CHAPTER-2
REVIEW OF LITERATURE AND METHODOLOGY

Chapter 2 is basically concerned with the review of literature done for the present study and the methodology adopted for the research. Here, in this research study, in order to analyse the impact of FDI in Insurance sector, the secondary data is made use of. After going through the retrospective study of the Insurance sector in India- Life and Non Life- we have analysed the various published and unpublished data on FDI in India. Various reports of IRDA (Insurance Regulatory and Development Authority) from the year 2000-01 to 2013-14 have been gone through analytically. These reports are studied systematically in order to establish their impact on the Insurance sector of the Indian economy. Information from different newspapers, magazines and articles has also been gathered and made use of. So, in general, secondary data is more in use here. But simultaneously, the views and opinions of experts have also been considered here.

Review of Literature

A large number of restricted research studies have been conducted on FDI in general and FDI in insurance sector in particular. Almost all the studies are based on secondary data. Some scholars have also focused the significance of FDI in different angles. The review of some important and relevant studies will facilitate in identifying some of the issues in this area of proposed research work.

Many a research studies have been conducted on FDI in general but so far as FDI in insurance sector is concerned we come across very few studies in this area in particular. Almost all the studies are based on secondary data. Some scholars have also focused the significance of Foreign Direct Investment in different angles. The review of some important and relevant studies have facilitated in identifying some of the issues in this area of present research work.

Singh and Gupta (2013)1 discussed India’s foreign capital policy since 1947. They concluded that the policy framework in India dealing with foreign private investment has changed from cautious welcome policy during 1948-66 to selective and restrictive policy during 1967 to 1979. In the decade of eighties, it was the policy having partial

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liberalization with many regulations. Liberal investment climate has been created only since 1991.

**Boopath (2013)** revealed that the Press Council of India has commented on synergic alliance’ or equity participation by way of Foreign Direct Investment. The council opined that Foreign Direct Investment should be allowed to break or halt the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers.

**Jampala, Lakshmi and Srinivasa (2013)** discussed Foreign Direct Investment Inflows into India in the Post-reforms period. They concluded that “as far as the economic interpretation of the model is concerned; the size of domestic market is positively related to Foreign Direct Investment. The greater the market, the more customers and more opportunities to invest.”

**Pradeep (2013)** made an attempt to study of foreign direct investment in India. He emphasized that Investment, or creation of capital, is an important determinant of economic growth. In general, investment may lead to creation of physical capital, financial capital and human capital. In combination with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Other things being the same, less investment leads to lower economic growth with attendant consequences on reduction in income, consumption and employment. Foreign investment can reduce domestic savings gap. Hence, notwithstanding the domestic savings gap, economic growth can be increased in an open economy with inflow of foreign investment. The foreign investment in India would stimulate the domestic investments. The foreign investments are complementary to economic growth and development in developing countries like India. Investment in an economy raises output and improves standard of living of the people. Keeping this end in view both developed and developing countries are trying their best to undertake investment programmes. Since the

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availability of capital is scarce in many countries due to low rate of domestic savings, hence the importance of foreign investment is ever rising. Foreign capital consists of private foreign capital and public foreign capital. Public foreign capital is otherwise financial foreign aid where as private foreign capital consists of either foreign direct investment or indirect foreign investment. In case of foreign direct investment (FDI), the private foreign investor either sets up a branch or a subsidiary in the recipient country. In the liberalized environment as economics become increasingly open, and trade between countries expand, financial transactions become global through financing trade of goods and services. Capital is the engine of economic development and this statement is gaining importance in the recent times.

Narayana (2012) explained that one of the major concerns of planners and policy makers in India is attracting more and more Foreign Direct Investment. He analysed the Foreign Direct Investment and its flows into India. He highlighted the basic constraints to investment in general and Foreign Direct Investment in particular.

Juan Pineiro et. al (2008) in the Paper namely “Does Growth and Quality of Capital markets Drive Foreign capital? - The case of cross-. Border M and As” examined the association between the quantum of FDI in a firm and the quality of capital market growth of that firm. The period of study was from 1987 to 2006. After a comparative study of “both the stock market variables and the financial and regulatory reforms variables, they observed that the coefficients was higher than other variables. They concluded that higher reforms in capital markets may result into higher increase in firm level Foreign Direct Investment”. Moreover, the results are found to be enormously forceful when they “replaced stock market variables with squared values of the same, reconfirming the fact that bigger is the escalation, better is the inflow of firm level Foreign Direct Investment”.

Ningombam, Jayanti (2007) in one of the article entitled “ Globalization and Foreign Direct Investment in North East India: A Perspective” has made an attempt to

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5 Narayana, N. (2012) “Foreign Direct Investment in India; Constraints and the Need for Suitable Measures” Foreign Investment and Indian Economy (Ed), Manglam Publishers & Distributors, Delhi
6 Chausa, Juan Pineiro; Tamazian, Artur & Vadlamannati, Krishna Chaitanaya (2008); “Does Growth and Quality of Capital Markets Drive Foreign Capital “; Turkish Economic Association Discussion Paper No. 5, March.
7 Ningombam, Jayanti (2007); “Gobalization and FOREIGN DIRECT INVESTMENT in North East India: A Perspective”; June, Banking Finance, pp.15-18.
highlight the constraints faced by the north east region (NER) consisting of eight states viz “Assam, Arunachal Pradesh, Manipur Meghalaya, Mizoram, Nagaland, Tripura and Sikkim; focused on the emerging patterns and trends in the inflows of foreign investment particularly Foreign Direct Investment in North-East in the wake of economic liberalization initiated in 1991”. The findings show that the Foreign Direct Investment has been concentrated in relatively developed states. According to the author, the NER which is at lower stage of development is characterized by extremely attractive scenario yet investment both domestic and foreign is not North-East friendly due to ‘crowding out theory’ does not work in the region. This article suggested that in the absence of public investment mere opening of the region to the global capital flows will further increase disparities. The reactivation of public investment on the basis of appropriate structure of accountability is, therefore; the need of the hour.

Bharathi and Parthipan (2007)\(^8\) in a Paper on "A Comparative Study on Foreign Direct Investment with Particular Reference to India and China" have made an examination of the “Foreign Direct Investments in different economies and their partners into India and China during the period 2001- 2005”. The crucial assertion of the thesis was to fill the huge gap in attracting non-debt generating Foreign Direct Investment flows, which essentially look into their Foreign Direct Investment - attracting capabilities. The basic focus of the study was to reveal the likely forces for China's triumph in grabbing Foreign Direct Investment inflows. It also explored the “reasons for China’s victory and India's failures to capitalize on the market opportunities. The study explores the pattern of Foreign Direct Investment inflows by the firms into these two countries and their relative picture. The study also analyzed the investment scenario in general to give good reason for the differences and finally to take home flattering and grave explanations for our country. The study mainly focused on areas where it is possible for India to attract larger Foreign Direct Investment inflows provided fitting definite and basic MNC-friendly policies are put in place”. “Force has been given to areas like real-estate South; export-oriented businesses, and the successful Chinese model of SEZs. The study emphasized the synergy of both the Government and private sector in framing and aiding the Foreign

Direct Investment process”. “On the basis of an assessment of the Indian and Chinese data, the thesis reached to the conclusion that India is much behind China in all the areas. This thesis suggests the Indian government to revamp its policies and plans in each of these areas. The other suggestions include advantageous road and rail network, liberal Small Scale Industry rules, lesser product and value prices, low indirect taxes, low import duties on raw materials imports, financial and other boosters to encourage some definite types of investment incentives for new business encouragement, coordination of administration policies”.

