Introduction

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. Coupled with other factors of production and technology, investment determines the levels and growth of industrial development through changes in production and consumption of goods and services. Other things being the same, it has been well established that less investment leads to lower economic growth with attendant consequences such as reduction in income, consumption and employment. Further, foreign investment has been found effective in reducing domestic savings gap. Hence, notwithstanding, the domestic savings gap, economic growth can be augmented in an open economy with the inflow of foreign investment. While foreign capital consists - private foreign capital and public foreign capital. Public foreign capital is otherwise known as foreign aid while as private foreign capital consists of either foreign direct investment or indirect foreign investment. Further, indirect foreign investment is otherwise termed as portfolio investment. Foreign portfolio investment is an investment in the share and debt securities of companies abroad in the secondary market nearly for sake of returns and not in the interests of the management of a company. In case of foreign direct investment (FDI), the private foreign investor either sets up a branch or a subsidiary in the recipient country. The private foreign investors exercise almost complete control over the assets created by them in the developing countries in which private foreign capital has been invested. In the liberalized environment as economies 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. Traditionally, the various source of capital for developing countries were either the demand for their output by industrial countries or foreign aid, or loan from foreign banks. In today’s scenario, where official development assistance flows are steadily declining, high bank interest rates, and portfolio investment involve risks. Foreign direct investment is considered to be a major source of funds which may contribute in increasing the economic growth rate of the developing countries. MNCs account for 2/3rd of the world trade in services and goods. Recently the governments’ liberal and open policy reform in foreign direct investment (FDI) aims to integrate the Indian economy to this world economy. Foreign direct investment (FDI) helps to over take the problem of low capital, low growth rate untapped natural and human resources, high rate of inflation, unemployment, balance of payment and other structural and administrative rigidities. Its ability to deal with the major obstacles namely shortages of financial resources and technology and skills, has made the centre of attention for developing countries. It is the reason most of the countries especially developing countries like India are battling for attracting more and more foreign direct investment (FDI).

Review of Literature

Many studies have been conducted on the issue of foreign direct investment. In fact, the area of FDI offers such a large scope that scholars may attempt to investigate various new issues. Hence, in every study one finds a different approach and different aspects which were not covered by the earlier studies. In the present study both primary and as well as
secondary data have been used for analyzing the foreign direct investment and industrial development in India. There is still a large scope of research in this area. A review of a few important and relevant studies in this area has been made in the study.

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

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

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

The study of Nawal Kisor (2003) expressed that FDI has helped in accelerating the economic growth of many countries. According to the study, the importance of FDI is more in case of developing countries, which require capital, technology and better management for faster economic growth. A very recent study on "impact of foreign direct investment on Indian economy since economic liberalization" by Mohd. Firoz Alam (2005) reveals that the FDI is an important avenue through which investment takes place in a country, the importance of FDI exceeds beyond the financial capital that flows into the country.

According to Nagesh Kumar (2000), the expansion in the magnitude of FDI inflows during 1990s is not due to reforms alone. It reflects, in part, the dramatic expansion in the global FDI flows to developing countries from about $35 billion per year on average during 1987-92 to $166 billion in 1998. Majority foreign ownership, which was restricted to certain exceptional cases during the 1970s and 1980s because of regulations, is becoming more popular again. As noted by Nagesh Kumar, majority of approvals in the 1990s have been in the range of 50-100 percent foreign ownership range with a third accounted for by wholly foreign owned subsidiaries. A number of multinational corporations (MNCs) have taken advantage of the new rules to increase their stake in the existing affiliates in the country. The importance of joint venture mode of operations has declined with liberalization. Moreover, many MNCs are opting the route of acquisition of existing enterprises to enter Indian markets.
C.P. Chandrasekhar and Jayati Ghosh (2002) pointed out that an important objective of promoting FDI has been to promote efficiency in production and increase export-imports. However, any increase in the equity stake of the foreign investors in existing joint ventures or purchase of a share of equity then in domestic firms would not automatically change the orientation of the firm. That is, “The aim of such FDI investors would be to benefit from the profit earned in the Indian Market”. As a result, in such cases FDI inflows need not be accompanied by any substantial increase in exports, whether such investment leads to the modernization of domestic capacity or not.

