

**T.C.
ISTANBUL AYDIN UNIVERSITY
INSTITUTE OF GRADUATE STUDIES**



**THE RELATIONSHIP BETWEEN EXPORT AND FOREIGN
TRADE INVESTMENT INFLOWS IN CHINA (1979-2021): AN
EMPIRICAL ANALYSIS**

MASTER'S THESIS

Siavash ARBABI

**Department of Business
Business Administration Program**

NOVEMBER, 2023

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NOVEMBER, 2023

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DECLARATION

I respectfully certify that all the information in the study “Analysis of the Relationship between Export and foreign direct investment inflows in China (1979-2021): An empirical analysis” which I submitted for my master’s thesis was gathered and presented in accordance with ethical standards and academic guidelines. All assertions and material that do not belong to me are properly cited in this study, which was written in accordance with the thesis writing guidelines, and I have not falsified any of the data I used.

Siavash ARBABI

FOREWORD

Regards and appreciation to Dr. Tayfun Tuncay Tosun., my thesis adviser, for his exceptional and competent leadership, full of valuable recommendations, sincere assistance, and support during my master's program and research dissertation phase. In addition, I want to thank my parents and family members for their unwavering support and encouragement during my postgraduate studies. Furthermore, which I find very enjoyable, I would like to express my gratitude to members of the Social Sciences Department for their usual assistance, as well as all of the professors in the Department of Business Administration at Istanbul Aydin University (IAU) for their prompt service and support throughout my master's program.

November, 2023
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THE RELATIONSHIP BETWEEN EXPORT AND FOREIGN TRADE INVESTMENT INFLOWS IN CHINA (1979-2021): AN EMPIRICAL ANALYSIS

ABSTRACT

Through an empirical analysis, this study examines the relationship between exports and foreign direct investment (FDI) inflows in China from 1979 to 2021. A surge in exports and FDI has accompanied China's remarkable economic growth and integration into the global economy. Understanding the dynamics and interplay between these two variables is crucial for policymakers and researchers alike. The study employs a comprehensive dataset from official government statistics, international databases, and academic research papers. Econometric models, including regression analysis and panel data techniques, analyze the relationship between exports and FDI. Control variables such as GDP growth, exchange rates, and trade policies are incorporated to account for other factors that may influence the relationship. The findings of the empirical analysis shed light on the nature and strength of the relationship between exports and FDI in China. As a result of empirical analysis, a long-term cointegration relationship is found between exports and foreign direct investment inflows in China between 1979 and 2021 in this study. Additionally, the research investigates the temporal dynamics of the relationship over the study period. The results of this study contribute to the existing body of knowledge on the relationship between exports and FDI in China. The findings have important implications for policymakers, providing insights into the effectiveness of policies promoting exports and attracting FDI. The study also identifies areas for further research and highlights the need for continued analysis as China's economic landscape evolves.

Keywords: Export, Foreign Direct Investment (FDI), China, Empirical Analysis, Cointegration Analysis.

ÇİN'DE İHRACAT VE DIŞ TİCARET YATIRIM GİRİŞLERİ ARASINDAKİ İLİŞKİ (1979-2021): AMPİRİK BİR ANALİZ

ÖZET

Bu çalışma, ampirik bir analiz yoluyla, 1979'dan 2021'e kadar Çin'de ihracat ile doğrudan yabancı yatırım (DYY) girişi arasındaki ilişkiyi incelemektedir. Çin'in dikkat çekici ekonomik büyümesine ve küresel ekonomiye entegrasyonuna, ihracat ve doğrudan yabancı yatırımlardaki artış eşlik etmiştir. Bu iki değişken arasındaki dinamikleri ve etkileşimi anlamak hem politika yapıcılar hem de araştırmacılar için çok önemlidir. Çalışmada resmi hükümet istatistiklerinden, uluslararası veritabanlarından ve akademik araştırma makalelerinden elde edilen kapsamlı bir veri seti kullanılıyor. Regresyon analizi ve panel veri tekniklerini içeren ekonometrik modeller, ihracat ile doğrudan yabancı yatırım arasındaki ilişkiyi analiz eder. GSYİH büyümesi, döviz kurları ve ticaret politikaları gibi kontrol değişkenleri, ilişkiyi etkileyebilecek diğer faktörleri hesaba katmak için dahil edilir. Ampirik analizin bulguları, Çin'de ihracat ve doğrudan yabancı yatırım arasındaki ilişkinin doğasına ve gücüne ışık tutmaktadır. Bu çalışmada, ampirik analiz sonucunda Çin'de 1979 ile 2021 yılları arasında ihracat ile doğrudan yabancı yatırım girişi arasında uzun vadeli bir eşbütünleşme ilişkisi bulunmuştur. Ayrıca araştırma, çalışma dönemi boyunca ilişkinin zamansal dinamiklerini de araştırıyor. Bu çalışmanın sonuçları, Çin'de ihracat ve doğrudan yabancı yatırım arasındaki ilişkiye ilişkin mevcut bilgi birikimine katkıda bulunmaktadır. Bulguların politika yapıcılar için önemli çıkarımları var ve ihracatı teşvik eden ve doğrudan yabancı yatırımı çeken politikaların etkinliğine ilişkin bilgiler sağlıyor. Çalışma aynı zamanda daha fazla araştırma yapılması gereken alanları da belirliyor ve Çin'in ekonomik manzarası geliştikçe sürekli analiz ihtiyacını vurguluyor.

Anahtar Kelimeler: İhracat, Doğrudan Yabancı Yatırımlar, Çin, Ampirik Analiz, Eşbütünleşme Analizi.

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LIST OF ABBREVIATIONS

FDI	: Foreign Direct Investment
GDP	: Gross Domestic Product
USD	: United States Dollar
WTO	: World Trade Organization
PRC	: People's Republic of China
CNY	: Chinese Yuan Renminbi
GFC	: Global Financial Crisis
OLS	: Ordinary Least Squares
R&D	: Research and Development
SOE	: State-Owned Enterprise
WTO	: World Trade Organization
ASEAN	: Association of Southeast Asian Nations
OECD	: Organization for Economic Cooperation and Development
GVC	: Global Value Chain
FTA	: Free Trade Agreement
BRI	: Belt and Road Initiative
PESTEL	: Political, Economic, Social, Technological, Environmental, and Legal
CAGR	: Compound Annual Growth Rate
ROA	: Return on Assets
FDI-GD	: Foreign Direct Investment to Gross Domestic Product ratio
ECC	: Error Correction Coefficient

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I. INTRODUCTION

China has established itself as a prominent player in the global economy, with its export sector acting as the main driver of economic growth. Due to the massive increase in export volume over the past few decades, China is now the largest producer of goods in the world. The country's export sector has been crucial in promoting economic expansion, revenue generation, and employment creation. China's export sector has significantly changed since the country's economic reforms began in 1978. The reforms led to a liberalization of the financial system, which allowed for increased foreign commercial activity. As a result, China's export sector has rapidly grown, with exports rising from \$10 billion in 1978 to over \$2.5 trillion in 2020. China's top exports are textiles, machinery, and electronics. Most of the exports of the nation are manufactured goods (Hu and Khan, 2023).

Since the 1990s, China has gradually expanded to become a prominent recipient of FDI because of its hospitable investment climate, which has attracted money and technological advancement from all over the world. According to World Bank Data China was the second-largest recipient of foreign direct investment in 2017, behind the United States, with \$131.04 billion. (Thomson, 2021) The World Bank sees China as an excellent example of how to leverage foreign investment as a result effectively. The extensive use of foreign currency has aided China's economic construction process by addressing the capital shortage issue, accelerating technical innovation, encouraging the growth of the manufacturing sector, and greatly enhancing China's position in the global economy. Gao and Yan (2020) report that 59,800 more foreign-owned businesses were added to China in 2019 and that foreign investment totaled \$134.578 billion. FDI is one of the key drivers of China's economic growth, as shown by a large body of empirical evidence. China's rapid economic development has been characterized by the simultaneous growth of the economy and foreign direct investment, notably since joining the WTO (Behname, 2012).

Inflows of foreign direct investment (FDI), which can have either a good or negative effect on the host nation's economy, directly impact economic growth. However, FDI is advantageous for raising national production levels, generating new employment opportunities, and accelerating technology transfer. It is believed that foreign capital inflows are incremental, enhancing the host country's welfare, the host nation's welfare, the growth of the knowledge infrastructure, and significantly strengthening the national economy. Therefore, governments try to attract FDI inflows from all around the world (Zhang, 2007).

Therefore, It's important to examine what makes foreign money come into each country. Countries with strong economies are the most appealing to get this foreign money. But when studying what factors bring in this money, we also need to think about the big issues that affect it globally. In our research, we focus on studying the foreign money coming in (FDI inflows) and figuring out the things that affect it. By doing this, we aim to understand and improve the important factors that make this foreign money flow into a country (Aromasodun, 2022).

China's economic growth over the past three decades has been significantly influenced by (FDI). China has advanced to rank among the countries that get the most FDI, bringing in billions of dollars each year, since beginning its economic reforms in 1978. In China, FDI has benefitted economic growth, employment creation, and technology transfer. Due to its extensive and increasing market, affordable workforce, and welcoming investment rules, the nation has become a popular destination for foreign investors. However, China's FDI climate has faced challenges such as regulatory barriers, concerns over intellectual property, and geopolitical tensions. Despite these challenges, China has continued to receive a sizable amount of FDI and has retained its position as a significant player in the global FDI market (Zeng and Zhou, 2021).

A. Research Background

China's economy has grown remarkably according to World Bank Data during the past few decades, and it is now the second-largest economy in the world. The nation's export-oriented policies and capacity to draw foreign direct investment have been heavily credited for this growth. China has risen to prominence in the

global economy since adopting Economic reforms started in 1978. Deng Xiaoping's reforms gave encouragement. Under his leadership, adaptation to the liberal economic order was achieved. With its exports making up a sizeable portion of all worldwide exports. At the same time, China has emerged as a significant hub for foreign direct investment, with numerous global businesses setting up shop there to tap into the country's sizable and expanding market (Ellman, 1986).

Understanding how exports and foreign investment (FDI) contribute to China's economic growth is crucial. While there's been a lot of research on how exports and FDI are connected, there are still many unknowns, especially when it comes to China. This study aims to fill in the gaps by looking at the relationship between FDI and exports in China from 1979 to 2021. The goal is to gain a better understanding of the factors that have fueled China's economic growth in recent decades. This information could be valuable for policymakers and investors (Wayne, 2019).

B. The Value of Exports

Exports are essential to a nation's economic growth and development economically. It has enormous significance for both developed and developing countries. Here are some significant arguments in favor of export:

- **Economic Development:** Exporting goods and services enables a nation to broaden its market beyond national borders. It allows firms to improve output, bring in more money, and support overall economic expansion (Yilmaz, Sensoy, 2022).
- **Creating jobs:** To meet demand from global markets, export-oriented industries frequently need a larger workforce. This raises people's and families' living standards by creating jobs and lowering unemployment rates (Akarsu, 2020).
- **Foreign Exchange Gains:** A nation can gain foreign exchange through exporting, which is necessary for importing products, capital, and technology. It supports the nation's currency and contributes to maintaining a favorable trade balance (Lioudis, 2023).

- **Industrial Development:** To satisfy international quality requirements, export-oriented enterprises frequently need cutting-edge technology, inventiveness, and enhanced production procedures. This fuels the nation's industrial growth and technical progress (Lim, 2001).
- **Diversification and Risk Reduction:** Relying just on the home market might leave a nation vulnerable to global economic downturns. Businesses can reduce reliance on a single market and risks connected with changes in the home economy by diversifying their customer base through exporting (Prasad, 2022).
- **Worldwide Competitiveness:** By participating in international trade, businesses are exposed to worldwide rivalry, which motivates them to enhance their goods, services, and productivity. This raises the overall level of industry competition in the nation on the world market (Clougherty and Zhang 2009).
- **International Direct Investment (FDI):** A robust export industry draws international investors looking to set up factories or joint ventures nationwide. FDI boosts the economy by bringing in money, technology, and knowledge while generating more job possibilities (Özsoy, 2020).

