CHAPTER 2

REVIEW OF LITERATURE
A lot of research has already been done across the globe analyzing the various aspects of FDI. These studies can be broadly classified into two categories:

**MACRO VIEW**

The studies done in this group focus on FDI as a particular form of capital across national borders from home to the host countries as measured in the BOP. The variables of interest in these studies are the flows of financial capital, the value of stock capital that is accumulated by the investing firms and the flows of incomes from these investments.

**MICRO VIEW**

Studies under this group try to explain the motivation for investment in controlled foreign operations from the viewpoint of the investor. The emphasis here is on examining the consequences of the operations of the MNCs to the home and the host countries. These consequences arise from their trade employment, production, and their flows of stocks of intellectual capital unmeasured by the capital flows and the stocks in the BOP.

Most of the currently held perceptions of foreign investments role take a macro view. Such a positive view gained currency mainly after the Latin American crisis in the early eighties and the South-East Asian crisis in the late nineties and accordingly the structural importance of FDI has been restored back in comparison to foreign financial flows. The crux of the policy, therefore, is how the benefits of such investments are distributed over the foreign firms and the host country. However, in a
micro perspective, a different question is asked – what does FDI do to the working of the domestic markets and their effect on productivity and output.

In the development literature, well reflected in the International as well as the Indian discourse, there has been a lot of debate generated along various aspects of FDI. Some of the major works are reviewed here. For simplification purpose the studies have been divided in two categories.
SECTION 2.1

STUDIES FROM THE GLOBAL PERSPECTIVE

Mihir Desai, Foley and Antras (2007) in their study try to provide an integrated explanation for MNC activity and the means by which it is financed. They are of the view that the ways in which the firms try to obtain external finance can create many frictions for the firm, which leads, further to multinational activity. However, the desire to exploit technology is not affected by the financing decisions. They try to relate the level of financial development of an economy to MNC activity and they find that the propensity to do FDI, the share of affiliate assets financed by the parent firm and the share of affiliate equity owned by the parent are higher in countries with weak financial developments, but the scale of MNC activity is lower in such settings. They conclude that in India MNC activity is likely to be limited by concerns over managerial opportunism and weak investor protection and the ability of the Indian MNCs to employ their internal capital markets opportunistically will help dictate their overseas and domestic success.

Foley et. al. (2005) in their study try to evaluate the evidence of the impact of outbound FDI on the domestic investment rates. They find that OECD countries with high rates of outbound FDI in the eighties and nineties exhibited lower domestic investment than other countries, which suggests that FDI and domestic investment are substitutes for each other. However, in the US, in the years in which US MNCs had greater foreign capital expenditures, coincided with greater domestic capital spending by the same firms, implying that foreign and domestic capital are complements in production by the MNCs. This effect is consistent with cross sectional evidence that firms whose foreign operations expand simultaneously
expand their domestic operations and suggest that interpretation of the OECD cross-sectional evidence may be confounded by omitted variables.

In another study James Markusen (2003) and others have tried to explain the phenomenon of export platform (a situation where the affiliate’s output is largely sold in the third markets rather than in the parent or the host markets). They find that pure export platform production arises when a firm in each of the high cost economies has a plant at home and a plant in the low cost country to serve the high cost country. Another case of export platform arises when there is trade liberalization between one of the high cost countries and small low cost countries. The outside high cost country may wish to build a branch plant inside the free trade area due to the market size but chooses the low cost country on the basis of the cost.

Lee Bransteeter et. al. (2007) in their study try to theoretically and empirically analyse the effect of strengthening IPRs on the level and composition of industrial development in the developing countries. They develop a North-South product cycle model in which northern innovation, southern imitation and FDI are all endogenous variables. The model predicts that IPR reform in the south leads to increased FDI from the north as the northern firms shift production to the southern affiliates. This FDI accelerates southern industrial development. Also as the production shifts to the South, the northern resources will be reallocated to R&D, driving an increase in the global rate of innovation. Testing the model’s predictions the study finds that MNCs expand the scale of activities in reforming countries after the IPR reforms.

In a different study Mihir Desai et. al. (2005) focus on the impact of rising foreign investment on domestic activity. It is observed that firms whose foreign operations grow rapidly exhibit coincident rapid growth of domestic operations but this pattern is inconclusive as foreign and domestic business activities are jointly determined. Their
study uses foreign GDP growth rates interacted with lagged firm specific geographic
distributions of foreign investments to predict changes in foreign investment by a
large number of American firms. Estimates indicate that 10 percent greater foreign
capital invested is associated with 2.2 percent greater domestic investment and 10
percent greater foreign employee compensation is associated with 4 percent greater
domestic employee compensation. They find that the changes in foreign and
domestic sales, assets, and no. of employees are positively associated and also
greater foreign investment is associated with additional domestic exports and R&D
spending.