M.R. Narayana (2004) in his article "Inflows of Foreign Direct Investment into Karnataka”, this study presents an economic analysis of patterns, performance and implications of foreign direct investment into Karnataka State since 1991 with special reference to building credible databases, offering special policy support, developing indicators of competitive performance and deriving implications for regional or economic growth, export and globalization. These analyses and implications are of relevance and applicability for design of FDI promotion policy by other states in Indian federation. At the same time, Karnataka's experiences serve as benchmarks for comparative studies on FDI among states in India and sub-national units elsewhere in other developing countries. R. Nagaraj (2003) in his article "Foreign Direct Investment in India in the 1990’s, Trends and Issues'. This paper documents the trends in foreign direct investment in India in the 1990’s, and compares them with those in China. Nothing the data limitations, the study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy.

**Justification of the Study**

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 availability of capital is scarce in many countries due to low rate of domestic savings, hence the importance of foreign investment is ever rising. On the basis of review of literature it is revealed that FDI have strong impact on industrial development. Various studies show that flows of FDI is more beneficial especially for developing countries like India. However, there are very few researches studying the impact of FDI on industrial development in India. The existing studies are also limited only to study the micro-impact of FDI on various sectors. Most of the literature is available in the form of research papers. Therefore, this particular study needs more attention especially at macro level, so that results may be generalized in the
national context. Added to this, this particular topic is quite new and explores growth opportunities. So this study seems to be very relevant in the present context.

Objectives of the Study
1. To examine the policy framework of India in relation to foreign direct investment.
2. To analyse the trends and patterns of foreign direct investment in India and to assess the present position of FDI in India.
3. To study the impact of FDI on Gross Domestic Product, Balance of Payment, Gross Fixed Capital Formation, Export, Forex Reserve among various sectors in India.
4. To study the challenges faced by Indian industries to attract more FDI.
5. To suggest the strategies to attract more FDI in India based on the findings of the research.

Hypotheses of the Study
Null Hypotheses
1. $H_0$ It is hypothesized that there is no significant difference in routes of FDI.
2. $H_0$ It is hypothesized that there is no relationship between FDI and exports.
3. $H_0$ It is hypothesized that there is no relationship between FDI and forex reserves.
4. $H_0$ It is hypothesized that there is no relationship between FDI and balance of payment position in India.

Alternative Hypotheses
1. $H_1$ It is hypothesized that there is significant difference in routes of FDI.
2. $H_1$ It is hypothesized that there is relationship between FDI and exports.
3. $H_1$ It is hypothesized that there is relationship between FDI and forex reserves.
4. $H_1$ It is hypothesized that there is relationship between FDI and balance of payment position in India.

Research Methodology
Research methodology is the systematic method / process dealing with enunciation of identifying problem formulating hypothesis, collecting of facts of data analysing these data and reaching at certain conclusion either in the form of their forwards the problem concerned or certain generalization for some theoretical formulation. It is also comprised of a number of alternative approaches and interrelated and frequently overlapping procedures and practices. Since there are many aspect of research methodology, the line of action has to be chosen from a variety of alternatives. The choice of suitable method can be arrived at through the assessment of objectives and hypotheses; and comparison of various alternatives. Research methodology used in the present study is as under:
The present research is mainly of quantitative nature, as most of findings of the present study are based on quantified measures. However, the researcher also manipulates the causality and consequences which also represents a sign of qualitative research. In the light of purpose of research, the present study is mainly of applied nature as the researcher has tried to test the assumptions and applications of the problem in a given set of conditions. Further, the survey method has been adopted by selecting and studying sample chosen from the population (Indian companies) to test the hypotheses and discover the relevant incidence, distribution and interrelation of variables.
Research Design
In the present study, mainly exploratory research design has been adopted as the main purpose of this study is to gain familiarity with the various aspects of foreign direct investment and industrial development in India and to achieve new insights into it. Further the study formulates more precise research problem by developing hypotheses. Since the scope of the study is very vast, the present study also represents some characteristics of descriptive research design.

Sample Design
Sample size means the number of sampling units selected from the population for the purpose of investigation. No doubt, sample size must be sufficiently large so that we can have a representative sample. A multistage sampling have been designed for this purpose. Three cities of India i.e. Delhi, Noida and Gurgaon have been selected for the present study. These are the regions where most of the multinational companies are working and these regions represent the whole country for the purpose of studying the impact of FDI on industrial development of India. A sample of eight companies of each region has been taken as sample for the study. These companies have been taken from each region making the number of companies to 24 in all. A sample of three persons belonging to top level management of the company have been taken. These persons have been taken from each company in all the three regions, making the number of respondents to 72 in all. The whole procedure of sample design is given below in table.

