CHAPTER II

REVIEW OF LITERATURE AND THEORETICAL BACKGROUND OF THE STUDY

In this chapter the researcher has reviewed various studies related to the topic of research, identified the research gap and has presented the theoretical background of the study.

2.1 REVIEW OF EARLIER STUDIES

The empirical literature on relationship between foreign direct investment and economic growth, balance of payment, exports and imports for different time periods have been vigorously investigated by various researchers. The researcher has reviewed available literature and has presented it under the following heads.

2.1.1 INFLOWS OF FDI

Jethyaram (2009) in his article “Economic Reforms and FDI in India” highlights the global FDI inflows to various parts of the world. Out of the total global inflows, flow of FDI to developed countries stands 59.40 per cent. Developing countries received a share of 39.70 per cent. The share to developed countries is much higher than to developing and central and eastern Europe. The author further states that FDI flows to developing countries has to be increased as it will lead to economic growth.
Chandrachud and Gajalakshmi (2013) in their study identify the main determinants of FDI inflows to India. The observed results show that one percent increase in Trade GDP causes 11.79 percentage increase in FDI inflows in India. They also pointed out that Indian economy is growing in sustainable way but with ‘jobless growth’ during the post liberalisation period. The liberalisation policy have generated the employment opportunity but not to the quantum required.

Madem Srinu et al, (2012) in their study observe that the recent trends in FDI flows at the global level as well as across regions and countries suggest that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy. Inward FDI has boomed in post-reform India. At the same time, the composition and type of FDI has changed considerably. The services sector accounts for a steeply rising share of FDI stocks in India since the mid-1990s.

Kumar Mahesh (2014) in his study points out that trade GDP, reserves GDP and exchange rate are the main determinants of FDI inflows to the country. These economic growth factors have a profound impact on the inflows of FDI in India. His study also observes that FDI is a significant factor influencing the economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the country.
Sharma Mamta and Singh Satbir (2013), in their study “Foreign Direct Investment in India: Regulatory Framework, Issues and Current Status” observe that foreign direct investment plays an important role in the economic development of the country and it helps in transforming financial resources, technology and innovative and improved management techniques along with raising productivity. There is positive remarkable trend in FDI inflows in India during the period 2000-2001. On the other hand they also point out that there are some factors which are limiting the flow of FDI in India.

Nelson P, (2012), in his study on “Foreign Direct Investment on Indian Economy” mentions that there is positive relationship between foreign direct investment and GDP and the important determinants of FDI inflows into India are the real effective exchange rate, interest rate, the wholesale price index and the GDP at factor cost. He also points out FDI contributed significantly to raise the capital formation but the global share of the FDI inflow in India is very low. This low share of FDI inflows is not able to fulfil the objective of increasing exports and saving. To increase the export through FDI inflow, it is suggested to reduce the tariff rates of the country.

Sahni Priyanka (2012), in her empirical investigation of FDI in India explains that India’s Foreign Direct Investment rose to 2.44 per cent in 2008 as compared to 0.09 per cent in 1991. There has been a generous flow of FDI in India since 1991 and its overall direction remained the same over the years.
irrespective of the ruling party. She also points out that there is a huge gap between the amount of FDI approved and its realization into actual disbursements in India. GDP, trade openness and inflation exhibit a positive relationship with FDI while Foreign Exchange Reserves exhibit a negative relationship with FDI inflows in the country during the period 1992-93 to 2008-2009.

Singh Jasbir, Chadha Sumita and Sharma Anupama (2012), in their study found that maximum global foreign investment flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scarce domestic investments in developing countries particularly in India. But foreign investor never adopts environment friendly technique to maximise their profit. These investments meet the financial requirement for building up the basic and essential infrastructure industries of priority sector. They also point out that there is an upward trend in the flows of foreign investment in India.

Chatterjee Suhita, Mishra Pulak and Chatterjee Bani (2013), in their article “Determinants of Inter-State Variations in FDI Inflows in India” observe that infrastructure, be it physical or social, does not have any significant influence on variations in FDI inflows across the Indian states. Instead, inter-state variations in inward FDI are caused by the level and variations in profitability of the existing enterprises. While higher profitability attracts more FDI, greater variability in it reduces the inflows of FDI. Like infrastructure, research and development
intensity and domestic investment also do not have any significant impact on variations in FDI inflows across Indian states.

Gupta Nidhi (2013), in his study indicates that the result of sectoral level output, productivity and export is minimal due to the low flow of FDI into India both at the macro level as well as at the sectoral level. In post globalised era, there is a need to realize the positive impact of FDI. The author further says that India is still not able to eliminate poverty, eliminate unemployment and economic inequality. So FDI is not having a significant impact on these areas.

Vyas Vijaykumar Abhishek (2015) in his analytical study of FDI in India points out that India is the second most important FDI destination after China for transnational corporations during 2010 – 2015. Services, telecommunication, construction activities, computer software and hardware, and automobile are the major sectors which attract higher inflows of FDI in India. Countries like Mauritius, Singapore, US and UK are among the leading sources of FDI in India.

Meena Kant Krishan and Singh (2013) state that India’s foreign direct investment policy has been gradually liberalized to make the market more investor friendly. The country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of
existing companies. All of these contribute to economic growth of the Indian economy.

Kirthika and Nirmala (2014) from their study found that Foreign Direct Investment inflows plays a pivotal role in the flow of gross domestic product, gross national product, total trade, overall balance of payments and foreign exchange reserves. Despite the troubles in the world economy, India is continued to attract substantial amount of FDI inflows. India due to its flexible investment regimes and policies proves to be the source for the foreign investors in grabbing the investment opportunities in India. FDI is the significant factor influencing the level of economic growth in India that helps in increasing the trade in the international market that contributes to the growth of total trade and balance of payments in spite of the depreciation of Indian rupee value that causes the movement in foreign exchange reserves.

Akhtar Gulshan (2013), in his study “Inflows of FDI in India: Pre and Post Reform Period” mentions that India’s capacity as a host nation in attracting FDI has been enhanced during the post reforms period, but the quantum of FDI inflows relative to its size has been low as compared to other developing countries. Main reasons for these low FDI inflows has related to the investment climate, poor infrastructure, foreign exchange rate fluctuation and business facilitation, which are comparatively at lower level. However, during pre-liberalization period FDI increased at compound annual growth rate of 19.05 per cent while during post
liberalization period it has grown by 24.28 per cent. This indicates that liberalization has had a positive impact on FDI inflows in India. Since 1991 FDI inflows in India has increased approximately by more than 165 times.

