CHAPTER - II
REVIEW OF LITERATURE

FDI has been one of the most fascinating and intriguing topics among researchers in international business. Impact of FDI on host country, and investing country, trends of foreign financial flows and identifying country, trends of foreign financial flows and identifying determinants of FDI have been the major areas of past researches undertaken in the context of FDI.

2.1 FDI – a global outlook

FDIs and their economic relationships need to be explored microscopically. The global outlook and its variations over democratic, communist and capital economy need to be studied in an intensified manner.

Blomstrom, M., Lipsey, R.E. and Zejan, M. (1994) believed that FDI had a positive growth effect when the country was sufficiently wealthy, that is, FDI could exert a positive effect on economic growth, but that there seemed to be a threshold level of income above which FDI had positive effect on economic growth and below which it did not. This was because only those countries that had reached a certain income level could absorb new technologies and thus benefit from technology diffusion, reaping the extra advantages that FDI could offer.

Balasubramanyam, Salisu, and Sapsford (1996) have stressed that trade openness was crucial for obtaining the growth effects of FDI. Alfaro et al. (2003) has argued that FDI promoted economic growth in economies with sufficiently developed financial markets. Contrarily, Haddad, M. and Harrison, A (1993) and Mansfield, E. and Romeo, A., (1980) found no positive effect of FDI on the rate of economic growth in developing countries. Likewise, Aitken, B. and Harrison, A. (1999) did not found any evidence of a beneficial spillover effect
from foreign firms and domestic ones in Venezuela over the 1979-1989. **Blomstrom et al (1994)** have showed that a positive growth-effect of FDI may be real whether the country was sufficiently rich. However, **Carkovic, M. and R. Levine (2002)** have found, a negative effect taking in to account of an interaction term from income per capita and FDI.

**Alfaro et al (2004)** recommended that FDI had a positive growth-effect in countries with sufficiently developed financial markets. **Lipsey (2002)**, after surveying the macro empirical research, asserted that a steady relation between the size of inward FDI stocks or flows relative to GDP and growth did not exist.

**Dilip Das (2001)** explained that FDI has positively contributed to growth and development, especially in the case of China. Analyzing the flows of FDI and its composition world wide, he posits that earlier the flows were composed largely of commercial bank debt flowing to the public sector where as the recent years have witnessed an increase in the level of private sector portfolio and direct flows. One reflection of the importance of the investment climate is that the levels, location, motive for FDI into transition economies are strongly associated with the progress in transition.

**Carkovic, M. and R. Levine (2002)** conclude that an economic rationale for treating foreign capital favorably is that FDI and portfolio flows support technology transfers that speed up overall economic growth in the beneficiary countries. They also found that FDI inflows do not exert an independent influence on economic growth. Thus, while healthy economic policies may urge both growth and FDI, the results are not in agreement with the view that FDI exerts a positive impact on expansion that is independent of the other growth determinants.

**Nocke, V. and Yeaple, S. (2004)** developed an assignment theory to analyze the volume and composition of FDI. Firms carry out FDI by either
engaging in Greenfield investment or in cross border acquisitions. They find that in equilibrium, Greenfield FDI and cross-border acquisitions coexist, but the composition of FDI between these modes varies with firm and country characteristics. They observe that firms engaging in Greenfield investment are systematically more efficient than those engaging in cross border acquisitions. They discovered that most FDI takes the form of cross border when factor price differences between countries are small, while Greenfield investment plays a more important role for FDI from high wage to low wage countries.

Desai, A.M., C.F. Foley and R.H. Jr. James (2005)\textsuperscript{14} paid attention on the impact of rising foreign investment on domestic activity. They observed that firms whose foreign processes rose rapidly exhibit rapid growth of domestic operations. However they found this pattern is inconclusive as foreign and domestic business activities are jointly determined. Their study used foreign GDP growth rates interacted with lagged firm specific geographic distributions of foreign investments to predict changes in foreign investment by a large number of American firms. They found that the changes in foreign and domestic sales, assets, and no. of employees are positively associated. They also established that greater foreign investment is associated with additional domestic exports and R&D spending.

Blomstrom, M. and A. Kokko (2005)\textsuperscript{15} suggest that the use of investment incentives to attract more FDI is generally not an efficient way to raise national welfare. The potential spill over benefits is realized only if the local firms have the ability and motivation to invest in absorbing foreign technology and skills.

Elissa Braun (2006)\textsuperscript{16} presents a review of research and policy on the links between foreign investment and development. This work offers extensive and reliable evidence for the argument that growth leads to FDI.
Narula, R. and S. Lall (2006)\textsuperscript{17} found that FDI per se does not provide growth opportunities unless the domestic industrial sector exists which has the necessary technological capacity to profit from the externalities from MNC activity.

The above literature pertaining to the global outlook of FDI underpinned the promotion of economic growth of different countries through FDIs. FDI inflows technically support the transitional changes in the economy and direct benefits for the countries. But a brief analysis over the global trends of FDI is important at this juncture to estimate the growth of the economy.

