CHAPTER – 6
CONCLUDING OBSERVATION, FINDINGS, POLICY IMPLICATIONS, SCOPE OF FURTHER RESEARCH AND LIMITATIONS OF THE STUDY
6. CONCLUDING OBSERVATION

Economic growth in many countries is financed either by its domestic savings or foreign capital that flow into the country. Prior to the financial sector reforms that led to the gradual opening up of the Indian Economy, we had to largely depend on domestic savings to give impetus to our growth. Though, foreign capital did flow into the country in the form of aid, external commercial borrowings and NRI deposits, it was not expected to contribute much towards capital formation or economic growth. After 1991, when the capital account was partially liberalized, it was felt that capital inflows (foreign direct investment as well as portfolio investment) would contribute substantially towards our economic growth and the results also proved the same. In present context, the most of the developing and under developing economies in the world are facing tough competition from the advanced economies.

Finally, it is observed that most of the developing countries has make their presence felt by receiving a fair amount of FDI in the last few decades. The inflows of FDI in India gradually increased from 1991 onwards. India is receiving FDI from more number of countries in the post reform period. India has also signed a number of bilateral and multilateral trade treaties with some developed and developing nations. The economic reform process which started in 1991 is helping India to create a congenial atmosphere for foreign investors and thus, gradually resulting in substantial amount of FDI inflows in the country.

The present study, therefore, explains the policy framework of GOI, trends and patterns with regard to foreign direct investments in India and also examines the extent of relationship between inflow of FDI and Industrial Output with the help of time series econometric analysis during the pre-reform period.

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The study further analyses the impact of foreign direct investment on some selected macro economic variables and tries to find out the explanatory factors behind cross-state variations in the inflow of FDI in India with the help of panel data regression analysis.

It also analyses the nature, extent, structure and implications of Cross-border deals in India.
The present chapter has been devoted to the discussion of some of the main findings along with valuable suggestions and policy implications of the study. Scope for further research in this area and limitations of the study has also been acknowledged.

6.1 FINDINGS OF THE STUDY

The major findings of our study can be summarized as follows:

(i) It is evident that in the first decade after independence (i.e. 1948 to 1958) the average number of collaborations approved per year was 50 but due to the announcement of some major policy changes in the second half of 1950’s, resulted in an increase of almost five folds in the number of collaborations which rose to 297 during 1959-66.

(ii) It is reflected that in the period from 1948 to 1955, the total number of approved cases was 284, which decreased to 82 in 1960. The total number of foreign collaboration approvals in the year 1970 was 183 which substantially increased when compared with the figure of 1960. Out of 183 cases, 32 have foreign capital participation with the total foreign investment involved amounted to Rs. 24.52 million. This may have happened due to the restrictive measures adopted by the government and the introduction of FERA in the previous years.

(iii) It is clear that the number of technical collaborations approved has been more than financial collaborations in the pre-reform period.

(iv) It is reflected that the foreign branches accounted for 45.92 per cent of FDI liability in India in 1964, which declined to 2 per cent in 1990. The decelerating growth in the foreign branches in the 70’s was attributed to the government's imposition of restrictions and the implementation of FERA which severely affected the stock of inflow of FDI in India.

(v) It is evident that UK has topped as the main source of FDI inflows in India in pre-reform period. In 1964, UK’s share was around 76.57 and in 1990 although it has decreased to 48.8 but still it was top among other countries. The share of FDI from U.S.A registered an increasing trend from 14.5 per cent in 1964 to 19 per cent in 1990.

(vi) It is evident that the FDI inflows in plantation have decreased from 18.7 per cent in 1964 to 9.5 per cent in 1990. During 1964, manufacturing got highest share of 40.5 per cent followed by petroleum 25.3 per cent, plantations 18.7 per cent, services 14.8 per cent and mining 0.9 per cent.
(vii) In this study we have made a modest attempt to analyse the patterns of foreign investment inflow and technology transfer in India during different policy phases before the inception of economic reforms. The changing pattern reflects the growing investor confidence in the country.

(viii) Here, we have tried to examine the relationship between IO and FDI by applying Econometric Time series analysis. We have found co-integrating relation between the series which reveals that there is long run equilibrium relationship between IO and FDI during the pre-reform period.

(ix) A comparative analysis of FDI approvals and inflows reveals that there is a huge gap between the amount of FDI approved and its realization into actual disbursements. All this depends on various factors, namely regulatory, procedural, government clearances, lack of sufficient infrastructural facilities, delay in implementation of projects, and non-cooperation from the state government etc.

