CHAPTER VI

Findings, Policy Suggestions and Conclusion

Abstract:

This Chapter includes the major findings of the study, policy suggestions and conclusion of the study. The influence of FDI on exports is found quite obscure and complex in the Indian context.

6.1. Introduction:

The aim of the study is to investigate whether increasing FDI inflows have contributed to increasing exports or not or is FDI a means of stimulating exports in India. With this objective, data are collected for 46 years period and various time series techniques have been used. Results suggest different relationship between the two when we checked for different sample periods. Since FDI is only one determinant of exports and not the panacea for the development problem as argued by Balasubramanyam and Sapsford and cited by Prasanna (2010), there are other factors which determine a country’s level of exports. Therefore, attempt has been made to include such factors also in this study. The findings suggest there is long run relationship between these factors and exports and long run and short run causality from these factors to exports. In this Chapter, the major findings of the study, policy suggestions and general conclusion have been presented.

6.2. Findings and Policy Suggestions:

1. Residuals of the linear combination of exports and FDI are found to be stationary which imply there is long run relationship between FDI and...
exports. Moreover, the ECM points out that the current FDI corrects 6 per cent of previous year’s disequilibrium while lag FDI corrects 5 per cent of previous year’s disequilibrium. Further, the ECT is found to be negative and significant which means there is long run causality from FDI to exports. Further removal of restrictive policies towards foreign investment and opening up the economy will be more conducive for FDI inflows.

2. It is established that there is cointegration between exports and its determinants viz., FDI, India’s GDP, World GDP, REER, and TLI. Further, it is found that there is causality from the above mentioned variables to exports. Moreover, the long run coefficient suggests that the variables, except FDI, have their expected signs and high coefficient values and are significant. Therefore, a high GDP has to be maintained along with a stable exchange rate to avoid the export risks of the country. TLI being highly significant, points to the need to liberalize trade further.

3. Although, protection has declined substantially since 1991, it remains significant in areas such as labour intensive manufacture and agricultural production which comprises the two major exporting sectors of the country. Further liberalization will be needed to realize more FDI inflows as a driving force for export of the country.

6.3. Conclusion:

The study is an attempt to investigate the influence of FDI on exports in India and find an answer to whether FDI stimulates Indian exports. To examine the short run and long run relationship, time series analysis has been adopted and both bivariate and multivariate time series analysis have been applied. After checking
stationarity, we have applied Engle Granger Cointegration test and Error Correction Mechanism to examine the FDI-exports relationship. The study finds long-run relationship between FDI and exports during the study period. The study also finds both short run and long run causality from FDI to exports.

We have applied Johansen Cointegration to examine the long run relationship between exports and its various determinants including FDI. Further, fully modified OLS is run to find the optimum estimates of the cointegrating equation. To get over the drawbacks associated with the above techniques (ref. Ch. 5, p. 128), we have used ARDL model to estimate the short-run and long-run relationship. Estimating the influence of FDI on exports along with all other determinants viz., GDP, World GDP, real effective exchange rate and trade liberalization index, FDI reveals a positive influence in the short-run. Therefore the hypothesis so tested finds that FDI has a positive relationship with exports along with other determinants of exports.

But the ARDL log run or static equilibrium solution and FM-OLS coefficients show negative values of FDI. Therefore, the influence of FDI on exports is quite obscure and complex in the Indian context. The negative influence of FDI on exports may be due to the motive of the FDI inflows. The motive of FDI in India may be to bypass the trade barriers and capture the domestic market in the host country. Another important feature of FDI inflows to India is significant amount of FDI flows through acquisition of existing shares route. Moreover, the top exporting sectors of India attracts relatively low FDI than other sectors. If these are the reasons, then there is no possibility of export promotion by FDI. If the motive is to take advantage of the host country’s comparative advantage, then FDI will contribute to export promotion (Sharma, 2000). In addition, if FDI inflows are
channelized into export oriented industries and used to fill the investment gap in export oriented units, then it is expected to increase the level of exports.

6.4. Scope for Further Research:

The study is done using aggregate FDI and exports data and addressed only one issue mainly *i.e.*, investigate the exports-FDI inflows relationship in India during 1970-2015 periods. It has many issues such as some sectors attract FDI more and some less. If we can figure out such sectors and their exports capacities, then one can extend the research work in sectoral level. Moreover, since the observations are low, we have not included all the determinants affecting exports. There is scope to include maximum number of determinants by increasing the number of observations by taking monthly data or quarterly data of the variables. Furthermore, there is a scope to investigate the state wise impacts of FDI on exports or one can extend the research to a specific region of the world using panel data analysis.
Reference:

Journal Article:


Discussion Paper: