INTRODUCTION

The previous chapter was an introductory background of the entire thesis. The present chapter is an attempt made to deal with the review of existing literature. FDI patterns contributing to the growth of the emerging economies have undergone significant changes over time period. To understand these changes the comprehensive review is needed which focused on economies related to empirical and theoretical rationale tends of Foreign Direct Investment.

Doytch, Thelen & Mendoza (2014) tried to examine the impact of foreign direct investment (FDI) on various dimensions of human development. They focused on the child labor and used data of 100 countries across the period 1990–2009 for a cross-country empirical analysis concerned to human development. They utilized data on disaggregated FDI covering the main economic sectors of interest such as agriculture, mining, manufacturing, services and finance. The results of the study suggested that different economic sectors generate varied effects on child labor. They further observed that FDI in agriculture in Europe and Central Asia tends to exacerbate child labor, whereas FDI in manufacturing in South and East Asia and FDI in mining in Latin America appear negatively linked to child labor. They found that the stronger anti-child labor laws could lead to multiple equilibrium in labor markets, including the possibility of increasing child labor in certain sectors. They also explained the reasons of varied FDI impact on child labor, emphasizing among other factors supply chain management and the critical importance of policy implementation and coordination with the private sector.

Rachna S. S. (2014) tried to focus on potentiality and strength of India’s service sector in shaping business through retail sector. The study ascertained the remarkable changes in service sector and its overall impact in structuring business through retail sector. The study also depicted the role of services in the modern economy, reasons for the growth of services in India with addition of analyzing the transformation in service sector. She stated that because of emerging nature it becomes the fastest-growing sectors on the global landscape and hence it made substantial contribution towards global output as well as employment generation. She quoted Adrian Payne four factors i.e. economic, political, social and demographic changes have been responsible for stimulated growth in service sector. Further she stated that India’s services share to Total GDP for the year 2012-2013 was 59.29 per cent and retail
sector contributes by 14 per cent to 15 per cent of its GDP for Indian economy and emphasized how retail industry get empowered. The study also examined the characteristics of the retail service sector in India and underlines its future prospects.

Xiaolan F. Helmers C. & Zhang J. (2012) tried to investigate the effect of management abilities of foreign companies on the management abilities and performance of domestic companies on UK retail sector. On an average, foreign-owned retail companies achieve higher management ability scores and were more productive than domestic companies. They suggested two faces of foreign management abilities i.e. abilities that can be codified. Another face is dimensions of abilities that have been more implicit and highly competitive, apply a negative competitive outcome on domestic own management capabilities of firms. The overall management abilities of domestic companies were found to have a extensively positive effect on their own productive competence. They did not find any evidence of a direct competence that have a effect of foreign management abilities on local firms.

Mousumi B. & Jita B. (2011) made an attempt to study the possible link between FDI inflows and services export of India during the post-liberalization period from 1990-91 to 2007-08 Q4. The long-term relationships among the variables have been analyzed using Johansen and Juselius multivariate co-integration approach. Short and long run dynamics are captured through vector error correction models. There is evidence of co-integration among the variables indicating that a long-term relationship exists among them. They have observed unidirectional causality from FDI inflows to services export. Regression Analysis has also been done for the period from 1991 to 2008, which reveals that FDI inflows in the services sector, consultancy and transport services influence services export. They concluded that the positive unidirectional Granger causality from FDI inflows to Services Export indicate that FDI has positively influenced the growth of services export in the Indian economy after the liberalization period. During the post liberalization period the trade policies undertaken by the government, the changing attitude of the government towards foreign direct investment has increased export opportunities that induced foreign investors to take advantage of India's comparative advantage in the services sector.

Chitrakalpa S. (2011) tried to incorporate the last two decades growth of the Indian service sector. She tried to analyze the growth dynamics of the FDI. The study aims to check whether the growth in FDI has any significant impact on the service sector.
growth and also investigates whether a growth in this sector causes the growth in GDP. She suggested that there has been a considerable positive effect of the Foreign Direct Investment on services sector and this service sector growth has in turn a significant effect on the GDP. The study also looks into the sub-sectoral dynamics and indicates towards the fact that the trade, hotels and restaurants, transport, storage and communications sub-sector contributes the most in the growth of Indian service sector. At last the study explained the long run sustainability of the Indian service sector and also advocated the criticism of the service-led growth came from the fact that the service sector growth has largely been jobless (Gordon, Gupta, 2003). “While output generation has shifted to services, employment generation in services has lagged behind” (Banga, 2005). Since independence, agriculture’s share in GDP has gone down and services sector’s share has gone up. But the services sector has not been able to make up for increasing unemployment.

Pattanaik F. & Nayak N.C. (2011) investigated the employment intensity of service sector growth in India and also examined the role of fundamental macroeconomic factors in determining the capacity of the service sector. They have taken the period from 1960-1961 to 2004-2005 for their study. The results of study indicate that growth in service sector has increased but the employment growth rate in service sector has decelerated significantly leading. Investment in service sector has been significant in raising employment intensity of the service sector in India. Finally they concluded that a clear hierarchy exists within the service sector not only in terms of employment growth or output growth process but also in terms of the dynamism of the growth process.

Bohra N. & Sirari A. (2011) tried to analyze significance of the FDI inflow in Indian service sector since 1991 and relating the growth of service sector FDI in generation of skilled and Unskilled employment. They found that the Foreign Direct Investment has a motivation for the economic growth of India and has shown a tremendous growth during 2000-2010 that is three times than the 1990-1999 of FDI in service sector. Banking and insurance has the first segment of service sector and telecommunication second. Their findings also revealed that FDI creates high Perks Jobs for skilled employees in Indian service sector.

Kang Y., Xian X., Guo P. & Liu X. (2011) argued that China's widening regional income inequality together with its pronounced regional disparity in FDI since 1990. They analyzed the effect stock of China of FDI on its regional income inequality
using simultaneous equation model and the Shapley value regression-based decomposition model. The results of the study showed that Foreign Direct Investment of China has a contribution of merely 2 per cent of its regional income inequality. Moreover, the contribution ratio of per capita FDI stock to regional income inequality of China has relatively been on a constant fester since last 12 years. The results also indicated that provincial per capita physical assets has a contribution of 50 per cent of the income inequality of nation and 65 per cent of the increases in income inequality since last 24 years.

