Impact of Foreign Direct Investment Inflows on Export Performance and Growth of Indian Economy

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***Abstract*: Foreign direct investment (FDI) plays vital injections in India to improve and accelerate the economic growth. FDI refers to capital inflows from the foreign country that invests in the productive capacity of the host country. FDI provides win-win situation to both investing country as well as host country. The investing country can take advantage of free market accessibility and helps in increase its financial development, boost export competitiveness and strengthens its base skills and technological capabilities. Several success stories have been confined in FDI but the powerful tool is export promotion of FDI for the domestic country. Foreign countries act as instrument in promoting exports from the host countries. As more and more exports leads the countries to increase foreign exchange reserves, builds economically strong and contribute towards the growth of an economy. Thus this paper examines the inflow of FDI on export and growth of an economy. The objective of the present study is to make a study on impact, growth and relationship of foreign direct investment with exports on Indian economy. The study purely based on secondary data from the Reserve Bank website. For the purpose of analysis techniques used for the study is trend analysis, correlation and regression analysis to know the trends and impact for future growth perspectives which exhibits good fit on export on FDI. On the basis of the above study concludes that India should empower more capital oriented FDI inflows to directly affect growth and some policy should formulated by government as a primary source of funds for rapid growth and development not only for Indian economy but also for the export promotion. Thus it helps the economy to grow faster and reach the optimum level of GDP over the years.**

***Keywords*: Foreign Direct Investment, Host countries, Foreign exchange reserves, Export promotion, Gross Domestic Product, JEL Classification: F36, F23, F13, P33.**

1. Introduction

Foreign direct investment plays a vital role in the growth of economy and also in developing nations. It is more important where domestic savings is not enough to generate funds for capital investment, but also it brings new technology, managerial expertise and adds foreign exchange reserves. FDI inflows are more beneficial mainly to developing and emerging countries rather than developed countries. IMF defined FDI as "a category of international investment that reflects the objective of a resident entity in one economy whether it is direct investor or parent enterprise obtaining a lasting interest and control in an enterprise resident in another economy (direct investment enterprise)". FDI believed that one of the important players is host countries. It has different effects on different countries based on host country policies, domestic and macroeconomic conditions. Several studies has formulated revealed that there is a strong and positive correlation between FDI and growth. FDI also stimulates domestic investments, international trade, expand domestic savings, and increase its foreign exchange reserves and thereby correcting the country's balance of payments position. All these factors together contribute towards the growth of an economy.

2. Review of literature

Bala Murali Krishnan (2004) [1] examines the relationship between FDI and economic growth by Srilanka for the period from 1977-2003 using Johansen's full information maximum likelihood method by considering relationship between real gross domestic product, foreign direct investment, domestic investment and openness of the trade policy regime. The results indicate that foreign direct investments exert an independent influence on economic growth with very few sectors showing positive impact of FDI and one sector even is showing a robust negative impact of FDI inflows.

Roy (2009) [2] Examine the dynamics between economic growth and FDI for a selected group of Asian economies namely India, China, Hong King and Malaysia. This paper deals with the issue of crowding in or out effect between foreign and domestic investment in the long run. Although it may be seen natural to argue that FDI can convey great advantages to host countries.

Ganesh kumar (2011) [3] examined the studies completed for the past 40 years, which exhibits the role of the construction industry in economic development. The findings from these studies have demonstrated a significant relationship between the construction industry and economic growth in developing countries. The relationship between economic growth and the construction sector in Singapore was studied.

3. Statement of the problem

Foreign direct investment inflows and exports have contributed to the economic as a large in recent decades. Globalization has significantly facilitated to flow of FDI, and some countries have aggressively offered tax incentives and subsidies to encourage foreign capital like FDI, implying that FDI promotes growth. Several studies have confirmed that FDI through multinational corporations (MNCs) have greater advantages over domestic firms in respect on export performance. Foreign countries extended their intangible assets in the form of technology, skills, brand name, marketing channel, and advertising technologies in international markets. Therefore foreign countries have a progress in promoting exports from host countries. FDI help in increased exports and foreign exchange reserves which enhance to build a strong financial position. Therefore it broadly said that FDI not only increases exports but also contributes overall growth of a nation. Thus this paper examines to show inter relationship between FDI, exports and GDP and the sample evidence is derived from the relevant data of Indian economy.

