

CRITICAL REVIEW OF LITERATURE OF FDI IN INDIA: PRELIMINARY OBSERVATION

Deeptirani Rath and Biswajit Bhoi
Deeptirani Rath and Biswajit Bhoi (Faculty), DE, CUO, Koraput

Abstract: The foregoing review of empirical literature confirms/highlights the following facts Institutional infrastructure and development are the main determinants of FDI inflows in the European transition economies. It is found that bigger diversity of types of FDI lead to more diverse type's o spillovers and skill transfers which proves more favorable for the host economy. It is also found that apart from market size, exports, infrastructure facilities, institutions, source and destination countries, the concept of neighborhood and extended neighborhood is also gaining importance especially in Europe, China and India. The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment.

Key words: FDI, India, Review

1. INTRODUCTION:

The comprehensive literature centered on economies pertaining to empirical findings and theoretical rationale tends to demonstrate that Foreign Direct Investment (FDI) is necessary for sustained economic growth and development of any economy in this era of globalization. The reviewed literature is divided under the following heads:

- Empirical Review
- Theoretical Review
- Conceptual Review

2.EMPERICAL REVIEW:

Sharma et al. (2016), in his journal suggests that, there is a positive relationship between FDI and economic factors like (inflation, deficit in BOP, GDP etc.). From their study it is concluded that after liberalization FDI is a key factor considered developing indicator of Indian economy, By analyzing sector wise, service sector's contribution was 17.03% during 1991 onwards to 2015. By analyzing region wise, Mumbai is the fast destination which attracting FDI that is 29% by following Delhi, Chennai.

Nagrajan (2003) states that, as India's trend shows the size of India's domestic market is relatively small, given the low levels of per capita income. After meeting the needs of food and clothing (wage goods), income left for spending on products that most foreign firms offer seems small; their price- income ratio too high for Indian consumers.

Kirthika et al. (2014) views about the relationship between FDI economic growths. For this her studies were descriptive & analytical in nature also. They took the time period of 10 years that is 2003-13. The author proved the hypothesis through Karl Pearson correlation coefficient and also used the term CAGR. By using these, they came to conclude that, in case of GDP with FDI, Coefficient of 0.87% which means economic moves toward FDI inflows, with GNP also in same manner. But with BOP, an increase in FDI inflow leads to decrease in overall BOP where the coefficient is 0.46.

Naveen (2015) opines that, "3d"s- democracy, demography and demand are the unique traits of Indian economy and India is having superior marketplace at global level, the government has launched „make in India“. Also suggesting India is far better on most of the countries FDI inflows into the service sector increased from \$ 2.22 billion in 2013-14 to \$3.25 billion in 2014-15 i.e. Increase by 46 % , the growth rate has picked up the pace, external account is better as foreign reserves are at record high, inflation has been moderate and fiscal deficit is manageable. Thus for the acceleration of rate of economic growth, India needs to augment FDI inflows by using simple statistical tool like correlation and regression.

Shyam (2017) proposed in his journal, "FDI: future demand of India" mentioned that "consumer are always hungry for modern ways of shopping, Indian retail & employment potential is growing fast too. In his study it was mentioned about retail scene that they are rethinking of best pricing system which e prudent to encourage FDI in retail further.

Prerna et al. (2013) argued that, "FDI inflows rising but not enough because global FDI inflows declined by 8% in the first half as the world economy which not compete to other developed countries. Here author wants to give a long term lasting relationship ideas to policy makers."

Vyas (2015), "An analytical study of FDI in India". Here we tried to achieve the objective the FDI inflows to India in sector, country and region wise and reached conclusion that FDI creates jobs for skilled employee and plays vital role in development of

infrastructure and it has good further growth. In retailing & real sector because relaxation of norms for foreign investment. In region wise, Mumbai was top with 29% to total FDI. A country wise shows Mauritius in top followed by Singapore, Japan, U.K. This study suggesting for flexible labor laws relook at sectoral caps, geographical disparities of FDI should be removed result more and more inflow of FDI into a country.

Renuka et al. (2013) highlights by focusing sector wise analysis FDI flow continuously increasing mainly in service sector by using regression line and macro variable.

Anitha (2012) views that in his article “FDI & economic growth in India”, The FDI inflows during preliberalization period was CAGR of 25.46% which very minimum due to “INWARD LOOKING STRATEGY” & dependence of external borrowings. And during post liberalization it was increased by 34.73%. She include 30 years from 1980-81 to 2009-10 by ARIMA model.

Rajalakhmi k.et al. (2011), “Impact of FDI in Indians automobile sector with reference to passenger car segment”. The author had studied the foreign investment flows through the automobile sector with special reference to passenger cars and examining the trend and composition of FDI flow and effect of FDI on eco. Growth and identifying the problem faced by India in FDI growth of automobile sector through policy suggestion.