**Goh S.K. & Wong K. N. (2011)** discussed in their paper, the empirical literature of Malaysia’s outward FDI (OFDI) by considering the impact of foreign market size and home international reserves using multivariate co-integration and error-correction modeling techniques. The empirical results revealed that there is a positive long-run relationship between Malaysia’s OFDI and its key determinants, viz. foreign market size, real effective exchange rate, international reserves and trade openness. The main findings of the study suggested that apart from the market-seeking incentive and the adoption of outward-oriented policies, the Malaysian government could also encourage OFDI by implementing liberal policy on capital outflows. On the basis of these findings, there are some policy implications for the country’s economic development and the internationalization of Malaysian firms in the era of globalization.

**Lindsay O. (2011)** examined the different proportions of exports and FDI used by manufacturing and service producing firms. He suggested models and the importance of interacting with customers and communicating complex information within firms. These characteristics to predict the location of production. Goods and services requiring direct communication with consumers were more likely to be produced in the destination market. Activities required are complex within firm communication which are more likely to occur at the multinational's headquarters for export, especially when the destination market has weak institutions.

He also explained why service firms used FDI relative to exports at a much higher rate than manufacturing firms. The hidden cost of FDI was the difficulty of off-shoring non-routine activities to foreign affiliates and the industries that are more intensive in their use of non-routine tasks are more likely to be produced at home for export rather than produced at foreign affiliates. Because services are more non-
routine than manufactures, this relationship partially offsets the propensity towards FDI in services implied by the role of communicating with consumers.

Doytch N. & Uctum M. (2011) examined the effect of manufacturing and service FDI on their own sector growth, the spillover to the other sectors and the overall economy in host countries. They identified significant sectoral and inter-industry spillover effects with various data classifications and types of FDI flows. Evidence revealed that growth effect of manufacturing FDI operates by stimulating activity in its own sector and is prevalent in Latin America-Caribbean, in Europe-Central Asia, middle to low-income countries and economies with large industry share. A flow of service FDI was likely to encourage the growth in service industries but activity damage in manufacturing industries. Financial service FDI enhances growth in South-East Asia and the Pacific, high income countries and service based economies by stimulating activity in both manufacturing and service sectors. However, non-financial service FDI drains resources and hurts manufacturing industry in the same group of countries. They concluded that a shift from manufacturing to service FDI is likely to lead to deindustrialization in certain regions and types of economies if this shift is led by non-financial FDI.

Durai raj K. (2010) made an attempt in his study to identify the causal nexus among real exchange rate (RER), its volatility and foreign direct investment (FDI) inflows in India using quarterly data from 1990 to 2008. Generalized Auto Regressive Conditional Heteroscedasticity (GARCH) model is employed to obtain conditional variance of RER data series. Besides, Johansen’s co-integration techniques were also used. He stated that long run relationship among FDI, RER and the GARCH measure of exchange rate volatility and also a short run causality flow from RER and FDI. He found no discernible link from FDI to RER and its volatility in the short run. He concluded in his study that a decrease in exchange rate leads to increase in inflow of FDI and an increase in FDI has due to decrease in exchange rate in the short run.

Saini A. Baharumshah A.Z. & Law H.S. (2010) investigated in their study the systemic link between economic freedom, foreign direct investment (FDI) and economic growth in a panel of 85 countries. The empirical results of the study, based on the generalized method of moment system estimator, revealed that FDI by itself has no direct effect on output growth. The effect of FDI is contingent on the level of economic freedom in the host countries. These countries promote greater freedom of economic activities gain significantly from the presence of multinational corporations
(MNCs). They concluded from the empirical analysis, that FDI by itself has no direct impact on output growth.

Ishikawa J., Hodaka M. & Mukunoki H. (2010) tried to understand the importance of Post-production services such as sales, distribution and maintenance in business activity. They explored an international duopoly model in which a foreign firm has the option of outsourcing post-production services to its domestic rival or providing those services by establishing its own facilities through FDI. In their study they expressed that trade liberalization in goods harm the domestic consumers and lowered world welfare. They explained how negative welfare impacts have been turned into positive ones if service FDI has also liberalized.

They argued that the trade liberalization of goods may have negative welfare effects if it was not accompanied by the liberalization of service FDI. The trade liberalization reduces trade costs and this intensified competition between a foreign firm and a domestic firm in the product market. At the same time, when the foreign firm outsources postproduction services, the trade liberalization may induce the domestic firm to charge a higher service price to absorb a part of the foreign firm's incremental profit due to lower trade costs.

They proved that if the foreign firm's fixed cost of service FDI has relatively high, the latter negative welfare effect may overshadow the former positive one so that the trade liberalization harms consumers and lowers world welfare in a range of parameterizations. Significantly, this negative welfare effect of the trade liberalization has been mitigated and eventually turned into a positive one as service FDI is also liberalized. This is because a reduction in the fixed cost of service FDI decreases the price of service outsourcing that the foreign firm would accept.

They further pointed out that the liberalization of service FDI has been important not only because it reduces per-unit costs of post-production services but also it recovers gains from the trade liberalization in goods for both consumers and world welfare. Making progress on the liberalization of service FDI under GATS was crucial to secure positive welfare consequences of the trade liberalization under GATT/WTO.

Temouri T., Driffield N.L. & Higon D.A. (2010) chose area for examination that has been concerned to the outsourcing/off shoring of high-technology manufacturing and services. They tried to study the reason of concerned off-shoring of technology by the policy makers. Western world followed more labor intensive sectors, and move to lower cost locations. While, international business theory has tended to view low
costs and high levels of indigenous technological development as being the two main drivers of location advantage in the attraction of FDI. They concluded that costs are important and firms from higher cost locations are more likely to engage in off-shoring, they do not dominate other considerations. They have suggested that the ability to manage technology flows across countries that have the largest key determinant of off-shoring by high-technology firms.

However, most conceptual framework developed from the investment cycle theory for which it is assumed that as a country becomes more technologically advanced, it would attract more technologically advanced FDI. The study does not completely disprove this, they highlight several limits to the process in terms of intellectual property rights and the extent to which these allow firms to manage core technology across national boundaries.

Rudrani B., Ila Patnaik & Ajay S. (2010) examined the literature on exports and investment and found that the most productive have invested abroad. In the Helpman et al. (2004) model costs of transportation play a critical role in the decision about whether to serve foreign customers by exporting or by producing abroad. They consider the case of tradable services where the marginal cost of transport has been near zero. They argued that in the purchase of services, buyers face uncertainty about product quality, especially when production is located far away. Firm optimization then leads less productive firms to self-select themselves for FDI. They used the data from Indian software services industry to support the prediction. They also observed the framework for exports of goods and outbound FDI by firms to the case of tradable services through the off-shoring model.