<table>
<thead>
<tr>
<th>Cities</th>
<th>Companies</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delhi</td>
<td>8</td>
<td>24 (8x3)</td>
</tr>
<tr>
<td>Noida</td>
<td>8</td>
<td>24 (8x3)</td>
</tr>
<tr>
<td>Gurgaon</td>
<td>8</td>
<td>24 (8x3)</td>
</tr>
<tr>
<td>Total</td>
<td>24</td>
<td>72</td>
</tr>
</tbody>
</table>

Data Collection
In research process, the result will be good if the data put in is good. If poor and unrelated data is collected, naturally poor and misleading conclusions will be drawn. Therefore, due consideration should be given to the type and method of data collection. There are two types of data: Primary data and Secondary Data. Since the scope of the study is really very vast, both types of data have been collected. Primary data has been collected through the well-structured questionnaire (Appendix II).

Well-structured questionnaires were prepared for the purpose to collect the necessary information. The questionnaires were prepared for the purpose to collect the necessary information. The questionnaires were prepared in the two phases. In the first phase, unstructured in-depth interviews were conducted to create initial questionnaires. Further, expert opinions on the questionnaire were collected and improvements were made to the questionnaires. This necessitated some changes in the final version of the questionnaire. In the second phase, a pilot survey was also conducted with 2 companies to evaluate how well the questionnaire was understood and also to test alternatives wordings of questions, alternative response options and determining whether some other responses should be provided. During the interview process-some weaknesses in the design were also found.
Some of the respondents had reservations about some questions in the initial questionnaire, due to the sensitive nature of topic addressed. The survey also helped the researcher in rewarding and restructuring the questionnaire. The validation of the questionnaires was done by the feedback received from the academicians, practitioners and by the issues identified by relevant literature. Finally, the structured questionnaires were prepared and the survey was conducted by explaining the purpose of the research to the respondents. The questionnaire has been divided into two sections. The content of questionnaire included the challenges, type of infrastructure, critical factors, related to FDI. Some strategical questions were also asked in the questionnaire to suggest the possible suggestions to attract more FDI. The questionnaire mentioned above, contain several type of questions keeping in view the objectives of the present study. Easily understandable and answerable questions were prepared and were carried to the respondents to be filled up by them. In most of cases, personal interviews were conducted by the researcher to secure correct and collect necessary information. In the present study analysis is also based on the secondary data, which have been collected from various journals, books, magazines, reports, working paper series. For this purpose, the prime sources of secondary data include SIA Newsletter, DIPP, GOI, UNCTAD World Investment Reports, Human Development Reports, Reserve Bank of India, Bulletins, FICCI Survey, CMIE etc. Internet has also remained as an important source of secondary data.

**Data Processing and Analysis**

For analyzing the data, both simple and advanced statistical tools have been used. In some cases simple statistics like average, percentage, CAGR and mean score have been applied. Exploratory research, require some advanced tools; therefore to test the various hypothesis of the study, ANOVA, non-parametric statistical tests based on Chi-square have been used. The test was conducted at 95 percent confidence level (or 5 percent level of significance). The calculated chi-square values were compared with the table values of chi-square at a given degree of freedom. A five point Likert scale was also used to measure the intensity of the managers attitudes towards the selected attributes. The respondents were asked to rate the variables, using five point Likert scale, which ranged from strongly agree to strongly disagree. The weighted average score were also calculated at the appropriate places where the respondents were asked to rank/rate different statements, either according to degree of their importance or according to the extent they agree with the statement as may be. Likert scale is qualitative in nature. A scoring system was adopted to quantify them. Score of 5.4.3.2 and 1 were allotted to (1) to (5) respectively.

**Period of the Study**

The amount of work is always limited by shortage of time and resources in must of the research works. The period of last 18 year from 1991-1992 to 2008-2009 and latest is taken for the present study.

**Scope and Limitation of the Study**

The present study being a fact finding research, aims at finding out the inflows of FDI in India from various countries; state, industry wise analysis as to point out those sectors which attract high share of FDI and ultimately to ascertain whether the industrial development in India is being influenced by the inflows of FDI or not. Since the topic itself is a contemporarily relevant, the findings of this study assume greater significance.
Despite the scope of the present study is very vast; still the researcher has no claim to say that the present research work in complete is every sense and results are accurate and original. The reason, that every researcher (especially in social science) has to conduct the study under certain limitations and collect the data based on certain assumptions. The present study is not an exception. The present study has also been conducted under certain limitations and is based on same assumptions. Some of the most important are given as under:

- Since the scope of the study in this particular field is really very vast and collected data provides huge information; therefore the researcher may reveal some other interesting results. But, the researcher has limited the result of present study according to objectives and hypothesis of the study. However, the researcher tried to include all the necessary information for justifying the result of the study.
- The size of present study is relatively small to generalize the results in Indian context. But time and financial factors did not allow the researcher to select very large sample size.
- The result of the study is based on the opinions and experiences of the respondents. In opinions surveys there is always possibilities of individuals biasness in opinions and results look unreliable. This biasness could not be eliminated.
- The present study is based only on the inflows of FDI. It totally ignores the outflows of FDI.

