CHAPTER VII

FINDINGS, CONCLUSION AND POLICY IMPLICATIONS

7.1 Introduction

The introduction of new economic reforms in India in 1991 was a keystone in the economic history of India. Significant changes occurred in the approach to and the content of economic policies thereafter and it resulted in the economy of India getting moulded to a new shape. Amidst the novel set of policies adopted by India in the beginning of 90s, the measures adopted for getting the FDI policy of India liberalized deserves special mention. It may be noted that, the eventual objective of the measures of liberalization undertaken during that period was to strengthen the flow of FDI to India since FDI has widely been preferred due to its attendant attributes like long term commitment in the host economy and ability not to raise the external debt burden of the host country. However, the considerably raising volume of FDI to India has also been accompanied by substantial regional dissimilitude. The attendant regional disparity in FDI inflows to India resulted in the denial of benefits of liberalization to a number of poor states.

A survey of existing literature was conducted and the summary of it is presented in chapter two. It was found that there is a gap with regard to an independent inquiry in to the magnitudinal-wise distribution of FDI in India. This study primarily examines the major determinants which play a role in distributing varied magnitude of FDI across the regions of India. Regions in India are classified in to two; Regions with High Inflow of

FDI (RHIF) and Regions with Low Inflow of FDI (RLIF).The role played by FDI at the regional level in India has also been identified. In this context, the present study has the following objectives:

1. To evaluate the trend and pattern of FDI inflows to India during the post reform period.
2. To evaluate the FDI policy framework of India.
3. To evaluate the trend and pattern and also to identify the determinants and role of FDI in Regions with High Inflow of FDI (RHIF) in India.
4. To evaluate the trend and to identify the determinants of FDI in Regions with Low Inflow of FDI (RLIF) in India.

Appertaining to the objectives, the study has a set of findings which, of course have induced the researcher to argue for further policy changes in India.

7.2 Major Findings

The major findings from the study are summarized and outlined as follows.

7.2.1 Trends and Pattern of FDI Inflows to India during the Post Reform Period

1. World FDI inflows (five year average) elevated by around 20 times between 1983-87 and 2013-17. However, recently, world FDI inflows show a decreasing trend. During 2008-12, it had a growth of 30.77 per cent and it got reduced to 11.2 per cent between 2013 and 17. Such a reduction in the growth rate in the global FDI inflows can be principally attributed to the globally reducing rate of return (reduced 1.4 per cent during 2012-17).

2. The total FDI inflows to developing economies increased around 38 times between 1983-87 and 2013-17. Thus, the share of FDI inflows to developing economies in the total world FDI inflows increased to 42.83 per cent (2013-17) from 23.27 per cent during 1983-87.
3. Between 1993-97 and 2013-17, FDI inflows to transition economies enhanced by 11 times.
4. FDI inflows in developed economies hiked by 13 times between 1983-87 and 2013-17. Simultaneously, the share of developed economies in the total world FDI inflows diminished from 77.63 in 1983-87 to 53.58 in 2013-17.
5. Among the developing world, Asia's developing economies reaped the highest volume of FDI inflows. Its FDI inflows composed 29.35 per cent of the total world FDI inflows in 2013-17. It was just 13.3 per cent in 1983-87. Simultaneously, FDI inflows in the total world FDI inflows of developing economies in America composed only 10.15 per cent in 2013-17. It was 6.35 in 1983-87. That of the developing economies in Africa constituted just 3.19 per cent in 2013-17.
6. While Eastern and South-Eastern Asian countries attract major shares of world FDI, both South Asia (Includes India) and West Asia lag behind them with comparatively low volume of FDI.
7. From an assessment of the trends of FDI flows to India from 1990 onwards, it is found that there is merely a moderate leap in the FDI inflows in the post reform period. It has marked with a moderate CAGR of 20.04 per cent and high ratio of standard deviation of 102.71 per cent with 28 years from 1990 to 2017. To

substantiate more, the ratio of ‘India’s FDI inflows to world FDI inflows’, which was a meager 0.05 per cent in 1991, got enhanced only to 2.79 per cent even by 2017. The ratio of ‘FDI to GDP’ in India also increased at a diminishing rate (to 1.51 per cent in 2017 from 0.03 per cent in 1991). However, the ratio of ‘FDI to GFCF’ hiked moderately (to 5.26 per cent in 2017 from 0.11 per cent in 1991). The ratio of ‘FDI inflows to FDI inflows in developing countries’ also elevated moderately to 5.95 per cent in 2017 from 0.19 per cent in 1990. However, the ratio of ‘India’s FDI inflows to the total FDI inflows to South Asian countries’ was substantially high in all the years from 1990 to 2017, owing to the reason that India is the principal recipient country in South Asia. In 2015, the ratio reached 86.1 per cent, the all time high.

In summary, it may be observed that, India’s share in the global FDI inflows and FDI inflows to developing countries constituted merely 2.79 per cent and 5.95 per cent respectively even in the later phases of liberalization. The ratios such as FDI to GDP and FDI to GFCF are also not significant even after decades of liberalization.