Neary P.J. (2009) focused on the conflict between the foreign direct investment (FDI) and recent trends in the globalised world. The study revealed that the bulk of FDI is horizontal rather than vertical and standard theory predicts that horizontal FDI is discouraged when trade costs fall. It seems to conflict with the experience of the 1990s, when trade liberalization and technological change has led to dramatic reductions in trade costs yet FDI grew much faster than the trade. The two possible resolutions for this paradox have been explored. One is horizontal FDI in trading blocs that has been encouraged by intra-bloc trade liberalization because foreign firms establish their plants in one country as export platforms. Another is cross-border mergers, quantitatively more important than Greenfield FDI have been encouraged rather than discouraged by falling trade costs. FDI is one of the key features of the
modern globalised world. The study is based on selected review of the theory and empirical analysis of FDI, using as an organizing principle it seems that there is an apparent conflict between received theory and recent trends in the globalised world.

**Hamida L.B. & Gugler P. (2009)** examined whether there have been signs of demonstration-related spillovers from FDI on Swiss manufacturing and services/construction. They stated that the size and the extent of such benefits vary according to the level of the absorptive capacity of local firms. They observed strong indication for demonstration-related spillovers when (a) local firms are not far behind the technological frontier of the industry with a technological gap slightly greater than one and (b) local firms demonstrate high investment in the absorptive capacity. They tried to develop understanding of the value of FDI in Switzerland where foreign MNCs are expanding. They concluded that Spillovers are the main motivation of a host government to attract FDI, so governments have to pay special attention while measuring the successful performance of their FDI policies.

**Prasanna N. (2009)** confirmed in his work that in a globalizing world, export success can serve as a measure for the competitiveness of industries of a country and lead to the faster growth. Recently, a much optimistic view on the role of Foreign Direct Investment on export performance in the host country has been evolved.

**Samuel A. (2009)** provided a review of Foreign Direct Investment and economic growth in the context of developing countries and especially for Sub-Saharan Africa. He found that Foreign Direct Investment has a contribution to economic development of the host country in two main ways i.e. augmentation of domestic capital and improvement of efficiency through the movement of new technology, marketing and managerial skills, innovation and other best practices. Secondly, Foreign Direct Investment has both benefits and costs and its effect is determined by the country specific situation in general and the policy environment in particular in terms of the capability to expand the level of absorption capacity, targeting of Foreign Direct Investment and opportunities for linkages between Foreign Direct Investment and domestic investment.

**Beugelsdijk S., Roger S. & Remco Z. (2008)** revealed in their study the contribution to the literature investigating the impact of FDI on host country economic growth by distinguishing between the growth effects of horizontal FDI and vertical FDI. Being the use of database, they estimated the growth effects of vertical and horizontal United States MNE activity into 44 host countries over the period 1983–2003, they
also used traditional total FDI figures as a benchmark. Controlling for endogeneity and absorptive capacity effects and find that horizontal and vertical FDI have positive and significant growth effects in developed countries. Moreover, the results of study indicate a superior growth effect of horizontal FDI over vertical FDI. In line with existing literature, they found that there are no significant effects of horizontal or vertical FDI in developing countries.

Lejour A., Romagosa H.R. & Gerard V. (2008) argued that foreign direct investment (FDI) in services is often more important to supply foreign markets than cross-border trade and for this they analyzed the services liberalization and FDI. Firms which established abroad also transfer firm-specific knowledge, as resulted capital owned by suppliers from home and foreign countries are not perfect substitutes. They applied the model which proposed the European Commission to open up services markets. They revealed that FDI in services could increase by 20% to 35%, the overall economic impact was limited. They suggested that GDP in the EU25 could increase up to 0.4%. These effects could be up to 0.8% higher if foreign capital also increases the overall productivity of the services sector.

Chakraborty C. & Nunnenkamp P. (2008) made an attempt to study the Foreign Direct Investment (FDI) in post-reform period. India has been widely believed to promote economic growth. They examined the industry-specific Foreign Direct Investment and output data to Granger-causality tests within a panel co-integration construction. This research showed that the growth effects of FDI change widely across sectors. Foreign Direct Investment stocks and output have been mutually strengthen in the manufacturing sector whereas causal relationship was not present in the primary sector. They strongly observed that only transitory impact of Foreign Direct Investment on output in the services sector. However, Foreign Direct Investment in the services sector seems to have promoted growth in the manufacturing sector.

They also suggested that policymakers can provide the maximize the benefits of FDI in India by improving local conditions that would render FDI more effective. Openness to trade can strengthen linkages between foreign and local companies specially in the manufacturing sector. They again advocated the promotion of local entrepreneurship and human-capital development which could facilitate foster linkages within and across sectors. The availability of sufficiently skilled labor as well as adequate infrastructure, particularly telecommunications, would support the
process of off-shored higher value-added services to India and the dissemination of the benefits of IT-related services throughout the Indian economy. Moreover, it would assist stronger spillovers from more efficient services to other sectors if IT-related FDI was more widely spread throughout India, rather than being concentrated in a few clusters and “export enclaves.”

**Tomlin K. M. (2008)** tried to examine the FDI–exchange rate relationship with respect to services taking into account the degree of tradability across services of Japanese FDI to U.S. service industries. He stated that maximum estimates reveal that dollar appreciations were positively correlated with service FDI flows into the U.S. This positive correlation was stronger for non-tradable services versus tradable services. For tradable and non-tradable producer services, higher exchange rate uncertainty would lead to fewer FDI occurrences. On an average, across all types of services, higher U.S. unit labor costs relative to Japan had a deterrent effect on Japanese service FDI as well. The exchange rate as a policy instrument with respect to service FDI, as the empirical results suggested that service FDI has been positively correlated with the yen/dollar exchange rate, it would take large increases in the exchange rate level to trigger FDI entry into U.S. service industries.

At last he concluded that Over the last three decades the role of services has been understated with respect to FDI and more analysis will be required to catch up with the evolution of services and the increasing tradability of services due to information technology and outsourcing. He found that historically the exchange rate was correlated with service FDI flows. However, labor costs are becoming of primary importance as services employment was moved across international borders due to lower relative labor cost.