4. Objective of the study

- To examine the impact and growth of Foreign Direct Investment on Indian Economy.
- To measure the relationship between FDI, GDP and Exports.

5. Research methodology

The study aims to investigate the impact of FDI inflows on the exports which helps to increase the level of GDP of India. The relationship between FDI and exports has been of great interest to researchers especially after the liberalization in 1991. The FDI boost is crucial in order to grow capital, innovation, administrative knowledge and marketing skills with access to global market. Since the evidence has been taken as secondary data from the official website of Reserve Bank of India for a period from 2013-2014 to 2017-2018. Thus the paper deals with trend of FDI inflows by country wise, sector wise and export growth performance, secondly it examine the relationship between FDI, Exports and GDP. Few hypotheses has been formulated to check the validity of the data by using the statistical tools like

- Correlation
- Trend analysis
- Simple Regression

6. Analysis and interpretation

Growth of FDI in India

Table 1
FDI inflows in India from the period of 2013-2014 to 2017-2018

Year	Total FDI inflows in India
2013-2014	32106
2014-2015	49495
2015-2016	72136
2016-2017	72633
2017-2018	74733

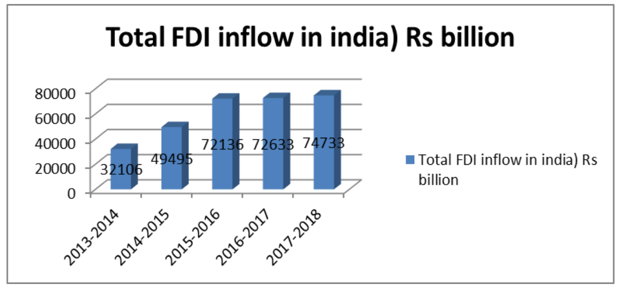

Fig. 1. Total FDI inflow in India Rs. Billion (Source: RBI website)

The growth indicates that an increase in FDI is associated with increase in exports and there has been volatility in the year 2015-2016 and 2016-2017 and it shows increasing in the year 2017-2018, this increasing growth indicates to accelerate economic growth and development.

FDI inflows by sector in India

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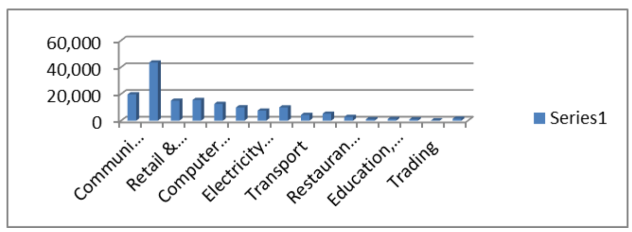

Fig. 2. Total FDI inflows by sector in India (Source: RBI website)

As stated above India has attracted more by FDI in manufacturing sector by 2015-2018, and it has significantly overseas investment by these entire sectors. Thus the other sector will attract more investment over the years.

GDP growth of India from 2013-2018

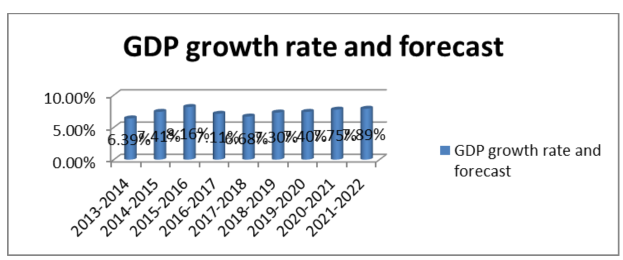

Fig. 3. GDP growth rate (Source: RBI website)

From the above Fig., GDP growth rate increased in the year 2015-2016 to 8.16% and there is short fall in the following years it reach 8.9% by 2022, it expected to reach 9.8% by 2030. Hence the government plans to increase transport sector

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contribution by 4.6% and power sector, employment opportunity thus helps to boost Indian economy.

