the various sectors are not equally distributed and the inflows for the
different years are also not equally distributed. By analyzing the FDI
from the various countries, it is clear that inflow of the FDI differs from
one country to another.

CHAPTER VII
SUMMARY OF FINDINGS, SUGGESTIONS AND
CONCLUSION

7.3 Introduction
7.4 Summary of Findings
7.5 Summary of Suggestions
7.6 Conclusion.
7.1 Introduction

The study concludes its research, by providing findings and suggestions for the policy makers and further possible extended research in the same areas in the near future according to the changing environment in India. The chapter provides findings and suggestions based on the empirical data which were used and analyzed by applying statistical tools and techniques.

7.2 Summary of Findings

The researcher provides findings on the following headings for the purpose of quick reference and understanding which includes,

i. Findings related to the FDI and Indian Economy.

ii. Findings related to the industrial performance.

iii. Findings related to the social issues.

iv. Findings related to the Capital Market.
v. Findings related to the FDI in developed and developing economies and in Asia.

The detailed discussions on the above related findings are as follows:

7.2.1 Findings Related to the FDI and Indian Economy

In recent decades, most of the developing economies started to liberalize their economic policies and open their doors for the Multinational Companies, including China and other communist countries also. The countries have offered several incentives and taken several measures in order to attract more FDI into their countries. This is because of the leading, developed nations are benefited already from the FDI and improved their economic status. Now a days, there is competition among countries towards attracting the FDI and facilitate their regulations according to the expectations of the international investors.

India started its liberalization programme by introducing drastic changes in the Industrial and Economic policy in the year 1991. Before introducing the LPG programme, the foreign investment in the country was very low, and volatile in nature. Most of the foreign investment came from the US capital market. The more and more inflow of the FDI motivated the Indian companies to go abroad for investment and improve their status in the global market. The inflow of the FDI in the
initial period was very low and accounted for only Rs.174 crores in the year 1990-91 and the growth rate was slow till the year 1999-2000. The average growth rate was around 54 percent and the inflow of the FDI recorded the highest in the year 2007-08 at Rs.1,30,522 crores. The slow growth rate in the FDI was due to difficulties in policy, low economic performance, complex procedures in the FDI approvals, and other economic and political problems.

The FPI is also an important source of private foreign investment into the host economy in the global market. The inflow of the FPI into India was very low in nature accounting for Rs.11 crores in the year 1990-91, which was around not even 1% of total foreign investment. In the year 2007-08, the FPI accounted for Rs.1,18,288 crores which was nearly 31% of total foreign investment. During this year FPI reached the highest inflow into India.

The Foreign Institutional Investment in India was very low and negative in the year 1998-99 with US$ 390 million. In the year 2007-08 the trend changed and recorded the highest inflow of the FII with US$ 20328 million. The percentage of the FII in total foreign investment was 32.87% in 2007-08, which was nearly 70% of foreign portfolio investment. The FII again was highly speculative in nature and thus it was volatile. The FII was negative in the year 1998-99 with US$ 390 million. That shows that the FII sold more number of stake
holding and investment i.e. purchase of stocks by the FII in India was less. The trend increased due to high interest rate in India, favourable investment climate, well regulated stock market, dominated trading volume among the Asian countries and the like and reached to US$ 20328 million in the year 2007-08. The percentage of the FDI on total foreign investment was 52.45. On the other hand the FII accounted for 32.87 percent of the total foreign investment. The percentage of gap between the FDI and the FII on the total Foreign Investment was merely 20 percent. But the contribution of the FII from the beginning was volatile in nature.