Conclusions and Suggestions
In academic field the research is an ongoing process that knows no limits and no full stops. However, a single study is always in conclusive with its findings. Even than the main findings emerging out of the present study have been listed in this chapter.

FDI Policy overview: An appraisal of the FDI Policy frameworks in India dealing with FDI inflows could be studied in four phases.

Phase I: India lacked a policy of its own on foreign capital before independence because it derived its faith in total laissez faire from the British government. Resultantly, foreign enterprises found it convenient to export products to India and were justified by local circumstances to setup branches or wholly owned subsidiaries. This phase is “cautions welcome policy” from independence to the emergence of crisis in the late sixties (1948-66).

Phase II: In this phase, under the new industrial licensing policy announced in 1970, the larger industrial houses and foreign enterprises were permitted to setup industries in the ‘core’ and the heavy investment sectors except industries reserved for the public sector. It is called ‘Selective and Restrictive Policy’ from 1967 till the second oil crises in 1979.

Phase III: In this phase, liberalized facilities were extended to overseas companies, partnership firms, trusts societies and other corporate bodies in which at least 60 percent of the ownership / beneficial interest were vested in non-resident individuals of Indian nationality or origin. NRIs were allowed to invest (i) upto 100 percent of the equity capital in sick industrial units. (ii) In new issues of Indian shipping companies under the 40 percent scheme and (iii) In diagnostic centres in India, under 40 percent or 74 percent scheme. It is “Partial liberalization policy” from 1980 to 1990 with progressive attenuation of regulations.
Phase IV: In this phase FDI is allowed almost in all areas, except multibrand retailing sector, gambling, lottery. It is “Liberalization and open door policy” since 1991 onwards signifying liberal investment environment. Liberalization of FDI policy has been responsible for a changing sectoral composition of FDI stock and inflow in India.

FDI and Total Foreign Investment
The percentage share of direct foreign investments inflow is found to be more than 27 percent of total foreign investment throughout the study period, except the year 1994 and 1995. The total foreign direct investment of US $129 million in 1992 to inflow of US $35168 million in 2009 is a long journey of 18 years representing a whopping increase of 272.62 times. In 1997 inflow of FDI increased by 21 times touching the figure of US $2821 million, just within its existence of six years, representing 46 percent of total foreign investment of this year. In the year 2000 FDI inflow declined to US $2155 millions due to slow FDI inflow in India. Within a period of next six years its FDI reached the figure of US $5035 million in the year 2003 which was nearly seven times increase. After this, inflow of FDI increased year after year except the year 2004, touching the figure of US $22826 million in the year 2007 representing 76.52 percent of its total foreign investment. During the period of five (1999 to 2004) years inflows of FDI started declining, fluctuating, in different years and ultimately touching the low amount of US $2135 million representing the 41.59 percent of its total foreign investment. From the year 2005, inflow of FDI again started increasing and touched the figure of US $35168 million in 2009. The CAGR of FDI is 36.56 percent. In the case of foreign investment the CAGR is 32.58 percent. In 2005 government announced the SEZ Act, SEZs scheme was launched with the specific intend of providing an internationally competitive and hassle free environment for exports. SEZs are being increasingly perceived as a major source of attracting FDI across the globe. In the year 1999 and 2009 inflow of FDI has been increased to the level of US $2462 million and US $35168 million and its percentage is 102.54 and 165.00 of total foreign investment respectively. In these years indirect foreign investment has moved in negative direction because the total foreign investment was found less than foreign direct investment.

Analysis of Approved and Actual Inflow of FDI
Analysis of approvals and actual inflows discloses that the approvals of foreign investment increased from US $ 527 millions in 1992 to US $ 19791 millions in 2009. These have increased significantly from 1993 onwards, the second year of economic reforms and reached to US $ 1976 million, which amounts for 274.95 percent increase over 1992. They aggregated to a total of US $ 148350 million during the study period. Compound average growth rate of approvals is found 22.32 percent during the above said period. A close observation of actual inflows of Foreign Direct Investment reveals that they increased from US $ 129 million in the year 1992 to US $ 35168 million in the year 2009. Cumulative inflows during this period amounted to Rs. 142383 millions. Compound average growth rate of actual inflows is found 36.56 percent in the above said period.

