

Role of Moderators in India's FDI Inflows and Bi-lateral Trade relationship with United States of America, Japan and Australia

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Abstract: This paper investigates how the quality of institutions and the level of trade policy affect the link between foreign direct investment (FDI) inflows and bilateral trade flows (exports and imports) between India and Australia, the United States and Japan from 2000 to 2024. The study uses a log-linear moderated ordinary least squares (OLS) regression model, which includes three institutional moderators: Economic Freedom Index (EFI), Applied Tariff rates, and the Control of Corruption Percentile Rank. To meet the OLS assumptions, all continuous predictors were mean centred before constructing interaction terms, and Newey-West heteroscedasticity- and autocorrelation-consistent (HAC) standard errors were used throughout. In 18 moderated regression models, the key findings are that tariff rates have a consistently negative impact on exports and imports in all three economies; and, FDI inflows have a positive impact, although one that is varied by context, in the volumes of trade. Critically, FDI-trade relationship is significantly moderated by corruption governance in Japan, such that stronger corruption control is linked to higher FDI and suppressed trade. Trade policy (tariff-FDI interactions) has a significant impact on the level of trade in the United States. The model fits well for all the specifications (R^2 from 0.744 to 0.985). The implications of these findings are important for policy makers in the context of the complementary role of institutional reform and trade liberalisation in increasing trade through FDI.

Keywords: Log-Linear Model, Newey-West HAC, Economic Freedom Index, Applied Tariff rates, Control of Corruption Percentile Rank

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