2.2 FDI– Global Trends

The global trends of business turnover as well as interchange of economic activities smoothens the flow of FDI in India. The global trends are a striking example for the outstanding portfolio management and remarkable investment pattern of FDI in India

Anayiotas, A. and V. Palmade (2004)\textsuperscript{18} while analyzing foreign investment trends, enumerated that the conditions for attracting FDI varies by sectors: in labour intensive manufacturing, efficient customers and flexible labour markets are the key while in the retail sector, access to land and equal enforcement of the tax rules matter the most. In the welfare of the domestic investors and also to draw more investment, they tend to sort out the various micro issues by different sectors.

Bertrand, A. and Christiansen (2004)\textsuperscript{19} while studying the trends of FDI in the OECD countries, concluded that though the FDI in the OECD countries continued to fall in 2003, because of slow macro economic performance which lower outward and inward FDI, it does not imply that FDI activity is low by any longer term historic standard. The reasons they give for low FDI activity is that
companies operating in the economies with deprived macro economic performances are less attractive to the outside investors and scale back their outward investment also. Another reason is that several sectors that saw uncontrolled cross-border investment in the late 1990s and 2000 have entered into a stage of consolidation during which enterprises tend to be reluctant to get on with new purchases while still in the process of amalgamating foreign acquisitions of recent years in their corporate strategies.

**Global Business Policy Council (2005)** primed a FDI confidence Index, in which the following findings were made. In 2005 China, India and Eastern Europe reached new heights of magnetism as target for FDI, as they fought for higher value added investments including R&D. The U.S was dropped to the third place, Western Europe was probable to stay a low priority and Eastern Europe would enjoy improved prospects in spite of rising costs. Though FDI appears to be on rise, corporate savings extend beyond and investor doubt about the global economy could dull the prospects of cross border corporate investment. However, the globalization of R&D would not be a nil. Rather it would be a balancing act, as companies leverage chances in knowledge centers in the developing world in combination with conventional R&D centers in the industrial world.

**2.3 Factors attracting FDI**

Economic factors, growth of certain GDP potential attracts many FDIs and FIIs. The ratio between business turnover designates an attractive trend for FDI and FII.

**Bernard Tai Khiun Mien (1999)** while studying FDI and trade patterns in Malaysia search the relationship between incoming FDI and trade course in the Malaysian manufacturing sector. It is found that by following an open positive trade and industrial strategy, Malaysia has been able to take in the benefits of FDI. This study shows that Malaysia’s manufacturing sector which is driven strongly
by foreign investment has become more and more outward looking since the past two decades. Increased export-orientation has been go together with a favorable shift in the comparative advantage of non traditional manufacturing sub sectors in Malaysia.

**Goldar, B. and E. Ishigami (1999)**\(^{22}\) analyses the trend of FDI in Asia, with a special focus on FDI flows from Japan. He recounts the FDI flows to changing industrial structure and to trade flows. An econometric analysis is also done to identify key determinants of FDI flows to Asian countries. It is found that Japan has been the main source of FDI flows to Asia. Japanese FDI has helped cost reduction and export promotion in the host countries but in the course Japan has created a large trade surplus with these countries.

**Nagesh Kumar (2001)**\(^{23}\) analyses the role of infrastructure availability in determining the attractiveness of countries for FDI inflows for export orientation of MNC production. He posits that the investment by the governments in providing efficient physical infrastructure facilities improve the investment climate for FDI. He suggests that infrastructure development should be an integral part of the strategy to attract FDI inflows in general and export oriented production from MNCs in particular.

**Gonzalez, B. and I.J. Galian (2001)**\(^{24}\) build an empirical study based on the “eclectic paradigm”, aiming to find out the main ownership, internationalization and location factors which affect such internationalization development. The results substantiate the importance of factors such as the continuation of specific assets of an intangible nature. They also show that the transaction costs and other issues related to knowledge transfer and amassing are relevant in the choice of FDI over other forms of internationalization. Current and future markets and their expected growth are the key factors for selecting a destination.
Japan Bank for International Cooperation (2002) on study on key development issues related to FDI, found, that host countries government policies should attach greater importance to the stability and predictability of the local business environment in which foreign trade occurs.

Brooks, H.D. and R.S. Lea (2003) in their study analyze the policy context in which FDI flow occurs. They find that a favorable policy framework for FDI is the one that generally provides economic stability, transparent rules on entry and operations, equitable standards of treatment between domestic and foreign firms and secures the proper functioning and structure of the markets. They find that FDI contributes to the development process by providing capital, foreign exchange, technology, competition and export market access, while also stimulating domestic innovation and investment.

Banik, A., P. Bhaumik and S. Iyare (2004) while explaining FDI flows to India, China and the Caribbean look at FDI inflows as an alternative approach based on the concepts of environs and extended neighborhood, rather than on the basis of conservative economic pointers as market size, export intensity, institutions etc. The study shows that the neighborhood concepts are generally related in different contexts. There are noteworthy common factors in explaining FDI inflows to select regions. While a substantial fraction of FDI inflows may be elucidated by select economic variables, country specific factors and characteristic component account for more of the investment inflows in Europe, China and India.

Jongsoo Park (2004) has tried to build a Korean perspective on FDI in India based on the case study of Hyundai Motors. He argues that since the launch of reforms, Korean companies have invested in joint ventures or Greenfield projects in automobiles, consumer goods and others. This case study indicates that industrial clusters are playing an important role in economic activity. The key to
promoting FDI inflows into India may lie in industries and products that are technology intensive and have the economies of scale and significant domestic content.