8. During the period of 2000-01 and 2017-18, FDI comes to India substantially in the form of equity and the volume of equity component is slightly increasing whereas that of reinvested earning is decreasing mildly. Meanwhile, the volume of ‘other capital’ component remained more or less stable, with a segregated hike in 2003-04. Thus, in the total FDI inflows from 2000-01 to 2017-18, equity component contained 72 per cent, reinvested earnings encompassed 23.1 per cent and other capital included 4.9 per cent.

9. FDI flows to India has been surging up through the automatic route since 2000 and inbound of FDI through government approval route is diminishing substantially. In the year 2000, 60.75 percentage of FDI had come to India through government approval route and it got dismounted to 7.67 per cent in 2018, which stresses the losing significance of the government route in the advent of FDI to India.
10. Right at the moment, only a few sectors are opened to foreign investment under government route. They are public sector banking, broadcasting content services, core investment company, digital media, food products retail trading, mining of titanium bearing ores, multi-brand retail trading, sector of print media and satellite establishment and operation. FDI to all other sectors are either fully or partially allowed under automatic route and the FDI regime in India is approaching full-fledged liberalization. FDI inflows through automatic route reduced considerably by 2018 because of the phased liberalization policy measures undertaken by the government. At the same time, FDI inflows through the automatic route heightened from 16.26 per cent in 2000 to 82.03 per cent in 2018 at a CAGR of 31.61 per cent. Inflows through acquisition of existing shares also show a tendency to decline over time.
11. Mauritius brought the highest share of FDI to India from April 2000 to December 2017. It accounted for 34 per cent. The highest volume of FDI from such a small island can be attributed to the double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. Singapore is followed by Mauritius. It ranked second and

brought 17 per cent of FDI to India. The volume of FDI to India brought by developed and relatively large countries like Japan, UK, Netherlands, USA, Germany etc. fall behind the volume of FDI brought by small countries like Mauritius and Singapore. However, when taking a closer look at the percent of FDI inflows brought by each country in the top 10 category from April 2000 onwards, immense variation is visible.

12. From April 2000 to October 2008, the share of Mauritius was 44 per cent and it got cut down to 41 per cent by October 2011. Again, the country's share got lessened to 36 per cent by 2014 and to 34 per cent by December 2017. It insinuates the reducing significance of Mauritius route in the inflow of FDI to India.
13. Simultaneously, the share of Singapore has reached 17 per cent by 2017 December, which was a meager eight per cent in October 2008. Within a short span of time, Singapore will become the most important route for FDI inflows to India by surpassing Mauritius. By 2017, the share of FDI inflows from USA shrank to six per cent and that of Japan increased to 7 per cent. UK and Netherlands are also emerging as two important source countries of FDI flows to India. By December 2017, countries Viz. Germany, Cyprus, France and UAE also aroused as prominent source countries and nine per cent of FDI inflows have come to India from these source countries.
14. A significant change in the structural composition of FDI inflows to India since 2000 has occurred. This can be ascribed to reasons including liberalization of policy regime and the timely changes occurred in sectoral policies. FDI policy

concerned to each sector has undergone significant shift since the outset of liberalization. A number of sectors, which were inaccessible to foreigners before were left opened to them to suit the necessity of time. Further, the ceiling limits of many others were raised considerably.

15. Service sector has attracted more volume of FDI inflows (17 per cent) by December 2017. However, from April 2000 to October 2008, it had attracted 22 per cent of FDI inflows and it got shortened to 20 per cent by October 2011 and to 18 per cent by October 2014. Thus, it appears that the share of FDI inflows to service sector, though the foremost contributor to the GDP of India, is getting lessened over time. Since the onset of liberalization, the country experienced a high jump in the inflows of FDI in service sector because of the tremendous growth potential it possesses. Importance for FDI in service sector has been surged due to a number of reasons. Pattern of economic development all over the world, policy changes, technological advancement and the strategies of both services and industrial transnational companies contributed to the growth of service sector.

7.2.2 Policy Framework

1. India had been following selective policy towards FDI, swinging between regulation and liberalisation, since independence. Foreign investment was permitted only in high technology and export oriented industries where it was felt very essential. During 1980s the policy was partially liberalised so as to encourage foreign capital and technology with a view to promote exports and

competition. Since 1991 with the inception of economic reforms the FDI policy has been liberalised further and made it more open and transparent.

2. It is an undisputable fact that the FDI policy has provided a better environment for more FDI inflows, skilled management and sophisticated technology resulting in the modernization of the Indian economy to a certain extent. But it appears that the approach towards FDI has yet to become powerful and pragmatic.

