TOM JACOB "IMPACT OF FOREIGN INVESTMENT FLOWS ON INDIAN ECONOMY IN THE POST LIBERALISATION ERA." THESIS. RESEARCH DEPARTMENT OF COMMERCE ST THOMAS' COLLEGE (AUTONOMOUS), UNIVERSITY OF CALICUT, 2019.

Chapter 7

Findings and Conclusion

This study began by ascertaining the academically endorsed and historically experienced potential of foreign investment - being a non-debt capital - to impact the host economies. As a prelude and a preparation to make an empirical analysis of this proposition in the Indian context - i.e., how far foreign investment impacted the Indian economy - the literature related to this area, the steps taken by the government to attract foreign investment to India, the character and quantity of such investments reached here and the factors which motivated foreign investors to invest in India were examined. Then the Indian economy as a whole is approached from its parts - the macro economic variables with special reference to the capital market. And an analysis, mainly econometric, is made to find out whether there exist a relationship between these variables and foreign investment with the assumption that the existence of relationship implies the existence of impact which may be positive or negative. This chapter - the concluding one - highlights what is found during the study and analysis of this process as well as at its end with a formal conclusion having the nature of criticisms, observations, suggestions etc.

7.1 Findings of the Study

1. Since the economic reforms of the 1990s, India is witnessing huge flows of foreign capital. More or less identical trend is seen in the flows of the two

major channels of foreign investment i.e., FDI and FPI. Their compound annual growth rate is 26.68 percent and 39.31 percent respectively.

2. Foreign direct investors preferred to invest in India through equity capital when compared to the other two components of foreign direct investment i.e., reinvested earnings and other forms of capital. In the total FDI flows the share of equity capital was 68 percent, reinvested earnings 27 percent and 5 percent for the rest.

3. The most preferred sector of the Indian economy by the foreign direct investors are the service sector. Telecommunication, computer hardware and software, construction and development, automobile industry, drugs and pharmaceuticals etc. are their other favoured sectors.

4. Foreign direct investment in India is unevenly distributed or more precisely concentrated in two regions Mumbai and New Delhi i.e., 30 and 19 percent of the FDI is focused on these two regions respectively.

5. Major portion of the foreign direct investment in India comes from two countries, Singapore and Mauritius. The individual contribution of the great economic powers to the Indian foreign direct investment arena is very negligible. It does not amount to more than a single digit percentage.

6. Foreign portfolio investment in India has become investment by foreign institutional investors and now they emerged as the star of foreign portfolio investment in India. Out of the cumulative portfolio investment, FIIs' contribution was 87 percent, while 12 percent came through GDR/ADR issues and the remaining one percent through Offshore Funds.

7. Out of the two areas of foreign portfolio investment - equity and debt - foreign portfolio investment is concentrated in equity i.e., 74 percent of FPI is concentrated on equity and only 26 percent is in debt.

8. As per the Auto Regressive Distributed Lag (ARDL) model conducted by taking foreign investment as dependent variable and other macroeconomic variables which have a bearing up on the determinants of foreign investment in India as independent variables, it is seen that the most important determinant of foreign investment in India as a whole is the

economic growth which is represented through the Index of Industrial Production (IIP) in the context of foreign investment. In the case of foreign direct investment besides the economic growth two other macroeconomic variables i.e., exchange rate and inflation also found significantly impacting foreign direct investment in India. But in the case of foreign portfolio investment the most important factor acted as determinant is stock return. But it is seen that foreign portfolio investment is not determined by inflation and exchange rate. However, the generally believed factor i.e., trade openness, the associate of liberalization showed only negative impact on the arrival of foreign direct investment in India mainly because of the dominance of import over export, indicating that liberalization did not serve as a cause but served only as a spark to flame the arrival of foreign investment in India.

9. Foreign investment has made its presence and impact in almost all the major macroeconomic variables of the Indian economy. It is found that foreign investment has

    (a) played a crucial role in financing India's current account deficit by contributing substantially to the capital account and thereby making India's balance of payments a balancing one to a very great extent.

    (b) become the dominant creator of forex reserves in India. It is seen that both foreign direct investment and foreign portfolio investment have a positive impacts on foreign exchange reserves in the long run and in the short run. The Vector Error Correction Model (VECM) revealed that in the long run Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Exports (EXP) have positive impact on Foreign Exchange Reserves (FER) whereas Import (IMP) and Exchange Rate (REER) volatility have negative impact and their relationship is statistically significant. In the VEC Granger Causality/ Block Exogeneity Wald Test, it is found that in the short run, the role of Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Exports (EXP) are statistically significant in influencing the variation of Foreign Exchange Reserves (FER) while the role of the variables like Import (IMP) and Exchange Rate (REER) are found statistically insignificant.

