SUMMARY AND CONCLUSIONS

FDI has an important role to play in the development of an under developed economy where domestic savings are less than the required rate of investment. FDI brings foreign exchange to fill the saving investment gap and trade gap. This also brings up-to-date technology. FDI increases production and employment in an economy.

In the 1980s, the earlier post-war approaches to investment, which often stressed restrictions, controls and conditions on entry and establishment of FDI, were reversed, mainly as a result of the debt crisis (which made FDI, a more desirable alternative to bank lending) and of the changing perceptions of the role that FDI can play in growth and development. As a result, laws and policies in many developing countries began to change dramatically in the direction of liberalisation, protection and promotion of FDI.

Till mid-eighties, Indian government too had followed a restrictive policy towards FDI. In 1990, Indian economy faced a very large deficit in the balance of payments. There was a critical shortage of foreign exchange reserves. In these circumstances India was left with no option but to open her doors to FDI to bridge the technology gap, saving investment gap and trade gap. In July 1991, the government of India announced a liberal economic policy. The government introduced a large number of reforms in import-export policy, industrial policy, foreign investment policy and fiscal policy, etc.

In response to the new liberalised policy adopted by the Indian government, FDI increased by leaps and bounds in the post liberalized period. The actual FDI is, however, quite less than the approvals. It is approximately just 20% of the approvals. Moreover, the share of India in FDI towards developing countries is very little. The share of Japan and Germany in FDI is quite low in India as compared to their share in other Asian countries.

In the present circumstances, there was a need to find out the motives and determinants of FDI in India. **The aim of the present study was to know the motives and determinants in general, country specific and sector specific determinants in particular.** This would enable to find out whether the government's policy is in tune with the determinants and which changes are required to remove the deterrents of FDI and to increase the actual inflow of FDI in desired channels.

A large number of studies have been conducted on the determinants of FDI in developing as well as developed countries. But most of the studies explain only the ownership advantages of foreign firms and they are based on secondary data. Studies conducted on FDI in India are mainly concerned with the industrial characteristics of FDI. Moreover, they were conducted in the period when India was following a restrictive policy towards FDI. **The present study is an original field study based on primary data and is quite comprehensive.**

In the second chapter, theories on motives and determinants of International Direct Investment have been given. These theories are divided into macro economic and micro economic explanations giving a deep insight into a large number of factors which play an important role in affecting FDI inflow and which have been tested in the present study.

The host government's policy has an important role in influencing the magnitude, importance, pattern, form and impact of FDI in the economy. So the third chapter provides a view of the trend and pattern of FDI inflow in India, alongwith the government's policy with respect to FDI. The Indian government's attitude towards foreign investments has been changing over the post-independence period. Four distinct phases in the evolution of the government's policy are discernible : the period from independence to the late 1960s **(Pre-FERA period)** which was marked by a gradual liberalisation of attitude; the period from the late 1960s through to the 1970s **(post FERA period)** which was characterised by a more selective stance; the 1980s **(pre-liberlisation)** which heralded a little bit liberal policy and the 1990s **(post-liberalisation)** when liberalisation was adopted on a large scale. The trend and pattern of FDI inflow in India has changed in response to the policy of the government during the period.

Those companies were taken in the sample which were incorporated in the post-liberalized period beginning July 1991 or which increased their foreign equity during this period. Companies were selected on the basis of countrywise and sectorwise distribution of FDI in the post liberalized period. The basis of sample formation was **Stratified Random Sampling.** The data has been collected through questionnaires. Respondents were asked to show the significance of various determinants in the range of 5 grades - Very high (VH), Moderately high (MH), Significant (S), Non significant (NS) and Neutral (N). These 5 grades were given the scores 4, 3, 2, 1 and 0 respectively. Sample firms were also classified on the basis of foreign equity participation.

Minority Foreign owned firms in which foreign equity is in the range of 26% to 49% .

Majority Foreign owned firms in which foreign equity is in the range of 50% to less than 100% .

Fully **owned subsidiaries** having foreign equity of 100% .

Average score values were calculated for various determinants at the macro level, **countrywise, sectorwise and on the basis sof ownership structure.** Percentages were also calculated. Significance of difference in the average scores of various determinants was tested statistically by applying students' t -test.

