Growth Of Foreign Direct Investment (Fdl) And Its Impact On India's Export

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Problems To Be Studied: ,

Lt Has Long Been Argued That Foreign Direct Lnvestment (Fdi) Plays An Important Role In Promoting Export And Economic Growth Of An Economy. It Is Argued That Fdi Promotes Exports Of The Host Countries By Increasing The Productivity And Productive Capacity Of The Host Country By Increasing Capital Stock, Transfer Of Technology, Managerial Skills And Upgrading The Skills Of The Local Workforce Through Training. Further, Fdi Also Increases The Opportunity For The Host Countries To Export By Facilitating Access To The New And Large Foreign Markets. However, The Role Of Fdi In Promoting Export Is A Controversial Topic And Basically Depends Upon The Motivifcr Such Investment. If The Motive For Fdi Is To By Pass The Trade Barriers (High Tariff) Of The Host Countries, To Gain Access To Large Overseas Market And To Reap The Benefits Of Economies Of Scale, This May Not Promote Export. Such Kind Of Market Investment Is Called Horizontal Fdi. However, If The Motive For Fdi Is To Reap Of Host Country Comparative Advantage So As To Produce At Relatively Low Cost, Such Investment Are Likely To Promote Trade And Hence Complement Trade. Such Fdi Is Called Expoort Oriented Or Vertical Fdi.

Fdi Promotes Exports By Facilitating The Host Countries Access To Customers In Global, Regional And Home-Country Markets. Ln Addition, Host Countries Sometimes Also Get Benefits Of Lobbying Activities Of The Mncs In Their Home Countries For Favorable Treatment Of Exports From Their Affiliates Abroad As Happened In Case Of Us, China Etc.

Fdi Also Helps In Improving Productivity Of Labour Force By Providing Training To The Local Workforce And Upgracling Technical And Managerial Skills. These Activities Benefit The Country's, Exports Through Improvement In Productivity Of The Labor Force. This Is Especially True For Export-Oriented Investments In Advanced Technological Capabilities.

Fdi Has Both Direct And Indirect Effect On Host Country's Exports. The Direct Effects Refer To Exports By Foreign Affiliates Themselves. The Indirect Effect Includes Spillover Effect Of Mncs On Local Firms' Export Activities (Blomstrom Et Al., 2000; Unctad, 2002).

Lndia's Exports Have Grown Much Faster Than Gdp Over The Past Few Decades. For Example, Its Exports Have Grown Over 15% Per Annum While Growth In Gdp Is About 5% During L970-98 Periods. Exports Have Grown Even Faster Since 1945-95. Several Factors Appear To Have Contributed To This Phenomenon Including Foreign Direct Investment (Fdi) Which Has Been Rising Consistently Especially From The Early L990s. By 1997 India Became The Ninth Largest Recipient Of Such Investment Among The Developing Economies (World Bank, L998:20). However, Despite Increasing, Inflows Of Fdi, There Has Not Been Any Attempt To Assess Its Contribution To Lndia's Export Performance- One Of The Channels Through Which Fdi Affects Growth.

By Now It Is Well Known That An Outward Oriented Regime Encourages Export-Oriented Fdi While An Inward-Oriented Policy Regime Attracts Fdi Mainly To Capture Domestic Rather Than Export Markets (World Bank, 1993).

Finally In The Light Of The Above Observation, The Study Would Try

To Find Out The Problem And Challenges Being Faced By Lndia's Merchandise Imports And Give Possible Recommendations.

Justification Of The Study :

The Success Stories Of East Countries Suggest That Fdi Is A Powerful Tool Of Export Promotion Companies (Mncs) Through Which Most Fdi Is Undertaken Have Well Established Contacts And Up To Date Information About Foreign Markets. However, The Experience Of These Countries Cannot Be Generalized To India Given The Lower Level Of Infrastructure, And The Rigidity In Both The Factor As Well As Commodity Markets (Srinivasan, I998).

India Has Opened Up Its Market Since July 1991 By Lowering Tariff And Non-Tariff Barriers (Ntbs), And Liberalizing Investment

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Policy. However, By Any Standard India Is Far Less Open Than Many Developing Economies. Furthermore, Its Factor Market Including Infrastructure Sector Is Less Efficient Compared With Many East And South East Asian Countries With Whom India Competes In International Market (Srinivasan, I998). Hence, It Is Possible To Argue That Even With The Policy Liberalization India May Have Failed To Attract A Significant Amount Of Export Oriented Fdi And The Export Growth May Have Been Brought About By Factors Other Than Fdi, Namely The Real Depreciation Of Indian Currency, Improvements In Price Competitiveness And Provision Of Export Subsidies Etc. In The Light Of The Above Debate The Aim Of This Study Is To Examine Whether Or Not Fdi Has Made Any Significant Contribution To India's Export Growth.

Theoretical Principle Involved, If Any:

The Theoretical Principle Involved In The Study Is That Inflow Of Fdi Increase The Productive Capacity By Adding To Existing Capital Stock Of A Country. It Also Improve The Export Capacity And Improves The Competitiveness Of Export Sector.

Hypothesis (Sub Hypothesis) If Any:

The Study Would Try To Best The Following Hypothesis.

1. Economic Liberalization Leads To Increase In Fdi Inflows.
2. Increase In Fdi Inflows Leads To Increase In Exports.
3. Increase In Exports Leads To Increase In Fdi Inflows.
4. There Is Bidirectional Relationship Between Fdi Inflows And Export.

Approach (Including Research Design) If Any:

The Study Would Be Based On Comparative Research Method And Also Use Deductive Method To Draw Inferences.

Method Of Study / Investigation:

The Study Would Analyse The Trend And Behaviour Of India's Exports And Fdi Inflows During Pre-Reform And Post Reform Period. Suitable Quantitative Technique Would Be Used To Estimate Unidirectional Or Bidirectional Relationship Between Fdi Inflows And Export In India Applying Appropriate Method. The Appropriateness Of The Model Would Then Be Examined By Suitable Diagnostic Tests Like Serial Correlation, Hetroskedasticity, Model Specification Test Etc. Further In The Light Of Above Observations, A Comprehensive Policy Will Be Formulated Providing A Guideline To India's Imports Under The New Trade Regime And International Economic Order.

Sources Of Data/Information:

The Study Will Be Based On The Data And Information Collected From Secondary Sources. Different Documents Published By Govt. Of India And International Organisations- Like Economic Survey, World Bank, International Financial Statistics Published By Imf, International Trade Statistics Yearbook, Handbook Of International Trade And Development Statistics Published By United Nations And Other Official And Unofficial Published Data Will Also Be Used.

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