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Foreign Direct Investment in India: A Critical Analysis on FDI

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Abstract

The Concept of Foreign Direct Investment is now a part of India's economic future but the term remains vague to many, despite the profound effects on the economy. Despite the extensive studies on FDI, there has been little illumination forthcoming and it remains a contentious topic. The paper explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: Industry and Infrastructure and sub sector Telecom, to illustrate that.

Keywords: foreign direct investment, economic growth, globalization, simultaneity, stationary etc.

FOREIGN DIRECT INVESTMENT

Foreign investment' is investment in an enterprise by a Non-Resident irrespective of whether this involves new equity capital or re-investment of earnings. Foreign investment is of two kinds – (i) Foreign Direct Investment (FDI) and (ii) Foreign Portfolio Investment. FDI is defined under Dictionary of Economics as ―Investment in a foreign country through the acquisition of a local company or the establishment thereof an operation on a new site.‖ It refers to capital inflow from abroad. It is 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 foreign firm. International Monetary Fund (IMF) and Organization for Economic Cooperation and Development(OECD) define FDI similarly as a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a _lasting interest' in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor.

OBJECTIVES

The study covers the following objectives:

1. To study the trends and patterns of flow of FDI.

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2. To assess the determinants of FDI inflows.
3. To evaluate the impact of FDI on the Economy
4. To study present regulatory framework for FDI in India.
5. To study various entry options available to global markets in India.
6. To study and analyze likely impact of FDI in single as well as multi brand on different components of Indian economy.

HYPOTHESES

The study has been taken up for the period 2007-2011 with the following hypotheses:
1. Flow of FDI shows a positive trend over the period 2007-2011.
2. FDI has a positive impact on economic growth of the country.

RESEARCH METHODOLOGY

This study is based on secondary data. The required data have been collected from various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India, Economic and Social Survey of Asia and the Pacific, United Nations, Asian Development Outlook, Country Reports on Economic Policy and Trade Practice-Bureau of Economic and Business Affairs, U.S. Department of State and from websites of World Bank, IMF, WTO, RBI, UNCTAD, EXIM Bank etc.. It is a time series data and the relevant data have been collected for the period 2007 to 2011.

ANALYTICAL TOOLS

In order to analyze the collected data the following mathematical tools were used. To work out the trend analyses the following formula is used:
a.) Trend Analysis i.e. $\hat{y} = a + b\,x$
Where $\hat{y}$ = predicted value of the dependent variable
a = y – axis intercept,
b = slope of the regression line (or the rate of change in y for a given change in x),
x = independent variable (which is time in this case).
b.) Annual Growth rate is worked out by using the following formula:
AGR = (X2- X1)/ X1
Where X1 = first value of variable X
X2 = second value of variable X
c.) Compound Annual Growth Rate is worked out by using the following formula:
CAGR (t0, t n) = (V (tn)/V(t0))1/tn – t 0-1
Where

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V (t0): start value, V (tn): finish value, tn − t0: number of years.
In order to analyze the collected data, various statistical and mathematical tools were used.

IMPORTANCE OF THE STUDY

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of global economic development. The study attempts to analyze the important dimensions of FDI in India. The study works out the trends and patterns, main determinants and investment flows to India. The study also examines the role of FDI on economic growth in India for the period 2007-2011. The period under study is important for a variety of reasons. First of all, it was during July1991 India opened its doors to private sector and liberalized its economy. Secondly, the experiences of South-East Asian countries by liberalizing their economies in 1980s became stars of economic growth and development in early 1990s. Thirdly, India's experience with its first generation economic reforms and the country's economic growth performance were considered safe havens for FDI which led to second generation of economic reforms in India in first decade of this century. Fourthly, there is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. Fifthly, increase in competition for FDI inflows particularly among the developing nations. The shift of the power center from the western countries to the Asia sub – continent is yet another reason to take up this study. FDI incentives, removal of restrictions, bilateral and regional investment agreements among the Asian countries and emergence of Asia as an economic powerhouse (with China and India emerging as the two most promising economies of the world) develops new economics in the world of industrialized nations. The study is important from the view point of the macroeconomic variables included in the study as no other study has included the explanatory variables which are included in this study. The study is appropriate in understanding inflows during 2007- 2011.