C. Importance of FDI

Because of its potential effects on economic growth and development, academic research on foreign direct investment (FDI) has received considerable interest.

- **Technology Transfer and Knowledge Spillovers:** Foreign Direct Investment (FDI) gives the country receiving its advanced technology, management skills, and knowledge. Big international companies often share their tech knowledge with local businesses, leading to more productivity, creativity, and the growth of new industries (Phoungthong and Dilanchiev, 2023).
- **Creation of Jobs:** FDI inflows open up job prospects in the host nation. MNCs set up production facilities, creating direct jobs, and they also

encourage indirect jobs by tying into the supply chain and fostering the expansion of ancillary sectors (Javorcik, 2014).

- **Capital Inflows and Investment:** FDI attracts money that can be invested in manufacturing, infrastructure, and other industries. As a result, the investment deficit is closed, the economy grows, and the productive capability of the host nation is increased (El-Naggar, 1993).
- **Market Access and Export Promotion:** FDI opens up access to global markets by establishing export-industry industries. MNCs frequently use their global networks to support exports from the host nation, boosting export revenues and promoting trade diversification (Lall, 2001).
- **Increasing Competitiveness:** Foreign Direct Investment (FDI) helps local businesses become more competitive by bringing in good ways of doing things, making them more productive, and promoting healthy competition. It also brings knowledge, shares new technologies, and allows local businesses to learn from big international companies. This benefits the local businesses by making them more productive and competitive (Finance and Development, 2001).
- **Infrastructure Development:** FDI inflows frequently help the host nation's infrastructure grow. MNCs may invest in infrastructure for electricity, communications, and transportation, which not only helps their operations but also boosts the national economy (Nguea, 2020).
- **Economic Stability and Balance of Payments:** By offering a consistent source of foreign exchange revenues, FDI inflows can promote economic stability. It strengthens the host country's ability to endure external shocks, decrease external vulnerabilities, and improve the balance of payments situation (China-US Competition, 2023).

D. Research Objectives

- To examine the nature of the relationship between exports and FDI in China from 1979 to 2021.
- To underline the importance of foreign direct investment in exports of China.

E. Research Questions:

The research questions are stated below:

1. Whether there is a cointegration relationship between exports and foreign direct investment in China in the long run.
2. What is the importance of foreign investments' export contribution in China in the long term

F. Define Foreign Direct Investment And Export As Concepts

1. Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is a key idea in economics and global business. It means a substantial investment by a company or person from one country into business ventures in another. FDI involves a strong and lasting interest in foreign business, often giving some control over its operations and important decisions. This is different from portfolio investment, where investors buy stocks or financial assets in foreign countries but don't actively engage in managing or making decisions (Loungani and Razin, 2001).

- **Key Characteristics of FDI:**
- **Ownership Share:** FDI means getting a significant share of control in a foreign business, usually more than 10% of the company's ownership. This share can come in different types, like investing in stocks, collaborating in ventures, or completely owning subsidiaries (Hayes, 2023).
- **Control:** FDI typically entails control or influence over foreign business. This influence can range from strategic decision-making to day-to-day management involvement, depending on the extent of ownership (El-Naggar, 1990).
- **Long-Term Commitment:** FDI reflects a long-term commitment to the foreign market. It signifies an intention to establish a lasting presence and build relationships within that market, as opposed to short-term financial speculation (Ito et al., 1996).
- **Resource Transfer:** FDI can facilitate the transfer of valuable resources, including capital, technology, managerial expertise, and human capital, from the investing country to the host country. This transfer can lead to improved productivity and economic development (Osano and Koine, 2016).
- **Risk and Reward:** FDI carries both risks and rewards. While it provides opportunities for market expansion and diversification, it also exposes investors to risks associated with foreign market volatility, political instability, and regulatory changes (Shan et al., 2022).

- **Contributor to Economic Growth:** FDI can stimulate economic growth in investing and host countries. It can create jobs, boost domestic production, and enhance infrastructure and technology (Ebghaei, 2023).
- **Kinds of FDI:** There are different types of Foreign Direct Investment (FDI), such as building new facilities (Greenfield investments), buying existing foreign companies (mergers and acquisitions), and working together with local partners (joint ventures). To put it simply, FDI is an important force in making countries more connected globally, sharing resources and technology, and helping economic growth. (Da Silva-Oliveira et al., 2021).

a. Export

Exporting is a fundamental idea in global trade and economics. It involves selling things or services made in one country to people or businesses in another country. This process is vital for worldwide business and significantly influences how countries' economies develop (William Krist, 2021).

b. Key Aspects of Exporting

- **Market Expansion:** Exporting enables businesses to expand their market reach beyond domestic boundaries, accessing a broader customer base. This expanded market can lead to increased sales and revenue (Azmeah et al., 2019).
- **Diversification:** When companies expand to other countries, they can make money in different ways, not just one. This is good because it means they're not relying too much on just one place. It also helps them avoid problems if the economy in one country goes up or down (Attig et al., 2023).
- **Economic Growth:** Exporting contributes to a country's economic growth by generating foreign exchange earnings, creating job opportunities, stimulating domestic production, and promoting economic development (Hultman, 1967).
- **Types of Exports:** Exports cover many things, like stuff you can touch (cars, electronics, and farming stuff) and things you can't touch (advice, making computer programs, and tourism) (Kuwayama et al., 2005).
- **Trade Barriers:** Exporting often involves navigating various trade barriers imposed by different countries, including tariffs, quotas, customs procedures,

and regulatory requirements. These barriers can significantly impact the ease of exporting (Noah, 2023).

- **Global Competition:** Exporting exposes businesses to global competition, encouraging innovation, efficiency, and competitiveness. Companies must often enhance product quality and adapt to diverse consumer preferences to succeed in international markets (Bekmezci, 2013).
- **Economic Benefits:** Selling things to other countries doesn't just help the sellers; it also benefits other parts of the economy like shipping, handling, and money services. It can even bring in investments from other countries and bring in new technology and knowledge. In short, exporting is like a foundation of global trade, helping economies grow, creating jobs, and boosting development by linking businesses and customers worldwide (Espagne, 2023).

G. Comparative Analysis and Importance

Foreign Direct Investment (FDI) and exports are crucial for global business and the world economy. They help countries connect, making it easier to trade goods, services, and money across borders. This, in turn, supports economic growth and development. We'll take a closer look at these ideas to understand how they work and why they matter on a global scale (Bouras and Raggad, 2015).

H. Comparative Analysis

1. Investment vs. Trade

FDI involves establishing a lasting interest in a foreign entity, often leading to significant control and resource transfer. On the other hand, export focuses on selling products or services to foreign customers without direct ownership or control of foreign operations (Folkerts-Landau et al., 1991).

2. Ownership vs. Transaction

FDI typically implies more ownership and control over a foreign business entity, whereas export is primarily transactional (Akyüz, 2015).

3. Long-Term vs. Short-Term

FDI reflects a long-term commitment while exporting can be short-term and long-term, depending on market conditions and strategies (Bayoumi, 1996).

4. Resource Transfer

FDI involves the transfer of various resources, including capital, technology, and managerial expertise, whereas export primarily consists of transferring products or services (Sandalcilar and Dilek, 2017).

5. Risk Exposure

FDI exposes investors to risks associated with operating in a foreign market, such as political instability, currency fluctuations, and regulatory changes. Exporting also has risks but may not entail the same level of exposure (Erkekoğlu, 2016).

6. Globalization

FDI and export are drivers of globalization, fostering economic integration and interconnectedness among nations (Imf,2008).

7. Economic Growth

Both concepts contribute to economic growth by creating jobs, stimulating production, and increasing foreign exchange earnings (Karami et al., 2019).

8. Diversification

FDI and export allow businesses and countries to diversify their revenue sources, reducing dependency on a single market (Guner, 2019).

9. Technology Transfer

FDI facilitates the transfer of advanced technologies and managerial know-how, while export can disseminate best practices and innovations (Saggi, 2002).

10. Market Access

Exporting provides access to a broader customer base, while FDI allows companies to establish a more permanent presence in foreign markets (Greenaway and Kneller 2007).

11. Mutual Benefits

FDI can benefit both the investing and host countries by creating employment and transferring skills, while exports enable countries to sell surplus products and earn foreign currency (Lipsey, 2001).

In summary, Foreign Direct Investment and export are integral to the global economy, enabling countries and businesses to engage in international trade and investment, transfer resources and technology, and promote economic development and prosperity on a global scale. Each concept offers distinct advantages and challenges, and their combination contributes to a robust and interconnected global economic system.

II. THE LITERATURE REVIEW

This part discusses the pattern of foreign money coming into China over the last 25 years. Back in the late 1970s, when China started making changes to how its economy works, they only allowed foreign businesses to invest in specific areas called Special Economic Zones (SEZs). Also, foreign companies had to team up with local partners. During that time, China thought of foreign investment as a crucial tool to boost exports and replace imported goods. To encourage international investors, SEZs provided special tax benefits, and they didn't charge duties on the machinery and equipment used to make things for export (Zebergs and Tseng, 2003).

In 1986, a law was passed in China allowing businesses with 100% foreign ownership to start operating there. By 1988, China extended its Open Door Policy to cover the entire coastal area. The main goal was to set up businesses that use a lot of labor, focusing on processing and exporting raw materials brought into the country. This strategy has worked really well, and now China is known as the world's hub for processing and exporting goods (Lin, 2002). After the 1992 strategy of more economic liberalization was implemented, multinational business in China substantially grew (see Figure 1).

International investors have better chances to sell their products in the local market. High-tech investors were especially interested because policymakers saw foreign investment as a way to share knowledge worldwide and reduce reliance on imported technology (Gomleksiz, 2023).

Regional disparities exist in the distribution of China's foreign direct investment. Between 1987 and 2000, coastal regions received 87% of the total FDI (Wei, 2003). Initially, foreign investment was mainly allowed in the coastal regions. The closeness of these areas to Taiwan and Hong Kong, significant sources of foreign investment, influenced the regional variations. Although the Western and Central areas are attracting more foreign investment, the uneven distribution,

favoring coastal regions, raises worries that foreign investment might worsen the existing regional inequalities (Bils, 2005). Members of the Chinese diaspora in Hong Kong, Taiwan, and Macao invested more than 60% of the total stock of cumulative FDI in China.

