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## **FDI, Exports and Imports: Trend Analysis for India and China**

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### **Abstract**

This paper provides an overview of FDI inflows and Trade in India and China. It shows that FDI and Trade is the fastest growing in India and China, contributing significantly to GDP, GDP growth, employment, trade and investment. Labour productivity in this sector is the highest and it has increased overtime. India is a major proponent of liberalizing services both in the WTO and in its bilateral trade agreements. In the result of regression co efficient of simple linear and semi log linear model implies that India and China had a possibility for positive relationship on Foreign Direct Investment and it plays a significant role in enhancing the level of economic growth. Import performance of China shows that regression co efficient in both the models are insignificant, so China had negative impact on their Import performance. Export performance of India shows the regression co efficient on both the models are insignificant. There is also a negative impact on India's Export performance.

**Keywords:** FDI, Exports, Imports, Simple Linear Regression, Semi Log Linear.

## **1. Introduction:**

India and China are the world's fastest growing economies. Besides this, the variables used in this study viz Trade, FDI and GDP and these comparisons are changing all the time. In India, recent years Exports have seen tremendous growth. However, in China scales are smaller and services are playing larger role. Both Countries have interested to invest globally with Domestic Companies acquiring Foreign Companies and Investing in Greenfield projects abroad. The post three decades China's growth has been mesmerizing. It manufactures 75 per cent of world toys, 58 per cent of the cloths and 29 per cent of the world's mobile.

In 1980 India and China's GDP level was more or less same. In India and China Foreign Direct Investment is one of the most popular issues. The main difference between India and China is that in China the former has a large market size, higher growth and better hard infrastructure. Therefore, the small market size of India remains a critical constraint for attracting FDI. It is most important to recollect the fact that the Chinese growth in 1980s was compel by agriculture and it was concentrated in rural areas. Multinational Corporations (MNCs) entering into China could satisfy the 'Market seeking' as well as 'Cost minimization' strategies. And also availability of goods, 'hard infrastructure' also helped.<sup>1</sup>

### **1.1 Foreign Direct Investment:**

Over the last few years, both China and India are being seen as major destinations for Foreign Direct Investment (FDI). FDI could bring new job opportunities, provides technology transfer, management skills, and boosts economic growth. Role of FDI in the growth process has

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been a burning topic in several countries including India. Since the 1980s Multinational Corporations (MNCs) have come out as major actors in the globalization context. Government around world in both advanced and developing countries have been attracting MNCs to come to the respective countries with their FDI.<sup>2</sup>

### **1.2. China:**

FDI in China, also known as RFDI (Renminbi Foreign Direct Investment), has increased considerably in the last decade, reaching 59.1 Billions of US Dollar in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had 57.4 Billions of US Dollar of FDI. During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

### **1.3 India:**

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI limit in aviation sector is maximum 49 per cent.

Starting from a baseline of less than 1 Billions of US Dollar in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and

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hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Based on UNCTAD data FDI flows were 10.4 Billions of US Dollar, a drop of 43 per cent from the first half of the last year.

#### **1.4 India's FDI Inflows Since 1991:**

The expansion of FDI inflows in the mid-1990s is to opening up of new sectors, and to the expanded scale of global FDI inflows in the 1990s. Still, the importance of FDI flows into India is relatively small, especially if compared with those received by other countries in the region.

The difference is particularly striking in terms of making FDI contribute to manufactured exports, while Foreign-owned enterprises contribute about 44 per cent of manufactured exports and about 80 per cent of high technology exports in China, this share in India's export was a marginal 3 per cent in the early 1990s and is unlikely to exceed 10 per cent at present.<sup>4</sup>

#### **1.5 Importance of Foreign Trade:**

The role of Foreign Trade in the economy can be judged by the proportion of Foreign Trade to national income. Due to the huge Domestic Market at home India's exports did not grow adequately to keep its share in the world trade. Large share will be contributed by developed countries and a few oil rich countries, due to that world's exports grew much faster than those of India. Between 1951 to 2000, world trade grew at a faster rate than India's trade. World trade had only benefited by developed countries, but in case of developing countries the world trade was getting only declining share.<sup>5</sup>

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The gains from the trade is that there is Increase in national income, Increase the level of output and the growth rate of economy. Thus, the higher level of output through trade will break the vicious circle of poverty and promotes economic development.<sup>6</sup>

### **1.6 Indian Exports to China under the India China Trade Relations**

The principal items of Indian exports to China are ores, slag and ash, iron and steel, plastics, organic chemicals, and cotton. In order to increase the extent of exporting Indian goods to China, however, there should be a special emphasis on investments and trade in services and knowledge-based sectors. The other potential items of trade between India and China are marine products, oil seeds, salt, inorganic chemicals, plastic, rubber, optical and medical equipment, and dairy products. Great potential also exists in areas like biotechnology, IT and ITES, health, education, tourism, and financial sector.

### **1.7 Chinese Exports to India under the India China Trade Relations:**

The main items that comprise Chinese exports to India are electrical machinery and equipment, cement, organic chemicals, nuclear reactors, boilers, machinery, silk, mineral fuels, and oils. Value added items like electrical machinery dominates Chinese exports to India. This exhibits that Chinese exports to India are fairly diversified and includes resource-based products, manufactured items, and low and medium technology products. It is said that if India is to capture the markets of China and enjoy profits, then it would have to discover new merchandise and branch out its exports to China.