**Jing Z. (2008)** showed four empirical testing related to Foreign Direct Investment, Governance, economic growth and the environment. The results of the Indicated that an intra-country pollution has an effect that does exist in China and FDI is attracted to regions that have made more attempts on fighting against corruption and that have more well-organized government. Lastly, government variables do not have a significant effect on environmental regulation and economic growth has a negative effect on environmental quality at current income level in China and foreign investment has positive impact on water pollutants and a neutral effect on air pollutants.
**Basu P. N. & Vani A. (2007)** attempted to study the qualitative shift in the Foreign Direct Investment inflows in India in depth in the last fourteen odd years. They found that the country is not only cost-efficient but also a hot destination for Research & Development activities. They also found out that R&D as a significant determining factor for FDI inflows for most of the industries in India. The software industry is showing demanding R&D activity, which has to be channelized in the form of export promotion for infiltration in the new markets. They also concluded the presence of strong negative impact of corporate tax on FDI inflows.

**Kim Y. H. (2007)** discussed about the impact of regional economic integration on industrial relocation of participating countries focusing on the role of foreign direct investment. He also demonstrated about the preferential trade agreement which increases intra-bloc vertical FDI flows when the integrating countries show large differences in factor costs. The whole study is based on oligopoly model of three countries competing in cournot fashion. The finding of the study shows that the impact of free trade agreement formation between countries with asymmetric technology, factor prices and market sizes on FDI flows.

**Selvakumar M. & Ambika T. (2007)** discussed the emergence of India as one of the fastest growing economies in the 1990’s was due to rapid growth of service sector. India has also become an exporter of services. They stated that 1.4 per cent of global exports were in services. He also explained the global trend of FDI inflow in service sectors. They concluded that FDI in services responds good due to openness and liberalization of services provides advantages for Indian economy. FDI in services provide key inputs to other productive activities that lead to further investment and competitiveness of an economy. The results of the study indicate that efficiency seeking FDI through a right policy could improve the operation, enhance local skills, establish linkages and upgrade technology.

**Tatonga G. R. (2007)** analyzed the movement and determinants of inward Foreign Direct Investment to South Africa for the period from 1975 to 2005. The analysis showed that openness, exchange rate and financial growth are important in the long period determinants of Foreign Direct Investment. Improved openness and financial development attract Foreign Direct Investment while an raise in the exchange rate determines Foreign Direct Investment to South Africa. Market size appeared as a short run determinant of Foreign Direct Investment although it is reduced in its importance. The analysis revealed that Foreign Direct Investment itself, imports and
exchange rate explicated a relevant amount of the forecast error variance. The effect of market size variable is low and declining over a period of time.

Swapna S. S. (2007) made an attempt to focus the emerging markets that are slacker in attracting Foreign Direct Investment, such as India, can learn from principal countries in attracting Foreign Direct Investment, such as China in global economy. The research compares Foreign Direct Investment inflows in China and India. He found that India has developed due to its human capital, size of market, rate of growth of the market and political consistency. For China, amiable business climate factors comprising of making structural transformation, creating planned infrastructure at SEZs and taking strategic course of action initiatives of providing economic freedom, opening up its economy, attracting diasporas and formation of flexible labour law were identified as elements for attracting Foreign Direct Investment.

Sasidharan S. & Ramanathan A. (2007) undertake to examine the spillover effects from the mode of entry of foreign companies using a firm level data of Indian manufacturing industries. Firm level data of Indian manufacturing industries are taken for the period from 1994 to 2002. They considered both horizontal and vertical spillover impact of Foreign Direct Investment. The research found no proof of horizontal spillover effects however they found negative vertical spillover effects which were consistent with the results of the earlier studies.

Diana V. M. (2007) in his paper focused on Central and Eastern European former state – planned economies and investigated why multinationals chose to locate their investments in these countries. The main findings of the study are that market potential, privatization and agglomeration factors have significant effects upon FDI location choice, helping to explain the attractiveness for FDI of these host countries.

Kosteve C. Tjasa R. & Andrej S. (2007) analyzed the relation between FDI and the quality of the institutional environment in transition economies. The analysis confirmed a significant impact of various institutional aspects on the inflow of foreign capital. To isolate the importance of the institutional environment from the impact of other factors, a panel data analysis was performed using the data of 24 transition economies in the period 1995-2002. The findings showed that in the observed period the quality of the institutional environment significantly influenced the level of FDI in transition economies. Other variables that proved to have a statistically significant influence were budget deficit, insider privatization and labour cost per hour.
Rudi B. (2007) investigated the existence of a significant FDI-Export linkage in China, he used panel data at the provincial level for the period 1995 to 2003. The theory of FDI proposes the possibility of an export creating effect. However, the results show that if the model is correctly specified, there is no evidence for the existence of a significant FDI-export linkage. The study concluded that the claims of the reference studies concerning the presence of a FDI–export linkage are not valid.

Nirupam B. & Jeffrey D. S. (2006) they tried to identify the issues and problems associated with India’s current FDI regimes, and more importantly the other associated factors responsible for India’s unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well-working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones made India an unattractive investment location.

Sharma R. K. (2006) examined the issues and financial compulsions presented in the consultation paper prepared by the Commerce Ministry, which is marked by Shoddy arguments, perverse logic and forced conclusions. He raises four issues which need critical attention: the objectives of higher education, its contextual relevance, the prevailing financial situation and the viability of alternatives to FDI. The conclusion of the study is that higher education needs long–term objectives and a broad vision in tune with the projected future of the country and the world. Higher education will require an investment of Rs. 20,000 to 25,000 crore over the next five or more years to expand capacity and improve access. To sum up, it can be said that industrial clusters are playing a significant role in attracting FDI at Inter–industry level.

Stahler F. (2006) has employed a model of two symmetric countries in which coexistence of both national and multinational firms is possible in equilibrium. The study shows that the welfare economics of foreign direct investment (FDI) has addressed in a model of two countries and two periods. In the first period, firms enter markets as national firms, in the second period, FDI is possible. He stated that FDI reduces market entry in the first period and equilibrium profits in the second period. Compared to a trade regime without any FDI, prices are higher in the first period but lower in the second period. FDI unambiguously improves the sum of discounted
consumer surplus if demand functions are linear or log–linear and entry is free in the first period.

