CHAPTER VII

SUMMARY AND CONCLUSIONS

The importance of FDI lies in its potential of making a contribution to development through the transfer of financial resources, technology and improved management techniques. At many instances, it also facilitates marketing the exports of developing economies, generates employment and revenue. FDI unlike borrowing are self supporting as servicing becomes due only when MNC starts making profits. The developing economies like India can test the merit of FDI by analysing the share of debt creating inflow. The debt creating inflow which was very high at 83.3 per cent in 1991-92 has come down drastically to 14.8 per cent in 2001-02 shows the significance of FDI in India. The First Chapter is an Introductory module where the attempt has been made to bring out the various definitions of FDI and MNCs, different types of FDI, pros and cons of FDI, the role of FDI in developing countries, the history of FDI, review of various studies on FDI available in the literature, objectives and hypotheses of the study, database and methodology.

In the second chapter an effort has been made to bring out the trends and pattern of FDI in India prior to liberalisation. In the third Chapter the reasons for license-permit raj becoming counter productive and the role of FDI in the restructured economic policy. The trends and pattern of FDI in post-liberalisation has been deliberately dealt with, the comparative analysis of pre-and post-liberalisation gives the comparative picture of both periods. The
determinants and impact of FDI in India has been analysed in the Fourth Chapter. While the determinants of FDI have explored by using UNCTAD specification model, the impact of FDI on economic growth has been measured by using the Cob-Douglass production function. The impact of FDI was also measured separately on exports, private final consumption expenditure, Forex, Gross Domestic Savings, trade balance and balance of payment have been analysed with the help of regression techniques. The FDI policies- the FDI approval process, the hard and soft factors contributing to the FDI inflow, contributions of non-resident Indians for the development of our country in the form of FDI inflows, approvals vs realization of FDI, double taxation treaties, FDI ceiling, favoured investment locations, inter-state competition to attract FDI, the best and worst factors of the Indian states in India during the post-liberalisation period has been discussed in the Fifth Chapter. The evolution and policy of FDI in China has been discussed in the Sixth Chapter. The hard and soft factors for FDI in China, and the similarities and differences between India and China have been analysed along with the policies of the both the countries to learn the lesson from the experiences of China. The final Chapter consists of Summary and Conclusions.

The important findings of the study have been summarized as follows:

In the developing countries share of FDI inflow, India was able to attract only 0.59 per cent of FDI during the pre-liberalisation period. Although FDI inflow has increased in absolute numbers during the post-liberalisation period but when we compare it with other major developing countries, it is very
meager. The India share is just 1.3 per cent of its GDP. India has attracted just 2.6 billion $ US when compared it with China's 40.9 billion $ US annually, which is 16 times more than India.

In Foreign Investment approvals USA tops the list in getting the FDI approved by India, both in pre-liberalisation period and post-liberalisation period. But West Germany which followed USA during the pre-liberalisation period has not shown the same interest during post-liberalisation period. Mauritius has emerged as a key player in India FDI approvals during the post-liberalisation period.

In foreign collaboration approvals UK, which was getting 20 per cent of approval in pre-liberalisation period has just shown interest of getting approval of just 4 per cent in post-liberalisation. USA has emerged to the major country in getting foreign collaboration approval by getting foreign collaboration approved by the country be getting 20 per cent of approvals sanctioned in the post liberalisation period. Mauritius who got their collaboration approved by the country.

In pre-liberalisation technical collaboration with 77.50 per cent dominated the total collaborations, whereas only 22.50 belonging to financial collaborations. The trend changed in post-liberalisation period as 68 per cent belonged to financial collaboration and 32 per cent belonged to technical collaboration. The reason for this can be attributed to the change in FDI policy by the government that FDI need not accompany technology with it.
The compound growth rate of FDI in 1948-1990 was 75 per cent and during 1991-2000 it was 43.3 per cent, but as said earlier relatively still India is attracting very less amount of FDI in India.

Manufacturing is still dominating the sectoral distribution of FDI in both pre-liberalisation and post-liberalisation period.