In the recent decades outflow of foreign investment from India exceeds inflow of the Foreign Investment. This trend is continuing in the recent years, due to leading Indian companies’ aspiration to avail international recognition and to take the international opportunities. The FDI outflow from India in the year 2005 was US$ 2978 million and this trend increased to US$ 13649 million in the recent years. The global M&A of the Indian firms in the year 2005 was US$ 4958 million against the M&A of the foreign firms in India amounting to US$ 3759 million. The same data for the year 2008 increased to US$ 30414 million. The total M&A by the Asian countries was US$ 69499 million in 2005, US$ 132269 million in 2007 and US$ 76645 million in the year 2008.
The actual inflow of the FDI was very less in the beginning of the 1990s against the approved FDI till 2001. There was a vast gap between the approved FDI and the actual inflow of the FDI. The gap was nearly 54% of the total approved FDI. The actual inflow of the FDI was Rs.353 crores against approved FDI of Rs.505 crores. The gap was very high in the year 1999, the actual inflow of FDI recorded Rs.10,167 crores against approved FDI of Rs. 25,140 crores. In the year 2002 onwards inflow of the FDI exceeded the approved FDI due to the following of international practices to calculate the FDI data. The FDI data coverage was extended in this period. Thus the FDI inflow reached Rs.99,985 crores and Rs,1,30,522 crores in the year 2006-07 and 2007-08 respectively.

The study found that, the FDI has significant relationship with the Indian economic parameters. The relationship between India’s GDP and the FDI inflow has a significant relationship with the correlation value of $r = 0.883$. The impact of the FDI on India’s GDP also is significant with one unit of increasing the FDI resulting in 28.24 units of growth in the GDP. The study also explains the variation in the GDP at 77.97% ($R^2 = 0.7797$). The percentage of the FDI on the GDP was less in the year 1990-91 with 0.033 percentages and the percentage increased to 3.032 during the year 2007-08. Further the percentage of
the FDI on the country’s total GDP is again very less, and not even 4 percent. This is the highest percentage of the FDI on the GDP.

This empirical research finds that, the FDI has significant relationship with India’s exports with the correlation value between the FDI and the Export as $r = 0.938235$. The study shows that, the FDI has significant impact on India’s export with one unit increase in the FDI resulting in 4.515 unit growth in export. The study shows an interesting result that, the FDI has significant impact on FDI and the relationship, and there is significant change in export compared to the export before allowing the FDI into the country and after the FDI inflow. The result of t-test analysis shows $t = 4.25103477$. The FDI also has significant impact and relationship with import with a correlation value of $r = 0.947280175$. Increase in the FDI results in the increase in the import also.

The research result shows that the FDI and the prevailing Interest rate in India have significant relationship. The correlation between the FDI and interest rate is $r = -0.83404$, and the correlation between the FII and the interest rate is $r = 0.630728$. Thus, the study finds that, the inflow of the FDI will be more into the host country when the prevailing interest rate is less and the inflow of the FII will be more and when the interest rate is more in the host country vice versa.

7.2.2 Findings Related to Industrial Performance and FDI
The country allowed foreign investment in order to increase its industrial production. The study finds that there is a significant relationship between the FDI and the industrial production. The empirical study shows the correlation value of \( r = 0.867332 \). The FDI has a significant impact on the industrial production and the regression analysis result shows that one unit of the FDI inflow into India results in 2.9 units of increase in the industrial production. Further the study finds that there is significant change in the industrial production trend after introducing the FDI into India. Thus, the study concludes that, more and more inflow of the FDI results in increase in the industrial production. Thus, the country formulates strategies and policies to attract more FDI. It has significant impact and improvement in the Industrial production. The study further analyzes the significant relationship between the FPI and the industrial production. The result of correlation analysis gives the value as \( r = 0.809076 \). Thus, it is inferred that the FPI and the FDI have a significant relationship in Indian economy.

As for as the growth rate of the industrial performance is concerned, India achieved a moderate industrial growth rate in all these years, and the highest growth rate of 12.1 (general index) percent was achieved during the year 1995-96 and the lowest growth rate of 0.6 percent was achieved in the year 1991-92. This is because of negative
growth in the manufacturing sector. The interesting point is that India achieved more percentage of growth rates for instance 9.3 percent during the year 1981-82 and 9.1 percent in 1986-87 compared to 8.5 percent growth rate in 2007-08 after liberalizing its economy.