Jonathan Haskel (2004) and others in their study try to find out whether there are any
productivity spillovers from FDI to the domestic firms and if so how much should the
host countries be willing to pay to attract FDI to their countries. Using plant level
panel covering U.K. manufacturing from 1973 through 1992 they estimate a positive
correlation between domestic plant’s TFP (Total Factor Productivity) and the foreign
affiliates share of activity in that plant’s industry. Typical estimates suggest that a 10
percent point increase in foreign presence in the U.K. industry raises the TFP of that
industry’s domestic plants by about 0.5 percent. These estimates are used to
calculate the job value of these spillovers. These calculated values appear to be less
than per job incentives that the Government has granted in some cases.

In an interesting study Volcker Nocke and Stephen Yeaple (2004) develop an
assignment theory to analyse the volume and composition of FDI. Firms conduct FDI
by either engaging in Greenfield investment or in cross border acquisitions. They find
that in equilibrium, Greenfield FDI and cross-border acquisitions coexist, but the
composition of FDI between these modes varies with firm and country
characteristics. They observe that firms engaging in Greenfield investment are
systematically more efficient than those engaging in cross border acquisitions. They
find that most FDI takes the form of cross border when factor price differences
between countries are small, while Greenfield investment plays a more important role
for FDI from high wage to low wage countries.

In an edited volume Dilip Das (2001) studies the world of private capital flows and
concludes that FDI has positively contributed to growth and development, especially
in the case of China. Analyzing the flows of FDI and its composition world wide, he
posits that earlier the flows were composed largely of commercial bank debt flowing
to the public sector where as the recent years have witnessed an increase in the
level of private sector portfolio and direct flows. One reflection of the importance of
the investment climate is that the levels, location, motive for FDI into transition
economies are strongly associated with the progress in transition.

Magnus Blomstrom and Ari Kokko (2005) suggest that the use of investment
incentives to attract more FDI is generally not an efficient way to raise national
welfare. The strongest theoretical motives for financial subsidies to attract investment
are spillovers of foreign technology and skills to local industry and the authors argue
that these benefits may not be an automatic consequence of foreign investment. The
potential spill over benefits is realized only if the local firms have the ability and
motivation to invest in absorbing foreign technology and skills. To motivate
subsidization of foreign investment, it is, therefore, necessary at the same time to
support learning and investment in local firms as well.

In his study on human capital formation and FDI in developing countries, Koji
Iyamoto (2003) takes a view of the complex linkages between the activities of the
MNCs and the policies of host developing countries. The literature indicates that a
high level of human capital is one of the key ingredients for attracting FDI as well as
for the host countries to get maximum benefits from these activities. He finds that one
way to improve human capital formation and attract more FDI is to provide a strong incentive for MNCs and Investment Promotion agencies to participate in formal education and vocational training for workers employed with domestic firms. In addition FDI promotion activities can target high value added MNCs that are more likely to bring new skills and knowledge to the economy that can be tapped by the domestic enterprises.

Analyzing foreign investment trends, Vincent Palmade and Andre Anayiotas (2004) find no reason to be skeptical about the fall in FDI since 1999 and the growing share of China in FDI, which worries most of the developing countries. They say that the decline is largely a one time adjustment following the investment boom of the nineties. They assure that FDI is now more varied as it is coming from more countries and going to more sectors. The conditions for attracting FDI varies by sectors: in labour intensive manufacturing, efficient customers and flexible labour markets are the key while in the retail sector, access to land and equal enforcement of the tax rules matter the most. In the interests of the domestic investors and also to attract more investment they advise to sort out the various micro issues by different sectors.

Studying the trends of FDI in the OECD countries, Hans Christiansen and Ayse Bertrand (2004) conclude that though the FDI in the OECD countries continued to fall in 2003, because of sluggish macro economic performance which depresses outward and inward FDI, it does not imply that FDI activity is low by any longer term historic standard. The reasons they give for low FDI activity is that companies operating in the economies with poor macro economic performances are less attractive to the outside investors and scale back their outward investment also. Another reason is that several sectors that saw rampant cross-border investment in the late 1990s and 2000 have entered into a phase of consolidation during which enterprises tend to be
disinclined to embark on new purchases while still in the process of integrating foreign acquisitions of recent years in their corporate strategies.