REVIEW OF LITERATURE

1) Dunning John H. (2004) in his study "Institutional Reform, FDI and European Transition Economics" studied the significance of institutional infrastructure and development as a determinant of FDI inflows into the European Transition Economies. The study examines the critical role of the institutional environment (comprising both institutions and the strategies and policies of organizations relating to these institutions) in reducing the transaction costs of both domestic and cross border business activity. By

setting up an analytical framework the study identifies the determinants of FDI, and how these had changed over recent years.

2) Tomsaz Mickiewicz, Slavo Rasosevic and Urmas Varblane (2005), in their Study, "The Value of Diversity: Foreign Direct Investment and Employment in Central Europe during Economic
Recovery", examine the role of FDI in job creation and job preservation as well as their role in changing the structure of employment. The paper also find out that the increasing differences in sectoral distribution of FDI employment across countries are closely relates to FDI inflows per capita.

3) Iyare Sunday O, Bhaumik Pradip K, Banik Arindam (2004), in their work "Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighborhood Approach" find out that FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc, irrespective of the source and destination countries. This paper looks at FDI inflows in an alternative approach based on the concepts of neighborhood and extended neighborhood. The study shows that the neighborhood 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.

4) Andersen P.S and Hainaut, P.3 (2004) in their paper "Foreign Direct Investment and Employment in the Industrial Countries" point out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, in particular between outflows and employment in the source countries in response to outflows. They also find that high labour costs encourage outflows and discourage inflows and that such effect can be reinforced by exchange rate movements.

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FDI INFLOWS IN INDIA

(FROM 1991-2010) TABLE – 1
INDIA'S FOREIGN DIRECT INVESTMENT INFLOWS AND VARIOUS ECONOMIC INDICATORS IN BETWEEN 1991 TO 2010.

YEAR	FDI inflows	GDP at factor cost	Total trade	Foreign exchange reserves	Exchange rates	Financial Health		National expenditure on R&D
						Exports	Debt	
1991	409	1099072	91892	23850	24.5	44041	252910	8363.31
1992	1094	1158025	117063	30744	30.6	53688	280746	8526.18
1993	2018	1223816	142852	60420	31.4	69751	290418	9408.79
1994	4312	1302076	172645	79781	31.4	82674	311685	9340.94
1995	6916	1396974	229039	74734	33.4	106353	320728	9656.11
1996	9654	1508378	257737	94932	35.5	118817	335827	10662.41
1997	13548	1573263	284276	115905	37.2	130100	369682	11921.83
1998	12343	1678410	318084	138005	42.1	139752	411297	12967.51
1999	10034	1786525	374797	165913	43.3	159561	428550	14397.60
2000	10368	1864301	434444	197204	45.7	203571	472625	15683.37
2001	18486	1972606	454218	264036	47.7	209018	482328	16007.14
2002	13711	2048286	552343	361470	48.4	255137	498804	16353.72
2003	11786	2222758	652475	490129	45.9	293367	491078	17575.41
2004	14653	2388768	876405	619116	44.9	375340	581802	19991.64
2005	24613	2616101	1116827	676387	44.3	456418	616144	22963.91
2006	70630	2871120	1412285	868222	42.3	571779	746918	24821.63
2007	98664	3129717	1668176	1237985	40.2	655864	897955	27213.64
2008	123025	3339375	2072438	1283865	45.9	766935	1169575	29894.14
2009	172849	3578128	2397847	1324589	44.5	837865	1289687	34562.79
2010	202453	3896375	2756874	15467435	42.7	895698	1454239	37419.34

Source: Various issues of SIA Publication.
Various RBI bulletins.