However, by comparing the actual inflows of FDI to that of the approved amount, we find that, there is a significant increase in the ratio at 24.48 percent in the year 1992 due to implementation of reforms in foreign investment. A notable feature is that the inflows as percentage of total approvals has declined in the subsequent year i.e. 1993. Further, an interesting aspect is that, there was an increasing trend in the ratio of inflows to approvals
from the year 1997, which is found at 193.99 percent in 2002. As the coverage of FDI revised by the government during 2001 on par with the international best practices by including re-investment earnings and other capital flows. 305.50 and 319.50 percentage of approved FDI was realized in 2003 and 2004. Similarly a steep increase in the ratio at 177.70 percentage of actual inflows of approvals was observed during the study period. This is significant, for after a steady rise for three consecutive years up to 2003, the actual inflow of FDI had declined in 2004. The reversal of the trend now will not only raise industrial investment, but will also indicate a revival of the confidence of foreign investors in Indian industry. Thus, the aggregated actual FDI inflows were 95.98 percent of FDI approvals during the period under study.

The analysis correlation coefficient between the selected variables i.e. FDI approvals and actual inflows is 0.83 indicates positive high significant correlation and its coefficient of determination is 0.69 which indicates that the independent variable (FDI approvals) shall influence the dependent variable (FDI actual inflows) to the extent of 69 percent. Since the coefficient of correlation is found more than six times of probable error, so it can be regarded as significant.

**Route wise Analysis of FDI**

The amount of Foreign Direct Investment in India has been approved by various routes such as Government route (FIPB/SIA) RBI automatic route and other routes. It is observed that US $ 108065 millions of total foreign direct investment was received through all the three routes during the period from 1992 to 2009 under review. Out of the total amount, RBI accounted for US $49419 millions, forming 45.7 percent of total investment claiming a giant share. The Government route (FIPB/SIA) and other route accounted for 25.3 percent and 29 percent respectively. However, the share of FIPB route in total investment is 51.2 percent in 1992, leaving 48.8 percent to other route. At the overall level, RBI automatic route is found contributing the maximum share of 45.7 percent to the total FDI inflows followed with a gap by government’s FIPB route (25.30 percent) and other route (29.00 percent). Hence RBI’s automatic route is the most popular route during the study period.

**State wise Analysis of FDI**

A close examination of the state wise inflows of FDI reveals that the Mumbai region has attracted largest amount of foreign direct investment of US $ 30700.4 million that is the 36 percent of the total foreign direct investment flows during the period 2000-09. New Delhi region has attracted the total of US $ 12716.9 million which is 15 percent of the total foreign direct investment inflows during the same period. Bangalore region and Ahmedabad region have received foreign direct investment of US $ 5867.9 million and US $ 5624.8 million which are the 7 percent and 7 percent of the total inflows of foreign direct investment during the study period.

The key sectors attracting FDI to the Mumbai-Maharashtra region are energy, transportation services, telecommunications and electrical equipment. Delhi attracts FDI inflows in sectors like telecommunications, transportation, electrical equipment and services. The states of Uttar Pradesh and Haryana have also performed really well in recent years due to their abundance of natural resources. Uttar Pradesh attracts FDI in chemical, pharmaceuticals and minerals whereas Haryana attracts FDI in the electrical equipment, transportation and food processing sectors. Tamil Nadu has done well in sectors related to automotive and auto components. Andhra Pradesh and Karnataka have
attracted FDI mainly in areas associated with software and to a lesser extent, hardware for computer and telecommunication.

**Sectoral Analysis of FDI**

The services sector has attracted largest amount of foreign direct investment which has increased from US $1361.02 million to US $19173.76 million during the study phase. In the entire period of 1992-2009 this sector has attracted the foreign direct investment of US $20534.78 million that equal 19.42 percent of the total foreign direct investment flows. It is followed by computer software and hardware sector whose share has been increased from US $2799.34 million to US $8953.83 million during the same period. This sector has attracted the total of US $11753.17 million which is the 11.12 percent of the total foreign direct investment flows. The telecommunication sector has received foreign direct investment of US $7827.50 million which is the 7.40 percent of the total flows of foreign direct investment. While sector wise, this growth rate in services sector, computer software, telecommunication, construction activities, housing real estates, automobile industry, power, chemicals, metallurgical industries and drugs and pharmaceuticals turns out to be 14.08, 3.20, 4.48, 2.71, 4.90, 1.57, 1.98, 1.79, 9.84 and 5.43 times respectively during the study period.

