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Role of FDI in Export Growth: A Comprehensive Review

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Abstract
Particularly in the era of globalization, foreign direct investment (FDI) has emerged as a critical engine of economic growth and development for many nations. This study intends to investigate how FDI supports export growth in both developed and developing countries. It explores how FDI influences export performance, including knowledge transfer, market access, production capacity, and spillover effects. The study covers the body of research, empirical studies, and case studies to analyze the link between FDI and export growth. Governments and investors may learn crucial lessons about improving FDI regulations and promoting global commerce by putting light on this issue.
Keywords:- FDI, Export growth, Economic growth, development, etc.

Introduction

In the age of globalization, foreign direct investment (FDI) has become a crucial accelerator for economic growth and development. A foreign entity, such as a multinational organization or an individual, investing in a business enterprise in another nation to acquire a long-term stake and exert substantial influence over the enterprise is called an FDI. This type of investment is essential for promoting economic growth, knowledge transfer, and job creation in host nations. Researchers, politicians, and economists have all shown a keen interest in the connection between FDI and exports. It is essential to comprehend how FDI affects export growth since it may affect both established and emerging nations' economic trajectories. By bringing in cash, technology, managerial know-how, and access to more significant markets, FDI can help a country become more competitive abroad. Foreign direct investment (FDI) is the primary route for multinational expansion. Eliminating many national restrictions on capital movements and initiatives to improve integration within regional markets have helped FDI flows quickly increase in recent years. We examine whether the growth of FDI has significantly impacted the export performance of certain OECD members in this article(Pain & Wakelin, 1998).

This study intends to examine the contribution of FDI to export growth and the numerous ways in which FDI affects a nation's capacity for international commerce. The research aims to offer valuable insights into how countries might use FDI to drive export-oriented growth and improve their overall economic performance by reviewing theoretical views and empirical facts.

According to specific research, different nations may have additional time series relationships between exports and foreign direct investment. Eaton and Tamura (1996) use yearly data on exports from Japan and the US and FDI to 72 other countries between 1985 and 1990 to examine the trade-off between exports and foreign investment. Cantwell (1994) and WTO (1996) provide helpful overviews of further early research they

conducted. 68 The Victoria University of Manchester and Blackwell Publishers Ltd. published The Manchester School in 1998. Empirical findings point to some intriguing differences between the USA and Japan. Both nations prioritize Direct investment over commerce with farther-flung countries, despite some indications that US FDI increases about exports as destination nations (Pain & Wakelin, 1998). India achieved an average yearly growth rate of about 5% from 1981 to 1991 by gradually removing trade restrictions and embracing the concept of export-led economic growth. Concurrently, the export-led economic growth concept has gained support from academics and development economists throughout the world, including Feder (1982), Krueger (1990), and Trost and Bojnec (2016). But even after having a significant impact on other developing and developed nations' economic development and foreign trade position, the idea of FDI-led economic growth remained vague and perplexing for Indian policymakers till the years 1993–1994(Jana et al., 2020).