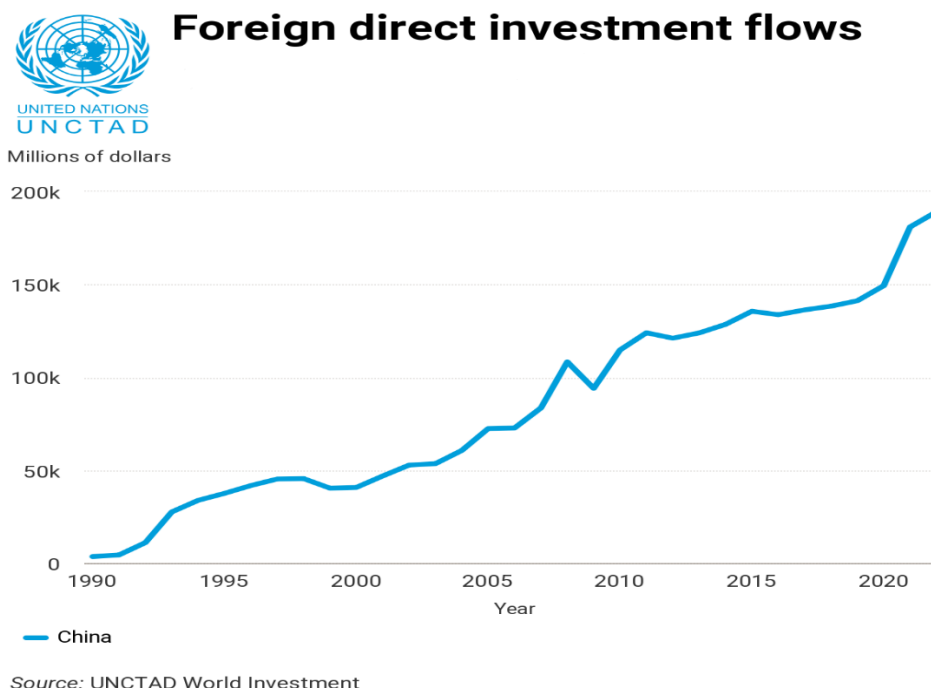


Figure 1 FDI flows into China 1990-2021

Data UNCTAD: graph illustrating Foreign Direct Investment (FDI) inflow to China from 1979 to 2021.

The graph represents trends in Global Foreign Direct Investment (FDI) flows over the last 30 years, from 1990 to 2021. It provides a visual overview of the inflows and outflows of FDI in various countries and regions. The World Investment Report 2021 by UNCTAD presents this information, emphasizing the significance of FDI on a global scale. The report discusses key aspects of FDI trends, including the impact of greenfield investment projects, which saw a positive increase of 15% in 2021. The data in the graph is a valuable resource for understanding the evolution of FDI and its role in the global economy.

Foreign companies from Japan, the United States, and Western Europe invested a small portion of their money in industries that need a lot of manpower and mainly sell products to other countries. Specifically, 8.2%, 8.1%, and 6.7% of their investments went into this type of business. On the other hand, these countries,

which are part of the OECD, usually put their money into industries that require a lot of machinery and technology. Their focus is shifting more towards wanting to sell things in the big local market (Bayoumi et al., 1997).

Chinese manufacturing companies get money for their projects from four main places: (i) the government's money, (ii) loans from banks in China; (iii) money they raise themselves, like from Chinese financial markets and profits they've kept, and (iv) money from other countries. When foreign companies invest in China, they usually use a mix of these funding sources. In the years 1999 to 2002, for foreign businesses in Chinese manufacturing, 8% came from the government, 20% from Chinese banks, 17% from their own raised capital, and 55% from foreign sources. These numbers show how much global companies rely on Chinese financial support when they operate in the country (Hale and Long, 2010).

A. Access To Finance, Exports, And FDI

Foreign Direct Investment (FDI) plays a big role in boosting a country's exports. It does this by making it easier for the country to sell things to people in its own area, nearby regions, and around the world. Also, like in the situations with the US, China, and other nations, the countries where these businesses operate might benefit because the big international companies talk positively about the things they sell in their home countries (Zhang and Song, 2001).

Foreign companies investing in a country not only improve the skills of the local workers through training but also enhance their technical and management abilities. This helps the workers become more efficient, benefiting the country's exports. This is particularly true when the investments focus on advanced technologies meant for selling goods abroad. Foreign Direct Investment (FDI) affects a country's exports both directly, through the products made by foreign-owned companies, and indirectly, by influencing local businesses through what we call the spillover effect (Unctad, 2002).

B. FDI Has The Following Direct Effects On A Nation's Exports

1. Exports Through Assembly And Processing

By assembling and processing imported raw materials, many developing nations increase their exports of labor- and technology-intensive items. For instance, China has emerged as a significant exporter of products that require a lot of labor, such as toys, apparel, sporting goods, and shoes, as well as products that require a lot of technology, such as electronic circuits, automatic data processors, and mobile phones (Unctad, 2002). Within a vertically integrated international manufacturing network, MNCs frequently coordinate these exports (Zhang and Markusen, 1999).

2. Exports Through The Conversion Of Industries

Exports through the conversion of industries that produce goods that can be imported instead: FDI combines its cutting-edge technology with the easily accessible, low-cost labor of developing countries to produce and export a variety of import-substituting goods, including cars and home appliances, at prices that are competitive on the global market (Lim, 2001).

3. Exports Of New Labor-Intensive Completed Goods

By connecting these exports to final consumers in other countries, including the home country, FDI helps the host country's exports of labor- and technology-intensive finished goods rise (Zhang, 2006).

4. Raw Materials Processed Locally And Exported

Multinational companies (MNCs) have a higher ability to export than local businesses due to their global connections, marketing expertise, advanced technology, and overall knowledge. This advantage is more pronounced when dealing with raw materials produced locally, especially in the early stages of a country's development when it lacks sufficient resources. Foreign Direct Investment (FDI) further boosts the manufacturing exports of developing countries by influencing how local businesses carry out their export activities (Zhang, 2005).

5. Encouraging Efficiency And Competition

Another way FDI influences local businesses is by boosting their ability to compete in exporting goods and embracing new technologies. Multinational companies (MNCs) achieve this by introducing advanced technology, management skills, and marketing knowledge. This, in turn, encourages local companies to improve their processes to stay competitive in the market (Demena and Bergeijk, 2019).

6. The Relationship Between International And Regional Businesses

The third spillover is linked to the relationship between international and local enterprises. The nation's exports increase when international businesses with an export focus purchase more regional inputs as the business grows (UNCTAD, 2002).

People have studied how foreign investments (FDI) and the act of selling goods to other countries (exports) are connected. Two different ideas have emerged about how FDI and exports relate. One view believes that FDI and exports work together to make each other better, rather than one replacing the other. R. Mundell (1957) used the Heckscher-Ohlin-Samuelson (H-O-S) model (two nations, two items, and two variables) to show that the difference in comparative advantage is the basis of trade. Without factor mobility, trade between two countries reaches a point where factor prices tend to converge, both globally and within each nation. However, the discrepancy in factor prices will gradually decrease once capital is allowed to move freely between countries, from one where it is abundant to one where it is scarce. Trade will thus decline and be completely replaced by FDI. This idea states that foreign direct investment (FDI) only enters sectors where the host country has a competitive advantage. Since they cater largely to the domestic market of their host countries, such FDIs do not help exports grow. Therefore, FDI replaces imports with indigenous production. The H-O factor endowment theory suggests that in a situation where markets are highly competitive, production functions are consistent, and there are no transportation costs, the exchange of both goods and resources can be seen as a replacement for each other (Markusen, 2004).

The idea that the Flying Geese model, linking foreign investment (FDI) and business, holds universally has faced doubts. These doubts arise in a world market that is not perfectly competitive due to factors like economies of scale, imperfect

competition, and changes in technology. These factors explain why countries can trade within the same industry and why firms may engage in vertical FDI, involving transfers within a company. Scholars like Krugman (1979) and Grossman and Helpman (1991) have contested this idea. According to his methodology, MNEs shift manufacturing from their native nations with high labor costs to those with cheaper labor costs in an effort to reduce production costs and keep their competitiveness (Schröppel and Nakajima, 2002).

Vernon (1966) also emphasized the positive impacts of FDI on encouraging exports from host countries in his Product Life Cycle (PLC) theory. He said that there are four stages in the manufacturing of technology. These stages include innovation, growth, maturation, and decline. In the third stage of development, creative companies start exporting part of their products back home to cut costs and protect against imitation competition. In the last stage, goods and technology are created and standardized, making them accessible to local imitators who subsequently turn into rivals on a worldwide scale due to cheap labor. As a result, the exports of the hosting countries increase. In this circumstance, the trading's course can shift. The original inventor might import the finished product back home after shifting production further into host countries (Liu, 2008).

Kojima (1973, 1985) claimed that FDI has a trade-creating effect when it is made in a sector where the host nation has a comparative advantage and the country of origin has a comparative disadvantage, meaning that the host country's exports will increase.

New Trade Theory suggests that when different countries are involved in dividing the production stages (vertical FDI), it would likely benefit trade. If production locations depend on factors like prices and available resources, scholars like Helpman (1984) and Krugman (1985) argue that vertical FDI would create positive trade effects. This means affiliate companies would export finished products to parent companies, and intangible services would transfer within the same company. Brainard (1993) also proposed a positive connection between FDI and trade, emphasizing proximity advantages. However, real-world studies show mixed results across countries, reflecting diverse opinions on how FDI inflow relates to export volume.

When researchers looked at how Foreign Direct Investment (FDI), exports, and economic growth are connected in Singapore, Taiwan, and South Korea, Khan and Leng (1997) discovered no evidence proving that FDI causes exports in Taiwan and South Korea. However, they did find a one-way connection where exports influence the incoming FDI in Singapore. Another study by Liu et al. (2002) focused on China from 1981 to 1997, revealing a two-way relationship between the FDI coming in and the exports going out. Similarly, Balamoune (2004) reached the same conclusion for Morocco during the years 1973-1999 (Balamoune-Lutz, 2004).

Soliman (2003) looked at how Foreign Direct Investment (FDI) influenced the export growth of Egypt, Tunisia, Morocco, and Turkey between 1970 and 1995. By using something called the "gravity model," the study discovered a strong connection between the money coming in through FDI and the amount of things these countries were selling abroad. However, it found that FDI wasn't closely related to how much of those things were specifically manufactured products.

Metwally (2004) did a similar investigation in Egypt, Jordan, and Oman from 1981 to 2000, using a different method called a "simultaneous equation model." The results from this study suggested that FDI had a significant impact on the export of both goods and services in these three countries.

Zhang (2005) found that in China, Foreign Direct Investment (FDI) is linked to the growth of exports. They looked at 186 different parts of the economy and discovered that FDI has a stronger impact on industries that rely more on labor than on capital. The study also showed that FDI has a bigger effect on boosting exports compared to local investments.

In another study, Pacheco and Lopez (2005) used a test called the Granger causality test to explore the relationship between foreign investment coming into Mexico (inbound FDI) and how well the country exports. The results suggest that there's a cause-and-effect connection between doing well in exports and having more foreign investment..

Rahman (2007) discovered that in Saudi Arabia, an increase in exports is driving the growth of Foreign Direct Investment (FDI), not the other way around. Alici and Ucal (2003) examined the quarterly patterns of exports, inward FDI, and economic growth in Turkey from 1987 to 2002. Their study revealed no connection between FDI and the growth of exports in Turkey.

Njong (2008) investigated the relationship between exports and foreign direct investment in Cameroon. Using data from 1980 to 2003, the study found that FDI positively influenced exports by improving supply capacity and creating spillover effects. For nine newly industrialized Asian countries, Won et al. (2008) conducted a study from 1981 to 2005, revealing a bidirectional causal relationship between FDI inflow and export growth using the Granger causality test.

However, empirical research on India shows that FDI has not significantly boosted the country's exports. Various studies, including (Lall and Mohammad 1983; Aggarwal 2001; and Sharma 2000), found no substantial impact of FDI on India's export performance. Collectively, these studies suggest that FDIs in India are more focused on the domestic market than on promoting exports.

C. The Perception of FDI

It is critical to identify if the nations' trade ties have led to an improvement or deterioration in well-being. The idea of commerce acts as a barometer for financial ties. In this situation, the concept of terms of trade provides a tool for evaluating global economic ties. The term "trade" was first used by Ricardo to describe how to measure international commerce, although many other economists have used it throughout the years under other names. For instance, (Kavaz, et al., 2019) referred to trade as the actual exchange rate, but (Abdirahman, 2022) defined the notion of terms of international trade as the exchange rate in his 1965 study of money, credit, and commerce. Alfred Marshall, an economist, is credited with coining the term "trade." Foreign trade is the exchange of money, products, and services across national or international boundaries. In the majority of nations, it represents a sizable portion of GDP. Depending on the delivery method, payment method, and regulatory framework of the various countries, foreign trade can be either challenging or straightforward to do. The main incentive for businesses to sell their goods in foreign markets or to buy them there is trade advantage (Eric, 2021).