Nagesh Kumar (2001) analyses the role of infrastructure availability in determining the attractiveness of countries for FDI inflows for export orientation of MNC production. He posits that the investment by the governments in providing efficient physical infrastructure facilities improve the investment climate for FDI. He first constructs a single composite index of infrastructure availability of transport, telecommunication, and information and energy for 66 countries over 1982-94 periods using principal component analysis. The role of infrastructure index in explaining the attractiveness of foreign production by MNCs is evaluated in the framework of an extended model of foreign production. The estimates corroborate the fact that infrastructure availability does contribute to the relative attractiveness of a country towards FDI by MNCs, holding other factors constant. These findings suggest that infrastructure development should be an integral part of the strategy to attract FDI inflows in general and export oriented production from MNCs in particular.

Douglas Brooks and Sumulong (2003) in their study analyse the policy context in which FDI flow occurs. They find that a favorable policy framework for FDI is the one that generally provides economic stability, transparent rules on entry and operations, equitable standards of treatment between domestic and foreign firms and secures the proper functioning and structure of the markets. In general empirical evidence suggests that policies encouraging domestic investment help to attract domestic investment. They find that FDI contributes to the development process by providing capital, foreign exchange, technology, competition and export market access, while also stimulating domestic innovation and investment.
In her paper on FDI and gender equity, Elissa Braun (2006) presents a review of research and policy on the links between foreign investment and development. This work provides broad and consistent evidence for the contention that growth leads to FDI rather than FDI leading to growth. The work also underscores the importance of economic policy context for gaining development benefits from FDI. Besides keeping the production costs low to attract more FDI, countries must also have adequate domestic capacities to benefit from FDI. These capacities are related to economic growth including high level of investment, infrastructure and human capital. Looked from a gender perspective, foreign investment in female intensive industries has had a significant impact on women's work and development. She finds that there is likely to be some short term improvement in women's income as FDI expands but the trajectory of women's wages is less promising. These findings are consistent with those that indicate trade and FDI have done little to narrow the gender wage gap.

In a study done by the Japan Bank for International Cooperation (2002) on key development issues related to FDI, following were the findings. The outflows of global FDI have increased with cross border mergers and acquisitions among OECD countries triggered by policy initiatives like implementation of EUs single market program and the creation of NAFTA. ASEAN and South Asia began cross border mergers and acquisitions after their financial crisis. Also in the 1990s the US emerged as the world's largest recipient of FDI while China led the race of attracting FDI inflows. The study also finds that FDI tends to "crowd in" domestic investment as the creation of complementary activities outweighs the displacement of the domestic competitors and that "spillover" effects of FDI on the productivity growth of the local firms do not occur automatically. The magnitude of these spillovers depends on various home country and firm level characteristics like relative and absolute absorption capacities of individual host countries and firms. The study concludes by stating that host countries government policies should attach greater importance to
the stability and predictability of the local business environment in which foreign trade occurs.

Maria Carkovich and Ross Levine (2002) conclude that an economic rationale for treating foreign capital favorably is that FDI and portfolio flows encourage technology transfers that accelerates overall economic growth in the recipient countries. While micro economic studies give a pessimistic view of the growth effects of the foreign capital, macro economic studies find a positive link between FDI and growth. However, the authors say that the previous macro economic studies do not fully control for endogeneity, country specific effects and inclusion of lagged dependent variables in the growth regression. After reducing many statistical problems plaguing past macro-economic studies and using two new data bases, they find that FDI inflows do not exert an independent influence on economic growth. Thus while sound economic policies may spur both growth and FDI, the results are inconsistent with the view that FDI exerts a positive impact on growth that is independent of the other growth determinants.

Analyzing the influence of IPRs in encouraging FDI, Keith Maskus (1998) finds that while there is evidence, that strengthening IPRs can be an effective means of inducing additional inward FDI, it is only one component among a broad set of factors. Emerging economies must recognize the strong complementary relationships among IPRs, market liberalization and deregulation, technological development policies and competition regimes. He suggests that given the complexity and trade offs for market participants, governments and emerging economies should devote considerable attention and analysis to the strategies to achieve net gains from stronger IPRs.
The Global Business Policy Council (2005) prepared a FDI confidence Index, in which the following findings were made. In 2005 China, India and Eastern Europe reached new heights of attractiveness as destinations for FDI as they competed for higher value added investments including R&D. The U.S dropped to the third place, Western Europe was likely to remain a low priority and Eastern Europe would enjoy better prospects despite rising costs. Though FDI appears to be on rise, corporate savings overhang and investor pessimism about the global economy could dull the prospects of cross border corporate investment. However, the globalization of R&D would not be a zero sum game. Rather it would be a balancing act, as companies leverage opportunities in knowledge centers in the developing world in conjunction with traditional R&D hubs in the industrial world.