In respect to sector-wise inflow of the FDI into India, the service sector which includes the financial and the non financial sectors received nearly 23% of the total inflow amounting to Rs. 55,697 crores, cumulative inflow between April 2000 and March 2008. The interesting point is that India plays a dominant role in the service sector in the global market. The second largest recipient is the computer hardware and software sector accounting for 14% of the total FDI with Rs. 32,167 with a second position from April 2000 and March 2008. The other sectors like telecommunication, construction activities, housing and real estate, automobile industry, power, petroleum and natural gas, metallurgical industries, and chemicals (other than fertilizers) occupy first eight places with total FDI inflows of 6.21%, 5.44%, 4.54%, 4.01%, 3.91%, 3.35%, 2.99% and 2.50% respectively during the same period.

Foreign Technological Collaboration in India is another important factor. India received only 8,001 number of FTC from 1991 to 2008. The sector which received the highest FTC is the Electronic Equipments (including computer software & electronics) with 1256
numbers, which accounted for nearly 16 percent of the total foreign technological approval. The other sectors like Chemicals (other than fertilizer), Industrial Machinery, Transportation Industry and Miscellaneous Mechanical Engineering Industry got the top five ranks among the sectors of total FTC. These sectors received nearly 55 percent of the total technology. Maharashtra state occupied the first rank followed by Tamil Nadu with 17.25 and 7.79 percent respectively of the total FTC of 8,008. The third, fourth and fifth places went to Gujarat, Karnataka and Haryana respectively. This is because of the respective state’s importance to the infrastructure development and their priorities and facilities.

7.2.3 Findings Related to Social Issues and FDI

The study finds that, there is a significant relationship between the FDI inflow and the social issues like improvement in standard of living, employment, poverty alleviation and the like. For this, the Gross Domestic Savings are analyzed and it shows that there is a significant relationship between the FDI and the Gross Domestic Savings rate with a correlation of $r = 0.88362$. Further, there is a significant impact on Gross Domestic Savings due to the inflow of more FDI. The regression analysis result shows that one unit of the inflow of the FDI results in 14.41 units of increase in Gross Domestic Savings.
The research analysis shows a strong relationship between the infrastructure development and the inflow of the FDI. The correlation analysis shows that the value of \( r = 0.3523777 \). The infrastructure development has significant impact on the inflow of the FDI with an increase in infrastructure facilities. This leads to an increase in the inflow of the FDI. Further the finding shows increase in one unit of infrastructure development leads to 0.000448 unit of increase in the FDI inflow into India.

7.2.4 Findings Related to Comparison of FDI in India with Rest of the World and Specifically with Asian Countries

The total inflow of the FDI into India reached Rs.248810 crores (from August 1991 to September 2008). The total inflow of FDI in the year 2007-08 recorded a high amount of Rs. 130522 crores, which is nearly 53% of the total inflow of FDI. The country-wise inflow of the FDI fact sheet shows that Mauritius occupies the first rank which contributed nearly Rs.110,373 crores to the Indian FDI exchequer from April 2000 to March 2008, which is nearly 45% of the total inflow of the FDI during the same period, followed by the USA with the contribution FDI record of Rs. 19,957 (8.11 % of total inflow) during the same period.

A study of the share of the top five recipients of the FDI among the developing countries during the year 2001-05 shows that China
ranks first with 48% of the FDI and India ranks fourth with nearly 5% of the FDI inflow into the country. Out of the inflow of the FDI among the South Asian economies, India plays a dominant role with the FDI inflow of US$ 22,950 million in 2007 out of the total inflow of the FDI to South Asia which is US$ 30,620 million. This is accounted for more than 74% of the total FDI inflow into the South Asia. The second largest recipient among the nations of South Asia, is Pakistan with a total FDI inflow of US$ 5,333 million during the year 2007, accounted for 17% of the FDI inflow. The study finds that most of the MNCs prefer India for their Investment.

The total inflow of the FDI into the World economy was US$ 18,33,324 million in 2007. Out of that, developing countries attracted US$ 12,47,635 million that is 68% of world inflow and the Asian countries received US$ 3,19,333 million which accounted for 25% of the total FDI flow into the developing countries and India received only 7% FDI of the total of Asia’s share which amounted to US$ 22950 million.