All nations in the globe engage in import and export activities in some capacity. Developed nations are in need of raw materials and natural resources like oil, gas, methanol, etc., but are compelled to import these goods from other nations since they do not own these raw materials. On the other hand, emerging nations with abundant natural resources strive to acquire these items since they lack the capacity

and resources to create many essentials (Brussels, 2008). Generally speaking, stronger and more advantageous nations will gain more from international commerce than weaker nations, which tends to deteriorate with time. The dependence on foreign trade is one of the factors that has had a significant impact on the economic growth of the majority of developing nations. As a result of these nations' firm reliance on the export and import income necessary for their industrial foundation, foreign trade plays a fundamental and undeniable role in the economic growth of these nations (Mao, 2020). Governments interfere with international trade in both direct and indirect ways. As part of their global trade policy, they take direct action by adopting trade intervention, import tariffs, and quotas. Direct commerce has a significant impact on a nation's capacity to compete internationally.

Additionally, when governments start to have an impact on global trade for any reason, this is considered indirect intervention. Most of the state's meddling in foreign trade consists of prohibiting or limiting these activities. For instance, while avoiding internal inflation, take into account the influence of imports and exports (Cogley, 2020).

The volume, composition, employment, price level, industrialization structure, and income distribution are all directly impacted by foreign trade policies. Therefore, actions taken by countries to address them may have an impact on economic growth. It indicates a relationship between international trade strategy and development. Using interventions like customs charges, quotas, import limits, and exports, the government manages international trade policy through the import and export of commodities. Factor movements like labor, technology, and capital can be widely seen as a component of this policy (Abdulle, 2022). Today, countries are striving to use exchange rates to execute export and import stimulus as part of their international trade policies. Foreign trade policy is a set of activities intended to regulate global commerce formally. One can contend that general economic policy and foreign trade policy are interchangeable. General economic policy covers the financial and economic foundations necessary for the expansion and stability of the national economy. On occasion, home economic policy can have an influence on foreign trade policy, and vice versa. For instance, promoting economic stability is one of the main objectives of international trade policy. When talking about economic stability, the terms full employment and price stability come to mind. For

this reason, governments try to implement both measures together. Economic development strategies are built on the basis of developing nations (Ndukwe, 2004).

D. FDI Classification

According to (Mustafa, 2011), international commerce may be divided into four categories:

1. Regular Business

It is a type of international trade that a country conducts with free foreign exchange within the restrictions of the international monetary system but does not benefit from any special legal privileges (Simmons, 2000).

When two countries enter into a trade arrangement, countertrade occurs when the exporting country demands that the importing country complete another transaction or make a promise in exchange for the export price instead of using foreign currency. Take the 1984 natural gas pact between Russia and Turkey as one example. Turkey gets its natural gas from Russia. Contractors from Turkey have agreed to pay up to 34% of the natural gas price that Russia will pay to purchase goods from Turkey (Koutroumpis, 2019).

2. Border Commerce

In line with agreements between two bordering countries, border commerce is a special type of international trade. In order to meet the requirements of persons residing on both sides of the border, it anticipates the interchange of products. The absence of procedures from ordinary international trade and the low cost of transportation are two advantages of border trade. The border crossing between China and Iran at Islam-Qala (2010) provides an illustration of cross-border trade (Grawert et al., 2017).

3. Trade in Free Zones

Free zones are geographical regions that, to a greater or lesser extent, are excluded from the nation's financial, economic, foreign exchange, and customs rules. For businesses engaged in international commerce, free zones have several advantages. For instance, value-added taxes are not applied to domestic sales made to free zones since they are considered exports. The domestic exporter company that makes the sale may request payment of the Value Added Tax for the costs incurred in connection with the export of the item by way of a return (Çelikleş, 2023).

E. FDI Advantages and Disadvantages

All countries profit strategically from international commerce in different ways. The primary benefit of international import and export is the enhancement of the quality and quantity of exported goods. Foreign commerce raises the level of competition in the global market. As a result, numerous countries will try to produce more premium items in larger quantities. As a result, there will be more high-quality items available on the market at more affordable prices. Some other benefits of global trade include the growth of the labor force and the ensuing decrease in the unemployment rate. To compete in the market, manufacturers must produce in huge volumes, which requires a lot of effort and lengthy working hours. The unemployment rate will consequently decrease. Furthermore, worldwide import and export frequently make some goods national exclusives. This suggests that rather than concentrating on irrelevant issues or producing commodities for which they lack the essential expertise and resources, each nation has its own unique geography and set of abilities that may be exploited to strengthen them (Şahin and Durmuş, 2018).

F. Empirical Evidence

The varied findings of the empirical investigations that have already been conducted using various data and estimating methods are not unexpected. Using cross-sectional firm-level data, (Ali, 2019) estimated trade and affiliate output. Other factors, including the parent company's size and the local economy's income, are also taken into account in their trade calculations. They discover a favorable correlation between the outputs of US businesses abroad and those businesses' exports from the US to that country. Blomstrom, Lipsey, and Kulchycky (1988) discover that the link between FDI and export sales is complimentary using trade equations and firm-level data from the US and Sweden.

Wei (1995) carried out one of the first studies on this subject and discovered that FDI had a favorable impact on China's exports. This was ascribed to the fact that foreign investors introduced cutting-edge management techniques and technologies that aided in raising the productivity of Chinese businesses. Similar findings were made by Zhang and Markusen (1999), who discovered that FDI benefited China's exports, particularly those in the manufacturing industry.

However, other research has revealed that the connection between FDI and exports in China is more nuanced. For instance, Liu and Wang (2003) discovered that there was an optimum amount of FDI that maximized the benefits to China's exports and that the relationship between exports and FDI was not linear. Similar findings were made by Wang and Swain (1999), who discovered that the degree of economic growth, the standard of the infrastructure, and the level of human capital all had an impact on the association between exports and FDI.

The connection between China's exports and foreign direct investment has been the subject of more recent studies. Wang and Wei (2013) discovered, for instance, that FDI had a favorable impact on China's exports, but that this impact was decreasing? over time. Additionally, they discovered that the degree of economic growth, the standard of the infrastructure, and the level of human capital all had an impact on the relationship between exports and FDI. Overall, the research points to a positive association between exports and FDI in China, albeit there are a variety of variables that can affect this relationship.

Pfaffermayr (1996) suggests that factors like money, work, skills, and research may be shared aspects between what a country sells to other nations (exports) and the money it invests in other countries (outbound FDI). Pfaffermayr used data from Austrian manufacturing in the 1980s and early 1990s to find a significant connection between FDI and exports.

Bayoumi and Lipworth (1997) studied Japan's trade and investment. They analyzed the impact of Japan's investments in other countries on its exports and imports from 1982 to 1995. They concluded that Japan's investments have a short-term effect on exports but a long-term effect on imports. They figured this out by looking at the size and importance of the FDI stock's impact on trade in the long run compared to the impact of FDI flow, which influences trade more temporarily.

China has emerged as a global powerhouse in exports, becoming one of the world's largest exporters. The country's export sector has played a crucial role in its economic growth and development. China's export success can be attributed to several factors. First and foremost, the country has a large and diverse manufacturing base, which allows it to produce a wide range of goods at competitive prices. China's abundant labor force, coupled with relatively low labor costs, has made it an

attractive destination for multinational corporations (MNCs) seeking to outsource production. (Wayne, 2019)

China has put in place strategies to help its exports grow. They created special areas called Export Processing Zones (EPZs) and Special Economic Zones (SEZs) where they provide perks like tax breaks, simpler rules, and help with infrastructure to attract foreign businesses. These zones are crucial in encouraging industries that focus on exports and bringing in foreign investment. China's export industry has also profited from being part of global value chains (GVCs). GVCs mean that different parts of making a product are done in different countries. Chinese companies, often owned by foreign businesses, have become important in GVCs. They supply the middle parts and pieces for making products that are then exported. Being part of GVCs has helped China benefit from making things on a large scale, specializing in certain products, and reaching global markets (Barone, 2023).

Furthermore, China has invested heavily in infrastructure development, including transportation networks, ports, and logistics systems. This investment has improved connectivity and reduced transportation costs, making it easier and more cost-effective for goods to be exported from China to various destinations around the world. China's export sector is highly diversified, covering a wide range of products. Some of the key export categories include electronics, textiles, machinery, automotive products, and consumer goods. China has become a major exporter of electronic products, such as smartphones, computers, and televisions, due to its strong manufacturing capabilities and technological advancements (Abdirahman, 2022).

The country's export industry has also been driven by its ability to produce goods at competitive prices. China's low labor costs, economies of scale, and efficient production processes have allowed it to offer products at lower prices compared to many other countries. This price competitiveness has made Chinese goods attractive to consumers and businesses worldwide. China's export sector has not only contributed to its economic growth but has also had a significant impact on the global economy. China's exports have played a crucial role in meeting global demand, particularly for consumer goods and intermediate inputs. The country's exports have helped to drive economic growth in other countries, as they provide inputs for production processes and contribute to job creation and income generation.

However, China's export-led growth model has also faced challenges. The country has been criticized for its trade practices, including issues related to intellectual property rights, market access barriers, and unfair competition. These concerns have led to trade disputes and tensions with other countries, particularly the United States (Jinjun, 1995).

Pain and Wakelin (1998) studied how foreign investment (FDI) and exports relate in 11 countries from 1971 to 1992. They found that when foreign investment comes into a country, it usually boosts trade. However, when a country invests in other places, it tends to reduce its trade. Gopinath, Pick, and Vasavada (1999) looked at the food industry in the US from 1982 to 1994. They discovered that in this industry, selling goods abroad and selling within the country are similar.

Even though people have studied how foreign investment and trade can be substitutes or complements, not many have specifically tested if one causes the other. Pfaffermayr (1994) used a method to analyze the data from Austria between 1969 and 1990. They found a strong link between exporting goods and foreign investment in Austria, and it works both ways (Eric, 2021).

G. Relationship Between Export And FDI in China

The relationship between exports and foreign direct investment (FDI) in China has been a crucial factor in the country's economic growth and development over the past four decades. Since the implementation of economic reforms in 1979, China has experienced a remarkable transformation from a closed and centrally planned economy to a global economic powerhouse. This transformation has been driven mainly by its export-oriented strategy and the inflow of FDI (Ran et al., 2007).

China's export industry has played a pivotal role in its economic success. The country has become known as the "world's factory" due to its ability to produce and export a wide range of goods at competitive prices. This export-led growth strategy has been supported by the inflow of FDI, which has provided the necessary capital, technology, and managerial expertise to boost China's export capabilities. FDI has been instrumental in facilitating the growth of China's export sector in several ways. Firstly, foreign investors have established manufacturing facilities in China to take advantage of its abundant labor force and low production costs. This has led to the

creation of export-oriented industries, particularly in sectors such as textiles, electronics, and machinery (Zhou and Latorre, 2021).

Secondly, FDI has facilitated the transfer of technology and knowledge to China. Multinational corporations (MNCs) that invest in China often bring advanced production techniques, managerial practices, and research and development capabilities. This has helped Chinese firms improve their productivity, product quality, and innovation, making them more competitive in the global market. Furthermore, FDI has contributed to the development of export-oriented infrastructure in China. Foreign investors have played a significant role in the construction of ports, roads, and other transportation networks, which have enhanced China's connectivity and logistics capabilities. This has made it easier for Chinese exporters to access international markets and deliver their products efficiently (Agarwala and Chaudhary, 2021).