### **1.8 Chinese Exports Face Some Challenges:**

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Chinese products sell primarily due to their cost advantage. For example a pencil battery ‘Made in India’ is available in the Market for Rs. 8.00/-, whereas a battery produced in China can be sold in the Indian Market for just Rs.1.00/-. This is the fact that the cost of the ‘Made in China’ battery combines the cost of transportation from across the border. There are several factors which is compelling the cost of production in China: cheap labour, better tax structure, availability of good infrastructure and the political will for reforms. Chinese exports face some significant challenges, such as capital would not remain cheap forever, Yuan might appreciate, and Chinese exports suffer from low brand equity, overdependence on exports, which make Chinese goods cheaper than the other goods. Moreover, the Chinese government provides huge export incentives to boost exports in the country. These reasons have helped Chinese exports to enjoy these advantages forever.

### **1.9 Trade Policy:**

India’s future trade expansion is expected to be with oil rich countries and less developed countries. The Domestic saving investment policy and the process of growth has to be dovetailed with the strategy for exports. Such a strategy is to promote production and export of labour intensive products. Uncertainty provision for crop failures and Imports of agricultural products was made. To increase the short supply of commodities such as paper, newsprint, fertilizers, etc., for these commodities Imports were designed.<sup>7</sup>

This Act which replaced the Imports and Exports (control) act, 1947, came into force on June 19, 1992. No export or import shall be made by any person except in accordance with the provisions of this act, the orders and rules made under this act and the export and import policy.

The following points are the scope of the Foreign Trade Policy:

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“For India to become a Major Player in world trade, an all encompassing, comprehensive view needs to be taken for the overall development of the country’s foreign trade. While increase in exports is of vital importance, we have also to facilitate those imports which are required to stimulate our economy. Coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of enunciating an annual exim policy it is necessary to go much beyond and take an integrated approach to the developmental requirements of India’s Foreign Trade. This is the context of the new foreign trade policy”<sup>8</sup>

Indian EXIM policy contains various policy related decisions taken by the government in the sphere of Foreign Trade, which means that with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also know as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.

### **1.10 Advantages of International Trade:**

Various advantages are named for the countries entering into trade relations on an international scale such as:

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- International trade enables a country to consume things which either cannot be produced within its borders or production may cost very high. Therefore it becomes cost cheaper to import from other countries through foreign trade.
  - International trade helps a country to utilize its resources to the maximum limit. If a country does not takes up imports and exports then its resources remain unexploited. Thus it helps to eliminate the wastage of resources.
  - Imports and exports of different countries provide opportunities to the consumer to buy and consume those goods which cannot be produced in their own country. They therefore get a diversity in choices.
  - By making the size of the market large with large supplies and extensive demand international trade reduces trade fluctuations. The prices of goods tend to remain more stable.
  - International trade enables different countries to sell their surplus products to other countries and earn foreign exchange.
  - International trade fosters peace, goodwill and mutual understanding among nations. Economic interdependence of countries often leads to close cultural relationship and thus avoid war between them.

### **1.11 Disadvantages of International Trade:**

International trade does not always amount to blessings. It has certain drawbacks also such as:



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- Foreign trade may lead to import of harmful goods like cigarettes, drugs etc.  
Which may run the health of the residents of the country. E.g. the people of China suffered greatly through opium imports.
  - International trade leads to intensive cultivation of land. Thus it has the operations of law of diminishing returns in agricultural countries. It also makes a nation poor by giving too much burden over the resources.
  - Over Specialization may be disastrous for a country. A substitute may appear and ruin the economic lives of millions.
  - A country might depend for her food mainly on foreign countries. In times of war there is a serious danger of starvation for such countries.
  
  - One of the serious drawbacks of foreign trade is that one country may gain at the expense of other due to certain accidental advantages. The Industrial revolution in great Britain ruined Indian handicrafts during the nineteenth century.
  - Foreign trade may lead to war different countries compete with each other in finding out new markets and sources of raw material for their industries and frequently come into clash. This was one of the causes of first and second world war.

### **1.12 Gross Domestic Product:**

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The growth rate in GDP India vs. GDP China has increased outstandingly in the recent period due to several factors leading to an economic upsurge in both the countries. China and India jointly account for 2.4 billion people, which is roughly 40 percent of the total population of the world. It has been assumed that China is likely to excel Japan in terms of population by the year 2016. By the end of the year 2045, China is expected to surpass United States in the population strength also. According to a survey report on the growth rate of China and India GDP, it has been stated that the institutional investors have made a notable contribution in the country's economy, which led to the hike in the GDP of both the countries.

### **1.13 Relationship between FDI and Economic Growth:**

In the year 1990s developing countries had considerable increase in Foreign Direct Investment. It focus on growth dynamics that are measured by Gross Domestic Product. The relationship between Foreign Direct Investment and Economic Growth resulted in large number of studies in Developed and Developing Countries.

According to neoclassical growth model, Foreign Direct Investment causes Medium-term temporary increase in Economic growth in the countries where Investment are made through increasing the amount of investment and its efficiency. On the other hand, new endogenous growth theories focus on the long-term growth as a function of technological processes. Therefore, they claim that Foreign Direct Investment can continuously increase growth rate through technology transfer and spillover effects.<sup>9</sup>

### **1.14 Growth in Developing Countries:**

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In China, the contribution of net exports to GDP growth declined further, while fixed investment and private consumption, as a result of faster wage growth, continued to drive output expansion. Domestic demand, encouraged by various incomes policy measures in a number of other countries in the region, such as India, Indonesia, the Philippines and Thailand, is also supporting output growth, which may therefore accelerate moderately in the region as a whole in 2013.

