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IMPACT OF FOREIGN DIRECT INVESTMENT ON EXPORT PERFORMANCE IN INDIA

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ABSTRACT

Over the last two decades, India's exports have expanded at a far greater rate than its GDP. For example, between 1970 and 1998, its exports grew at a rate of over 11% per year, while GDP grew at a rate of roughly 5%. Since 1945, exports have increased at an even higher rate. Several reasons appear to have contributed to this phenomenon, including the steady increase in foreign direct investment (FDI) from the early 1990s.

By 1997, India had surpassed China as the ninth-largest recipient of foreign direct investment among developing economies. Despite increased FDI inflows, no attempt has been made to quantify the contribution of FDI to India's export performance, which is one of the channels via which FDI affects growth. The current paper highlights the impact of foreign direct investment on export performance in India

KEYWORDS:

FDI, Export, Investment

INTRODUCTION

Foreign Direct Investment, or FDI, is an investment made by a foreign investor or firm in a business or company in another country. FDI can take several forms, including a total buyout of a firm in a country by merger or acquisition, the acquisition of shares in a company, the establishment of new enterprises in the country, and the expansion of an existing company's scope of activities. The Indian government started economic liberalization in 1991, which opened the Indian economy to global investment.

Following the ruling, foreign capital inflows into the Indian economy increased, but bureaucratic red tape and a lack of political will hampered the country's ability to attract foreign investment. In 2013, India was ranked 15th in the world in terms of FDI inflows, but by 2014, it had risen to ninth place. The current Indian administration, which took office in May 2014, has placed a strong emphasis on FDI, introducing a number of ambitious initiatives such as the Make in India project, which aims to boost the country's manufacturing industry. India surpassed China and the United States as the world's top FDI destination in 2015, owing to the government's initiatives.

Because multinational firms (MNCs), through which most FDI is conducted, have well-established contacts and upto-date information about foreign markets, the success stories of East and South East Asian countries imply that FDI is a valuable weapon for export promotion. However, given India's weaker infrastructure and the rigidity of both the factor and commodity markets, the experience of these countries cannot be applied to India. Furthermore, the function of FDI in export promotion in developing nations is debatable, and it is highly dependent on the motivation for the investment.

If FDI is primarily intended to capture domestic markets (tariff-jumping), it may not contribute to export growth. FDI, on the other hand, may contribute to export growth if the goal is to tap export markets by leveraging the country's comparative advantage. As a result, the character of the policy framework determines whether FDI contributes to export growth or not. An outward-oriented policy environment favors export-oriented FDI, whereas an inward-oriented policy regime invites FDI primarily for domestic rather than export markets.

Since the beginning of the last decade, India has liberalized its investment policy and lowered tariffs and non-tariff barriers (NTBs). India, on the other hand, is significantly less open than many other developing countries. Furthermore, compared to several East and South East Asian countries with which India competes in the international market, its factor market, including the infrastructure sector, is less efficient.

As a result, it is possible to argue that, despite policy liberalization, India has failed to attract a significant amount of export-oriented FDIand that export growth has been fueled by factors other than FDI, such as the real depreciation of the Indian currency, price competitiveness improvements, and the provision of export subsidies, among other things. In view of the foregoing dispute, the purpose of this article is to determine whether FDI has contributed significantly to India's export growth.

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Capital has been one of the scarce resources required for economic development in India because it is a developing country. Health, poverty, employment, education, research and development, technological obsolescence, and global rivalry are all challenges that must be addressed. The influx of FDI into India from around the world will aid in the acquisition of money at a lower cost, improved technology, job creation, and upgraded technology transfer, as well as the expansion of trade, connections, and spillovers to Indian enterprises. The following are some arguments in favor of foreign investment.

The investment climate in India has improved tremendously since 1991 when the government opened up the economy and initiated the LPG strategies.

The loosening of FDI norms is widely credited for the development in this area. Since the country's economic liberalization, many sectors have become partially or entirely accessible to foreign investment. India is now ranked in the top 100 countries in terms of ease of doing business.