There are several studies which have analysed the inflow of FDI in India and found that FDI inflows in India is in a rising trend.

2.1.2 SECTORWISE AND COUNTRYWISE FDI INFLOWS

Kali Ram Gola, Mridul Dharwal and Ankur Agarwal (2013) state that in India FDI inflows into the economy maintain a fluctuating and unsteady trend. They also point out that more than 50 per cent of the total FDI inflows received in India come from Mauritius, Singapore and the USA. The main reason for higher levels of investment from Mauritius is due to the fact that India enters into a double taxation avoidance agreement with Mauritius and therefore the FDI inflows from Mauritius are protected from taxation in India. Among the different sectors, the service sector has received the larger proportion followed by computer software and hardware sector, and then telecommunication sector.

Babu Harish (2012) in his study finds out that among the sectors attracting FDI equity inflows in India, service sector leads with 21 per cent and computer software and hardware stands second with telecommunication holding 8 per cent of the total inflows, followed by housing and construction activities with 7 per cent, automobile industry with 5 per cent, power with 4 per cent, metallurgical
industry with 3 per cent; and least contribution is made on petroleum natural gas and chemical with 2 per cent. The sector wise analysis of FDI inflow in India reveals that maximum FDI has taken place in the service sector. Thus the sector wise inflows of FDI in India shows a varying trend but acts as a catalyst for growth, quality maintenance and development of Indian industries to a greater and larger extend. The technology transfer is also seen as one of the major change apart from increase in operational efficiency, managerial efficiency, employment opportunities and infrastructure development.

Madem Srinu, Gudla Sandeep and Rao Bhaskara (2012), in their study reveals that service sector, telecom, software, housing and real estate and construction sectors have witnessed more than 5 per cent increment of FDI during 2000 and 2012. Remaining all the sectors have achieved less than 5 per cent increment of FDI. It is observed that the sectors who have given support by the government have got good share of FDI inflow.

Mathiyazhagan K. Maathai (2005), in his study has the opinion that FDI has helped to raise the output, productivity and export in some sectors. The result of the panel cointegration technique reveals that a very minimal impact on the variables such as output, labour productivity and export is created by the FDI inflows into the sectors. He stresses that this is due to the low flow of FDI into India both at the macro level as well as at the sectoral level.
Chari Anusha and Raghavan Madhav (2011), in their study “Foreign Direct Investment in India’s Retail Bazaar: Opportunities and Challenges” find out that in retail sector there exists a number of concerns. The opening up of FDI in retail sector would lead to unfair competition and ultimately result in large-scale exit of incumbent domestic retailers, especially the small family-owned business and this sector is under-developed and in a nascent stage.

Dhanwani Kumar Sanjay (2013), in his study “Impact of FDI in Retail Sector in India” mentions that FDI in retail sector would increase the capital reserve in the balance of payment, makes the small and medium enterprises to produce high quality commodities, provides infrastructure facilities, lowers the price, then inflation and consequently serves the goods in an optimization way. He also points out that the expectation behind the opening of FDI in multi brand retail is gigantic. But the government should take precautionary measure framing the rules to ensure that any industry would not get affected.

Nandal Sanjay (2013), in his study states that FDI in retail is fundamentally different from that in manufacturing. FDI in manufacturing basically enhances the productive employment in most cases; but FDI in retail trade may create job losses and displacement of traditional supply chain. Except for some existing Indian retail operations, the bulk of the Indian economy would gain, significantly, from the emergence of a well-capitalized retail industry that brings the latest technology and management practices to build modern supply chains in India, connecting
country and town, connecting small producers with national and even global markets.

Sultana Tabassum Syed and Pardhasaradhi (2012) in their study “Impact of Flow of FDI and FII on Indian Stock market” found that there is a strong positive correlation between FDI and sensex and FDI and nifty in the stock market. And the flow of FDI and FII accelerates the Indian economy and also gives opportunities to Indian industry for technological up-gradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and global competitive advantage with greater efficiency. Most importantly FDI is central for India’s integration into global production chains which involves production by multinational companies spread across locations all over the world.

Jain Mamta and Sukhlecha Lodhane Meen (2012), in their study “FDI in multi-brand retail” indicate that when FDI is allowed in India it will be an advantage to India and not a disadvantage. FDI will not affect the unorganized players. Global retailers investing in new markets have not hampered local retailers. The kirana shops in large parts of the country will enjoy built-in protection from supermarkets. Lowering of prices will not be a disadvantage, because if foreign players are present in India it makes the availability of goods at cheaper prices. FDI will provide access to larger financial resources for venture in the retail sector and that can lead to larger supermarkets, improved and tighter
quality standards and the supermarkets offer a wide range of products and services.

Sundaram Satya (2013) in his article notes that India has to learn some lessons from China. China has achieved phenomenal progress in the manufacturing sector and transportation infrastructure. The big foreign investors feel that in their own interest, they should boost the local economy. In China more than 350 supermarkets have 15,000 Chinese suppliers. More than 90 per cent of the merchandise it sells in China is Chinese products. Export of these produce to the US has risen. In China, the small and big retailers have time to adapt. The FDI in retail should lead to improvement in infrastructure in rural India.

Mundra Sheetal, Mundra Mukesh and Singh Manju (2013) in their study “A Review of the Impact of Foreign Direct Investment on Indian Retailing”, point out that FDI has proved to stimulate growth and development of the countries. FDI has stimulated the growth in different sector in India, in addition to direct capital financing, FDI can be a source of valuable technology and know-how while fostering linkages with local firms, which can help jumpstart an economy. He further states that FDI in retailing can be a powerful catalyst for development of organized retail and the intense competition will have positive impact for all the stakeholders.

Reddy Malla (2014) in his work indicates that FDI in banking sector solves various problems like inefficient management, non-performing assets, financial
instability and poor capitalization. FDI in banking sector provides benefits of technology transfer, better risk management, financial stability, innovative products and employment. FDI inflows in banking sector have been increasing year by year. During the period from January to June, 2013 banking sector has received FDI inflows of Rs. 1702.03 crores which account for 17.06 per cent of total FDI in service sector.