Mohamed, M.Z. and A.Y. Mohamed (2004) developed an incorporated production, planning, distribution and investment model for a multinational firm that produces products in different countries and distributes them to geographically varied markets. The results specify that the exchange rates and the initial capacity levels of the firms have considerable effects on the production, distribution and investment decisions and thus on the profits.

Griffin, John M., F. Nardari and Rene M. Stulz, (2002) use a theoretical model and empirical analysis to show that global stock return performance is an important factor in understanding equity flows.

Dahlquist, M., Pinkowitz, L., Stulz, R. M. & Williamson, R. (2003) analyzed foreign ownership and firm characteristics for the Swedish market. They found that foreigners have greater presence in large firms, firms paying low dividends and in firms with large cash holdings. They explained that firm size is driven by liquidity. They measured international presence by foreign listings and export sales. They reiterated that foreigners tend to underweight the firms with a dominant owner.

Patnaik, I. and A. Shah (2004) explain India’s policies towards capital flows in the last two decades. They point out that since the early nineties; India has applied policies aimed at liberalizing trade and deregulating investment decisions. In this period, India has upheld strong controls on debt flows and has encouraged FDI and portfolio flows. At the same time, the Indian authorities have adopted a pegged nominal exchange rate. According to them, domestic institutional factors have resulted in relatively small FDI and large portfolio flows. They agree that in spite of the progress achieved since the reforms were adopted, the goal of finding
a consistent way to supplement investment using current account deficits has remained subtle.

**Choe, H., Kho, B., & Stulz R. M., (2005)**\(^{33}\) found that US investors do indeed hold fewer shares in firms with ownership structures that are more conducive to expropriation by controlling insiders. In companies where insiders are dominating information access and availability to the shareholders will be limited. With less information, foreign investors face an adverse selection problem. So they under invest in such stocks.

**Douma, Pallathiatte & Kabir, R. (2006)**\(^{34}\) investigated the impact of foreign institutional investment on the performance of emerging market firms and found that there is positive effect of foreign ownership on firm performance. They also found impact of foreign investment on the business group affiliation of firms.

**Covirg, Vicentiu, Lau, Sie Ting and Ng L. K. (2007)**\(^{35}\) concluded that foreign fund managers have less information about the domestic stocks than the domestic fund managers. They found that ownership by foreign funds is related to size of foreign sales, index memberships and stocks with foreign listing.

**Collins, M.S., B. Roseworth and A. Virmani (2007)**\(^{36}\) study empirically India’s economic growth experience during 1960-2004 focusing on the post 1973 acceleration. The analysis focuses on the strange magnitude of India’s experience: the concentration of growth in the service production and the modest level of human and physical capital accretion. They find that India will need to widen its current expansion to provide manufactured goods to the world market and jobs for its large pool of low skilled workers. Augmented public saving as well as rise in foreign saving, particularly FDI could enhance the rising household saving and maintain the increased investment necessary to uphold swift growth.
The critical analysis of the literature reviews regarding Foreign Institutional Investors identified the factors influencing the growth and commendable performance of Foreign Institutional Investors. The direct correlation between FDIs created a lacuna to ascertain the nature of relationship among FDIs and FIIs. The following literature reviews pertaining to FDIs try to answer the research question of segregation of FDI flows out of capital flows in India.

2.4 FDI – INDIA

The Foreign Direct Investments are the important consequences of the liberalized Indian Economy. It has created a rationalized approach and level playing field in all types of investments that is needed for the investors with maximum expectation. FDI inflows from various foreign nations build the fundamental blocks to create good economic situation in India.

Foreign direct investment (FDI) is probably one of the most important features leading to the globalization of the international economy. FDI inflows to the developing countries augmented amazingly in the 1990s and accounts for about 40 per cent of global FDI.

Comparable tendency have also been observed in India. Foreign direct investment in India has expanded quickly following the liberalization course initiated in the early 1990s. The immediate challenge before the Government constituted in 1991 was to conquer the harsh economic crisis and direct the economy towards a unrelenting growth. Speeding up economic growth through liberalization and globalization forced not only taking apart the rigorous rules and regulations but also attracting foreign capital and technology. It also meant reforming its trade system to prepare the economy for greater assimilation with the global economy.
Findlay (1978) has hypothesized that FDI, through a “contagion” effect, increased the rate of technical progress in host country from the more advanced technology, management practices, etc., used by foreign firms. In addition, FDI may add to economic growth where the transfer of technology raised the stock of knowledge in host country through labor training and skill acquisition, new management practices and organizational arrangements (De Mello, 1999).

Sharma, K. (2000) on studying the growth of exports finds that export growth in India has been much quicker than GDP growth over the past few decades. Several factors have contributed to this incident including FDI. However, despite increasing inflows of FDI in recent years there has been no attempt to assess its contribution to India’s export performance – one of the channels through which FDI manipulate growth. Using annual data from 1970-1998, he considered the determinants of export performance in India. Results imply that the demand for Indian exports increases when its export prices fall in relation to the world prices. Foreign investment appears to have statistically no significant impact on export performance although the coefficient of FDI has a positive sign.

De Gregorio, Jose. (2003) has noted that technologies and knowledge that are not readily available to host country investors may be brought to them along with FDI, and in this way led to productivity growth throughout the economies.

