Introduction

Investment, or creation of capital, is an important determinant of economic growth. In general, investment may lead to creation of physical capital (e.g. creation of physical goods, such as machines and equipment), financial capital (e.g. creation of equity capital) and human capital (e.g. creation of health, education and research and development activities). In combination with other factors of production (e.g. labour and land) and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Investment consists of foreign investment and domestic investment. Domestic investment may lead to creation of domestic savings. Domestic savings gap arise when domestic savings fall short of domestic investment. 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 inflows 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 livings 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, the importance of foreign investment is ever rising. The multinational corporation is a suitable device to integrate the world economy. The growth of foreign investment is directly associated with the growth of multinational corporations.

Need for Foreign Investment:
If backward and underdeveloped countries are interested in rapid economic development, they will have to import machinery, technical know-how, entrepreneurship, and foreign investment. One of the methods of paying for the imports is to set up exports or second alternative is getting foreign technology and equipment and it also depends upon foreign
assistance in some forms or the other. Most countries of the world which embarked on the road to economic development, had to depend on foreign capital to some extent. The fact cannot be denied that the foreign capital contributed in many important ways to the process of economic growth and industrialization. The need for foreign capital for a developing country like India can arise on account of the following reasons:

(a) Domestic capital is inadequate for purposes of economic growth and it is necessary to invite foreign capital.

(b) Since the underdeveloped countries want to industrialize themselves within a short period of time, it becomes necessary to raise the level of investment substantially. This requires, in turn, a high level of savings. However, because of general poverty of masses, the savings are often very low. Hence, emerges a resource gap between investment and savings. This gap has to be filled up through foreign capital.

(c) The underdeveloped countries are technologically far behind as compared to the advanced countries. This raises the necessity for importing technology from the developed countries. Such technology usually comes with foreign capital when it assumes the form of private foreign investment or foreign collaboration.

(d) Foreign capital brings with it other scarce productive factors, such as technical know-how, business knowledge, which are equally essential for economic development.

(e) The underdeveloped countries need much larger imports than the exports in the initial phase of economic development in the balance of payments position. As a result, the balance of payments generally turns adverse. This creates a gap between the earnings and expenditure of foreign exchange.

Foreign capital presents a short-term solution to the problem.

Supporters of private foreign investment argue that, the foreign investment brings with it new technology, better management and organization, superior marketing and sometimes cheaper finance. The arguments in favour of private foreign investment are the following:

(a) Foreign investment constitutes a net addition to investible resources in host countries and as such raises their rates of growth;
(b) Foreign investment results in a pattern of growth which is desirable from the point of view of underdeveloped countries since new products are introduced and marketed, new tastes are created and specific needs of the host country are met; and

(c) Free flow of capital is conducive for the welfare of both the individual country and the world at large. The operations of foreign firms, especially of modern multinational firms, knit countries together and closer into the web of international commerce, both by (vertical and horizontal) economic integration and by the transmission of tastes, designs, ideas and technology.3

**Concept of Foreign Investment / Capital**

Foreign capital consists of private foreign capital and public foreign capital. Public foreign capital is otherwise known as foreign aid whereas private foreign capital consists of either foreign direct investment or indirect foreign investment. Foreign investments involve transfer of financial resources such as, technology and other skills from one country to another. Foreign investment not only brings in capital, but also carries with it managerial ability, technical knowledge, technical personnel, innovations in products and production techniques and hence the development of infrastructure and demand creation and in turn additional domestic investment. Broadly there are two types of foreign investments namely Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

Foreign investments may be classified as follow:

```
Foreign Investment

Foreign Direct Investment

Foreign Portfolio Investment
```

**Foreign Direct Investment:** Foreign Direct Investment happens in a foreign country where the investor retains control over the investment. It typically takes the form of
sharing a subsidiary, acquiring a stake in an existing firm or starting a joint venture in the foreign country. Direct investment and management of the firm concerned normally go together.

**Foreign 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. Foreign portfolio investments in the economy tend to develop capital market. Portfolio investment when flows in primary market, provides direct finance to domestic companies without having controlling interest. When this investment is made in the secondary market, it raises the prices of equity thus, declining the cost of raising capital thereby encouraging news equity issues. Portfolio investment increases the liquidity in the stock market. Since, portfolio investment represents short-term inflow of capital therefore, it creates volatility in stock as well as in the foreign exchange markets. Recent years, the portfolio investment has been encouraged to attract more capital flows in the economy. In India mainly there are three routes for such investments:

(i) Foreign Institutional Investors (FIIs) like mutual funds.

(ii) Global Depository Receipts (GDRs).

(iii) Foreign Currency Convertible Bonds (FCCBs).

GDRs and FCCBs are investments issued by Indian companies in the European markets for mobilizing foreign capital by facilitating portfolio investment by foreigners in Indian securities.

**Table 1.1: Showing Inflow of Foreign Investment in India during 1992-2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>FDI $ million</th>
<th>FPI $ million</th>
<th>Total $ million</th>
</tr>
</thead>
<tbody>
<tr>
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<td>129</td>
<td>4</td>
<td>133</td>
</tr>
<tr>
<td>1993</td>
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</tr>
<tr>
<td>2001</td>
<td>4029</td>
<td>2760</td>
<td>6789</td>
</tr>
</tbody>
</table>
Diagram 1.1: Showing Inflow of Foreign Direct Investment and Portfolio Investment in India during 1992-2011
Conceptual Framework of Foreign Direct Investment

Foreign Direct Investment (FDI) is an investment involving a long term relationship and reflects a lasting interest and control of a resident entity in one economy on an enterprise resident in an economy other than that of the foreign direct investor. Individuals as well as business entities may undertake FDI. Such investments involve both the initial transaction between the two entities and all subsequent transactions between them and among foreign affiliated. FDI flows comprise equity and non equity forms of investment. The equity capital flows comprises of the foreign direct investor's purchase of shares of an enterprise and also include the foreign direct investor's share in reinvested earnings. Besides, the equity form of FDI also includes short or long term in intra-company loans and debt transactions between foreign direct investor and the affiliates. The non equity forms of FDI include investments through such activities as sub contracting, management contracts, turnkey arrangements, franchising and licensing and products sharing.

Foreign Direct Investment involves the ownership and control of a foreign company in a foreign country. In exchange for the ownership, the investing country usually transfers some of its financial, technical, managerial trademark and other resources to the recipient country. The international transfer of funds need not be prerequisite for this exchange. The Government of India (GOI), in March 2003 revised the FDI definition in line with international practices. The revised FDI data now includes 'equity capital' including that of unincorporated entities, non-cash acquisition against technology transfer, plant and machinery, goodwill, business development, control premium, and non competition fees. It also includes, 're-invested earnings' including that of incorporated entities, unincorporated entities and reinvested earnings of indirectly held direct investment enterprises.

Besides, 'other capital' including short term and long term, inter-corporate borrowings, trade-credit, supplier credit, borrowings, financial leasing, financial derivatives, debt securities, and land and buildings are factored in. FDI is seen as a mean to supplement domestic investment for achieving a higher level of economic growth and development. FDI offer benefits to domestic industry as well as to the consumer by providing opportunities for technological upgradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making industry
internationally competitive, opening up export, market, providing backward and forward linkages and access to international quality goods and services.

Foreign investment and technology play an important role in the economic development of a nation. The economic health of the transition countries in Eastern Europe, Russia and Central Asia is well off due to these inputs. Even the communist countries like China have welcomed the foreign investment to make their economies better. Most of the advanced countries of today developed due to the foreign investment, which played a vital role in making them high income countries. Economic growth is proportional to the capital formation. Less developed countries having less income and low saving have not been able to take their economies to take-off stage. Hence, domestic resources are supplemented with foreign investment to make the development plan work for better and healthier economy.

