CHAPTER 7

CONCLUSION AND SUGGESTIONS

Major Findings

Japanese export to India does not reflect the Japanese Foreign Direct Investment in India. This has been tested with the help of Granger Causality test that give us result that neither Japanese export to India is causing by Japanese Foreign Direct investment nor Japanese Foreign Direct Investment is causing Japanese export to India.

There is a positive relationship between India’s export to China and growth of the Chinese economy. The granger causality test has been used which give us result that there is unidirectional causation between India’s export to china and growth of the Chinese economy, which means that the growth of Chinese economy causes the growth of India’s export to China but increasing India’s export to China does not cause the growth of the Chinese economy.

Institution which is one of the component of the competitiveness index and granger causality test has been used whose result has came out to be 0.015 and with the estimated F is significant at the 5 percent level; the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for infrastructure component and China’s export to India whose result has came out to be 0.044 and with critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for macroeconomic stability, which is a component of competitiveness index and China’s export to India, whose result has come out to be 1.77 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for health and primary education which is a component of competitiveness index and China’s export to India, whose result has
come out to be 0.098 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for higher education and training which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.009 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for goods market efficiency, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.199 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for labour market efficiency, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.030 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for financial market sophistication which is a component of competitiveness index and China’s export to India, whose result has come out to be 1.62 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for technological readiness which is a component of competitiveness index and China’s export to India, whose result has come out to be 1.86 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for market size, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.17 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for business sophistication which is a component of competitiveness index and China’s export to India, whose result has come out to be
2.09 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for innovation, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.20 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

China’s export to India is the result of Chinese competitiveness. The test has been used to find out that whether China’s export to India is because of improving Chinese competitiveness in the world and test shows that there is unidirectional causation, i.e., the statement is true that increasing Chinese export to India is the result of improving Chinese competitiveness. All the pillars of competitiveness in Global competitiveness index, which are- Institution, infrastructure, primary and health, education, macroeconomic stability, higher education, market efficiency (goods and labor market), Financial market sophistication, market size, business sophistication and innovation and all these pillars after using test shows that they have a positive relation between them and china’s export to India.

Competitiveness index has twelve components that divide it into main three sub indexes that are -factor driven, efficiency driven and innovation driven. Granger causality test has used to test the causality between factor driven sub index of competitiveness index and china’s export to India and test result has shown that there is a causality between both

Granger causality test has been used for Factor driven, which is a sub index of competitiveness index and China’s export to India, whose result has come out to be 0.380 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

Granger causality test has been used for Efficiency driven sub index, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.131 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.
Granger causality test has been used for innovation driven sub index, which is a component of competitiveness index and China’s export to India, whose result has come out to be 0.024 and the critical F value is 2.50, shows that there is unidirectional causation and test is accepted.

China’s improvement in global competitiveness index results in its increasing exports to the world and it has tested with the help of granger causality test. The test shows that there is a positive relation between China’s improvement in competitiveness index and China’s increasing export to the world and this Improvement in competitiveness ranking in Global Competitiveness reports not only impact it exports to India but also increase its overall exports to the world.

China from a negligible role in India’s trade with a limited number of commodities trades emerged as an important trade partner after 1991. India’s export with China has increased tremendously after liberalization. In 1991 India’s export from China increased from US$48.1 Million in 1991 to US$ 427.2 Million in 2000 and reached to US$ 19247.2 Million in 2011 and imports has increased from US$21.0 Million to US$1119.3 Million in 2000 which further increased to US$ 40218.0 Million in 2011. With increasing trade China became the largest trading partner of India from 16th position in 2000 to the first position in 2011.

Chinese export to India has increased after trade between two countries has started in 1991, after liberalization of India. There are some reasons of increasing Chinese trade in India, which are explained below

1. Better institutions, and infrastructure help China to attract foreign companies in the country which in turns helps to improve the technology in the country and improved technology helps to improve the export basket of China, which shifted from low technology goods to medium and high technology goods and developing countries like India always having demand for such products for the development of the economy. So, this is one of the reasons that India’s import from China has increased.

2. Indian demand of manufacturing goods as input, used in industrial sector increases the demand of exports from China because after liberalization of China, manufacturing sector
of China grows at an enormous rate and China emerged as a exporter of manufacturing goods.

- Up gradation of technology in China leads to lower cost of production and the availability of products at a cheaper rate is another reason for the increasing demand of exports from China.

- The surplus production of china makes China look for those countries which are having demand for their products and India’s demand for low and high technology provide china a large market for its exports and china’s dumping of its products in Indian market lead towards the antidumping measures from Indian side and this will widen the gap between India’s export to China and Import from China.

During the period of 1991-2011 India’s trade increases with developing countries, especially Asian countries, whereas trade with developed countries has decreased. Increasing regional association of India with developing countries, especially Asian countries is one of the reasons of increasing trade with Asian countries.