The relationship between exports and FDI in China has also been mutually reinforcing. On the one hand, FDI has stimulated export growth by providing the necessary resources and expertise. On the other hand, China's export success has attracted more FDI inflows. The country's large and growing consumer market, coupled with its competitive production capabilities, has made it an attractive destination for foreign investors seeking to tap into China's domestic market and use it as a base for exporting to other countries (Lakshani et al., 2023). However, it is essential to note that the relationship between exports and FDI in China has not been without challenges. One of the main concerns is the overreliance on exports as the primary driver of economic growth. This has made China vulnerable to external shocks, such as global economic downturns or trade disputes. To address this, China has been gradually shifting its focus towards domestic consumption and reducing its dependence on exports.

Additionally, there have been concerns about the quality and sustainability of FDI inflows. Some argue that China has been too reliant on low-value-added manufacturing industries, which may hinder its transition to a more innovation-driven economy. To address this, China has been actively encouraging higher-value-added industries and promoting innovation and technology development (Rodlauer and Tseng, 2004).

The role of exports in the economic growth of China has been instrumental in transforming the country into one of the world's largest economies. Over the past few decades, China has experienced remarkable economic development, and its export sector has played a crucial role in driving this growth. Exports have been a key driver of China's economic expansion for several reasons. Firstly, China has been able to leverage its vast labor force and low production costs to become a global manufacturing hub. The country's competitive advantage in cheap labor has attracted multinational corporations (MNCs) to set up production facilities in China, leading to a significant increase in export-oriented industries (Ruetz, 2006).

China's export sector has been robust in textiles, electronics, machinery, and consumer goods. The country's ability to produce and export a wide range of products at competitive prices has made it a preferred destination for global sourcing. This has not only contributed to China's economic growth but has also created employment opportunities for millions of people, especially in the manufacturing sector. Secondly, exports have played a crucial role in attracting foreign direct investment (FDI) to China. MNCs often invest in China to take advantage of its export capabilities and access its large consumer market. The inflow of FDI has provided China with the necessary capital, technology, and managerial expertise to enhance its export sector further. Foreign investors have brought advanced production techniques, research and development capabilities, and global market knowledge, which have helped Chinese firms improve their competitiveness and product quality.

Furthermore, exports have contributed to China's integration into the global economy. The country has actively pursued trade liberalization and has become a member of the World Trade Organization (WTO). This has opened up new markets for Chinese exporters and facilitated the flow of goods and services across borders. China's participation in global value chains has allowed it to benefit from international trade and has helped in the transfer of knowledge and technology (Morrison, 2019).

To address these challenges, China is progressively pivoting towards bolstering domestic consumption and reducing reliance on exports. The government has enacted measures to boost domestic demand, foster innovation and technology development, and promote higher-value-added industries. This strategic shift aims to

establish a more balanced and sustainable economic growth model with reduced dependence on external demand. The pivotal role of Foreign Direct Investment (FDI) in China's economic development has been pivotal in elevating the nation into one of the world's largest economies. China has witnessed remarkable economic growth over the past few decades, with FDI playing a critical role in steering this progress. FDI stands out as a key catalyst for China's economic expansion, driven by several factors (Dollar and Huang, 2021).

Firstly, FDI has brought in substantial capital inflows, which have helped finance infrastructure development, technological advancements, and industrial upgrading. Foreign investors have been attracted to China due to its large consumer market, low production costs, and potential for high returns on investment. The influx of FDI has provided China with the necessary financial resources to fuel its economic growth (Lee and Ryu, 2003).

Secondly, FDI has played a crucial role in transferring advanced technology and managerial expertise to China. Multinational corporations (MNCs) investing in China often bring advanced production techniques, research and development capabilities, and global market knowledge. This technology transfer has helped Chinese firms improve their productivity, product quality, and competitiveness. It has also contributed to the development of domestic industries and the upgrading of China's manufacturing sector (Zeberegs, 2023; Lee and Ryu, 2003).

Furthermore, FDI has played a significant role in promoting exports and integrating China into the global economy. Foreign investors have established production facilities in China to take advantage of its export capabilities and access its large consumer market. This has led to the development of export-oriented industries and the expansion of China's export sector. FDI has facilitated the flow of goods and services across borders, allowing Chinese firms to participate in global value chains and benefit from international trade (Lee and Ryu, 2003).

FDI has also contributed to job creation and employment opportunities in China. The establishment of foreign-invested enterprises has led to the creation of millions of jobs, particularly in the manufacturing sector. This has helped absorb surplus labor from rural areas and contributed to poverty reduction and improved living standards for many Chinese citizens. Moreover, FDI has played a crucial role in attracting foreign expertise and knowledge to China. The presence of foreign

investors has facilitated the exchange of ideas, best practices, and business networks. Chinese firms have been able to learn from foreign partners and adapt international standards and practices, which has enhanced their competitiveness and innovation capabilities. China has actively pursued policies to attract FDI and create a favorable investment environment (Ying, 2018). The government has implemented measures such as tax incentives, streamlined administrative procedures, and improved intellectual property protection to encourage foreign investment. China's accession to the World Trade Organization (WTO) has also provided a more predictable and transparent business environment for foreign investors (Dollar and Huang, 2021).

However, it is important to note that China's reliance on FDI also poses challenges and risks. The country needs to strike a balance between attracting foreign investment and protecting its domestic industries. There is a risk of over-reliance on foreign technology and a potential loss of control over key industries. China needs to ensure that FDI is aligned with its long-term development goals and that it benefits the overall economy (CNN, 2023). China has emerged as a global powerhouse in the export sector, becoming the world's largest exporter of goods. The country's export industry has experienced remarkable growth over the past few decades, transforming China into a significant player in the global economy (Rodlauer, 2004; Zeng and Zhou, 2021).

One of the key factors contributing to China's success in exports is its vast manufacturing capabilities. The country has a massive labor force, which has allowed it to produce goods at a large scale and competitive prices (Silva-Ruete, 2006). China's low labor costs have attracted many multinational companies to set up manufacturing operations within its borders, leading to a significant increase in export volumes. China's export sector is highly diversified, covering a wide range of industries. Major export categories include electronics, textiles, machinery, automotive parts, and consumer goods. The country has developed expertise in these sectors, allowing it to produce high-quality products that meet international standards (Ruete, 2006).

Another factor that has contributed to China's export success is its infrastructure development. The country has invested heavily in building modern transportation networks, including ports, airports, and railways. This has facilitated the efficient movement of goods from factories to export destinations, reducing

logistics costs and improving overall competitiveness (Bouraima and Qiu, 2017). China's export sector has also benefited from its participation in global trade agreements. The country has actively pursued free trade agreements with various nations and regions, which has opened up new markets for its exports.

Additionally, China's membership in the World Trade Organization (WTO) has provided it with a platform to engage in fair trade practices and resolve trade disputes. Furthermore, the Chinese government has implemented policies to support and promote the export sector. It has established special economic zones and industrial parks that offer incentives to foreign investors and facilitate export-oriented manufacturing. The government has also provided financial assistance and export subsidies to promote the competitiveness of Chinese exporters in the global market (Sharma, 2009).

However, China's export sector has faced challenges and criticisms as well. One of the main concerns is the issue of intellectual property rights (IPR) infringement. Counterfeit products and unauthorized copying of technology have been a persistent problem, leading to disputes with trading partners. China has taken steps to address these concerns by strengthening its IPR laws and enforcement mechanisms. Another challenge is the increasing labor costs in China (Mercurio, 2012). As the country's economy has developed, wages have risen, making Chinese exports less competitive in some industries. To counter this, China has been shifting its focus towards higher value-added manufacturing and technological innovation, aiming to move up the global value chain (Brander and Cui, 2017).

Moreover, the COVID-19 pandemic has had a significant impact on China's export sector. The global economic slowdown and disruptions in supply chains have affected export volumes. However, China has shown resilience and has been gradually recovering from the pandemic's impact, with its export sector rebounding in recent months. Foreign Direct Investment (FDI) has played a significant role in poverty reduction in China. Over the past few decades, China has experienced remarkable economic growth, lifting millions of people out of poverty. FDI has been a critical driver of this progress, contributing to job creation, technology transfer, and infrastructure development. In this essay, we will explore the various ways in which FDI has contributed to poverty reduction in China. One of the primary ways FDI has helped reduce poverty in China is through job creation. Foreign companies investing

in China have established numerous factories and production facilities, providing employment opportunities for millions of Chinese workers. These jobs have not only helped alleviate poverty but have also improved living standards for many individuals and families (Fang et al., 2021). The inflow of FDI has led to the creation of jobs in various sectors, including manufacturing, services, and technology, offering diverse employment opportunities for people with different skill sets. Furthermore, FDI has facilitated technology transfer in China. Foreign companies often bring advanced technologies, management practices, and expertise to the country. This transfer of knowledge and technology has helped improve productivity and efficiency in Chinese industries. As local companies learn from their foreign counterparts, they become more competitive and capable of producing higher-quality goods and services. This, in turn, leads to increased exports and economic growth, benefiting both the country and its people (Osano and Koine, 2016).

In addition to job creation and technology transfer, FDI has also contributed to infrastructure development in China. Foreign companies often invest in building or improving infrastructure such as roads, ports, and power plants. These infrastructure projects not only create jobs during construction but also enhance connectivity and facilitate economic activities in the long run (Bernal, 2016). Improved infrastructure has opened up previously inaccessible areas, allowing for the expansion of industries and the development of rural regions. This has had a direct impact on poverty reduction by providing better access to markets, education, healthcare, and other essential services (Rodlauer and Tseng, 2004).

Moreover, FDI has stimulated domestic investment in China. The presence of foreign companies has attracted local businesses to invest and expand their operations. This has created a multiplier effect, leading to increased economic activity and job opportunities (Molnár et al., 2021). As the domestic investment climate improves, more resources are allocated towards poverty reduction programs and initiatives. The government has also been able to leverage FDI to attract additional funding for social welfare programs, education, and healthcare, further contributing to poverty reduction efforts (Rizvi and Nishat, 2009).

However, it is essential to note that FDI alone is not a panacea for poverty reduction. While it has undoubtedly played a crucial role in China's progress, other factors such as government policies, social programs, and inclusive economic growth

strategies have also been instrumental (Tambunan, 2011). Additionally, there are challenges associated with FDI, such as potential environmental concerns, labor rights issues, and income inequality. It is crucial for the government and relevant stakeholders to address these challenges and ensure that the benefits of FDI are distributed equitably across society (Topalli and Papavangjeli, 2021).

H. China's Experience in FDI: Lessons for Türkiye

China's exceptional success in attracting and harnessing Foreign Direct Investments (FDI) stands as a compelling model for Türkiye's economic development. The trajectory of China's economic rise, particularly its strategic utilization of FDI, provides valuable insights that can significantly benefit Türkiye's approach to fostering economic growth (Deichmann, 2021).

China's proactive and strategic policies in attracting FDI have played a pivotal role in its economic transformation. The country has implemented policies that prioritize infrastructure development, technological advancements, and the creation of business-friendly environments. Examining these policies can serve as a blueprint for Türkiye to enhance its own FDI attraction strategies (Benghoul and Aydin, 2019).

One key aspect of China's success is its commitment to infrastructure development. The country has consistently invested in building robust transportation networks, energy facilities, and telecommunication systems. This commitment has not only attracted foreign investors looking for efficient logistics but has also facilitated the smooth functioning of businesses, contributing to overall economic growth. Türkiye, by prioritizing and investing in infrastructure projects, can create a more attractive environment for potential foreign investors (Göçer ve Ergenç, 2023).

