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TRENDS IN FOREIGN DIRECT INVESTMENT, EXPORTS AND ECONOMIC GROWTH OF INDIA

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1. Introduction

The relationship between foreign direct investment (FDI), exports and economic growth is an important issue for India. The FDI inflows have increased rapidly since the late 1980s and 1990s almost worldwide. FDI was the principal source of flow to developing countries in 1990.

According to the World Trade Organization's (WTO), FDI occurs when an investor based in one country (the home country) acquires an asset in another country (the host country) with an intent to manage that asset. FDI is a major source of finance and can facilitate the entrance of technology from advanced and developed countries to the host developing countries. By this way the host country is able to compete in international markets. Increase in FDI is expected to increase the economic growth and exports. This paper studies the trends and impact of FDI over GDP and Exports.

2. 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 GOP 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 on efforts shifted from public to private,
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.

Prasarma.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.

3. Objectives

- To analyze the trends in FDI, GDP and Exports in India.
- To study the impact of FDI over GDP and Exports.

4. Methodology

4.1. Source of Data

The study is based on published sources of data collected from the Reserve Bank of India's Handbook of Statistics of Indian Economy, Department of Industrial Policy and Promotion (DIPP).

4.2. Period of Study

The study is focusing on the impact of FDI over GDP and Exports on Indian Economy. As such the study is undertaken for a period of 15 years from 2000-01 to 2015-16.

4.3. Tools Used for Analysis

The growth rate and Granger Causality Approach using E-Views is used in the present study.

5. Analysis

India started to receive significant FDI since early 90's. It was Rs.184.04 billion during 2000-01 and it was Rs.2942.58 billion during 2015-16. The highest growth rate year during the study period was in 2006-07 with 61.56 percent. The Indian economy was in boom due to global expansion. This generated more FDI into India. It witnessed the highest drop in growth rate during 2003-04 with 23.03 percent negative growth and in 2009-10 with 20.80 percent negative growth. The sub-prime crisis created tremors all over the globe which was also witnessed by India.

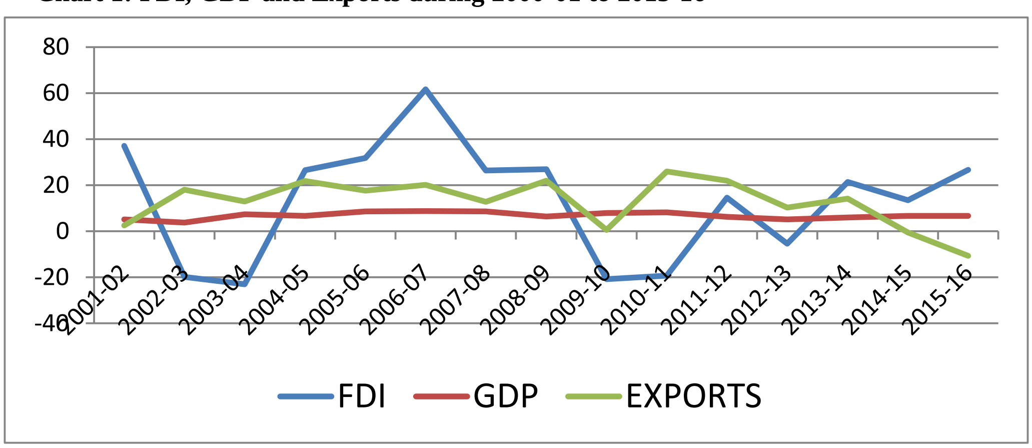
GDP was Rs.23484.81 billion in 2000-01 and Rs.67496.39 billion in 2015-16. The Indian GDP has been positively growing since 2000-01.The highest growth rates were witnessed during 2005-06 to 2007-08 where the growth rates were 8.66 percent, 8.73 percent and 8.53 percent respectively. Increase in global trade and business of India increased the GDP significantly.