Kim Y.H. (2006) examined in his paper the impacts of regional economic integration on the industrial relocation of participated countries focused on the role of foreign direct investment. He demonstrates that Focus on the integrating countries’ asymmetries in technology and market size, preferential trade agreement increases intra-bloc vertical FDI flows when the integrating countries show large differences in factor costs. Moreover, when the technology gap is relatively large between the integrating countries, inter-bloc horizontal FDI tends to inflow to a county with a higher technology level even though its factor cost is higher. He derived the results that Korea–China FTA might increase the inter-bloc horizontal FDI inflows into Korea when Korea has significant technological advantage while the intra-bloc vertical FDI inflows into China might be increased with increased pressure on the Korean economy to specialize in the headquarter service sector.

J.W. Fedderke & A.T. R. (2006) tried to study the growth impact and the determinants of foreign direct investment in South Africa. They used standard spillover model of investment and they framed new model of locational choice in FDI between domestic and foreign alternatives. They found that both foreign and domestic capital are complementary to each other in the long run, implying a positive technological spillover from foreign to domestic capital. Further they found that foreign direct investment in South Africa tend to be capital intensive and also suggested that foreign direct investment has been horizontal rather than vertical.

Lisa De Propis and Nigel Driffield (2006) examined the link between cluster development and inward foreign direct investment. They concluded that firms in clusters gain significantly from FDI in their region, both within the industry of the domestic firm and across other industries in the region.

Rhys J. (2006) focused on the impact of FDI on employment in Vietnam, a country that received considerable inflow of foreign capital in the 1990s as part of its increased integration with the global economy. He revealed that the indirect employment effects have been minimal and possibly even negative because of the limited linkages which foreign investors create and the possibility of “crowding out of domestic investment”. Thus, he found out that despite the significant share of foreign firms in industrial output and exports, the direct employment generated has been
limited because of the high labour productivity and low ratio of value added to output of much of this investment.

**Emrah B. (2006)** in his study examined the possible causal relationship between FDI and economic growth in Turkey. She found out that there is neither a long run nor a short run effect of FDI on economic growth of Turkey. Thus, the study could not find any patterns for each hypothesis of “FDI led Growth” and “Growth driven FDI” in Turkey. The main reason of this result is that the country had unstable growth performances and very low FDI inflows for the period under analysis. She suggested that in order to have a sustained economic development the government should improve the investment environment with the ensured political and economic stability in the country.

**Belem I. Vasquez G. (2006)** discussed the importance of liberalization and FDI on Mexico’s economy. The major findings of the study demonstrated that the main determinants of GDP are capital accumulation, labour productivity and FDI. Further, findings confirm that exports, differences in relative wages and currency depreciation are explicative of FDI. Exports are highly dependent on the world economy and exchange rate fluctuations. Labour productivity and FDI improve human capital. Similarly GDP and human capital induce productivity gains and capital accumulations improve due to technology transfers, infrastructure, personal income and peso appreciation. He showed that an expansionary monetary policy has the capacity to decelerate the interest rate and thereby to enhance FDI and its spillovers.

**Garrick B. (2006)** reviewed the three essays on technology adoption from FDI and exploring. The first essay investigated how technology that accompanies FDI diffuses in the host economy and found that multinationals wish to limit technology leakage to domestic rivals, they benefits from deliberate technology transfer to suppliers that may lower input prices or raise input quality. The second essay examined how firm attributes affect innovation by investing the adoption of technology brought with FDI. The findings suggested that the more competent firms have already adopted technologies with high returns and low costs, whereas less competent firms have room to catch up and can still benefit from the adoption of ‘low hanging fruit technology’ the third essay found whether firms acquire technology though exporting and found strong evidence that firms benefits from a onetime jump in productivity upon entering export markets.
Zhang, K.H (2005) has tried to place proper emphasis on the role of foreign direct investment (FDI) in the export promotion by studying the China’s economy. He stated in his findings that China’s export boom was accompanied by substantial inflows of FDI and China stood 32nd among the exporting countries of the world in 1978 and became the 3rd largest exporting country in the world in 2004.

Maathai K. M. (2005) tried to examine the long-run relationship of FDI with the Gross Output, Export and Labour Productivity in the Indian economy at the sectoral level by using the annual data from 1990-91 to 2000-01. He used the Panel co-integration (PCONT) test and the results demonstrate that the flow of FDI into the sectors has helped to raise the output, labour productivity and export in some sectors but a better role of FDI at the sectoral level is still expected. Results also reveal that there has been no significant co-integrating relationship among the variables like FDI Gross Output, Export and Labour Productivity in core sectors of the economy. He again explained that when there is an increase in the output, export or labour productivity of the sectors it is not due to the advent of FDI. Thus, it could be concluded that the advent of FDI has not helped to wield a positive impact on the Indian economy at the sectoral level.

He also observed from research analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and export in some sectors. However, the result of the PCONT that a very minimal relation in these variables (output, labour productivity and export) has established by the FDI inflows into the sectors. He stated that the spirit with which the economy has been liberalized and exposed to the world economy at the late eighties and early nineties has not been achieved after so many years. He advocated to open up the export oriented sectors.

Rashmi B. (2005) focused on the emergence service sector as the largest and fastest-growing sector in the global economy in the last two decades, which provides more than 60 per cent of global output and in many countries an even larger share of employment. The study revealed that the growth in services has also been accompanied by the rising share of services in world transactions. She stated that there has been a marked shift of FDI away from the manufacturing sector towards the service sector worldwide. The share of services in total FDI stock has now increased to around 60 per cent since 2002 as compared with less than half in 1990s. She further tried to identify some of the conceptual issues and provide a selective review of both theoretical and empirical studies on these issues.
She identified some conceptual issues with respect to FDI in service which are the differences between FDI in services and FDI in goods; the relevance of the “theory of FDI” for explaining the important determinants of FDI in services. Some of the distinctive characteristics of services have been discussed along with the relevance “FDI theory” as against “trade theory” in explaining why FDI in services occur. She further suggested that the obstacles to lowering restrictions on global services can be categorized into two broad categories: first, those indicating a lack of incentives or practical difficulties in negotiations and second, those represent outright opposition particularly by developing countries to any negotiations.

**Klaus et al (2005)** revealed that considerable variations of the characteristics of FDI across the four countries, with the restrictive policy regimes, and have gone through liberalization in the early 1990. Yet the effects of this liberalization policy on characteristics of inward investment vary across countries. Hence, the causality between the institutional framework including informal institutions and entry strategies merits further investigation. They found appropriate ways to control for the determinants of mode choice, when analyzing its consequences. They concluded that the policy makers need to understand how institutional arrangements may generate favourable outcomes for both the home company and the host economy. Hence, there is a need to better understand how the mode choice and the subsequent dynamics affect corporate performance and how it influences externalities generated in favour of the local economy.