(c) led to the appreciation of the rupee and thereby positively impacted the exchange rate of India. In the Vector Error Correction Model (VECM) it is found that both forms of foreign investment i.e., FDI and FPI have positive impact on exchange rate in the long run while Inflation (WPI) and Import (IMP) have only negative impact. According to the VEC Granger Causality/ Block Exogeneity Wald Test in the short run, foreign portfolio investment exercises more positive impact on the exchange rate than the FDI. That is in the short run Foreign Portfolio Investment (FPI) is found as the major factor responsible for the appreciation of Indian rupee whereas the role of Foreign Direct Investment (FDI), Import (IMP) and Inflation (WPI) are found statistically insignificant.

(d) both forms of foreign investment made positive impact on the economic growth of the country in the long run and in the short run. When the Vector Error Correction Model (VECM) showed a long run positive relation between Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), Export (EXP) and Inflation (WPI) on the Economic Growth (IIP), it showed that interest rate (IR) and exchange rate fluctuation (NEER) are negatively related to economic growth and their relationship is statistically significant. The VEC Granger Causality/ Block Exogeneity Wald Test showed that in the short run also Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Inflation (WPI) are positively related with Economic Growth (IIP) and their relationship is statistically significant but it showed only insignificant relationship between Export (EXP) and Exchange Rate (NEER).

10. It is seen that in the long run there is a positive relationship between foreign investment and inflation in India indicating a negative impact of foreign investment on Indian economy. Though in the short run no significant relationship is found between foreign investment and inflation in India, in the long run a positive relation is found between both forms of foreign investment and inflation. It indicates that foreign investment leads to the increase of inflation in the country and in this respect foreign investment has an adverse impact on Indian economy.

According to the Vector Error Correction Model (VECM) in the long run, there is a clear and positive relationship between Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Crude Oil Price (COP) with Inflation (WPI). At the same time Exchange Rate volatility (NEER) and Economic Growth (IIP) are found to have a negative relation with Inflation (WPI) and their relationship is statistically significant. However as per Block Exogeneity Wald Test in the short run no statistically significant relationship is found between Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Inflation (WPI) but significant relationship is found between Crude Oil Price (COP), Economic Growth (IIP) and Inflation (WPI).

It implies that foreign investment by fuelling the inflation produced some negative impact on Indian economy. However since foreign investment did not lead the country to a two digit inflation (except a few occasions), it is concluded that the negative impact of foreign investment on Indian economy via inflation is not very severe as a moderate rate of inflation is not very adverse to an economy.

11. As a result of the non-debt capital flows via foreign investment, a significant decrease in the proportion between the total debt creating capital and non-debt creating capital take place. Before the eve of the advent of foreign investment i.e., in 1991 the debt service ratio was 30 but now it has shrunk to 7.5, the credit of which can be safely attributed to the foreign investment and the consequent result of huge flows of non-debt capital. Similarly when compared to countries like Spain, Portugal etc. whose external debt to GDP is more than 100 percent, India's ratio of external debt to GDP which was 38 in 1991 drastically came down to almost 20 percent, the credit of which also goes to foreign investment.

12. However, it is in the capital market of India that foreign investment made its most vibrant presence and produced tangible impacts extending to the whole economy. Out of the four aspects of the capital market studied viz stock return, sectorial indices, development of the capital market and volatility, except in the case of volatility, foreign investment made positive impacts which are tantamount to the impact on the economy as a whole.

    (a) When the impact of foreign investment on stock return is studied

in relation to other factors which influence the stock return viz interest rate, exchange rate, index of industrial production, inflation, gold price, it is found that Foreign Institutional Investment (FII) produced positive impacts on stock return. This impact of foreign investment on stock return is more lucid in the Regression Analysis which manifested that banking sector, where there is a concentration of foreign investment, has produced the highest return.

(b) Foreign investment showed deep impact on almost all the sectoral indices at varying degrees. However it is very clear that FIIs have focused more on the banking sector and the least on the information technology.

(c) Foreign investment produced significant impact on all the aspects related to its development like liquidity, market capitalization (size of the market), Price Earnings ratio, reduction of transaction costs, corporate governance etc.