(x) Although, total number of foreign collaborations has increased since 1991, it is evident that financial collaborations have gradually outnumbered the technical collaborations which indicate that investors are more interested in financial collaborations rather than technical ones. The increase in financial collaboration could be because of the relaxation given by government in the investment norms for financial collaborations.

(xi) From the inception of economic reforms in India in 1991 until the year 2000, most of the FDI came through the government route as there was strict monitoring of the approvals, therefore, FDI coming through the SIA/FIPB route was greater than the FDI coming through the RBI route.

(xii) Among the countries heading the list of FDI inflows into India is Mauritius. This could be attributed to the double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. However, Singapore is the second largest investor in India followed by the US and other developed countries like the UK and the Netherlands, which are India’s major trading partners. While the significance of Germany and Japan has declined in terms of their share in FDI inflows into India, Cyprus and the UAE have entered the list of top 10 investing countries during the recent cumulative period.

(xiii) Since the onset of liberalization, the country experienced a high jump in the inflows of FDI in service sector because of the tremendous growth potential that it possesses. This sector has ranked among the top ten sectors attracting FDI since 1991.
Service sector comprising financial and non financial, banking and insurance, outsourcing and research & development services ranked two during 1991-99 by attracting 11.08 percent of total FDI inflows during that period.

(xiv) There is a long list of different sectors attracting FDI in India. The new entrants in the FDI regime are information and broadcasting, ports, printing of books, education hospitals & diagnostics, Air transport, railway related components, non-conventional energy, diamond & gold ornament and defence industries. But there are other industries like drug & pharmaceuticals, cement & gypsum, food processing, textiles, fermentation, hotel and tourism, paper and pulp, ceramics, agricultural machinery, scientific instruments, boilers and steam generators, glue and gelatin and glass industries whose positions have been more or less the same over the years from 1991 to 2009.

(xv) India's post reforms experience suggests that substantial proportion of FDI has gone to services, infrastructure & relatively low technology intensive consumer goods industries compared to high concentration in technology intensive manufacturing industries in the pre reform period. In the pre reform period, FDI was consciously channeled into technology intensive manufacturing through a selective policy.

(xvi) Here, we have also attempted to examine the relationship between IIP and FDI by applying Econometric Time series analysis. We have found co-integrating relation between the series which reveals that there is long run equilibrium relationship between IIP and FDI during the post-reform period.

(xvii) The study signifies that FDI inflows enhance the imports to the country. As it is evident that FDI may contribute to India's economic growth by augmenting the countries capital stock, introducing complementary inputs, inducing technology transfer and skill acquisition and increasing competition in the local industries. Of course, FDI may also inhibit competition and thus hamper growth, especially if the host country government affords extra protection to foreign investors in the process of attracting their capital.

(xviii) It can be observed from the analysis that FDI has helped to raise the GDP, FER, Export and Import of India. We have also attempted to examine the relationship between NSDP and FDI by applying Panel Data Regression Analysis. We surprisingly found that NSDP and FDI are negatively related. The possible explanation may be that with the increase in FDI inflows in Indian economy Domestic
Investments deteriorated which indicates the Domestic Investment is being replaced by FDI.

(xix) It is clear that both MRTP and non-MRTP companies have used mergers and take-overs as an important means of growth since the 1970s. The evidence suggests that the number of mergers among non-MRTP companies was always more than in the case of MRTP companies during the period 1970-71 to 1990-91, although the involvement of MRTP companies in the merger movement was relatively higher in the eighties as compared with the seventies.

(xx) A categorisation of mergers in terms of manufacturing and non-manufacturing firms showed that the participation of manufacturing firms in the merger movement was always higher than that of the non-manufacturing firms in the case of both MRTP and non-MRTP companies throughout our study period. However, the participation of non-manufacturing firms in the merger trend increased sharply in the 1990s.

(xxi) The private foreign firms have not consolidated their Indian operations through mergers, instead, they have used the route of acquisition to enter into the Indian market and strengthen their presence therein. Interestingly, quite a large number of private foreign firms have been acquired by the private domestic firms. Whether such acquisitions are due to improvement in market position of the private domestic firms or due to failure of the foreign private firms in their Indian operations need further scrutiny.

(xxii) Although a large part of the deals were concentrated in manufacturing sector, the number of M&A varied significantly across different industry groups depending on the nature and scope for M&A therein. Majority of deals were concentrated in the industries like food products, textiles, chemicals (especially, in drugs and pharmaceuticals), metals, and machinery. In addition, non-metallic minerals and electronics also had a reasonable share in the M&A activity. On the other hand, the industries like beverages and tobacco, automobiles, petroleum and rubber had negligible share in the total number of deals of M&As.

