

Abstract

Impact of Vertical FDI Spillovers on the Productivity and Export Performance of Indian Manufacturing Firms was analyzed to confirm if the existence of foreign firms in India benefit the Indian manufacturing firms. The study was bifurcated into 2 parts. The first part dealt with the trends in FDI inflows, causal nexus between FDI and economic growth and determinants of FDI inflows using time-series data for the period 1990-91 to 2012-13. The causal nexus between FDI and economic growth was examined using vector error correction model and the determinants of FDI were identified using the method of least squares. The second part dealt with the impact of vertical FDI spillovers on the productivity and export performance of Indian manufacturing firms using firm-level panel data for the period 2000-01 to 2012-13. The vertical FDI spillovers for the Indian manufacturing firms were analyzed by classifying the domestic firms as low technology and high technology firms and the foreign firms were classified as majority-owned and minority-owned foreign firms. Impact of vertical FDI spillovers on productivity of domestic firms were analyzed using fixed effects and random effects regression and the impact of vertical FDI spillovers on the export performance of Indian manufacturing firms were examined using Heckman-Selection Maximum Likelihood method. The study found that the presence of foreign firms in the downstream industries benefits the domestic firms in the high technology industries. The minority-owned foreign firms in the downstream industry influenced the productivity of domestic firms. The existence of the foreign firms in the upstream industries increases the export participation and export share of all domestic firms. With regard to the forward FDI linkages, it was observed that it was the spillovers from the minority-owned foreign firms which positively influenced the export decision of the domestic firms rather than the majority-owned foreign firms.

Key words: Horizontal spillovers, Vertical spillovers, Downstream industries, Upstream industries.