

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

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It has long been argued that Foreign Direct Investment (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 motive for such investment. If the motive for Fdi is to bypass 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 export oriented or vertical Fdi.