CHAPTER V

FINDINGS AND SUGGESTIONS

The earlier chapter provided a statistical analysis of the data and a detailed discussion on the impact of FDI on overall and sectoral growth of Indian economy during the post reform period. This chapter highlights the main findings of the study and offers few suggestions for policy – making.

STUDY FINDINGS:

1. Largest amount of FDI flows in from Mauritius which has a share of 41.89% in actual FDI inflow during 1991-2007. It is estimated that apart from double tax avoidance treaty, protected call legislation could also be responsible for this increased inflows in U.S.A, U.K, Netherlands, Japan, and Singapore. NRIs, who have contributed 2.29% of FDI inflows, during 1991-2007, are the most serious about their commitments of investing in India.

2. It is learnt that problems and issues of concerns are different for different regions. Similarly, they are different for different sectors.

3. The study found that the estimated partial correlation coefficient relationship between 46 variables, the original zero-order Correlation is found to be Spurious ; the relationship between 7 variables it is found to be hidden and for 2 variables it is found to be real. It reveals that Foreign Direct Investment (FDI) inflows play an important role in promoting growth in Agricultural Sector and thereby attracting foreign inventors to invest in the same.

4. The study found that the estimated partial correlation coefficient relationship between 21 variables, the original zero-order Correlation is found to be Spurious ; the relationship between 5 variables it is found to be hidden and for 2 variables it is found to be real. It reveals that Foreign
Direct Investment (FDI) inflows play an important role in promoting growth in Manufacturing Sector and thereby attracting foreign inventors to invest in the same.

5. The study found that the estimated partial correlation coefficient relationship between 21 variables, the original zero-order Correlation is found to be Spurious ; the relationship between 6 variables it is found to be hidden and for 2 variables it is found to be real. It reveals that Foreign Direct Investment (FDI) inflows play an important role in promoting growth in Telecommunication Sector and thereby attracting foreign inventors to invest in the same.

6. The study found that the estimated partial correlation coefficient relationship between 23 variables, the original zero-order Correlation is found to be Spurious ; the relationship between 3 variables it is found to be hidden and for 2 variables it is found to be real. It reveals that Foreign Direct Investment (FDI) inflows play an important role in promoting growth in Trading Sector and thereby attracting foreign inventors to invest in the same.

7. The study found that the estimated partial correlation coefficient relationship between 20 variables, the original zero-order Correlation is found to be Spurious ; the relationship between 6 variables it is found to be hidden and for 2 variables it is found to be real. It reveals that Foreign Direct Investment (FDI) inflows play an important role in promoting growth in Services Sector and thereby attracting foreign inventors to invest in the same.

8. The study found that except one variable growth of population, all other remaining variables were found to be highly positively correlated at 5% and 1% level of significance with the control variables Gross Domestic Product Agricultural Sector, Gross Domestic Product Manufacturing Sector, Gross Domestic Product Telecommunication Sector, Gross Domestic Product Trading Sector and Gross Domestic Product Services Sector (GDPAS).
9. The study reveals that except the variable Growth of population all the remaining variables are found to be in increasing trend.

10. The study found that foreign direct investment (FDI) inflows into Agricultural sector in India are having ups and downs and yet it is in increasing trend.

11. It found that foreign direct investment (FDI) inflows into Manufacturing sector in India have a downfall during the period 2005-06 but it is in increasing trend.

12. The study reveals that foreign direct investment (FDI) inflows into Telecommunication sector in India are having an increasing trend except a downfall in the year 2004 – 2005.

13. It reveals that foreign direct investment (FDI) inflows into Trading sector in India are having an increasing trend except a downfall in the year 2004 – 2005.

14. It reveals that foreign direct investment (FDI) inflows into services sector in India are fluctuating although it is in increasing trend and topped in the list of sectors attracting highest FDI equity inflows into India since 2004 - 2005.

15. The study overall reveals that Sectoral GDP with respect to Agricultural sector, manufacturing sector, Telecommunication sector, Trading sector and services sector all are found to be in increasing trend.
SUGGESTIONS:

In the present section few suggestions have been given for the formulation and implementation of policies. These suggestions are based on the findings of the study. Some general suggestions with respect to the study aspects are also given below.

1. Eventhough the agricultural sector had been able to attract inflow of FDI to some extent, yet it had stagnated due to the lack of transparency in operations and governance when compared to other sectors. Clear policy guidelines with respect to agricultural sector should be governed by the canons of economics, rather than that of the regional interests and other extraneous considerations.

2. Manufacturing sector that rely on non-cyclical or fast-growing markets have been resilient in spite of the crisis had been able to attract large inflow of FDI. Fast-growing markets will encourage expanding their capacity to meet the additional demand.

3. Telecommunication sector ranks 3rd in sectors attracting highest FDI equity inflows into India. Though it was already in the process of making Quantum jump in telecommunication facilities/ connectivity and hope that it would overcome in the near future.