**Chen Kun- M., Rau Hsiu –H. & Lin Chia – C. (2005)** examined the impact of exchange rate movements on FDI. Their empirical findings indicate that the exchange rate level and its volatility in addition to the relative wage rate have had a significant impact on Taiwanese firms’ outward FDI into China. They concluded that the relationship between exchange rates and FDI is crucially dependent on the motives of the investing firms.

**Korhonen K. (2005)** focused that the political environment of the firm in the host country may have a special role among the other parts of the firm’s environment because of the supremacy of the host government to use its political power in order to intervene in FDI. She also stated that TNC may not need to bargain alone but may lobby from its home government. She further added the concept of authority services to the list of TNC’s bargaining techniques. The empirical results of the study suggested that the change in the political environment in Korea in 1998 had a clear
impact on foreign investment in Korea. The findings indicate that repeat investments had been engaged regardless of the investment policy liberalization but the acquisitions had not taken place without the change in Korea’s investment policy. The results also suggested that the modified strategy performance model can be successfully used to assess the impact of change in the firm’s external environment. The results indicate that firms scan their political environment continuously in order to anticipate and respond to possible changes.

**Rydqvist J. (2005)** analyzed if there are any changes in the flow of FDI during and after a currency crisis. He found that there are no similarities in regions or year of occurrence of the currency crisis. The depth, length and structure of each currency crisis together with using the right definition of a currency crisis are two important factors relating to the outcomes in this study.

**Thai T. D. (2005)** tried to examine the impact of FDI on Vietnamese economy by using Partial Adjustment Model and time series data from 1976 to 2004. FDI is shown to have not only short run but also long run effect on GDP of Vietnam. He also examined the impact of trade openness on GDP and it is found that trade is stronger than that of FDI.

**Johannes C. J. (2005)** evaluated the influences of a number of economic and socio–political influences of neighboring countries on the host country’s FDI attractiveness. Three groups, consisting of developed, emerging and African countries were evaluated, with the main emphasis on African countries. He indicated that an improvement in civil liberties and political rights, improved infrastructure, higher growth rate and a higher degree of openness of the host country, higher levels of human capital attract FDI to the developed countries but deter FDI in emerging and African countries indicating cheap labour as a determinant of FDI inflows to these countries. Further, Oil–Owned countries in Africa’s attract more FDI than non–oil endowed countries – emphasizing the importance of natural resources in Africa.

**Kulwinder S. (2005)** tried to explore the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. He concluded that the impact of the reforms in India on the policy environment for FDI presented a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.
Guruswamy, S., Mohanty & Thomas (2005) observed that retail in India is severely constrained by limited availability of bank finance, dislocation of labor. They suggested suitable measures like need for setting up of national commission to study the problems of the retail sector and to evolve policies that will enable it to cope with FDI. They concluded that the entry of FDI in India’s retailing sector is inevitable. However, with the instruments of public policy in its hands, the government can slow down the process. The government can try to ensure that the domestic and foreign players are more or less on an equal footing and that the domestic traders are not at a special disadvantage. The small retailers must be given the opportunity to provide more personalized service, so that their higher costs are taken advantage of by large supermarkets and hypermarkets.

Sarma E. (2005) in his work examined the constraints faced by traditional retailers in the supply chain and gave an emphasis on establishment of a package of safety nets as Thailand has done. India should also draw lessons from restrictions placed on the expansion of organized retailing, in terms of sourcing, capital requirement, zoning etc, in other Asian countries. He made comments on the retail FDI report that as commissioned by the Department of Consumer Affairs and suggested the need for a more comprehensive study.

Rachel G. Stephen R. & Helen S. (2004) they examined in their paper the relationship between foreign ownership and productivity paying attention to two issues that was the role of multinationals in service sectors and the importance of R&D activity conducted by foreign multinationals. They reviewed existing theoretical and empirical work which largely focused on manufacturing before presenting new evidence using establishment-level data on production, service and R&D activity for the United Kingdom. They found that multinationals played an important role in service sectors and that entry of foreign multinationals by takeover is more prevalent than greenfield investment. They observed that British multinationals have lower levels of labour productivity than foreign multinationals but the difference has less stark in the service sector than in the production sector and that British multinationals have lower levels of investment and intermediate use per employee.

Richard D S. (2004) observed that the Globalization has challenged the health policy-makers, so he selected the important area service sector which focused on significant aspect of direct trade in health services, a result of the rise of transnational corporations, challenges in health care financing, porous borders and improved
technology creating the scope for increased FDI in health care. This has gathered momentum with the General Agreement on Trade in Services (GATS), which aims to further liberalize trade in services, and within which FDI has been noted as perhaps the most critical area for trade negotiation. There have been little empirical data for the rapid development of this area. This study seeks to provide the first comprehensive and systematic review of evidence concerning FDI and health services. He included electronic bibliographic database searches, website searches and correspondence with experts in the area of trade in health services, from which 76 papers, books and reports have been reviewed. He observed the three issues (i) the extent to which a national health system has commercialized more significance than whether investment in it is foreign or domestic; (ii) the national regulatory environment and its ‘strength’ will significantly determine the economic and health impact of FDI, the effectiveness of safeguard measures and the stability of GATS commitments and (iii) any negotiations will depend upon parties having a common understanding of what is being negotiated, and the interpretation of key definitions is thus critical. He concluded that countries should take a step back and first think through the risks and benefits of commercialization of their health sector rather than being sidetracked into considering the level of foreign investment.

Iyare S. O, Bhaumik P. K, Banik A. (2004) in their work stated that FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc, irrespective of the source and destination countries. The study shows that the neighborhood concepts are widely applicable in different contexts particularly for China and India, and partly in the case of the Caribbean. There are significant common factors in explaining FDI inflows in select regions. While a substantial fraction of FDI inflows may be explained by select economic variables, country – specific factors and the idiosyncratic component account for more of the investment inflows in Europe, China, and India.