(xxiii) In the service sector also the distribution of M&A is skewed towards a few areas like financial services, wholesale and retail trading, information technology, and construction. These four services together have accounted for more than 70 percent of M&As during the post reform period.

(xxiv) We have tried to investigate the relationship between M&A value and Index of Industrial Production (IIP) during the post reform period by applying Karl Pearson’s
The result indicates that there is a statistically significant relationship between two variables namely IIP and FDI in the form of M&A values. Therefore, we may append that the flow of FDI through M&A has helped boosting the rate of growth of assets vis-à-vis the rate of growth of IO in India during the post reform period.

(xxv) We have observed that there is a gradual shift in organic ways of Greenfield investment to inorganic means of Merger & Acquisition investment. Ideally it should lead to more technology spillovers, and thereby higher productivity and efficiency. The occurrence of these deals in more technology intensive sectors by firms from more industrialized countries adds more flavour to this. The occurrence of large number of horizontal deals especially the cross border deals raises another issue namely the foreign control.

### 6.2 POLICY IMPLICATIONS

The study so far has examined the positive impact of FDI inflows on the Indian economy. The purpose of the study would be defeated if one fails to highlight the policy lessons of FDI on the performance of the economy. It is obvious from the results of the study that the economy on a number of aspects has improved significantly by promoting FDI in India, but it may also have created certain problems in Indian economy. Therefore an attempt has been made to explore the nature of policy implications which are as follows:

(i) The focus of the FDI policy should be on maximization of its contribution to India’s development rather than on maximization of the magnitude of inflows by themselves.

(ii) One respect where substantial potential remains to be exploited with respect to foreign companies’ contribution to India’s development is expansion of the countries exports. This is possible only through a selective policy with respect to entry. Export requirements on foreign companies would not only generate foreign exchange but would also ensure that companies bring to the country an internationally competitive technology.

(iii) Presently, more and more countries are focusing on technology intensive product exports. They are adopting innovative technologies through technological and strategic alliance with transnational corporations. It is clear that to accelerate India’s
exports on sustainable basis, the focus has to be centered on “Technology-based exports”

(iv) The sphere where governmental intervention may be required to maximize gains from the foreign capital is in diffusion of knowledge brought in by the foreign enterprises. An important channel of diffusion of knowledge brought in by foreign enterprises in the country is vertical inter-firm linkages with domestic enterprises. India can consider employing proactive measures that encourage foreign and local firms to deepen their local content.

(v) The coming of FDI in the country may hamper/hinder the growth of cottage/small-scale industries which are very conducive to the growth and balanced development of the economy because they are of labour-intensive technology, which suits best our economy, which is facing massive unemployment and overpopulation. The Indian government, therefore, must be quite-vigilant, while fixing the terms and conditions for the foreign direct investors, i.e. the interest of the small-scale industries must be taken care of.

(vi) The recent spurt of the cross-border mergers and acquisition activity may have adverse effects on the market concentration if the affiliates of the merged enterprises operate as competitors. Adoption of effective competition policy instruments should be an item on the policy agenda of India to minimize the adverse impact of policy resort to restrictive business practices by parent companies.

(vii) The union government may urge the states to enact a special investment law relating to infrastructure to expedite all kinds of investments in the field infrastructure sectors and remove hurdles faced by different production sectors in the economy.

(viii) The government empowers the Foreign Investment Promotion Board (FIPB) to give initial central level registrations and approvals where possible, with a view to speeding up the process of project implementation.

(ix) The existing strategy for attracting FDI should be improved. The relative emphasis must shift from a broad approach to one of targeting specific companies in specific sectors. The Foreign Investment Promotion Council should be reformed to implement this strategy.

(x) The informational aspects of the strategy should be refined in the light of the perceived advantages and disadvantages of India as an investment destination and should use information technology and modern marketing techniques.
(xi) The subsidiaries of foreign companies operating in India enjoy the access to their parents’ brand and trade names beside a number of other intangible assets. The policy to promote a healthy competition between domestic firms and the subsidiaries should aim at assisting national firms to build their own brands and technological capability.

(xii) The Indian government should participate in the future negotiations at WTO to protect the national interests. India should build a consensus for an exception from the provisions of TRIMs, based on low level of industrialisation.

(xiii) Domestic policy reforms in the power sector, urban infrastructure and Real Estate and de-control/de-licensing should be expedited to promote private domestic and foreign investment.

(xiv) India needs to build a sound investment climate in order to achieve high growth rates. This involves a review of its institutions, policies and regulations. The role of sub-national government in attracting FDI inflows should also be clearly defined. With a highly bureaucratic and corrupt local government or with an inefficient infrastructure and financial services, investing firms will not be rendered reliable services. Such conditions will make it difficult to persuade entrepreneurs to invest in potential export opportunities, since their returns will be low and uncertain.