Studying production, distribution and investment model for an MNC, Zubair Mohammed et. al. (2004) develop an integrated production, planning, distribution and investment model for a multinational firm that produces products in different countries and distributes them to geographically diverse markets. They argue that since MNCs operate in different countries under varying exchange and inflation rates, varying opportunities for investing and differing regulations, these factors should be included in the decision process. In the modeling, the paper incorporates these factors and elicits the performance of the model through an example and discusses the results. The results indicate that the exchange rates and the initial capacity levels of the firms have significant effects on the production, distribution and investment decisions and consequently on the profits.

Galian et. al. (2001) build an empirical study based on the "eclectic paradigm", aiming to find out the main ownership, internationalization and location factors which affect such internationalization process. The results confirm the importance of factors such as the existence of specific assets of an intangible nature. They also
show that the transaction costs and other questions related to knowledge transfer and accumulation are relevant in the choice of FDI over alternative forms of internationalization. Current and future markets and their expected growth are the key factors for selecting a destination.

Examining location aspects of foreign investment in developing countries, Jalilian (1996) attempts to incorporate new forms of foreign investment in a unified model. He uses the model to show how differences in production environment in particular are likely to affect both the timing and modes that any foreign investment is likely to take. The explanatory variables in this model are the relative efficiency gap and the variable cost differential between producing at home or in less developed country, which includes those related to the differences in the production environment.

Studies included in an edited volume by Rajesh Narula and S. Lall (2006) aim at understanding the factors that led to an optimization of the benefits from FDI for the host country. Despite the diversity of the countries covered and the methodology used, the chapters in this volume point to a basic paradox. "With weak local capabilities, industrialization has to be more dependent on FDI. However, FDI cannot drive industrial growth without local capabilities". The studies here do not support the view that FDI is a *sine qua non* for economic development. They unmistakably show that market forces cannot substitute for the role of the government and argue in favour of a proactive industrial policy. Thus FDI per se does not provide growth opportunities unless the domestic industrial sector exists which has the necessary technological capacity to profit from the externalities from MNC activity.

In his study of FDI and trade patterns in Malaysia, Bernard Tai Khiun Mien (1999) explores the relationship between incoming FDI and trade orientation in the Malaysian manufacturing sector. It is found that by pursuing an open proactive trade
and industrial strategy, Malaysia has been able to realize the benefits of FDI. This study shows that Malaysia's manufacturing sector which is driven strongly by foreign investment has become increasingly outward looking since the past two decades. Increased export-orientation has been accompanied by a favorable shift in the comparative advantage of non traditional manufacturing sub sectors in Malaysia.

A paper by Bishwanath Goldar (1999) analyses the trends of FDI in Asia, with a special focus on FDI flows from Japan. He relates the FDI flows to changing industrial structure and to trade flows. An econometric analysis is also done to identify key determinants of FDI flows to Asian countries. It is found that Japan has been the main source of FDI flows to Asia. Japanese FDI has helped cost reduction and export promotion in the host countries but in the process Japan has created a large trade surplus with these countries.

Explaining FDI flows to India, China and the Caribbean, Arindam Banik et. al. (2004) look at FDI inflows in an alternative approach based on the concepts of neighborhood and extended neighborhood, rather than on the basis of conventional economic indicators as market size, export intensity, institutions etc. The study shows that the neighborhood concepts are widely applicable in different contexts. There are significant common factors in explaining FDI inflows to select regions. While a substantial fraction of FDI inflows may be explained by select economic variables, country specific factors and idiosyncratic component account for more of the investment inflows in Europe, China and India.

Jongsoo Park (2004) has tried to build a Korean perspective on FDI in India based on the case study of Hyundai Motors. He contends that since the launch of reforms, Korean companies have invested in joint ventures or Greenfield projects in automobiles, consumer goods and others. This case study of Hyundai Motor
Industries set against an exploration of India's FDI experience from a Korean perspective indicates that industrial clusters are playing an important role in economic activity. The key to promoting FDI inflows into India may lie in industries and products that are technology intensive and have the economies of scale and significant domestic content.
SECTION 2.2

STUDIES FROM THE INDIAN PERSPECTIVE

Chandra Mohan (2005) in his study on FDI in India is of the view that India has not been able to attract a good level of FDI and he argues that the current level of FDI appears respectful due to a more liberal definition of FDI which was actually adopted to make our comparison with the Chinese FDI more comfortable. He says that the Government must not consider foreign investments sacrosanct. Instead he advises the Government to indulge in more proactive strategies to seek more FDI for which it must help in removing the procedural hassles at the state level. Also the government should make the investment climate more conducive along with a proper regulatory approach for the flagship investors which would encourage the risk-averse small manufacturing enterprises to turn out in larger numbers.