In Foreign Direct Investment Model, it is found that all variables are statistically significant. Further the results of Foreign Direct Investment Model shows that Trade GDP, R&DGDP, Financial Position (FIN. Position), exchange rate (EXR), and Reserves GDP (RESGDP) are the important macroeconomic determinants of FDI inflows in India. The regression results of above shows that Trade GDP, Reserves GDP, Financial Position, exchange rate are the pull factors for FDI inflows in the country whereas R&DGDP acts as the deterrent force in attracting FDI flows in the country. As the regression results reveal that R&DGDP exchange rate does not portray their respective predicted signs. However, R&DGDP shows the unexpected negative sign instead of

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positive sign and exchange rate shows positive sign instead of expected negative sign. In other words, all variables included in the foreign direct investment model shows their predicted signs except the two variables (i.e. Exchange rate & R&DGDP) which deviate from their respective predicted signs. The reason for this deviation is due to the appreciation of Indian Rupee in the international market and low expenditure on R&D activities in the activities in the country.

MODEL – 1

FDI MODEL

FDI = f [Trade GDP, R&D GDP, Exchange Rate, Reserves GDP, Financial position]

Variable	co-efficient	standard error	t-statistic
constant	26.65	0.126	207*
Trade GDP	11.79	7.9	1.5*
Reserves GDP	1.44	3.8	0.41
Exchange rates	7.06	9.9	0.72**
Financial health	15.2	35	0.45
R&D GDP	-582.14	704	0.83**

$R2 = 0.623$, Adjusted $R2= 0.466$

D-W Statistic = .98, F-ratio = 7.74

Note: * = Significant at 0.25, 0.10 levels; ** = Significant at 0.25 level.

In the Economic Growth Model, estimated coefficient on foreign direct investment has a positive relationship with Gross Domestic Product growth (GDPG). It is revealed from the analysis that FDI is a significant factor influencing the level of economic growth in India. The coefficient of determination, i.e. the value of R2 explains 95.6% level of economic growth by foreign direct investment in India. The F-statistics value also explains the significant relationship between the level of economic growth and FDI inflows in India. D-W statistic value is found 1.0128 which confirms that there is no autocorrelation problem in the analysis. Thus, the findings of the economic growth model show that FDI is a vital and significant factor influencing the level of growth in India.

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MODEL – 2

ECONOMIC GROWTH MODEL

GDPG = f [FDIG]

Variable	co-efficient	standard error	t-statistic
constant	0.060322925	0.0000739315	815.92
FDIG	0.039174416	0.200661633	1.8959

$R2= 0.959$ Adjusted $R2= 0.956$

D-W Statistic = 1.0128, F-ratio = 28.076

Note: * = Significant at 1%.

FDI INFLOWS IN INDIA IN POST REFORM ERA

India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. According to A.T. Kearney, India ranks second in the World in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD' World Investment Report, 2010 considers India the 2nd most attractive destination among the TNCS after the Chaina. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped FDI inflows grow significantly in India. The FDI inflows grow at about 20 times since the opening up of the economy to foreign investment. India received maximum amount of FDI from developing economies. Net FDI flow in India was valued at US$ 33029.32 million in 2008. It is found that there is a huge gap in FDI approved and FDI realized. It is observed that the realization of approved FDI into actual disbursements has been quite slow. The reason of this slow realization may be the nature and type of investment projects involved. Beside this increased FDI has stimulated both exports and imports, contributing to rising levels of international trade. India's merchandise trade turnover increased from US$ 95 bn in FY02 to US$391 bn in FY08 (CAGR of 27.8%). India ranked at 26th in world merchandise exports in 2007 with a share of 1.04 percent. Further, the explosive growth of FDI gives opportunities to Indian industry for technological up gradation, gaining access to global managerial skills and practices, Optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly FDI is central for India's integration into global Production chains which involves production by MNCs spread across locations all over the world.

