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EXPORT PERFORMANCE: A PREDICTOR OF ECONOMIC GROWTH OF FDI

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Abstract

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad- in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe. This study is aimed at the exports' performance and its impact on economy. The study is based on the secondary data and to find out the inflow of FDI in India, correlation and regression is been applied. The findings of this study suggested that there is a positive impact of exports on FDI inflows.

Keywords: *FDI inflows, Exports' Performance, Economy*

Introduction:

In the early nineties, Indian economy faced severe Balance of payment crisis. Exports began to experience serious difficulties. There was a marked increase in petroleum prices because of the gulf war. The crippling external debts were debilitating the economy. India was left with that much amount of foreign exchange reserves which can finance its three weeks of imports. The outflowing of foreign currency which was deposited by the Indian NRI's gave a further jolt to Indian economy. The overall Balance of Payment reached at Rs.(-) 4471 crores. Inflation reached at its highest level of 13%. Foreign reserves of the country stood at Rs.11416 crores. The continued political uncertainty in the country during this period adds further to worsen the situation. As a result, India's credit rating fell in the international market for both short- term and long term borrowing.

All these developments put the economy at that time on the verge of default in respect of external payments liability. In this critical face of Indian economy the then finance Minister of India Dr. Manmohan Singh with the help of World Bank and IMF introduced the macro – economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors.

The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector.

Exports, on the other hand, is also considered as an instrument of economic growth and facilitates efficient production of goods and services by gaining comparative advantage over other countries. It is suggested that FDI is seen as a powerful tool of export promotion for the Indian states. Several studies have also confirmed that FDI through multi-national corporations (MNCs) have greater advantages over state level firms in respect of export performance. Large firms have many intangible assets in the form of technology, skills, brand names, advertising strategies, globally established marketing channels and experience of operating in national as well as international markets.

Export plays a significant role in economic development of a country by enabling it not only to pay for its import requirement but also lead to multiple expansions in national income through foreign trade multiplier. The production of most of the agricultural crops in Gujarat has been increasing over the years; it is the export of these crops that has significantly picked up during the last decade. Gujarat has an edge in production of castor, cumin, fennel, isabgol, sesamum, groundnut, mango, garlic, dehydrated onion, fish and seafood and cotton in the international market (GITCO, 2009).However, agriculture productivity and exports are considerably low in international market. Substantial improvement of economy needs to be done to take advantage of opportunities in international market to improve condition of population dependent on agriculture.

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Importance of the study

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India. The study works out the trends and patterns, main determinants and investment flows to India. The study also examines the role of FDI on economic growth in India for the period 1991-2008. The period under study is important for a variety of reasons. First of all, it was during July 1991 India opened its doors to private sector and liberalized its economy. Secondly, the experiences of South-East Asian countries by liberalizing their economies in 1980s became stars of economic growth and development in early 1990s. Thirdly, India's experience with its first generation economic reforms and the country's economic growth performance were considered safe havens for FDI which led to second generation of economic reforms in India in first decade of this century. Fourthly, there is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. Fifthly, increase in competition for FDI inflows particularly among the developing nations.

India's Foreign Direct Investment flows

1. FDI inflows into India increased to US $ 45 bn in 2014-15 as compared to US $ 36 bn in 2013-2014.
2. FDI outflow from India stood at US $ 30.9 bn in 2014-15 against US $ 36.9 bn in 2013-14.

The table and figure given below reflects the FDI inflows and outflow from 2009-2015. FDI inflows has increased from to 37.7 to 44.9 but in 2010 and 2013 it was declined due to some economic factors.

Table: India's Foreign Direct Investment Flows

Year	FDI Inflows	FDI Outflow
2009-2010	37.7 bn	18.0 bn
2010-2011	36.0 bn	43.9 bn
2011-2012	46.6 bn	30.9 bn
2012-2013	34.3 bn	26.9 bn
2013-2014	36.0 bn	36.9 bn
2014-2015	44.9 bn	30.9 bn

FDI Outflows include equity loan & guarantee issued.

Source: RBI

The export-import policy plan (1992-1997) ushered radical changes in the trade regime reducing the share of products subject to quantitative restrictions from 87 per cent in 1987-1988 to 45 per cent in 1994-95. Restrictions on exports were also relaxed, with the number of restricted items falling from 439 in March 1990 to 210 in March 1994. There was a drastic reduction in tariffs also. Average tariffs fell from more than 80 per cent in 1990 to 37 per cent in 1996. The Indian rupee was also devalued by 20 per cent against the US dollar in July 1991 and further devalued in February 1992. The full convertibility of rupee for current account transactions was permitted. As a result, the ratio of total trade to GDP rose from an average of 13 per cent in the 1980s to nearly 19 per cent of GDP in 1999-2000 (Topalova, 2004). Merchandise exports from India increased rapidly from US$18,145 million in 1990-91 to US$63,843 million in 2003-04, with almost 82 per cent of the export contribution coming from manufacturing sector (Reserve Bank of India, 2005).

As a result of these and other measures taken by the Government and the favourable world trade environment, the export sector has shown buoyant growth during this decade. India's export growth rate has been higher than world export growth rates as can be seen in the following table.