India’s export with developed countries was 57.7 percent in 1991 which has decreased to 40.6 percent in 2011. Whereas, India’s export to developing countries was 39.7 percent, which has increased to 43.8 percent in 2000 and further increased to 59.1 percent in 2011. Asian countries marked tremendous increase in India’s export whose share in total trade increased from 15.4 percent in 1991 to 30.1 percent in 2011.

In 1991 India’s import with developed countries was 52.1 percent, which had decreased to 33.1 percent in 2011. In 1991 India’s import with developing countries was 37.1 percent, which has increased to 41.9 percent in 2001 and further increased to 43.1 percent in 2011. India’s import has increased with Asian countries; their share in total trade increased from 9.2 percent in 1991 to 28.2 percent in 2011.

There is a rise in India’s trade with Japan, but its share in India’s total trade has decreased over the time. India’s trade with Japan has increased over the period from US$ 4193.3 million in 1996-97 to US$ 13364.9 million in 2011 but its share in India’s trade has been declining with the passing years. Japan’s is the 4th largest trade
Partner of India in 1995 and in 2013-14 it slipped to 13th position. India’s import from Japan has increased from US$ 1364.2 Million in 1991 to US$ 2016.0 Million in 2000 and further increased to 8146.7 Million in 2011. India’s import from Japan mainly consists of commodities like Heavy machinery, iron and steel, organic chemicals and articles of plastic and rubber. Whereas, India’s export to Japan has increased from US$1654.4 Million in 1991 to 1794.5 in 2000 Million which reached at 5216.5 Million in 2011 and exports to Japan consists of raw material, cotton, marine products, gems and precious stone etc.

Foreign direct investment in India has divided into two phases – from 1991 to 2000 during this period India had allowed up to 49 percent of equity participation of foreign countries, but after 2000 the Indian government liberalizes its FDI policy, allowed 100 percent share to attract foreign investment, and same is the case with Japanese investment. From 1991 to December 2010 Japanese Foreign Direct Investment in India amounted almost US$2.2 billion. Japan is the fifth largest source of FDI in India, but with large fluctuations. After 2005 Japanese investment, start increasing from US$ 126.24 Million to US$1562.0 Million in 2011. Transportation Industry, Electric equipment, service sector, earth moving machinery sectors attracts almost 66.4 percent of Japanese FDI in India In 1991 Japanese FDI in India was US$ 21.5 Million, which increased by 2002 to the level of US$ 411.1 Million, and then in 2003 it decreased to US$ 94.4 Million. After 2007, the flow of Japanese FDI increases at a faster pace.

Tamil Nadu has the maximum number of Japanese companies, that is, 240 companies in the region. Maharashtra with 198 companies is second in maximum number of Japanese companies followed by Haryana (193), Karnataka (155), New Delhi (35), and West Bengal (67).

India’s export with China has increased tremendously after reforms. In 1991, India’s export from China increased from 48.1 Million in 1991 to 427.2 Million in 2000 and reached to 19247.2 Million in 2011. India’s export to China have seen tremendous increase over the period its imports has increased from 21.0 Million to 1119.3 Million in 2000 which further increased to 40218.0 Million in 2011 With increasing import
China became the largest trading partner of India from 16th position in 2000 to first position in 2011. In 2009, Chinese export’s to India was highly concentrated and it calculated with the help of herfalindal Index whose value has maximum in 2009.

In 1991, there were a limited number of commodities, which was traded between India and China, but after a few years, China becomes a top trading partner of India in 2009. Sector like Chemicals, machinery, textile and clothing contributed 85 percent of total imports from China. From 1991 to 2011 imports of machinery has increased from 42.08 percent in 2000 to 46.9 percent in 2011. Chemical sector also registers a growth between the period of 2000 and 2011 its share has increased from 15.2 percent to 17.5 percent during the period. Imports of Nuclear boiler and the reactor has shown a tremendous increase from 48.3 Million in 1995 to 10144.18 Million in 2011 which increase its share up to 25.2 percent in the imports of 2011. Import of Iron and steel has also increased from 13.14 Million in 1995 to 2713.31 Million in 2011, which increased its share

India’s exports to China are highly concentrated in four sectors which take the lion’s share of 79 percent of the total bilateral exports in 2011. These dominant sectors are mostly resource-based and labour intensive in nature, though some of them are partially/ technology intensive sectors. Agricultural exports constituted 7.3 percent of the total bilateral exports of India. The shares of sectors like fruits & vegetables as well as fats & Oil have been picking up recently. For the last several years, mineral sector dominated India’s bilateral export basket with China, but during the period of the recent recession, the share of mineral sector declined noticeably to emerge as the second largest export sector of India to China in 2011. Share of the mining sector declined from 55.4 percent in 2007 to 24.0 percent in 2011. However, both mineral and base metal sectors have complemented each other in focusing exports to the market of China. From the base metal sector, substantial exports are made in the form of iron ores, slag and ashes. In the process, the base metal sector became the third largest export sector of India to China in 2011. Over 2005, textiles & textile products emerged as the largest exporting sector, which is expanding at 49.7 percent during
2004-12 and its share increased significantly from 10.4 percent to 26.1 percent between 2005 and 2012 respectively.