Foreign investment gives the facility of imports of capital goods, raw materials and technical knowledge for the growth of an economy. If investment is made in export-oriented industries, it promotes exports of host countries and facilitates imports to a large extent. If it is in cost reducing industries, customers get cheaper products which results in general increase in the real incomes of the people. The investments, if used, for structural development leads to the development and growth of all other kinds of industries. Besides giving a general boost to the industrial development, increased FDI leaves favourable impact on the balance of payment position of a country.

International Financial Markets have got a higher degree of strength in liberalization. Globalization has opened the doors, almost all over the world, for utilizing international financial flows, which have been outpacing the flow of goods and services among trading countries. Developing countries are the recipients of funds from the international markets and it results in timely availability of external finance in the required amount for their development.

World Investment Report, 1995 prepared by United National Conference on Trade and Development (UNCTAD) and published by UN, New York and Geneva is based on annual review of the trends in FDI in various places. It shows that international investment by transnational corporations supersedes trade and is the best mechanism for
international business integration. It has become major engine in growth of the global economics.
Flow of foreign investment started in India in 1980. Government of India (GOI) released the policy in respect of Oil Exporting Developing Countries (OECD) with a good package of following exemptions:
1. Countries can invest upto 40 percent in equity of new ventures without linking to technology transfer.
2. Non-resident Indians (NRIs) investments were allowed in Indian Industrial Units under defined conciliations.

Considerable interest is now being shown in measures that might promote FDI and allow it to make a greater contribution to the development of the recipient countries. In determining the flow of foreign capital, controls exercised by the host country over the conditions of entry of foreign capital, regulations of the operation of foreign capital and restrictions on the remittance of profits and the repatriation of capital are far more decisive.
The central problem now is for the receipt country to devise policies which will succeed in both encouraging a greater inflow of FDI and ensuring that it makes the maximum contribution feasible towards the achievement of the country's development objectives. The task of development requires both more effective government activity and more investment on the part of international private enterprises. Foreign Direct Investors must be aware of the developmental objectives and the priorities of the host country and understand how their investments fit into the countries development strategy. The contribution of FDI has to be interpreted in terms beyond private profit. At the same-time, the government must realize that if risks are too high or the return on investment is too low, international direct investment will be inhibited from making any contribution at all. Development planning requires the government to influence the performance of FDI, but in doing this, the government should appreciate fully the potential contribution of this investment and should devise policies that will meet the mutual interests of foreign direct investors and host country. This calls for most intensive analysis of the consequences of FDI and far more thought and ingenuity in devising approaches that favour the
mobilization of FDI while ensuring its most effective “Planned Performance” in terms of the country’s development programme.

Foreign direct investment involves transfer of financial resources such as technology and other skills from one country to another. Foreign Direct Investment (FDI) contributes directly and indirectly in building national capabilities. FDI is considered the best complement to domestic investment to bridge the gap between the investment needs of the country and its savings. FDI has long term and substantial developmental impact on the country’s economy. FDI helps transfer and upgrade technology, improves skills and managerial capabilities, provides comparative edge to country’s exports; improves efficiency and quality of services and goods; and helps create additional jobs. Foreign Direct Investment (FDI) is the outcome of the mutual interests of multinational firms and host countries. FDI is generally defined as a form of long-term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of a foreign firm.

According to the International Monetary Fund, FDI is defined as “Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor’s purpose is being to have an effective voice in the management of the enterprise.” It should not be confused with portfolio investment, which does not seek management control, but is motivated by profit. Portfolio investment occurs when individual investors invest, mostly through stockbrokers, in stocks of foreign companies, in foreign companies and in foreign land in search of profit opportunities.

The essence of Foreign Direct Investment is the transmission to the host country of a package of capital, managerial skill and technical knowledge. It is an investment made to acquire a lasting interest in foreign enterprise with the purpose of having an effective voice in its management. FDI may take the form of purchase of securities in a foreign corporation existing or formed, for the purpose of squeezing all the rent, in a Ricardian sense, out of a given advantage, often one technology, sometimes in the capacity of a vertically integrated company, stretching across national boundaries, to coordinate separate stage of production and distribution more efficiently than the automatic competitive market can.
Foreign Direct Investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity of one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate).\(^5\) Foreign Direct Investment implies that the investor exerts a significant degree of influence on the management of the enterprise resident in the other economy. Such investment involves both the initial transactions between the two entities and all subsequent transactions between them and among foreign affiliates, both incorporated and unincorporated. Individuals as well as business entities may undertake Foreign Direct Investment.

Foreign Direct Investment inflows and outflows comprises of capital provided (either directly or through other related enterprises) by a foreign direct investor to a FDI enterprise, or capital received from a FDI enterprise from a capital provided by a foreign direct investor. Flows of FDI comprise capital provided by a foreign direct investor, to an FDI enterprise, or capital received from an FDI enterprise by a foreign direct investor.

United Nations Conference on Trade and Development (UNCTAD)’s World Investment Report\(^6\) defined Foreign Direct Investment (FDI) as “International investment that reflects the objective of a resident entity in one economy (Foreign Direct Investor or Parent Enterprise) obtaining a ‘Lasting Interest’ and control in an enterprise resident in an economy other than that of the foreign direct investor. ‘Lasting Interest’ implies the existence of a long-term relationship between a direct investor and the enterprise and a significant degree of influence on the management of the enterprise.

According to IMF guidelines, FDI is defined as ‘a source of capital funds from host country’s point of view as it need not necessarily imply immediate addition to plant and machinery or stock’\(^7\).

Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy\(^8\) and are usually preferred over other forms of external finance because, they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology.\(^9\)
Characteristics of FDI
The following are the positive characteristics of Foreign Direct Investment (FDI):

(1) Foreign investment can fill the gap between desired investment and locally mobilized savings. Local capital markets are often not well developed. Thus, they cannot meet the capital requirements for large investment projects. Besides, access to the hard currency, needed to purchase investment goods not available locally, can be difficult. FDI solves both these problems at once, as it is a direct source of external capital. It can fill desired foreign exchange requirements and those derived from net export earnings.

(2) Foreign investment can supply a package of needed resources such as management experience, entrepreneurial abilities, organizational and technological skills. Foreign investment brings with it technological knowledge, while transferring machinery and equipment to developing countries. Production units in developing countries use outdated equipment and techniques that can reduce the productivity of workers and lead to the production of goods of a lower standard. The ability of domestic producers to compete abroad for export markets are reduced which, in turn, contributes to the difficulties of the developing countries to earn hard currencies. FDI can solve this problem because investment goods generally embody advanced technology.

(3) Foreign investment can create employment in the modern sectors of developing countries.

(4) It can benefit consumers in Low-Developed Countries (LDCs) through lower prices / improved quality of goods and new products.

(5) Foreign investment can stimulate domestic investment through forward and backward linkages. For example, output of a foreign firm can be an input of domestic industries. Similarly, output of the domestic industries can be inputs for the foreign firms. If this is so, foreign firms create demand for industries producing goods needed by them.
Some of the negative characteristics are:

- Foreign investment contributed to under development of India by concentrating on the production and export of raw materials and foodstuffs.
- It went into sectors, which catered to foreign markets and not Indians home market.
- The multiplier effects in terms of income, employment, capital; technical knowledge and growth of external economies of these investments were largely exported back to developed countries.