China's emphasis on technological advancements and innovation has been instrumental in attracting FDI in high-tech industries. Türkiye can learn from China's focus on fostering innovation ecosystems, encouraging research and development, and creating incentives for technology-intensive investments. By aligning policies to support technological advancements, Türkiye can position itself as an attractive destination for industries seeking innovation-driven environments (Adikari et al., 2021).

Furthermore, China's establishment of Special Economic Zones (SEZs) has been a key factor in attracting FDI. These zones provide favorable conditions for foreign businesses, such as tax incentives and simplified regulatory procedures. Türkiye can consider adopting a similar approach by identifying and developing specific zones tailored to the needs of different industries, streamlining bureaucratic processes, and offering incentives to attract foreign investors (Sinenko and Mayburov, 2017).

Additionally, Türkiye can draw inspiration from China's commitment to creating a business-friendly environment. China has consistently worked towards reducing bureaucratic hurdles, implementing investor-friendly regulations, and ensuring a stable legal framework. Türkiye can enhance its competitiveness by undertaking similar reforms, thus fostering an environment that encourages foreign businesses to thrive (Shen, 2021).

1. China's Key Strategies

a. Investment-Friendly Policies

China implemented policies promoting a favorable investment climate, offering incentives, and reducing bureaucratic hurdles, attracting substantial FDI flows (Deichmann, 2021).

b. Sectoral Diversification

China strategically diversified FDI across sectors, fostering balanced development. Türkiye could benefit from a similar approach, identifying key sectors for sustainable growth (Zebregs, 2003).

c. Infrastructure Development

China invested heavily in infrastructure, enhancing connectivity and facilitating smoother business operations. Türkiye should prioritize infrastructure projects to attract and sustain the FDI (Benghoul and Aydin, 2019).

2. Global Integration

China actively integrated into the global economy, participating in international trade agreements and fostering collaboration. Türkiye should pursue a similar strategy to enhance its global economic presence (Özdemir ve Olpak, 2021).

3. Innovation and Technology Transfer

China prioritized technology transfer through FDI, driving innovation. Türkiye should emphasize policies promoting knowledge transfer to enhance competitiveness (Benghoul and Aydin, 2019; Deichmann, 2021).

Implementing these strategies can position Türkiye as an attractive destination for FDI, fostering economic growth and development. By drawing inspiration from China's success, Türkiye can create a conducive environment for foreign investors and capitalize on the benefits of sustained FDI inflows (Sarıaliğlu Hayali, 2012).

In conclusion, the examination of China's successful strategies in attracting and leveraging FDI offers Türkiye valuable insights into its economic development. By adopting and adapting key aspects of China's approach, Türkiye can enhance its FDI impact on economic growth. By prioritizing infrastructure development, fostering technological advancements, establishing Special Economic Zones, and creating a business-friendly environment, Türkiye can attract and retain foreign investments, paving the way for sustainable economic growth.

III. METHODOLOGY

A. Research Design

The study's goal is to analyze the relationship between exports and FDI inflows in China for the period 1979-2021. To do this, a secondary quantitative research approach was utilized, commonly known as an econometric approach. A common approach to conducting a systematic inquiry is through secondary research, in which the researcher employs statistics announced by official or authorized organizations. Quantitative research offers researchers numerical data that they may use statistical analysis to interpret and comprehend.

B. Data Collection

The primary source of secondary data for this study's data collection was secondary data that was discovered online, in books, government records, scientific journals, and libraries. Enough time series data on export and FDI are needed to strengthen the study. As a result, FDI and export data are gathered annually from 1979 to 2021. The data collection was created beginning in 1979 since it would be better if the time series had more than 30 observations. The data used in the econometric models for the study are sourced from the World Bank data site and the United Nations Conference on Trade and Development (UNCTAD) to ensure their reliability and robustness. All downloaded data were combined into a single Excel file to facilitate data analysis. Collected data including the export and FDI, was loaded into the Eviews 12 program for analysis and interpretation.

C. Data Analysis

Data analysis describes the steps used to convert the raw data into policy-relevant insights. Data can only become relevant after being processed through applicable techniques of analysis. FDI inflows are utilized as a measure of economic growth to estimate the desired relationship, and exports are calculated as the

difference between imported and exported items. The analysis of the connection between exports and FDI in China uses descriptive statistics. To characterize the variables, mean values, and standard deviations were computed. The study of exploratory data involves four processes. Because all time-series data must be stationary to employ VAR estimation, the Augmented Dickey-Fuller unit root test is used to ascertain whether the data set is fixed in the first stage. After ensuring that all the data are not static-stationary, the second part of the study involves the estimate of a Vector Regression Model (VAR) to determine the maximum lag length and the nexus between FDI inflows and exports. Graphs were used to examine trend analysis (Akoto, 2016).

IV. THEORETICAL FRAMEWORK

The following two potential connections between FDI and global commerce are occasionally mentioned in the literature on international economics and business, regarding the first element, the Heckscher-Ohlin-Samuelson model postulates that international commerce might take the place of the flow of production inputs, including FDI, across borders. According to this paradigm, factor exchanges between nations occur indirectly as a result of international commerce in commodities. For instance, the capital-rich country indirectly exports a net quantity of capital in return for a net amount of labor when it exports capital-intensive goods in exchange for labor-intensive commodities. Factors do indirectly travel across nations through the export and import of goods, even under the assumption that they are perfectly immobile between countries (Wei, 2006). The Mundell (1957) model makes the assumption that all nations and areas have the same production functions. Where there exist trade obstacles, international commerce and the global movement of elements of production including FDI replace rather than complement one another.

Recently, researchers have tried to mix ideas about how countries trade with foreign investment to understand how they work together. Helpman (1984) and Helpman with Krugman (1985) showed that how much a country focuses on making specific things is linked to the resources it has. If a country has a lot of money, it might make complex things using a lot of money, and if it has a lot of workers, it might make simpler things using a lot of workers. If the differences in resources are not big, a rich country might make fancy things at home and exchange them for simple things from a country with many workers. But if there are big differences, the rich country might prefer to trade advanced products for services like research and development (R and D) instead of just selling the advanced products. So, foreign investment can lead to countries with lots of workers trading with countries that have a high amount of skilled workers. When big companies own different parts of making a product, they might also send parts to each other. The Helpman model, looked at by Markusen and Maskus (1999), talks about big companies that own

different parts of making things but say they shouldn't invest in countries that are very similar.

Foreign Direct Investment (FDI) has played a significant role in China's economic growth and development. China has been one of the largest recipients of FDI globally, attracting substantial inflows from multinational corporations seeking to tap into its vast market, low labor costs, and favorable investment climate. The literature on FDI in China covers various aspects, including the determinants of FDI inflows, the impact of FDI on economic growth, the role of FDI in technology transfer and innovation, and the spillover effects of FDI on domestic firms (Zeng and Zhou, 2021).

Many studies have looked at what causes foreign investment (FDI) to come into China. Blonigen and Wang (2005) pointed out that it's crucial to think about how different countries are when figuring out what leads to FDI. Li, Liu, and Parker (2001) checked how FDI affects making things in China. People have also studied how FDI connects to China's overall economic growth. Zhang (2001) looked at FDI's impact on making countries in East Asia and Latin America grow economically. The research discovered that more FDI is linked to better economic growth in these places. Xu (2000) delved into how big companies from different countries bring in technology and help the country they are in to grow better.

FDI has been recognized as a significant driver of technology transfer and innovation in China (Lee and Ryu, 2003). Li and Liu (2005) argued that the relationship between FDI and economic growth is increasingly endogenous, with FDI contributing to technological progress. Wang and Blomstrom (1992) proposed a model to analyze the relationship between foreign investment and technology transfer. The spillover effects of FDI on domestic firms have been a topic of interest. Liu and Wang (2003) investigate whether FDI facilitates technological progress in Chinese industries, finding positive spillover effects. (Zhang, 2006) examined how FDI affects sustainable economic growth in China, highlighting the importance of absorptive capacity. Foreign Direct Investment (FDI) has played a crucial role as a driver of exports in China, contributing significantly to the country's export-led growth model (Ryu, 2003).

FDI has been instrumental in promoting China's export-oriented industries by providing access to advanced technologies, production techniques, and global

distribution networks. Multinational corporations (MNCs) have been attracted to China due to its large consumer market, low labor costs, and favorable investment policies. As a result, FDI inflows have led to the establishment of export-oriented manufacturing facilities, particularly in sectors such as electronics, textiles, and machinery (Ran et al., 2007).

Foreign companies have invested in China to take advantage of its abundant labor force and cost advantages. By setting up production facilities in China, these companies have been able to manufacture goods at lower costs and export them to global markets. This has contributed to the growth of China's export sector, making it one of the world's largest exporters. FDI has also facilitated technology transfer to domestic firms in China, enabling them to improve their production capabilities and product quality. Through joint ventures, licensing agreements, and collaborations with foreign companies, Chinese firms have gained access to advanced technologies and managerial expertise. This has helped them meet international quality standards and compete in global markets (Tseng, 2003).

Furthermore, FDI has integrated China into global value chains (GVCs), where different stages of production are spread across multiple countries. Chinese firms, often subsidiaries of foreign companies, have become key players in GVCs, supplying intermediate goods and components for final assembly and export. This integration into GVCs has allowed China to benefit from economies of scale, specialization, and access to global markets. China's export success has also been supported by the establishment of Export Processing Zones (EPZs) and Special Economic Zones (SEZs). These zones offer various incentives such as tax breaks, streamlined regulations, and infrastructure support, attracting foreign companies to set up manufacturing facilities for export production (Omoruyi, 2015).

Brainard (1993), Horstman and Markusen (1992), and Markusen (1984) came up with a model. They looked at how businesses operate in different countries and considered things like tariffs and transportation costs. They assumed that countries are similar in size, resources, and technologies. According to them, the choice between setting up a new business (FDI) or doing international trade depends on a balance between being close to the market and concentrating on operations. If a company is close to the market, it might choose FDI to avoid many trade problems. High costs for things like research and headquarters give companies more benefits if

they are big. This justifies choosing FDI. Concentration means making one part of the business bigger. If being close to the market is more beneficial than making one part bigger, there will be more FDI than trade. This suggests that FDI and trade can replace each other (Türkcan, 2007).

Markusen (1998) and Markusen and Venables (1995, 1996, 1998) introduce nations' asymmetries in explaining the decision between international trade and FDI given that countries differ in relative endowments. Companies typically have national headquarters in developed nations for convenience. More and more companies from the advantaged nation will open subsidiaries in the disadvantaged country as the latter grows in terms of the size of its local market, the availability of factors, and the effectiveness of its technical infrastructure. Trade and FDI can coexist as a result. As the world's GDP rises and nations' sizes and resources become more comparable, multinational corporations become increasingly significant in commerce. The more comparable the domestic and international markets are, the more likely multinational activity is, according to Brainard (1997). This implies that when nations are comparable, multinational manufacturing will take the place of commerce.

The connections between FDI and commerce are intricate, as the information above shows. It is incredibly challenging, if not impossible, to determine whether trade and FDI are alternatives or complements. X. Liu et al. *China Economic Review* (2001) 190-202 According to Dunning (1998), the link between trade and FDI depends on the type of trade and FDI being evaluated, as well as the circumstances in which each occurs. According to Gray (1998), market-driven production affiliates may replace international commerce, whereas efficiency-driven production affiliates may boost trade volume.