Mrinalini, Nath Pradosh and Sandhya (2013), in their article mention that the IT and software sector has attracted maximum investment for research and development activities, which is one of the fastest growing industries in India. There are a large number of small investments and almost 86 per cent of investments is below US $ 50 million, which reflects that the multinational companies are not investing to take up high-end research and development. The share of FDI in research and development in total FDI in India is only 8.25 per cent. The software and IT sector has a share of 13.79 per cent of FDI and shares 50.36 per cent of the total FDI in research and development.

Sivakkolundu (2012) in his study on growth of FDI in India states that Mauritius has been the largest direct investor in India. The United States, The United Kingdom and Netherlands placed second, third and fourth respectively. Mumbai and New Delhi are the top performing states in India with the majority of FDI inflows. FDI inflows are heavily concentrated around these two major cities. The author concludes that India needs massive investments to sustain high-quality
economic growth, particularly in the energy and infrastructure sectors (both physical and social).

Ramaiah Sampangi (2012) states that in India, Karnataka has continually sought to attract FDI from the world’s major investors. The state government announced a number of incentives, through conducting global investors meetings both within and outside the state, designed to encourage FDI and presents a favourable scenario for investors. FDI inflows into Karnataka stand 3rd in India after Maharashtra and New Delhi. Karnataka continues to be a favourite destination for FDI in the country.

Godara S. Rajender and Siwach K. Manoj (2010), in their study “FDI in the development of Maharashtra” found that during 1991 to 2007 there is a regular increasing trend in the inflow of FDI. Analysis related to country wise FDI inflows reveals that USA is the largest investor in Maharashtra followed by Mauritius, UK, Italy, Germany, Netherland, France, Singapore, Japan and Switzerland. Services sector, IT industry, infrastructure and automobiles are the leading areas of FDI in the State. Their findings also show that there is positive long run relationship between FDI and net state domestic product in Maharashtra.

Banik Arindam, Bhaumik K Pradip and Iyare O Sunday (2004), states that the strengthening of the neighbourhoods may have some impact on the future FDI flows of both India and China. Some economies have attracted large FDI flows and grown fast such as East Asia and China whereas others have not. The Latin
American and Caribbean economies are geographically closer to the highly
developed economies; yet, these regions could not take advantage of this physical
proximity.

Praveena and Indhirani (2013) in their study “Role of FDI in Economic
Development of India”, mention that service sector in India attracts the maximum
FDI inflows followed by telecommunication sector. FDI also has an important
impact on country’s trade balance, increasing labour standard and skills, transfer
of technology and innovative ideas, skills and the general business climate. He
further points out that FDI alone is not a solution for poverty eradication,
unemployment and other economic development.

Moses Emerlson (2013), in his study “FDI in education sector” observes
that it is necessary to allow FDI in India as it paves the way for our country to play
a vital role in providing quality education. Improving the quality of education is
the need of the hour. Thus, it is of national importance and it appears to be
decisive to allow FDI in the education sector.

Siwach Manoj, Godara Rajender and Kumar Sunil (2009), have made a
study on FDI in Haryana state of India and found that the inward FDI is not in a
regular trend during 1991-2007. There is high level of regional disparity as three
districts account for 97.18 per cent of FDI but there is no FDI in Bhiwani, Sirsa,
Kaithal, Kurukshetra, Mahendergarh and Fatehabad districts of Haryana. The
disparity also exists on the issue of country of origin of FDI; as three countries
(Japan, USA & UK) account for 80.57 per cent of total inward FDI in Haryana. Further, they also proved that services sector, electrical equipment, manufacturing and fuels are the major sectors attracting FDI in Haryana. But the percentage figure of FDI to Gross State Domestic Product is very low.

Hameedu Shahul (2014) in his study “Foreign Direct Investment, the Indian Scenario” indicates that FDI in India on various sectors can attain sustained economic growth and development through creation of jobs and expansion of existing manufacturing industries. The inflow of FDI in service sectors and construction and development sector, from April 2000 to March 2013 attained substantial sustained economic growth and development through creation of jobs in India. Computer, Software & Hardware and Drugs & Pharmaceuticals sector are the other sectors to which attention is shown by foreign investors. The foreign investors’ interest has been quite poor in other sectors of the Indian economy.

Pavithra (2012) in her study on foreign direct investment in retail industry in India indicates that foreign direct investment increase the number of shopping malls, develope the infrastructure, expand business activities, penetrate modern retailing formats, growth in supply chain infrastructure, diversify product in all segments and increase the profit of farmers.

Miriym Venkatanarayana and Hanumanthappa (2012), in their study say that with the advent of Foreign Direct Investment, retail sector is likely to make
massive strides and catalyses the economic growth of the country. Indeed, it is the life blood of economy of developing nations.

Bedi Priyanka and Kharbanda Ekta (2014), points out that India is receiving FDI inflows far below her potential because of weak infrastructure, complicated tax structure, restrictive labour laws, bureaucracy, regulations and corruption. Indian government has taken several steps to make the FDI policies simplified and transparent, has increased the FDI limits in different sectors, has opened many new sectors for FDI and has placed many sectors on the automatic approval route. In spite of all this, India receives much lesser FDI as compared to developing economies of China and Brazil. India stands the chance of losing its comparative advantage in lower labour costs and large domestic markets to the newly emerging low cost economies of Indonesia, Vietnam and Philippines.

Anitha (2012), in her study “Foreign Direct Investment and Economic Growth in India” stresses that FDI plays an important role in the long-term development of a country not only as source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. Further, it is found that even though there has been increased flow of FDI into the country during the post liberalization period, the global share of FDI in India is very less when it is compared to other developing countries. Lack of proper infrastructure, instable government and political environment, high
corporate tax rates and limited export processing zones are considered to be the major problems for low FDI into the country.

The authors who have analysed the countrywise and sectorwise FDI inflows into India found that the countries like Mauritius, USA, and Singapore are the top investing countries and the service sector attracts the highest amount of FDI.