**Ramamurthy and Subramanian (2007)** in the Paper entitled "Foreign Direct Investment: India Vs. China (A Comparative Analysis- Sector-Wise With a Global Perspective)" stated that India and China are upcoming nations. The growth curve for the one is U-shaped and for other it is V-shaped, but both have a long way to go in attaining their goals. According to authors “presently China is ahead of India in mobilizing inflows through Foreign Direct Investment, but the scenario is fast changing. The facts and figures also showed a growth trend in Foreign Direct Investment inflow in almost all sectors of the growth component”. The authors concluded that “the key issues which facilitated, and attracted Foreign Direct Investment inflows into India and probably the issues which make a withdrawal from China, and also the contributory factor of attracting investments in both the countries needs to be debated upon.”

**Nalsar and Prasad (2007)** in a paper titled "Foreign Direct Investment and the Legal Profession in India" have investigated into the results of permitting “FDI and foreign collaboration in the legal services sector in India. Many segments of the Indian economy are now moderately open to foreign venture, with few exceptions”. “The government has imposed certain restrictions on Foreign Direct Investment in some highly sensitive sectors, e.g. agriculture, retail trading, railways and real estate. According to them some sectors still entail government support. Within the global economy the significance of trade in services currently amounts to well over two trillion US dollars, a sixth of total world trade”.

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10 Shilpi, Nalsar and Priti Prasad (2007); “Foreign Direct Investments and the Legal Profession in India”; Delhi Business Review X Vol. 8, No.1, January-June.
Pateria (2007)\textsuperscript{11} in the paper titled “The Economics of Foreign Direct Investment – Incentives” suggested “the use of investment incentives focusing exclusively on foreign firms, although motivated in some cases from a theoretical point of view, is generally not an efficient way to raise national welfare”. “The key cause is that the biggest notional motive for fiscal subsidies to inward Foreign Direct Investment Spillovers of overseas expertise and skills to home industry is not a routine outcome of foreign investment”. “The potential spillover benefits are realized only if local firms have the ability and motivation to invest in absorbing foreign technologies and skills”. “To motivate subsidization of foreign investment, it is therefore necessary, at the same time, to support learning and investment in local firms as well”.

Mohanty (2007)\textsuperscript{12} in a paper on “Examining Challenges of Liberalization in the Context of Poverty and Development” has highlighted that “the process of globalization has different effects on the different economies of the world. Globalisation has never been in favour of poor countries of the world”. According to author, “IMF and WTO have been biased while managing the process of privatization, liberalization and stabilization and as a result many third world countries now are actually in a worse condition than they were before”. “Various factors such as social set up internal conditions, political stability/instability, formulation and proper implementation of policies etc. by the government greatly affect the Foreign Direct Investment inflows and hence economic development of country”. He suggested that “in order to increase the economic development, India should follow the example of China”. He quoted an instance, “in the case of China, the cheaper labour rate, open up of policies have attracted foreign capital & the MNCs have largely invested in the manufacturing firms/units that not only boosted China’s export but also provided the protection to domestic industries. It has not only accelerated the economic development but has made China one of the ‘Economic Giants’ in the World. Whereas in case of India, social diversity, political instability, wrong planning, wrong policies of the government and their improper implementation, bureaucracy, corruption red tapism, under performance etc. have all resulted in less Foreign Direct Investment and hence, the slower pace of economic development as compared to

\textsuperscript{11} Parag Pateria (2007); “The Economics of Foreign Direct Investments - Incentives”; Delhi Business Review X Vol. 8, No.1, January-June.

China. To increase the pace of economic growth in India, these trends must be changed."

**M. Karunakar (2007)** in a study on “The Dynamic Facets of Globalized Insurance Industry – Trends and Prospects” looked into the “insurance sector in India is at the doorstep of extensive expansion. With a apparently yearly increase rate of 15-20 per cent and the biggest quantity of life and non-life insurance policies are in force, the possible of the Indian insurance industry is enormous. In this paper the present state of worldwide insurance industry has been discussed, in addition to that the role of controlling body on this sector, importance and role of Bancassurance, the appearance of Micro- insurance and rising opportunities in the globalized insurance Industry”.

**Mann and Lalit (2007)** in a paper on "India Shining: Investment Destination for Retail Segment" have made an attempt to evaluate and appreciate the “flow of Foreign Investment in India”. “A thread bare discussion has been made on factors affecting Foreign Direct Investment in Indian Retailing Sector, and factors against the Foreign Direct Investment in retail”. “This paper suggests that, India needs today to lessen the rural - urban divide. This can be done through the help of big pocket entrepreneurs entering the country”.

**Haskel et.al. (2007)** in a paper on the topic "Does Inward Foreign Direct Investment Boost the Productivity of Domestic Firms?”, investigated into “the efficiency spillovers from Foreign Direct Investment to home firms and if so, how much should host countries be eager to pay to attract Foreign Direct Investment? To examine this issue they used a plant-level panel covering U.K. manufacturing from 1973 through 1992. Consistent with spillovers, they estimated a forceful and considerably optimistic correlation between a domestic plant's TFP and the foreign-affiliate share of activity in that plant's industry. Typical estimates suggested that a 10-percentage-point rise in foreign occurrence in a U.K. industry raises the TFP of that industry's domestic plants by about 0.5%”.

14 Puja Walia Mann and Lalit Asija (2007); “India Shining: Investment Destination for Retail Segment”; Delhi Business Review X Vol. 8, No.1, January-June.
Pradhan (2007)\textsuperscript{16} in the paper namely “Are the Asian Foreign Direct Investment Inflows Co-integrated with the Indian Foreign Direct Investment Inflows? Empirical Research Findings” investigated the linkage of Foreign Direct Investment inflows between India and four other Asian countries, viz., Japan, Hong Kong, Singapore and Malaysia. The empirical investigation follows annual data of Foreign Direct Investment Inflows during 1970-71 to 2004-05. The technique employed for the same is co-integration test, which is followed by the unit root test. The empirical results clarify that Foreign Direct Investment inflows of four Asian countries along with India, have a unit root at the level data, but found to be stationary at the first difference level. The co integration test finally confirmed that the Foreign Direct Investment inflows of four Asian countries are co integrated with India’s Foreign Direct Investment inflows. “The implication of this finding is that the Foreign Direct Investment inflows of India can be used to predict the Foreign Direct Investment inflows of Japan, Singapore, Hong Kong and Malaysia”.

Palit and Nawani (2007)\textsuperscript{17} in the research paper on “Technological Capability as a Determinant of Foreign Direct Investment Inflows: Evidence from Developing Asia and India” made an attempt to clarify the “country-wise differences in the pattern of Foreign Direct Investment flows to developing Asian countries by identifying location specific features influencing such flows. The paper argues that “some countries in the region, which have developed long term sources of comparative advantages in the form of superior technological capabilities and supporting infrastructure, have consistently attracted greater volumes of export-oriented Foreign Direct Investment”. These attributes are also vital for justifying the steady improvement in Foreign Direct Investment flows to India”. The paper suggests that “with production processes becoming increasingly complex and technology-intensive, developing countries like India, must devote greater attention to the development of R&D and frontier technologies, failing which, they might lose out in the race for Foreign Direct Investment”.