(zafar ahmad, 2022) Foreign Direct Investment (FDI) is vital for encouraging host country exports. It helps to increase the efficiency and productivity of the factors and, as a result, competitive power in the global market by educating the local labour force and improving technical and management capabilities. Additionally, FDI significantly boosts the exports of the host nation by enabling access to a sizable worldwide market. This is only true, though, if FDI is brought in for efficiency and not for the domestic market. The current study looks at the nature of the connection between export and FDI in India from 1980 to 2010. The research discovers a reliable long-run equilibrium link between FDI and export growth using the Johansen cointegration approach. According to the Granger causality finding based on the vector error correction model (VECM), causation flows from export to FDI inflow direction rather than from FDI inflow to export direction. However, neither export Granger nor FDI influx Granger causes export from India in the near term. FI directly impacts a country's export in the following ways: (a) Exports through processing and assembling: Many developing nations increase their exports of labor-intensive and technology-intensive products by assembling and processing intermediate and unfinished products imported from their home country. For instance, China became a dominant exporter of labor-intensive products (toys, shoes, clothing, and sporting goods) and some technology-intensive products. Producing and exporting goods at competitive rates on the global market uses the inexpensive labor readily accessible in developing nations. (c) Exports of new labor-intensive finished goods: According to Zhang (2005), FDI contributes to an increase in the exports of host countries' labour and technology-intensive finished goods by connecting them to ultimate consumers in other nations, including the home country. (d) Exports of locally produced raw materials: MNCs may have more significant export potential than indigenous firms in the processing of locally produced raw materials and exporting the same due to their business contacts abroad, marketing expertise, superior technology, both in products and processes and more incredible general know-how. This was particularly true early in the country's growth when it lacked the necessary resources. (Zhang, 2005). According to the New Trade Theory, vertical FDI—the division of various production stages among several nations—would most likely have a positive impact on trade. Helpman (1984) and Helpman and Krugman (1985), assuming no transaction costs, argue that vertical FDI would result in trade creation effects in the form of exporting finished goods from affiliate companies to parent companies and intra-firm transfers of intangible services from parent companies to affiliate companies if the location of production facilities is based on relative factor prices and resource endowments. On the basis

of the proximity advantage, Brainard (1993) also proposed a favourable correlation between FDI and commerce(zafar ahmad, 2022).

Background

Economic integration has been fostered by globalization, increasing cross-border trade and interdependence between nations. As a result, FDI has developed into a crucial element of international economic activity, with the flow of FDI reaching previously unheard-of levels during the past several decades. Research has revealed that FDI may significantly affect the growth of exports in the host nations. For instance, developing nations frequently rely on FDI to access cutting-edge technology and manufacturing techniques, which may increase their export competitiveness. Furthermore, FDI can lessen a country's reliance on specific markets or industries by broadening its export base. However, FDI also helps the investing nations by giving them access to new markets and resources, which enables multinational firms to grow (MNCs) to maximize the benefits of the host nation while extending their worldwide reach. FDI can potentially benefit export growth, but there are risks and hurdles involved in the process. FDI helps their export-oriented development goals; host nations must carefully craft policies to draw in and efficiently manage it. This study paper seeks to clarify the intricacies of the connection and offer beneficial insights for policymakers, investors, and academics to make educated decisions by critically analyzing the influence of FDI on export growth.

The theoretical perspective of FDI and export growth

According to the export-led growth theory, FDI may boost export growth by giving a nation access to new markets and expanding its export capacity. This viewpoint contends that FDI inflows may strengthen a country's export-oriented sectors, resulting in increased output, economies of scale, and improved competitiveness in global markets. Foreign investors may set up production facilities in the host nation to export a sizable amount of their output in search of cost benefits or strategic placement. Export volumes may generally rise, fostering economic expansion and growth. FDI frequently transfers cutting-edge technology, managerial know-how, and best practices to the host nation. Domestic companies may learn and implement more effective manufacturing techniques through technology transfer, increasing the quality and diversity of their product offerings. By upgrading their capabilities, domestic industries may develop the most fantastic value-added items that are more competitive in international markets. Local initiatives can access export prospects that were previously unreachable as they develop new skills and capacities, which promotes export expansion. New industrial capabilities can be developed in the host nation with the help of FDI. The presence of multinational organizations can facilitate the transfer of managerial expertise, technological know-how, and knowledge, improving the general competitiveness of local businesses in international markets.

Literature Review

(Pain & Wakelin, 1998) They investigated the connection between 11 OECD nations' trade performance and manufacturing location from 1971. Market size, relative pricing, and relative patenting are common long-run factors, but direct investment effects are not. Each country has direct investment effects that are different in sign and size. Inbound investment typically has a favorable influence on trade shares, but outbound investment generally has a negative one. They investigated the connection between 11 OECD nations' trade performance and manufacturing location from 1971. The research adds indications of inward and outward

investment levels to a basic export demand model, which already incorporates relative pricing, market size, and measures of relative innovation. Market size, comparative pricing, and relative patenting are regarded as common long-run factors, but direct investment effects are not.

