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MAKE IN INDIA: A TOOL FOR SUSTAINABLE BALANCE OF PAYMENT

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Short Profile

Vipin Kumar is working as an Associate Professor at Sri Aurobindo college in University of Delhi.

ABSTRACT:
The paper studies the effect of FDI in the growth of export in view of Make in India strategy. Granger causality and OLS regression methodology has been conducted on data for time period 1975 to 2011. The result given by the present paper is in line with previous researches that are FDI do influence the growth of export in Indian scenario as well. Moreover, The coefficient of 1.44 suggest that 1 % rise in FDI as a percentage of GDP leads to 1.44 % increase in Export as a percentage of GDP as dependent variable which is significant also. The paper also has given some enlightening suggestion for the policymaker and think tanks.

KEYWORDS
Make in India, FDI, Export, Granger causality.

INTRODUCTION :

In 2011, Current account balance (% of GDP) in India was -3.21 suggesting that there is need to push growth for export and reducing overdependence on imports. With a view to attain this objective, Government in 2014 has adopted Make in India strategy. Make in India strategy will allow FDI in certain sectors aiming at making India a manufacturing hub. It will allow for creation of jobs and skill development. The enhancing manufacturing sector will enhance export of Indian products. This is create more employment and ensure a sustainable balance of payments The success story of china becoming manufacturing hub also lies at the inflows of FDI. Therefore the paper examines the direction of relationship between FDI inflow and export growth.

Relationship between FDI and current account deficit

Variable taken in the study

1. Foreign direct investment as a percentage of GDP
2. Exports of goods and services (% of GDP)

Period of the study

The period of the study has been taken are 1975 to 2011

Methodology of the study

1. Augmented dickey fuller Unit root test
2. Granger Causality test
3. OLS Regression

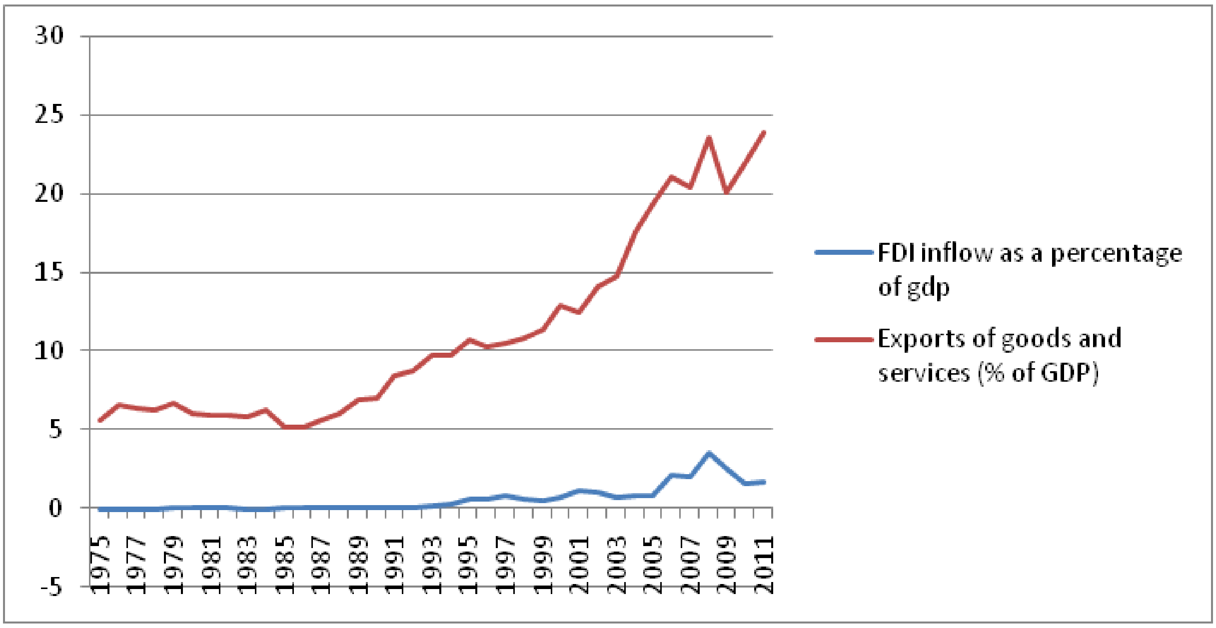

FIGURE 1 Relationship between FDI inflow as a percentage of GDP and Export as a percentage of GDP