### **1.15 Importance of the Study:**

FDI was increased from the year 1981 to 2010. So that countries like India and China's Trade performance also increased. If export and import increase means the growth of India and China was automatically increase.

China's working age population peaked in 2010 at 73 per cent and it is beginning to decline. India's working population was 65 per cent in 2010, and continues to increase. China has higher percentage of women in the workforce of 67 per cent but in India is of 33 per cent. China has higher literacy rates and better access to health care than India. And China has better Infrastructure, more foreign trade and a sound financial system.<sup>10</sup>

Through FDI Import and Export business will spread in different countries. Agriculture related people will get good price of their goods. The decade to 2020 will be a watershed for Indian agriculture. The Indian government believes 4 per cent growth in agricultural gross domestic product is necessary not only to achieve the nation's overall target 9 per cent growth but also to reduce poverty.

## **2. Review of Literature**

### **2.1 Introduction:**

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In this study an attempt is made to review some important works related to FDI, TRADE and GDP in India and China the present study.

**Danish Ramzan and Adiq Kausar Kiani (October, 2012)<sup>11</sup>** this paper examines a significant role of FDI in accelerating economic growth of host countries, through its contribution in human resources development, technological spillover, capital formation and international trade. Major conclusion drawn suggested that liberalization leads to high price cost margins and reduction in concentration of industries, low producer surplus and hence boost up consumer welfare. The Error Correction Method (ECM) results revealed that the outcome of major variables of foreign direct investment and openness to trade have significant and robust link according to expectations.

**Mhanta Devajit (September 2012)<sup>12</sup>** this article examines the implications which affect the economic scenario and also measure the level of predominance by the factors for economic contribution to India. FDI can help to raise the output, productivity and export at the sectoral level of the Indian economy. For further opening up of the Indian economy, it is advisable to open up the export oriented sectors and higher growth of the economy could be achieved through the growth of these sectors.

**Dr. Namita Rajput et. al, (June 2012)<sup>13</sup>** this article retail transaction is at the end of the supply chain. India, over the latter half of the previous decade, has been one of the most wanted and desired destinations for investors across the globe and is being considered as one of the world's most lucrative retailing destinations. In this study it was revealed that these policy variables were responsible for drawing FDI and it determined the growth in Pakistan and also

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showed the positive impact of reforms in Pakistan. This analysis provides the information that is helpful in understanding the retail sector resource mobilization and capabilities to the competitive environment in which it operates.

**Tarun Kanti Bose (May, 2012)<sup>14</sup>** this study explains the Advantages of FDI in China, the immense size and growth of the Chinese economy and very bright prospects, Resources availability and Low cost of Labor force, Immense Development in Relevant Infrastructure, Investment Protection and Promotion. The huge Market size and a fast Developing economy, Availability of Diversified Resources and cheap Labor force, Public Private Partnership, Opener's towards FDI are all the positive side of FDI in India. The emerging market of China and India without any doubt poses suitable choice for those companies.

**Mr. Shashank goel et. al, (April 2012)<sup>15</sup>** this paper examines the government introduces reforms in the industrial sector, aimed at increasing competency, efficiency and growth in industry through a stable. Pragmatic and non-discriminatory policy for FDI flow. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. A comparative analysis of FDI approvals and inflows reveals that there is a huge gap between the amount of FDI approved and its realization into actual disbursements.

**Khalid Javed et. al, (March 2012)<sup>16</sup>** this study have analyzed the Impact of Globalization on GDP growth is Significant but it affects FDI flows negatively. Positive effect of FDI on economic growth occurs when FDI comes into Markets, while negative effects occur when FDI comes into protected industries. The Impact of FDI on growth using Cross-Sectional data finds that FDI is a determinant of growth if a nation is capable of absorption of modern

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technology. FDI has Positive effect on growth in all the Countries except Sri Lanka while exports have positive Impact upon output in all the nations. Imports have positive and significant Impact on output only in Pakistan and Sri Lanka others that should be targeted in order to enhance growth.

**Jesse Mora, Nirvikar Singh (March 3, 2012)<sup>17</sup>** have examined in this paper therefore brings together empirical evidence that integrates discussions of FDI, trade fragmentation and improvements in the productivity of traded goods.

**Anowar Hossain and Mohammad Kamal Hossain (January 2012)<sup>18</sup>** this paper examined the Co integration relationship between FDI and GDP in the long run for the Pakistan. There is Unidirectional Relationship between FDI and GDP and FDI is the vital contributor as well as a significant driver for the Economic Growth of Pakistan and India. Conversely, there is no Causality relationship between GDP and FDI for Bangladesh.

**Abdullahi, Yahya Zakari, et. al (2012)<sup>19</sup>** in this study have examined the evidence of unidirectional causation running from FDI to GDP on one hand, and export to have positive relationship with GDP even after disaggregating the dataset for Africa and Asia.