In terms of causation, the available research shows that many manufacturing companies continue to service foreign markets in the conventional order of step-by-step trading in the first place because it is simpler and less dangerous than FDI. Home country companies may create manufacturing subsidiaries in the foreign market after learning more about the economic, political, and social circumstances and obtaining more experience. However, it's possible that foreign subsidiaries won't start exporting right away (Johanson and Wiedersheim, 1993; UNCTAD, 1996). As a result, there may be a two-way causal relationship between trade and FDI: trade may

first drive FDI, and vice versa. This supports the Vernon (1966) product cycle concept. The causal link between trade and FDI is complex and heavily dependent on the types of commerce and FDI being addressed, similar to the substitution-complementary problem. It is nation-, industry-, and company-specific. This implies the significance of empirical studies in evaluating natural FDI-trade linkages.

Foreign Direct Investment (FDI) theories are conceptual frameworks that seek to explain the motivations, patterns, and impacts of FDI by multinational corporations (MNCs) in foreign countries. These theories help economists, policymakers, and businesses understand the drivers behind FDI and its implications for host and home countries (Bajrami and Zeqiri, 2019). Several prominent FDI theories have been developed over the years, including:

A. Dunning's Eclectic Paradigm (O-L-I Model)

1. Ownership

According to this theory, firms engage in FDI when they possess certain unique ownership advantages (such as proprietary technology, brand recognition, or managerial expertise) that can give them a competitive edge in foreign markets (da Silva Lopes, 2010).

2. Location

FDI occurs when these ownership advantages can be effectively exploited in a specific foreign location. Market size, resource availability, and access to distribution networks influence location decisions (da Silva Lopes, 2010).

3. Internalization

FDI is favored over licensing or exporting when the firm can better protect its ownership advantages by internalizing foreign operations. This theory emphasizes the importance of minimizing transaction costs (da Silva Lopes, 2010).

B. Market Imperfections Theory

This theory suggests that FDI arises due to imperfections or limitations in the functioning of markets. Firms invest directly in foreign markets to overcome market failures, such as imperfect information, trade barriers, and contractual limitations. By establishing local operations, firms can better serve foreign customers and reduce these imperfections (Lizondo, 1991).

C. Internalization Theory (Williamson)

Developed by Oliver Williamson, this theory focuses on the firm's internal organization. It suggests that firms choose FDI over external market transactions (like licensing or outsourcing) when the costs of coordinating and controlling activities within the firm are lower than the costs of transacting in external markets (Greve and Argote, 2015).

D. Product Life Cycle Theory (Vernon)

Raymond Vernon's theory proposes that firms initially develop and produce new products in their home countries. As the product matures and demand grows abroad, firms may engage in FDI to set up production facilities in foreign markets. This theory emphasizes the dynamic nature of FDI and the evolution of products across their life cycles (Rasiah and Yap, 2019).

E. Internalization-Location-Internalization (ILI) Framework

This theory combines elements of the eclectic paradigm and market imperfections theory. It suggests that a firm's ownership advantages influence FDI decisions, the attractiveness of the foreign location, and the benefits of internalization, considering the presence of market imperfections (Think Insights, 2023).

F. New Trade Theory

Economists, including Paul Krugman, came up with a theory. It talks about making things on a large scale and making products different from others. The idea is that companies invest in other countries to take advantage of producing and

delivering things in a big way. This can make things cheaper, and the companies can be better than others in foreign markets (Yüksel and Sarıdoğan, 2012).

G. Innovation-Related Theories

These theories posit that FDI is driven by the desire to access foreign markets for technology transfer, research and development collaboration, and knowledge acquisition. MNCs may invest in countries with advanced technological capabilities to gain competitive advantages (Özsoy, 2020).

H. Market Power Theories

These theories emphasize the pursuit of market power and market dominance as motivators for FDI. Firms may invest in foreign markets to establish monopolistic or oligopolistic positions, limit competition, and increase their pricing power (Vissi, 1995).

I. Resource-Based Theories

Resource-based theories argue that FDI is driven by a firm's desire to acquire strategic resources, such as raw materials, natural resources, or skilled labor, that are scarce or unavailable in the home country (Lu et al., 2020).

J. Institutional Theories

Institutional theories emphasize the role of institutions, including legal systems, government policies, and cultural factors, in influencing FDI decisions. MNCs may invest in countries with favorable institutions and regulatory environments (Seyoum, 2011).

It's important to note that these FDI theories are not mutually exclusive, and different theories may be more applicable to specific FDI cases or industries. Real-world FDI decisions often involve a combination of factors and motivations. Researchers and policymakers use these theories to analyze and understand the complex dynamics of foreign direct investment and its implications for global business and economies (Lim, 2001).

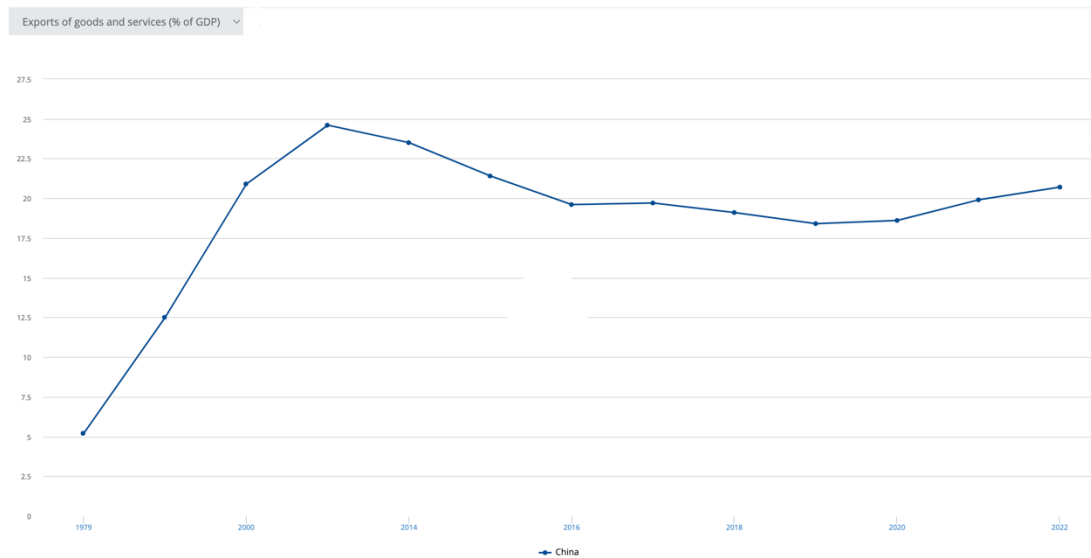
V. EMPIRICAL ANALYSIS AND RESULTS

A. Descriptive Statistics: FDI Inflows and Exports in China (1979-2021)

Foreign Direct Investment (FDI) inflows and exports in China have undergone significant transformations from 1979 to 2021. In the late 1970s, FDI inflows to China were virtually nonexistent, but by the early 2000s, they surged to between \$40 billion and \$45 billion annually, constituting nearly 5 percent of the GDP (Tseng, 2003). According to Chinese statistics, by 2021, the stock of FDI going to Hong Kong had accumulated to US\$1,549.7 billion, representing a substantial portion of the total FDI outflow. This growth in FDI is reflective of China's open-door policy and efforts to attract foreign investments. On the export front, China's trade expansion has been remarkable, with trade growth outpacing that of FDI. The dynamic relationship between FDI and exports is a key aspect, as evidenced by a four-and-a-half times growth in trade since 1978, driven by the competitive and dynamic manufacturing sector established through FDI (Tseng, 2003). Trade openness has played a crucial role, with China experiencing substantial annual growth rates in FDI inflows, the industrial economy, and GDP from 1991 to 2020 (Chen, 2023). Empirical studies also emphasize the multifaceted impact of Chinese investments on various sectors, including infrastructure, energy, services, and trade openness (Abdulsalam, 2021). In summary, the descriptive statistics for FDI inflows and exports in China over the past four decades underscore the nation's economic evolution, emphasizing its role as a global economic powerhouse shaped by strategic FDI policies and robust export-oriented growth.

1. Level and Natural Logarithmic Value Graphs of the Variables

The values of gross Export product and foreign direct investment were calculated. graph shown in Figures 2 and 3. Data:(World Bank).



Source: World Development Indicators

Figure 2 Exports of goods and services (1979-2021) China

Exports are the monetary value of everything a country sells to other places. This includes the price of goods and many services like shipping, insurance, travel, and more. The total value covers a wide range of things, such as communication, construction, financial, information, business, personal, and government services. Importantly, when calculating exports, we don't include things like paying employees, money earned from investments (which used to be called factor services), or transfer payments.

Foreign. direct investment, net inflows (BoP, current US\$) – (1979-2021)
China. Data: World Bank.

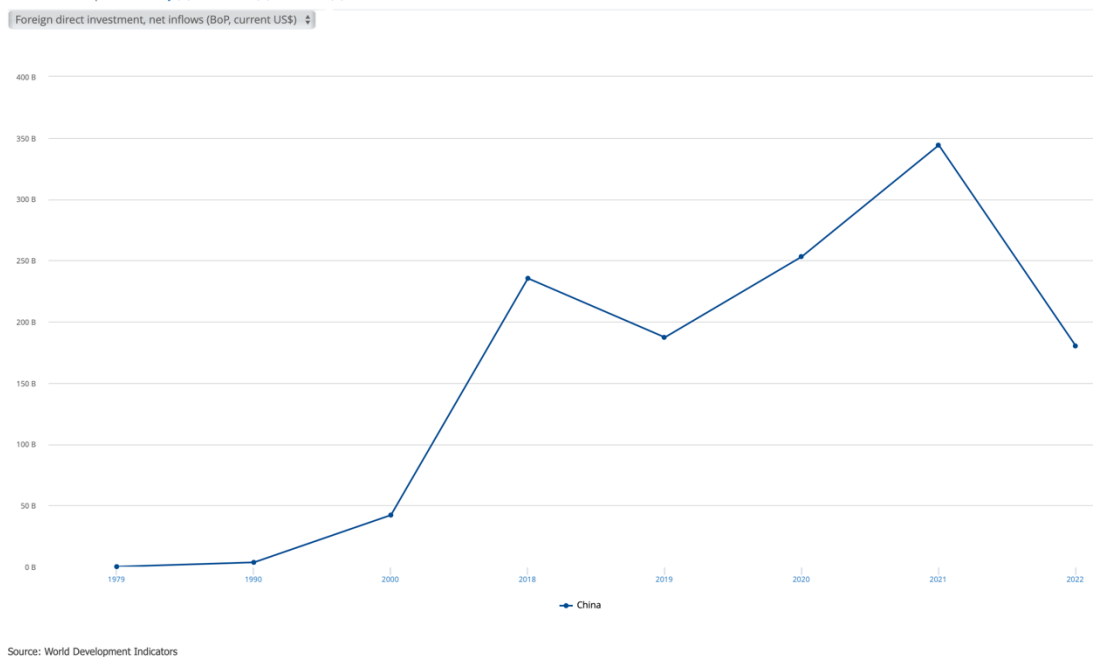


Figure 3 FDI net inflows (1979-2021) China

- In 2020, the FDI reached its maximum value, while the lowest value was recorded in 1979. As seen in Figure 3, China's FDI was erratic across the time under study. Hence, in this instance, it is evident that a trend exists, and the fact that the mean over time has changed and is not constant, indicates that the trend is not stationary.
- Demonstrates how Export fluctuated and was unstable across the study's time frame. China's exports increased in the years 1979, 1985, and 1993. As a result, Figure 2 shows that China's exports have fluctuated, indicative of instability. As seen in Figure 2 and Figure 3, due to the fact that variables have a trend and intercept that are part of the series, there is a preconceived notion that these variables are not stationary. Despite the fact that the graphs demonstrate that the mean over time is not constant and fluctuates over time, this suggests that our time series is not stationary, and using unit root tests on the variables is the most effective and secure technique to study stationarity. Due to this, Table 1 presents the findings of the Augmented Dickey-Fuller (ADF) unit root test conducted on the variables.