\textsuperscript{17} Amitendu, Palit and Shounkie, Nawani (2007); “Technological Capability as a Determinant of FOREIGN DIRECT INVESTMENT Inflows: Evidence from Developing Asia and India”; ICRIER, Working Paper No. 193, April.
Bloodgood (2007)\textsuperscript{18} in a report on "Competitive Conditions for Foreign Direct Investment in India" examined Foreign Direct Investment in India (country-wise and industry-wise), in the context of its economic and regulatory environment. This study also examined the precise investment actions of transnational companies in India, representing a broad array of nations and industries. The study also “through light the investment atmosphere in India, Indian regime motivation to foreign investors, particularly SEZs, the Indian regulatory settings as it affects investment, and the effect of India's global, regional, and BTAs on investment from the US and other countries. Finally, the study presents two case studies. The first one examines global Foreign Direct Investment in India's automobile industry and the second one analyzes the effects of India's 2005 Patent law on Foreign Direct Investment in the pharmaceutical industry.”

Juan Pinero et.al (2007)\textsuperscript{19} in a paper entitled, “Foreign Investments - Evidences from South and East Asian Economies” studied the barriers to Foreign Direct Investment inflows in South and East Asian economies. The answer to “these questions are sought in this study using cross section time series data for 17 South and East Asian countries. The time period chosen by the authors was from 1996 to 2005”. The authors coined the term, “quality of Foreign Direct Investment which is a function of higher per capita Foreign Direct Investment inflows, lower volatility in Foreign Direct Investment inflows and higher bilateral investment treaties between the host country and rest of the world. They tested this against the possible set of barriers, including, socio-economic, labour, policy and institutional barriers using pooled regression analysis. Their overall empirical evidence suggests that all the possible set of barriers have a negative effect in stimulating the quality of Foreign Direct Investment. There is an urgent need for South and East Asian economies to address these set of barriers which are acting as stumbling block in not allowing to attract Foreign Direct Investment of their actual potential.”

\textsuperscript{18} Laura Bloodgood (2007); “Competitive Conditions for Foreign Direct Investment in India”; Cornell University, Key Workplace Documents Federal Publications.

\textsuperscript{19} Chousa, Juan Pinero; Vadlamannati, Krishna Chaitna; Aristidis, Bitzenis P. & TAMAZIAN, Aristidis (2007); “Foreign Investments-Evidences from South & East Asian Economies”; University of Santiago Decompostela, Spain.
Prasade and Satyanarayana (2007) in a research paper on "the Rising Trends of the Insurance Industry in India" focused on the changing scenario of the insurance industry, its challenges and the strategies to offset the, current challenges of the Indian insurance industry. Their study showed that the success of the insurance industry depends upon its capabilities to meet the rising hopes of the clients, who are the real kings in the liberalized insurance market. Their study concluded that “Life insurance products, have to compete with saving and mutual funds; hence should offer various dimensions of risk, return and flexibility, so that they can be linked to stock market indices inflation, etc making them more competitive and appropriate for risk/return appetite of different investors, as at present there are no such products.”

Bordo and Meissner (2007) in a study on "Foreign Capital and Economic Growth in the First Era of Globalization" explored “the association between economic growth' and participation in the international capital market. In standard growth regressions, they found mixed evidence of any association between economic growth and foreign capital inflows. Taking a balance sheet perspective on crises and exploring other determinants of debt crises and currency crises including the currency composition of debt, debt intolerance and the role of political institutions, they argued that the set of countries that gained the least from capital flows in terms of growth outcomes in this period were those that had currency crises, foreign currency exposure on their national balance sheets, poorly developed financial markets and presidential political systems. They further suggested that countries with credible commitments and sound fiscal and financial policies avoided major financial crises and achieved higher per capita incomes by the end of the period despite the potential of facing sudden stops of capital inflows, major current account reversals and currency crises that accompanied international capital markets free of capital controls”.

In view of the changing scenario of competition in the life insurance sector, Sinha (2007) in the paper “Premium Income of Life Insurance Industry: A Total Productivity Approach” compares L3 life insurance companies for the financial years 2002-03,2003-04 and 2004-05 in respect of technical efficiency and changes in total

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factor productivity. For the purpose of computation of technical efficiency and TFP, the net premium income of the observed life insurance companies has been taken as the output, and equity capital and the number of agents of insurance industries have been taken as the inputs. The results suggest that all the life insurers’ exhibit positive TFP growth during the period.

**Narayana (2006)** says in his paper inflow of Foreign Direct Investment in Karnataka that no consistent trend either increasing or decreasing is evident between FDI and economic growth and between FDI and exports, during 1993-94 to 2003-04. However, a positive correlation is evident between Foreign Direct Investment inflows and economic growth since 2001-02 and between Foreign Direct Investment inflows and total exports before 2001-02. “This suggests a need for periodization for the study of relationship between Foreign Direct Investment and economic growth and Foreign Direct Investment and exports, in the State since 1991”. Foreign Direct Investment inflows, along with exports, have been contributing to the process of economic globalization. This process is mainly driven by the ICT sector. In general, the remarkable performance of ICT sector is accountable for (a) availability of low cost, highly skilled, communicative and mobile technical manpower, (b) globally competitive management and practices, (c) promotional and developmental policies and programs by way of providing fiscal and financial incentives and concession. Provision of infrastructure facilities and good governance measures and (d) historical and natural cluster of ancillary industries in electronic and electrical sector. Thus, these factors need to be strengthened as strategies for attraction of larger Foreign Direct Investment inflows in future. According to the author “India has been ranked at the second place in global Foreign Direct Investments in 2010 and will continue to remain among the top five attractive destinations for international investors during 2010-12, according to United National Conference on Trade and Development (UNCTAD) in a report on world investment prospects titled, ‘World Investment Prospects Survey 2009-2012. The 2010 survey of the Japan Bank for International Cooperation released in December 2010, conducted among Japanese investors, continues to rank India as the second most promising country for overseas business operations”.

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“A report released in February 2010 by Leeds University Business School, commissioned by UK Trade and Investment (UKTI), ranks India among the top three countries where British companies can do better business during 2012-14”. “India is ranked as the 4th most attractive Foreign Direct Investment destination in 2010, according to Ernst and Young’s 2010 European Attractiveness Survey. However, it is ranked the 2nd most attractive destination following China in the next three years”.

Kamlesh (2006)24 in the book entitled “Foreign Direct Investment: 1947-2007” gives a descriptive and analytical study of Foreign Direct Investment trends and policies during post independence period. Specifically motives and determinants of Foreign Direct Investment (both at sectoral and firm level), Foreign Direct Investment Policy – 2006, implications and future outlook are also outlined in this book. The main observation of this study is that “motives and determinants of Foreign Direct Investment inflows in India differ from sector to sector and from country to country”. Therefore, there is a need to have different Foreign Direct Investment policies for different sectors. Foreign Direct Investment Policy should be dynamic in character so that it keeps on adjusting automatically in response to the changing economic scenario. Also, further liberalization of imports and more privatization was another major suggestion of this study. However, this study is silent as to how transparency and further privatization and liberalization will be brought about.