**Sarbapriya Ray (2012)<sup>20</sup>** have examined the both Economic Growth and FDI are Non-Stationary at both level and the first difference in case of Augmented Dickey Fuller Test, Phillips-Perron Test. The Co integration test confirmed that Economic Growth and FDI are Co integrated, indicating an existence of long run equilibrium relationship between the two as confirmed by the Johansen Co integration test results.

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**R. Himachalpathy, et.al (2012)<sup>21</sup>** have the fast industrializing country whereas India seems to be entering the Post-industrial Phase without having industrialized. Chinese GDP was lower than that of India in absolute terms in 1978 but caught up with India in the very next year. Both Countries have transformed themselves after they embarked on the path of economic reform. These studies argue that a sound, functioning and better financial systems can encourage FDI inflow in achieving higher growth. Transition of an economy from Agriculture Sector to Industrial sector and from Industrial sector to Service sector is an evolutionary Process.

**Yutaka Kurihara (2012)<sup>22</sup>** this article examines the relationship between FDI volatility and domestic GDP is not found, however, domestic prices affect positively FDI volatility in ASEAN. However, other variables do not affect the stability of FDI. The co-efficients are positive. For the US interest rates, they depend on the domestic and US financial Markets conditions.

**Gaurav Agrawal and Mohd Aamir Khan (October 2011)<sup>23</sup>** has analyzed that GDP in India is not Granger Caused by FDI, and the Causality runs more from GDP to FDI. The factors included in growth model were GDP, Human Capital, Labor force, FDI and Gross Capital Formation, among which GDP was dependent variable while rest four were independent variables. China's growth is more affected by FDI than India's growth and FDI is not as much significant as other variables to predict growth.

**Amna Tasneem and Babar Aziz ((2011)<sup>24</sup>** this paper examined that FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies that it brings is available in the host economy. It is argued that fiscal incentives are more appropriate

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in attracting FDI as these have no direct drain over public resources and increase the after tax return by availing the tax holidays and depreciation allowances, the ADF test for unit root indicates whether an individual series is stationary by running an OLS regression. Co integration techniques are not suitable so far the sake of better results they applied OLS regression technique to analyze the relationship between dependent and independent variables. FDI effects on domestic output, employment, trade income level and overall growth are positive in Pakistan.

**Chitrakalpa Sen (2011)**<sup>25</sup> this study to analyze the Impact of FDI inflow on GDP, Impact of service sector on FDI, Impact of GDP on FDI, Impact of the three sub-sectors on GDP. There is no doubt about the performance of Indian service sector and its role in the country's economic growth. But this brings us to the big question. In this service led growth sustainable. A danger in the service-led growth lies in the over dependence on FDI.

**Zenegnew Abiy Hailu (August 2010)**<sup>26</sup> in this paper to measure the performance of the Export subsector as such but rather to see the Foreign Reserve earning potentials of factors, particularly FDI, which is a function of total amount not volume. The overall effect of FDI on balance of Trade, if a factor has positive effect on both Import & Export, the net Effect on Balance of Trade is found to be in the direction of effect on the Import. Import & export are income inelastic.

**Har Wai Mun et.al, (July 2010)**<sup>27</sup> this study long run relationship between the variables and so there is no spurious regression problem in both models. There is an existence of short run relationship between Malaysia's total FDI and inward FDI from selected four countries. Based on chow test, the presence structural change on the relationship between Malaysia's total GDP



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and inward FDI from selected countries was detected after taking into account the international relations between Malaysia and the countries to be investigated. Empirical studies had treated international relations as endogenous variable, which could not significantly as endogenous variables, which could not significantly prove that International relations contribute towards FDI and GDP.

**Xueli Wan (January 2010)**<sup>28</sup> in this paper observes that the capital stock and employment stimulates technological change through the adoption of foreign technology and know-how and technological spillovers. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. FDI may boost exports for the host countries. The particular advantages of multinational corporations could be transformed into monopoly power, which could be further strengthened by the other two advantages of multinational corporations.

**G. Jayachandran and A. Seilan (2010)**<sup>29</sup> in this study reveals that there is a two-way causality between inward FDI and exports at a national level. The result of Unit Root Test is that all series contain a Single Unit Root, which would require first differencing to achieve Stationarity. The purpose of the co integration test is to determine whether a group of non-stationary series is co integrated or not. According to Granger Causality Test done, foreign direct investment is not the causal exports. In other words, there is causality relationship from FDI inflows to exports.

**Faiz Muhammad Shaikh (2010)**<sup>30</sup> has investigated the directly Causal Relationship between FDI inflows, Economic Growth & Trade in Pakistan based on a Systematic approach.

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Three types of test were taken viz Unit Root Tests, Co integration Tests, Granger Causality Test in Vector Error Correction Mechanism Model. This shows that both International Trade & Economic Growth are increasing over time. This could conclude that FDI invested in Pakistan was attracted by its economic growth & its foreign trade strategy.

**P. R. Bhatt (2010-11)**<sup>31</sup> In this paper to study foreign trade and investment dimensions of New Zealand in comparison with its competitors such as Australia, China, India, Japan and Republic of Korea and the role of FDI to the growth of exports in New Zealand.

**Puman Ouyang (December, 2009)**<sup>32</sup> has attempted the extent and possible mechanisms by which spatially concentrated FDI in a developing country boosts economic growth in other regions. In this paper finds that “inter-regional spillovers” from FDI concentrated in China’s coastal regions have a positive and significant effect on the growth of inland regions.