**Country wise analysis of FDI**

The analysis of country wise inflows of FDI in India during 1992 to 2009 adds to a total amount of US $105.73 billion received from various countries. Among all the countries Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US $40 billions in India between 1992 to 2009 or over two fifth approximately of total FDI inflows during this period. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. To take advantage of that situation, many companies have set up dummy companies in Mauritius before investing in India. The United States of America (USA) is the second largest investor in India. The total capital flows from USA was around US $8 billion, which accounted for 8.24 percent of the FDI inflows. Singapore and United Kingdom are India’s third and fourth largest FDI inflows. Netherland, Japan, Germany, Cyprus, France, and Switzerland keep the fifth, sixth, seventh, eight, ninth and tenth positions with share figures of 3.97, 3.13, 2.64, 2.62, 1.43 and 1.33 percent respectively.

**India’s Position in Asian Country in Relation to FDI**

Inflows of FDI in Asian countries, in this region, in aggregate accounted for US $24354 million in 1992 and figure escalated to US $ 130473 million in 2000. The Asian countries experienced 20.50 percent compound average growth rate during this period of nine years. The highest growth of FDI inflows with CAGR of 46.03 percent is found in case of Hongkong. South Korea and India both have also experienced a significant growth of FDI inflows 32.71 percent and 30.92 percent CAGR during this period. Negative growth has been detected in case of Malaysia and Pakistan i.e. -3.42 percent and -1.04 percent. Average percent share in total FDI inflows to Asian countries has been detected highest i.e. 52.55 percent in case of China. Hongkong, Singapore and India hold the second, third and seventh position respectively during the above said period. This region in aggregate accounted for US $91902 million in 2001 and the amount escalated to US $300594 million in 2009. These Asian countries experienced 14.07 percent CAGR during the period of 2001 to 2009. Pakistan is found having highest growth of FDI inflows with CAGR of the order of 39.84 percent. Malaysia and India both have also experienced
significant growth of the order of 36.40 percent and 30.06 percent respectively. China has been found with 11.34 percent CAGR during this period. Least growth has been detected in case of Philippines i.e. 3.95 percent. Average percent share in total FDI inflows to Asian countries has been detected highest i.e. 47.22 percent in case of China. Hongkong, Singapore and India hold the second, third and fourth position respectively during the above said period.

**FDI and Industrial Development Indicators**

**FDI and GFCF**

The correlation results disclose that the correlation (r) between FDI and trade sector is found to be as high as .95 and its co-efficient of determination ($r^2$) is .90, which represents a positive high significant correlation and the dependent variable (i.e. GFCF of trade, hotels, transport and communication sector) shall be expected to have influenced to the extent of 90 percent in response to the change in the independent variable (i.e. FDI). Correlation co-efficient between FDI and manufacturing, electricity, gas and water supply, construction sectors found at .43 with $r^2$ of .18, also positive low significant correlation and the independent variable (FDI) shall influence the dependent variable (i.e. GFCF of manufacturing, electricity, gas and water supply construction factor) to the extent of 18 percent. Correlation between FDI and other sector being .87, .79 and .91 respectively in case of agriculture and allied activities sector, financing, insurance and business services sector and its co-efficient of determination ($r^2$) are .76, .62 and .83 respectively which represents a positive high significant correlation and the dependent variable (i.e. GFCF of agriculture and allied sector; financing, insurance, business activities and community and social, personal services sector) shall be expected to have influenced to the extent of 76, 82 and 83 percent in response to the change in the independent variable (i.e. FDI). Since the co-efficient of correlation is found more than six times of probable error except the manufacturing sector, so it can be regarded as significant.

**FDI and GDP by the Industry**

The correlation result of FDI and share of GDP by the industry discloses that the correlation (r) between FDI and manufacturing, electricity, gas and water supply construction sector is found to be as high as .93 and its co-efficient determination ($r^2$) is .86, which represents a positive high significant correlation and the dependent variable (FDI) shall influence the dependent variable (i.e. GDP of manufacturing, electricity gas and water supply, construction sector) to the extent of 86 percent. Correlation co-efficient between FDI and trade, hotels, transport and communication sector is found at .92 with $r^2$ of .85, also positive high significant. Correlation co-efficient between FDI and financial, insurance, real estate and business services sector is .90 indicates positive high significant correlation and its co-efficient of determination is .81, which indicates that the dependent variable (i.e. GDP of financing, insurance, real estate and business service sector) shall be expected to have influenced to the extent of 81 percent in response to the change in the independent variable (i.e. FDI). Whereas, correlation between FDI and other sector being .88, .89 and .90 respectively in case of agriculture and allied activities sector, mining and quarrying sector, and community, social and personal services sector and its co-efficient of determination ($r^2$) are .77, .79 and .81 respectively, which represents a positive high significant correlation and the dependent variable (i.e. GDP of agriculture and allied sector, mining and quarrying sector and community, social and personal service sector)
shall be expected to have influenced to the extent of 77, 79, 81 percent in response to the change in the independent variable (i.e. FDI). Since the co-efficient of correlation is found more than six times of probable error, so it can be regarded as significant.