Singh and Kulkarni (2006)25 in an edited book on "Foreign Direct Investment and Economic Development" have highlighted in detail the increasing role of Foreign Direct Investment in the economic development of a developing country like India. This study also focuses on the impact of globalization on the Foreign Direct Investment. The main findings were that “total inflow of Foreign Direct Investment is short of the expected target, the SEZs should be developed as the most competitive destination for export related Foreign Direct Investment in the world and infrastructure development and a strategic and more effective Foreign Direct

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Investment policy by the government to target Foreign Direct Investment in areas where the country has dynamic comparative advantage”.

Pradhan (2006) in one of the research paper on “Rise of Service Sector and Outward Foreign Direct Investment from Indian Economy: Trends, Patterns and Determinants” reviewed the recent trends and patterns and has identified determinants of such investments. “At the level of the individual company, the Foreign Direct Investment behavior of the firms in the service sector was observed to be non-linearly related to the firm age and size, both relationship following inverted U-shaped curves. Firm’s innovation, export orientation and profitability were also found to be important explainators in the rise of Foreign Direct Investment at the firm level. The import of Capital goods, however, appeared to have a negative impact on trans-border expansion of service sector firms”.

Chary and Gangadhar (2006) in a research paper entitled ‘Foreign Direct Investment: A Study of India and China’ reviewed and analyzed the variations in economic determinants of selected developing Asian economic vis-à-vis Foreign Direct Investment between India and China on the basis of analysis of selected FDI Indicators of China and India, it was inferred that China performed better than India. According to them, China has played a successful role in attracting Foreign Direct Investment for the benefit of her economy, whereas India is lagging far behind. They concluded that major determinants, why china attracts high flows are: more business-oriented policies, easier Foreign Direct Investment procedures, competitive physical infrastructure, flexible labor laws, a better labor climate and better entry-exit procedures for business entities. They further concluded that the reasons why India has low Foreign Direct Investment flows are: bureaucratic tangle for example, anti-Foreign Direct Investment lobby, Infrastructural drawbacks, labour inefficiency and unrest, lesser tax incentives, procedural disputes, non-implementation of appropriate projects, political instability, corruption and red tapism.

27 Chary and Gangadhar (2006); “Foreign Direct Investment: A Study of India and China”.

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Kwon, Yung-Chul\textsuperscript{28} in a research paper on "Effects of Vertical and Horizontal Foreign Direct Investment Projects on a Host Country’s Economy: Trade and Local Linkages" examined the effects of an Foreign Direct Investment “on a domestic country’s trade balance and the local-linkages relative to various types of an Foreign Direct Investment Projects i.e. vertical Foreign Direct Investment projects vs. horizontal Foreign Direct Investment projects”. It was assumed that the effects of Foreign Direct Investments on the host country’s economy are different with regard to a vertical and horizontal Foreign Direct Investment projects. “Based on 108 Foreign Direct Investment projects undertaken by Korean firms, “it was found that vertical investment projects have a greater effect on both, the export-creation and import-creation than with horizontal investment projects. Horizontal foreign investment projects, however, have a greater effect than vertical foreign investment projects with respect to local linkages”. These findings suggest that the host government's policy (e.g., incentives or regulations) towards inward Foreign Direct Investments should be differentiated by the types of Foreign Direct Investment projects based on different contributions made to the host country’s economy”.

Banga (2006)\textsuperscript{29} in one of the empirical Paper on "The export diversifying impact of Japanese and US Foreign Direct Investments in the Indian Manufacturing sector" highlighted the export-diversifying impact of FDIs in a developing economy. According to him, “Foreign Direct Investments may lead to export Diversification in the host country if it positively affects the export intensity of industries that have a low share in world exports. Indirectly, Foreign Direct Investments may encourage export diversification through spillover effects: that is, the presence of Foreign Direct Investments in an industry may increase the export intensity of domestic firms. The empirical results for the Indian economy in the post-liberalization period show that Foreign Direct Investments from the US has led to diversification of India and its exports, both directly and indirectly. However, Japanese Foreign Direct Investments has had no significant impact on India and its exports”.

\textsuperscript{28} Kwon, Yung-Chul; “Effects of Vertical and Horizontal FOREIGN DIRECT INVESTMENT Projects on a Host Country’s Economy: Trade and Local Linkages”, Foreign Trade Review.

Pravakar Sahoo (2006) in the paper namely "Foreign Direct Investment in South Asia: Policy, Trends, Impact and Determinants" found that “there has been a positive change in policies with regard to Foreign Direct Investments with efforts directed more towards bilateral trade agreements and providing investment incentives to foreign investors in all South Asian countries (India, Pakistan, Bangladesh, Sri-Lanka and Nepal)”. “However, there are still procedural delays, reserved industries where foreign investors are not allowed to invest and ceilings in many industries/sectors in each of these countries”. This study showed that “the basic indicators, including infrastructure, in all above five South Asian countries lack adequate infrastructure facilities and governance. Thus, more effective public investment on economic and social infrastructure along with stable economic policies to create an enabling environment, would attract more Foreign Direct Investment. Analyses of Foreign Direct Investments flows to South Asian countries revealed that there has been an increasing trend of Foreign Direct Investments into South Asian countries. However, apart from India, the share as well as the absolute volume of Foreign Direct Investments inflow to these countries is negligible”. An Analysis of Foreign Direct Investments inflows to different sectors shows that “Foreign Direct Investment is largely domestic market oriented in India and Pakistan, whereas it is concentrated in a few export-oriented industries in Sri Lanka and Bangladesh. The results of Foreign Direct Investments impact on growth show that Foreign Direct Investments has a positive and significant impact on growth for four South Asian Countries. Therefore South Asian countries need to improve their Domestic investment, exports and infrastructure facilities, along with more foreign investment, to achieve higher growth. Further, Foreign Direct Investments has a positive impact on export growth through its positive spillovers for South Asian countries”. “Though Foreign Direct Investments does not affect domestic investment in the current period, it has a positive and significant impact affect over time through dynamic effects. The results of panel co-integration estimation reveal that Foreign Direct Investments and all its potential determinants have a long run equilibrium relationship”. According to this study the major determinants of “Foreign Direct Investments in South Asia are market size, labor force growth, infrastructure index and trade openness. Authors suggested that

overall South Asian countries need to maintain growth momentum to improve the market size, frame policies for better use of the abundant labor force, improve infrastructure facilities and follow more open trade policies to attract increased Foreign Direct Investments”.