**Sabina Noormamode (September 1, 2008)**<sup>33</sup> has analyzed that only low income countries to influence their FDI inflows by acting on some of their social and economic characteristics. This study measured by the annual growth rate of the GDP implicit deflator shows the rate of price change in the economy as a whole. Missing data at the beginning (end) of the series are extrapolated (interpolated) with the average growth calculated from the available data.

**Kowalski (2008)**<sup>34</sup> in this study indicate that china itself clearly stand to gain substantially from its liberalization. India based enterprises still face significant challenge in terms of the ease of doing business despite the dismantling of the license raj in 1990. The extent of liberalization achieved so far and the outcomes it brought about suggest that the remaining

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goods and services trade barriers are just one item on the list of reforms that India needs to tackle in order to promote trade led expansion of Labor Intensive activities.

**Ranjan Kumar Dash and Chandan Sharma (July-Sept, 2007)<sup>35</sup>** has examined the Tode -Yamamoto Causality test and impulse response function suggest that FDI has favorable growth effects. Understanding the direction of Causality between Foreign Direct Investment and Gross Domestic Product is crucial for formulating policies that encourage private investors in developing countries.

**Bishwanath Goldar and Rashmi Banga (June, 2007)<sup>36</sup>** this paper implies that the empirical analysis presented in the paper, one common index has been used. The coefficient of materials import intensity is positive as hypothesized, but it is not statistically significant. The coefficient of the intra-industry trade variable is negative. In this case also, the coefficient is not statistically significant. The results suggest that foreign industries. This inference may be drawn from the fact that the coefficient of wage share is found to be negative and the coefficient of capital-labor ratio is found.

**Ozturk and Ilhan (2007)<sup>37</sup>** this paper the main result of OECD survey is that there seems to be a strong relationship between FDI and growth. In this study the author deals with the productivity effects of FDI spillovers a firms or plants using micro level data. The consensus has been reached among academia and practitioners that FDI tends to have significant effect on economic growth through multiple channels such as capital formation, technology transfer and spillover, human capital enhancement, and so on.

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**Emrah Bilgic (2007)**<sup>38</sup> has examined that the Turkey's efforts to have sustainable economic development should also include attracting FDI as an essential factor. There is neither a long run nor a short-run effect from FDI to Economic Growth or Economic Growth to FDI. The country had unstable growth performance and very low FDI inflows for the period we analyzed. Country's efforts to have a sustainable Economic Development should also include attracting more FDI inflows, especially for the long-term.

**Muharrem Afsar (1980)**<sup>39</sup> has analyzed that manufacturing FDIs have positive effect on Economic Growth and this positive effect is due to spillover effect of FDIs. Granger Causality test have used in order to test the hypotheses regarding the presence and the direction of causality between FDI and Economic Growth. Granger Causality Test was applied in order to determine the presence of the relationship between two variables and its direction in Turkish economy between 1992 and 2006 fiscal years. There is no reciprocal causality relationship between Economic Growth and FDIs in Turkey.

**Joshua Aizenman and Ian Noy (February, 2006)**<sup>40</sup> this paper examines that Alternative channels explaining the feedback between FDI and Trade deal with the endogenous determination of patterns of production and investment in human capital. India's recent trade history exemplifies the possible links between trade, FDI flows and investment in human capital. In this paper are consistent with the notion that the feedback effect between trade and FDI are stronger in developing than in industrialized countries. The analysis also suggests that in an era of rapidly growing trade integration countries cannot their capital account policies independently of their degree of openness to trade.

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**Xiaoying Li and Xiaming Liu (2005)**<sup>41</sup> this paper investigates the FDI on economic growth remains extremely controversial. FDI with these Parameters to identify whether it affects growth by itself or through these interactions. Capital growth has a positive impact on economic growth in both developed and developing countries. There is no strong correlation between this variable and economic growth. Wide technology gap would exert a negative impact on economic growth. The test results suggest that endogeneity between FDI and Economic Growth does not exist for the whole sample period. There is a strong complementary connection between FDI and Economic Growth in both developed and developing countries.

**Parantap Basu et.al, (July 2003)**<sup>42</sup> in this article explored the Panel co integration technique allows for co integrating vectors of differing magnitudes between countries, as well as country and time fixed effects. There is a long-run steady-state relationship between FDI and GDP for a cross-section of countries after allowing for country-specific effects. Permanent foreign capital does not reach closed economies until after the countries have exhibited growth, showing that trade and financial restrictions do indeed impede the inflow of foreign funds. The full panel shows bidirectional causality, the only evidence of long-run causality from FDI to GDP is in open economies.

**Dukhabandhu Sahoo and Maathai K. Mathiyazhagan (2002)**<sup>43</sup> in their work have examined the role of FDI in the Economic Growth of India through Export Promotion. The possible long run relationship among the two sets of variables like GDP, FDI and EXPORT and IIP, FDI, AND EX. FDI is an important vehicle for the transfer of technology and knowledge and demonstrator that it can have a long run effect on growth by generating increasing return in production via positive externalities and productive spillovers. The results of the study show that

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there is a positive relationship between FDI AND GDP in Chinese economy. The economic interpretation of co integration is that If two or more series can be linked to form an equilibrium linear long-run relationship spanning over a period of time, then the given series will nevertheless move closer together over time, irrespective of the given series themselves may containing stochastic trends.