2.1.3 FDI AND ITS IMPACT ON GDP

Grover Gagan and Gupta Kumar Naresh (2014) in their empirical study “The flow of FDI in India: with special reference to retail sector” observe that trade GDP, reserves GDP, exchange rate, financial position, research and development GDP and FDI growth are the main determinants of FDI inflows to the country. They also found that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to GDP and foreign exchange reserves of the country.

Kali Ram Gola, Mridul Dharwal and Ankur Agarwal (2013) are of the opinion that Foreign Direct Investment is an important catalyst for economic growth in the developing countries; it affects the economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfer in the host countries. They also pointed out that there is
unsteady trend in the inflows of FDI and more than 50 per cent of the total FDI inflows received in India are from Mauritius, Singapore and the USA. Among the different sectors, the service sector has received the larger proportion followed by computer software and hardware sector and telecommunication sector.

Ray Sarbapriya (2012), in her study proves that FDI has not contributed much to the economic growth of India for the time period 1990-91 to 2010-11. The tremendous potential of FDI in economic development does not provide answers to all developmental problems. She also points out that, in order to make FDI to be a noteworthy provider to economic growth, India would do better by focusing on improving infrastructure, human resources, developing local entrepreneurship, creating a stable macroeconomic framework and conditions favourable for productive investments to augment the process of development.

Prasanna (2010) in her article “Direct and Indirect Impact of Foreign Direct Investment on Domestic investment in India” concludes that inflow of FDI has a significantly positive impact on the domestic investment in India. The study also found that FDI inflow is a much more dominant factor than the growth in real GDP indirectly contributing to domestic investment in India. There is no positive influence of FDI on the domestic investment in India in the long run. The indirect impact of FDI is neutral on the domestic investment in the period between 1991-92 and 2006-07. No FDI inflow neither leads to crowding –in or crowding-out of domestic investment in India.
Arshad and Muhammad (2012) in their study “Impact of FDI on trade and economic growth of Pakistan” find out that in the long run FDI is not playing important role for GDP growth in Pakistan. They also indicate that most flow of foreign investment is going into imports sectors. The analysis of Granger causality test shows that FDI is not causing the GDP but conversely GDP does cause the FDI. It is also argued that FDI increases the most country’s exports. They also concluded that both exports and FDI do not cause each other and FDI is not playing an important role in the long run in Pakistan.

Devajit Mahanta (2012), in his study observes foreign direct investment as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

Malhotra Bhavya (2014) conducts a study on Foreign Direct Investment and its Impact on Indian Economy and found that, FDI inflow has increased by 210 times during the study period. Indian government has also used many steps to attract more FDI. Because FDI leads to technological upgradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making Indian industry internationally competitive, opening up export markets, providing backward and forward linkages and access to international quality goods and services. FDI inflow supplements domestic capital, as well as
technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

Kumar Pravin and Kumar Rajeev (2014) in their study view that FDI can act as a tool to supplement growth momentum but the effect of FDI depends on the threshold conditions of the host country. Their finding asserts that the production function in per capita terms exist in the long run. FDI contributes positively to economic growth followed by significant coefficients for human capital and infrastructure. The ability to absorb the advantages embodied in FDI inflows is conditional on the capability of the host country with respect to human capital and the level of infrastructure.

Saiyed (2012) in his empirical investigation of foreign direct investment on economic growth in India mentions that the analysis of double natural logarithmic regression gives a strong positive correlation between foreign direct investment and growth of gross domestic product. Regressions analysis reveals that foreign direct investment expansion has influenced output variables, and changes in foreign direct investment causes annual output to increase. Further he states that whatever may be the cause of rise in stock of foreign direct investment in India, but it definitely leads to rise in the output growth.

Dwivedi Priya and Badge Jyoti (2013), in their study found a positive and significant impact of foreign capital inflows on Indian economy. They also note that FDI as a strategic component of investment is needed by India for its
sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development.

Mahapatra Ramakrushna and Patra Sunita (2014), in their work indicate that FDI has played a significant role in the growth and development of Indian economy. Our GDP has grown almost six-fold since the year 1990 till 2012. FDI plays multidimensional role in the overall development. It may generate benefits through bringing non-debt creating foreign capital resources, technology upgradation skill enhancement, new employment, spillovers and allocative efficiency effects. Thus, FDI acts as catalyst for domestic industrial development and is considered to be an important vehicle for economic development. Further they conclude that there is an existence of positive and strong correlation between FDI inflow and growth of GDP in India and per capita GDP as well. The attractiveness of the host country’s policy and market also affects the FDI positively and significantly.

Borensztein et al (1998), in their study, indicate that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. However, the higher productivity of FDI holds only when the host country has a minimum threshold stock of human capital. The effect of FDI on economic growth is dependent on the level of human capital available in the host economy. There is strong positive interaction between FDI and the level
of Educational attainment of human capital. They also find out some evidence of a crowding-in effect, namely that FDI is complementary to domestic investment.

Lodhi Singh Girbal (2014) reveals that FDI shows a gradual increase and has become a staple for success for India. The telecommunications and power sector are the reasons for the success of infrastructure. He also states that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the country.

Ramesh and Packialakshmi (2014) in their study have the opinion that FDIs have created tremendous opportunities for India’s development and helped to boost the performance of local firms as well as the globalization of some of them. This has undeniably raised India’s stature among developing countries. They also point out that FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI.

From the above studies it is found that FDI has a positive impact on GDP and it leads to economic growth.
2.1.4 FDI AND EXPORTS

Sharma Kishore (2000) states that, the demand for Indian exports increases when its export prices fall in relation to world prices. Also the real appreciation of the rupee adversely affects India’s export demand. Export supply is positively related to the domestic relative price of exports and a higher domestic demand reduces export supply. Foreign investment appears to have statistically no significant impact on India’s export performance although the coefficient of FDI variable has a positive sign. Similarly, there is no evidence that the infrastructure has an impact on export supply.

Sharma Renu and Kaur Mandeep (2013) mention that in India, there is bidirectional causality between FDI and imports. And also there is strong evidence of bidirectional causality between FDI and exports. FDI causes imports which in turn causes exports and exports further causes FDI. It is also noted that FDI also causes exports which in turn leads to more imports.