Rao (2006) in a written article on “Insurance: Issues and Challenges" has studied the Indian insurance sector in general. Author emphasized that during the last five years, the Indian insurance industry has undergone dramatic changes. According to the author, there is enormous scope and potential for the insurance industry to provide health insurance in India. The General insurers have to come out with innovative products in the personal lines if they are to expand business. Some of the untapped areas include long term health policy, and professional liability insurance annuities and pensions related products to meet the growing needs of the ageing population. This comprehensive study further pointed out the following issues and challenges:

a. Due to demographic change in India, companies have to provide products and services with what is available in advanced countries;

b. Matching Asset-Liability;

c. Falling interest rates would pose a great challenge to the shortfall between pay–outs and expected returns from investments. The industry has to develop advanced skills in this area including the use of modeling techniques;

d. To put in place basic infrastructure before de-tariffied regime is affected. This would include upgrading underwriting skills of the underwriters, using IT systems, ways and means to protect the policy holders, scientific and adequate pricing of covers, etc.

e. For outsourcing purposes managing relationship with external vendor

The author suggested that the industry needs to focus on building their capability and capacity and this will be fulfilled only when the expertise is developed in the areas of underwriting, asset/ liability management, investments, strategic management: Actuarial expertise and IT. It was also suggested that providing insurance to low income households by minimizing transaction cost will be a key challenge before this industry. In an article on the topic entitled "Indian Insurance Industry- Overview" by the Editorial team of Yojana, has presented an overall

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position of Indian insurance industry in the post-liberalization period by analyzing the
parameters like insurance penetration, insurance premium, insurance density,
customer satisfaction and investment in infrastructure and social sector. This article
emphasized that overall this industry witnessed the beneficial effects of competition in
the insurance sector in the post liberalization period. In this period, life insurance is
growing faster as compared to non-life on the one hand and on the other customer
service is one of the important areas that witnessed the most significant change. This
article concluded that, “best international practices in service and operational
efficiency through use of latest technologies, need based selling and professional
advice to the customer through trained sales force and advisors, is bound to make a
significant impact in the Indian insurance industry”.

In a detailed study by Nayak and Dev (2005) on the topic "Low Bargaining Power
of Labour Attracts Foreign Direct Investments to India" has looked into the question
that whether there exists any nexus between the bargaining power of labor and the
flow of Foreign Direct Investments? Because in the present era of economic
liberalization, due to disempowerment of labor-numerical, decline of the organized
workforce, weakening of trade unions and the consequent decline in the bargaining
power of labor have become quite visible. This study suggests that notwithstanding
low and declining capital-output ratio and high labor efficiency as the obvious
determinants of increasing Foreign Direct Investments flow, the Indian scenario
suggests that Foreign Direct Investments flows to the destinations where workers have
a low and declining bargaining power.

In one of the paper namely “Impact of Trade Liberalization on Foreign Direct
Investment in Indian Industries” by Bishwanath and Banga, made an analysis at
“three different levels and the results arrived at different levels indicate that trade
liberalization has had a favourable effect on Foreign Direct Investments flows in
India. It was also found that the regions having greater extent of international trade are
able to attract greater amount of Foreign Direct Investments. They concluded that
although liberalization has led to a substantial increase in intra-industry trade, much of

32 B K Nayak and Surya Dev (2005); “Law Bargaining Power of Labour Attracts FOREIGN DIRECT
33 Goldar, Bishwanath and Banga, Rashmi; “Impact of Trade Liberalization on Foreign Direct Investment
Unescap.org/tid/artnet/pub/wp3607.pdf]
the intra-industry being horizontal in nature in India is not found to have a strong favourable effect on Foreign Direct Investments”.

In one of the study on "Performance Differentials between Indian and Foreign Direct Investments Companies in India: Some Explanations" by Denis (2005)\textsuperscript{34}, it was found that Foreign Direct Investments companies outplayed Indian companies in performance and also that the, differences between the two widened over the years. Using literature on the relationship between conduct and performance, and expected outcome of policy changes – the observed performance differentials were explained in terms of R&D intensity, advertising intensity, vertical integration, salaries and wages intensity, export intensity, and import intensity. It was found that all of them, except import intensity does influence profit margin of Indian companies. However, salaries and wages and export intensity had negative influence. In contrast to this, only advertisement and salaries, and wages intensity were found to negatively influence profit margin of FOREIGN DIRECT INVESTMENT companies and vertical integration had positive influence.

Research paper entitled "Foreign Capital Inflows into India: Determinants and Management" by Soumyen (2006)\textsuperscript{35} gives a broad picture of the issues pertaining to “external capital flows into India during the post-liberalization period. It then delineates the major policy issues arising out of the various concerns. The paper illustrates the differential impact of different types of capital inflows through an extension of standard Mundel-Fleming Analysis. The conclusions are: (1) an increase in Foreign Direct Investments causes currency appreciation and contraction in output and (2) an increase in Foreign Direct Investments may lead to a rise in income if the direct plus indirect (crowding in) effects are strong enough. This contrasts with the Standard Mundell-Fleming model where additional capital inflow is always contractionary because it leads to a fall in net exports through currency appreciation”.

\textsuperscript{34} Rajakumar J, Dennis (2005); “Performance Differentials between Indian and FOREIGN DIRECT INVESTMENT Companies in India: Some Explanations”; Vol. II (2), May, The ICFAI Journal of Industrial Economics, ICFAI Press, pp. 31-45.

\textsuperscript{35} Sikdar, Soumyen (2006); “Foreign Capital Inflows into India: Determinants and Management”; INRM Policy brief No. 4, ADB.
Mathiyazhagan (2005)\textsuperscript{36} is one of research paper namely "Impact of Foreign Direct Investments on Indian Economy: A Sectoral Level Analysis" studied the long-term association of FDI with the Gross Output, Exports and Labour Productivity in different sectors of the Indian economy. The data used in this study ranged from 1990-91 to 2000-01. “The study uses the Panel Co-integration (PCONT) Test and the results demonstrate that the flow of Foreign Direct Investments into the sectors has helped to raise the output labour productivity and export in some sectors but a better role of Foreign Direct Investments at the sectoral level is still expected” “Results also reveal that there is no significant co-integrating relationship among the variables like Foreign Direct Investments, GO' EX and LPR in core sectors of the economy”. “This implies that when there is an increase in the output, export or labour productivity of the sectors it is not due to the advent of Foreign Direct Investments”. “Thus, it was concluded that the advent of Foreign Direct Investments has not helped to yield a positive impact on the Indian economy at the sectoral level”. “Thus, the major suggestion of this Study was that in the eve of India's plan for further opening up of the Economy, it is advisable to open up the export oriented sectors so that a higher growth of the economy could be achieved through the growth of these sectors”.

Niti (2004)\textsuperscript{37} in an edited book on “Foreign Direct Investment” gives an explanatory and analytical study of FDI trends and policies in the world and in India. This study also gives a comprehensive account of the emerging scenario of international trade and investment under the WTO regime , post – liberalization Foreign Direct Investments policy of GOI and its effectiveness in the face of competitions from other Asian countries , to attract financial inflows into India and further evaluates the Foreign Direct Investments Policies of the government pursuade since the beginning of the economic reforms and charts out future course of action to compete with the world to attract Foreign Direct Investments inflows . The main observation of this study is that “the simplification and modernization of laws , rules and regulations , elimination of controls and bans, introduction of modern and professional regulatory systems and other policy reforms result in greater gross domestic investment as well as increasing the flows of Foreign Direct Investments”.

