CHAPTER-1
INTRODUCTION

Globalization of a country is an outcome of combined efforts of the firms of a country. How domestic players internationalize their business is thus an important parameter for measuring the level of globalization of a county’s business (Srivastava and Kumar, 2000). Globalization of a country’s business typically takes place in several stages. At first stage it is in the form of export of country’s products and commodities. At the next stage it manifests in the form of presence of the firms in the foreign country for limited manufacturing and sales either independently or jointly with the partner in the host country (Panagariya, 2007).

Global economic environment is changing rapidly during the last two decades. This change is reflected in widening and intensifying international linkages in trade and finance. Various countries like Mexico, Chili, Spain and Greece are now favouring economic reforms for attaining rapid and sustained growth. Distortions and imperfections faced by these countries in terms of employment and higher prices can be decreased by increasing flow of foreign assistance and contribution to long term gains (Gupta, 2006). The importance of foreign direct investment (FDI) as a source of capital in the developing world has increased significantly over the last couple of decades. By the dawn of millennium, more than half of all capital flows to developing countries took the form of FDI. Foreign direct investment has been one of the most dynamic components of the world economy in recent decades (Arnal, 2008). The tremendous increase in FDI is undoubtedly related to the globalization of world economy. The scope for transnational production has expended as the various regional integration agreements have reduced the barriers to international trade and technical innovations in telecommunications and information technology have facilitated the coordination of international production network (Chakrabarti, 2002).

Developing countries gain the bundle of assets that transnational corporations (TNCs) deploy with their investments. Most of these assets are intangible in nature and are particularly scarce in developing countries. These include technology, management skills, channels for marketing products internationally, product design,
quality characteristics, brand names etc. In evaluating the impact of FDI on development, however, a key question is whether TNCs crowd in domestic investments or they have the opposite effects in displacing domestic producers or pre-empting their investment opportunities. The effects of FDI on investments may vary from country to country, depending on domestic policy, the kinds of FDI that a country receives and strengths of domestic enterprises. It is possible, however to specify conditions that are favourable to crowding in of FDI. In developing country, foreign investment resulting in production of new goods and services in domestic economy has favourable effects on capital formation than foreign investment in areas where there already exist domestic producers. In the former case, the effects on capital formation will be positive because domestic producers do not have the knowledge required to undertake these activities and therefore foreign investors do not displace domestic investors (Agosin and Mayer, 2000).

To attract foreign direct investment (FDI), governments of least developed countries (LDCs) have been competing with each other to provide foreign investors with special incentives, such as tax holidays and subsidies for infrastructure. The rationale behind this preferential treatment of FDI lies in large part from the belief that FDI generates externalities in the form of technology transfer. Local firms may increase their productivity by observing nearby foreign firms and becoming their supplier or customers or through labour turnover as domestic employees move from foreign to local firms (Liu et al., 2002).

Broadly speaking there are two types of foreign investments namely foreign direct investment and portfolio investment. Foreign direct investment relates to such investment through which the non resident investor acquires an effective voice in the management of the enterprise concerned. The threshold limit for classification of foreign investment as FDI has been fixed at 10 % or more of the ordinary shares held by or voting rights of non resident investors. Generally it is in the form of starting a subsidiary, acquiring a stake in existing firm or starting a joint venture in the foreign country. However, it is different from portfolio investment.
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Portfolio investment does not impart any long term controlling and lasting interest to investors. It refers to investment in public sector bonds and other types of bonds and corporate equities abroad. In this case, the investor has only a sort of property interest in investing his capital with the objective of getting return on it, but has not much control over the use of the capital. Foreign direct investment cannot be easily liquidated. Hence, various factors such as long term political stability, government policy, industrial and economic prospects may influence the direct investment decision, but portfolio investments can be easily liquidated. There are mainly two routes of portfolio investment i.e first is by foreign institutional investors (FIIs) like mutual funds and second is through global depository receipts (GDRs) and foreign currency convertible bonds (FCCBs) (Cherunilam, 2004).

1.1 Types of FDI:

**Horizontal FDI:** Horizontal FDI occurs when a company locates the manufacture of the same product or group of products at more than one plant located in different countries. The giant multinational automobile manufactures such as General Motors, Ford and Nissan are the examples of this type of FDI.