According to **Teli R.B (2014)**, “A critical analysis of FDI inflows in India”. In his article he tried to find out or analyzing the growth & trends & pattern of FDI inflow in India & to study the impact of FDI on growth over the period 1991-2011. For this he used collected data, statistical tool and least square, concluded that India’s decision to allow 100% FDI in single brand retail as a revolution, textile in India & prospects that in the next 5 years, the countries aim is to have \$250 billion FDI coming to India about impact of FDI, the correlation analysis shows that there is a very high correlation between the FDI & the economic growth and suggesting that the regulatory policies should be made favorable and avoid uncertainties for boosting FDI in India.

Sirisha et al. (2015), “A study in the changing trends in the flow of FDI” stated that, in the content of country wise inflow the CAGR ranges from -19.53% of minimum & maximum of 65.28%. There are Luxemburg, Singapore, Japan witnessed positive & Mauritius, USA, Hongkong witnessed negative.

In the context of sector analysis CAGR ranged between -52.22 to 52.33 which witnessed highest FDI in communication and lowest in trading industry. For this the author studied for 7 yr that is 2007-08 to 2014-15, by using the term AGR.

Zheng P.(2013), “ The variation in Indian inward FDI patterns”, it provides systematic & religious analysis, concluded that only market seeking FDI attracted more in early stage later. Resource seeking and efficiency seeking become more popular due to changed govt. Attitude towards policies also it is affected by geographical location due to cheap labor for efficiency purpose in developing country & suggests that Indian FDI experience may provide a guideline for other developing countries in formulating specific policies.

Jammu S. et al (2014) stated in “FDI in India” that foreign capital is a good servant, but a bad master. Their main focus was to examine the sector wise, state wise FDI inflow during 2000-2010, and also showing the trends in FDI & total foreign investment by taking CGR and semi log trend model. In the context of state wise analysis Maharashtra and suggests further that it is mainly concerned in south and north further. The relationship between FDI and GDP, by using regression equation, economic growth leads to more attraction of FDI and inverse relationship between GDP & FDI.

Ibrahim et al. (2014), “FDI plays a vital role in global business & also in the form of investment in foreign institutional investor (FIIs) & investment through American Depository Receipts (ADR) etc. The history of it was the establishment of East India Company for Britishers own interest, thus this force Indian economists to make foreign investment policy for acquiring advance technology & to mobilize foreign exchange reserve (FER) due to inadequate domestic capital, lack of entrepreneurship, capital formation & so on. The objective of this study is to explore the relationship between the inflow of FDI & its impact on Indian economy. For this he used time period of 10 year from 2003-04 to 2012-13 & secondary data. By concerning inflows of FDI with India’s export, GDP & FER, he concluded that the CAGR of FDI flow was 23.9%, export rate 16.76% & GDP was 12.68% and the increase over the period was 3.88 times of FER. He suggests that, in India foreign capital helps in increasing productivity of labor, to build FER to meet current account deficit. So, govt. should provide tax concession, simplification of licensing to encourage foreign investment. During this period Indian economy is developing very rapidly and become 5th largest country in the world.

Agrawal G. et al. (2011), “ Impact of FDI on GDP: a comparative study of china and India”, FDI refers to long-term participation by country a into country b in terms of managerial skill, transfer of technology and joint venture which plays a vital role in globalization process. There is strong evidence for promoting growth FDI has a vital contribution, in the sense generation of employment, fulfilling saving gap etc. & by reviewing article they concluded that FDI has the positive impact on growth mainly in developing countries only in the presence of skilled labor. This study highlight about whether the effect of FDI leads to economic growth of china and India or not & also it’s comparative analysis of these two countries. To prove it they take into account multiple regression models by assuming the time period of 1993-2009. The implication of the result is 1% increase in FDI would result in something increase in GDP of china & India respectively. This is due to presence of redtrapism & poor

performance in competitiveness, lack of advance technology etc. to avoid these bottlenecks govt. should follow regulation policy for occupying a better position than china.

According to **Jha R. (2011)**, “FDI can only enhance in making of deep cuts in tariff that possible by substituting investment for domestic privatization program me”. In short FDI policy integrates with trade reform & privatization policy.

3.Theoretical review:

• Hymer-Kindleberger theory

According to the **Hymer-Kindleberger theory (1969)**, the foreign owned firm would make an investment in the host country only if it possesses some compensating indigenous firms. Three such conditions are:

- (i) The advantage is internally transferable (it can be exploited by a subsidiary of the parent firm, without any additional cost to the parent firm or to the subsidiaries already exploiting it);
- (ii) It is more profitable for the foreign owned firm to exploit the advantage itself than to license an indigenous producer
- (iii) Exporting the product to the host country is not possible or unprofitable due to tariff or transport cost barriers.