Bary Rose Worth, Anand Virmani and Susan Collins (2007) study empirically India's economic growth experience during 1960-2004 focusing on the post 1973 acceleration. The analysis focuses on the unusual dimensions of India's experience: the concentration of growth in the service production and the modest level of human and physical capital accumulation. They find that India will need to broaden its current expansion to provide manufactured goods to the world market and jobs for its large pool of low skilled workers. Increased public saving as well as rise in foreign saving, particularly FDI could augment the rising household saving and support the increased investment necessary to sustain rapid growth.

Examining India's experience with capital flows, Ajay shah and Ila Patnaik (2004) discuss India's policies towards capital flows in the last two decades. They point out
that since the early nineties India has implemented policies aimed at liberalizing trade and deregulating investment decisions. Throughout most of this period India has maintained strong controls on debt flows and has encouraged FDI and portfolio flows. At the same time the Indian authorities have adopted a pegged nominal exchange rate. According to them, domestic institutional factors have resulted in relatively small FDI and large portfolio flows. They also point out that one of India's most severe policy dilemmas during this period has been related to the tension between capital flows and currency regime. They agree that in spite of the progress achieved since the reforms were adopted the goal of finding a consistent way to augment investment using current account deficits has remained elusive.

Commenting on FDI in India, P.L Beena et. al. (2004) agree to the fact that India has come a long way since 1991 as regards the quantum of FDI inflows is concerned, though there is a view that the MNCs are discouraged from investing in India by bureaucratic hurdles and uncertainty of the economic reforms. However, they feel that very little discussion has taken on the experience of the MNCs and the relationship between their performance and experience with the operating environment and the extent of spillovers in the form of technology transfers. The importance of the former is that the satisfaction of the expectations of the MNCs that are already operational within India is an important precondition for growth in FDI inflow. Transfer of technology and know how on the other hand is at least likely to have an impact on India's future growth and the quantum of FDI inflow. They argue that to the extent that India's future growth will depend on the global competitiveness of its firms, the importance of such spillovers can be paramount.

In order to provide foreign investors a latest picture of investment environment in India, Peng Hu (2006) in his study analyses various determinants that influence FDI inflows to India including economic growth, domestic demand, currency stability,
government policy and labour force availability against other countries that are attracting FDI inflows. Analyzing the new findings it is interesting to note that India has some competitive advantage in attracting FDI inflows, like a large pool of high quality labour force which is an absolute advantage of India against other developing countries like China and Mexico, to attract FDI inflows. In consequence this study argues that India is an ideal investment destination for foreign investors.

Kulwinder Singh (2005) has analysed FDI flows from 1991-2005. A sectoral analysis in his study reveals that while FDI shows a gradual increase and has become a staple of success in India, the progress is hollow. The telecommunications and power sector are the reasons for the success of infrastructure. He comments that FDI has become a game of numbers where the justification for the growth and progress is the money that flows in and not the specific problems plaguing the individual sub sectors. He finds that in the comparative studies the notion of infrastructure has gone a definitional change. FDI in sectors is held up primarily by telecommunications and power and is not evenly distributed.

Mohan Guruswamy, Kamal Sharma et. al. (2005) discuss the retail industry in India in their study on FDI in the retail sector. They focus on the "labour displacing" effect on employment due to FDI in the retail sector. They say that though most of the strong arguments in favour of FDI in the retail sector are not without some merit, it is not fully applicable to the retailing sector and the primary task of the Government in India is still to provide livelihood and not create so called efficiencies of scale by creating redundancies.

In their study on FDI and its economic effects in India, Chandana Chakraborty and Peter Nunnenkamp (2006) assess the growth implications of FDI in India by subjecting industry specific FDI and output to causality tests. Their study is based on
the premise that the composition and type of FDI has changed in India since 1991 which has led to high expectations that FDI may serve as a catalyst to higher economic growth. They find that the growth effects of FDI vary widely across sectors. FDI stocks and output are mutually reinforcing in the manufacturing sector. They also find only transitory effects of FDI on output in the services sector which attracted the bulk of FDI in the post-reform period. These differences in the FDI growth relationship suggest that FDI is unlikely to work wonders in India if only remaining regulations were relaxed and more industries opened up to FDI.

