PREFACE

India has emerged as the preferred destination for many foreign international enterprises due to constructive factors such as high economic growth, fast population growth, English speaking people, and lower costs for workers.

India’s inward investment rule went through a series of changes since economic reforms were escorted in two decades back. The expectation of the policy-makers was that an “investor friendly” command will help India establish itself as a preferred destination of foreign investors. These expectations remained largely unfulfilled despite the consistent attempts by the policy makers to increase the attractiveness of India by further changes in policies that included opening up of individual sectors, raising the hitherto existing caps on foreign holding and improving investment procedures. But after 2005-06, official statistics started reporting steep increases in FDI inflows. Portfolio investors and round-tripping investments have been important contributors to India’s reported FDI inflows thus blurring the distinction between direct and portfolio investors on one hand and foreign and domestic investors on the other. These investors were also the ones which have exploited the tax haven route most.

Investment inflows have been constantly rising since the sharp drop witnessed in 2009, following the global financial crisis. Hiccups apart, foreign investors see huge long-term growth potential in the country. As
much as 75 percent of global businesses already present in the country are looking to considerably expand their operations going forward according to the Indian attractive survey by *Ernst & Young*. This also confirms that India is undergoing a changeover, both in terms of investor perception of its market potential, and in reality.

With GDP growth anticipated to surpass 8 percent yearly and the number of people in the Indian middle class set to triple over the next 15 years, with an equivalent impact on disposable income, domestic demand is expected to grow exponentially. India’s young demographic profile also helps it in providing an increasingly well-educated and cost-competitive labor force. These factors put India in a good position to attract an increasing proportion of global FDI.

As project numbers and jobs created are still some way off highs reached in 2008, which saw 971 projects, the trend over the last decade has shown a steady, if not dramatic, upward movement. Generally project numbers in 2010 were up 60 percent over 2003 and the number of jobs created up 30 percent. The strong domestic market enabled India to deliver a flexible performance during the global economic slowdown. India today is rising as a manufacturing destination, both for the domestic and global markets. As business leaders battle for growth in the new economy, there is a sense of urgency among leading players to grab the prospects offered by the Indian market.
With the liberty of the simplified compendium on foreign direct investment, numerous processes on FDI and associated routes of investment too are being ratified with a view to speed up the process of inflows into India.

The out of the country Indian investors too would find it simpler to entry nodal bodies and invest in India. Though, a note of caution – the Reserve Bank of India too is attempting to legalize certain sections in Foreign Exchange Management Act (FEMA) which also allow NRIs, routes to invest in India. Its argument is that NRIs tend to invest much more than the cap allowed in the sectors through these other routes, thereby exceeding allowed limits for FDI. The government may also remove the liberties provided to NRIs in sectors such as aviation, real estate etc.

More reforms to make investing in India a simpler process, such as FDI in multi-brand retail, defense production, and agriculture, are in the discussion stage and the government intends to bring out tangible policies in this direction. Proposals can also be sent to DIPP online. This facility will allow all abroad investors to speed up their investment proposals.

Indian has been attracting foreign direct investment for a long period. The sectors like telecommunication, construction activities and computer software and hardware have been the major sectors for FDI inflows in India. As per the fact sheet on FDI, there was Rs. 6,30,336
crore FDI equity inflows between the period of August 1991 to January 2011.

Top 10 investing FDI investing countries in India are Mauritius, Singapore, United States, UK, Netherlands, Japan, Cyprus, Germany, France and UAE. According to media reports, the decline in the FDI inflows would be a major concern for the economy, as the Indian economy is heading to reach the 9 percent growth rate.

The trend of declining FDI tells us very little about statistics of FDI as it refers to FDI equity inflows. Though, equity inflow is a better indicator of portfolio investment (also known as FII inflows) than of FDI. To understand this, it is essential to define FDI.

Definition of FDI is complex. The main reason is that unlike portfolio investment, FDI involves a bunch of activities like managerial inputs, technology infusion etc which are not measured in the equity definition of FDI.