The main conclusions of the present study about the motives and determinants of International Direct Investment in India are given below : These determinants have been classified as **Macro Economic Determinants and Deterrents of FDI inflow in India** and **Sectoral and Firm level Motives and Determinants.** These have been further categorised as **Internal and External factors**

The results of eleven different kinds of determinants related to **internal factors** affecting FDI in India in order of their decending importance are -

Foreign investment policy and procedure (FIP) ranks first among the most significant variables influencing FDI in India. Sub-factors grouped under liberalised FIP, use of foreign brand name/trade mark, automatic permission for expansion, establishment of FIPB, automatic permission for hiring of foreign technicians and foreign testing of indigeneously developed technologies, abolition of phased manufacturing programme, relaxation of the condition of foreign equity approval accompanied by foreign technology approval, relaxation of the condition of dividend balancing and automatic approval upto 51% of foreign equity participation have been revealed to be significant determinants of FDI inflow, in the descending order. Degree of significance of above said factors varies countrywise and sectorwise. Use of foreign brand name/trade name is found to be of the highest importance for other Asian countries based firms and for industrial machinery sector. Significance of automatic permission for expansion is shown to be the greatest for U.K. based firms and for electronics and electrical equipment industry. Establisshment of FIPB is revealed to be of the highest significance for U.S.A. based firms and for power & fuel sector. Automatic permission for hiring of foreign technicians and foreign testing of indigeneously developed technologies, is of the greatest importance for U.K. based companies and for industrial machinery sector. Abolition of phased manufacturing programme is identified as of the highest significance for U.K. and for power & fuel sector. Relaxation of the condition of foreign equity approval accompanied by foreign technology approval and relaxation of the condition of dividend balancing is shown to be of highest importance for other European countries based firms. Automatic approval is considered to be of the highest significance in telecomm industry.

Industrial Policy Environment ranks 2nd among the most significant variables influencing the flow of FDI in India. **Delicensing** which is found to be a moderately high significant determinant at macro level is of greatest significance for Japan based firms for textiles sector and for fully owned subsidiaries. **Relaxation of MRTP Act** has emerged to be of highest importance for Germany based firms and for textile industry. Broad banding facility is considered to be more important by Germany based firms, by computers industry and by fully owned subsidiaries.

The 3rd most significant determinant influencing the FDI inflow in India is **financial markets** in India in which the sub-factors - disinvestment at share market prices, increased banking and credit facilities and established stock exchange are in the order of decreasing significance. The significance of the factor - **disinvestment at share market prices** is highest for Germany based firms, for computers industry and for majority foreign owned firms. **Increased banking and credit facilities** are found to be of greatest importance for other Asian countries based firms, for metallurgy sector and for minority foreign owned firms. **Established stock exchange** in India is considered to be of highest significance for Japan based, for textiles industry and for minority foreign owned firms.

Foreign Exchange Regulation ranks 4th among the most significant variables affecting the flow of international direct investment in India. Sub-factors grouped under foreign exchange regulation are - current A/c convertibility of rupee, unified (flexible) exchange rate, devaluation of Indian rupee and depreciation of rupee in the foreign exchange market in the order of declining significance. **Current A/c convertibility of rupee** and **unified (flexible) exchange** rate are found to be of highest significance for USA based firms and for metallurgy sector. **Devaluation of Indian rupee** has been revealed to be of greatest importance for U.K. based firms and for metallurgy sector. The significance of **depreciation of rupee** in the foreign exchange market is shown to be greatest for Japan based firms and for transport industry. Ownershipwise there is no variation in the significance of the above said factors.

Characteristics of Indian Economy have emerged as the 5th important factor influencing FDI inflow in India. Sub-factors under this area - size of Indian market, size of middle income class, availability of cheap labour force, industrial sector diversification, availability of skilled labour, existence of large private sector and availability of unskilled labour are ranked from 1 to 7 respectively in terms of their influence on international direct investment in India. **Huge size of Indian** market and **large size** of **middle income** class are of highest significance for U.K. based firms and for transport industry and for telecommunications industry respectively. Significance of **cheap labour force** is revealed to be highest for Japan based firms, for textiles industry and for minority foreign owned firms . **Indstrial sector diversification** and **availability of skilled labour** are also of greatest importance for

Japan based firms while sectorwise these are most important in metallurgy and computers industry respectively. **Existence of large private sector** is considered to be of highest significance by Germany based firms and by telecommunications sector while **availability of unskilled labour** is identified to be of greatest importance for U.K. based firms and for metallurgy sector.

Signing of Multilateral Investment Guarantee Protocol by the Indian Government is found to be a moderately high significant and got 6th rank amongst macro economic determinants of international direct investment in India. The significance of this factor is revealed to be highest in USA based firms, in food processing industry and in fully owned subsidiares.

Bilateral Agreements ranked 7th among the most important factors influencing the flow of international direct investment in India. Significance of this factor is found to be highest for Germany based firms and for metallurgy sector. Ownershipwise there is no statistically significant variation in the importance of this factor.

Socio-Cultural Environment in India has got the 8th rank among the significant determinants of FDI inflow in India. Sub-factors under this area are widespread use of English, consumerism, strong media of advertisement, strong British based legal and accounting systems and demonstration effect in the order of decreasing significance. Degree of significance of **widespread use of English** is highest for Japan based firms. **Consumerism** and **strong Media of advertisement** are considered more important by other Asian countries based firms and by telecommunications industry. **Strong British based legal and accounting system** is shown to be of highest importance for Japan based firms. **Demonstration effect** is considered more powerful by Germany based firms and by food processing industry. Ownershipwise there is no variation in the significance of the above said factor.