**Classification of Foreign Direct Investment:**

Foreign Direct Investment (FDI) has been classified in a following manner:

- **Green field investment** is an investment in the equity capital of a company abroad for the sake of the management of the company or investment abroad through opening of the branches.
- **Merger and acquisitions** are either out-right purchase of a running company abroad or an amalgamation with a running foreign company.
- **Brown field investment** is used to denote a combination of green field investment and merger and acquisitions. It is found in case of a firm acquisition that it completely replaces the plant and equipment, labour and product line.
Corporate Forms of FDI

Generally, MNCs are carriers of FDI which make investment keeping in view a large number of factors related to the home and host country business environment as well as their own long own mission and business interests. FDI acquires different corporate forms depending upon the foreign shareholding. If the entire capital is owned or invested by the foreign company, then its affiliate is either a branch or a fully-owned subsidiary. The difference between the two forms of organization is that the former is incorporated under and subject to the laws of the host country only.

The affiliate with majority foreign holding is predominantly controlled by the foreign parent. The extent of foreign control tends to weaken as the foreign equity share declines. There are, however, a large number of exceptions to this general statement. Affiliates with critical inputs (like technology and foreign market information) from parent but, with much lower foreign equity holding are also often observed to have dominant foreign control.

Corporate forms of foreign direct investment in India according to the extent of foreign shareholding.

<table>
<thead>
<tr>
<th>Extent of Foreign Shareholding</th>
<th>Corporate Form of FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>Fully owned subsidiary</td>
</tr>
<tr>
<td>&gt; 50% but &lt; 100%</td>
<td>Subsidiary or majority foreign owned</td>
</tr>
<tr>
<td>50%</td>
<td>Co-owned company</td>
</tr>
<tr>
<td>&gt; 25% but &lt; 50%</td>
<td>Minority foreign owned company</td>
</tr>
</tbody>
</table>

Vertical and Horizontal Aspects of FDI

The types of FDI can be categorized as vertical v/s horizontal based on the production function activities. Caves (1982) described a horizontal FDI as establishing factory facilities in different countries in order to make same or similar goods while he referred to a vertical FDI as establishing plants abroad in order to produce output that (services) serves as an input to its other parent or subsidiary plants.

Furthermore, vertical FDI projects can be divided into two types based on the flow of interrelated production process functions, i.e. downstream vs upstream integration. In the case of downstream vertical integration, a foreign subsidiary performs an assembly
function by using inputs supplied by the parent firm or other sister subsidiaries. On the contrary in the case of upstream vertical integration (companies specialization), the role of a foreign subsidiary is to produce inputs and to supply them to the parent or other sister subsidiaries.

**Resource-Seeking and Market-Seeking FDI**

Two major types of FDI are typically differentiated: (i) resource seeking FDI and (ii) market-seeking FDI.

Resource-seeking FDI is motivated by the availability of natural resource in host countries. This type of FDI was historically important and remains a relevant source of FDI for various developing countries. However, on a world-wide scale, the relative importance of resource seeking FDI has declined significantly. The share of the primary sector in outward FDI of major home-countries was below 5 percent in the first half of the nineties.

Marketing-seeking FDI is rather difficult to assess. It is almost impossible to tell whether this type of FDI has already become less important due to economic globalization. Regarding the history of FDI in developing countries, various empirical studies have shown that the size and growth of host country markets were among the most important FDI determinants. It is debatable, however, whether this is still true with ongoing globalization.

**Components of Foreign Direct Investment (FDI)**

There are three components of FDI, namely, equity capital, reinvested earnings and intra-company loans.

1. Equity capital is the foreign direct investor’s purchase of shares of an enterprise in a country other than his own country.

2. Reinvested earnings comprise the direct investor’s share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliated or earnings, not remitted to the direct investor such retained profits by affiliates are re-invested.
Intra-company loans or intra-company debt transactions refer to short or long term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

Table 1.2: Showing the Component Wise FDI during 1992-2011

(US $ million)

<table>
<thead>
<tr>
<th>Years</th>
<th>Equity</th>
<th>Reinvestment earnings</th>
<th>Other capital</th>
<th>Total</th>
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<td>27024</td>
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Factors affecting Foreign Investment

There are following important factors affecting foreign investment.

**Rate of interest:** One of the most important stimuli to foreign capital movements is the difference in the rate of interest prevailing at different places. Other things i.e. interest rates or foreign exchange rates being equal, capital has a tendency to move from a country with a low rate of interest to a country where it is higher.

**Speculation:** Short-term capital movements may be influenced by speculation pertaining to anticipated changes in the interest rates of foreign exchange trade.

**Profitability:** Private foreign capital movement is influenced by the profit motive. Hence, other things being equal, private capital will be attracted to countries where the return on investment is comparatively higher.

**Costs of production:** Private capital movements are encouraged by lower costs of production in foreign countries. E. Kreinin\(^1\) "points out we may distinguish between two types of cost reducing investment. The first arises from the need to obtain raw materials from abroad. Such materials may be either unavailable at home or obtainable only at extremely high costs, but they are essential for the production and sale of final products at home or abroad. Without them profit opportunities would remain unexplored. Indeed, vast investments in the extractive industries are motivated by the fact that the capital must go where the resources are, the second type of cost-reducing investment pertains to costs of commodities other than materials, primarily labour.

**Economic conditions:** Economic conditions, particularly the market potential and infrastructural facilities, influence private foreign investment. The size of the population and the income level of a country have an important bearing on the market opportunities.

**Government policies:** Government policies, particularly towards foreign investment, foreign collaboration, remittances, profits, taxation, foreign exchange control, tariffs and monetary, fiscal and other incentives, are important factors that may influence foreign investment in a country.

**Political factors:** Political factors like political stability, nature of important political parties and relations with other countries also influence capital movements.
The United Nations commission for Asia and the far East has drawn up the following list of conditions that have to be met if foreign capital is to be attracted to underdeveloped countries

- Political stability and freedom from external aggression.
- Security of life and property.
- Reasonable opportunities for earning profit.
- Prompt payment of fair and transferable compensation in case of nationalization of a foreign owned enterprise.
- Guarantee of the possibility of remittance of profits, dividends and interest as well as of a reasonable depreciation allowance on the capital invested.
- Facilities for immigration and employment of foreign technical and administrative personnel.
- A system of taxation that does not impose a crushing burdens on private enterprise.
- Freedom from double taxation.
- Non-discriminatory treatment of foreigners in the administration of existing controls.
- Absence of competition between state-owned enterprises and private foreign capital.
- A general spirit of friendliness toward foreign investors.

**Routes for Foreign Direct Investment (FDI) Flow**

FDI can be approved either through the automatic route or by the government route.

1. **Automatic route**

   Companies proposing foreign investment under the automatic route do not require any government approval, provided the proposed foreign equity is within the specified ceiling and the requisite documents are filed with the Reserve Bank of India (RBI) within 30 days of receipt of funds. The automatic route encompasses all proposals.
(a) Where the foreign investment in the equity capital of the Indian company is up to 50/51/74/100 percent as the case may be as applicable to the list of high priority industries, and

(b) Where the proposed items of manufacture / activity do not require an industrial license and is not reserved for the small scale sector.

The above is also applicable for existing companies wishing to raise foreign equity up to 50/51/74/100 percent, as the case may be. If the equity is proposed as part of an expansion programme, the expansion programme must be in the high priority industries. When the increase in equity is not proposed for purposes of an expansion, the company must be pre-dominantly engaged in the high priority industries.

The automatic route for FDI and / or technology collaboration would not be available to those who have on hand any previous joint venture on technology transfer / trademark agreement in the same or allied field in India.

2. Government approval:

For the following categories, government approval for FDI through the FIPB would be necessary:

(a) proposals attracting compulsory licensing.

(b) items of manufacture reserved for the small-scale sector.