   (i) Foreign investment caused an upward movement in the stock market liquidity. The Granger Causality Test showed a significant and positive impact of FIIs flows on market liquidity.

   (ii) A positive relationship is seen between FIIs investment and market capitalization too. That is in accordance with the increase of foreign investment, the market capitalization is also found to be on the increase. The Regression Analysis showed significant relationship of foreign investment with all types of companies (large cap, mid cap and small cap) though they are focused more on the large cap and the least on the small cap companies.

   (iii) A positive relationship between foreign institutional investment and P.E. ratio of the capital market is established in the Granger Causality Test.

   (iv) Since the advent of foreign investment, considerable reduction of transaction costs like those related to trading fee, bad delivery, counter party risk, impact cost, stamp duty etc. has taken place as a result of the direct encounter with foreign investors and their financial technologies and because of the necessity of attracting foreign investors. Similarly it is realised that there has been a

drastic reduction in the total transaction costs approximately from 4.75 percent in 1994 to 0.6 percent in 2018. Now with regard to transaction costs the Indian capital market ranks at par with the best in the world.

(v) Other developments in the capital markets like the improvement of corporate governance, introduction of online trading, increase in the number of listed companies etc. are the outcome of foreign investment as they were a necessary condition to attract foreign investment in the capital market or were the result of its arrival.

(d) Foreign investment especially foreign portfolio investment has inflicted the Indian economy with a high rate of volatility. It is found that foreign investment inflow in the capital market has always been accompanied by almost similar quantity of its outflows and this outflows had been very strong during the periods of the Indian's economy stress and strain.

The volatility test conducted (by taking the net capital flows during the period under study) showed that the volatility of FPI is more than the volatility of FDI. The descriptive statistics also showed consistent result. The standard deviation value and the skewness and coefficient of variation of FPI are found greater or higher than FDI. It is found that both form of foreign investment exhibited volatility but the volatility of FPI is found to be higher than that of FDI. Thus in the Indian context also FPI proved more volatile and hence a hot money than FDI.

However so far in India volatility of foreign investment is not found very high during normal times and hence did not produce any significant negative impact (except during a few isolated occasions) on the capital market. Thus when this comparatively high rate volatility of FPI and low rate of FDI taken together foreign investment in India as a whole did not seen to be dangerously volatile.

If the above findings related to the impact of foreign investment on the macro economic variables of the Indian economy are further extracted, it can be seen that except in the case of inflation and volatility, on all the other macroeconomic variables of her economy - balance of payments, foreign exchange reserves,

exchange rate, economic growth, external debt and capital market - foreign investment exerted a positive impact. It is true that foreign investment is found as a contributing factor to inflation in the economy and thus exerted a negative impact on Indian economy. Yet it should be noted that this negative impact of foreign investment was not a serious one because during the period under study foreign investment did not lead the country to a high level of inflation. Hence as stated already a moderate level of inflation is unlikely to produce an adverse impact on the economy. The positive relation existing between foreign investment and inflation in India cannot be considered as a serious negative impact of foreign investment on her economy. Like manner the element of volatility associated with foreign investment is not found to be a very severe one. Between the two channels of foreign investment only FPI exhibited volatility and that too was not so alarming (except during a few isolated occasions).

Therefore it may be possible to conclude safely that foreign investment has a positive impact on the Indian economy. This is the outcome of the combined and indistinguishable contributions of both FDI and FPI, the two channels of foreign investment in India. Yet the study advocates a little preference for FPI because of the fact that the FPI appears to be more agreeable and adjustable to the social and political scenario of India.

The study recognises and admits the fact that it is because of the comparatively favourable conditions existed in India during the days of foreign investment that foreign investment could play a positive role in the Indian economy. This fact refrains the study from taking a futuristic view about the positive impact of foreign investment on the Indian economy. Instead, the uncertainties associated with the foreign investment and the present day world economic scenario like that of the fear of a world trade war compel the study to remind and warn that extreme dependence on foreign investment will be another gamble for the Indian economy. Hence it exhorts that along with the efforts to encourage foreign investment in India, the urgency to control the evils associated with foreign investment and to take enough precautionary measures like discouragement of import, encouragement of export, control of inflation etc. in order to withstand a sudden shock by way of withdrawal or discontinuance of foreign investment in India.