Raw Material Availability has got the 10th rank among the significant determinants of international direct investment inflow in India. Degree of importance of this factor is found to be highest for other Asian countries based firms and for textiles industry. No statistically significant variation is seen in the significance of this factor on the basis of ownership.

Trade Policy concerning factors like import liberalisation, export processing zones, tax holidays and facility of production of items for small scale sector (in the order of decreasing importance) ranked last among the most significant variables having positive impact on FDI inflow in India. **Import liberalisation** and **export-processing zones** have been found to be of greatest significance for other Asian countries based firms and for metallurgy sector. **Tax holidays are considered to be** of highest importance by Japan based firms and by industrial machinery industry. **Facility of production of items for small scale industry** is of highest significance for Germany based firms and for industrial machinery sector.

Welcoming of foreign investment in Power, Oil and Telecommunications by the Indian Govt. is a moderately high significant determinant of FDI inflow in India, at the macro level. Importance of this factor is shown to be greatest for U.K. based firms, for industrial machinery and for fully owned subsidiaries.

The results of eight different types of determinants related to external factors affecting FDI inflow in India are concluded below :

Market saturation ranked Ist among the external factors influencing the flow of FDI in India. A moderetely high significant determinant at the macro level, the degree of significance of this factor is found to be highest for other Asian countries based firm, for textiles industry and for minority foreign owned firms.

Encouragement from home country ranked 2nd among the external factors affecting the flow of international direct investment in India. This factor is also revealed as a moderately high significant determinant at macro-level, although the degree of importance of this factor is shown to be greatest for other European countries based firms and for textiles industry.

Developing countries' welcoming attitude towards FDI is the 3rd most important external factor having positive impact on FDI inflow in India. At macro-level this is also a moderately high significant determinant. This factor is given highest importance by USA based firms and by textiles industry.

Use of unused resources has occupied the 4th rank among the external factors influencing the locational choice of foreign direct investors. A moderately high significant macro economic determinant, its significance is found to be greatest in other Asian countries based firms, in electronics industry and in fully owned subsidiaries.

Competition from other Multinational Companies is the 5th most significant determinant related to External factors, affecting the flow of FDI in India. Importance of this factor is shown to be highest for Germany based firms and for metallurgy sector.

GATT Round ranks 6th among the External factors having positive impact on the flow of international direct investment in India. Its significance is highest in Germany based firms and in food processing industry. It is revealed as a significant macro-economic determinant.

Restrictions on further expansion in Home Country emerged as the 7th most important determinant under external factors, influencing the decision of foreign direct investors to invest in India. This is just a significant macro economic determinant.

High Research & Development Expenditure in Home Country ranks last of all external factors taken in this study, in its influence upon FDI inflow in India. The significance of this factor is shown to be highest in chemicals and pharmaceuticals industry.

The major deterrents of FDI inflow in India are bureaucratic delays and widespread corruption in India, poor infrastructure facilities, high corporate tax rate, income tax and excise tax, pro-labour laws, high import tariffs, political risk, weak intellectual property regime and high rate of interest. According to the present study, these are the significant factors hampering the flow of international direct investment in India.

Following are the main motives of international direct investment in India.

Market seeking investment has emerged as the most powerful motive behind international direct investment in India. Huge size and fastly growing market of India is the main driving force behind FDI in transportation, energy, food processing and telecommunications sectors.

To grow internationally and to face competition from other MNCs is also a very important motive for undertaking FDI in India by US & Germany based investors in sectors like telecommunications and computer software.

Survival of their monopolistic/oligopolistic position is an important motive behind FDI by USA and other European countries based firms in sectors like food processing.

Labour resource oriented investment is an important motive of international direct investment in India. Availability of cheap and skilled manpower is the main attraction for foreign investors.

Natural resource oriented investment is no longer a very important motive of international direct investment in India.

Demolition of tariff wall is also not an important motive for FDI in India. However, this has been a significant driving force behind Japanese FDI in India.

The study clearly indicates that motives and determinants of FDI inflow in India differ from sector to sector and from country to country. So there is need to have different FDI policies for different sectors. **FDI policy should be dynamic in character so that it keeps on adjusting automatically in response to the changing economic scenario.**

There is need to bring change in the foreign investment policy of the government. There should be greater transparency in the policies and procedures should be changed in such a manner that there is no delay in the start of the project. Corruption should be curbed. For investment in infrastructural sector, more facilities should be provided. There is need for further liberalization of imports and more privatisation is required. Domestic savings too must be increased. There is need for reduction in tax rates and interest rates. Intellectual property regime is required to be strengthened and a proper exit policy is also essential. Policies and procedures should be changed to match the opening of the economy.

FDI has to be raised but while doing so, the interests of consumers, workers and domestic enterpreneurs must be safeguarded. Simultaneously, the national resources should not be subjected to reckless exploitation and plan priorities should no be distorted.