Table: Export Growth Rate of India and Share in GDP

S No.	Year	Exports Rs (Crores)	Annual Change (%)	Export as % In GDP
1	1991-92	32,553	17.5	6.4
2	1992-93	44,041	35.3	7.5
3	1993-94	53,688	21.9	7.5
4	1994-95	69,551	29.9	8.9
5	1995-96	82,674	18.5	9.1
6	1996-97	106,353	28.6	9.9
7	1997-98	118,817	11.7	9.5
8	1998-99	130,100	9.5	10.4
9	1999-2000	139,752	7.4	8.7
10	2000-01	159,561	14.2	9.0
11	2001-02	203,571	27.6	10.7

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12	2002-03	209,018	2.7	10.1
13	2003-04	255,137	22.1	11.4
14	2004-05	293,367	15.0	11.6
15	2005-06	375,340	27.9	13.1
16	2006-07	456,418	21.6	14.0
17	2007-08	571,779	25.3	15.3
18	2008-09	655,864	14.7	14.32
19	2009-10	845,534	28.2	15.92

Source: Economic Survey, Government of India, 2010.

Review of Literature

Jamal et a., (2014) The study suggests that attracting FDIs may be an appropriate strategy to generate future economic growth and enhances the productive capacity of the country to remain on the path of sustainability, so long as the country is able to maintain her threshold level in terms of macroeconomic conditions. This further implies that continuous improvements of the local macroeconomic conditions including socio-political stability are imperative to the country. The findings further underline the importance of national policies to focus on local diffusion of knowledge presumably embodied in FDIs to ensure greater productive capacity of the economy and hence sustaining the welfare impacts of FDIs **Jamal et a., (2014)** The study suggests that attracting FDIs may be an appropriate strategy to generate future economic growth and enhances the productive capacity of the country to remain on the path of sustainability, so long as the country is able to maintain her threshold level in terms of macroeconomic conditions. This further implies that continuous improvements of the local macroeconomic conditions including socio-political stability are imperative to the country. The findings further underline the importance of national policies to focus on local diffusion of knowledge presumably embodied in FDIs to ensure greater productive capacity of the economy and hence sustaining the welfare impacts of FDIs

Pillai, K. R., & Rao, M. S. (2013). The study analyses the panel data of various determinants of FDI

inflow to India. The research considered those variables, which had been identified by the previous studies on FDI. The quarter-on-quarter data from the year 2000 to the year 2010 were obtained pertaining to twelve potential determinants of inward FDI. Factor analysis and elasticity analysis were respectively employed to understand the communality of the variables and the magnitude of sensitivity of inward FDI to its various determinants. The study identified that transnational attributes constitute the major factor of FDI inflow to India. It was also understood that inward FDI is directly and greatly elastic to market size of the host country.

S. Ray (2012), in her study 'Impact of Foreign Direct Investment on Economic Growth in India: A Co integration Analysis', anchored the role of FDI in the growth process has been a burning topic of debate in several countries including India. It is an attempt to analyze the causal relationship between Foreign Direct Investment (FDI) and economic growth in India and tries to analyze and empirically estimate the effect of FDI on economic growth in India, using the co-integration approach for the period, 1990-91 to 2010-11. The empirical analysis on basis of ordinary Least Square Method suggests that there is positive relationship between foreign direct investment (FDI) investment and GDP and vice versa.

Objectives

The study covers the following objectives:

1. To study the trends and patterns of flow of FDI.
2. To evaluate the impact of FDI inflows on Export.

Methods & Materials:

This study is based on secondary data. The required data have been collected from various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India, , EXIM Bank etc.. It is a time series data and the relevant data have been collected for the period 1991-92 to 2009- 2010.
There is hardly any study in India which has taken macroeconomic variable such as export while assessing the determinants and impact of FDI on Indian economy.

Results and Discussion:

The present study tries to include the export performance in assessing the determinants and impact of FDI in India at the macro – level. Thus, the present study is an endeavour to discuss the trends and patterns of FDI, its determinants and its impact on Indian economy.

H_{01}: There is no significant impact of FDI on Export.

For the analysis of data, the researcher has used linear regression analysis. FDI has been taken as independent variable and EXP has been taken as dependent variable

Table 1.1: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.662[a]	.526	.525	1.39150	.526	11.993	4	7	.000	1.198

a. Predictors: (Constant), FDI

b. Independent Variable: FDI

As shown in the tables, there is a variation between the variables under study. So, there must be some relation between the variables under study that the researcher has tried to explain with the help of the regression equation. The co-efficient are given in Table 1.1:- The F value is 11.993 greater than the tabulated value, so it can be inferred that the model is significant. The p value is less than the .05 so null hypothesis is rejected and found that there is a significant impact of FDI on EXP.

Conclusion:

The export growth rate, however, has not been steady during this decade; the rate was high during 1993-94, 1994-95 and 1995-96 at 20%, 18.4% and 20.8% respectively, but declined sharply in 1996-97 to 5.3% and became negative in 1998-99 on account of South East Asian crisis and worldwide recession. It again recovered to 10.8% in 1999-00 and reached the highest growth for the decade at 21% in 2000-01. However, the global economic slowdown and the events of September 11 have led to a steep fall in the rate of growth of exports during 2001-02. After this year constantly the growth rate of export performance was increased till 2009-10. Liberalisation & trade reforms have also led to a compositional change in India's export basket. Analysis of the

export basket indicates an increase in the share of manufactured goods along with an overall widening and diversification of exports.

The various limitations of the study are:

At various stages, the basic objective of the study is suffered due to inadequacy of time series data from related agencies. There has also been a problem of sufficient homogenous data from different sources. No proper methods were available to segregate the effect of FDI to support the validity of this assumption.

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