For developing countries like India, the most important reason to attract FDI is the availability of better technology. This does not mean that overseas companies transfer technology. All studies stated that the presence of foreign companies which positively impacts productivity of domestic firms through learning the use of new technologies. This is really important than obtaining technology through purchases of drawings.
and designs. If we accept this, then a better indicator of FDI interest is the long term trends of FDI in India.

An annual FDI inflow indicates that FDI went up from around negligible amounts in 1991-92 to around US$9 billion in 2006-07. It then hiked to around US$22 billion in 2007-08, rising to around US$37 billion by 2009-10. It is now clear that FDI was related to the recessionary conditions in the western economies. In other words, the stock of FDI has jumped by almost US$100 billion since 2006-07. The recent flattening of monthly FDI flows is a sign more of recovery in the western economies than any loss of long term interest in the Indian economy. The monthly figure only shows that the incremental FDI is going back to the prerecession years rather than indicating decline of FDI into India. In fact, a monthly inflow of US$1.1 billion is about 30 percent higher than prerecession years.

Also, FDI is all about long term investment. Companies have already invested in to India and are unlikely to move elsewhere. Unless any dramatic negative changes in policy, FDI will continue to inch upwards.

The crucial test for India is how to move from US$10-12 billion FDI economy to one where investment levels are US$30-40 billion.

With this background, in our present work, we intend to study the impact of FDI on Indian economy by using different statistical tools. The
impact assessment of FDI and External Assessment on GDP of the country have been studied with multiple regression models. We have also studied individual impact of FDI on GDP with simple regression model. An attempt has been made to understand empirically whether a liberal foreign investment policy gives necessary boost to development process in India. We have dealt with the issue by taking selected sample firms by dividing them into foreign and domestic at ownership level in Indian manufacturing sector and comparatively assess their development on the economy during the post reform era. We have also examined the inflow of dollar currency in Indian economy during the recent period. We have further examined the sources of such inflow of foreign currency and its eventual impact on our domestic economy.

The present work has been completed under the supervision of Dr. Padmalochan Hazarika, Professor, Department of Commerce, Gauhati University. I have been guided by him all through the work and have inspired and enriched by his philosophy and thoughts. His moral support, constant encouragement and professionalism made this thesis see the light of the day. First and foremost, I sincerely express my deep sense of gratitude to him.

Dr. Sujit Sikidar, Professor, Department of Commerce, Gauhati University has helped me immensely by providing valuable materials and giving suggestions while carrying out my research work. I am extremely grateful to Professor Sikidar Sir.
In the same way, my gratitude is equally due to Prof. H. G. Gautam, present HOD of the Dept. of Commerce, Gauhati University and Prof. Nayan Barua, former HOD of the Dept. of Commerce, Gauhati University. Both these respected professors have encouraged and enlightened me in regards to my area of research. I express my deep sense of gratitude to both of them.

I would like to express my gratitude to other faculty members of the Department of Commerce, Gauhati University Dr. Amrit Pal Singh, Dr. Bhaskar Jyoti Bora, Dr. Aparajeeta Borkakoty, Dr. S. K. Mahapatra and Dr. Prasanta Sarma for their encouragement and constructive discussions. I am also thankful to other guest faculties and faculty members of Integrated M. Com., Gauhati University for their help and support.

I have also to express my gratitude to Mr. Deepak Goswami, Associate Professor, Lalit Chandra Bharali, Guwahati. He has always been a source of inspiration in my studies.

I offer my special thanks to my friends Mr. Bijoy Kamal Bhattacharyya and Mr. Kandarpa Sarma for giving direction to this thesis.

I take this opportunity to thank all the non-teaching staff of the Dept. of Commerce, Gauhati University for their co-operation.

I would also like to express my appreciation for all comments and suggestions from my other friends, colleagues and well-wishers for their encouragement and valuable suggestions.
I am also inspired in my thoughts by the writings of many well-known authors. The references given at the end of different chapters and bibliography given at the end bear testimony of my indebtedness to these authors.

Finally, I owe it to my mother, family members and specially my wife Dipti for their support and encouragement.

(PRANJAL SARMA)