(c) acquisition of existing shares.

(d) foreign investment proposals where the parameters for automatic approval are not met and the company has to notify the same to SIA (Secretarial for Industrial Assistance) within 30 days of receipt of funds and also regarding allotment of shares.

(e) in case of infusion of foreign equity by a company without changing the percentage of equity that has already been approved by the government and where the original project cost was up to Rs. 600 crore, no prior approval of FIPB / Government is required. The company has to notify the same to SIA within 30 days of receipt of funds and also regarding allotment of shares.
Regulatory Framework of FDI in India

1. Foreign Investment Promotion Board (FIPB)

FIPB is a high-powered board operating under the Ministry of Industry, which is specially empowered to engage in purposive negotiation and also consider approvals in totality free from predetermined parameters on procedures.

The reconstituted FIPB comprises of:

(i) Secretary, Department of Economic Affairs, Chairman.
(ii) Secretary, Department of Industrial Policy and Promotion, Member.
(iii) Secretary, Department of Commerce, Member.
(iv) Secretary (Economic Relations), Ministry of External Affairs, Member.

The Board would be able to co-opt Secretaries and other top officials of financial institutions, banks and professional experts of industry and commerce, as and when necessary.

The consideration that are normally taken into account by FIPB while granting approvals are:

- The extent of capital needed for the project,
- The nature and quality of technology,
- The requirements of marketing and management skills, and
- The commitment for exports.

As per the guidelines recently announced by the Government, FIPB may consider proposals for 100 percent foreign equity based on the following criteria:

- Where only holding operations are involved and all subsequent downstream investments to be carried out would require prior approval from the government,
- Where proprietary technology is sought to be protected or sophisticated technology is proposed to be brought in,
- Where at least 50 percent of the production is exported,
- Proposals for consultancy,
- Where the foreign investor is unable to find a joint venture partner, 100 percent may be granted on a temporary basis provided the foreign investor divests at least 26 percent equity stake to India parties within a period of 3 to 5 years,
• Where in the case of an existing joint venture, the Indian partner is unable to raise resources for expansion / technological upgradation of the existing industrial activity,

• Proposals for power, roads, ports and industrial parks or estates.

In particular, where FIPB clearance is needed, approval time has been confined to 30 days.

Foreign owned Indian holding companies were hitherto required to obtain prior approval of the FIPB for downstream investment. They have now been permitted to make such investments within permissible equity limits through the automatic route provided such holding companies bring in the requisite funds from abroad. Also, the need to obtain prior approval of the FIPB for increasing foreign equity within already approval limits has been dispensed with in all cases where the original project cost was up to Rs. 600 crore.

The approach of FIPB is liberal for all sectors and all types of proposals. The totality of package proposed is examined and approval on merits within a period of thirty days. RBI has granted general permission under Foreign Exchange Regulation Act (FERA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. Such companies are, however, required to notify the regional office concerned of the RBI of receipt of inward remittances within 30 days of such receipt and to file the required document with the concerned regional offices of the RBI within 30 days after issue of shares to the foreign investors.

2. Foreign Investment Implementation Authority (FIIA)

The Union Budget, 1999-2000 announced the establishment of a Foreign Investment Implementation Authority within the Ministry of Industry, and it was established on August 9, 1999 to facilitate quick implementation of FDI approvals and assist foreign investors in getting necessary approvals. Its major functions are to rationalize and simplify approval and implementation procedures of foreign investment proposals. It also ensures that the approvals for foreign investments (including NRI investments) are quickly translated into actual investment inflows and those proposals fructify into projects.
Fast Track Committees have been setup in 30 Ministries / Departments for regular review of FDI mega projects (with proposed investment of Rs. 1 billion and above) and resolution of any difficulties in consultation with the concerned Ministries / State Governments. Unresolved issue are brought before FIJA.*

3. **Foreign Investment Promotional Council (FIPC):**

The government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry. It has been setup to have more target oriented approach towards foreign direct investment promotion. Its functions are to identify the sector / project within the country requiring foreign direct investment and target specific regions / countries of the world from where FDI will be brought through.

4. **Insurance Regulatory and Development Act (IRDA):**

An Insurance Regulatory and Development Act (IRDA) was passed by the parliament in December 1999. The Act seeks to promote private sector participation in the Insurance Sector and permits foreign equity stake in domestic private insurance companies up to maximum of 26 percent of the total paid-up capital.

In February 2000, Government took a major decision to place all items under the automatic route for FDI / NRI / OCB investment except for a small negative list, which includes the following:

(i) items requiring industrial licence under the Industries (Development and Regulation) Act, 1951;

(ii) foreign investment being more than 24 percent in the equity capital of units manufacturing items reserved for small scale industries;

(iii) all items requiring industrial licence in terms of the locational policy notified under the New Industrial Policy of 1991;

(iv) proposals having previous venture / tie-up in India with foreign collaborator;

(v) proposals relating to acquisition of shares in existing Indian company by foreign / NRI / OCB investor;

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* Details of the Fast Tract Committees set up in various Ministries / Departments are available at the website: http://dipp.nic.in
proposals falling outside notified sectoral policy / caps or under sectors in which FDI is not permitted and applications chosen to be submitted through FIPB rather than automatic route by the investors.

This is an important step to dispense with case-by-case approval procedure and to impact greater transparency in the process of foreign investment.

5. Department of Industrial Policy and Promotion Committee Report:

In an attempt to bring the reporting system of FDI in India in alignment with international best practices, the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GoI), in consultation with RBI, constituted a committee in May 2002. The committee comprises of officials from RBI and DIPP to study the issue.

The committee studied the relevant conceptual and methodological issues and identified the data gaps involved, in order to make necessary recommendations for strengthening the collection, compilation and reporting of FDI data and submitted its report in October 2002 and recommended that:

- The FDI statistics should include, besides equity capital, reinvested earnings (retained earnings of FDI companies) and other direct capital (inter-corporate debt transactions between related entities) in accordance with the international best practices; and
- The steps are taken jointly by RBI and DIPP to expand the coverage of FDI statistics in India.

As a follow-up action to the submission of FDI compilation report, a Technical Monitoring Group (TMG) with representatives from RBI, DIPP, Department of Economic Affairs (DEA), Department of Company Affairs (DCA), and National Informatics Centre (NIC) was constituted by DIPP in November 2002. The main objective of TMG is speedy implementation of the recommendations made by the above committee.

6. Investment Commission:

The Cabinet Committee on Economic Affairs (CCEA) approved the proposal for the creation of an Investment Commission on 27th October 2004. The Prime Minister, Dr. Man Mohan Singh decided that it would be located in the Finance Ministry and would
enjoy operational autonomy and Government support. As originally proposed in the Union Budget by the Finance Minister P. Chidambaram, the Commission will comprise one Chairperson, two members and three professional groups and will initially have a three year term.

While suggesting the creation of the Commission, the Finance Minister stated that it would solicit both foreign and domestic investments and act as a facilitation group between the potential investor and the official machinery. Specific problems faced by the investors would be brought to the notice of the Government for speedy resolution so that investments in India rise significantly.

The commission will also make recommendations to the Government on policy and procedures to facilitate greater foreign direct investment (FDI) flows into India and all policy recommendations emerging from its recommendations will be brought before the CCEA for approval.

**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\(^{12}\) (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\(^{13}\) (2000), analyzed economic impact of FDI in South Asian countries: India, Pakistan, Bangladesh, Sri Lanka and Nepal and found that FDI inflows in South Asia
were associated with a manifold increase in the investment by national investors, 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, mildly 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.