V.N. Balasubramanyam and Vidya Mahambre (2003) in their study of FDI in India conclude that FDI is a very good means for the transfer of technology and know how to the developing countries. They do not find any reasons to regard China as a role model for India. They agree with the advocacy of the policies designed to remove various sorts of distortions in the product and factor markets. These are policies which should be adopted in the interests of both the domestic and foreign investment. A level playing field for one and all may be a much better bet than specific policies geared to the promotion of FDI. The study suggests that India may be better placed than in the past to effectively utilize licensing and technical collaboration agreements as opposed to FDI.

Studying export growth in India, Kishore Sharma (2000) finds that export growth in India has been much faster than GDP growth over the past few decades. Several factors have contributed to this phenomenon including FDI. However, despite increasing inflows of FDI in recent years there has been no attempt to assess its contribution to India’s export performance – one of the channels through which FDI influences growth. Using annual data from 1970-1998, he investigates the determinants of export performance in India. Results suggest that the demand for Indian exports increases when its export prices fall in relation to the world prices.
Further the real appreciation of the rupee adversely affects the Indian exports. Export supply is positively related to domestic relative price of exports and higher domestic demand reduces export supply. Foreign investment appears to have statistically no significant impact on export performance although the coefficient of FDI has a positive sign.

Commenting on FDI and globalization trends in India, Francoise Hay (2006) says that since India opened up in 1991 within the framework of legal economic reforms, the FDI inflows were stimulated in industries and services benefiting from the many comparative advantages of the country. In parallel some Indian firms started to grow in importance and to invest abroad. They had the financial means, experience and ambition to acquire international recognition and they were encouraged by the Indian Government. He finds that the FDI from the Indian firms were principally addressed to the developing countries and Russia, however, the share of the industrialized countries was on the rise and the manufacturing and non-financial sectors accounted for the bulk of it.

Balasundaram Maniam and Amitava Chatterjee (1998) in their study on the determinants of US foreign investment in India, trace the growth of US FDI in India and the changing attitude of the Indian Government towards it as a part of the liberalization program. They review previous research on the determinants of FDI and use regression analysis on 1962-1994 data to identify the factors affecting US FDI in India, current trends and the impact on the Indian economy. They find that only the relatively weak exchange rate appears to be a significant factor and that the US FDI has been increasing in dollar amounts and relative percentage growth. They call for an improvement in infrastructure and reductions in red tape and protectionism to encourage further growth.
Ranjan Das (1997) in his study on defending against MNC offensives, states that the waves of liberalization are blowing across developing countries leading to the creation of new opportunities for MNCs. He proposes that MNCs should respond to such new opportunities with a set of offensive moves that can give them a salient position in the newly liberalized economies. He posits that domestic firms in India respond to these offensives through a combination of three broad responses and clear emphasis on achieving pre-emptive position: attaining a critical size, creating national brands, exploiting national competitive advantages adopting the best international practices and altering core values.

T.N Srinivasan (2001) in his study evaluates India’s transition from an inward oriented development strategy to greater participation in the world economy. While tariff rates have decreased significantly over the past decade, he finds India still as one of the more autarkic countries. Despite improvement over the past in export performance, India still continues to lag behind its South and East Asian neighbors. Secondly official debt flows have largely been replaced by FDI and portfolio investment flows in 1990s. He argues that India’s participation in the future round of multilateral trade negotiations would benefit India. He says that further reforms are required in labour and bankruptcy laws, real privatization and fiscal consolidation.

There have been a lot of studies on FDI and the determinants for its flow. It is generally agreed that low capital output ratio and high labour productivity are the two attractive reasons for the flow of FDI. It is also commonly held that high wage is a deterrent to the flow of FDI. In his study, Birendra Kumar and Surya Dev (2003) show, with the data available in the Indian context, that the increasing trend in the absolute wage of the worker does not deter the increasing flow of FDI. To explain this intriguing phenomenon the authors have considered the ratio of wage to the value a worker adds. It is found that this ratio is declining though the absolute wages are
increasing. It is this decline in the ratio that correspondingly promises more return on
the capital invested and, therefore, is held as an important reason for the flow of FDI;
not withstanding the increase in absolute labour wage. This ratio in his study is taken
as a definition for the measure of the bargaining power of labour. The study
undertaken here implies that the bargaining power of the labour cannot be ignored as
a determinant for the flow of FDI.