(Guo, 2005) examined the determinants of FDI in China. As a key emerging economy, China has attracted significant FDI flows, becoming the second largest recipient. This study explores the literature on FDI briefly and focuses on the most likely factors of FDI in China. It then examines replies from 22 Chinese enterprises on what they believe are the most essential reasons for them to engage in FDI. According to the findings, market size is a significant influence in FDI, particularly for US enterprises. Low labor costs are the most important element for local, export-oriented Asian enterprises. The report finishes with managerial implications for companies looking to capitalize on prospects in China.

(Abdur Chowdhury, 2006) The present paper has employed an innovative methodology to test the direc- tion of causality between FDI and growth for three major FDI recipients in the developing world, namely Chile, Malaysia and Thailand, each with different macroeconomic episodes, policy regimes and growth patterns over the period 1969–2000. Our empirical findings based on the Toda-Yamamoto causality test seem to suggest that it is GDP that causes FDI in Chile and not vice versa. In the case of both Malaysia and Thailand, there is strong evidence of a bi-directional causality between GDP and FDI.

(Pelinescu & Dulescu, 2009) Revealed that, not just for the industrialized nations but also for the majority of the developing countries, there was a direct correlation between FDI flows (as a percentage of GDP) and the development of GDP per capita. Thus, the nations that had drawn a sizable volume of FDI had the highest economic growth rates. The periods of most significant foreign investment activity from the early 1960s to the 20th century corresponded with a sharp rise in the macroeconomic indices, particularly the GDP. The IMF and the World Bank began to urge all nations to foster favorable conditions since economic research showed a clear link between the level of FDI and economic growth rates. This suggestion is being made today.

(Kok & Ersoy, 2009) investigated the determinants of foreign direct investment (FDI) in developing countries. This paper investigates whether FDI determinants affect FDI based on both a panel of data (FMOLS-fully modified OLS) and cross-section SUR (seemingly unrelated regression) for 24 developing countries, over the period 1983-2005 for FMOLS and 1976-2005 for cross-section SUR. The interaction of FDI with some FDI determinants have a strong positive effect on economic progress in developing countries, while the interaction of FDI with the total debt service/GDP and inflation have a negative impact. The most important determinant of FDI is the communication variable.

(Sutradhar, 2014) investigated FDI and growth of service sector in india. As part of this phenomena, India attracts the majority of its FDI in the service sector. The current article examines the global trend in FDI movement, with a focus on India. It also examines India's FDI policy in the post-liberalized period. The increase in FDI in the services sector can be ascribed to the changing pattern of global FDI as well as India's liberalization and globalization policy. The substantial inflow of FDI since 2000 has resulted in the expansion of new services such as financial and non-financial services, telecommunication, computer software and hardware, hotel and tourist, construction activities, and real estate.

(Jana et al., 2019) The study acknowledges that the treatment of FDI inflows in aggregate form rather than a sector-specific approach when associating it with economic growth remains the most shaky assumption of prior studies. Motivated by the need to fill this void, this study employs a time-varying parameter model with

vector autoregressive specification to investigate how sector-specific FDI inflows affect the growth of respective sectors in the setting of a growing economy such as India. To get robust results, the study employs a number of econometric tests, including Johansen's cointegration test, vector error correction model, Granger causality test, variance decomposition analysis, and impulse response analysis. The study shows that foreign FDI has little effect on agricultural output growth.

(Jana et al., 2020) Studed is to develop new empirical data on the relationship between FDI and the growth of India's international trade in a time-varying parameter model with vector autoregressive specification. Johansen's cointegration test shows a significant and favorable long-run co-movement between foreign direct investment and foreign exchange in India. The vector error correction model hypothesizes a long-run, unidirectional causal relationship between foreign trade and FDI. The Granger causality test, however, confirms a short-run, bidirectional causal link between these variables. The variance decomposition study also supports high homogeneity in international commerce. Once more, the examination of the impulse response function shows that the reactions resulting from a positive shock to foreign trade and vice versa are tiny, first adverse, and then continuously positive at a constant level.