4. Although trading sector is one of the emerging sectors of attracting FDI in India, there is a need for adequate domestic as well as international trading activity as per the expectations of foreign investors.

5. Services sector ranks 1st in sectors attracting highest FDI equity inflows into India. International investment in the services sector is expected to grow faster than other sectors. More and more investment in this sector will pay way to the path of development to our nation.

6. There was a need to effect attitudinal change in the bureaucracy, so that they act as facilitators of foreign investment, rather than the obstructers.
7. A coherent tax system should be evolved. Green transparency and immediate actions are required in the domain of tax regime. The process of realization of tax should be simple and transparent. The duties imposed should be rationalized so that investing in India becomes a lucrative proposition.

8. The Department of Revenue may be persuaded to set up a mechanism to receive feedback from the prospective investors, so that various tax laws are updated continuously to make them investor-friendly.

9. The Government should make earnest efforts to ensure harmonious entrepreneur-labour relations, to make the country an investor-friendly destination for the foreign investors, for this purpose, Government should initiate the necessary reforms in the labour laws.

10. The should be a single-window clearance system, consisting of officials of both the central and state Government, especially in the field of infrastructure projects, to prevent the delays and to ensure that or administrative hassles come in way of the foreign investors, after the clearances.

11. The Ministry of commerce and Industry should be able to foresee the consequences of such binding multilateral rules on investment, which can result in flight of FDI to more favourable destinations than India and prepare an advance contingency strategy, to meet such a situation.

12. In a developing country like India, the FDI policy should focus on maximization of its contribution to India’s development, rater than maximization of the magnitude of inflows by itself.

13. Ever since the process of liberalization and structural reforms was launched two decades ago the inflow of foreign capital has never matched the targets envisaged. Instead of liberalizing the FDI policies further, government should try to change the mindset of state governments, which still had not changed with the times, except few states in India.

14. The FDI inflows in India were too meager. Till now, India had attracted nearly one percent of its GDP, in terms of FDI, ever since the reforms process was set
in motion. The macro economic and organizational framework should be improved, so that the FDI policy looks more coherent. The pace of improvement in infrastructure should be hastened, to convert intent into action in a global market, where everybody is out to woo investors. Bold and proactive moves, embedded in reality and governed with a will to improve the economic environment of the country were needed, to bring about radical changes.

15. There were many more areas which needed to be improved to ensure greater FDI inflows into the country viz. the regulatory framework must improve to reduce the delays and the resultant frustration; various state governments must follow through in implementing their own declared policies; the large gap between high profile policy statements on the one hand and their implementation on the other, to be streamlined; large scale maintenance of different records was a big blockade and impediment to business operations and, therefore, be simplified.

16. The department should accentuate its policy on foreign direct investment (FDI), so as to facilitate and attract foreign investors towards export – oriented FDI, so as to boost the level of FDI, as in China, where large amount of FDI inflow was in the form of export – oriented FDI.

17. The government should strive to set up a single body for dealing with FDI matters, so as to negate the confusion / complexity of foreign investors, who want to invest in the country.

18. Attracting export – oriented FDI is not an easy task given the stiff competition among developing countries. Transnational corporations pick up the winners among competing developing countries. India’s large domestic market is an important attraction. This attraction can be used as a bargaining leverage to induce transnational corporations to set-up export-oriented units in the country. This, however, is possible only through a selective policy with respect to entry.
19. The sphere where governmental intervention may be required to maximize gains from the foreign capital is in diffusion of knowledge brought in by the foreign enterprises. An important channel of diffusion of knowledge brought in by foreign enterprises in the country is vertical inter-firm linkages with domestic enterprises. A slow progress has been observed in terms of generation of vertical linkages with local firms in India. The knowledge diffusion could also be accomplished by creating sub-national or sub-regional clusters of interrelated activities, which facilitate the spill-overs of knowledge through informal and social contacts among the employees besides traditional buyers seller links.

20. India could take a proactive initiative in seeking an international discipline on investment incentives with a built-in exception based on the level of industrialization.
CONCLUSION:

In a globalizing world, competition for FDI is no longer about rents but instead focuses on the establishment of an enabling, business-friendly commercial environment, consistent with national development objectives. A useful paradigm is the so-called three ‘I’s Incentives, Institutions and Infrastructure. That is as economies open up, these three factors, are key determinants not only of the overall rate of growth but also of the magnitude and productivity of capital inflows.

Investment, whether domestic or foreign, is an essential ingredient for sustainable growth, productive investment translates into increased output.

In recent years, however FDI restrictions have been dramatically reduced as a result of a host of factors accelerating technological change, the emergence of globally integrated production and medicating networks, the existence of bilateral investment treaties, prescriptions from multilateral development banks, positive evidence from developing countries banks, and positive evidence from developing counties that have opened their doors to FDI.

Likewise, flows have also seen a dramatic rise in the last 20 years due to the increasing openness of host economies.

Whether, and the ways in which, FDI is beneficial or harmful to the host country depends on the context in which the investment takes place and in which the resulting economic activity occurs.