TRENDS AND PATTERNS OF FDI FLOWS AT INDIAN LEVEL

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Although India's share in global FDI has increased considerably, but the pace of FDI inflows has been slower than China, Singapore, Brazil, and Russia. Due to the continued economic liberalization since 1991, India has seen a decade of 7 plus percent of economic growth. In fact, India's economy has been growing more than 9 percent for three consecutive years since 2006 which makes the country a prominent performer among global economies. At present India is the 4th largest and 2nd fastest growing economy in the world. It is the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower. India has considerably decreased its fiscal deficit from 4.5 percent in 2003-04 to 2.7 percent in 2007-08 and revenue deficit from 3.6 percent to 1.1 percent in 2007-08. There has been a generous flow of FDI in India since 1991 and its overall direction also remained the same over the years irrespective of the ruling party. India has received increased NRI's deposits and commercial borrowings largely because of its rate of economic growth and stability in the political environment of the country. Economic reform process since 1991 have paves way for increasing foreign exchange reserves to US$ 251985 millions as against US$ 9220 millions in 1991- 92.

During the period under study it is found that India's GDP crossed one trillion dollar mark in

2007. Its domestic saving ratio to GDP also increases from 29.8 percent in 2004-05 to 37 percent in 2007-08. An analysis of last eighteen years of trends in FDI inflows in India shows that initially the inflows were low but there is a sharp rise in investment flows from 2005 onwards.

It is observed that India received FDI inflows of Rs.492302 crore during 2000- 2010 as compared to Rs. 84806 crore during 1991-1999. India received a cumulative FDI flow of Rs. 577108 crore during 1991to march 2010. A comparative analysis of FDI approvals and inflows reveals that there is a huge gap between the amount of FDI approved and its realization into actual disbursements. A difference of almost 40 percent is observed between investment committed and actual inflows during the year 2005-06. It is observed that major FDI inflows in

India are concluded through automatic route and acquisition of existing shares route than through FIPB, SIA route during 1991-2010.

FDI AND INDIAN ECONOMY

The results of Foreign Direct Investment Model shows that all variables included in the study are statistically significant. Except the two variables i.e. Exchange Rate and Research and Development expenditure (R&DGDP) which deviates from their predicted signs. All other variables show the predicted signs. Exchange rate shows positive sign instead of expected negative sign. This could be attributed to the appreciation of Indian

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Rupee in international market which helped the foreign firms to acquire the firm specific assets at cheap rates and gain higher profits. Research and Development expenditure shows unexpected negative sign as of expected positive sign. This could be attributed to the fact that R&D sector is not receiving enough FDI as per its requirement. but this sector is gaining more attention in recent years.
Another important factor which influenced FDI inflows is the Trade GDP. It shows the expected positive sign. In other words, the elasticity coefficient between Trade GDP and FDI inflows is
11.79 percent which shows that one percent increase in Trade GDP causes 11.79 percent increase in FDI inflows to India. The next important factor which shows the predicted positive sign is Reserves GDP. The elasticity coefficient between Reserves GDP and FDI inflows is 1.44 percent which means one percent increase in Reserves GDP causes an increase of 1.44 percent in the level of FDI inflows to the country. Another important factor which shows the predicted positive sign is FIN. Position i.e. financial position. The elasticity coefficient between financial position and FDI inflows is 15.2 percent i.e. one percent increase in financial position causes 15.2 percent increase in the level of FDI inflows to the country. In the Economic Growth Model, the variable
GDPG (Gross Domestic Product Growth i.e. level of economic growth) which shows the market size of the host economy revealed that FDI is a vital and significant factor influencing the level of economic growth in India. In a nutshell, despite troubles in the world economy, India continued to attract substantial amount of FDI inflows. India due to its flexible investment regimes and policies prove to be the horde for the foreign investors in finding the investment opportunities in the country.