**Kishor Sharma (July 2000)**<sup>44</sup> this paper analysed that demand for Indian exports increase when its export prices fall in relation to world prices. Tight monetary and fiscal policies are necessary especially at the time of high growth to check domestic prices and demand pressure. No evidence to claim that the level of infrastructure has an impact on export supply.

**Muhammad Azam and Ling Lukman**<sup>45</sup> this study examined the study is to know about the trends and importance of FDI inflows into these selected countries viz Pakistan, India and Indonesia. India matched with the results of Pakistan excluding two determinants (viz trade openness and government consumption) while the results of Indonesia do not match with the economic determinants of FDI for Pakistan and India. Inflation rate have been found insignificant with unexpected positive signs while government consumption has been found insignificant with expected negative sign.

**Muhammad Tariq Majeed and Eatzaz Ahmad**<sup>46</sup> this paper to find out common determinants of exports and FDI. Economic factors include macro-economic indicators of performance problems like external debt, high rates of inflation, trade and investment policies of the Government and Physical infrastructure. The Non-Economic factors are political instability, bureaucratic bottleneck and law and order situation of the country. All the variables are

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measured in US dollar at constant prices. External debt and BOP Deficit have negative effects on FDI. An open and export-oriented policy can be promoted by lowering tariffs and allowing free mobility of capital.

**Francis Cai et.al,** <sup>47</sup> in this paper analysed the positive correlation coefficient between different measures of the rate of growth of exports and output growth. The foreign capital dependence degree is the ratio of its monetary and capital's inflow plus outflows to GDP. The result shows that FDI possibly improves the productivity of Investment in China. The country specific time series data and cross-country panel data are analyzed to ascertain the impact of FDI on economic growth. The authors find that FDI becomes a force in economic growth; FDI is a balancing variable in an open macroeconomic equilibrium.

### **3. Methodology**

To study the growth, trend and distribution of FDI, Exports and Imports in India and China. To examine the relationship between FDI on GDP, Exports on GDP and Imports on GDP in India and China. The tools such as simple linear regression, semi-log linear regression models, correlation, Compound Growth Rate have been used in this study.

#### **3.1 Statement of the Problem:**

Foreign Direct Investment has grown at an unprecedented pace for more than a decade. Most of the developing countries were starting to attract FDI as a source of capital. Countries have used various policy measures to attract. All the developing countries could not attract FDI equally. The relationship between FDI, Trade and Economic Growth of India and China has been taken as the main issues for the present study.

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In Developing countries like India and China world trade was getting only declining share. Low level of output through trade will promote the poverty and break the Economic Development. Chinese Exports suffer from low brand equity. For that Chinese government provides huge Exports incentives to boost Export in the country.

#### **4. FDI, Exports And Imports Trends In India And China**

Table 4.1 shows that a result of trend analysis for FDI inflows into China has increased annually by 388.465 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that FDI inflows increased at the Compound Growth Rate of 31.78 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.98 in Simple Linear Regression Model and it is 0.86 in Semi Log Linear Model. It means that FDI inflows into China has registered a consistent Linear trend in this period and it is more than 85 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 China's FDI inflows increased annually by 4004.426 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that FDI inflows decreased at the Compound Growth Rate of 21.90 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.68 in Simple Linear Regression Model and it is 0.56 in Semi Log Linear Model. It means that FDI inflows into China have registered a consistent linear trend in this period and it has 55 per cent of variation in dependent variable and it is explained by the independent variable.



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In 2001 China's FDI inflows increased annually by 7572.886 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that FDI inflows decreased at the Compound Growth Rate of 10.63 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.92 in Simple Linear Regression Model and it is 0.95 in Semi Log Linear Model. It means that FDI inflows into China have registered a consistent linear trend in this period and it has 95 per cent of variation in dependent variable and it is explained by the independent variable.

Table 4.2 shows that a results for trend analysis for India's FDI inflows increased annually by 21.709 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that FDI inflows increased at the Compound Growth Rate of 26.24 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.53 in Simple Linear Regression Model and it is 0.27 in Semi Log Linear Model. It means that FDI inflows into China have registered a consistent linear trend in this period and it has 27 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 India's FDI inflows increased annually by 386.927 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that FDI inflows increased at the Compound Growth Rate of 45.64 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.77 in Simple Linear Regression Model and it is 0.74 in Semi Log Linear Model. It means that FDI inflows into China have registered a consistent linear trend in this period and it has 74 per cent of variation in dependent variable and it is explained by the independent variable.

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In 2001 India's FDI inflows increased annually by 3910.383 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that FDI inflows decreased at the Compound Growth Rate of 29.95 per cent per year. The Regression Co efficient in both Models are significant at one per cent level. The value of adjusted R square is 0.66 in Simple Linear

**Trend Analysis for the FDI, Exports and Imports into India and China**

**Table 4.1**  
**Results for Trend Analysis of Fdi Inflows into China**

S.No	Variable	Year	Model	a	b	St <sub>b</sub>	t	sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	CGR
1	FDI	1981-1990	simple linear	-174.895	388.465	19.796	19.623	0.000	0.980	0.977	-
			Semi log linear	5.795	0.276	0.037	7.436	0.000	0.874	0.858	31.78
2	FDI	1991-2000	simple linear	10741.13	4004.426	892.701	4.486	0.002	0.716	0.680	-
			Semi log linear	9.128	0.198	0.056	3.509	0.008	0.606	0.557	21.90
3	FDI	2001-2010	simple linear	34393.44	7572.886	764.424	9.907	0.000	0.925	0.915	-
			Semi log linear	10.640	0.101	0.008	13.185	0.000	0.956	0.951	10.63