Bailliu\textsuperscript{14} (2000) analyzed the impact of private capital inflows, financial development and economic growth in 40 developing countries during 1975-95 and found that capital inflows initiates higher economic growth, above any beyond and effects on the investment rate, but only for economics where the banking sector has reached a certain level of development.

Lipsey\textsuperscript{15} (2001) allows us to infer that the effect of FDI on growth is positive, but reduced, and depends strongly on the interaction with the level of schooling in the host country.

Soto\textsuperscript{16} (2000) working with panel data for developing countries for the 1986-97 period, concluded that FDI contributes, positively to the growth, the accumulation of capital and the transfer of technology.

Wang\textsuperscript{17} (2001) examined the impact of FDI inflows on 12 Asian economies: Bangladesh, China, Hong Kong, India, Indonesia, Korea, Malaysia, Pakistan, Philippines, Singapore, Thailand and Taiwan during the period 1987-97 and found that FDI in manufacturing sector has a significant and positive impact on economic growth in the host economies.

Nair Reichert and Weinhold\textsuperscript{18} (2001) in their study concluded that the relation between investments, whether foreign or domestic, and product growth was strongly heterogeneous, and that FDI efficiency was positively influenced by a country’s degree of trade openness.

Pradhan Jaya Prakash\textsuperscript{19} (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 research paper of Shalini Sharma and Ruchi Sharma (2003) developed two alternative econometric models to examine the degree of relationship between FDI inflows and GDP. The study used the data of 29 countries and provided an empirical base to the hypothesis that, FDI is related directly to development as measured by income in order to provide a scientific base to the often repeated commonsense speculation about the role of FDI in development. But no evidence was found to support the thesis that the rates of growth of GDP and FDI are related.

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.

Holland and other (2000) reviewed several studies for Eastern and Central Europe, producing evidence of the importance of the market size and growth potential as determinants of FDI. Tsai (1994) analyzed the decades of 1970 and 1980 and addressed the endogeneity problem between FDI and growth by developing a system of simultaneous equations. Also, FDI was alternately measured as a flow, and as a stock. Market size turned out to be more important for FDI flows than growth. The trade surplus presents a negative sign and is significant for FDI, while the flow of FDI decreases as the nominal wage decreases. On the other hand, the impact of FDI on economic growth is quite limited.

Campos and Kinoshita (2003) use panel data to analyze 25 transition economies between 1990 and 1998, they reached the conclusion that for said set of countries, FDI is influenced by economy clusters, market size, the low cost of labour, and abundant natural resources. Besides all these factors, the following variables presented significant results: sound institutions, trade openness, and lower restrictions to FDI inflows.
Lucas\textsuperscript{26} (1993) suggested events that generate political instability to reduce the flow of FDI, but they have a short run impact. The studies of Achinivu\textsuperscript{27} (1990) and Soon\textsuperscript{28} (1990), concluded that political stability was a significant determinant of FDI. The difficulty in studying this variable is that political risk generally is a matter of perception of the country where the FDI originates. A friendly host country government may still attract FDI into the country despite political risk. Also, the firms seeking a portfolio balancing effect of their investment across the world, may be willing to invest in high risk country.

Caves\textsuperscript{29} (1982) concluded that the shortcomings in the availability of intangible assets such as knowledge, technology, managerial and marketing skills may lead to the formation of MNCs.

Whereas Culem\textsuperscript{30} (1988) reports a positive impact of population upon foreign investment within developed countries.

Aharoni\textsuperscript{31} (1966, 1973) in his studies reinforced that although managers attempt to avoid risk in their investment decisions, many dimensions of risk are difficult to measure. Thus, the political risk associated with FDI has a high subjective content.

A press release (2000) issued by the Commerce Ministry claimed that the first two months of the year 2000 have seen FDI inflows amounting to $600 million, of which about $481 million have come in February alone. This is against the average inflow of $230 million a month in the past.

According to Nagesh Kumar\textsuperscript{32} (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.

In a study on FDI, Confederation of India Industry\textsuperscript{33} (2001) has estimated that the FDI approvals over the seven year period 1991-98 at $55.1 billion while actual inflows have been estimated at $11.9 billion. This implies that only 21.7 percent of the FDI cleared during the period 1991-98 have actually been brought into the country. Thus almost 80 percent of the FDI approved between 1991 and 1998 did not fructify and remained only on paper.

According to John Degnbol Mortinussen\textsuperscript{34} (2001), seen in the broader context of India's macro-economic politics, FDI and other external resources have been used as a soft option in lieu of mobilizing domestic resources through taxation. FDI has further been used as a soft option in lieu of a proactive R & D policy. The authorities have seen FDI as the main carrier of technology transfer neglecting the indigenous R & D.

C.P. Chandrasekhar and Jayati Ghosh\textsuperscript{35} (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.

Acharyya Rajat\textsuperscript{36} (2002), made a review of the report and observes, both the quantity and distribution of foreign direct investment (FDI) flows in the developing counties are not very encouraging. China, Indonesia, Thailand, Malaysia, Brazil and Mexico attract, almost 80 percent of such FDI flows. Moreover, the quantity of FDI flow, which seems to matter more than the quality of it, is poor. The typical example is the FDI flow in Mexico. Though the trade data shows that exports, particularly the high-technology exports, as a percent of GDP has risen to over 30 percent by the end of the 1990s, the FDI flows that caused such surplus in exports had almost no feed back effect on the rest of the economy either in terms of dissemination of new technology or in terms of the positive impact on the level of skill. This is because such FDI flows, are attracted there primarily
due to cheap unskilled labour, have been concentrated mainly in assembling of automobiles and in electronics and computer industries, with negligible linkages between exporters and local producers. Moreover, Mexico's export success has been dependent mainly on the US market.

In other developing countries also, the FDI flows into the Export Processing or Special Economic Zones, are attracted primarily by cheap labour and tax holidays, has mostly been concentrated in low quality category of the manufacturing activities. They have no impact on the technological capacity of the rest of the economy.

Mousumi Dutta Ray, Amitava Krishna Dutt, and Kajal Mukhopadhyay of USA\textsuperscript{37} (2003) have studied the relation between FDI and growth. The study examined the relation between FDI and growth for ten developing countries viz; Argentina, Brazil and Mexico from Latin America, South Korea, Indonesia, India, Malaysia, Philippines and Thailand from Asia and Kenya from Africa. The study revealed that FDI affects growth in several ways; by augmenting saving and investment; by affecting the balance of payments directly and by promoting exports through technology transfers which improve productivity and broader political economy factors. Of these, exports and productivity are the obvious variables to be included in their analysis. Since the importance of FDI in capital accumulation is quantitatively negligible for most Less Developed Countries (LDCs), and the effects of FDI on growth through changes in industrial structure, income distribution and political economy factors are too complex to be clear. Although FDI can cause growth, causation can also shun the other way. Higher growth in a country may include higher FDI by expanding markets, by signaling to transnational corporations that the country is following policies favorable towards them and by making possible improvements in education and infrastructure, which increases the profitability of FDI. Moreover, FDI can be expected to increase after investors are satisfied that the country has export capability and technological base, which warrants advantageous product relation, so that exports and productivity increases.

Nadeem M. Firoz Farahmand Rezvani, Taghi Ramin and Wagdy Abdallah\textsuperscript{38} (2003) have made a study in China, which uses different kind of zones to attract Foreign Investment. China is using the Foreign Trade Zone (FTZ) concept exceptionally well to their advantage. This country is a centrally planned economy and uses protectionism to control
its imports and faster its exports. China restricts foreign investment outside the designated zones. Today one can invest in the zones but not freely outside the zones. Foreign Trade Zones are sometimes called Free Trade Zones because they are considered foreign territory for the purpose of customs entry are procedures. Tariffs and other taxes or duties are not collected when goods and materials enter the zone from outside the country; they enter 'free'. That is, they enter the zones free of custom duties as long as they stay there. Duties are levied when goods leave the FTZ to enter domestic markets, such as from China, FTZ to China's territory. They have observed that in developing countries, there have been many free zone sites established in recent years (NAFTA, March 22, 2000). Most of them offer customs-related privilege resulting in customs cost saving. They tend to exist as part of capital investment programmes created to boost exports and to promote exports and export related activities within their boundaries.