Shah Vishal and Parikh Alka (2012), in their study stressed that the sectors that have received highest amount of FDI consistently over the years are service, finance, construction, electronics and telecom. Barring electronics, these are actually the sectors that are more domestically active rather than being export oriented. The study also explains FDI has seen more participation in domestic markets than those that enhance exports. Sectors like metallurgy, electronics, gems and jewellery and chemicals are export oriented sectors that are attracting
foreign investors. It is clear from the study that when FDI flow increases, it has also gone into some export sectors and has benefited the nation in earning more foreign exchange.

Jayakumar, Kannan and Anbalagan (2014) in their article point out that FDI could not be assumed as the only explanatory variable for predicting variations in exports. International trade that is measured either by exports or by imports is found to be complementary to FDI inflows. FDI inflows are observed to have feedback effects with exports of the trading partners and of the other trading partners. Similar linkages between FDI inflows to and imports by, the trading partners and the other trading partners are also revealed. FDI induced by trade expansion also improve social welfare. The author suggests that it is important for both the public and private sectors to realize the complementarily between trade and investment and respond accordingly.

Barua Rashmita (2013), in her study reveals that FDI and exports, FDI and GDP, GDP and exports are all positively and highly correlated with each other. The study also reveals that FDI not only acts as a vehicle for accelerating the pace exports but it is also an important variable that alters the level of GDP of the host country. FDI can complement local developmental efforts by boosting export competitiveness, generating employment and strengthening the skill base, enhancing technological capabilities and increasing financial resources for
development. On the other hand it is noted that FDI inflows in India are set to increase substantially but would remain well below potential.

Kaur Manpreet, Yadav S. Surendra and Gautam Vinayshil (2012) in their study concluded that the actual benefits or costs of FDI are associated with country’s vulnerability to FDI as there are evidences of FDI crowding in domestic investment. It is understood that FDI is not an alternative rather it complements the domestic investment. They also point out that there is existence of unidirectional causality from FDI to Current Account for the period 1975 to 2009. There is also long term relationship between the two. There is bidirectional causality from FDI to imports and vice versa and FDI to exports and vice versa. Thus, FDI has a significant influence on international trade components. Simultaneously, FDI itself is influenced by the trade components. But the magnitude of impact of FDI is more on imports than that on exports.

Saleena (2013) analyses the impact of FDI on Services Export, with evidence from India. She point out that FDI has positively influenced the growth of services export in the Indian economy, after the liberalization period. Trade in services has grown more rapidly than merchandise trade. Information technology and business process outsourcing are among the fastest growing sectors in terms of services export. FDI is widely viewed as being one of the principal vehicles for the international transfer of technology. FDI results in increase in productive
capital stock, technological growth, and facilitates transfer of managerial skills, besides improving global market access.

Kumari Harish (2014) in her article has the opinion that FDI as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development, etc. FDI can help to raise the output, productivity and export at the sectoral level of the Indian economy.

Ray and Ghosh Dipayan (2014) mention that foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. FDI is needed for the interest of the country’s industrial development. In the recent time FDI is considered to be the most attractive type of capital flow for India’s emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy.

Prabakaran (2015) in his study proves that FDI plays an important role in country’s long term development. It gives plenty of opportunities like employment, technology up gradation, infrastructure development, optimization of human capital, etc. Even though, there exist an increasing trend of FDI flows in India since liberalization, the level of investment at India is not equal to the global competitions, which are developing countries like China, the Republic of Korea
and Taiwan. The lacuna in attracting the FDI investments are, lack of proper infrastructure, instability in government policies, high corporate tax and limited export processing zones. The macroeconomic instability in terms of inflation has also the influencing factor for the flow of FDI.

Sahoo Pravakar (2013) in his study on FDI Reforms in India, states that foreign direct investment leads to increasing returns to production via externalities and productivity spillovers through channels such as imitation, competition, linkages, technology transfers and training. Further, FDI helps integrate developing countries into the global economy by easing access to foreign markets and including local enterprises in global production chains. The FDI inflows to East Asia helped modernisation of the exports sector more, so the manufacturing sector, leading to growth in exports as well as overall economic growth. FDI contributes to improving the host economy’s export competitiveness and volume by augmenting domestic capital for exports; helping transfer of technology and new products for exports; facilitating access to new and large foreign markets and providing training for the local workforce and upgrading technical and management skills.

Jayachandran and Seilan (2010), in their study “A causal relationship between trade, foreign direct investment and economic growth for India” find out that there is no reciprocal causality relationship between trade, foreign direct investment and economic growth. The direction of causality relationship is from
exports to growth rate and there is no causality relationship from FDIs to exports. The directions of causality relationship is from exports to growth rate and there is no causality relationship from growth rate to exports and the direction of causality relationship is from FDIs to growth rate and there is no causality relationship from growth rates to FDIs. FDI and exports in India is one of the factors affecting economic growth. However, the high or low economic growth rate does not have an effect on the presence of FDIs and exports in India.

The various literature studies reveal that there is positive as well as negative impact of FDI in the aspect of exports.

2.1.5 FDI AND BALANCE OF PAYMENTS

Saluja Singh Manminder, Bhatia Kaur Navneet and Patel Nishant (2013) econometrically analyse and examine the causal relationship between FDI and Current Account and FDI and Capital Account. The investigation of this relationship is crucial for Indian economy in present scenario, where the current account deficit is one of the major macroeconomic problems which is affecting the growth of the economy and for that government had tried to finance the deficit with the help of the FDI inflows. At the same time, there have been consistent efforts to attract the foreign investors to stabilize the investment environment in India.
Mathew Jomon (2013) in his paper Trends and Challenges of India’s Balance of Payments points that the huge sum of FDI inflow is contributing significantly in reducing the deficit in India’s current account and maintaining surplus in overall balance of payment account.

Rahman Nayyer Mohd (2016) in his empirical study found that there is an impact of Foreign Direct Investment inflows on Capital Account Balance. There is bi-directional causality between Capital Account Balance and Foreign Direct Investment inflows. The foreign direct investment inflows impact the Capital Account Balance in India as well as the Capital Account Balance also impacts the foreign direct investment inflows. This proves the point that foreign direct investment inflows are very important macroeconomic variable for an emerging economy like India.