**Vertical FDI:** It occurs when a company locates different stages in the production and marketing of a single product or group of related products in different countries. Where the newly established subsidiary is producing at an earlier stage in manufacturing of a product, this is referred to as backward-vertical FDI. For example, a rubber manufacturer in Western Europe may invest in a rubber plantation in Malaysia. Where the newly established subsidiary is producing at a later stage of production or is concerned with marketing and distribution of finished goods. This is referred to as forward vertical FDI.
**Conglomerate FDI:** The third type of FDI takes place when a company acquires a controlling interest in or amalgamates with another company located in a different country, which is producing an entirely unrelated product or group of products. In this way, a multinational company is able to achieve product diversification (Kumar, 2000).

### 1.2 Forms of Foreign Direct Investment in India

Foreign Direct Investment Policy in India allows for investment only in case of the following form of investments

- Through financial alliance
- Through joint schemes and technical alliance
- Through capital markets, via Euro issues
- Through private placements or preferential allotments (SIA Newsletter, 2007-08)

### 1.3 Forms of Foreign Direct Investment in China

- Equity Joint Venture
- Contractual Joint Venture or Cooperative Joint Venture
- Wholly foreign-owned enterprises
- Share Company with Foreign Investment
- Joint exploration (OECD, 2000)

Does foreign investment contribute to growth? Countries like China have experienced large FDI inflows and high growth in recent years, while Korea grew rapidly without significant levels of foreign capital. Many Latin American countries have periods of slow growth despite openness to foreign capital, while much of sub Saharan Africa has experienced low growth and poor investment flows. In theory, foreign direct investment inflows affect economic growth thorough increased investment in the economy. The relation between the FDI and domestic investment is best explained through the following macroeconomic identity.
Investment = Domestic savings + Foreign savings

Where foreign savings refer to resources received from foreign citizen, as foreign equity and foreign debt inflows. Other things being the same, an increase in FDI increases foreign savings so increases investment in the economy. However, it may be possible that the increase in FDI inflows may coincide with a reduction in debt inflows (so that total foreign savings remain constant) or be accompanied by a fall in domestic savings (if there is a consumption boom) in each case domestic investment does not rise. The effect on balance of payments can be analyzed by rewriting the above identity as:

Foreign Savings = Imports - Exports

In general, an increase in FDI helps to increase available foreign savings, it allows the host country to import more or to accommodate a decline in exports. Thus, at least in short run, inflows of foreign capital allow the current account to worsen. This is not surprising indeed because the purpose of foreign savings is to import more in the short run. FDI financed short-run ability to import more could equally well support a consumption boom or an investment boom. If it were the latter, it would typically result in faster growth and possibly, increase exports. After allowing some profit repatriation on account of successful investment, the host economy would still benefit. However, the long-term outcome is not always so favourable, because, if the inflows are in the form of portfolio investment rather than FDI, they are more likely to result in consumption rather than investment boom. It has been noted that significant fraction of recent inflows to India have been short-term flows of portfolio capital, whose direction is easily reversed with changes in market perceptions. A sudden reversal of flows has catastrophic effect on investment, output, and the balance of payments. Instability in capital flows would then result in increased volatility in economy wide growth rates. In view of this, it may be optimistic to rely on FDI to increase investment and growth in India, especially in short run (Athreye and Kapoor, 2001).

Rostow (1956) has developed an economic growth model of the “stages” of growth to explain the presence of FDI inflows in the economic transition process in developing countries. In the model, FDI inflows into developing countries are viewed as a way to meet the requirements of capital as well as to transfer new technologies
during their transitional economies. Solow (1956) developed a new neoclassical growth model, and showed that output growth results from factors such as increases in labour quality and quantity through population growth and education, increases in capital through foreign capital, and progress in technology.

The more important question is how FDI inflows affect GDP growth. FDI inflows could promote GDP growth by providing additional employment in a labour surplus economy and by improving technological know-how and human capital. Foreign capital inflows could lead to stimulation of growth when such inflows can earn excessive profits in the host country, which are particularly likely in economies subject to various trade and financial distortions (Agrawal, 2000).