Balasubramanyam, V.N. and V. Mahambre (2003) in their study of FDI in India wrap up that FDI is a very good means for the transfer of technology and know how to the developing countries. They do not find any cause to look upon China as a role model for India. They agree with the advocacy of the policies intended to remove various sorts of misrepresentation in the product and factor markets. These are policies which should be approved in the interests of both the domestic and foreign investment. The study advocates that India may be better
placed than in the past to effectively make use of licensing and technical collaboration agreements.

**Nayak, B.K. and S. Dev (2003)** show, with the data available in the Indian environment, that the increasing tendency in the absolute wage of the worker does not discourage the increasing flow of FDI. To explain this interesting occurrence the authors have measured the ratio of wage to the value a worker adds. It is found that this ratio is declining though the absolute wages are increasing. It is this decline in the ratio that equally promises more return on the capital invested and, therefore, is held as an important reason for the flow of FDI; despite the increase in absolute labour wage. This ratio in his study is taken as a definition for the measure of the bargaining power of labour. The study undertaken here implies that the bargaining power of the labour cannot be ignored as a determinant for the flow of FDI.

**Chandra Mohan N (2005)** in his study on FDI in India is of the view that India has not been able to draw a good level of FDI and he points out that the current level of FDI appears considerate due to a more noninterventionist definition of FDI which was actually adopted to make our relationship with the Chinese FDI more comfortable. He says that the Government must not consider foreign investments honored. Instead he advises the Government to indulge in more practical strategies to seek more FDI for which it must help in getting rid of the procedural harassment at the state level. Also the government should make the investment climate more conducive along with a proper regulatory approach for the flagship investors which would encourage the risk-averse small manufacturing enterprises to turn out in larger numbers

**Amitendu Palit and Shoukie Nawani, (2007)** opines that FDI flows indicate that India is on the threshold of breaking into the big league of FDI countries in Asia. Technological capabilities, particularly R&D-driven innovation
capacities, are a major factor in this regard. Indeed, this attribute, along with the prowess registered in using IT-based techniques in business operations, can signal a significant change in the nature of FDI inflows into India, from the market-seeking (including ‘tariff-jumping’) kind to the export-oriented variety. The surge in FDI inflows in the last couple of years might be indicative of this virtuous shift. In this regard, India’s attractiveness as a FDI destination is reinforced by the quality of its human resources that is capable of handling complex, technology-intensive processes efficiently. The findings of Amitendu Palit, Shounkie Nawani, 2007 imply that the Asian incident underlines the critical importance of technological development as a host country feature in drawing FDI. Such development, along with skilled labor, can be strong ‘pull’ factors for FDI. This is particularly relevant in a globalized world, where production processes are becoming increasingly fragmented among countries in line with country-specific features enabling efficient production. Unless developing countries acquire competencies in technological innovation and develop technically articulate work forces, liberal policies for drawing FDI are unlikely to yield results. Amitendu Palit, Shounkie Nawani, 2007 further reiterates the importance of other factors, like quality of business climates; do influence investor confidence and FDI inflows. In this regard, the difficulties involved in ‘starting’ businesses in India, as well as the procedural inflexibilities in factor markets preventing efficient factor deployment, are critical handicaps. Overall business environments, in terms of enabling rules, transparent procedures and efficient institutions, while being ‘necessary’ for drawing FDI, cannot be treated as ‘sufficient’ (Palit, 2006). Amitendu Palit, Shounkie Nawani, 2007 conclude that, while quality of business practices does matter as determinants of FDI, they are not substitutes for technological capabilities and skills. The major policy shift from the IS strategy towards a more outward oriented economy led by export development has attracted the interest of foreign investors in India.
The important research question that arises at this juncture is whether the perspective FDI and FII have certain restrictions in rapidly changing economies?

2.5 FDI - Sectoral Analysis

The sectoral analysis is indispensable to explore the profit orientation FDI in India

**Banga, R. (2003)** study on the differential impact of Japanese and U.S FDI on exports of Indian manufacturing is provoked by the fact that studies have found that FDI has not played a significant role in exports of the Indian manufacturing sector in the post reform period and concludes that FDI in India has led to export diversification. The impact of FDI on export intensity differs with respect to the source of FDI both at the industry and the firm level.

**Ghosh, C. and B.V. Phani (2004)** shows that the price increase is higher for smaller banks that have less debt, are less efficient, less productive and burdened with non performing assets. They conclude that the evidence is consistent with the hypothesis that the valuation gains reflect the vulnerability to and premium of potential takeover of the inefficient banks following the liberalization.

**Banga, R. (2004)** has analysed the impact of Japanese and US FDI on the productivity growth. She has examined the impact of Japanese and US FDI on total factor productivity growth of the firms in the Indian automobile, electrical and chemical industries in the post reform period. The results show that the domestic firms have observed both competence and expansion and technological development in the electrical and chemical industries in the post reform period.

**Kulwinder Singh (2005)** has analysed FDI flows from 1991-2005. A sectoral analysis in his study reveals that while FDI shows a steady increase and has become a factor of success in India, the progress is void. The
telecommunications and power sector are the reasons for the success of infrastructure. He comments that FDI has become a game of numbers where the justification for the growth and progress is the money that flows in and not the specific problems plaguing the individual sub sectors. He finds that in the comparative studies the notion of infrastructure has gone a definitional change. FDI in sectors is held up primarily by telecommunications and power and is not evenly distributed.