Mukherjee Jaydeep, Chakraborty and Sinha Tanaya (2013) explain that there exists a unique long-run relationship among FDI and current account balance with two endogenous structural breaks. The analysis also reveals a unidirectional causality from India’s FDI to current account balance at 5 percent level. The adverse effect of FDI on current account balance, as observed from the empirical results implies that the export opportunities arising out of the foreign investment being outweighed by the rising import volume and remittance payments leakages.

Singhi Akanksha, Payodhi Praneet and Gupta Neha (2014) in The Sector wise Analysis of FDI Inflow in India reveal that maximum FDI has taken place in
the service sector including the telecommunication, information technology, travel and many others. The service sector is followed by the manufacturing sector in terms of FDI. High volumes of FDI take place in electronics and hardware, automobiles, pharmaceuticals, cement, metallurgical and other manufacturing industries.

Studies on FDI and balance of payments give support on FDI. Because it leads to bring a favourable balance of payments position in India. In both the current account and capital account FDI plays an important role.

2.1.6 FDI and Employment

Deshmukh Sushama, (2012), in her research paper points out that FDI is an important stimulus for the economic growth of India. FDI shows a tremendous growth in second decade (2000 -2010) that is three times more than the first decade of FDI in services sector. Banking and insurance is first and telecommunication is second segment of service sector which pick the growth in the second decade of reforms. FDI creates high perks jobs for skilled employee in Indian service sector. FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. She also points out that Indian service sector is generating the proper employment options for skilled worker with high perks.

Archana Vani et al, (2014), in their study on State-wise Analysis of Impact of FDI in India, found that FDI has a significant positive impact on labour
productivity in West Bengal, Karnataka, Kerala and Maharashtra, whereas, in Orissa and Rajasthan labour productivity is negative and significant. The effect of FDI on employment is significant and negative in west Bengal, Delhi, Kerala and Maharashtra; while other states exhibit a significant positive impact. Thus, those states where the labour productivity is rising due to FDI inflows generally revealed a significantly negative impact on employment except for Karnataka and Haryana, where the impact of FDI on both labour productivity and employment are positive and significant. In addition, the impact of FDI on productivity significantly depends on the absorptive capacity of the recipient states which may enhance the spill over effect and thereby strengthen the impact of FDI on productivity growth. In this way, it is likely that at very low levels of absorptive capacity the potentially positive impact of FDI may fail to materialize.

Rasul. G.Korabu and P.S. Kamble (2009), in their article point out that, India has received many benefits through FDI, especially it increases the GDP growth of India and the sectors which are attracting more FDI are electrical equipments, telecommunication, transportation and energy. But there are few constraints in FDI inflows in India such as defective policy, infrastructure and labour laws.

Shin Sojin (2014), has studied the pattern of foreign direct investment inflows in India through three periods. They are the period of anti-FDI inflows (1969-75), selective FDI inflows (1975-1991) and finally pro-FDI inflows (after
the economic reforms of 1991). In the first part the political party has a significant role in structuring economic rules against foreign capital. In the second part the policy makers recognise the advantages of FDI over commercial borrowing played a significant role. In the third part the imminent threat of financial crisis leads the policy makers for liberalisation. Since the extensive economic reforms of 1991, total FDI inflows have steadily increased.

Rao Mohan (2012) in his article Issue of Foreign Direct Investment in Retail points out that FDI in retail is expected to create 60 to 80 lakh jobs as several organised players will enter in and this would culminate in increase in employment opportunities in the retail sector as well as sectors like logistics and sourcing.

Shapiro Robert and Mathur Aparna (2014), in their study points out that the potential gains from foreign investments are greater than those from domestic investment, because the domestic investments come from the pool of investment for all sectors in India, while the foreign investments come from the pool of capital available for investment in all countries. In pharmaceutical industry there is one percent increase in invested capital leads to a 0.34 percent increase in its employment. The wages and salaries data in this industry also show that increases in capital investment leads to higher average wages and salaries as well as higher employment.
Mehra Netrja (2013) in her study observes that Foreign Direct Investment inflows have the maximum impact on the Gross Domestic Product of India. The country is estimated to experience a growth of 23.6 per cent with a 1 per cent increase in the inflows of foreign direct investment. On the other hand, the impact of foreign direct investment on the public, private and total employment is not very satisfactory. There is negligible amount of employment generated in both, the public and private sector, even though there is a large amount of FDI inflows in the economy. The total employment level has increased only by about 4.1 per cent which is not adequate for the overall development of the country. This accounts for jobless growth of the country. Even though the economy is growing, there is no improvement in the levels of employment, hence no increase in the per capital income.

Azhar Syed and Marimuthu (2012), indicates that there is direct and positive relationship between FDI and employment. In India labor is cheap source and available in abundance. FDI provides employment to all the section of the people. They contribute a good proportionate of the total employment. FDI enables firms in manufacturing sectors to provide employment to about 15.6 lakhs persons, accounting for about 4 to 5 per cent of the total employment in the organized sector.

Kumar Sunil (2012) in his article explains that FDI in multi-brand retail will certainly create job opportunities for those people who are skilled and trained.
But there is lot of workforce in India, who is unskilled. FDI is not going to help in removing our basic problem. Further, stiff competitions from the global retail giants are certainly going to oust our small and unorganized retailers. Providing employment to the displaced persons would be a further challenge for our policy makers as they are either unskilled or semi-skilled. Instead of waiting for FDI to create infrastructure in multi brand retail sector, it is time for the Indian government and various trade associations to take initiatives for creating infrastructure for them.

Mahadevaswamy and Nalini (2013) in their study bring out the conclusion that according to the perceptions of the people of Mysore city, the impact of allowing FDI in Multi brand retailing will be quite favourable for the Government and for the producers. The claim of the government that allowing FDI in multi brand retailing would create more employment opportunities could not be proved because the mean score of this factor as compared to the other factors is low. Allowing FDI in multi brand retailing will challenge the monopoly of certain domestic companies. Thus, there is a requirement of proper planning and management by the organisations in the future to face international competition in India.

Aggarwal Shalini, Singla Ankush and Aggarwal Ritu (2012) are of the opinion that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service
sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, FDI always helps to create employment in the country and also supports the small scale industries and helps the country to put an impression on the world wide level through liberalization and globalization.

Aswal Neeraj (2015), in his study mentions that FDI in Indian agriculture sector increases employment opportunities and remains permanent in the host country with the development in the infrastructures from the host country. There exists a long term relationship between levels of GDP and foreign authorized shares.