Nadeem M. Firoz and H. Amy Murray (2003) have done research in China, which tries to bring out the impact of economic development zones on economic development (EDZs). Economic Development Zones in China viz., Special Economic Zones (SEZs), Foreign Trade Zone (FTZ), Economic Trading Development Zones (ETDZs) and Coastal Open Cities (COCs) have been interchangeable for all economic zones. The per capita income of China's neighbours Hongkong and Taiwan ranges between $10,000 and $20,000, while People's Republic of China (PRC) income is $350. In Purchasing Power Parity (PPP) terms, the PRC income is about $2000. According to experts, the PRC per capita income will increase alarmingly in the near future, due to economic development, PRC is developing much faster than many other developed nations. In USA the GNP will grow @ 157 percent by the year 2020, while in the UK it will grow @ 160 percent and in China this growth is predicted to be 567 percent. To bring about economic development PRC has been designed to increase their exports to finance these projects. In 1995 China's exports were about $155 billion, and imports were about $140 billion. This means that in 1995, China had a positive balance of trade of 15 billion. Imports are controlled with tight measures that create unjustified trade barriers. Therefore investor cannot export goods to China freely. The only option that remains open is to export goods to China freely. The only option that remains open for investors is to develop joint ventures in SEZ, COC, EDTZ, or FTZ and take advantage of low tax rates and tax holidays. Joint
ventures can provide a way for investors to export and re-export goods back to their home countries, and around the world. This policy of tight control on imports in China is meant to increase investment in the private sector, to provide many incentives and encourage foreign investment for major projects in China. These projects will help PRC to become an industrialized nation. Investors can also take advantage of China's resources, which are cheap labour, a large market of 1.3 billion consumers, and an abundance of raw materials. In view of this, the countries from all parts of the world are rushing to invest in China. The authors have concluded that Free Trade Zones offer many advantages both for the home and the host country. For many, the FTZ might be a new word in their international vocabulary, but its origin is eight centuries old, although in China the term has only been used a decade ago. Economic Development can be recognized by an increased standard of living, opportunity for a good life, industrialization, and increase in employment, increase in per capita income, increase in gross national products, technological progress and increase in the literacy level. The Free Trade Zones (FTZs) assist in enhancing all of these indicators in any country.

Sadhana Srivastava⁴⁰ (2003) emphasized on the true level of FDI flows to India as compared to that of China. It is often noted that India is widely regarded as an ‘underperformer’. Bajpai and Sachs⁴¹ (1997) in their study concluded that in the current global scenario, it is possible for India to achieve very dynamic growth based upon labour intensive manufacturing that combines the vast supply of Indian labour including skilled managerial and engineering labour, with foreign capital technology and markets. However, from the long term development point of view, we are of the view that India has tremendous growth prospects through export led growth and that export led growth involves a broad range of sectors, both traditional and new (Bajpai and Sachs⁴², 1998). The most interesting by far of the new sectors is software and information technology. The research paper of Mahajan Dinesh⁴³ (2008) investigates the changing scenario and also analysis the prospects of US FDI in India. It has been found that US FDI inflows have shown upward trend in India. Indian economy offers tremendous opportunities to the US investors as substantial changes in the policy framework regarding FDI have been introduced. FDI inflows have shown a steep increase from US $ 144.4 million in
1991 to US $17809.8 million in 2007. Annual growth rate of FDI has been impressive except the years 1998, 1999 and 2003. When it turned negative. FDI as a percentage of Gross Fixed Capital Formation (GFCF) has increased from 0.3% in 1991 to 8.7% in 2006.

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

According to World Investment Report (UNCTAD) 2003 that the foreign investment regard both China and India as a hub for relocation, but it is limited to services, particularly information and communication technology. In China, about 2/3rd of FDI flows into a diverse range of manufacturing industries.

A very recent paper authored by Venkateswarlu and Kameshwar Rao (2004) brings into focus the determinants of FDI. The level of per capita GDP and growth rate of GDP were found as the determinants of FDI. Fundamental economic factors, e.g. inflation rate are of not much volume for obtaining FDI. They are useful for portfolio investment.

N. Balasramanyam, David Sapsford (2007) in their research paper analysed that comparing the levels of foreign direct investment in India and China, it is found that FDI in India is one tenth of that in China. The researchers compare the inflow of FDI in the two countries and find that India may not require increased FDI, given India's factor endowments and the structure and composition of its economy. The researchers suggest that there may be yet another explanation - India's requirements of FDI may be substantially lower than that of China because of the structure and composition of net manufacturing and services sectors and her endowments of human capitals.

Jun (1989) concluded that a comprehensive theoretical framework of the effects of taxes on direct investment capital flows. This research paper postulates that there are three channels through which tax policy affects foreign investment decisions of a multinational corporation. First, tax policy of the host country directly influences the net return on foreign direct investment. Second, tax policy of home country affects the net profitability of domestic investment. Thirdly, tax policy can affect the relative net cost of external funds in different countries.
Hartman (1984) also tested this hypothesis by studying US foreign direct investment inflows and outflows. However, this model did not explain investments financed by transfers from abroad very satisfactorily.

Boskin and Gale (1987) and Young (1988) studied the effects of taxation on foreign direct investment with expanded samples, revised data, alternative functional and some additional explanatory variables.

Slemrod (1989) examined the effect of investment and host country's tax policy on foreign direct investment in USA. This study concluded that there is negative impact of US effective rate of taxation on total foreign direct investment and on transfer of funds, but not on retained earnings.

Jonysoo Park (July, 2004) in his article "Korean Perspective on FDI in India: Hyundai Motors Industries Cluster. In developing countries", shows that there has been a remarkable shift in attitude towards many aspects of foreign direct investment. Since the launch of reforms, Korean companies have invested in joint venture or Green field projects in automobiles, consumer goods and others. This case study of Hyundai Motor Industries, set against an exploration of India's FDI experience from a Korean perspective indicates that industrial clusters are playing an important role in economic activity. The key to promoting FDI inflows into India may lie in industries and products that are technology intensive and have economics of scale and significant domestic content.

Arbaic U (2005) in his article "Promotion of Foreign Direct Investment FDI in India and China", concludes that the benefits of FDI flows in the recipient countries depends on the extent of capital account liberalization, the size of the domestic market and other supportive policies of the host country. It is observed that the recent economic reforms measures experimented in China and India enhanced the growth of both economics, which is perhaps due to the efforts of these countries to evolve effective strategic growth oriented FDI policies in recent years.

A.C. Kuthy Krishnan Nambiar (2005) in his article, "Performance of Foreign Direct Investment Companies in India", states that in this era of liberalization, developing countries like India are taking a number of policy measures to attract foreign direct investment (FDI), which is expected to contribute to economic development in a variety of ways. This study attempts to shed some light on the performance of FDI and domestic
companies in India. Fixed capital formation has increased in both FDI and domestic companies as the share of net fixed assets, which was 46.20 percent in the domestic companies increased to 48.75 percent and from 34.71 percent to 41.4 percent in FDI companies. In the FDI sector the average return on equity worked out to 27.26 percent and in the domestic companies the return was 14.52 percent. In domestic companies the dividend ratio was slightly less than one half of the rate paid by the FDI companies.

