levels affect export supply. The authors recommend keeping inflation lower than major trading partners and increasing reliance on flexible exchange rates to maintain the real appreciation of the rupee.

Surendra Singh(2017) in his study concluded that there is a complementary relationship between exports and FDI outflows from India. This contradicts the theory proposed by various economists, but is consistent with a few empirical studies. The coefficient of GDP is found to be insignificant with a negative sign, suggesting that as the domestic economy grows, Indian firms prefer to operate from home. The policy shift in favor of liberalization is found to have a positive impact on FDI outflows, but it is not statistically significant. The results also indicate the existence of long-run relationships among the variables. Granger causality tests suggest a unidirectional causality running from exports to FDI outflows.

Venkata Reddy Muppani and Mohammad Akbar Ali Khan concluded in their research that foreign ownership has a negative impact on the export performance of pharmaceutical firms in India. The study found that foreign-owned firms in the pharmaceutical industry focus more on domestic markets and host country advantages like R&D and lower manufacturing costs, rather than on export markets. This suggests that India is not attracting significant export-oriented FDI inflows in the pharmaceutical industry. However, the findings should be viewed with caution, as Indian firms have emerged as competitive suppliers in the global market for generic drugs due to cost-effective process innovations and reverse-engineering of brand name drugs.

N. Prasanna (2009) in his research concluded that foreign direct investment (FDI) has a significant impact on the export performance of India, particularly in the high-technology manufacturing sector. The study finds that FDI is a positive determinant of high-technology manufactured exports and total manufactured exports. The regression analysis shows that a one unit change in FDI leads to a corresponding increase in high-technology manufactured exports. The study also emphasizes the need for a comprehensive approach that combines FDI policies with other domestic policies to achieve sustainable and dynamic export performance in India.

Zafar Ahmed Sultan(2013) concluded in his study that FDI has always been seen as a catalyst for economic growth in host countries. One way it helps is by boosting exports. With its technology, management skills, and access to global markets, FDI can really give a push to a country's exports. The explores the relationship between FDI and exports in India using the VECM technique. The study finds that there is a long-term relationship between FDI and exports. Interestingly, the causal relationship is unidirectional, with exports influencing FDI, rather than the other way around. This suggests that FDI in India is mainly driven by the desire to tap into the growing market and population, rather than seeking efficiency gains.

Saileja Mohanty and Narayan Sethi's(2019) in their study suggests that there isn't a long-term relationship between the variables they considered. Interestingly, they found that FDI has a negative impact on real exports in the long run but a positive impact in the short run. The Granger causality test also indicates a unidirectional relationship from FDI to exports, rather than the other way around. This implies that FDI in India is mainly driven by efficiency-seeking motives (vertical FDI), rather than the desire to tap into the growing market size driven by population and economic growth (horizontal FDI).

Chandrama Goswami and Karuna Kanta Saikia's (2012) in their research said that, the flow of FDI in the Northeastern region of India has been very low. They suggest that in order to benefit from the Indo-ASEAN Free Trade Agreement and the Look East Policy, the region needs to attract more investment by developing industries based on their comparative advantage. However, the NER faces challenges in attracting FDI due to issues like lack of infrastructure, insurgency problems, and governance issues. It's important to address these fundamental constraints through strategic intervention to encourage investment in the region.

N.J Saleena (2013) concluded in her research that FDI has emphatically affected the development of administrations send out in the Indian economy, after the progression period. The investigation discovers that FDI essentially affects the administrations product of India, and that FDI inflow influences the development of administrations send out. The paper proposes that one of the primary drivers for the gigantic development of the administrations trade and the help area overall is the inflow of FDI. The review credits this development to the exchange approaches attempted by the public authority, like the foreign trade policy (2004-2009) and the national telecom policy (NTP), as well as the changing mentality of the government towards foreign direct investment, which has expanded export opportunities and induced foreign investors to take advantage of India's comparative advantage in the service sector.

Dr. A.Jayakumar, Kannan, and Anbalagan, G(2014) concluded in their study, compared to many other studies, showed a strong and statistically sound connection between foreign direct investment (FDI) and exports. Import. They said that FDI can't be seen as the only factor that predicts variations in exports. They said that international trade, measured by exports or imports, complements FDI inflows, and FDI inflows have a feedback effect on exports of trading partners and other trading partners. They also said that FDI inflows from expanding trade will also improve social well-being. They said it's important for both the government and private sector to recognize the complementarity between trade and investment and take action accordingly.

David M. Kemme and Deepraj Mukherjee and Alex Nikolsko Rzhevskyy (2009)in their rsearch concluded that that foreign direct investment (FDI) has a positive impact on the export behavior of Indian Information Technology (IT) firms. The study finds that an increase in FDI is associated with an increase in the probability of export for IT firms. Additionally, FDI influences the export propensity of IT firms, leading to a higher likelihood of exporting. The research also suggests that there is a spillover effect, where the presence of foreign-controlled domestic firms in the IT sector increases the probability of exporting for other domestic firms, even if they are not direct recipients of FDI. However, the study notes that there is limited evidence of FDI spillover increasing the volume of exports for domestic IT firms. Overall, the findings support the belief that FDI plays a significant role in promoting export-oriented behavior in the Indian IT sector.

OBJECTIVES-

1. To study the relation between fdi and total exports of india
2. To study the impact of FDI on total exports from INDIA.

Hypothesis-

H0- There is no significant impact of FDI on total exports from india

H1- There is significant impact of FDI on total exports from india

Data analysis-

Model Summaryb							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	df1
1	.720a	.518	.458	57,160.679	.518	8.593	1

a. Predictors: (Constant), FDI_India

b. Dependent Variable: Total_Exports_India

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28077350183.335	1	28077350183.335	8.593	.019b
	Residual	26138746055.209	8	3267343256.901		
	Total	54216096238.544	9			

a. Dependent Variable: Total_Exports_India

b. Predictors: (Constant), FDI_India

The hypothesis of this study is that there is no significant impact of FDI on total exports from India. However, the data analysis shows that there is indeed a significant impact of FDI on total exports from India. The model summary table shows that he R- squared value of 0.518, indicating that FDI explains of 51.8% of the variation in total exports from India. The ANOVA table shows that the F-test is significant at the 0.05 level, with an F-value of 8.593 and a p-value of 0.019. therefore, we can conclude that FDI has a significant impact on total exports of India.

CONCLUSION-

According to the findings of this study, there is a positive and substantial association between Foreign Direct Investment (FDI) and exports in India. Foreign direct investment is proven to be a good predictor of both high-technology manufactured exports and overall manufactured exports. The study underlines the importance of a holistic strategy that integrates FDI policies with other domestic policies in order to achieve long-term and dynamic export performance in India. Foreign Direct Investment (FDI) has played a pivotal role in shaping India's export landscape. The influx of FDI into various sectors has not only infused capital but has also brought in advanced technologies and management practices. This, in turn, has significantly contributed to the enhancement of export capabilities. As foreign investors establish and expand their operations in India, the country gains access to global markets through increased production and improved export-oriented strategies. This study's conclusions contradict numerous economists' theories yet are compatible with a few empirical research. It is critical that both the public and private sectors recognize and respond to the complementarity between trade and investment.

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