Regulatory Framework for FDI in India

Indian companies can receive FDI under two routes-
1. **Automatic Route** – It does not require prior approval either of Reserve Bank of India (RBI) or government. It is allowed in all activities / sectors except where the provisions of consolidated FDI policy paragraph as ―Entry route for investment‖ issued by government of India from time to time is attracted.

2. **Government Route** – ‗Government route' means that investment in the capital of resident entities by non-resident entities can be made only with the prior approval from FIPB, Ministry of Finance or SIA, DIPP as the case may be. FDI in sectors, not covered under automatic route requires prior approval of the government which is considered by Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance. Following sectors require prior approval of Government of India.

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a.) Sectors prohibited for FDI - retail trading, lottery business, atomic energy, gambling and betting, business of chit fund, agriculture and plantation, nidhi companies, housing and real estate business.
b.) Activities that require industrial license
c.) Proposals in which the foreign collaborator has existing financial / technical collaboration in India in the same field.
d.) Proposals for acquisition of shares in an existing Indian company in financial services and where Securities Exchange Board of India (SEBI) regulation, 1977 is attracted.
e.) All proposal falling outside notified sectoral policy in which FDI is not permitted.

Sector Analysis

When the reforms began in 2007 it was inevitable there would be a discrepancy as various sectors have different characteristics and procedures. The reforms and polices on FDI have trickled down to various sectors in different speed and effectiveness. Thus the progress of FDI will be effectively analyzed by studying two sectors of the Indian economy: Industry and Infrastructure. These sectors are an agglomeration of subsectors that when combined from the integral components of the economic growth.

2007 Foreign Investment Promotion Board FIPB

• consider and recommend Foreign Direct Investment (FDI) proposals, which do not come under the automatic route. It is chaired by Secretary Industry (Department of Industrial Policy & Promotion).

2008 Foreign Investment Promotion Council FIPC

• constituted under the chairmanship of Chairman ICICI, to undertake vigorous investment promotion and marketing activities. The Presidents of the three apex business associations such as ASSOCHAM, CII and FICCI are members of the Council.

2009 Foreign Investment Implementation Authority FIIA

• functions for assisting the FDI approval holders in obtaining various approvals and resolving their operational difficulties. FIIA has been interacting periodically with the FDI approval holders and following up their difficulties for resolution with the concerned Administrative Ministries and State Governments.

2010 Investment Commission

• Headed by Ratan Tata, this commission seeks meetings and visits industrial groups and houses in India and large companies abroad in sectors where there was dire need for investment.

The Legal basis

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Foreign Direct Investment by non-resident in resident entities through transfer or issue of security to person resident outside India is a ‗Capital account transaction‘ and Government of India and Reserve Bank of India regulate this under the FEMA, 1999 and its various regulations. Keeping in view the current requirements, the Government from time to time comes up with new regulations and amendments/changes in the existing ones through order/allied rules, Press The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India makes policy pronouncements on FDI through Press Notes/ Press Releases which are notified by the Reserve Bank of India as amendment to notification No. FEMA 20/2000-RB dated May 3, 2000. These notifications take effect from the date of issue of Press Notes/ Press Releases. The procedural instructions are issued by the Reserve Bank of India vide Circulars. The regulatory framework over a period of time thus consists of Acts, Regulations, Press Notes, Press Releases, Clarifications, etc. This circular consolidates into one document all the prior policies/regulations on FDI which are contained in FEMA, 1999, RBI Regulations under FEMA, 1999 and Press Notes/Press Releases/Clarifications issued by DIPP and reflects the current ‗policy framework‘ on FDI. It deals comprehensively with all aspects of FDI Policy which are covered under the various Press Notes/Press Releases/ Clarifications issued by DIPP.