M.R. Narayana\textsuperscript{56} (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.

Arindam Banik, Pardip K. Bhaumik, Sunday O Lyare\textsuperscript{57} (2004) in their research article "Explaining FDI inflows to India, China and the Caribbean; An extended neighbourhood approach", FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions etc, irrespective of the source and the destination countries. This paper looks at FDI inflows as an alternative approach based on the concept of neighbourhood and extended neighbourhood. The study shows that the neighbourhood concepts are widely applicable in different contexts - particularly for China and India, and partly in the case of the Caribbean. There are significant common factors in explaining FDI inflows in select regions. While a substantial fraction of FDI inflows may be explained by select economic variables, country specific factors and the idiosyncratic component account for more of the investment inflows in Europe, China and India.

R. Nagaraj\textsuperscript{58} (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. 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.

V.R. Najori and S.A. Ghumare\(^5\) (2007) in their research article on "FDI and globalization in India". Opening of FDI have really created new opportunities for India's development and boosted the performance of local firms as well as the globalization of some of them. Such a trend has undeniably raised Indian's stature among developing countries. The challenge that India has to take up is, in many regards, close to that of China. What is sure that, because of the size of their capabilities and of their ambitions both of these emerging countries have the possibility to alter the international economic landscape over the coming generation?

R. Kantha Krishnan and J.D. Steward Jones\(^6\) (2003) in their article "FDI flows in developing countries". The slow down of economic reforms, high rate of inflation, growing fiscal deficit, rigid labour laws have further slowed down the progress. The developing countries must tackle all the above problems with in a short while with strong economic policies. Until the constraints on possible investment are addressed, the FDI flow will not grow in the developing countries. It reveals that a substantial quantum of FDI flows into countries such as China, Brazil, Argentina, Singapore and other. It is interesting to observe that China ranks first in the share of developing country for all the years. China received on impressive 86 percent of the total FDI to low income countries in 1995. Beginning with its liberalization in 1979, it accelerated by over 700 percent to US $37.5 billion. In the five years 1996-2000 china received over US $200 billion of FDI. Much of FDI went into expending export driven firms and the huge business houses. And both these surgers were a large part of China’s enviable success in sustaining fast growth of national output and employment. In India, after liberalization FDI flows has increased considerably from Rs. 3514.3 million in 1991 to a peak of US $3557 million in 1997. In the year 1998-99 FDI flows goes in a declining trend to US $2, 462 million. In the year 2001, FDI flow increased to US $3, 907 million. India's share among developing countries reached a peak of 1.9 percent in 1999 and 2000. But has recovered sharply to 1.7 percent in 2001. India's FDI share dropped to 1.5 percent in 2002, due to global slowdown in economy.
A Sreenivashulu\textsuperscript{61} (2007) in his article "Issues in FDI - A Bird's Eye View", FDI is seen as a means to supplement domestic investment for achieving a higher level of economic growth and development. FDI benefits domestic industry as well as the Indian consumers by providing opportunities for technological upgradations, access to global managerial skills and practices, optimal utilization of human resources making Indian industry internationally competitive, opening up exports markets providing backward and forward linkages and access to international quality of goods and services.

Haddad and Harrison\textsuperscript{62} (1993) estimated the impact of FDI on productivity of firms and its consequent spillovers on domestic firms in a panel data econometric framework for Morocco's Manufacturing sector during the period 1985-1989. After controlling for firm specific influence on productivity such as, firm size, the study rejected the hypothesis that foreign presence accelerate the productivity growth in domestic firms but the study found that dispersion of productivity is smaller in those sectors where foreign firms are higher in number. Thereby, moving the domestic firms closer to the efficiency frontier. That is, the foreign firms are found to exhibit average higher levels of TFP but rate of growth of productivity among foreign firms are found to be lower than their domestic counterparts. At first observation, this would appear presence of 'catch-up' hypothesis (domestic firms with lower initial level of productivity are able to pick up at a faster rate due to presence of foreign firm, but it is tested that although domestic firms exhibit higher levels of productivity in sectors with larger foreign presence, the same does not reflect in higher rate of growth of productivity in those sectors. Thus, although foreign firms pay higher real wages than the domestic firms, they are neither greater outward oriented nor reflect higher labour productivity.

Atiken and Harrison\textsuperscript{63} (1999) estimated the impacts of FDI on productivity growth and spillovers using panel data for Venezuelan manufacturing firms for the period 1975-1989. The study found foreign firms exhibited higher labour productivity. After controlling for size and capital intensity, the foreign firms are found to be higher in import and export intensity and paid higher wages than their domestic counterparts, and also foreign firms are higher contributor to the foreign exchange earnings compared to the their domestic counterparts. The most important conclusion of the study is that although results strongly support the relation between increased foreign equity participation and individual firms
performance, but this increase in foreign ownership variable has a significant negative impact on domestically owned firms suggesting an increase in foreign investment decreases the productivity among domestic firms. Thus, productivity improvement as a result of technology gains is only limited to the firms that are directly in link to the foreign firms (Joint venture firms).

Chuang and Lin (1999) examined the impact of FDI, R&D on productivity and spillovers of efficiency in case Taiwan's manufacturing firms. The study has empirically analyzed the impact of FDI in increasing firm's productivity, the role of R&D in increasing investing firm's productivity and spillover of efficiency to other firms in the industry and finally the relationship between FDI and R&D activities. The study used two measures for estimating TFP at firm level; (a) under constant returns to scale assumption and (b) second based on the assumption of variable returns to scale. The results of the study confirmed the evidence for positive impact of FDI and R&D on productivity and spillover of efficiency to domestic firms. The study, after correcting for sampling selection bias, derived the important conclusion that local technology purchase and outward foreign investment are substitutes to R&D activities.

Kathuria (2002) is the first study to empirically estimate the impact of FDI on productivity and spillovers to domestic firms in Indian manufacturing sector in the liberalization period 1989-90 to 1996-97. The study used the panel data of both foreign and domestic manufacturing firms for estimation of a stochastic production frontier framework. The same offered evidence for post liberalization period, the productivity of foreign firms improved but the spillovers of productivity effects of FDI on domestic firms limited to only scientific domestic firms, that had capacity to decode the technology through R&D.

Goldar, et al. (2003), empirically estimated the impact of foreign ownership on efficiency and convergence by employing a limited panel data of Indian engineering firms during 1990-91 to 1999-2000. Using stochastic production frontier, the study found higher productivity among foreign firms compared to domestic private and public sector enterprises. The study also found indications of a process of efficiency convergence, implying domestic firms, in the liberalization period, tends to catch up with foreign firms in terms of productivity.
**Statement of the Problem**

Foreign capital consists of private foreign capital and public foreign capital. Public foreign capital is otherwise known as foreign aid where 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 of 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).
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

- To examine the policy framework of India in relation to foreign direct investment.
- To analyse the trends and patterns of foreign direct investment in India and to assess the present position of FDI in India.
- 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.
- To study the challenges faced by Indian industries to attract more FDI.
- To suggest the strategies to attract more FDI in India based on the findings of the research.

Hypotheses of the Study

Null Hypotheses
- $H_0$ It is hypothesized that there is no significant difference in routes of FDI.
- $H_0$ It is hypothesized that there is no relationship between FDI and exports.
- $H_0$ It is hypothesized that there is no relationship between FDI and forex reserves.
- $H_0$ It is hypothesized that there is no relationship between FDI and balance of payment position in India.