7.2 Suggestions

This study has been proceeding on two broad propositions - which it could prove - that huge amount of foreign investment has reached in India and they produced deep impact on the Indian economy. But now at the end of the study when looking back through a different angle, it can be seen that the foreign investment in India is not so huge as it is projected and appeared. That is despite the apparently huge amount of foreign investment in India, they still form only an average 2 percent of the GDP of the country. Similarly despite the strong back-up of the foreign non debt capital, Indian economy was never in a position to achieve a two digit growth. These two facts not only point out the existence of a wide space for foreign investment in India and the need of its effective use but also throws light on the deficiencies of the policies regarding foreign investment in India especially liberalization which requires some modification and change of approach.

Broadly speaking, liberalization in the context of foreign investment in India must include two things - removal of restrictions and relaxation of policies on the one hand and creation of the conditions necessary for the arrival and effective use of foreign investment on the other. So far what India has been following the former. Now it is necessary for the country to shift her emphasize towards the latter. Just as an individual's liberty is no longer considered as mere absence of restrictions but also creation of the necessary conditions for the fullest development of one's personality, liberalization along with the removal of restrictions should give equal or more importance for the creation of conditions necessary for the arrival and retention of foreign investment in India as well as rectification its defects. Hence as part of this change of approach attention may be given to the following.

So far India has been trying to attract maximum quantity of foreign investment to the country ignoring its qualitative aspects. A foreign investment which is highly vulnerable to volatility and hence highly risky cannot be considered as good quality foreign investment. So also the foreign investment reached so far in India, as they are not from developed countries with solid base, cannot be considered as a good quality foreign investment.

In the India's foreign investment scenario especially in her FDI front, the great economic powers have only a guest role. Their combined contribution is only less than 10 percent. On the other hand the lion's share of FDI in India i.e., more than 60 percent is from Singapore and Mauritius, the two foreign investment dependent countries. Some technical reasons like prevalence of Double Taxation Avoidance Law helped Mauritius to come to the fore front of foreign investment in India. (It is not denying that investment from some companies, which includes some dummy companies also, from these countries are also from the economic powers). The above situation limits the scope of foreign investment in India in two ways. Firstly it limits the scope of the widely claimed benefit of foreign direct investment i.e., technology transfer and secondly make foreign investment in India highly risky and vulnerable to the volatility. That is if those countries which invested in Singapore and Mauritius discontinue their investment in these countries or if a serious outflows take place there it will become a chain action and quite naturally Singapore and Mauritius will withdraw their investments or at least discontinue their investment in India with immediate repercussions and far reaching consequences in India. Under these circumstances it is very necessary for India to attract foreign investment directly from the great economic powers.

The main reason for the arrival of the poor quality of foreign investment to India is the existence of an exaggerated bad image of India outside the country, especially among the great economic powers. It is an undeniable fact that India is still considered as a highly backward undeveloped country inhabited by illiterate, intolerant, uncivilized people with strong anti-foreign sentiments, immersed in large scale corruption, internal conflicts, poor law and order conditions etc. The exaggerated elements of these beliefs and misgivings should be removed through wide propaganda and the facts remaining in them should be eradicated at any cost. Along with this, awareness should be created among the foreign investors about the fundamental strength of the economy, the developments she achieved in all fields, the existence of wide market, skilled man power, vast natural resource, the availability of various schemes of incentives for foreign investment etc. For the realization of this purpose even commercial advertisements may be given as certain African countries do. A fact finding committee may also be appointed to collect first hand facts from foreign coun-

tries which repel them from India and erase the unsound bias existing among them about India. In short creation of an image building scheme should form an integral part of liberalization. Besides it should also include steps to remove the existing draw backs of foreign investment in India.

Above all at the micro level it is necessary to ensure the corporate governance of the companies and at the macro level to ensure the credibility of the data of the economy and data analysing institutions like central statistical institutions of the country. Similarly it is also necessary to ensure the strength and credibility of the democratic institutions of the country like the courts to inculcate the faith of the foreign investors in the county and its economy.

One of the negative drawbacks of foreign investment in India is the uneven development of the various sectors of the Indian economy. Attractions of certain sectors and unattractiveness of certain others, the existence of restrictions to invest in certain sectors etc. are the main causes for these sectorial imbalances. Hence while restricting foreign investment in certain sectors, government should take positive steps to encourage investment in the neglected and backward sectors by way of tax holidays, tax concessions etc. for the investments in these sectors.