Many authors have the conclusion that FDI improves the employment position of India through spillover effects, increasing the market openness and by improving the infrastructure facilities.

2.1.7 Case against FDI

Patri Neelakant (2011) in his article stresses that there may not be any kind of power vacuum in India for the new merchant capitalist class form abroad to invade and occupy our country again, but there certainly is diffusion of power that makes it possible for foreigners to exploit the conditions to their advantage.
Jadhav Mohan Aditya and Reddy Nagi (2013) made a study in the capital goods sector in India and concluded that even after 25 years of FDI there is no convergence in the structure of the foreign firms and domestic firms. Even though domestic firms have gained from FDI in terms of sales efficiency, they have not gained in terms of best practices in the market and are still lacking in terms of operating efficiencies. Indian firms have supposedly achieved the required efficiencies to compete with foreign firms during the high growth period of 2004-2008. But in the post-2008 financial crisis period analysis shows that the domestic firms still lack in terms of these efficiencies. On the other hand, the foreign firms have gained from 100 per cent FDI in terms of net sales, size and growth rates.

Nunnenkamp Peter and Stracke Rudi (2008), in their study concludes that FDI is likely to widen regional income disparity in India. The concentration of FDI in a few Indian states tends to work against favourable FDI effects spreading across the Indian economy. FDI is heavily concentrated even within Indian states: Typically, the three most attractive states such as Karnataka, Maharashtra and Tamil Nadu account for more than two thirds of all FDI projects located in the country as a whole. Furthermore, the regression analysis of possible determinants of FDI reveals that it is fairly difficult for less developed states to induce economic catching-up processes by drawing on FDI. Foreign investors strongly prefer locations in India that are relatively advanced in terms of per-capita income and
(transport) infrastructure. FDI is unlikely to work wonders for India’s regional development. It is only for relatively rich states that a higher FDI intensity is associated with a significantly higher growth rate in the post-reform era. By contrast, FDI does not appear to be a decisive factor for the growth prospects of less advanced states.

Sundaram Satya (2013) has pointed out that the FDI would adversely affect our retail sector which has high employment potential.

Kaushik and Bansal Kumar Kapil (2012), in their study, have used SWOT analysis for the role of FDI in Indian economy and pointed out that there is strength and opportunities with the help of FDI. But at the same time some threats are also there in the economy. Kirana and retailers may lose business in long run, fear of controlling the retail sector by foreign investors or big stores, job losses in manufacturing sector, roadside bargains may start which may harm the farmers, work will be done by Indian and the profit will go to foreigners and the farmers will be exploited and will lose their fields and crops to foreign investors are some of the threats.

Guruswamy Mohan, Sharma Kamal, Mohanty Prakash Jeevan and Korah J.Thomas (2005) in their study pointed out that, in India organized trade employs roughly 5 lakh people, whereas the unorganized retail trade employs nearly 3.95 crores. Entry of foreign players now will most definitely disrupt the current
balance of the economy, rendering millions of small retailers jobless by closing the small slit of opportunity available to them.

Sharma Kamal, Mohanty Prakash Jeevan (2005), in their article pointed out that the decade of liberalisation has so far been one of jobless growth. FDI in retail sector leads dislocating millions from their occupation and pushing vast number of families under the poverty line. The western concept of efficiency is maximising output while minimising the number of workers involved. This will only increase social tensions in a developing country like India, where tens of millions are still seeking gainful employment.

Biswa Sreelata and Saha Kumar Anup (2014), in their analytical review on Foreign Direct Investment and technology transfer mention that technology diffusion via FDI possesses both positive and negative externalities. Technology is transferred internationally through multinational companies, but provides no evidence of diffusion of technology from foreign to domestic firms. Vertical spillovers are found and its impact is larger in domestic-market instead of export-oriented foreign companies. But industry or firm level sectoral analysis fails to make causality analysis. The transition countries’ firm level panel data ensure few horizontal spillovers from FDI.

Singh Partap and Grewal Joginder (2013) in their study on FDIs in Indian Retailing sector state that allowing FDI in retail sector may negatively impact the Indian economy. There is high probability of getting gain for consumers while
low probability for farmers. There is possibility of gaining big Indian retailers, big farmers and everyone who is big. There is also a possibility of being increasing the number of landless farmers, brings economic slavery by killing the thinking regarding entrepreneurship of Indian youth and it kills the employment opportunities for unskilled and semi-skilled people.

Prabhudev (2012), in his article mentions that allowing 51 percent of FDI in multi brand retail in the long run would not only demolish existing players in the retail market but would also be not beneficial consumers due to the predatory pricing tactics adopted by multinational companies. These companies first lure customers and run their competition out of business with ultra-low prices. Once their competition has gone out of business, then they recover their losses and more by increasing prices and now the consumer has no choice but to buy from them. Further the involvement of foreign retail supermarket chains with producers in India is very much insufficient supply chain. Foreign investors mostly focus on capturing market share than improving supply chain.

Jadhav Mohan Aditya and Reddy Nagi (2013), in their study clearly indicate that even though domestic firms have gained from FDI in terms of sales efficiency, they have not gained in terms of best practices in the market and are still lacking in terms of operating efficiencies. Indian firms have supposedly achieved the required efficiencies to compete with foreign firms during the high growth period of 2004 – 2008. But the post – 2008 financial crisis period
domestic firms still lack in terms of these efficiencies. The gains for domestic firms from spillover effect arising from foreign investment are slow to realise. On the other hand, the foreign firms have gained from 100 per cent FDI in terms of net sales, size and growth rates.

Prerna and Dhawan Seema (2013) explain that foreign direct investment is an important driver of growth. It is an important source of economic development for country whereas some people see threat of FDI to sovereignty of host and domestic business houses. They also point out the advantages such as FDI increase economic growth due to different international products, increase employment, investment of billion dollars in Indian market, spread of import and export business in different countries and moreover agriculture related people will get good price of their goods. At the same time they also point out the disadvantages such as, FDI will affect 50 million merchants in India, an economically backward class person suffers from price raise, retailer faces loss in business, market places are situated too far which increases travel expenses, increase inflation and also Indians become slaves because of FDI in retail sector.