Alternative Hypotheses
- $H_1$ It is hypothesized that there is significant difference in routes of FDI.
- $H_1$ It is hypothesized that there is relationship between FDI and exports.
- $H_1$ It is hypothesized that there is relationship between FDI and forex reserves.
- $H_1$ 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 these 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 has 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 1.3.

**Table 1.3: Total Sample Design**

<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 (Wilkinson and Bhandarkar, 2000). 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.

**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.

**Tools of Analysis**

Following tools have been used by researcher for analysis.

(A) **Coefficient of Correlation**

\[ r = \frac{\sum x y}{\sqrt{\sum x^2 \sum y^2}} \]

\( x \) denotes the deviations of \( x \) series from the mean value of \( X \left( X - \bar{X} \right) \)

\( \sum x^2 \) = square these deviations and obtain the total
\[ y = \text{denotes the deviations of } Y \text{ series from the mean value of } Y(Y - \bar{Y}) \]
\[ \sum y^2 = \text{square these deviations and obtain the total} \]
\[ \sum xy = \text{multiply the deviations of } x \text{ and } y \text{ series and obtain the total} \]

**B) Probable Error**

The probable error describes the magnitude of the significance of the coefficient of correlation

\[ P.E.r = .6745 \frac{1-r^2}{\sqrt{N}} \]

\[ r^2 = \text{coefficient of determination} \]
\[ N = \text{total number of variables} \]

**C) \( \chi^2 \) test**

The quantity \( \chi^2 \) describes the magnitude of the discrepancy between theory and observation. It is defined as

\[ r^2 = \sum \frac{(fo - fe)^2}{fe} \]

Where
\[ fo = \text{observed frequencies} \]
\[ fe = \text{expected frequencies} \]

The value of \( fe \) is calculated by following formula:

\[ fe = \frac{RT \times CT}{N} \]

RT = total of rows
CT = total of column
N = total number of observations

**Degree of Freedom:**

While comparing the calculated value of \( \chi^2 \) with the table value we have to determine the degrees of freedom. By degrees of freedom we mean the number of classes to which the values can be assigned arbitrarily or at will without violating the restrictions or limitations placed.
Degree of freedom (d.f) = (R-1)(C-1)

(D) Analysis of Variance (ANOVA)

In the study two way analysis of variance has been used to make the comparisons in FDI inflows.

ANOVA Table

<table>
<thead>
<tr>
<th>Source of variation</th>
<th>Degree of freedom (d.f.)</th>
<th>Sum of squares</th>
<th>Mean square</th>
<th>F ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between columns</td>
<td>K-1</td>
<td>( SSC = \sum_{k=1}^{K} \frac{T_k^2}{n_k} - \frac{T^2}{N} )</td>
<td>( MSC = \frac{SSC}{K-1} )</td>
<td>( F = \frac{MSC}{MSE} )</td>
</tr>
<tr>
<td>Within rows</td>
<td>J-1</td>
<td>( SSR = \sum_{j=1}^{J} \frac{T_j^2}{N} )</td>
<td>( MSR = \frac{SSR}{J-1} )</td>
<td>( F = \frac{MSR}{MSE} )</td>
</tr>
<tr>
<td>Residual or error</td>
<td>(J-1)(K-1)</td>
<td>( SSE = SST - SSC - SSR )</td>
<td>( MSE = \frac{SSE}{(J-1)(K-1)} )</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>N-1</td>
<td>( SST = \sum_{j=1}^{J} \sum_{k=1}^{K} \frac{X^2}{N} )</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

SSC = sum of squares between columns
SSR = sum of squares between rows
SST = total sum of squares
K-1 = total number of degrees of freedom columns
J-1 = total number of degrees of freedom row
(K-1)(J-1) = number of degree of freedom for residual / error

**SSC = sum of squares between columns**

\[ SSC = \sum_{k=1}^{K} \frac{T_k^2}{n_k} - \frac{T^2}{N} \]

K = denotes the column
\( T_k^2 \) = square of total variable of columns
\( n_k \) = number of cell in a columns
\( T^2 \) = square of grand total
N = total number of cell (row x column)

SSR = sum of square between row

$$SSR = \sum_{J=1}^{J} T_{J}^2 - \frac{T^2}{N}$$

J = denotes the row

$$T_{J}^2 = \text{square of total variable of rows}$$

$$T^2 = \text{square of grand total of row and columns}$$

N = grand total of cell (row x column)

SST = square of sum of total

$$= \sum_{J=1}^{J} \sum_{K=1}^{K} X^2 - \frac{T^2}{N}$$

Total sum of square

$$X^2 = \text{square of cell}$$

$$T^2 = \text{square of grand total}$$

N = grand total of cell (row x column)

(E) Mean Score:

Mean score has been used to determine the result that activity is strongly agree, agree, neutral, disagree and strongly disagree. For this purpose a mean score was taken for criteria.

$$\bar{X} = \frac{\sum X}{N}$$

$$\bar{X} = \text{the mean score of sample}$$

$$\sum X = \text{the sum of total sample respondents}$$

N = the total number of the respondents

(F) Compound Annual Growth Rate (CAGR)

It is the method generally used by the researcher while analyzing the data of a long period. The method is used as expression of the secular movement when the series is increasing or decreasing at regular interval of time. The compound annual growth rate is computed by fitting an exponential function to the available data. The equation of this method is:
\[ y = ab^t \]

Where
\[ b = 1 + g \]
g is the compound annual growth rate
\[ g = b - 1 \]

\[ y = ab^t \]  \hspace{1cm} (i) \]

When this equation is solved with the help of logarithm. It may be written as:

\[ \log y = \log a + t \log b \]  \hspace{1cm} (ii) \]

To find out the value of ‘a’ and ‘b’ two normal equations are used. Which are:

\[ \sum \log y = N \log a + \log b \sum t \]  \hspace{1cm} (iii) \]

\[ \sum t \log y = \log a \sum t + \log b \sum t^2 \]  \hspace{1cm} (iv) \]

When middle year is taken as origin, these two normal equations take the shape as:

Than \[ \sum t = 0 \]

\[ \sum \log y = N \log a \]

Therefore, \[ \log a = \frac{\sum \log y}{N} \] or \[ a = \text{Anti} \log \left[ \frac{\sum \log y}{N} \right] \]

\[ \sum t \log y = \log b \sum t^2 \]

And \[ \log b = \frac{\sum t \log y}{\sum t^2} \] or \[ b = \text{Anti} \log \left[ \frac{\sum (t \log y)}{\sum t^2} \right] \]

Computation of compound annual growth rate is following formula:
\[ \text{CAGR} = (b-1) \times 100 \]

**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.

**Scheme of Chapterization**

**Chapter I: Introduction**

The first chapter deals with need and importance of foreign investment, conceptual framework of foreign direct investment, and regulatory framework of FDI in India. This chapter also deals with review of literature and research methodology. This section justifies the present study and highlights the main objectives and hypothesis of the study. Further, this section discusses the research methodology adopted for the hypothesis of the study. In the end of the section, scope and limitations of the study have been discussed.
Chapter II: Policies, Trends and Patterns of FDI in India: An Analysis
The second chapter deals with the foreign direct investment policies in India since independence. This chapter also analyses the broad view about trends and patterns of FDI in India.

Chapter III: Impact of FDI on Industrial Development
The third chapter deals with the sectorwise impact of FDI on various parameters of industrial development, viz. gross fixed capital formation, gross domestic product, exports, foreign exchange reserves, and balance of payments.

Chapter IV: Foreign Direct Investment and Its Challenges: An Analysis
This chapter deals with the various challenges faced by the Indian industries in attracting FDI. The result has been concluded on the basis of primary data collection.

Chapter V: Findings, Conclusions and Suggestions
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