Guruswamy, M., K. Sharma, J.P. Mohanty and J.T. Korah (2005)\(^{48}\) in their study on FDI in the retail sector, focus on the “labor displacing” effect on employment due to FDI in the retail sector. They say that though most of the strong arguments in favor of FDI in the retail sector are not without some value, it is not fully applicable to the retailing sector and the primary task of the Government in India is still to provide livelihood and not generate so called efficiencies of scale by creating redundancies.

Chakraborty, C. and P. Nunnenkamp (2006)\(^{49}\) in their study on FDI and its economic effects in India, evaluate the growth allegation of FDI in India by subjecting industry specific FDI and output to causality tests. Their study is based on the basis that the composition and type of FDI has changed in India since 1991 which has led to high prospects that FDI may serve as a means to higher economic growth. They find that the growth effects of FDI vary extensively across sectors. FDI stocks and output are mutually strengthening in the manufacturing sector. They also find only temporary effects of FDI on output in the services sector which attracted the bulk of FDI in the post-reform period. These variations in the FDI growth relationship suggest that FDI is unlikely to work marvels in India if only residual regulations were relaxed and more industries opened up to FDI.
2.6 FDI – Trend

Balasundaram, M. and A. Chatterjee (1998)\textsuperscript{50} in their study on the determinants of US foreign investment in India, trace the growth of US FDI in India and the changing approach of the Indian Government towards it as a part of the liberalization program. They evaluate previous research on the determinants of FDI and use regression analysis on 1962-1994 data to identify the factors affecting US FDI in India, current trends and the impact on the Indian economy. They find that only the moderately weak exchange rate appears to be a significant factor and that the US FDI has been increasing in dollar amounts and relative percentage growth. They call for an improvement in infrastructure and reductions in red tape and protectionism to encourage further growth.

Jha, R. (2003)\textsuperscript{51} has made his study on the trends in FDI flows in India. He finds that FDI flows to India have not been corresponding with her economic potential and performance. With FDI becoming a considerable component of investment recently, accounting practices in India lagged behind international norms. However, the GOI revised its computation of FDI figures in line with the best international practices, which has led to a extensive improvement in FDI figures. The author, however, says that the quality of FDI as manifest in technological spillovers, export performance etc. is more important than its quantity.

Hay, F. (2006)\textsuperscript{52} while Commenting on FDI and globalization trends in India, says that since India liberalized in 1991 within the framework of legal economic reforms, the FDI inflows were stirred in industries and services benefiting from the many relative advantages of the country. Comparatively some Indian firms started to grow in significance and to invest overseas. They had the financial means, practice and aspiration to get hold of international appreciation and they were encouraged by the Indian Government. He finds that the FDI from
the Indian firms were primarily addressed to the developing countries and Russia, however, the share of the industrialized countries was on the rise and the manufacturing and non-financial sectors accounted for the volume of it.

John M. Griffin, Jeffrey H. Harris, and Selim Topaloglu (2003) summarized past literature as given here. First, institutions are momentum investors and tend to follow past prices (Grinblatt, Titman, & Wermers, 1995). Second, the contemporaneous relation between changes in institutional ownership and stock returns is much stronger than the trend chasing effect (Nofsinger & Sias, 1999; Wermers, 1999). Both of these findings indicate that institutional investor’s trade according to their prediction of the market. The consequence of institutional behavior affects a lot on market trend. If institutional investor believes the market to go down, a number of shares will come out in the market and market in fact will go down. Due to high volume and having risk sharing in various fields, institutional investors have a great impact on stock market volatility. One can sense a bidirectional relationship between institutional investors and stock market volatility. A word of caution is needed in the behavioral issue of institutional investors.

The trends pertaining to volume of shares, stock market volatility lead to variation in the growth of FDIs and FIIs. It is indispensable to analyze the pattern and growth as well as the futuristic strategies of FDIs and FIIs.

2.7 FDI – Future growth in India

The prudential motive of FDI is to grow along with the growth of the economy. This analogy encourages to explore, and predicts the growth of FDI in India.

Brahmbhatt, M., T.G. Srinivasan and Kim. Murrell (1996), in their study has acknowledged four major limitations in India’s ability to assimilate with
the world economy. They are insufficient macroeconomic policies, relatively high levels of protection, incompetent transportation and communications infrastructure and poorly operational and rigid labour markets. They argue that these weaknesses discourage Indian firms and FDI investors from focusing on the export market. They contend that FDI can help raise the private investment rate without earning additional debt and can help relax key infrastructure restraints. But its greatest long run benefit may come from its direct and indirect effects in improving efficiency.

Kumar, N (2000)\textsuperscript{55} has made an exploratory attempt to examine the patterns of MNC related mergers and acquisitions in India in the nineties with the help of an exclusive data base. He finds that the liberalization of policy structure since the early nineties has led the MNCs to use progressively more Merger and Acquisition route to enter and reinforce their presence in the country. In the recent years, two fifths of all FDI inflows took the form of M&A s compared to almost all of FDI inflows coming from Greenfield ventures earlier. The deals relating to MNCs are mainly parallel rather than perpendicular in nature. In terms of development implications he finds that FDI inflows in the form of M&A s are of a low-grade quality compared to Greenfield investments. These findings, therefore, highlight the need for implementing a wide-ranging competition strategy agenda in India.