As FDI has a key role to play in host countries’ economic development, it can affect the host country at both micro and macro levels. At micro level, FDI may influence the technical and management efficiency of the joint ventures and local firms through technology transfer, labour training and spillover effects. At macro level, FDI may affect the real macroeconomic variables such as domestic investment, employment, exports and imports, economic growth and financial variables such as interest rates, foreign exchange rates, inflation and balance of payments (Sun, 1998). This does not mean that FDI can never lead to undesirable outcomes under all circumstances. FDI may sometimes produce objectionable results that are harmful to host developing countries. In most of the cases, these negative effects are a reaction to the distortions and inefficiencies in the domestic markets. Therefore, they are essentially avoidable with appropriate policy tools and a sound regulatory framework. If FDI enters the economy in activities in which competing domestic firms already exist, FDI may well reduce domestic investments that would have been undertaken by domestic producers. So FDI has both negative and positive contributions to host countries. Some of these are highlighted in the Table 1.1.

FDI has always been a subject of intense debate. Developed countries have been experiencing sudden increase in the level of the FDI inflow in the recent past years. The cause and consequence of FDI inflow indicates that large part of economic growth of developed countries is attributed to the level of FDI inflows. In a most liberalized economic environment, the flow of foreign direct investment appears to
### Table 1.1: Possible Contributions of Inward FDI to Host Countries

<table>
<thead>
<tr>
<th>Issue</th>
<th>Positive Contribution</th>
<th>Negative Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resources</td>
<td>By providing additional resources and capabilities e.g capital, technology, management skills and access to market.</td>
<td>May provide too few or wrong kind of resources and assets. It can also cut off the foreign markets compared with those serviced by domestic firms.</td>
</tr>
<tr>
<td>Entrepreneurs</td>
<td>By providing new entrepreneurship, management styles, work culture dynamics competitive practices.</td>
<td>An inability of foreign entrepreneurship, management styles and working practices to accommodate. The introduction of foreign industrial relations procedures may lead to industrial unrest.</td>
</tr>
<tr>
<td>Efficiency</td>
<td>By a more efficient resource allocation, competitive stimulus and spillover effects on suppliers and customers. FDI can help upgrade domestic resources and capabilities as well as the productivity of indigenous firms.</td>
<td>It can limit the upgrading of indigenous resources and capabilities by restricting local production to low value added activities and importing the major proportion of higher value intermediate products. It may also reduce the opportunities for domestic economies by confining its linkages to foreign supplier and industrial customers.</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td>By adding to the host country’s GDP and providing additional tax revenues to governments.</td>
<td>By restricting the growth of GDP and by transfer pricing or other devices to lower tax paid to host governments.</td>
</tr>
<tr>
<td>Balance of Payments</td>
<td>By improving the balance of payments, through import substitution, export generating or efficiency seeking investments</td>
<td></td>
</tr>
<tr>
<td>International Economic Integration</td>
<td>By linking better the host economy with the global market place and helping to advance economic growth by fostering a more efficient international division of labour.</td>
<td>By worsening the balance of payments, through limiting exports and promoting imports.</td>
</tr>
<tr>
<td>Political, Social and Cultural Factors</td>
<td>By exposing the host economy to the political and economic systems of other countries. The values and demands of foreign household and many customs and behavioural norms of foreign societies.</td>
<td>By causing political, social and cultural unrest; by introduction of unacceptable values to advertising, business customs and labour practices and by the direct interference of foreign companies in the political regime of the host economy.</td>
</tr>
</tbody>
</table>

*Source: UNCTAD, based on Dunning, 1994, pp.46–47.*
follow a law of gravitation, i.e. free flow of capital from capital surplus country to capital deficient country. However, the intervention by the government makes restrictive the inflow or outflow of the capital. The inducement to foreign investment is caused by numerous variables such as government’s policies, outlook of the economy towards the foreign capital, perceptions of investors, incentives, infrastructure, location etc. The 1980’s, 1990’s and 20th century have seen considerable changes in the level and composition of FDI in the economies of Asian region (Gedam, 1996).

1.4 Comparative Analysis of Economic Performance of India and China

China is basically a homogenous society, dominated by the Hans race despite the presence of a few ethnic, religious and linguistic minorities in regions such as Tibet, Xingjian and Manchuria. India, in contrast, is a veritable museum with every conceivable variety of heterogeneous castes, religions, languages and culture. The Chinese polity is a monolithic dictatorship of one party with a single individual wielding vast power while the Indian political system is a complex federal democracy (Wen, 2004).