Mondal Sanghita and Pant Manoj (2014) study FDI and firm competitiveness with evidence from Indian Manufacturing and conclude that foreign presence and associated demonstration effects are more likely to lead to higher competitiveness than attempts to buy foreign technology. This firm competitiveness is highly dependent on the absorptive capacity of the firms. In
addition to this, the study indicates that while foreign presence does have a positive impact on efficiency, this impact is positively affected by the level of competition and the absorptive capacity of firms.

Baer Werner and Sirohi A. Rahul (2013) in their comparative analysis of FDI in Brazil and India shows that FDI comes to play an important role in the industrial development of Brazil. In the case of India the colonial experiences, in addition to political and social restrictions, prevent it from fully exploiting the advantages of FDI. Brazil has been far more successful at attracting FDI than has India: in 2010 FDI stocks in Brazil were more than twice the FDI stocks in India. They also note, that a strong presence of the state can also influence the effectiveness of foreign investments by increasing public spending in infrastructure and other key sectors of the economy.

Though there are several authors give strong support to FDI, as it brings several changes in the economy and leads to economic growth, there are many authors who strongly oppose the concept of development through FDI.

2.2 RESEARCH GAP

The review of the existing literature revealed that various research studies have been conducted on Foreign Direct Investment inflows and its impact on various sectors but most of them are based on the general analysis of the gross domestic product, imports, exports and trade balance. Thus studies on impact of
FDI on India’s balance of payments position, India’s imports and India’s employment position are few and far between. Against such a backdrop, the present study is pertaining to the impact of FDI on India’s current account, capital account and overall balance of balance of payments position and impact on exports and imports. The economic performance of India after the new economic policy with longer time span is taken into account for the study.

2.3 THEORETICAL BACKGROUND

Right from the earliest literature to the modern Keynesian and post Keynesian theories, investment has been treated as the most volatile and strategic variable in all macro-economic models. Investment plays a crucial role in the determination of growth path of the economy.

Adam Smith is regarded as the foremost classical economist. His monumental work, An Enquiry into the Nature and Causes of the Wealth of Nations published in 1776, was primarily concerned with the problem of economic development.

Smith regarded capital accumulation as a necessary condition for economic development. So the problem of economic development was largely the ability of the people to save more and invest more in a country. The rate of investment was determined by the rate of saving and savings were invested in full. But almost all
savings resulted from capital investments or the renting of land. So only capitalists and landlords were held to be capable of saving.

David Ricardo also presented his views on economic development in an unsystematic manner in his book The Principles of Political Economy and Taxation. According to Ricardo, Capital accumulation is the outcome of profits because profits lead to savings of wealth which is used for capital formation. Capital accumulation depends on two factors: First, the capacity to save; and second, the will to save. The capacity to save is more important in capital accumulation. This depends upon the net income of society which is a surplus out of total output after meeting the cost of workers’ subsistence.

Thomas Robert Malthus, showed more appreciation than most of his contemporaries of the importance of distinct and systematic theory of growth. His ideas about economic development are found in his book entitled “The Progress of Wealth” of his Principles of Political Economy published in 1820. According to Malthus, the size of potential gross national product depends upon land, labour, capital and organization. When these four factors are employed in right proportions, they maximize production in the two major sectors of the economy viz., the agricultural and the industrial sector. Of all the factors, it is the accumulation of capital which is the most important determinant of economic development.
Mill regarded economic development as a function of land, labour and capital. While land and labour are the two original factors of production, capital is “a stock, previously accumulated of the products of former labour”. Increase in wealth is possible only if land and capital help to increase production faster than the labour force.

R.F. Harrod and E.Domar have made a distinct contribution in evolving dynamic models to suit the changing conditions of an economy. Harrod and Domar assign a crucial role to capital accumulation and investment in the process of growth. Investment plays a double role. On the one hand, investment generates income and on the other hand, it increases the productive capacity, by enlarging the capital stock. In other words, investment affects the level of income as well as production. The effect of investment on income is known as multiplier effect and that on production is known as productivity effect or sigma effect.

The Critical Minimum effort Thesis was developed by Harvey Leibenstein in his book “Economic Backwardness and Economic Growth,” 1957. Leibenstein stresses a particular level of investment can ensure the steady, secular growth or which can break the vicious circle of poverty. If the level of investment is less than a particular level then the derived goal of steady growth cannot be realized. The level of investment should be higher than a particular level. The particular level is what Leibenstein calls the critical minimum. Hence, the crux of the theory
is that any level of investment lower than the critical minimum cannot ensure the sustained growth.

The theory of the ‘big push’ is associated with the name of Professor Paul N. Rosentien-Rodan. The thesis is that a big push or a large comprehensive programme is needed in the form of a high minimum amount of investment to over-come the obstacles to development in an under-developed economy and to launch it on the path of progress. The theory states that proceeding bit by bit will not launch the economy successfully on the development path; rather a minimum amount of investment is a necessary condition for this. A big push or a minimum quantum of investment is required to overcome the obstacles to development in under-developed countries. A climate for development is only created when investment of a minimum speed or size is made within an under developed economy.

The theory of balanced growth points out that there should be simultaneous investment in a variety of enterprises and there should be harmonious growth of the different parts of the economy. It implies balance between different consumer goods industries and capital goods industries. It also implies balance between agriculture and industry, between domestic and export sectors, between economic and social over heads and between vertical and horizontal external economies. The theory of balanced growth implies that the state must ensure simultaneous investments. It also implies controlled planning. The theory of balanced growth
has also been developed by Rosenstein Rodan, Ragnar Nurkse, Arthur Lewis, Scitovsky and Harvey Leibenstein.

The theory of unbalanced growth is the opposite of the doctrine of balanced growth. According to this concept, investment should be made in selected sectors rather than simultaneously in all economy. No underdeveloped country possesses capital and other resources in such quantities as to invest simultaneously in all sectors. Therefore, investment should be made in a few selected sectors or industries for their rapid development and the economies accruing from them can be utilized for the development of other sectors. Thus the economy gradually moves from the path of unbalanced growth to that of balanced growth. Economists like Singer, Kindleberger, Streeton, etc., have expressed their view in favour of the unbalanced growth doctrine.

All the above mentioned theories reveals the importance of investment and the impact it brings in the economic development of a nation.