Srinivasan, T.N. (2001)\textsuperscript{56} in his study evaluates India’s transition from an inward oriented development policy to greater participation in the world economy. Tariff rates have decreased significantly over the past decade. In spite of improvement over the past in export performance, India still continues to delay its South and East Asian neighbors. Secondly official debt flows have largely been replaced by FDI and portfolio investment flows in 1990s. He disagrees that India’s participation in the future round of multilateral trade negotiations would benefit
India. He says that further reforms are required in labour and bankruptcy laws, real privatization and fiscal consolidation.

**Beena, P.L., L. Bhandari, S. Bhaumik, S. Gokarn and A. Tandon (2004)** agree to the fact that India has come a long way since 1991 as regards the quantum of FDI inflows is concerned, though there is a view that the MNCs are discouraged from investing in India by bureaucratic hurdles and uncertainty of the economic reforms. However, they feel that very little discussion has taken on the experience of the MNCs and the relationship between their performance and experience with the operating environment and the extent of spillovers in the form of technology transfers. The importance of the former is that the satisfaction of the expectations of the MNCs that are already operational within India is an important precondition for growth in FDI inflow. Transfer of technology and know how on the other hand is at least likely to have an impact on India’s future growth and the quantum of FDI inflow. They argue that to the extent that India’s future growth will depend on the global competitiveness of its firms, the importance of such spillovers can be paramount.

**Hu, P. (2006)** in his study on latest picture of investment environment in India, analyses various determinants that influence FDI inflows to India including economic growth, domestic demand, currency stability, government policy and labour force availability against other countries that are attracting FDI inflows. Analyzing the new findings it is interesting to note that India has some aggressive advantage in attracting FDI inflows, like a large pool of high quality labour force which is a supreme advantage of India against other developing countries like China and Mexico, to attract FDI inflows. In consequence this study argues that India is an ideal investment destination for foreign investors in future.

A meticulous and innovative literature review of National and International study on FDIs clearly underpin that these studies failed to acknowledge a
microscopic analysis for FDI, factors influencing their investments and their predominant aim of portfolio management. The literature prominently identifies the gaps, that sector wise investment is the predominant factor that attract many foreign institutional investors. The arrival of FDIs studied through the capital flows inflows in India. The yardsticks of Sensex and Nifty for FDIs restricted the profitability of FDIs but give out a consistent domain with prudential motives.

2.8 Impact of FDI on retail sector.

LALL, S., (1993)\textsuperscript{59} - The development impact of foreign investment on host countries has always aroused great deal of controversy in retail sector. But this controversy has reduced greatly in recent years.

Coase(1987)\textsuperscript{60} in his word, argued that with certain transaction cost, the firm’s internal procedures are better suited than the retail market to organize transaction.

Mundell(1957)\textsuperscript{61} has also concluded on the same line that foreign direct investment should ultimately flow into those countries that are importing goods from abroad because of market imperfection; such as tariffs and quotas, foreign firms will find it attractive to produce locally in order to satisfy domestic demand of retailers.

Rosenstein Rodan (1961) and Chenery and Strout (1966)\textsuperscript{62} in early 1960s show that foreign capital inflows have a favourable effect on economic efficiency and growth of retail sector.

Chenery and Strout(1966)\textsuperscript{63} have also stated that external finances to retail sector could enhance growth prospects of recipient countries by augmenting domestic availability of inevitable surpluses.
Haavelmo (1965)\textsuperscript{64} has observed that domestic savings in recipient countries could be negative, if capital inflows became large enough, implying thereby that external finance did not necessarily supplement, but might actually replace domestic savings.

Schmitz and Helmberger(1970)\textsuperscript{65} contend that foreign direct investment creates vertically integrated production units and therefore increases the amount of retail trade. Numerous factors have compelled many developing economics to change their earlier versions of trade, industrialization and investment policies. For instance, India has come out with new policies relating to trade, industrialization and foreign direct investment. This has been because. FDI inflows do not have many of the costs previously associated with retail sector and that many developing countries have managed to industrialize successfully with FDI.

Dunning Norman (1983)\textsuperscript{66} The most appropriate examples for the impact of FDI on retail sector are of East Asian Economies or newly industrialized economies (NIEs).

Asian Development Review, ADB, Manila, Philippines, -(1993)\textsuperscript{67}: The benefits of FDI can be maximized only in a relatively free and retail market-oriented environment where private economic decisions don’t diverge greatly from the social good.

Grossman and Helpman, (1991)\textsuperscript{68}, A number of studies show the central role played by technology diffusion in the process of economic growth.

Barro and Sala-I-Martin (1995)\textsuperscript{69} Endogenous growth models look at FDI as an important vehicle for the transfer of technology and knowledge
Balasubramanyam et al., (1996)\textsuperscript{70} - show that FDI can have long-run effects on growth by generating increasing returns in production via externalities and productivity spillovers in retail sector.

Aitken, Hansen and Harrison (1997)\textsuperscript{71} - show the spillovers effect of FDI on export with the example of Bangladesh, where the entry of a single Korean multinational in garment exports led to the establishment of a number of domestic export forms, creating the country’s largest export industry. Moreover, FDI can contribute more to growth than domestic investment when there is sufficient absorptive capacity of retail sector available in the host country.