Raghbendra Jha (2003) has made his study on the recent trends in FDI flows in
India. He finds that FDI flows to India have not been commensurate with her
economic potential and performance. With FDI becoming a significant component of
investment recently, accounting practices in India lagged behind international norms.
However, the GOI revised its computation of FDI figures in line with the best
international practices, which has led to a substantial improvement in FDI figures.
The author, however, says that the quality of FDI as manifest in technological
spillovers, export performance etc. is more important than its quantity.

FDI limits were liberalized in India to allow greater than 51 percent ownership of
private sector banks in February 2002. Portfolios of private sector and Government
owned banks posted significant and large value gains surrounding the
announcement, the gains by private sector banks almost being double than that of
the government banks. An analysis done by Chinmoy Ghosh et. al. (2004) shows
that the price increase is higher for smaller banks that have less debt, are less
efficient, less productive and burdened with non performing assets. They conclude
that the evidence is consistent with the hypothesis that the valuation gains reflect the
vulnerability to and premium of potential takeover of the inefficient banks following
the liberalization.
Rashmi Banga's (2003) study on the differential impact of Japanese and U.S FDI on exports of Indian manufacturing is motivated by the fact that studies have found that FDI has not played a significant role in exports of the Indian manufacturing sector in the post reform period and concludes that FDI in India has led to export diversification. The impact of FDI on export intensity differs with respect to the source of FDI both at the industry and the firm level. The U.S FDI has a positive and significant impact on the export intensity of the industry and the firms and also the U.S FDI has greater spill over effects on the exports of the domestic firms.

A paper on labour conflict and foreign investments by Nidhiya Menon and Paroma Sanyal (2004) analyses the patterns of FDI in India. They investigate how labour conflict, credit constraints and indicators of a state's economic health influence location decisions of the foreign firms. They account for the possible endogeneity of labour conflict variables in modeling the location decisions of the foreign firms. This is accomplished by using a state specific fixed effects framework that captures the presence of unobservable, which may influence investment decisions and labour unrest simultaneously. Results indicate that labour unrest is highly endogenous across the states of India, and has a strong negative impact on foreign investment.

Milan Bhrambhatt et. al. (1996), in their study have identified four major weaknesses in India's ability to integrate with the world economy. They are inadequate macroeconomic policies, relatively high levels of protection, inefficient transportation and communications infrastructure and poorly equipped and inflexible labour markets. They argue that these weaknesses discourage Indian firms and FDI investors from focusing on the export market. They contend that FDI can help raise the private investment rate without incurring additional debt and can help relax key infrastructure constraints. But its greatest long run benefit may come from its direct and indirect effects in improving productivity. They advice that to meet the plans and
targets for exports spelled out in the five year plans, distortions from the various policies should be addressed.

Sebastian Morris (2004) has discussed the determinants of FDI over the regions of a large economy like India and developed a framework drawn from the advantage concept of Kindelberger and from location theories rooted in regional science. He argues that, for all investments (other than those strictly confined to locations due to their requirements of either natural resources or the need to be very close to the markets), it is the regions with metropolitan cities, that have an advantage in ‘headquartering’ the country operations of MNCs in India, and, therefore, attract the bulk of FDI. Even more than the quantum of FDI, the employment effects and the spill over effects are large for such regions. He finds that Gujarat has been particularly handicapped in not having a large and metropolitan city unlike the southern states which have Bangalore and Hyderabad besides the other metros of Chennai. Adjusting for these factors the FDI into Gujarat was large enough over the period when the state had grown rapidly in the first six years following the reforms of 1991-92. Since then the slow down of growth has been a retardant to FDI since the kind of FDI that Gujarat can hope for are largely industrially oriented. Similarly regulatory uncertainty especially with regard to gas, but also electric power and more generally in the physical infrastructure sectors had hurt Gujarat more than other states. He concludes by suggesting that there are vast gains to be made by attracting FDI especially in services, high-tech, and skilled labour seeking industries because then the resulting operations are more externally oriented and the investments arise from competing firms. The fortunes of Gujarat are linked very closely with the growth of manufacturing in the country as a whole.

Studying outward FDI by India Prof. Subramanyam and Prof. Bhuma (2006) find that government expenses and labour outflows have significant elasticity with respect to
remittances. They say that the level of overseas investment is closely related to the comfort level of the investors. Tangible data collection and validation support the hypothesis that, when outward FDI becomes a reality, significant skilled personnel from the country get employed in the venture and thus contribute towards the remittances. They contend that government expenditure to promote the tertiary education and increasing the pool of skilled manpower and the no. of people emigrating has a direct bearing on the remittances.