The two Asian regions i.e India and China have achieved rapid, sustained economic growth but their rates of progress have been quite different. It is evident from Table 1.2 that in the year 1990 there was little difference between the GDP of India and China. With the passage of time i.e from 1990 to 2003 India’s GDPs increased by 81% while China’s GDP has shown a rise of 308%. This shows a considerable change in China’s GDP while India lagged far behind. In the year 2008 significant difference in GDP of both the countries is found. It was 1252 million $ in India as compared to 4348 million $ in China i.e 247% more than that of India.

China’s exports as a percentage of GDP were nearly 2.5 times than that of India in the year 1990. Afterwards it has shown increasing trend in both the countries with due course of time. India has relatively improved its exports performance but in 2008 India’s exports as a percentage of GDP (21.7%) was still less than that of China (37.6%). Imports as a percentage of GDP (8.5%) in case of India was less than that of China (15%) in the year 1990 i.e China’s imports were nearly double than that of India. However, from 1990 to 2008 both the countries have shown upwards tendency in this regard. Afterwards the difference between India and China’s Imports as a percentage of GDP meagre down and little gap of 6% was found in between these countries in the year 2008.
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### Table 1.2: Comparative Growth Performance of India and China

<table>
<thead>
<tr>
<th>Variables</th>
<th>1990</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Billion $)</td>
<td>327</td>
<td>592</td>
<td>688</td>
<td>1936</td>
<td>808</td>
<td>2282</td>
<td>1141</td>
</tr>
<tr>
<td></td>
<td>404</td>
<td>1647</td>
<td>17.5</td>
<td>11.75</td>
<td>16.6</td>
<td>26.35</td>
<td>9.72</td>
</tr>
<tr>
<td>%age change in GDP</td>
<td>-</td>
<td>81.03</td>
<td>17.5</td>
<td>17.44</td>
<td>17.8</td>
<td>16.6</td>
<td>27.7</td>
</tr>
<tr>
<td>Exports as a % of GDP</td>
<td>7.08</td>
<td>14.7</td>
<td>33.8</td>
<td>22.4</td>
<td>21.2</td>
<td>39.5</td>
<td>21.7</td>
</tr>
<tr>
<td>Imports as a % of GDP</td>
<td>8.5</td>
<td>16.0</td>
<td>31.3</td>
<td>25.4</td>
<td>24.7</td>
<td>30.4</td>
<td>26.8</td>
</tr>
<tr>
<td>High Technology Exports as a % of Mfg. Exports</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>29</td>
</tr>
<tr>
<td>Gross Capital Formation as a % of GDP</td>
<td>27.8</td>
<td>26.6</td>
<td>28.4</td>
<td>30.9</td>
<td>34.0</td>
<td>35.1</td>
<td>40.7</td>
</tr>
<tr>
<td>FDI as % of GDP</td>
<td>0.05</td>
<td>0.77</td>
<td>3.25</td>
<td>3.14</td>
<td>2.25</td>
<td>2.20</td>
<td>3.31</td>
</tr>
<tr>
<td>FDI (Million $)</td>
<td>162</td>
<td>4585</td>
<td>53510</td>
<td>60630</td>
<td>20336</td>
<td>25127</td>
<td>41554</td>
</tr>
<tr>
<td>%age change in FDI</td>
<td>-</td>
<td>2730</td>
<td>1435</td>
<td>13</td>
<td>21</td>
<td>208</td>
<td>42</td>
</tr>
</tbody>
</table>

*Source: Compiled from World Development Indicators for the year 2005-06, 2007-08 and 2008-09.*
It is also found that in 1990 there was not any significant difference between India and China as far as high technology export as a percentage of manufacturing exports is concerned. But with the passage of time China showed large percentage change in composition of exports. High technology exports as a percentage of manufacturing exports has increased from 6% in the year 1990 to 29% in 2008 in China, while there has been visualised no change for India in High technology exports as a percentage of manufacturing exports during this period of time. It indicates that China has become technically very advanced country over the period of time while India remained stagnant. Gross capital formation as a percentage of GDP was more in China (35%) than that of India (27.8%) in the year 1990. Both the countries have shown significant increase with the passage of time. The difference in position of both the countries regarding this variable almost doubled in 2008 i.e it was 34.3% in India and 46.9 % in China. This shows sluggish growth in capital formation of China as compared to India. FDI as a percentage of GDP was 0.05% in India and 0.86% in China in the year 1990. Both the countries have shown rising trend in this variable but China shows more growth as compared to India. In 2008, China’s FDI as a percentage of GDP (3.31%) was more than that of India (2.5%).