Borensztein et al., (1998)\textsuperscript{72} – This is because FDI flows today are not confined to the primary sectors of developing countries but to modern manufacturing.

Dutt, 1997; Bahaduri (1996)\textsuperscript{73} - To make their operations more productive and efficient, transnational take with them high levels of technology. In 1913 the primary sector accounted for more than half of FDI flows to developing countries and the manufacturing sector only 10 per cent, in 1990 about 40 per cent of FDI went to manufacturing, 50 per cent to services and only 10 per cent to primary sector.

Feenstra and Markusen, (1994)\textsuperscript{74} - Thus FDI can lead to higher growth by incorporating new inputs and technique in retail marketing.

Kathuria (1998)\textsuperscript{75} - finds that technology spillovers from FDI in Indian manufacturing have significant benefits.

Wei(1996)\textsuperscript{76} uses urban data to show the FDI produces technological spillovers in China and explains growth differentials among Chinese urban areas.
Dutt (1997)\textsuperscript{77}. There are good theoretical reasons to show that the growth consequences of FDI depend on what kinds of sectors received FDI and that the change in retail sector flows strengthens the positive effects and weakens the negative ones. FDI is also an important source of human capital augmentation and provides specific productivity increasing labour training and skill acquisition through knowledge transfers.

De mello and Sinclair (1995)\textsuperscript{78} show that FDI can promote knowledge transfers in retail sector even without significant capital accumulation as in the case of licensing and start-up arrangements, management contract s and joint ventures in general.

The idea of trade-related international knowledge spillovers developed by Grossman and Helpman(1992) is extended by Walz (1997)\textsuperscript{79} to FDI to show that FDI is accompanied by interregional spillover knowledge from the more to less advanced countries. Policies leading to an inflow of FDI therefore speed up the growth process and anything from investment controls for TNCs to specific taxes on their repatriation of profits hurts the international growth process and thereby the consumers in the developing country. Thus, theoretically speaking, the main avenues by which FDI can affect growth are productivity spillovers, human capital augmentation and technological change, though it becomes very difficult to incorporate these in empirical studies as these are not easy to measure.

See stone 1975; Bornschier, 1980\textsuperscript{80} - The dependency theorists believe that FDI can have a favourable short-term effect on growth of retail sector. In the long-run, however, as FDI accumulates, it can have a negative effect on the rest of the economy due to the intervening mechanisms of dependency, in particular, “decapitalization” and “Disarticulation”

Doukas and Travelos (1988)\textsuperscript{81} found positive abnormal returns as a result of foreign acquisition in countries in which the firms were not operating before.
Goldberg and Klein (1998)\textsuperscript{82} identified a clear relation between real exchange rates and FDI from Japan and the United states into southeast Asian countries (Indonesia, Malaysia, the Philippines and Thailand).

Crutcheley, Guo and Hansen and Chen, Hu and Shieh (1971)\textsuperscript{83} examined the effect of joint venture announcements on stock price with reference to investment in Japan and China respectively. Both studies showed positive abnormal and returns (about 1 percent in the case of Japan and 52 percent in the case of China) as a result announcements. However, in an examination of 136 foreign investment announcements during the period (1971-86) around the world.

Pradhan, wort and Strickland (1991)\textsuperscript{84} found significant excess negative returns for firms making such decisions. The study by Pradhan and Wort examined thw wealth effect for shareholders by classifying foreign investment by geographical boundaries into Asia markets and rest of the world. The results of their study indicate insignificant positive abnormal returns for investments in Asian market, while indicating significant negative abnormal return for rest of the world.

Brainard (1997) and Ekholin (1998)\textsuperscript{85} shows that greater distance from producing countries actually encourages domestic market-oriented investment, since the cost of exporting is more than cost of producing there.

Hymer (1970), Kindewlberger (1970) Vernon (1966) and Caves (1971)\textsuperscript{86} argue that oligopolistic structures of markets, international integration, imports and the level of foreign direct investment are complementary. In a work of perfect markets transnational corporations (*TNCs) would not have existed and all activities would have been carried out through free trade of retail sector.
Knicker Backer (1973)\textsuperscript{87} found that FDI prosper in oligopolistic type market condition. FDI by one firm in an oligopolistic environment might trigger similar activities by other firms.

Sach and Warner (1995)\textsuperscript{88} indicated that export-oriented FDI links the local economy to the international economy. Openness to both import and export has been shown to be powerful force for growth and growth has so far been the only credible means of alleviating absolute poverty.

Bajpai and Sachs (1997)\textsuperscript{89} in their study concluded that in the current global scenario, it is possible for India to achieve very dynamic growth of retail market based upon labour-intensive manufacturing that combines the vast supply of Indian labour including skilled managerial and engineering labour, with foreign capital technology and markets. However, from the long-term development point of view, we are of the view that India has tremendous growth prospects through export-led growth and that export-led growth involves a broad range of sectors, both traditional and new.