\textsuperscript{36} Mathiyazhagan, Maathai K. (2005); “Impact of FOREIGN DIRECT INVESTMENT on Indian Economy: A Sectoral Level Analysis”; ISAS Working Paper No. 6, November 17, Singapore.
\textsuperscript{37} Sury, Niti (2004); “Foreign Direct Investment”; New Century Publications, New Delhi.
In the Paper “Popular Attitudes, Globalization and Risk”; **Noland (2004)**

has tried to throw light on the issue of popular opposition to globalization. According to the author “this may be interpreted as xenophobia or hostility to market economics and signal country risk including the degree of security risk-the possibility that local staff or facilities could be subject to discriminatory treatment, harassment or attack. This paper integrates the few global attitudes data into a series of economic models on Foreign Direct Investments, sovereign ratings, and local entrepreneurship and finds that some responses correlate with economic variables of interest, conveying information beyond what can be explained through standard models. The paper concluded that more tolerant countries attract more Foreign Direct Investments, obtain better ratings, and exhibit more entrepreneurship”.

**Ivar and Espen (2004)**

in a study on “Determinants of Foreign Direct Investment in Services” used industry level Foreign Direct Investments data from 57 countries 1989-2000, examine the domestic economy variables of Foreign Direct Investments flows in the services sector as a whole. “Consistent with the observation that many Services are non-tradable they found that service Foreign Direct Investments is market-seeking and unaffected by trade openness. Producer services are important in binding together vertically disintegrated chains of production, accordingly they found a strong Correlation between Foreign Direct Investments in manufacturing and Foreign Direct Investments in finance and transport”.

In a study on the "Foreign Direct Investment and Trade in Health Services: A Review of the Literature"; **Richard (2004)** has highlighted the scope of trade in health services with a review of past studies. According to the author, “the Foreign Direct Investments has been noted as perhaps the most critical area for trade negotiation because of the birth of GATS which aims to further liberalize trade in services. This paper provides the first comprehensive and systematic review of evidence concerning Foreign Direct Investments and health services. Further, the following three issues have been explored in depth: (i) the extent to which a national health system is

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40 Smith, Richard D. (2004); “Foreign Direct Investment and Trade in Health Services: A Review of the Literature”, Health Economics, Law and Ethics Group, School of Medicine, Health Policy and Practice, University of East Anglia, Norwich, UK.
commercialized per se is of more significance than whether investment in it is foreign or domestic; (ii) the national regulatory environment and its ‘strength’ will significantly determine the economic and health impact of Foreign Direct Investments, the effectiveness of safeguard measures and the stability of GATS commitments and (iii) any negotiations will depend upon parties having a common understanding of what is being negotiated, and the interpretation of key definitions is thus critical. The overall conclusion of the study was that countries should take a step back and first think through the risks and benefits of commercialization of their health sector rather than being side tracked in to considering the level of foreign investment”.

Ifzal (2003)\(^{41}\) in the Research project on 'Managing Foreign Direct Investments In a Globalizing Economic: Asian Experiences” have taken six developing Asian Country (China, India, the Republic of Korea, Malaysia, Thailand and Vietnam) studies on Foreign Direct Investments preceded by a discussion of recent trends and the policy context for Foreign Direct Investments and a comparative syntheses of the country studies. This project in the form of book compares and contrasts the countries experiences in order to inform policy debate and decision making and to help guide ADB’s operations.

Li and Moshirian (2003)\(^{42}\) in a paper entitled “International Investment in Insurance Services in the US” have identified the determinants of FDI in insurance sector in US. “This study demonstrates that solid economic fundamentals in the host countries are the major factors which attract Foreign Direct Investments in insurance services, while the uncertainty of the international exchange market increases the investment risk and reduces foreign investor’s willingness to invest. The empirical results of this study indicate that NI, the source countries' insurance market size and financial development of the host countries contribute to the expansion of Foreign Direct Investments in insurance services, while the relatively higher wages and higher cost of capital in the host countries discourage Foreign Direct Investments in insurance services. The empirical results also suggest that Foreign Direct Investments in

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insurance services complement Foreign Direct Investments in banking as well as total trade in insurance services”.

Li et.al. (2003) in the article on the theme “The determinants of Intra-Industry Trade (IIT) in Insurance Services”, have analyzed and measured “the magnitude and determinants of IIT in insurance services for the United States. The empirical results of the determinants of IIT indicate that Foreign Direct Investments in insurance services is a significant contributor to the volume of trade in insurance services. These empirical findings confirm the new theoretical trade models that, unlike the traditional trade theory that considered trade and Foreign Direct Investments in insurance services as substitutes, trade and Foreign Direct Investments complement each other and hence multinational insurance companies are contributing to an increase in the volume of trade in insurance services. Furthermore, this study shows that trade intensity between the United States and its trading partners leads to product differentiation in insurance services and hence an increase in consumer welfare”.

Blomstrom and Kokko (2003) in the paper entitled "Human Capital and Inward Foreign Direct Investments" concluded that "there is potential for significant ‘spillover effects’ from Foreign Direct Investments into host countries. They identified some limitations of this potential, however, to do with the stock of human capital, the interest in local firms of promoting skills transfer and the competition environment. They proposed that an analysis of the type of Foreign Direct Investments flowing to different regions and countries could provide clues to the potential for maximizing the gains to local skills accumulation”.

Banga, (2003) in a paper entitled "Impact of Government Policies and Investment Agreements on FDI Inflows”, has analyzed aggregate “Foreign Direct Investments inflows to fifteen developing countries of South, East and South East Asia for the period 1980-81 to 1999-2000”. “Separate analyses are then undertaken for Foreign Direct Investments from developed and developing countries The results based on random effects model show that fiscal incentives do not have any significant impact

43 Donghui Li and Fariborz Moshirian (2003); “International Investment in Insurance Services in the US”; accessed online at http://www.Sciencedirect.com/science
on aggregate Foreign Direct Investments but removal of restrictions attracts aggregate Foreign Direct Investments”. However, “Foreign Direct Investments from developed and developing countries are attracted to different selective policies”. “While lowering of restrictions attract Foreign Direct Investments from developed countries, fiscal incentives and lower tariffs attract FDI from developing countries. Interestingly, BITs, which emphasize non-discriminatory treatment of Foreign Direct Investments, are found to have a significant impact on aggregate Foreign Direct Investments”. “But it is BITs with developed countries rather than developing countries that are found to have a significant impact on Foreign Direct Investments inflows to developing countries”.

Joshi (2003)\(^{46}\) in one of the article namely “Insurance Sector Reforms in India: the Emerging Scenario” has pointed out that the insurance industry in India today has a few enigmatic features. It is very old and yet it is new. Insurance traces its origin in the ancient Aryan period and has reinvented itself in the year 2000. This study also explains that it has awe-inspiring history besides setting itself on a fast track for awesome growth in the first decade of the new millennium. This study further elaborately explained how insurance sector reforms have changed the face of Indian insurance sector, This, article concludes that reforms in insurance sector had a favourable impact on this sector.

Kapoor (2003\(^{47}\)) in the article entitled “Issues and challenges facing the Insurance Industry” remarks that “Indian insurance industry has opened wide opportunities for service and infrastructure sectors. The author stated that the some of the major challenges that have to be addressed for channelizing growth of insurance sector are product innovation, distribution network, investment management, customer service and education. He further pointed out that the competition will result in the market to grow beyond current rates and offer additional consumer choice through the introduction of new products, services and price options. This article further suggests that development of industry code of conduct, contributing to a common catastrophe reserve fund and chalking out agreement to settle claims to the benefit of consumer can be expected with concentrated efforts from all the players. These steps go in the long way for smooth functioning of this industry”.