As in the case of sectoral concentration of foreign investment, concentration of foreign investment in certain regions of the country like Mumbai, New Delhi causes regional imbalances leading to the neglect of some backward regions. Here also government may take some positive steps to encourage investments in backward and neglected regions through the already mentioned schemes like tax holidays, tax concessions etc. Moreover it is high time to discourage or even to ban further foreign investments in congested areas like Bombay, New Delhi etc. by levying extra taxes and the like for the investments in these areas. In short positive liberalization must involve positive discrimination of sectors and regions for foreign investment in India.

Again, so far foreign investment has been looked at as a means for economic growth of the country. There should be a change in this approach. Instead, economic growth should also be used as a means for attracting foreign investment and retaining it in India in order to control the volatility of foreign investment to a certain extent. Foreign investment policy in India is based on a false belief

that liberalization will be sufficient to attract foreign investment to the country. But the study revealed that it is not liberalization but economic growth in the case of FDI and in the case of FPI economic growth and stock return, are the determining factors for foreign investment in India. Hence in the foreign investment agenda top priority should be given for economic growth especially improvement in the IIP. Therefore the policy makers should consider enhancing the index of industrial production, the measuring rod of economic growth, by offering incentives and attractive benefits for the lagging industries in the economy because IIP being the indicator of the strength of the fundamentals of the economy has a magnetic power to attract foreign investments to the country.

It is a universal truth that foreign investment brings volatility - the uncertainties of foreign investment to the host economies. Though not in a big scale foreign investment in India also especially FPI exhibited volatility. Therefore all attempts in the direction of foreign investment must have built in safety valves to contain the risk of foreign investments especially volatility. Foreign investment in the capital market has now become the dictatorship of the FIIs. This dominance of the FIIs in the capital market is one of the main reasons for the capital market volatility in India. Because of their organizational strength, huge fund and power at their disposal the FIIs now direct the movements of the capital market as they desire through techniques like hedging.

Again, the extreme dependence of the FIIs on proxies leads to some sort of absentee investorship system and the denial of certain expected benefits of foreign institutional investment emerging from their superior knowhow related to the capital market. There are several occasions like those scandals related to Harshad Metha, Saytham Computers etc when the FIIs were are also emotionally and imprudently carried over just like the domestic investors. The only solution to these is to minimize the influences of FIIs in the capital market. It may be possible by encouraging and permitting foreign individual investors directly to invest in the Indian capital market. That is the dictatorship of the FIIs can be checked to a very great extent by further encouraging and liberalizing the entry of foreign individual investors, who are less organized and less powerful when compared to the FIIs, in the Indian capital market. Since the investment behavior of foreign individual investors will be entirely different from that of the FIIs it will become a check and balance of the investment be-

havior of the FIIs. Besides, stringent legislations are also necessary to control the FIIs along with the routine measures like lock in period, fixing of limits for the purchase of shares by the FIIs etc.

This study on the impact of foreign investment in India will remain incomplete unless an attempt is made to answer whether FDI or FPI has made more positive impact to the Indian economy and hence more suitable and to be encouraged in India. Generally speaking the two have distinct features, advantages and disadvantages and hence both are quite different in each other. Similarly their individual contributions to the positive impact of foreign investment in India are also indistinguishable and unidentifiable. For example it is seen that both came to India mainly attracted by her economic growth; both played almost equal contributions to the capital account and thereby played almost equal role in maintaining a fovourable balance of payments : both in the long run contributed significantly to the forex reserves, exchange rate and economic growth and both exhibited negative impact on economy by way of inflation. It is only with regard to volatility that both exhibited a clear distinction i.e., FPI is found more volatile. Therefore for the proper development of the country simultaneous operation of both is recommended. However a little more emphasize may be given for foreign portfolio investment (FPI) not because of its superior role over foreign direct investment (FDI) in impacting the Indian economy but because of certain characteristics of FDI are not suitable for the country. Though the permanent nature of FDI is a positive side of the FDI it necessitates the existence of foreign investment in the country for a long period whether we like or not. Long period of the foreign investment in the country in effect is long period of foreign presence in the country. People who have bitter experience of foreign rule may find it difficult to digest this. In this sense FDI may adversely affect the morale of the people and even their patriotism to a certain extent. Another widely claimed advantage of FDI is that it will help the transfer of technology to the country. This merit exists only in theory. It may not be wise to think that a foreign company will transfer technology to India just because it is permitted to invest in India. If they are willing to transfer their technology, during the present stage of the developed communication system, it is easy for us to absorb them even directly from foreign countries. Again opening of our economy to foreign investors like the

multinationals gives an opportunity for the politicians for continuous agitations which will adversely affect future flows of foreign investment to India and even result in the deterioration of the relations with our benefactor countries. These problems when combined with the generally agreed demerits of FDI - drain of the national wealth, unhealthy competitions and destruction of native industries, loss of employment etc. - make it comparatively an unsuitable form of foreign investment in India.