Andersen P.S & Hainaut P. (2004) pointed out that while looking for evidence regarding a possible relationship between FDI and employment, in particular between outflows and employment in the source countries in response to outflows. They also found that high labour costs encourage outflows and discourage inflows and that such effect can be reinforced by exchange rate movements. The distribution of FDI towards services also suggests that a large proportion of foreign investment is undertaken with the purpose of expanding sales and improving the distribution of
exports produced in the source countries. According to this study the principle determinants of FDI flows are prior trade patterns, IT related investments and the scopes for cross-border mergers and acquisitions. Finally, they found clear evidence that outflows complement rather than substitute for exports and thus help to protect rather than destroy jobs.

Salisu A. A. (2004) examined the determinants and impact of FDI on economic growth in developing countries using Nigeria as a case study. He observed that inflation, debt burden and exchange rate significantly influence FDI flows into Nigeria. He suggested the government to pursue prudent fiscal and monetary policies that will be geared towards attracting more FDI and enhancing overall domestic productivity, ensure improvements in infrastructural facilities and to put a stop to the incessant social unrest in the country. He concluded that the contribution of FDI to economic growth in Nigeria was very low even though it was perceived to be a significant factor influencing the level of economic growth in Nigeria.

Jainta C. (2004) assessed the determinants of Japanese and American FDI in Thailand during 1970-2000. In this analysis, the short and long-term determinants of both FDI are estimated. He concluded that, in the short and the long run, Japanese FDI is found to be driven by trade factors and the yen appreciation. While the American FDI is driven by market factor, specifically the income level of Thai people. Japanese FDI is trade–oriented, whereas the American FDI is market–seeking oriented.

Minquan liu, Luodan Xu, Liu Liu (2004) presented findings from a Survey of Foreign Invested Enterprises (FIEs) in Guangdong China, on the relationship between FDI and wage–related labour standards (regular wages, and compliance with official overtime and minimum wage) which show that wage–related standards are statistically high in FIEs whose home countries’ standards are higher, after controlling for other influences. However, a cost–reduction FIE is more likely to be associated with inferior standards.

Park J. (2004) tried to indicate that industrial clusters are playing an important role in economic activity. The key to promote FDI inflows into India may lie in industries and products that are technology–intensive and have economies of scale and significant domestic content.

Nayak D.N (2004) analyzed the patterns and trends of Canadian FDI in India. He found out that India does not figure very much in the investment plans of Canadian
firms. The reasons for the same is the indifferent attitude of Canadians towards India and lack of information of investment opportunities in India are the important contributing factor for such an unhealthy trends in economic relation between India and Canada. He suggested some measures such as publishing of regular documents like newsletter that would highlight opportunities in India and a detailed focus on India’s area of strength so that Canadian firms could come forward and discuss their areas of expertise would got long way in enhancing Canadian FDI in India.

Naga R. R (2003) discussed the trends in FDI in India in the 1990s and compared them with China. The study raised some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, he concluded by suggesting a realistic foreign investment policy.

Taewon S. Omar J. K. (2003) investigated to explore the effect of both the increase in Foreign Direct Investment inflows and the increase in information and communication technology infrastructure investments on exporting in ASEAN countries compared with two other major trade blocs i.e. CEFTA and LAIA. The analysis is based on data from cross, section of countries (26 emerging markets from three trade blocs) for the period of 1995 to 2000. The results showed that enlarge of investment in ICT infrastructure earnings positive and relevant returns in the national exporting level only for the ASEAN / AFTA and CEFTA model.

Klaus et al (2003) focused on the impact of Foreign Direct Investment on host economies and on rules and managerial inference arising from this impact. He suggested that as emerging economies integrate into the global economies international trade and investment will continue to increase. MNEs will continue to act as important interface between domestic and international markets and their relative significance may even augment further. The wide and variety interaction of MNEs with their host countries may tempt strategy makers to micro-manage inwards foreign investment and to aim their instruments at attracting very exact types of projects.

The study concluded that the first priority should be on increasing the general institutional framework such as to improve the efficiency of markets, the effectiveness of the public sector management and the availability of infrastructure. On that basis bendable schemes of promoting new industries may further increase the chances of developing internationally competitive business come together.
Rob & Vettas, (2003) revealed that an MNC can serve the foreign demand by two modes or by a combination thereof. It can export its products or it can create productive capacity via FDI. The advantage of FDI is that it allows for lower marginal cost than exporting does. The disadvantage is that FDI is irreversible and hence entails the risk of creating under-utilized capacity in case the market turns out to be small. An internal solution may be the MNC both export and makes FDI under certain conditions.

Zebregs H. & Tseng W. (2002) tried to examine the China’s experience with FDI and seek to answer the question why China is more successful in attracting the FDI. They argued about the market-oriented reforms and “opening up” policy pursued by China have led high economic growth and a dramatic economic transformation in the form of higher investment and productivity growth and has created jobs and dynamic export sector. One unique factor in China’s success is the presence of investors who form two of the most dynamic economies in the region. Apart from the economic environment, political commitment is an important ingredient for attracting FDI.

Lehmann A. (2002) in his study identified the determinants of FDI profitability in industrialized and developing countries of the world. He argued that the return on foreign direct investment suggested profitability is widely underestimated. The results of the study also highlighted the costs of risky investment regimes in developing countries.

Alguacil, M.T. (2002) concluded in his study that the involvement of foreign firms had a higher export propensity than local firms. He also suggested a type of FDI-led export growth linkage and thus the integration of India in the world economy is being fostered by the export orientation of foreign firms.

Branstetter, L.G. (2002) stated that the focus of development efforts shifts from public to private, it is clear that one of the barriers will deeply entrench the role of state-owned enterprises of the country to increase export through FDI.

Pawin T. (2001) tried to identify and investigated the ‘industry – level Determinants’ of FDI in the context of Asian industrializing countries by using the data on Japanese FDI in Thailand. He examined the influences of location – specific characteristics of host industries such as factor endowments, trade costs, and policy factors. More distinctively, he examined the effect of vertical (input-output) linkages among Japanese firms. He found out that Japanese FDI in Thailand was not evenly distributed across manufacturing activities. Some capital / technological – intensive
industries like rail equipments and air craft’s did not receive any FDI during a specified period. On the other hand, other relatively labour – intensive industries like TV Radio, and communications equipment industry and motor vehicle industry received disproportionately large values of FDI.

Khor C. B. (2001) attempted to investigate the relationship between Foreign Direct Investment and economic growth. He found that bidirectional causality exist between Foreign Direct Investment and economic growth in Malaysia i.e. while growth in GDP attracts Foreign Direct Investment, FDI also contributed to an enlarge in output. Foreign Direct Investment played a important role in the diversification of the Malaysian economy, as a result of which the economy is no longer hazardously dependent on a little primarily commodities, with the manufacturing sector as the main source of growth.