Empirical testing

First of all, we have conducted unit root test on the variables to test stationary of the data. Both variable are stationary at one lag and non stationary at original value therefore, we have taken lag value of both variable. Then granger causality test has been conducted to see short run causality between FDI as a percentage of GDP and Export as a percentage of GDP which suggest that THERE IS unidirectional flow from FDI to Export at lag 1, lag 2 and lag 3 at 5 percentage level. The results indicate that FDI do boost export for our country. We also conducted OLS Regression by taking FDI as a percentage of GDP as independent variable and Export as a percentage of GDP as dependent variable. The coefficient of 1.44 suggest that 1 % rise in FDI as a percentage of GDP leads to 1.44 % increase in Export as a percentage of GDP as dependent variable which is significant also.

CONCLUDING REMARKS

The result given by the present paper are in line with previous researches that are FDI do influence the growth of export in Indian scenario as well. Moreover, The coefficient of 1.44 suggest that 1 % rise in FDI as a percentage of GDP leads to 1.44 % increase in Export as a percentage of GDP as dependent variable which is significant also. Other studies like Shawa,M. J. and Shen, Y, (2013) study FDI and export data for Tanzania for the period from the year 1980 to 2012. Their granger causality results suggest that there is a one sided causality relationship from FDI to export signifying that FDI can boost export for Tanzania. The study conducted by Prasanna, N (2010), suggest that inward FDI has significantly contributed to better the export performance of India between 1991-92and 2006-07

We also have given certain suggestions and recommendations for the policy maker:

•FDI can boost export, but should be exercised in phased manner
•FDI should leads to sustained increase in the skill and capability of our Indian manufacturer rather than a tool in the hand foreign companies to tap Indian market.
•We should consider and learn from the mistakes of Chinese opening of FDI and becoming manufacturing hub.
•Make in India should also try to enhance the brand value of Indian production the minds of foreign user. We should focus on quality, performance and innovation of the product manufactured.
•If domestic consumers who are generally preoccupied with the quality of foreign goods believe in the credibility of foreign goods, it will lead to import substitution in the long run.
•Similarly, quality and performance brand of made in India product in the foreign consumer can helpful in enhancing export on a long run basis

In the end, the paper concludes that Make in India initiative can be a right tool for sustainable balance of payment, if handled in structured manner that is if it creates brand of quality in the minds of foreign as well as domestic consumer

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Appendics

Pairwise Granger Causality Tests
Date: 04/22/15 Time: 20:59
Sample: 1975 2011
Lags: 1

Null Hypothesis:	*Obs*	*F-Statistic*	*Prob.*
DFDI does not Granger Cause DEXPORT	*35*	*18.5411*	*0.0001*
DEXPORT does not Granger Cause DFDI		*0.95324*	*0.3362*

Pairwise Granger Causality Tests
Date: 04/22/15 Time: 20:58
Sample: 1975 2011
Lags: 2

Null Hypothesis:	Obs	F-Statistic	Prob.
DFDI does not Granger Cause DEXPORT	34	19.8546	4.E-06
DEXPORT does not Granger Cause DFDI		2.36771	0.1116

Pairwise Granger Causality Tests
Date: 04/22/15 Time: 20:58
Sample: 1975 2011
Lags: 3

Null Hypothesis:	Obs	F-Statistic	Prob.
DFDI does not Granger Cause DEXPORT	33	16.2488	4.E-06
DEXPORT does not Granger Cause DFDI		2.36704	0.0939

Dependent Variable: DEXPORT
Method: Least Squares
Date: 04/22/15 Time: 21:01
Sample (adjusted): 1976 2011
Included observations: 36 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DFDI	1.446462	0.448431	3.225606	0.0027

R-squared	0.084793	Mean dependent var	0.509167
Adjusted R-squared	0.084793	S.D. dependent var	1.193275
S.E. of regression	1.141563	Akaike info criterion	3.130059
Sum squared resid	45.61085	Schwarz criterion	3.174046
Log likelihood	-55.34107	Hannan-Quinn criter.	3.145412
Durbin-Watson stat	1.740992		