**FDI And Foreign Exchange Reserve**

The Foreign Exchange Reserves have been increasing gradually on par with hike in Foreign Direct Investment inflows in India during 1992 to 2009. As Foreign Direct Investment is the major sources of accretion to Forex Reserves, Government of India has been liberalizing its policy regime with regard to foreign investment. correlation co-efficient between the selected variable i.e. FDI and Forex Reserve is .93 indicates positive high significant correlation and its co-efficient of determination \( r^2 \) is .86 which indicates that the independent variable (FDI) shall influence the dependent variable (Forex Reserve) to the extent of 86 percent. Since the coefficient of correlation is found more than six times of probable error, so it can be regarded as significant.

The calculated value (ANOVA) between the two variables (i.e. FDI and Forex Reserve) 17.36 is greater than the table value 4.45 at 5 percent level of significance. Hence, the \( H_0 \) hypothesis is rejected and \( H_1 \) is accepted, it means there is a significant relationship between FDI and Forex Reserves. The calculated value within the years 1.59 is less than the table value 2.22 at 5 percent level of significance. Therefore, the \( H_0 \) hypothesis is accepted and \( H_1 \) is rejected. It means there is no \( H_0 \) significant relationship within years.

**FDI and Export**

The impact of foreign direct investment on the Export performance of Indian industry has been significant to analyse, as the various policy pronouncements of the Government in recent years are based on the belief that FDI helps in technological upgradation of the industrial sector and resolving foreign exchange contribution to increased Exports apart from bringing in net resources, inflows on the capital account of the Balance of Payments. The result shows that the correlation co-efficient between the selected variables i.e. FDI and exports is .96 indicates positive high significant correlation and its co-efficient of determination \( r^2 \) is .92 which indicates that the independent variable (FDI) shall influence the dependent variable (export) to the extent of 92 percent. Since the co-efficient of correlation is found more than six times of probable error, so it can be regarded as significant.

The calculated value (ANOVA) between FDI and export 33.67 is greater than the table value 4.45 at 5 percent level of significance. Therefore the \( H_0 \) hypothesis is rejected and \( H_1 \) is accepted. It means there is a highly significant relationship between Foreign Direct Investment and Export. The calculated value (ANOVA) within the years 2.35 is greater than the table 2.22 at 5 percent level of significance. Hence, the \( H_0 \) hypothesis is rejected and \( H_1 \) is accepted. It means there is a significant relationship within years.

**FDI and BOP**

FDI’s effect on a country’s Balance of Payments Account is an important policy issue for most of the host governments. The result shows correlation co-efficient between the selected variable i.e. FDI and BOP is .45 indicates low positive low significant correlation and its co-efficient of determination \( r^2 \) is .20 which indicates that the independent variable (FDI) shall influence the dependent variable (BOP) to the extent of 20 percent.
The calculated value (ANOVA) between the two variables (i.e. FDI and BOP) (2) is less than the table value (4.45) at 5 percent level of significance. Hence, the $H_0$ hypothesis is accepted, it means that there is no significant relationship between FDI and BOP. The calculated value (ANOVA) within the years 2.65 is greater than the table value 2.22 at 5 percent level of significance. Therefore, the $(H_0)$ hypothesis is rejected and $H_1$ is accepted. It means there is a significant relationship within the years.

**Challenges faced by company in attracting FDI**

Out of total 72 respondents 45 have been identified in this category. From the ranking of the mean score fourteen parameters could be identified in this category. Control / ownership decision of management and lack of physical infrastructure have been identified most important factors which are responsible for challenges. Next important parameter which ranked at number 3 is lack of secured national resources in India. Next important parameters identified according to rank wise are: lack of industrial environment, policy of government is not liberal / easy for foreign investors, Indian trade policy regime is not encouraging, Indian products are not globally competitive, internal disturbances / instable social system, investment incentives are not emerging for foreign investors, stringent industrial laws, lack of stability in political scenario, less / no scope of technology absorption, no possibilities of market expansion in India, high cost of production.