Liu X., Wang C. & Wei Y. (2001) examined the causal relationship between foreign direct investment (FDI) and foreign trade of China. The study is empirical and based on a panel of bilateral data for China and 19 regions for the period from 1984 to 1998. In order to analyze the panel data the researchers have used econometric techniques to test unit roots and causality. The standard t-bar and LM-bar tests have been carried out to test for unit roots for the variables involved. Then Granger causality tests have been conducted based on a standard VAR model with stationary time series of the variables. The results of the study indicate a virtuous procedure of development for China, the growth of China’s imports causes the growth in inward FDI from a home region and the growth of exports from China to the home region. The main reason in growth of exports is the growth in imports.

Kostial K. & Gropp R. (2000) discussed the linkage between FDI, corporate taxation and corporate tax revenues of European Union (EU) countries. They found that flows of FDI between the countries are affected by the tax regimes. Simulations of EU harmonization (isolating the revenue effect of FDI on the Tax base from direct effects through the rate harmonization) suggested that high (low) tax countries would gain (lose) revenue from harmonization, these effects may be substantial. Results of the study revealed that EU tax harmonization would significantly affect the net FDI position of some countries.

Sharma & Kishor (2000) by analyzing the data from 1970 to 1998 he a viewed that the Export growth in India has been much faster than GDP growth over the past few decades. Several factors appeared to have contributed to this phenomenon including
FDI. However, despite increasing inflows of FDI especially in recent years there has not been any attempt to assess its contribution to India's export performance one of the channels through which FDI influences growth.

**Sanjaya L. (2000)** attempted to review the emerging documents and research issues in the context of vast technological change and policy liberalization. The study also deals with the benefits and costs of Foreign Direct Investment. He emphasized on the impact of Foreign Direct Investment on local firm development, static versus dynamic benefits and bargaining with TNCs. He concluded with a concise catalogue of outstanding research matter.

**Gazioglou S. & McCausland W.D. (2000)** developed a micro–foundations framework of study of Foreign Direct Investment and included it into a macro level analysis. They indicated the importance of profit repatriation in generating different impact of Foreign Direct Investment on net international debt, trade and real exchange rate in developed economies compared to less developed economies.

**Morris S. (1999)** evaluated the features of Indian Foreign Direct Investment and the nature and form of control exercised by Indians firms, the causal issues that underlie Indian Foreign Direct Investment and their specific strengths and weaknesses using data from government files. For this, case studies of firms in the textiles, paper, light machinery, consumer durables and oil industry in Kenya and South East Asia were assessed. He found that the indigenous private corporate sector was the major basis of investments. Resources seeking Foreign Direct Investment has started to constitute a large portion of Foreign Direct Investment from India. The only truly general force is the unstoppable push of capital to seek markets whether through exports or when state at home put a brake on accretion and form abroad permit its persistence.

**Alhijazi, Tahya Z.D. (1999)** presented merit and demerit of Foreign Direct Investment for developing countries and other involved parties. He inspected the regulation of Foreign Direct Investment as a means to balance the interests of the related parties, giving an appraisal of the balance of interests in some existing and possible Foreign Direct Investment regulations. He also tinted the case against the deregulation of Foreign Direct Investment and its outcome for developing countries. The study concluded by formulating regulatory Foreign Direct Investment guidelines for developing countries.

**Nicole E. Kristina A.M. & Martin S. (1999)** attempted to inspect that the internationalization has traditionally been using a single theoretical structure in the
context of large manufacturing companies. They argued that it is more applicable to examined FDI theory including transaction cost analysis, they conducted studies of four New Zealand-based engineering companies classified SME’s. The research identified and analyzed patterns and effects the smaller service firm's decision to internationalize, subsequent internationalization, market selection and form of entry. Their findings show that SMEs internationalization in the engineering related sector has a complex procedure and concepts intrinsic in FDI theory, the stage models and the network outlook are all evident. The study results hold the argument that service internationalization has been too wide large concept to be defined exclusively or to be observed by every theoretical frame work.

**Gonzalez J.G (1988)** extended the work done by Srinivasan(1983) by adding an analysis of the welfare effects of foreign investment. The study indicates that if there are no distortions, foreign investment will improve the social uplift of the people. The study strongly favors import replacement policies since such a strategy provides greater job opportunities to the people and as a result improves their standards of living. But he analyzed that welfare effects of foreign Investment do not elucidate the pattern of trade in the economy. Thus, both Srinivasan (1983) and Gonzalez (1998) found that FDI and deformation of the labor market results in social boost of the people.

**Borensztein E Gregorio D.J. & Lee J.W (1998)** examined the outcome of FDI on economic growth in a cross-country regression framework through utilizing data on FDI flows from industrial countries to 69 developing countries from last two decades. The findings of the study suggested that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. The study revealed that the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. Thus, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy. The main finding of the study is the effect of FDI on economic growth and is dependent on the level of human capital available in the host economy. It is a positive interaction between FDI and the level of educational accomplishment.

**Okuda S. (1994)** examined how Foreign Direct Investment policies affected productivity of Taiwan’s manufacturing sector. As an indicator of efficiency, TEP indices of the Taiwan manufacturing were measured at the subsector level. He
mentioned that the TEP growth for manufacturing as a whole was 2.6 per cent per annum the electronics and machinery maintained high productivity performance while assessing the relationship between TEP and trade and FDI liberalization policies was observed. He concluded that the policies of the Taiwan government have generally been significant.

**Bhagwati J.N. (1978)** checked the effect of FDI on international trade. He found that countries actively pursuing export led growth strategy can reap vast benefits from Foreign Direct Investment.

**Crespo N. & Fontoura P.M. (2007)** analyzed the factors explaining the existence, dimensions and sign of Foreign Direct Investment spillovers. They identified that FDI spillovers depend on many aspect like absorptive capacities of domestic companies and regions, the technological break or the export capacity.

**CONCLUSION**

The review of literature helps in identifying the research issues and gaps for the present study. The foregoing review of empirical literature confirms/highlights the theoretical and conceptual concepts of service sector FDI and also helps in identification of variables which has been covered by the various researchers in their study. From gone through the existing literature, appropriate research technique has been selected for the study.
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