Bosworth and Collins (1999)\textsuperscript{90} provides evidence on the effect of capital inflows on domestic investment for 58 developing countries during 1978-95. The sample over nearly all of Latin America and Asia, as well as many countries in Africa. The authors distinguish among three types of inflows: FDI, Portfolio investment, and other financial flows (Primarily Bank loans). Bosworth and Collins find that an increase of a dollar in capital inflows is associated with an increase in domestic investment of about 50 percents. They concluded that the benefits of financial inflows (FDI) were sufficient to offset the evident risks of allowing markets to freely allocate capital across the border of developing countries.
Borensztein, De Gregorio and Lee (1998) find that FDI increases economic growth when the level of education in the host country – a measure of its absorptive capacity is high.

Mello (1999) considered that FDI affects growth through the accumulation of capital as well as by the transfer of knowledge. These hypotheses were tested with time series with panel data. The time series results were not conclusive. The panel data showed that FDI has a positive effect upon growth as a result of the transfer of knowledge in OECD countries, but not in the rest. The effect upon the accumulation of capital was only manifested in the non-OECD countries. This indicates that the end result depends on the complementarily or substitution of foreign and domestic investment.

Agrwal (2000) analysed economic impact of FDI in South Asian Countries: India, Pakistan, Bangladesh, Sri Lanka and Nepal and found that FDI inflows in South Asia were associated with a manifold increase in the investment by national investors, suggestion that there exist complementarily and linkage effects between foreign and national investment. The impact of FDI inflows on growth rate of GDP is found to be negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and early nineties. Hence FDI is more likely to beneficial in the more open economics.

Bailliu (2000) analysed that impact of private capital flows, financial development and economics growth in 40 developing countries during 1975-97 and found that capital inflows faster higher economic growth, above and beyond any effects on the investment rate, but only for economies where the banking sector has reached a certain level of development.

Lipsey (2000) allows us to infer that the effect of FDI on growth is positive, but reduced and depends strongly on the interaction with the level of schooling in the host country.
Soto (2000)\(^96\), working with panel data for developing countries for the 1986-97 period, concluded that FDI contributes positively to growth through the accumulation of capital and the transfer of technology.

Global development finance (2001)\(^97\) report summarizes the findings of several other studies on the relationships between private capital flows and growth, and also provides new evidence on thesis relationships. Both economic theory and recent empirical evidence suggest that FDI has a benefit talk impact on developing host countries.

Nair-Reichert and Weinhold (2001)\(^98\) based on panel data for 24 developing countries between the years of 1971 and 1985. The main conclusion here was that the relation between investments, whether foreign or domestic, and product growth was strongly heterogeneous, and the FDI efficiency was positively influenced by a country’s degree of trade openness.

Buckley and others (2002)\(^99\) used panel data for several regions in China for the 1989-98 period. In the first place, the author points out that if the rate of growth of FDI has positive effect upon GDP growth, the reverse does not hold true. Secondly, no evidence was found to support the hypothesis according to which the efficiency of FDI depends on a minimum level of human capital. Contrastingly, human capital is more significant in less developed provinces, while FDI stimulates growth notably in the more developed provinces.

Pradhan jaya Prakash (2003)\(^100\) while empirically verifying more sensitive than FDI to the level of human development. For developing countries with higher human development, the impact of domestic investment on growth is not only positive but also statistically significant, whereas it has no significant impact in the case of developing countries with lower human development. The study found that the international linkages have a major role in the growth process
if the country has a lower human development than country with a higher human development.

**Shalini Sharma and Ruchi Sharma (2003)** developed two alternative econometric models to examine the degree of relationship between FDI inflows to examine the degree of relationship between FDI inflows and GDP. The study used the data of 20 countries and provided an empirical base to the hypotheses that FDI is related directly to development, as measured by income in order to provide a scientific base to the oft-repeated commonsense speculation about the role of FDI in development. But no evidence was found to support the thesis that the rates of growth of GDP and FDI are related.

**Nawal Kisar (2003)** expressed that FDI has helped in accelerating the economic growth of many countries. According to the study, the importance of FDI is more in case of developing countries, which require capital, technology and better management for faster economic growth.

**Mohd.Giroz Alam (2005)** reveals that the FDI is an important avenue through which investment takes place in a country. The importance of FDI extends beyond the financial capital that flows into the country.

**Singer (1950)** argues that FDI has a detrimental development. This is based on the premise that FDI going to developing countries is mainly in the primary sector.

**Singer (1975)** modifies his views by focusing on difference between countries rather than commodities.

**Griffin (1970) and Weisskopf (1972)** also support the view that FDI from developed to developing countries does not have beneficial effects.
Hausmann and Fernandez –Arias (2000)\textsuperscript{107} points to reasons why a high share of FDI in total capital inflows may be a sign of host country’s weakness rather than its strength.
REFERENCES


64. Haavelmo (1965) Foreign direct investment, joint ventures and endogenous growth, department of economics, university of Kent, U.K, Miemo


73. Bahaduri (1996) Implication of GLobalisation for Macro-economic Theory and Policy, Centre for Economic studies and Planning, Jawarhalal Nehru University, New Delhi, India.


86. Hymer (1970) – “Multinational corporations and oligopoly: The non-American Challenge” In C.P. Kindlegerger (Ed.,) The International Corporation

87.Knicker Backer (1973)”Oligopolistic reaction and multinational enterprise”, Boston: Division of Research, Harvard University Graduate School of Business Administration.


95.Lipsey (2000)”Foreign direct investors in three financial crises”, NBER working paper, No.8084 (abridge, Massachusetts, NBER).