**Critical factors for attracting FDI**

Out of total sample of 72, all the respondents have been identified in this category. From the ranking of the mean score in the table seven parameters have been identified for attracting FDI. Skilled labour and India’s image are identified as most important factors which are responsible for attracting FDI. Next important parameter which ranked at number 3 is labour laws. Next important factors identified according to rank wise are: political stability, infrastructure, economic reforms, and business climate.

**Infrastructure available in India**

Out of total sample of 72, all the respondents have been identified in this category. From the ranking of the mean score in the table seven parameters have been identified for infrastructure available in India. Among the various parameters, telecommunication and insurance services are identified most important factors. Next important parameters identified according to rank wise are banking services, transportation and port, power, water.

**Suggestions given by respondents for attracting more FDI**

As per the suggestions offered by the respondents with regard to attracting more FDI. From the ranking of the mean score in the table five suggestions have been identified for attracting more FDI. Stemming the tide of corruption in public life and good corporate governance are identified most important factors for attracting more FDI. Next two important suggestions which ranked at number 3 and 4 are to make the product globally competitive and the government should introduce reforms in public administration to cut short bureaucratic delays and to improve efficiency. Remaining two suggestions which ranked at number 5 and 6 are to reduce the rate of inflation, further liberalization of its FDI policy to increase the share of FDI inflows in the global context. It is also found that further liberalization of its FDI policy to increase the share of FDI inflows in the global context is least important suggestion for attracting FDI, whereas stemming the tide of corruption in public life is found most important suggestion for attracting more FDI.
Other Suggestions
The following suggestions have been placed for consideration on the basis of the present study.

- Foreign investors are given national treatment at the time of initial investment or after the investments are made. However, in certain consumer goods industries export obligations and local context requirements are imposed on foreign investors. So, there is need to address this type of issues also.
- According to some of the foreign companies operating in India the deluge of corruption lies in the lack of transparency in the rules of governance, extremely cumbersome official procedures and excessive and unregulated discretionary power in the hands of politicians and bureaucrats. Clusters have developed however, in areas such as in the New Delhi, suburb of Gurgaon, where the business climate is relatively free of corruption, officials of foreign businesses say that local political and bureaucratic machinery, leave them generally alone.
- India should have her focus immediately on the infrastructure of airports, telecommunications, ports and roads in selected areas to make the country more attractive to foreign investors. In fact, in contrast to China, Indian governments have been concentrating more on link roads or local route in rural areas in place of highways, airports and railways joining various states and business centres in India. So, it is high time to have a change in focus.
- Sectoral FDI caps should be reduced to the minimum and entry barriers eliminated. Also, the special economic zones should be developed as the most competitive destination for export related FDI in the world.
- Initiate the perception-changing and image-building exercises as well as concrete and tangible steps towards further reforms. To achieve this objective all wings of government have to be made responsible and accountable for increasing private investment in general and FDI in particular. Aggressive marketing strategy focused on changing the investors attitude towards India is the need of the hour.
- Simplification of tariff and taxation structure, focusing on the potential markets and sectors, decentralization of authority to states and their active involvement, monitoring regularly the activities of foreign affiliates to avoid excessive reliance on outside advice and to formulate policies on one's own experience are the other items making the agenda of reforms unfinished.
- Income-tax rates on foreign company's income are higher than the rates on the domestic company. Therefore, the tax rate shall be same on domestic company and foreign company.
- It is suggested that a policy targeting export-oriented FDI or high technology FDI may be very favourable for the country's BOP rather than one attempting to maximize the magnitude of FDI irrespective of its composition. And to accelerate India's exports, on sustainable basis, the focus has to be centered around "Technology based exports".
- Indo-Mauritius double taxation avoidance treaty, which provides for Mauritius residents to pay capital gains only in Mauritius has been a major factor behind the increasing inflow of foreign investment into India. Actually, a part from the double tax avoidance treaties the recent move by the Mauritius government, permitting Mauritius-based offshore funds to allocate their capital between
various cells should also lead to a sharp spurt in investments into the country through Mauritius. Thus, double tax avoidance treaties have improved the investment climate favourable for foreign investors in general. To what extent they have influenced the inflow of FDI, is uncertain.

**Further scope of the study**

In this study some issues are analyzed briefly which can be explored in detail for future research. In addition, there are various dimensions of foreign investment reforms in which a new research study can be initiated. Some of the future research areas are as follows:

- Study of Foreign Institutional Investors- their role in the economic development;
- Impact of Foreign Portfolio Investment on the Industrial performance;
- Foreign Currency Reserves position in India (with special reference to FDI);
- Balance of payments position in India (with special reference to FDI).
- Foreign direct investment and growth of manufacturing sector an empirical study in post reforms India.
- Study of foreign direct investment in an emerging market economy.