• General Theory

The general theory of Transnational Corporations (TNCs) traces their emergence to internationalization of markets (1991). The theory is based on the three simple postulates as given below:

- (i) Firms maximize profits in a world of imperfect markets;
- (ii) When markets in intermediate products are imperfect, there is an incentive to by-pass them by creating internal markets (within the firm); and
- (iii) Internationalization of markets across national boundaries generates MNCs.

This theory predicts that unless either transport costs are very low, returns to scale (at the plant level) are high, or the comparative advantage of one location is very significant, the international acquisition and exploitation of knowledge will normally involve international production through a world-wide network of basically similar plants. Thus, prior to Second World War, multinationality was a by-product of the internationalization of intermediate product markets in a multistage production process, and in post-war period it is a by-product of internationalization of markets in knowledge.

• Kojima Theory

The **Kojima theory (1960-1970)** argues that Japanese type FDI would upgrade the industrial structures of both Japan and the host country, or play the role of initiator or tutor in the industrialization of less developed countries. The theory presents the triple effect viz., investment, trade and industrial restructuring with mutual benefit. The triple effect can be seen in the textile industry typically, but not so much in the automobiles and electrical appliances industries, which contributed to upgrade local industry ‘to some extent’ but much lesser in the exports of these manufacturers.

• Dunning’s Electric Theory

Dunning’s electric theory of international production (1988) explains both the ways in which overseas markets are served by enterprises of different nationalities and the industrial and geographical composition of such activities. According to this theory,

- (i) It possesses same ownership advantage vis-à-vis firms of other nationalities in serving particular markets;
- (ii) It is more beneficial for the firm to use the advantage itself than to sell or lease them to foreign firms; and
- (iii) It is profitable to the enterprise to utilize these advantages in conjunction with at least some factor inputs outside the home country.

4. Conceptual review:

Aliya & Parmer (2013) highlighted in his article, “Putting the money of your country in a company in functioning in some other country is FDI. To them, FDI is needed for decreasing deficit in BOP, development of basic infrastructure etc. as well various shortcomings like unbalanced growth, political instability can be found. India has seen an eightfold increase in its FDI, Govt. of India allowed FDI aviation up to 74%, in multi brand retail 100% & it was the 2nd most developing retail growing & emerging markets. In the sectoral development context, FDI will benefit Agriculture & create employment opportunities.

Francis (2010) opined that, “India the lasting interest is not evinced by any minimum holding of percentage of equity capital/ shares/ voting rights in the investment enterprise. To her, foreign investors operating in the same sector in their home countries & can be expected to be long term players & bring capital and benefit on their strength. And suggesting FDI ownership of 10% or more the voting power of an enterprise resident in economy of another economy. By arguing there is some problem relating to classification & involving dangers with trade negotiations.

Seth et al. (2011) analysis about high technology, govt. incentives which are ineffective in china. His study provides more holistic view of factor impacting FDI location decisions. It is useful to MNE managers to better match the firm strategy requirements with the industry firm specific FDI incentives among the increasing number of contending FDI location now becoming available & helped to policy maker the efficiency of invest incentives & the time lag for benefits to materialize. This shifts the focus away from country level to more precise province level analyzes FDI inflows.

5. Research gap:

The above review of literature proves beneficial in identifying the research issues and the research gaps, which are mainly the edifices on which the objectives of the present study are based on. There is hardly any study in India which has taken variables like foreign exchange reserves, total trade while assessing the determinants and impact of FDI on Indian economy. The present study tries to include these above said variables in assessing the impact of FDI in India at the macro – level. Further, there is

hardly any study in India, which documents the trends and patterns of FDI at world level and Indian level. Thus, the present study is an endeavor to discuss investors operating in the same sector in their home countries & can be expected to be long term players & bring capital and benefit on their strength. And suggesting FDI ownership of 10% or more the voting power of an enterprise resident in economy of another economy. By arguing there is some problem relating to classification & involving dangers with trade negotiations.

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6. Conclusions:

The above review of literature helps in identifying the research issues and gaps for the future study. The foregoing review of empirical literature confirms/highlights the following facts Institutional infrastructure and development are the main determinants of FDI inflows in the European transition economies. It is found that bigger diversity of types of FDI lead to more diverse type's o spillovers and skill transfers which proves more favorable for the host economy. TM It is also found that apart from market size, exports, infrastructure facilities, institutions, source and destination countries, the concept of neighborhood and extended neighborhood is also gaining importance especially in Europe, China and India. The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment etc.

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