Besides textiles, mineral and metal products, India has a major export interest in the chemical sector including pharmaceutical products. Bilateral exports are also important in certain sectors like animal products, fruits and vegetables, processed food, footwear, cement and machinery & mechanical appliances. Some of these sectors have not only enjoyed a high export share, but have also continued to maintain high growth in recent years, which has also been true of some dynamic sectors such as fruits and vegetables, prepared food, minerals, cement, etc.

During the period of 1991-2011 there is a rise in the import of commodities which include Nuclear reactor and Boiler which account of 28.74 percent of Import from Japan and its import increase from US$ 575.69 million in 1995 to US$ 2466.52 million in 2014, ships and board and other floating structures have 6.13 percent share in total import increase from US$1.99 Million in 1995 to US$ 944.09 Million in 2014 and Iron and Steel and articles which have 7.47 percent share in imports increase from US$ 177.8 million in 1995 to US$ 1341.31 million in 2014. Electronic goods (12.68 percent) increase their import from US$ 170.31 million in 1995 to US$ 1062.01 million in 2010. Optical and professional goods with the share of 6.67 percent in imports increase from US$ 103.96 million to US$ 554.37 million in 2014.

In India’s export to Japan in 2010, Mineral fuels, oils, distillation products account for 11.90 percent, Ores, Slag and Ash accounts for 12.49 percent, pearls, precious stone accounts for 17.94 percent, marine products which include Fish, crustaceans, aquatic invertebrates accounts for 11.34 percent, Organic chemicals accounts for 4.02 percent, Iron and steel accounts for 3.03 percent, animal, vegetables fats and oils, cleavage products account for 1.07 percent, Edible Fruits and nuts, citrus fruits account for 1.17 percent.
SUGGESTIONS

The findings of the study has been summarized in the foregoing pages ask for the remedial measures so that policy formulators are benefitted. Therefore the following suggestions are being made for the improvement:

As far as foreign investors are concerned they find Indian business environment not much encouraging to invest in and same is the case with Japanese investors. They find difficult environment in India to do business which include poor infrastructure, complex tax system, procedural delays and lack of administrative transparency. Government should make such policies which will help to overcome from these shortcomings so that the investment from Japan will increase in future.

From last two decades there is increase in foreign direct investment but those MNCs and their bases are concentrated in few states only like Maharashtra, Bangalore etc. government should focus on this uneven growth of MNCs. Main setback which causing this uneven growth of MNCs is the lack of infrastructure in other areas of the countries. Government have to make such policies which lay stress on the development of infrastructure in every part of the country so that benefits of foreign investment must be reaped evenly.

Border trade between India and China will take both countries to another level of bilateral relationship. But there are some bottlenecks which are the reason of low border trade between two countries:

- Transport infrastructure is one of the biggest constraints in increasing regional trade between two countries. In building transport infrastructure in these areas geographical conditions causing many problems especially in building railway infrastructure but government of both sides must laid stress on inland waterways because major rivers are crossing through both countries like Ganga and Mekong which provide an opportunity to make better inland waterways which leads to growth of trade between both countries.

- Another constraint, which leads to low regional trade between both countries, is lack of efforts from the Governments of both sides whether it is at central level or it is at
local level while making and implementing policies in improving regional trade or supporting the private sector to do investment in these areas for infrastructure development. Central government and local government must support private sector while they are investing in these areas so that private owner has guaranteed while they become partners in providing technical expertise and efficiency as well as financing. Local Governments must invite private sector to do investment in infrastructure development because local governments are not having adequate finances.

- Government of both countries must come forward and make a joint group committee, which study the possibilities of encouraging trade and make proper Strategy for the development of inter border trade between both countries.

According to Global Competitiveness report India is now in the first stage of development, that is, India is a factor driven economy and Government authorities and policy makers should make such policies which bring market based reforms and help the Indian economy to move towards efficiency driven economy and improve its ranking in competitiveness index too.

As China is making changes in their export basket and there is growth in their economy, there are many sectors in India, which have scope for expanding its export in china one sector in which India is having scope of increasing exports in China is services sector another sector is pharmaceuticals sector because China is lacking in the production of generic branded product and Chinese market could be potentially be a high export market for Indian pharmaceutical products. Other sector like textiles and financial sector also having scope of increasing India’s export to China. Government of India not loose the oppoutunity of scope of new market in China and mus focus on these areas and make such policies which helps to generate new opportunities for establishing markets in China, which further helps to improve our balance of trade with China.

As India’s export to China is increasing with growth of Chinese economy, India has to focus on those sectors in which China is not doing well like accounting systems in China. In Accounting and management, consultancy sector India is far better than
China. So the Government should make such policies which focus on such sector which promote more export to China.