It is not denying that foreign portfolio investment has no demerits. Of course it has serious draw backs like volatility but one need not fear that foreign investors will remain volatile always for no reasons. If the country can achieve strength in the fundamentals of the economy, especially economic growth and good return, foreign investors will cling to the economy. Moreover what the developing countries like India needs is not merely non debt capital but also liquid non debt capital. Foreign investment made in the capital market is more liquid than the investment made under FDI. Some of the already mentioned findings of the study like those related to foreign exchange reserves, exchange rate stability etc also argue for FPI in contrast to FDI.

The above preference advocated in favour of FPI is in no way a criticism of the more or less equal importance being given in India to both FDI and FPI or a recommendation of the reversal or discontinuance of the policy related to FDI in India. What is advocated here is only a little preference for FPI which should not be at the expense of the FDI.

7.3 Conclusion

By way of conclusion it is possible to say that foreign investment so far has not make any damaging impact on Indian economy. Instead it positively impacted the economy in manifold ways - from solving the balance of payments problem, increasing foreign exchange reserves, strengthening the exchange rate, reducing the debt service ratio and directly and indirectly boosting the economic growth. Foreign investment in the Indian capital market also achieved the target - it helped to increase the stock price, to develop and modernise the capital market and thereby facilitated wealth creation, domestic saving etc. and all these were

achieved without seriously operating its much dreaded feature - volatility. Thus except in the case of inflation and volatility foreign investment showed positive and significant impacts on the Indian economy. Therefore it is concluded that foreign investment has a positive impact on the Indian economy.

However neither the main finding of the study - positive impact of the foreign investment of the Indian economy - nor the suggestions made here for its betterment are in no way a glorification or a recommendation of its permanency in India. One should not be tempted to reach eternal conclusion regarding foreign investment in India. He or she should bear in mind that the credit for the wonderful performance of foreign investment in India is not exclusively the credit of foreign investment alone. On the other hand they belong to the favourable conditions which have been existing in India during the days of foreign investment in the post liberalization period. Throughout the period under study, inflation has been moderate - never been two digit and inflation causing factors are almost dormant - the oil price was in a declining trend (except very recently), the country received moderate rain fall throughout the period, the country was free from internal and external conflicts and above all we have great economists at the helm of affairs who were always been keen to keep inflation under control mainly with the interest rate as a weapon ignoring the clamour for interest rate cut by the public. But tomorrow if troubles shoot up in a cluster in Indian economy by way of or as a result of inflation, exchange rate rise etc. either because of unprecedented crude oil price or because of a severe drought or flood or internal or external conflict or the occupancy of some populist economists at the helm of affairs, foreign investment will become a foe to the economy and will make a series of damaging impacts on the economy starting from intensification of inflation and volatility.

Therefore it may be concluded that by far the impact of foreign investment on the India economy is positive but such generalization and prediction about foreign investment in India is possible only on the condition which precede all laws in economics - other things remain the same - that is if exchange rate and economic growth are stable, inflation is under control etc. It is also important to point that the positive impacts of foreign investment on Indian economy can last long only if similar or strenuous efforts are made to retain the foreign investment reached India than to attract them to India. If so foreign investment

will be an asset and very beneficial for the Indian economy. Otherwise it will not only be adverse but will be detrimental for her economy. Therefore it is also imperative for the country to tame foreign investment through rigorous and continuous restrictive policies, bearing in mind that foreign investment is like the transplantation of an alien body in a human body. Just as a human body must be prepared in advance to accept a foreign body, India must regularly prepare her economy to accept foreign investment and just as a human body which received a foreign body requires continuous monitoring, so also once foreign investment began to function in Indian economy it must be continuously monitored. Because in an economy ridden with high inflation, high interest rate, high exchange rate volatility etc. foreign investment will be highly inflammable as it will add fuel to the existing inflationary conditions and even ruin the host economies like that of India. Thus foreign investment contains seeds of destruction as well as seeds of construction. In an inflation driven economy the seed of destruction will grow fast and annihilate the whole economy. On the contrary in an economy with minor inflation its seeds of construction will take roots and bear abundant fruits.