The FDI outflow from India during the year 2007 was US$ 13,649 million, which is 7%, 5% and 0.68% of Asia’s, Developing Countries and the World FDI outflow respectively. The study finds that the FDI outflow from India again is low compared to the other leading
countries in the world. Regarding the Greenfield projects India could attract only 682 projects in 2007.

The FDI ranking performance Index shows that, India ranked 119th position in 2005 and 106th position in 2007 compared to China which ranked 64th and 88th position in the same period. The UNCTAD organization conducted a survey in order to rank the most attractive locations for the FDI in the world for the next three years from 2007. The result shows that most of the respondents ranked China as the first attractive location for the FDI with 56 points in 2007-09 and 55 points in 2008-2010. India is placed in the second position with 45 points in 2007-09 and 41 points in 2008-2010.

M & A data show that, in India the total number of M & A sold by the Indian companies were 66 in 2008 (Half year period) and 167 in 2007, out of the total sales in Asia as 1320 in 2007 and among the developing countries 892 during the year 2008 against 1972 in 2007. The total values of M & A sold by the Indian companies were US$ 2554 million in 2008 (Half year only) against US$ 5580 in 2007 and in Asia the value was US$ 56562 million out of the total sale value of US$ 94258 million by the developing countries during 2008. India’s share was around 5% of Asia’s sale value.

M &A made by the Indian companies were recorded as 194 in 2007 amounting to US$ 30414 million against the Asian countries
purchase of 1124 acquisition with US$ 132269 million. Of the total purchase, India’s share was 23% among the Asian countries.

The values of M & A purchased by Indian companies were US$ 30,414 million in 2007 against US$ 8556 million in 2008 (Half year only). The total purchases made by the developing countries were US$ 1,79,969 million, out of which the Asian companies purchased US$ 1,32,269 million value of M & A in 2007.

India’s export from the Central Government SEZ was Rs.19656.67 crores during the year 2005-06, which increased to Rs.25485.58 crores, forming nearly 30% greater than the previous year. The same kind of export from other SEZs were Rs.3,182.86 crores during the year 2005-06 and Rs.9,301.89 crores in 2006-07, which was nearly 193% greater than the previous year. Thus contribution from the other SEZs to export compared to the Central Government was nearly 35% only. This is due to the infrastructure gap and the size of the SEZ between these two.

7.3 Suggestions

This part of the chapter provides valuable suggestions to the policy makers in respect to the FDI into India and the rest of the world and for further enlarged studies in the same area in near future. There is no second opinion about the fact that the Foreign Capital is essential for the development of the economy. But the experience of many countries
including the East Asian countries pointed out that the country should be very cautious in its approach towards opening up its economic door to the foreign investors. The suggestions will be based on this study and within the limitations of the available data and the period. For the Government of India in liberalizing its economic policy in order to attract more FDI, the following suggestions will be helpful while making decisions in respect of the FDI.

7.3.1 **Industrial Policy**

Though India attracts more FDI, there is significant change in the Industrial production. As far as the industrial growth rate is concerned, India achieved the same industrial growth rate in the recent years, which it did before allowing the FDI. Thus, it will be better to divert the FDI inflow in order to increase the industrial production. For this, the Government of India can specify sectors oriented targets for each sector and frame the policy according to the development of the respective sector. Each ministry will be made responsible to achieve the FDI target by formulating strategies within their framework. In these cases each industry will have strategies and targets, so that the collective targets can be achieved. The FDI inflow can be made very meaningful, when each sector is clear about the quantum of foreign investment and the policy can be made hard or soft according to the inflow and growth strategy.
7.3.2 Export Policy

The inflow of the FDI has to increase the export of the host country. But in India, there is less significant change in the exports after allowing the FDI. Hence, the policy should ensure that the FDI should contribute to export and divert foreign investment into export oriented industries, so that, export will be increased and domestic business will be protected. The country will have specific procedures and policies for the export oriented FDI and can offer more incentives and benefits which will attract more FDI for these sectors. The government may have separate procedures and policies for the export oriented FDI and for the other forms of foreign investment. There should be a non governmental agency to support the foreign investor to familiarize the Indian policies and procedures for approval and come to know the benefit of investing in the export sectors. These kinds of support and efforts should be expanded and extended to each sector, by expanding similar kind of associations with the help of the government for assisting the first time foreign investors.