In the year 1990, FDI in India (162 $ million) was much less than that of China (3487 $ million) but with the due course of time India has improved a lot and showed 2730% change in FDI from 1990 to 2003. China has also shown increasing trend to the extent of 1435% during this period but it is less in contrast to India. Afterwards increase in FDI was noticed in both the countries. In India there was 21% increase in FDI from 2004 to 2005 while it was 19% for China during the same period. Year 2006 noticed a considerable percentage increase in FDI (208%) in India while China registered a very low percentage change (0.42%) in that year. This clearly indicates that India performed well over the period of time as far as growth of FDI is concerned but the added fact is that still China’s FDI (108312 $ million) in 2008 is more than that of India (41554 $ million). According to Human Development Report 2003 released by United Nations Development Programme (UNDP), “China’s exception growth is partly explained by its market based reforms that started in 1978, well before India embarked on a structural reforms programme in 1991”.
There is no doubt that part of China’s FDI inflows belong to the return of Chinese capital flight known as round tripping. The World Bank and other agencies and experts have estimated that the scale of this round tripping could be as large as 20% to 30% of the total FDI inflows into China. The issue of China’s round tripping FDI is important not only for China’s policy makers but also for international economic policy-making in other countries. The prevailing view of China’s FDI is that China has attracted too much of the global FDI flows at the cost of other developing economies and that China’s currency should be revalued to restore the international balancing capital flows and competitiveness. Hong Kong plays an important role in the process of this round tripping and in China’s integration into the world economy. In the past two decades, about 40% to 60% of China’s FDI inflows were from Hong Kong every year (Xiao, 2003). India and China can complement each other in addressing global markets by working together in areas of their specialization like:

- **Auto-components:** India has an edge in design and engineering skills, whereas China has advantages in mass production.

- **Information technology:** China dominates in hardware products, while India dominates in software design and applications development.

- **Pharmaceuticals:** China is a competitive producer of bulk drugs and intermediates, while India has a better reservoir of biotechnology skills, and has a more recognized IPR framework.

- **Technical education:** Considerable scope exists for collaboration in higher education, such as engineering, computer programming, business management, etc. NIIT has already set up a large network in China for its computer education series (Zhang, 2002).

### 1.5 Focus Areas for Attracting FDI Flows:

The low figures of FDI into India as compared to China and some South-East Asian economies, despite substantial upward revision following methodological adjustment, has been the source of some concern among policy circles. As considerable attention has been paid to enhance FDI flows into India yet the results
are not satisfactory. A government report (GOI, 2002) addresses reasons for inadequate performance of India in the area of FDI. The identification of causes drawn extensively on investor perception surveys carried out by major global consultancy firms like Boston Consultancy Group and AT Kearney has mentioned six major constraints for FDI inflows, which are as follows.

1. **Image and Attitude.** There is a perception among investors that foreign businesses are still treated with suspicion and distrust in India.

2. **Domestic Policy.** The FDI policy is quite straightforward and getting increasingly liberalized for many sectors in India. Once an investor establishes his presence, “national” treatment means that this investor is subject to domestic regulations, which are perceived as being excessive.

3. **Procedures.** Although approval for investment is given quite readily, actual setting up requires a long series of further approvals from central, state and local authorities. This introduces substantial implementation lags.

4. **Quality of Infrastructure.** Foreign investors are facing a number of problems related to infrastructure sector i.e irregular and inadequate supply of electricity and transport.

5. **State Government level Obstacles.** This issue is tied up with one of the most pressing agenda items for reform. At the level of actual investment the practices of state (and often lower levels) governments become important. There is widespread agreement among most observers that state government practices in issues such as land records, utility (power, water etc.) connections, providing clearances of various sorts may make an important difference in the time it takes to get a plant up and running. Differences in state practices in such matters partly explain the disproportionate flow of FDI to some states in the peninsular region of India. In addition, there are some fiscal barriers to unimpeded flow of goods and services within the country, although the level of such barriers has come down in recent times.