**Table 4.2**  
**Results for Trend Analysis of FDI Inflows into India**

S.No	Variable	Year	Model	a	B	std <sub>b</sub>	t	sig.	R Square	Adjusted R Square	CGR
1	FDI	1981-1990	simple linear	1.106	21.709	6.519	3.330	0.010	0.581	0.529	-
			Semi log linear	3.095	0.233	0.112	2.081	0.071	0.351	0.270	26.24
2	FDI	1991-2000	simple linear	-276.398	386.927	70.365	5.499	0.001	0.791	0.765	-
			Semi log linear	4.979	0.376	0.072	5.195	0.001	0.771	0.743	45.64
3	FDI	2001-2010	simple linear	-3724.83	3910.383	910.238	4.296	0.003	0.698	0.660	-
			Semi log linear	8.012	0.262	0.047	5.608	0.001	0.797	0.772	29.95

**Table 4.3**

**Results for Trend Analysis of Export Performance into China**

S.No	Variable	Year	Model	a	B	St <sub>b</sub>	t	sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	CGR
1	EXPORT	1981-1990	simple linear	-1.005	5079.291	591.105	8.593	0.000	0.902	0.890	
			Semi log linear	-225.631	0.119	0.010	11.565	0.000	0.950	0.943	12.6
2	EXPORT	1991-2000	simple linear	-4.591	23087.710	1378.987	16.743	0.000	0.972	0.969	
			Semi log linear	-307.265	0.160	0.011	14.920	0.000	0.965	0.961	17.35
3	EXPORT	2001-2010	simple linear	-3.605	180233.643	10524.252	17.126	0.000	0.967	0.964	
			Semi log linear	-354.146	0.183	0.014	13.499	0.000	0.948	0.943	20.08

**Table 4.5**

**Results for Trend Analysis of Import Performance into China**

S.No	Variable	Year	Model	a	B	St <sub>b</sub>	t	sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	CGR
1	IMPORT	1981-1990	simple linear	-3.719	18706.759	1534.916	12.187	0.000	0.949	0.943	-
			Semi log linear	-281.339	0.147	0.13	11.057	0.000	0.939	0.931	15.83
2	IMPORT	1991-2000	simple linear	-1.003	5069.224	712.789	7.112	0.000	0.863	0.846	-
			Semi log linear	-241.976	0.127	0.020	6.246	0.000	0.848	0.826	13.54
3	IMPORT	2001-2010	simple linear	-3.155	157760.488	10826.171	14.572	0.000	0.955	0.951	-
			Semi log linear	-346.135	0.179	0.010	17.87	0.000	0.970	0.967	19.60

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Regression Model and it is 0.77 in Semi Log Linear Model. It means that FDI inflows into China have registered a consistent linear trend in this period and it has 77 per cent of variation in dependent variable and it is explained by the independent variable.

Table 4.3 shows that results for trend analysis for China's Export increased annually by 5079.291 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that Export inflows increased at the Compound Growth Rate of 12.63 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.89 in Simple Linear Regression Model and it is 0.94 in Semi Log Linear Model. It means that Export inflows into China have registered a consistent linear trend in this period and it has 94 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 China's Export inflows increased annually by 1378.987 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Export inflows increased at the Compound Growth Rate of 17.35 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.97 in Simple Linear Regression Model and it is 0.96 in Semi Log Linear Model. It means that Export inflows into China have registered a consistent linear trend in this period and it has 96 per cent of variation in dependent variable and it is explained by the independent variable.

In 2001 China's Export inflows increased annually by 180233.643 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Export inflows increased at the Compound Growth Rate of 20.08 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.96 in Simple Linear Regression

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Model and it is 0.94 in Semi Log Linear Model. It means that Export inflows into China have registered a consistent linear trend in this period and it has 94 per cent of variation in dependent variable and it is explained by the independent variable.

Table 4.4 shows that results for trend analysis for China's Import increased annually by 1534.916 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that Import increased at the Compound Growth Rate of 15.83 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.94 in Simple Linear Regression Model and it is 0.93 in Semi Log Linear Model. It means that Import into China has registered a consistent linear trend in this period and it has 93 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 China's Import increased annually by 5069.224 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Import decreased at the Compound Growth Rate of 13.54 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.85 in Simple Linear Regression Model and it is 0.83 in Semi Log Linear Model. It means that Import into China has registered a consistent linear trend in this period and it is more than 82 per cent of variation in dependent variable and it is explained by the independent variable.

In 2001 China's Import increased annually by 157760.488 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Import increased at the Compound Growth Rate of 19.60 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.95 in Simple Linear Regression Model and it is

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0.97 in Semi Log Linear Model. It means that Import into China has registered a consistent linear trend in this period and it is more than 96 per cent of variation in dependent variable and it is explained by the independent variable.

Table 4.5 shows that results for trend analysis for India's Export increased annually by 1147.053 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that Export increased at the Compound Growth Rate of 7.46 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.80 in Simple Linear Regression Model and it is 0.86 in Semi Log Linear Model. It means that Export into India has registered a consistent linear trend in this period and it has 86 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 India's Export increased annually by 3958.605 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Export increased at the Compound Growth Rate of 11.18 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.97 in Simple Linear Regression Model and it is 0.98 in Semi Log Linear Model. It means that Export into India has registered a consistent linear trend in this period and it has 98 per cent of variation in dependent variable and it is explained by the independent variable.