(xv) The liberalisation of FDI policy may be necessary but not sufficient for expanding FDI inflows. The overall macroeconomic performance continues to exercise a major influence on the magnitude of FDI inflows by acting as a signaling device for foreign investors about the growth prospects for the potential host economy. Hence, paying attention to macroeconomic performance indicators such as growth rates of industry through public investments in socioeconomic infrastructure and other supportive policies and creating a stable and enabling environment would crowd-in FDI inflows.

(xvi) The policy makers should design policies where foreign investment can be utilized as means of enhancing domestic production, savings, and exports; as medium of technological learning and technology diffusion and also in providing access to the external market.

(xvii) Government should ensure the equitable distribution of FDI inflows among states. The central government must give more freedom to states, so that they can attract FDI inflows at their own level. The government should also provide additional incentives to foreign investors to invest in states where the level of FDI inflows is quite low.
Government should open doors to foreign companies in the export-oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.

Government must target at attracting specific types of FDI that are able to generate spillovers effects in the overall economy. This could be achieved by investing in human capital, R&D activities, environmental issues, dynamic products, productive capacity, infrastructure and sectors with high income elasticity of demand.

As the appreciation of Indian rupee in the international market is providing golden opportunity to the policy makers to attract more FDI in Greenfield projects as compared to Brownfield investment. So the government must invite Greenfield investments.

Finally, it is suggested that the policy makers should ensure optimum utilization of funds and timely implementation of projects. It is also observed that the realization of approved FDI for actual disbursement is quite low. Hence it is suggested that the government while pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red-tapism, and the rampant corruption, so that investor's confidence can be maintained for attracting more FDI inflows to India. Last but not least, the study suggests that the government ensures FDI quality rather than its quantity.

Therefore, in the light of the above, it is clear that it is utmost important for the host governments to preserve the policy flexibility to pursue selective policy or impose performance requirements on FDI as and when necessary.

Indeed, India needs a business environment which is conducive to the needs of business. Foreign investors don’t look for fiscal concessions or special incentives but they are expecting easy official procedures, rules and regulations, clearance, and business opportunities in India.

6.3 SCOPE FOR FURTHER RESEARCH

An attempt has been made to analyse the impact of FDI in a comprehensive manner, still, it is impossible for a single study to accommodate its all possible aspects. Hence, the areas where future studies can be initiated are:

To study the impact of FDI on Indian economy by making use of investment multipliers to gauge the multiple increases in the national income which is possible by
the knowledge of marginal propensity to consume and the same is obtained by estimating the simple linear consumption function of the economy.

Another aspect relating to the future scope of study may be comparative in nature with regard to impact of FDI on two or more similarly placed economies that throw light about its impact on the positive and negative aspect of the economies, which may further guide the economies in taking appropriate policies to bring their economies on the right path.

Similarly, there may be situations while analyzing the role of FDI in the context of key macro variables of an economy where one is uncertain whether FDI is the cause for the change in macro variables of the economy or it is other way, i.e., the macro variable are the cause for affecting the state of FDI.

An interesting topic for future research would be to analyse how foreign direct investment in India is affected by factor endowments such as knowledge capital, in order to better explain the driving forces of FDI and more closely determine whether FDI tends to be vertical rather than horizontal in nature.

Another interesting research avenue would be to undertake a causal analysis to determine whether the relationship between FDI and growth is unidirectional or bidirectional.

6.4 LIMITATIONS OF THE STUDY

All possible steps have been taken to make the results of this study fruitful. The study has covered all related subject matters with FDI, although some of the concepts have not been covered under this study due to lack of time as well as non-availability of data on these concepts. At various stages, the basic objective of the study suffered due to inadequacy of time series data from related agencies. There has also been a problem of sufficient homogeneous data from different sources. Although enough of data on FDI was available with RBI, DIPP, Ministry of Commerce and Industry, UNCTAD but there was no consistency and similarity in the data. For example, the time series used for different variables, the averages are used at certain occasions. Therefore, the trends, growth rates and estimated regression coefficients may deviate from the true ones. FDI in the post-liberalisation period was easily and up-to-date available but consistent and continuous FDI data on pre-liberalisation period was difficult to found as no organisation has made efforts to compile it till date. The FDI
policy is quite dynamic in nature as it is heavily influenced by developments in the international environment. Sudden policy changes during and after the completion of the research might affect the variable under study. Lastly, it is important to note that missing data do not necessarily mean that the information does not exist in the country or outside. Rather, it may indicate that we failed to find any information in the sources used for this study.