India's exports increased significantly after the New Economic Policy, 1991. It witnessed the highest increase in 2008-09 with 21.99 percent and 2010-11 with 26.02 percent. These were during pre recession and post recession period of sub-prime crisis. India suffered a setback in its exports in the year 2009-10 due to fall in global demand. It dropped to 0.57 percent growth rate in the year. As the global demand started to increase in post crisis period it had a growth rate of 22.04 percent in the consecutive year in 2011-12. However, the exports had drop since 2014-15. The exports showed a negative growth of 0.45 percent in 2014-15 and 10.62 percent in 2015-16. It is observed that policies of the Government are not adequately in favour of exporters since 2014.

Table 1.1: FDI, GDP and Exports during 2000-01 to 2015-16

Year	FDI	Growth Rate	GDP	Growth Rate	Exports	Growth Rate
2000-01	184.04		23484.81		2035.71	
2001-02	292.45	37.07	24749.62	5.11	2090.18	2.61
2002-03	243.97	-19.87	25709.35	3.73	2551.37	18.08
2003-04	198.30	-23.03	27757.49	7.38	2933.67	13.03
2004-05	269.47	26.41	29714.64	6.59	3753.40	21.84
2005-06	394.57	31.71	32530.73	8.66	4564.18	17.76
2006-07	1026.52	61.56	35643.64	8.73	5717.79	20.18
2007-08	1394.21	26.37	38966.36	8.53	6558.64	12.82
2008-09	1906.45	26.87	41586.76	6.30	8407.55	21.99
2009-10	1578.19	-20.80	45160.71	7.91	8455.34	0.57
2010-11	1323.58	-19.24	49185.33	8.18	11429.22	26.02
2011-12	1549.61	14.59	52475.30	6.27	14659.59	22.04
2012-13	1469.54	-5.45	55322.80	5.15	16343.18	10.30
2013-14	1868.30	21.34	58804.15	5.92	19050.11	14.21
2014-15	2158.93	13.46	62967.14	6.61	18964.45	-0.45
2015-16	2942.58	26.63	67496.39	6.71	17144.24	-10.62

Chart 1: FDI, GDP and Exports during 2000-01 to 2015-16



5.1. Granger Causality Test

The study analyzed the granger causality test between FDI, GDP and Exports. First, the study analyzed the causality relationship between FDI and GDP. It was observed that there was an unidirectional relationship from GDP to FDI. It can be concluded that increase in economic growth can attract more Foreign Direct Investment. However, there was causality from FDI to GDP. FDI has not stimulated economic growth of India.

Table 1.2: Granger Causality Test results of FDI and GDP

Sample: 1 16
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
GDP does not Granger Cause FDI	14	5.67752	0.0254
FDI does not Granger Cause GDP		0.21676	0.8092

The causality relationship between FDI and Exports was analyzed. It was found that unidirectional relationship exists between FDI and Exports. Export does not cause FDI. But, FDI causes India’s Exports. It can be inferred that FDI stimulates Indian Exports.

Table 1.3: Granger Causality Test results of FDI and Exports

Sample: 1 16
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
EXPORTS does not Granger Cause FDI	14	2.84988	0.1099
FDI does not Granger Cause EXPORTS		6.15548	0.0207

The relationship between Economic Growth and Exports was analyzed. There was no relationship between Exports and Economic growth at five percent significance level. However, there was bidirectional relationship, i.e. GDP causes Exports and Exports causes GDP at 10 percent significance level.

Table 1.4: Granger Causality Test results of Exports and GDP

Sample: 1 16
Lags: 1

Null Hypothesis:	Obs	F-Statistic	Prob.
EXPORTS does not Granger Cause GDP	15	4.06067	0.0669
GDP does not Granger Cause EXPORTS		3.65504	0.0801

6. Conclusion

The study analyzed the trends in India’s FDI, GDP and Exports. It was found that FDI was wavering during the study period. GDP and Exports had positive growth during the study except last two years of exports. There is a steady decline in exports since 2014. India should come out with more policies which can augment exports. The granger causality tests reveal that there is an unidirectional causality from FDI to exports and GDP to exports.

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