6. **Delays in legal Process.** Despite a highly structured legal system, dispute settlement and contract enforcement are time consuming activities in India. Such apprehensions deter the rapid flow of foreign investment.
This should be a matter of great concern and there are several studies on how the quantum of FDI flows in India can be enhanced. India’s competitiveness in the FDI sector needs to be sharpened. China and the Asian nations have been able to attract FDI because of their liberalising policies, and a large diasporas, China's attractiveness has also been enhanced by its entry into the WTO and South-East Asian nations build upon the ASIAN Free Trade Area (AFTA agreement), which came into effect in January 2002, and offers attractive tariffs. India has considerable potential in both these areas (Jha, 2005).

Following are the areas which require greater attention to improve the FDI inflows.

1. **Stability**: Stability is the most important element in the corporate appraisal of country’s FDI policy, as FDI involves a long term commitment. Unless the corporate body is sure that the present policy will continue for the same time, it is not in a position to take decision regarding FDI.

2. **Transparency**: Transparency depends upon the system in which the procedure and framework related to FDI is approved. Lack of transparency leads to unnecessary delay in the approval and the execution of the projects.

3. **Centre and State Interference**: There is virtually no cooperation between the states and central government in terms of FDI approvals and subsequent follow-ups. Once the approval for FDI is given by the central government to the foreign investor, he has to approach the state level agencies for project implementation. These approvals are related to acquisition of land, clearance of water, power connection, sales tax number, etc. Lack of cooperation between the centre and states has also affected the implementation of reforms in the domestic market.

4. **Environmental Clearance**: The issue of environmental clearance needs further analysis. As the environmental standard prescribed in many developed countries for many technologies are rigorous and stringent, there appears to be low risk in granting automatic approval to such technologies by government.

5. **IPR Issue**: Although the protection of intellectual property rights is not found to be one of the main determinants of FDI in several studies in different countries. yet, it is certain that stronger protection is likely to boost the flow of FDI to some industries
such as Pharmaceuticals, Agro-Chemical and Micro electronics. Intellectual property rights are also crucial for new projects.

6. **Financial Sector Reform:** The need for financial sector reforms has also been highlighted, especially by Japanese investors. The specific requests included liberalization of banking activities, development and stabilization of the call money market and removal of loan obligation to priority sector.

7. **Labour Laws:** Lack of an exit policy continues to worry foreign investor as there is no flexibility in the labour market. The existing laws place high degree of control as far as the closure of an industrial unit is concerned.

8. **FDI Policy Regime:** It is necessary to appreciate the FDI policy as it is only one of the concerns of the foreign investors. The FDI policy determines the ease of accessing the domestic market and the terms and conditions of entry. But the other policy regime and the operating environment determine the project viability, progress of project implementation and successful business operations. An investor therefore cannot concern himself with only what the new industrial policy provides but he must know the entire spectrum of rules, regulations, and operating condition (Bhattacharyya and Plaha, 1995).

Foreign Direct Investment (FDI) inflows into the major sectors plays important role as a source of capital, management and technology in the country. It implies that FDI has positive impact on host economy’s development effort. FDI can bring the technological transmission to the sectors through knowledge spillover and enhancement of labour productivity in a country. There is need for creating suitable environment by promoting positive spillovers for increasing FDI inflows into the core sectors of the economy.

1.6 **Organisation of Study:**

This study has been categorised into nine chapters. The first chapter introduces the meaning, types, positive and negative contributions of FDI inflows. The second chapter presents the review of the existing literature related to FDI. The third chapter covers the research design, objectives of the study, variables, and data sources. Moreover various statistical techniques used for the analysis of data have also been
incorporated in this chapter. Chapter four presents the global trends of FDI by explaining regional distributions, sectoral composition and emerging trends of FDI inflows in Asia and developing countries. While chapter fifth highlights the recent trends of FDI in India and China, the theoretical framework and empirical investigation of determinants of FDI in India and China has been discussed in chapter six. Chapter seventh seeks to examine the impact of FDI on some macroeconomic parameters in India and China. The causality between FDI and trade has been studied in chapter eight. The last chapter summarises and concludes the whole study with the major findings and suggestions to increase the FDI inflows in India. The scope for further research as well as limitations of the study has also been incorporated in this chapter.