\(^{46}\) Joshi, N.N. (2003); “Insurance Sector Reforms in India: The Emerging Scenario”

\(^{47}\) Kapoor, T. (2003); “Issues and Challenges Facing the Insurance Industry”
Joshi (2003)\(^{48}\) in an article on, "Changing Mindset of professional Agents in the Emerging Insurance Scenario in India" has concluded that the insurance sector in India is currently passing through a stage of major change with the induction of competition. The industry is at the threshold of a revolutionary change of environment which will have a significant impact on its various constituents like suppliers, sellers, service providers and consumer of insurance products and services. This study suggests that it would be desirable that this revolutionary change process is harnessed effectively to serves sharing benefits of insurance companies and agents together.

Tapen (2002)\(^{49}\) in the Paper “Privatization of the Insurance Market in India: From the British Raj to Monopoly Raj to Swaraj” has given a detailed account of the institution of insurance in India since British period to the insurance liberalization period. According to the author after the independence, the industry was state-owned monopoly and during liberalization process of 1991. “Nothing has happened to the institutional structure of insurance and it remained a monopoly. Only in 1999, a new legislation came into effect signaling a change in the insurance industry structure”. The author suggested that “too many regulations kill the incentive for the new insurers and too relaxed regulations may induce failure and fraud that led to nationalization”. Besides this, he observed that “the openness of the market did not mean a takeover by foreign companies even in a decade”. Thus, according to him, “it is unlikely that the same will happen in India, especially when the foreign insurers cannot have a majority shareholding in any company”.

In the paper on the theme "Foreign Direct Investment and Growth in India: A Cointegration Approach"; Chandana and Paraptap (2002)\(^{50}\) explored the “two-way link between Foreign Direct Investments and growth for India using a structural co-integration model with Vector Error Correction Mechanism. The existence of two co-integrating vectors between GDP Foreign Direct Investments, the unit labour cost and the share of import duty in tax revenue is found, which captures the long run relationship between Foreign Direct Investments and GDP. A parsimonious Vector Error Correction Model (VECM) is then estimated to end the short run dynamics of

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\(^{48}\) Joshi, N.N. (2003); “Insurance Sector Reforms in India: The Emerging Scenario”

\(^{49}\) Sinha, Tapen (2002); “Privatisation of the Insurance Market in India: From the British Raj to Monopoly Raj to Swaraj”; CRIS Discussion Paper Series, Centre for Risk & Insurance Studies, University of Nottingham, UK.

Foreign Direct Investments and growth. Their VECM model reveals three important features: (a) GDP in India is not Granger caused by Foreign Direct Investments; the causality runs more from GDP to Foreign Direct Investments; (b) Trade liberalization policy of the Indian government had some positive short run impact on the Foreign Direct Investments inflows and (c) Foreign Direct Investments tends to lower the unit labour cost suggesting that Foreign Direct Investments in India is labour displacing”.

Qian et al. (2002)\footnote{Sun, Qian, Tong, Wilson, and Yu, Qiao (2002); “Determinants of Foreign Direct Investment Across China”; Journal of International Money and Finance 21, pp. 79-113.} in a research paper entitled “Determinants of Foreign Direct Investment across China” have analyzed the “spatial and temporal variation in Foreign Direct Investments among China’s 30 provinces from 1986 to 1998. After understanding the importance of Foreign Direct Investments factors through time, they found that the cumulative Foreign Direct Investments relative to cumulative domestic investment has a negative impact on the new Foreign Direct Investments”. It was suggested that “provincial officials have to improve the investment environment otherwise MNCs may choose to invest in provinces with fewer Foreign Direct Investments competitors. However, it explains the FDI distribution in the coastal provinces better than it does for Central and Western provinces”.

Louis et al (2001)\footnote{Louis T Wells, Jr and G, Wint Alvin (1990); “Marketing a country : Promotion as a tool for attracting Foreign Investment”; Washington.} in an edited book entitled “Using Tax Incentives to Compete for Foreign Investment: Are They worth The Costs” have thrown the light on the use of various incentives to attract Foreign Direct Investments. This original study suggested that “non-availability of tax incentives have little effect on the flow of Foreign Direct Investments. The governments can safely afford to withdraw incentives unilaterally without fear that this will drive desired foreign investment to other locations. Besides this, they have provided convincing evidence that tax incentives are not at all cost effective”.

Lipson (2001)\footnote{Debra J.Lipson (2001); “GATS and Trade in Health Insurance Services”, Background Note for WHO Commission on Macroeconomics and Health; Working Group, June 4, Geneva, Switzerland.} in a note on “GATS and Trade in Health Insurance Services” provides a “background on the treatment of health insurances services by the GATS of the WTO and explains the relevance of current GATS negotiations for health insurance trade”. It reviews some of the issues addressed in current GATS
negotiations and their potential implications for market access commitments covering health insurance. It concludes by reviewing the opportunities, risks and challenges presented by GATS for national policies and regulation affecting health insurance. Further, this study points out that “the entry of foreign suppliers makes it more urgent for countries to create an effective regulatory framework and build capacity to enforce those regulations, for the health insurance sector. Until such a system is in place, it could be harmful for developing countries to make full binding commitments in the health insurance sub-sector under GATS financial services schedules”.

**Bajpai and Sachs (2000)**54 in the paper entitled "FDI in India: Issues and Problems" have examined the aspects and troubles associated with India's current Foreign Direct Investments system and the other related variables accountable for India's distastefulness as an investment place. “Despite India offering a large domestic market, rule of law, low labor costs, and a well working democracy, her performance in attracting FDI flows has been far from satisfactory. This study observed that a restrictive Foreign Direct Investments regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision-making processes, and a very limited scale of EPZs make India an unattractive investment location”.

**Razin et al. (1999)**55 in the research paper titled on “An Information based on Foreign Direct Investments: The Gains from Trade Revisited” examine “the role of Foreign Direct Investments in the financial markets of the host country”. They argue that “in the absence of a well developed domestic market, in which case domestic savings cannot be efficiently channeled into domestic investment, the Foreign Direct Investments can play a double role”. “It provides a vehicle for reviving the domestic market through which domestic savings can be channeled to finance domestic investment and it supplies foreign savings on top of domestic savings to finance domestic investment”. “The first role is by no means costless; as the equity market is characterized by asymmetric information, it does not always generate the correct signal about the social rates of return on domestic capital”. As a result, Razin et al.

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argue that “there are some welfare losses that offset some or all of the gains stemming from the mere channeling of domestic savings into domestic investment. When a well-developed domestic credit market exists (through which domestic savings can be channeled into domestic investment even in the absence of an equity market) then the first role played by Foreign Direct Investments does not generate any gain”. They concluded that “when Foreign Direct Investments can be levered domestically, the traditional gains from trade associated with the second role of Foreign Direct Investments are severely curtailed”. As a result, “the total net effect of Foreign Direct Investments on the welfare of the domestic economy could well be negative”.

In a paper entitled “Global Foreign Direct Investments: Changed Scenario in the 90s” Badar Alam (1999)\(^5\) tried to examine the trend of global Foreign Direct Investments flow to different regions of the world especially South Asia (India). He illustrated that between 1989 and 1992, Foreign Direct Investments flows to developed world have gone down by more than 50 per cent but Foreign Direct Investments flows to developing world did register a faster rate of growth. The major and most vital factor responsible for this rise in Foreign Direct Investments flows to developing world has been the initiation of economic reforms in different regions.