All these imply that foreign investment is a not blank cheque received by the Indian economy and hence it should not be allowed to ride through the Indian economy unbridled. Moreover it contains a warning as well as a reminder that extreme dependence on foreign investment will be another gamble for Indian economy. Because like monsoon we are uncertain about its arrival, the quantity and longevity of its shower on the horizon of the Indian economy as foreign investment need not to abide by our dictates. Similarly though we are aware of the volatility of foreign investment which is usually associated with the outflow of foreign investment, we are not aware of another face of foreign investment, perhaps a more ugly and dangerous one i.e., volatility related to inflow of foreign investment. As long as the compelling force - sovereign power - is inoperative behind foreign investment, neither India nor any other country can shape their economy anticipating foreign investment. Therefore we must learn to grow ourselves, produce in India itself (make in India) the maximum, export the maximum and import the minimum, control inflation etc. anticipating the likely days when the foreign investment flows change their direction or the sources of foreign investment become dry.

The legitimacy and worldwide acceptance and growth of foreign investment owe to the idea of globalization and the expectancy of the birth of a global village which still remains a mirage. As long as the grip of nationalism and sovereignty of nations remain strong, one must be sceptic about foreign investment because in a world scenario where mutual rivalries between nations and power blocs as an economic blockade. It is likely to become a political weapon to be used as a form of economic sanction to canvas other countries to the power blocs or to destroy the enemies. It is true that all types of foreign investments are not investments directly made by a county in another country. Yet the relation between the countries has a crucial role in foreign investment flows between those countries. In other words foreign investment is an extension of the political relations between the nations. One day if the relation between the two nations deteriorate an outflow of foreign investment will definitely take place. India's bitter experience followed by the Pokhran nuclear explosion is a living testimony. The Pokhran nuclear explosion irritated the US and it initiated economic sanction against India which was followed by huge outflows of foreign investments especially investments from the capital market. The recent deterioration of the relation between USA and China and the consequent sharp fall in China's foreign investments from the USA further testifies this. In this way foreign investment forces India to maintain good relations, whether it likes or dislikes, with the investing countries here not only to attract further foreign investments from them but also to retain the investments she has already received from them. In this respect way foreign investment is a limitation on India and its sovereignty. All these again point out to the fact that India must be vigilant and cautious about the likelihood disappearance of the greeneries of her economy created by the foreign investment as future alone can prove whether these are bubbles or pebbles.

This study is winding up incidentally at a time when the fear of a global trade war is looming large and threatening to swallow the trade dispositions of the world. For this very reason it is not possible to conclude this study by signalling a bright future for foreign investment not only in India but else where. It is doubtful whether the ardent advocates of foreign investment are now so optimistic and enthusiastic about it as they had been a few years back. The world trade war, in the unfortunate event of its occurrence, will not be

fought only with tariff but with all forms of weapons and among them foreign investment will definitely be a fierce weapon, perhaps more destructive in nature than the tariff weapon. It will become not only a weapon but also a victim of the war because world trade war will develop into a world economic recession which will witness massive foreign investment withdrawal shuffling the economies of the foreign investment linked countries like India. In short the present world scenario pauses certain ominous question marks on the future of the foreign investment everywhere as it does on the future of the global economic order.

7.4 Scope for Further Research

Foreign investment in India especially since globalization is an ever-growing and expanding phenomenon with far reaching implications and impacts. This fact essentially demands and necessitates new and wider research in this area. It is presumed that some of the limitations of this study, especially those in the nature of serious omissions may open up new avenues for research. For example as pointed out above a study of the impact of foreign investment on Indian economy employing comparative method offers wide scope for further research. That is studies related to the impact of foreign investment on Indian economy may be made by making the following comparisons:-

a.) comparison between the impact of foreign investment on pre liberalization and post liberalization Indian economy,

b.) comparison between the impact of foreign investment on Indian economy and on another developing country's economy,

c.) comparison between developing countries which receive and which do not receive foreign investment,

d.) comparison between the impacts of foreign investment on different sectors of the Indian economy,

e.) comparison between the individual contribution and impact of FDI and FPI in the Indian economy etc.

Such comparisons may again pave the way for more research areas and thereby enlarge the frontiers of the subject.