The FDI approvals themselves would not reflect the true response to the investment liberalisation regime. The test of success ultimately lies in the actual inflows. During 1991-2002 the actuals as a percentage of approvals was just 39.33 per cent. The approval is low at the ratio of 1:0.39. The reasons attributed for this is bureaucracy and red-tapism, the occasions were not rare, when projects even after getting automatic approvals had to run from pillar to post for acquiring land, water, power, health safety and environment clearances.

Non resident Chinese share in total FDI varied in between 82.91 per cent to 64.96 per cent during 1991-1997. However NRIs share in total FDI decreased from 45.59 per cent in 1991 to 1.19 per cent in 2001. NRIs have not contributed to India's financial credibility and FDI base as NRCs are doing it for their home country China.

During post-liberalisation period, six states namely, Maharashtra, Delhi, Tamil Nadu, Karnataka, Gujarat and Andhra Pradesh got approvals of 57 per cent of the total foreign investment approvals in India. The actuals are also in tune with approvals and the said same six states dominated in the realization of FDI also. The remaining 28 states and union territories constituted only 43 per
cent which reveals the state of regional disparities the FDI is creating. The second hypothesis 'FDI is flowing into few sectors' has also proved positive as only six states are getting approvals of more than 57 per cent of total FDI approvals in India.

China despite having socialist form of government in more reformative than India, infrastructure-wise better than India, growth rate and growing market in favor of China. No wonder China is attracting more FDI than India. The third hypothesis 'the positive policy response is more important determinant of FDI inflows' has also proved right as China's policies has become successful in attracting more FDI than any other developing country in the world.

FDI is leading to growth in India the regression analysis in model has not shown negative result but is never to two (1.665) and it suggest for every one per cent increase in FDI brings an increase in GDP by almost by 0.12 per cent. The other variables in the model like Gross domestic investment, Human Capital and labour force has shown significance in promoting growth. The hypothesis 'FDI inflows and economic expansion are positively related' has been proved with this analysis which was done with the help of Cob-douglas Production Function.

The Gross Domestic Investment in t-1 year and Trade openness (t-1) are found to be significantly affecting the FDI flows. The GDI and trade openness are the major determinants of the FDI in India, where as the population, gross
National product and (GDI/GDP) which were expected to be positive turned out to be negative from the regression results.

FDI's impact on exports and on gross domestic savings, on private domestic consumption expenditure, gross domestic investment, on forex and balance of payments have yielded significant results. Hence the FDI is affecting all the discussed variables positively with exception of balance of trade which has turned to be negative which implies that FDI is not making any major impact on balance of trade.

The debt creating inflows have been reduced significantly from 83.3 per cent in 1990-91 to 14.8 per cent in 2000-01 implies the non debt creating inflows have been dominated during the post-liberalisation period, were FDI is an important component with 40 per cent of non debt creating inflows in 1991.

In terms of the policy areas, simplification of the entry routes, raising of equity, ceiling, introduction of negative list, simplification of the operating systems and procedures, IPR legislation and a comprehensive dispute settlement are critical from the point of India to attract more FDI.

Conclusion:

Unless India and her policies are marketed rigorously, the anticipated fall outs from policy liberalisation will remain sub-optimal. One way to create a better image of India as a business locations is to introduce stability in the system and bring incremental policy changes as is being done in the China, but
in case of India the example of policy in power and telecom sector which caused
total confusion in the sector regarding the sincerity and stability of the policy
regimes.

The mindset of the bureaucratic has to be changed and only then setting
up of foreign investment promotion council in the place of Indian investment
center or any such institute will work and do good for the FDI fabric in India.
The works pattern the mindset, has to be thoroughly changed and only then one
can expect a positive change in the attitude.¹

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¹ To quote my own experience when I visited India Investment Center, New Delhi during January 2002 for
the collection of data and relevant material the receptionist: hardly understood the English language in
which I was trying to communicate and when I met the officer and requested for the material he said he is
willing to give the requested information, but his computer is out of order. There was no much difference
in Ministry of Industry and Commerce, if collection of information by a Indian is that difficult there is no
wonder if foreign investor is made to run from pillar to post.