Table 1. Sector wise Division for FDI

FDI --- AUTOMATIC ROUTE	**FDI -- GOVERNMENT ROUT**
Floriculture, Horticulture, Animal Husbandry	Tree Plantation
Mining, Exploration of Metal and Nonmetal ores	Manufacturing items reserved for SME (24%)
Coal and lignite mining and processing	Cigars and cigarette manufacturing
Alcohol distillation and brewing	Defence (26%)
Coffee and Rubber processing	Private Banking sector (74%)
Drugs and Pharmaceuticals	Commodity Exchange (49%)
Power	Print Media (26%)
Advertising and films	
Green field projects in aviation sector	
Data processing, software development and Computer consultancy services	
Health and Medical Services	
Hotel and Tourism	
Petroleum and natural gas	

Source: ***D/o IPP. F. No.5 (14)/2009 FC dated 31/3/2010 issued by Ministry of Commerce & Industry, GOI***

Table 2. Ranking of Sector wise FDI inflow in India (April 2007- Dec 2011)

Rank	**Sector**	**% of FDI inflow**
1	Service Sector	32
2	Computer Hardware and Software	14
3	Telecommunication	12
4	Housing and Real Estate	11
5	Construction Activities	11
6	Power	6
7	Automobile Industry	6
8	Metallurgical Industry	4
9	Petroleum and Natural Gas	3
10	Chemicals	1

Source: Fact Sheet of FDI- DIPP (2011)

FDI in retail is the most controversial and debated issue attracting cross sections of opinion from government, Political Parties, Industry experts and Academia. Since retail yet does not enjoy independent industry status, there are no exclusive figures available on FDI in retail sector. Prior to 2007, FDI was allowed in retailing to end users, but all applications were considered on case to case basis. This enabled ―Nanz‖ supermarket of Germany and ―Dairy Farm‖ of Hongkong to enter food retailing in India in 2007, by linking up with domestic retailers. Nanz was folded after opening up of eight stores in New Delhi. In late nineties, the domestic retailers agitated against FDI in retailing and since 2007-08 FDI in retail was disallowed. As per current laws except under single brand retail where FDI upto 100% is allowed directly, FDI in retail is prohibited in India. India being a signatory to WTO is required to open up retail trade sector to FDI. In 2007 FDI in Cash and Carry with 100% ownership was allowed under the government approval route. It was brought under automatic route in 2006. 51% investment in single brand retail outlet was also permitted in 2006. FDI in multi brand retail is still prohibited in India. Press note of 2006 by DIPP and consolidated FDI policy issued in October 2010 provide sector specific guidelines and regulatory framework for FDI with regard to conduct of trading activities which also includes retail operations. This is especially applicable for developing economies. During the 2001, foreign direct investment was one of the major external sources of financing for most countries that were growing

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economically. It has also been noted that foreign direct investment has helped several countries when they faced economic hardship.

LIMITATIONS OF THE STUDY

All the economic / scientific studies are faced with various limitations and this study is no exception to the phenomena. The various limitations of the study are:

1. At various stages, the basic objective of the study is suffered due to inadequacy of time series data from related agencies. There has also been a problem of sufficient homogenous data from different sources. For example, the time series used for different variables, the averages are used at certain occasions. Therefore, the trends, growth rates and estimated regression coefficients may deviate from the true ones.
2. The assumption that FDI was the only cause for development of Indian economy in the post liberalized period is debatable. No proper methods were available to segregate the effect of FDI to support the validity of this assumption.

SUGGESTIONS

On the other hand, FDI in multi-brand retailing must be dealt cautiously as it has direct impact on a large chunk of population. Foreign capital, if unchecked, may widen the gap between the rich and the poor. Thus, the entry of foreign capital into multi-brand retailing needs to be anchored in such a way that it results in a win-win situation both for India and global players. For example FDI in multi –brand retailing can be allowed in a calibrated manner with social safeguards so that the effect of possible labor dislocation can be analyzed at regular intervals and policy fine tuned accordingly.

To ensure that the foreign investors make a genuine contribution to the development of India‘s infrastructure and logistics, it can be stipulated that a percentage of FDI should be spent towards building up of back end infrastructure, logistics or agro processing units and the claims must be critically evaluated. It can also be stipulated that at least 50% of the jobs in the retail outlet should be reserved for rural youth.