B. Unit Root Test

The Augmented Dickey-Fuller (ADF) unit root test has been carried out before performing VAR analysis to ensure the existence of stationarity between the variables. A crucial role is played by the unit root test in selecting the appropriate econometric framework after examining the data and their integration order. The stationarity of the variables at the level and the first difference is checked using Eviews 12. For the unit root test, the number of lags is specified using the Schwarz Information Criterion (SC) (Mariano and Ozmucur, 2020).

- The unit root tests are conducted under the null hypothesis:
- H0: There is a unit root (the series is non-stationary)
- If the P value is equal and less than 5%, the null hypothesis can be rejected, which means that the time series is stationary. If the P value is higher than 5%, the null hypothesis is accepted, which means that the time series is non-stationary. The outcomes of the ADF test are shown in Table 1.

Table 1 Augmented Dickey-Fuller (ADF) Unit Root Test for Stationary

Variables	At level				At first Difference			
	t-statistics	Prob.	Deterministic Regressors	Results	t-statistics	Prob.	Deterministic Regressors	Results
EXP	-1.209821	0.6611	Intercept	N-stationary	-6.38595	0.0000	Intercept	Stationary
	-1.002442	0.9325	Trd+Intercept	N-stationary	-6.42977	0.0000	Trd+Intercept	Stationary
	5.799553	1.0000	None	N-stationary	-2.29044	0.0230	None	Stationary
FDI	-2.439562	0.1376	Intercept	N-stationary	-19.9748	0.0001	Intercept	Stationary
	-1.790439	0.6911	Trd+Intercept	N-stationary	-19.5378	0.0000	Trd+Intercept	Stationary
	2.811576	0.9984	None	N-stationary	-18.2921	0.0000	None	Stationary

Note: H0: The series has a unit root and is not stationary. The margin of error is taken as % 5.

The ADF unit root test result, presented in Table 1, indicates that the probability value is more excellent than 5%, so the null hypothesis is accepted, which means that the time series is non-stationary. Hence, in testing with intercept, trend with intercept, and testing with neither intercept nor trend, the two variables (FDI, EXP) are not stationary at the level. That doesn't necessarily mean that anything is stationary if it is at a level; the variables will be stationary but at different levels. Hence, throughout the study, ordinary differencing was employed. By doing the same tests on the variables' first-order difference, we see that the probability value at the first difference is less than 5%. The null hypothesis is accepted since all the time

series are not stationary at level. However, when the first difference is taken, all the variables are stationary, consequently, the null hypothesis I rejected in the first difference.

In addition, the results of the stationarity tests show that the stationary assumptions of the Johansen tests are satisfied.

C. VAR Model

The present observations of a variable are linked to both its historical data and the historical data of other variables in the system using the (VAR) Vector Autoregressive model (Eric, 2021). If all of the variables have been shown to be stationary at the first difference, VAR analysis can be done. Even though there is no set rule for choosing a lag length for VAR analysis, a minimum of one or two lags should be utilized because this model uses annual data; therefore, the accurate prediction of the VAR lag length provided by the information criteria is the most critical need when building the VAR model. The lag duration for the VAR model has been determined, as shown in Table 2.

Table 2 Determination of Optimum Lag Length in VAR Model

Lag	LR	FPE	AIC	SC	HQ
0	NA	2.11e+11	31.75071	31.82868	31.78017
1	16.14102	1.74e+11*	31.55869*	31.79259*	31.64708*
2	0.773465	2.02e+11	31.70737	32.09720	31.85469
3	11.85738*	1.79e+11	31.58483	32.13060	31.79107

* Represents maximum lag order number for each criteria LR: sequential modified LR test statistic (each test at 5% level) FPE: Final prediction error AIC: Akaike information criterion SC: Schwarz information criterion HQ: Hannan-Quinn information criterion. The delay range with the most stars shown by EViews was selected.

The identification tests showed that the VAR model had no Autocorrelation or variance issues, and the model with the more stars was chosen as the ideal delay duration. Table 2 shows more stars at one lag in FPE, AIC, SC, and HQ criteria. As a result, one is the ideal lag duration for the VAR model.

Determination of Optimum Lag Length in VAR Model

Table 3 VAR Model Estimation Results

		Coef.	Std.err	t-statistics
D(LEXP)	D (LEXP (-1))	-0.041530	0.16682	-0.24894
	D (LFDI (-1))	0.004240	0.02360	0.17962
Constant		0.061466	0.01460	4.21083
D(LFDI)	D (LEXP (-1))	0.293126	0.28258	1.03731
	D (LFDI (-1))	0.214522	0.03998	5.36562
Constant		0.039564	0.02473	1.60009

Note: The minimum information criteria to establish the VAR model according to the four criteria (FPE, AIC, SC, and HQ) is one. The delay range with the most stars shown by EViews was selected.

The t-statistics value for the 5% level of significance is 1.96. As seen in Table 3, the t-statistics for EXP is more significant than 1.96; it is 4.21%, then the variable at lag one is significant. So EXP growth rate is influenced significantly by the growth rate of the FDI of the previous year. The findings indicate that a 1% increase in the EXP growth rate in the previous period causes the EXP growth rate in the current period to increase by 0.04%. And 1% increase in FDI growth rate in the previous period decreases the EXP growth rate to 0.004%.

D. Johansen Cointegration Test

We have tested for co-integration to ensure that the model to be estimated is valid and that it is based on an empirically significant relationship. To examine the long-term relationship between the variables and determine the number of cointegration equations, the Johansen Cointegration test has been applied. The VAR Lag order selection criterion approach was used to identify the lags present in the model prior to executing this test. The outcome of the VAR lag order selection criterion indicates that one lag was selected as the number of lags. The result of the cointegration analysis by Johansen is depicted in Table 4.

The null hypothesis is as follows:

Ho: There is no cointegration (no long relationship between variables)

Table 4 Johansen Cointegration Test Results

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical value	Prob.
None	0.343644	25.44369	12.32090	0.0002
At most 1	0.193491	8.601619	4.129906	0.0040

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical value	Prob.
None	0.343644	16.84207	11.22480	0.1602
At most 1	0.193491	8.601619	4.129906	0.0273

If the trace statistic is greater than the critical value, we reject the null hypothesis. According to Table 5, both the trace statistic and max-eigenvalue are more significant than the critical value. Hence, the trace statistic suggests the same thing that we are unable to rule out the null hypothesis. To conclude, in the long run, there is a cointegration within the model of the equation.

E. Error Correction Model (ECM)

Table 5 Error Correction Model

Variable	Coefficient	Std.Error	t-Statistic	Prob.
D(LEXP)	1.641223	0.567150	2.893807	0.0062
ECC	-0.584578	0.055319	-10.56736	0.0000
C	0.060378	0.050095	1.205259	0.2186

Error Correction Coefficient (ECC) takes a value between zero and -1. This value is used to correct long-term losses in the short term. The fact that ECC has a value within this range and is statistically significant means that there is a cointegration relationship in the long term. As a result, this study reveals that there is a long-term nexus between Exports and FDI inflows in China for the period 1979-2021.

VI. CONCLUSION AND RECOMMENDATION

In conclusion, the relationship between exports and FDI in China has been instrumental in driving the country's economic growth and development. The export-oriented strategy, supported by FDI inflows, has enabled China to become a global manufacturing powerhouse. However, there are ongoing efforts to diversify the economy and reduce reliance on exports. As China continues to evolve, the relationship between exports and FDI will likely play a crucial role in shaping its future economic trajectory.

Foreign Direct Investment (FDI) is usually seen as something that helps a country's economy grow. Boosting the exports (selling things to other countries) is a way to make the economy grow faster. When FDI comes into a country, it can make the exports increase because it brings advanced technology, good management skills, and access to global markets. This study looks at India to figure out how FDI is connected to exports using a method called VECM. This is important because there's a debate about whether FDI is coming to a country to find new markets or to become more efficient. The study finds a long-term connection between FDI and exports, showing that they are linked over time.

The relationship between exports and FDI in China has been a crucial factor in the country's economic development over the past few decades. China's economic reforms, which began in 1979, opened up the country to foreign investment and trade, leading to a significant increase in both exports and FDI inflows. This empirical analysis aims to understand the nature of this relationship and its implications for China's economic growth. The findings of this analysis suggest a strong positive correlation between exports and FDI in China. As China attracted more FDI, its export capabilities expanded, leading to increased export volumes and values. FDI has played a vital role in enhancing China's export competitiveness by bringing in advanced technologies, managerial expertise, and access to global markets. Foreign companies investing in China have established production facilities,

which have contributed to the growth of export-oriented industries such as manufacturing and electronics.

The analysis also reveals that FDI has acted as a catalyst for China's export diversification. Initially, China's exports were concentrated in labor-intensive industries such as textiles and garments. However, with the inflow of FDI, China was able to upgrade its industrial structure and move up the value chain. Foreign companies brought in advanced technologies and knowledge, which helped China develop industries in sectors such as electronics, automotive, and high-tech manufacturing. This diversification of exports has not only increased China's export earnings but also reduced its reliance on a few specific industries, making the economy more resilient.

Furthermore, the analysis highlights the role of FDI in promoting export-oriented Special Economic Zones (SEZs) in China. SEZs, such as Shenzhen and Shanghai, were established to attract foreign investment and promote exports. These zones offered various incentives, including tax breaks, streamlined regulations, and infrastructure development. As a result, FDI inflows into these SEZs led to the rapid growth of export-oriented industries within these regions. The success of these SEZs in attracting FDI and promoting exports has been instrumental in China's overall export performance.

Foreign companies investing money in China (FDI) have helped China sell more things to other countries (exports). But, at the same time, China's selling a lot of things globally has made it an attractive place for foreign companies to invest money. China's big consumer market and its ability to compete in selling things to the world have made it appealing to foreign investors. The fact that China can sell things worldwide is a big reason why foreign companies decide to put their money into China. So, the relationship between China selling things globally and foreign companies investing money in China is like a partnership, with each part helping the other. Looking at the data from 1979 to 2021, we see that foreign investment (FDI) has played a significant role in making China sell more things to other countries and diversify what it sells. Foreign investment has brought in advanced technologies, good management skills, and a way for China to sell things worldwide, making China more competitive. Special zones in China that focus on exporting have also helped industries that sell things to other countries grow. This mutual relationship

between selling globally and foreign investment has been a big force behind China's becoming a strong global economic player.

FDI plays a significant role in shaping government policies, revenue generation, and economic development. It provides governments with additional resources, influences policy reforms, promotes technology transfer and innovation, and helps prioritize sectors for development. However, governments must carefully manage FDI to ensure that it aligns with national interests and contributes to sustainable and inclusive growth. By doing so, governments can harness the benefits of FDI to drive economic progress and improve the well-being of their citizens. FDI has played a significant role in poverty reduction in China. Through job creation, technology transfer, infrastructure development, and stimulating domestic investment, FDI has contributed to China's remarkable economic growth and lifted millions of people out of poverty. However, it is essential to continue addressing the challenges associated with FDI and ensure that its benefits are shared inclusively. By doing so, China can continue its journey toward sustainable development and poverty eradication.

In conclusion, China's export sector has played a crucial role in the country's economic growth and global integration. Its manufacturing capabilities, diversified industries, infrastructure development, and government support have contributed to its success. While challenges exist, China continues to adapt and evolve, aiming to maintain its position as a leading exporter in the global market. The role of FDI in the economic development of China has been significant. FDI has brought in capital, technology, and managerial expertise, which have fueled China's economic growth, promoted exports, and created employment opportunities. However, it is crucial for China to carefully manage its reliance on FDI and ensure that it aligns with its broader development objectives.

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