In a different study Rashmi Banga (2004) has analysed the impact of Japanese and US FDI on the productivity growth. She has examined the impact of Japanese and US FDI on total factor productivity growth of the firms in the Indian automobile, electrical and chemical industries in the post reform period. The results show that the domestic firms have witnessed both efficiency and growth and technological progress in the electrical and chemical industries in the post reform period.

In his study on European and Japanese affiliates in India, N.S Siddharthan (1999) attempts to identify the variables that distinguish Japanese FDI from European FDI and to test for their significance in differentiating the conduct and performance of Japanese and European firms in India. There have been studies which demonstrated that MNCs as a group behave differently from non affiliated local firms. This study highlights intra MNC differences related to nationality of the MNC, nature of the Indian partner and industry specific characteristics.

N.S. Siddharthan and K.Lal (2004) analyse the impact of FDI spillovers on the productivity of the Indian enterprises for the post liberalization years 1993-2000. This study argues in favour of using an unbalanced panel that takes into account the entry and exit of the firms. Further it also advocates the estimation of separate firm level cross section equations for each year to analyse the possible changes in the values.
of the spillover time. The results show the presence of significant spillover effects from FDI. During the initial years of liberalization the spill over effects were modest, but increased sharply later on. Firms with better endowments in terms of productivity and technology benefited from liberalization and MNC presence. Firms with large productivity gaps became the victims.

V.N Balasubramanyam and David Spasford (2007) compare the inflow of FDI in China and India and find that India may not require increased FDI given India's factor endowments and the structure and composition of her economy. There are a variety of explanations for the low volumes of FDI in India relative to that in China. This paper suggests that there may be yet another explanation – i.e. the structure and composition of the manufacturing and services sector in India and her endowments of human capital. India's manufacturing sector consists of a substantial proportion of science based and capital intensive industries. The requirements of managerial and organizational skills of these industries are much lower than that of the labour intensive industries such as those in China. Also India has a large pool of well trained engineers and scientists capable of adapting and restructuring imported know how to suit local factor and product market conditions. All these factors promote effective spillovers of technology and know how from foreign to locally owned firms. The optimum level of FDI which generates substantial spillover enhances learning on the job and contributes to the growth of productivity, is likely to be much lower in India than in other developing countries including China.

Nagesh Kumar (2000) has made an exploratory attempt to examine the patterns of MNC related mergers and acquisitions in India in the nineties with the help of an exclusive data base. He finds that the liberalization of policy framework since the early nineties has led the MNCs to increasingly use the Merger and Acquisition route to enter and strengthen their presence in the country. In the recent years, two fifths of
all FDI inflows took the form of M&A s compared to virtually all of FDI inflows coming from Greenfield ventures earlier. The deals relating to MNCs are predominantly horizontal rather than vertical in nature. In terms of development implications he finds that FDI inflows in the form of M&A s are of an inferior quality compared to Greenfield investments. These findings, therefore, emphasize the need for adopting a comprehensive competition policy framework in India.

Jaya Prakash Pradhan (2005) provides an overview of the changing patterns of the outward FDI from India over 1975-2001. She shows that the increasing number of Indian MNCs during nineties have been accompanied by a number of changes in the character of such investments which include tendency of Indian outward investors to have full or majority ownership, expansion, into new industries and service sectors.

Vinoj Abraham and Pradhan (2005) examines the patterns and motivations behind the overseas mergers and acquisitions by Indian enterprises. It is found that the main motivation of Indian firm's overseas acquisitions have been to access international markets, firm specific intangibles like technology and human skills and overcome constraints from limited home market growth.

As a matter of concluding remarks, the studies referred here highlight both the macro and micro perspectives of FDI debated internationally. However, in the Indian discourse the emphasis is found on studying the causes and effects of inward FDI. But of late India is witnessing an upsurge in outward FDI, which is found changing the trajectories of Indian investment flows. This new trend needs to be integrated in the main stream studies and analysed in detail to provide a more meaningful picture of the extent to which India has really globalized. There have been some studies focusing on outward FDI in India but they are few and far between. To get a more concrete picture of investment flows in India, it is imperative to carry further the
Research already done on FDI, focusing on new dimensions and areas. This research attempt as an extension of the earlier studies done on Indian FDI tries to integrate both inward and outward FDI flows and analyse them parallelly to provide a more complete, balanced, comprehensive and comparative picture of the economic undercurrents of FDI in India.
REFERENCES