Developing countries, emerging economies and countries in transition have come increasingly to see FDI as a source of economic development and modernization, income growth and employment. Countries have liberalized their FDI regimes and pursued other policies to attract investment. They have addressed the issue of how best to pursue domestic policies to maximize the benefits of foreign presence in the domestic economy.

The study Foreign Direct Investment for Development attempts primarily to shed light on the second issue, by focusing on the overall effect of FDI on macroeconomic growth and other welfare-enhancing processes, and on the channels through which these benefits take effect.
The overall benefits of FDI for developing country economies are well documented. Given the appropriate host-country policies and a basic level of development, a preponderance of studies shows that FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development.
All of these contribute to higher economic growth, which is the most potent tool for alleviating poverty in developing countries. Moreover, beyond the strictly economic benefits, FDI may help improve environmental and social conditions in the host country by, for example, transferring "cleaner" technologies and leading to more socially responsible corporate policies.

The report does not focus solely on the positive effects of FDI for development. It also addresses concerns about potential drawbacks for host economies, economic as well as non-economic. While many of the drawbacks, referred to as "costs" in this report, arguably reflect shortcomings in the domestic policies of host countries, important challenges may nevertheless arise when these shortcomings cannot easily be addressed.

Potential drawbacks include a deterioration of the balance of payments as profits are repatriated (albeit often offset by incoming FDI), a lack of positive linkages with local communities, the potentially harmful environmental impact of FDI, especially in the extractive and heavy industries, social disruptions of accelerated commercialization in less developed countries, and the effects on competition in national markets. Moreover, some host country authorities perceive an increasing dependence on internationally operating enterprises as representing a loss of political sovereignty. Even some expected benefits may prove elusive if, for example, the host economy, in its current state of economic development, is not able to take advantage of the technologies or know-how transferred through FDI.

CONCLUSION

As evidenced by analysis and data the concept and material significance of FDI has evolved from the shadows of shallow understanding to a proud show of force. The government while serious in its efforts to induce growth in the economy and country started with foreign investment in a haphazard manner. While it is accepted that the government was under compulsion to liberalize cautiously, the understanding of foreign investment was lacking. A sectoral analysis reveals that while FDI shows a gradual

increase and has become a staple for success for India. The Telecommunications and power sector are the reasons for the success of Infrastructure. This is a throwback to 2007 when Infrastructure reforms were not attempted as the sector was performing in the positive. FDI has become a game of numbers where the justification for growth and progress is the money that flows in and not the specific problems plaguing the individual sub sectors. Political parties (Congress, BJP, CPI (M)) have changed their stance when in power and when in opposition and opposition (as well as public debate) is driven by partisan considerations rather that and effort to assess the merit of the policies. This is evident is the public posturing of Hindu right, left and centrist political parties like the Congress.
The growing recognition of the importance of FDI resulted in a substantive policy package but and also the delegation of the same to a set of eminently dispensable bodies. This is indicative of a mood of promotion counterbalanced by a clear deference of responsibility. In the comparative studies the notion of Infrastructure as a sector has undergone a definitional change. FDI in the sector is held up primarily by two sub sectors (telecommunications and Power) and is not evenly distributed.

This appreciation in the value of Indian Rupee provides an opportunity to the policy makers to attract FDI inflows in Greenfield projects rather than attracting FDI inflows in Brownfield projects. Further, the above analysis helps in identifying the major determinants of FDI in the country. FDI plays a significant role in enhancing the level of economic growth of the country. This analysis also helps the future aspirants of research scholars to identify the main determinants of FDI at sectoral level because FDI is also a sector – specific activity of foreign firms' vis-à-vis an aggregate activity at national level. Finally, the study observes that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It alsocontributes to the GDP and foreign exchange reserves of the country.

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