Growth of Export in India from 2013 to 2018

Fig. 4. GDP growth rate and forecast

From the above Fig., it depicts that Export growth rate has increased 322.69 in the year 2015-2016 and the sudden slowdown of 264.14 and 299.16 from 2016-2018 due to lower prices, global slowdown have reduced exports, currency fluctuation. India is exporting low value commodities to other country. This is reason for decreasing export rate and it expected to reach 459.62 billion export in 2030 by increasing export quota, reduction of tariff and lowering the domestic price of competing imports.

From the regression results interprets that FDI is very

Table 3
Regression analysis for FDI and Exports

R value	R Square	Standard error	Beta	t value
0.862	0.743	0.62	4.28	9.94

important factor for increase of exports thus the elasticity of coefficient between FDI and Exports is 4.28 which imply that the increase is 1% increase in FDI may cause 4.2% increase in exports. Hence an export shows positive influence on exports. R squared a value show 0.743 which exhibits good fit of export on FDI.

Formulation of hypotheses

- (H0): There is no significant relationship between FDI and Exports.
- (H1): There is significantly relationship between FDI and Exports.
- (H0): There is no significant relationship between FDI, Exports and GDP.
- (H1): There is significant relationship between FDI, Exports and GDP.

A. Testing of hypotheses

To examine the significant relationship of FDI, Pearson's Correlation is computed between FDI and Exports, FDI and GDP, GDP and Exports. The results are analyzed in the following values of FDI, exports and growth from the period of 2013 to 2018 by formulation of hypotheses. Thus the correlation coefficient between the variable are significantly high therefore the null hypotheses is rejected at a confidence level at 0.01and accept the alternative hypotheses, hence the hypotheses proves that there is significant relationship between FDI and exports, FDI and GDP, GDP and Exports.

Table 4
Correlation between FDI, GDP and Exports

Correlation			
		FDI	Exports
FDI	Pearson correlation	1	0.862**
	Significance (2 Tailed)		.000
Exports	Pearson correlation	0.862**	1
	Significance (2 Tailed)	.000	
		FDI	GDP
FDI	Pearson Correlation	1	0.92**
	Significance (2 tailed)		.000
GDP	Pearson Correlation	0.92***	1
	Significance	.000	
		GDP	Exports
GDP	Pearson correlation	1	0.89**
	Significance (2 Tailed)		.000
Exports	Pearson correlation	0.89**	1
	Significance (2 Tailed)	.000	
Correlation is significant at 0.01 level			

7. Suggestions of the study

- India share in global FDI has increased over the years, thus it considers as fastest growing economy. The cumulative inflows of FDI has consistently rise in sectors like Manufacturing, construction, retail and communication in the study period and the government has to take some steps to make India as a investor attractive friendly destination places by providing employment opportunities, raising 100 percent equity in country's manufacturing sector through automatic route and provide 49% for defense sector.
- FDI helps to increase insurance, agriculture, plantation activities, single branded retail activities to 100% investment, thus these sectors increased as per the norms of the economy.
- India export is expected to reach 459.62 billion export in 2030 by increasing export quota, reduction of tariff and lowering the domestic price of competing import
- Thereby increasing these sectors by empowering remote innovations, stable macro-economic condition, capital gains and foreign exchange reserves will help to increased GDP rate, stable inflows of FDI and Indian economy will rise to touch 9.4 trillion over the years.

8. Conclusion

The study concluded that FDI not only act as a vehicle for accelerating the pace of exports but also important variable for the increasing level of GDP of host country. FDI has to contribute more towards exports by technological capabilities, financial resources and strengthen the skill base for development. As report by RBI says that India potential to attract increased FDI inflows to poor infrastructure, excessive bureaucury, labor market inefficiency and help in open up many sectors for investment destination. Finally India should empower more capital oriented FDI inflows to directly affect growth and some policy should formulated by government as a primary source of funds for rapid growth and development not only for Indian economy but also for the export promotion. Thus it helps the economy to grow faster and reach the optimum level of GDP over the years.

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