According to a UN report, India was among the top ten recipients of FDI in 2019, with inflows totaling $49 billion. This represents a 16 percent increase over the previous year. The DPIIT announces a policy to allow 100 percent FDI in insurance intermediaries in February 2020. The DPIIT issued a new rule in April 2020 that stated that any corporation with a land border with India, or if the beneficial owner of an investment in India is located in or is a citizen of such a nation, can only invest through the Government route. To put it another way, such corporations

can only invest with the sanction of the Indian government. In early 2020, the government agreed to sell a 100% share in Air India, the country's national airline.

1) Sustaining a high level of investment: Because all underdeveloped and emerging countries aim to industrialize and expand, a significant increase in investment is required. Savings are low due to poverty and a low GDP. As a result, foreign direct investments are required to bridge the gap between income and savings.

2) Technological gap: In the Indian context, we require foreign technical help for expert services, training of Indian professionals, and educational, research, and training institutions in the industry. Private foreign investment or international cooperation are the only ways to get it.

3) Exploitation of natural resources: We have vast natural resources in India, such as coal, iron, and steel, but extracting these resources requires international cooperation.

4) Understanding the initial risk: Because cash is a scarce resource in developing countries, investing in new companies or initiatives for industrialization carries a high risk. As a result, foreign capital assists in these high-risk investments.

5) Development of basic economic infrastructure: Foreign financial institutions and advanced country governments have recently made significant funding available to developing countries. By creating firms in various sections of the country, FDI will aid in the development of infrastructure.

6) Improvement in the balance of payments position: The FDI influx will aid in the improvement of the payment balance. Firms who believe that items manufactured in India will be

inexpensive will produce them and export them to other countries. This aids in the expansion of exports.

7) Foreign firm's helps in increasing the competition: When compared to domestic enterprises, foreign firms have always come up with better technology, processes, and innovations. They devise a strategy for domestic enterprises to perform better and survive in the market.

DISCUSSION

For foreign direct investments, India is a popular choice (FDI). As of last year, India's recently liberalized FDI policy allows for up to a 100 percent FDI stake in real-estate operations. Industrial policy reforms have significantly lowered industrial license requirements, removed expansion limitations, and made foreign technology and FDI more accessible. The real-estate sector's upward growth curve can be attributed in part to a thriving economy and a liberalized FDI framework.

A number of modifications to the FDI policy were authorized, including the removal of the cap in most sectors. Civil aviation, construction development, industrial parks, commodities exchanges, petroleum and natural gas, credit-information services, mining, and other sectors would see restrictions eased. Because of its vast human resources, rapidly developing service sector, availability of a large number of competent professionals, vast market for every product, increasing impact of consumerism, lack of controls and licenses, interest of foreign entrepreneurs

in India, and existence of 400 million middle class people, the Indian economy has a brighter future. India now gives the highest returns on FDI of any country on the planet.

A comprehensive grasp and detailed knowledge of the products to be exported is a critical success factor in beginning any export company. To be effective in exporting, one must thoroughly investigate their international market rather than attempting to handle all of them at once. A priority market should be approached by the exporter. Overseas design and product must be well researched and carefully examined. Because there are unique regulations governing international trade and overseas business, familiarising yourself with state, federal, and international legislation is essential before beginning your export firm. The cost is also a significant consideration. As a result, before beginning an export firm, an exporter should think about the price supplied to buyers. Avoid unneeded middlemen that merely add expense but no value, as the selling price is determined by the source price. It significantly reduces transaction costs while also boosting the quality of final items.

Exports are an important part of a fast-growing economy like India's. India's exports have witnessed considerable changes in terms of volume, structure, and direction in recent years, owing to market resilience and dynamism. Improving global demand, along with recent improvements in domestic rules and procedures, has created a significant opportunity to increase the ease of doing business in India. At this point, it is critical to assess the performance of India's export structure. The purpose of this paper is to identify India's top twenty-five export items, India's position in world trade among these items, and the leading competitors in the same

product categories, in order to identify India's strengths and potential opportunity areas in order to foster increased export growth.

CONCLUSION

FDI virtually always reduces home country welfare, regardless of how it affects consumer surplus and home company profit. Only when all three of the following requirements are met: the items are highly differentiated (nearly independent), demand uncertainty is considerable relative to cost uncertainty, and the companies compete in quantities, is there an exception to this result. A high degree of product differentiation suggests that the foreign business's access model decision has little or no impact on the home firm, and that cost learning has little or no impact on home consumers. As a result, FDI influences domestic welfare mostly through demand learning, which is positive with quantity competition.

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