7.3.3 Tax Policy

In respect to tax treatment, the country may enter into more bilateral agreement with major source countries in order to prevent double taxation problem. For instance, investment flow between the
European counties benefited all the member countries and investors are also free from double taxation problems. India may initiate to be a member of more trade regions and establish agreement with other trade zones, so that double taxation problems can be minimized.

7.3.5 Approval Approach

There is a very large gap between the approved FDI and the actual inflow of the FDI. Most of the FDI proposals are dropped in the approval stage itself. In order to prevent this, the Government of India may simplify the approval procedures and reduce the number/stages of approval. For instance, the approval procedures are very simple and the stages are also limited to two to three in China. The Government of India can follow single clearances of the FDI proposals in order to prevent post approval delay. There are urgent initiatives for fast track clearance of legal dispute and improvement in bureaucratic mindset. There should be centralized, clear-cut norms or procedures for the FDI inflow and these procedures can be communicated to the source countries.

7.3.6 Policy related Suggestions

State level and regional-wise obstacles should be minimized and the FDI should be streamlined to all the states evenly by the central authority. A committee should be formed including the members from the private industries in our country, experts from the respective
industries, and members from the source countries in order to understand the problems in respect of the FDI policies and procedures. Thus, the gap between approved and actual inflow of the FDI can be minimized. There is an urgent need to strengthen both the FIPB and the FIIA so as to increase their effectiveness in removing the procedural bottlenecks and reducing bureaucratic problems. The FIPB could be improved for registration and approvals such as incorporation, DGFT (Direct General of Foreign Trade), customs, excise, income tax, registration and the like. It would speed up these approaches and registration procedures for promoting more FDI.

7.3.7 Redefine of FDI

The country has to extend the FDI data coverage like China, so the historical FDI inflows will be higher and create a positive impact on the FDI decisions of the source countries. Apart from equity inflow, and reinvested earnings, they may include inter-company debt transaction between the parent company and subsidiaries or between subsidiaries, overseas commercial borrowings like ADRs / GDRs, debt securities supplier’s credit and the like. They show less FDI profile in India’s balance of payment and it would lead to less importance among the competitive environment and less attraction by the world for identifying and understanding the trends of foreign investment in India.

7.3.8 Policy Related To Disinvestment Programme
India should encourage the FDI in the privatization process. The country may increase or remove the sector specific barriers and public encouragement to the FDI into privatization. Though it involves political sensitive issue, India could not secure significant advantage of privatization as benefitted and experienced by other countries. The FDI investment limit on various sectors can be liberal according to the purpose and by considering the importance of such foreign investment in a particular sector. Except the sensitive and security concern sectors, other sectors may be considered for further liberalization of investment limit which would benefit the nation. Apart from that, by considering the necessity of technology upgradation and the country can go for increasing the limit of FDI.

7.3.9 Sector-wise FDI Strategy

Major part of the FDI goes to service sectors like computer software and hardware, financial and non financial, telecommunication, and others. The country may formulate strategies in order to attract a large amount of the FDI in the manufacturing sectors, which will generate employment opportunities which in turn will improve the economic status of the country. The FDI flow must be encouraged in hi-technology oriented sectors. The domestic firms should be encouraged not to invest their profit outside the country, so that domestic capital does not get drained out from the country.
7.3.10 Protection to Domestic Business

While framing the FDI policy, the country should consider the possibility of threatening in the form of monopolistic practices. Independent and autonomous regulatory system must be built in order to benefit the public rather than the owners and/or managers of such monopolies. The absence of such expertise in the regulatory system may lead to monopolistic profit to the foreigners than the domestic operators.

7.3.11 Foreign Investment Law

The FDI policies and procedures in India are incorporated under the FEMA regulations. The country may have separate law dealing with the foreign investment and issues relating to issue or transfer of shares, divestment of original investment, foreign technology collaboration payment, repatriation of profits, acquisition and disposal of immovable property and the like by foreign investors.