In 2001 India's Export increased annually by 37214.199 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Export increased at the Compound Growth Rate of 22.26 per cent per year. The Regression Co efficient in both Models are

**Table 4.6**  
**Results for Trend Analysis of Export Performance into India**

S.NO	VARIABLE	YEAR	MODEL	a	B	St <sub>b</sub>	t	Sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	CGR
1	EXPORT	1981-1990	simple linear	-2262278.347	1147.053	184.132	6.230	0.000	0.829	0.808	-
			Semi log linear	-132.771	0.072	0.010	7.527	0.000	0.876	0.861	7.46
2	EXPORT	1991-2000	simple linear	-7860641.349	3958.605	218.983	18.077	0.000	0.976	0.973	-
			Semi log linear	-200.044	0.106	0.005	20.772	0.000	0.982	0.980	11.18
3	EXPORT	2001-2010	simple linear	-7.444	37214.199	3317.254	11.218	0.000	0.933	0.926	-
			Semi log linear	-391.805	0.201	0.012	17.332	0.000	0.971	0.968	22.26

**Table 4.7**  
**Results for Trend Analysis of Import Performance into India**

S.NO	VARIABLE	YEAR	MODEL	a	B	St <sub>b</sub>	t	Sig	R <sup>2</sup>	Adjusted R <sup>2</sup>	CGR
1	IMPORT	1981-1990	simple linear	-2825400.157	1433.811	197.857	7.247	0.000	0.868	0.851	-
			Semi log linear	-117.826	0.064	0.008	8.185	0.000	0.893	0.880	6.60
2	IMPORT	1991-2000	simple linear	-1.033	5199.843	347.733	14.954	0.000	0.965	0.961	-
			Semi log linear	-218.263	0.115	0.009	12.313	0.000	0.950	0.944	12.18
3	IMPORT	2001-2010	simple linear	-9.392	46942.557	3919.450	11.977	0.000	0.941	0.934	-
			Semi log linear	-418.497	0.215	0.012	17.672	0.000	0.972	0.969	23.98



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insignificant. The value of adjusted R square is 0.93 in Simple Linear Regression Model and it is 0.97 in Semi Log Linear Model. It means that Export into India has registered a consistent linear trend in this period and it is more than 96 per cent of variation in dependent variable and it is explained by the independent variable.

Table 4.6 shows that results for trend analysis for India's Import increased annually by 1433.811 million of US Dollar in 1981. The Regression Co efficient of Semi log linear Model implies that Import increased at the Compound Growth Rate of 6.60 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is 0.85 in Simple Linear Regression Model and it is .88 in Semi Log Linear Model. It means that Import into India has registered a consistent linear trend in this period and it has 88 per cent of variation in dependent variable and it is explained by the independent variable.

In 1991 India's Import increased annually by 5199.843 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Import increased at the Compound Growth Rate of 12.18 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is .96 in Simple Linear Regression Model and it is 0.94 in Semi Log Linear Model. It means that Import into India has registered a consistent linear trend in this period and it has 94 per cent of variation in dependent variable and it is explained by the independent variable.

In 2001 India's Import increased annually by 46942.557 million of US Dollar. The Regression Co efficient of Semi log linear Model implies that Import increased at the Compound Growth Rate of 23.98 per cent per year. The Regression Co efficient in both Models are insignificant. The value of adjusted R square is .93 in Simple Linear Regression Model and it is 0.97 in Semi Log Linear Model. It means that Import into India has registered

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a consistent linear trend in this period and it is more than 96 per cent of variation in dependent variable and it is explained by the independent variable.

## CONCLUSION:

India's FDI inflows increased in the year from 2001 to 2010 when compare to the earlier decades. The level of percentage of FDI inflows in China is more But in India their FDI inflows is not that much per cent. It shows that FDI has not contributed much to the economic growth in India for the time period from 1981 to 1990 and 1991 to 2000. The overall result of a trend analysis shows that the Foreign Direct Investment, Trade and GDP into India and China have a increasing trend from 1981-2010. China's Export performance is higher than the India's Export performance. The results of trend analysis on India's Export and GDP had a positive relationship between India's Export and GDP, Import and GDP, FDI and GDP. Relationship between China's Export and GDP is very higher than the India's Export. Their Import is less when compare to their Export.

In the result of regression co efficient of simple linear and semi log linear model implies that India and China had a possibility for positive relationship on Foreign Direct Investment and it plays a significant role in enhancing the level of economic growth. Import performance of China shows that regression co efficient in both the models are insignificant, so China had negative impact on their Import performance. Export performance of India shows the regression co efficient on both the models are insignificant. There is also a negative impact on India's Export performance.

The result of correlation analysis suggests that the FDI has been an Instrumental factor in promoting economic growth in the first decade. In the year 1991 to 2010 their correlation co efficient is significant at one per cent level. Export is more important factor to

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promote economic growth in China. But in India their correlation coefficient is significant at one per cent level. China's Import is less than India's Import. Their correlation coefficient is significant at five per cent level in the first decade. But in the third period their level of significance is one per cent.

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