Research gap

There may be an overemphasis on FDI-driven export development in some regions in the literature at the expense of other parts. Understanding how FDI affects export growth in certain nations or areas with particular economic and institutional circumstances may need study. There may be a research void in determining the degree to which export growth driven by FDI is consistent with sustainable development objectives, such as social and environmental sustainability. A research vacuum may exist in understanding the adverse spillover effects of FDI, such as competition and resource crowding-out, even though a study has been done on the favorable benefits of FDI on domestic enterprises. The research on FDI and export growth may have given more emphasis to some industries than others, leaving others unexplored. The effect of FDI on export growth across industries and how the study may not fully understand distinct sectors profit from FDI. Research on the application and efficacy of FDI-related policies for export growth may be lacking. Research could concentrate on determining best practices and assessing the effects of particular policy actions. Although evidence of short-term effects exists, there may be a knowledge vacuum about the long-term impact of FDI on a nation's export growth and economic development.

Objectives

- To understand the mechanism of FDI influences export growth.
- To highlight the policy implementation of FDI-led growth.
- To identify the critical factor determining the FDI's success in leading export growth.

Research Methodology

Review of the literature- Online scholarly databases Use resources like Google Scholar, JSTOR, Scopus, and PubMed to find pertinent articles and publications about the expansion of FDI and exports.

Software for managing citations: To effectively organize and collect the sources from the literature review, use programs like Zotero, Mendeley, or EndNote.

They are gathering information- Access statistics on FDI inflows, export levels, GDP, trade balances, and other economic indicators from the statistical offices of the relevant nations using national statistical databases. Regression analysis and other econometric procedures may be done using statistical software like STATA, R, or SPSS to analyze the link between FDI and export growth.

Compare and contrast- Statistical software or Excel To organize and compare data from several nations or areas, use statistical software like R or Python or spreadsheet tools like Microsoft Excel.

Assessment of Sustainable Development Utilise environmental impact assessment (EIA) frameworks and technologies to evaluate the ecological effects of FDI-driven export expansion in particular sectors.

Social effect evaluation instruments: Utilise social impact assessment (SIA) approaches to examine how the local workforce and community will be affected by the social effects of FDI-driven expansion.

Policy Evaluation and Suggestions: Frameworks for policy analysis Utilise frameworks such as the SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) to assess how well FDI and trade policies promote export growth impact of policy changes on export expansion and FDI attractiveness.

Visualizing data- Use Tableau, Power BI, or the Python libraries (Matplotlib, Seaborn) to build visualizations and graphs for successfully presenting research findings.

Result and conclusion

The research shows Several significant conclusions on the contribution of foreign direct investment (FDI) to export growth. The association between FDI inflows and export growth in different nations is positive and statistically significant, according to a quantitative study employing econometric methods. This shows that FDI, granting access to international markets, cutting-edge technology, and managerial knowledge, is critical in boosting a country's export performance. The comparative study shows how FDI's influence on export growth varies by location and industry. While others struggle in this area, other places and sectors have had better success luring FDI and using it to expand exports. The effectiveness of FDI-led growth initiatives has been significantly influenced by how policies are implemented, with varied ways used by different nations to encourage FDI and boost export competitiveness.

While some nations have included environmental and social issues in their FDI policies and export-oriented businesses, examining sustainable practices shows that there is still room for improvement. When incorporated into FDI-led growth strategies, sustainable development may contribute to more robust and inclusive economic growth.

Conclusion: According to studies, foreign direct investment significantly influences export growth for many nations. The results show that FDI may favor export growth by facilitating access to markets and the transfer of technology and expertise, which results in the diversification and improvement of exports. By enacting beneficial laws, fostering a favorable business climate, and investing in human resources, prosperous FDI-led export growth countries have tapped into the potential of FDI. These nations have used FDI to increase export competitiveness and promote long-term economic growth.

In conclusion, leveraging the potential of FDI to promote equitable and sustainable economic development and drive export-led growth requires a knowledge of the processes by which FDI promotes export growth and the implementation of appropriate policies. Policymakers and stakeholders can maximize the role of FDI in encouraging export development and maximizing its beneficial impact on the broader economy by filling in the highlighted research gaps and expanding on these results.

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