7.3.12 Suggestion Relating to SEZ

In respect to the SEZ, the Government of India should initiate steps to establish more number of SEZs in the various parts of the country. The SEZ should be large enough to include all facilities especially the basic infrastructure facilities and others in accordance with the expectations of the Foreign Investors.

7.3.13 FII Related Suggestion
Short term foreign deposits and portfolio investments are speculative in nature and are highly volatile. Thus the government should have appropriate taxation policies on its capital gain. The corporate tax policy is also another important factor that affects the inflow of the FDI. It is necessary that, the government of India should rationalize the corporate tax structure. Before opening its door to the foreign investors, the country should strengthen the financial sector and prepare its domestic players by equipping strategies to face the competition from the foreigners.

7.3.14 Labour Market

While framing policies and allowing flexibility in respect to labour market, the policy makers should consider adverse effects of the labour market at the time when the foreign investor may exit from the country. The labour market should not sink and there should be a well regulated entry and exit policy for the FDI. The FDI can be encouraged more, which will increase the employment opportunity in India. This will strengthen the government to fight against poverty.
7.3.15 Suggestion Related to External Affairs

The government should create congenial atmosphere by maintaining good relationship with the neighbouring countries, which will create confidence among the foreign investors. Steps also should be taken to tackle corruption which will have adverse impact on the MNC’s investment decision.

7.3.16 Suggestion Related to Decentralization of Industry both in Urban and in Rural

Foreign firms usually prefer urban area due to the availability of infrastructure facilities, availability of skill labour, access to market and the like than the rural area. Because of these factors, there will be an imbalanced development in the country. The government should streamline the FDI distribution to be even among the all the various parts of the country. Emphasis should be given to the rural areas so that labour migration can be minimized.

The Government should give priority and importance to the foreign companies, which will generate more employment opportunities and there should be potential benefits to the society. Increase in the employment opportunities will in turn increase the level of standard of living and in the long run, poverty can be eradicated.

7.4 Conclusion
The research study found that the FDI plays a significant role in the process of economic development of India. The Foreign Direct Investment is essential for the development of Indian economy. Indian economy has grown substantially around 8.56% in the year 2007-08. But often the FDI creates confusions like possibility of adverse effect on exports, industrial production, balance of payment, domestic savings rate, political pressures, production of basic goods and services. The role of the foreign investment during the pre independence period was to exploit the natural resources and suppress the Indian traditional business. As the colonial master, Britain with high business interests in India was the key driver of trade policies in India during this period.

Trade and services formed the major part of business in this period. On the other hand in the beginning of the post independence period, the country faced financial problems for manufacturing industrial goods. Thus India lost its industrial revolution opportunity. The industrial development during that period was less. Foreign investment was also restricted due to the bad experience of the East India Company in India. After wards foreign investment was allowed only to a certain restricted sectors. In order to increase the industrial development, to create employment opportunity, and to manage foreign exchange problem, the country allowed the FDI during 1990-91. The more and more inflow of the FDI increases national economic status.
The study found that, the FDI benefits the nation by offering unblended blessing. It has significant effects on the GDP, the capital formation, the foreign exchange reserve, the industrial production and exports and the like.

Thus, the study concludes that, the FDI should be allowed cautiously and it should be monitored for real benefits to the country. The FDI policies should be framed by considering the Industrial development specifically and economic development in general. The Government should formulate the policy in order to regulate the Multinational Companies in India, but not interfere and control their business activities and their business strategies. Further research can be undertaken in the same discipline with extended periods. This study contributed significant insight in the field of FDI and industrial performance in India. This study provides a road map for future research in the area of FDI and its significance in India’s capital market, role of FDI in the service sectors including financial sectors, comparative study of FDI in India and rest of the developing countries, a comparative study of Indian Government policy towards FDI and other Asian countries policies and the like. This study also contributes valuable insight, suggestions, and base for the motherland policy makers and the regulating authorities to shape up their views and approaches towards foreign investors. A slow but steady approach
towards the FDI along with proper monitoring mechanism will
definitely benefit India.