Mathew (1998)\(^6\) in the book namely "Impact of Foreign Capital on the Indian Economy" has made a detailed investigation into the effect of foreign direct investment on indigenous fiscal structure of the recipient country and the costs and benefits involved in the process.Effects of foreign investment on the volume of domestic product, income, employment, foreign trade and BOP have been also dealt with.

Dunning (1998)\(^7\) in a book entitled “Globalization, Trade and Foreign Direct Investments” analyses the “interface between trade, Foreign Direct Investments flows and the activities of MNC’s, as such is affected by and affects the level and pattern of globalization and in some cases regionalization. Besides this the author examines the impact of globalization on the competitiveness (viewed from the perspective of both

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\(^5\) Iqbal, Badar Alam (1999); “Global Foreign Direct Investments: Changed Scenario in the 90s” Prabandh, April-December.


\(^7\) John, Dunning (1998); “Globalization, Trade, Foreign Direct Investments”; Elsevier Science.

Pant, Manoj (1995); “Foreign Direct Investments in India: The Issues Involved”; Lancer Books.
firms and countries) of a variety of regions and countries ranging from the EU and New Zealand to Taiwan and Ghana. This study also offers rich panoply of scholarly studies like changing role of trade and Foreign Direct Investments in a globalizing economy and how the economies of the nation state and the economic policies of national government are becoming increasingly intertwined with each other”.

Gakhar (1997)\textsuperscript{59} in her research “Motives and Determinants of International Direct Investment in India” found that factors affecting Foreign Direct Investments inflow are differ from sector to sector so specific policies must be required for specific sectors. She also felt that the need for strong intellectual property rights and liberal labour exit policy to attract Foreign Direct Investments in R&D. A need was also felt that more transparency in Foreign Direct Investments policy must be there for infrastructure development.

Manoj (1995)\textsuperscript{60} in a book on “Foreign Direct Investments in India: The Issues Involved” gives some definition of Foreign Direct Investments, a brief overview of the changing pattern of Foreign Direct Investments (particularly in the 80s and 90s), India's foreign investment policy, policy on foreign collaborations followed during 80s, comparative assessment of foreign and domestically owned firms operating in India. Also, the issue of the relative export orientation of foreign and domestically owned firms is dealt with the main recommendation was that as India liberalizes its policies to compete with other Asian countries, it must look at the policies, these countries followed to see what it can and cannot do to encourage Foreign Direct Investments.

Ramesh (1994)\textsuperscript{61} in a book entitled “Foreign Investment Technology Transfer in Developing Countries” has tried to look at two important issues facing developing countries. Firstly, how to attract foreign investment and how to benefit from it? The study suggests that the understanding of motives and determinants of foreign investment, solving foreign investor’s problems and keeping the foreign investment policy clear and open, may help promote foreign investment in developing countries.

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\textsuperscript{60} Pant, Manoj (1995); “Foreign Direct Investments in India: The Issues Involved”; Lancer Books.

\textsuperscript{61} C, Chitrakar, Ramesh (2004); “Foreign Investment and technology transfer in Developing countries” Avebury Ashgate Publications.
Sahoo and Wadhwa, (1993)⁶² in the book titled "Foreign Investment Law and Policy in Select Developing Countries" covering twenty developing countries, contains information on different aspects of foreign investment law and policy including types of foreign investment, foreign exchange regulations, technology transfer, investment facilities, authority for approval of foreign Investment and Approval procedures, areas offering opportunities for foreign investment and technology transfer, contact points etc.

Wells etal. (1990)⁶³ in a book namely “Marketing a Country: Promotion as a Tool for Attracting Foreign Investment “discusses the investment promotion function and provides a rationale for successful promotion especially in developing countries. The authors conclude that image building, investor servicing and investment generation are still important. Also, it is proved that investment promotion has statistically significant influence on foreign investment flows.

In a book entitled "Foreign Investment, Transnationals and Developing Countries" Lall and Streeten (1977)⁶⁴ examined in detail the ability of Foreign Direct Investments to “perform the function of providing capital for at least three reasons. First, direct investment is relatively expensive source of foreign capital”. “Second, the actual capital inflow provided by the MNC may not be very large Foreign Direct Investments may be financed by borrowing in the host country). Indeed, MNCs can, through their market power, raise cheap funds and crowd but other socially desirable activities in the host country”. “Third, the capital contribution of the MNC may take the form of machinery or capitalized intangibles, such as know-how and goodwill. For these reasons, Foreign Direct Investments provides little and expensive capital”.

Colin and Miao⁶⁵ in an edited book entitled "Risk and Foreign Direct Investment" elaborately discussed the risk (as being major determinant) in the Foreign Direct Investments and the various approaches to the incorporation of such risk, such as the Capital Assets Pricing Model (CAPM) and the real options approach. The study has

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⁶⁵ White, Colin and Fan, Miao; “Risk and Foreign Direct Investment”.

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clearly identified that the statistics for Foreign Direct Investments and the estimates of the country risk shows a clear relationship. Given the range and the level of risk types, the study further identified that there is considerable home country bias in the investment worldwide.

**Justification of the Study**

As it is clear from the review and analysis of past studies that a number of studies have looked at the trends and impacts of FDI in Indian economy. However, many of the studies till now have been undertaken to examine the impact of economic reforms on FDI attractiveness and FDI inflows in India yet there is a dearth of literature especially dealing with the inflow of FDI in all its manifestations and the forms in the Indian insurance sector. The present study has made an attempt to analyse the pattern, potential drivers and implications of FDI in the Indian insurance sector. Moreover, this study has presented a theoretical model to increase the equity cap from the present 49 per cent to 60 per cent or above which is the need of the present market conditions. Therefore, it is in this perspective that the need of this study is felt.

**Objectives of the Study**

The present study is designed to accomplish the following objectives in relation to the topic of our research:

(i) To analyse the efforts of Government of India in connection with Foreign Direct Investment.

(ii) To study and assess (country-wise and year-wise) various aspects pertaining to the performance of FDI in India.

(iii) To appraise the plight of flows of FDI in the insurance sector after the promulgation of IRDA.

(iv) To analyse future prospects of FDI in Indian insurance sector and to critically evaluate the repercussions of increasing the level of FDI from present permissible limit of 49 per cent.
Research Methodology

In order to accomplish these objectives, an attempt has been made in the present study to analyze the growth pattern of FDI in India taking Indian Insurance Sector as the major case study. In this context, the following methodology has been used in the present research work:

(i) **Period of Study**

For the purpose of analyzing different determinants and parameters of FDI in insurance sector in India, data on FDI in insurance sector was taken from April 2000 to March 2012, as FDI was allowed only in the year 2000 in this sector.

(ii) **Sources of Information**

For the present research work the statistical data was collected mainly from the secondary sources. Secondary sources include published and unpublished data collected from different organizations, institutes, agencies and government offices. Reputed journals were also used for collecting relevant information.

(iii) **Statistical Tools and Techniques**

In the light of the objectives of our study, different explanatory and analytical statistical techniques were used to analyze the data relating to our study. For the interpretation of data various statistical tools were used according to the requirement and suitability of study.