7.2.3 Regions with High Inflow of FDI (RHIF) in India

1. RHIF includes six regions such as Mumbai, Delhi, Bangalore, Chennai, Ahmedabad, and Hyderabad. These six regions together received 74 per cent of FDI inflows from April 2000 to March 2016. Accordingly, the determinants of FDI inflows and the role of FDI in RHIF have been examined.
2. An analysis of the determinants of FDI inflows to RHIF proved that deposits of scheduled commercial banks, gross fixed capital formation, fiscal deficit and net state domestic product are the principal determinants of FDI inflows to RHIF.
3. Deposit of scheduled commercial banks is proxying 'domestic savings' in the region. It is found that an improvement in the domestic savings results in an increase in the FDI inflows in RHIF. Gross fixed capital formation represents the domestic investment in RHIF. It is revealed that FDI inflows tended to increase with decrease in domestic investment in RHIF. Fiscal deficit stands for deficit financing. FDI inflows tend to increase with a fall in the extent of deficit financing in RHIF. Net state domestic product symbolizes the size of the economy. It is found that FDI inflows tend to increase with an increase in the size of the economy of RHIF.

4. It is found that FDI inflows have significant positive influence on the size of the economy of RHIF measured by net state domestic product. Along with FDI inflows, GSDP in industrial sector and deposits of scheduled commercial banks also have significant positive influence on the size of the economy of RHIF. GSDP in industrial sector proxies the level of industrial linkage in RHIF and deposits of scheduled commercial banks symbolizes domestic savings.

7.2.4 Regions with Low Inflow of FDI (RLIF) in India

1. RLIF encompasses four regions such as Kanpur, Bhuwaneswar, Patna and Guwahati. RLIF received aggregate FDI of mere 0.36 per cent (from April 2000 to March 2016). Accordingly, the determinants of FDI inflows to RLIF have been examined.
2. Credit given by scheduled commercial banks, government capital expenditure and gross state domestic product in the manufacturing sector significantly influences FDI inflows to RLIF. Credit given by scheduled commercial banks proxies financial intermediation in RLIF. It is found that FDI tends to increase with an improvement in the activities of financial intermediation in RLIF. Government capital expenditure represents the creation of capital assets by government in RLIF. It is revealed that a decrease in the capital asset creation by government in RLIF tends to attract FDI inflows. Finally, gross state domestic product in the manufacturing sector stands for the manufacturing output in RLIF. It is disclosed that decrease in the level of manufacturing output tends to attract FDI inflows to RLIF.

3. The positive impact of the size of the economy on FDI inflows to RHIF signifies that the region has contributed more than 45 per cent (average) to the total NSDP of India between 2007-08 and 2015-16, which alludes the voluminousness of the economy. Such a large sized economy has played a role in bringing more FDI inflows to RHIF. From this perspective, it can be inferred that the presence of a huge sized economy will bring augmented volume of FDI inflows to RHIF, which is already rich in FDI flows. Then, it will be more difficult for the other regions (with small sized economy) such as RLIF to attract fresh investments. The size of the economy of RLIF is relatively small as it contributes only 19 per cent to the total GDP of India.

7.3 Suggestions and Policy Implications

1. Recently, service sector brought in huge quantity of FDI to India. The sector's growth can create further opportunities for employment for skilled, semi-skilled and unskilled people. It may be observed that in the recent scenario, by overlapping manufacturing industries, the IT/BPO services provided large number of employment opportunities in India. Therefore, apart from providing a boost to the manufacturing sector, it is equally important to provide a thrust to the service sector, which spans the value chain from low-end localised services to the most sophisticated globally-competitive intellectual property based services.
2. A conscious and coordinated effort at the national and the state government levels would be essential to make the laggard states more attractive to FDI flows. The direct method to achieve this objective may be to design the national FDI policy in such a way that a sizable portion of FDI flows to India move into the laggard

states. The indirect way is to provide a boost to the overall economy of the less advanced states, with special thrust on the manufacturing, services and the infrastructure sectors so that they themselves become attractive to foreign investors.

3. It has been observed that industrial output and industrial orientation have significant positive impact on FDI flows. This implies foreign investors' preference for states with a strong industrial base. Therefore, it is essential for the less industrially developed states to catch up with the developed ones to attract larger share of FDI flows. PPPs shall be encouraged in the construction of premier industrial infrastructure.

4. It has been revealed that, both in RHIF and RLIF, financial intermediation through banks play an important role in attracting FDI. In RHIF, while a rise in the domestic savings represented by deposits of scheduled commercial banks tends to attract FDI, in RLIF, enhancement of financial intermediation activities proxied by credit given by scheduled commercial banks bring more FDI. RHIF has amassed about 50 per cent of the total savings in India while the total deposit of RLIF is about eight per cent. The volume of credit rendered by financial intermediaries in RLIF is substantially low due to the low level of deposits gathered. Thus, it is suggested that in order to improve the money supply in the economy of RLIF, the excess deposits from RHIF shall be channelized to the financial markets of RLIF through effective methods. For this, the financial intermediation activities in the hinterlands of RLIF shall be strengthened. The enhanced money supply in the economy of RLIF will augment the aggregate

demand. Foreign investors will, thus, be prompted to set up green-field and brown-field investments in RLIF.

5. In RHIF, the huge base of deposits (domestic savings) is one of the reasons for the advent of bulk quantity of FDI. Since RHIF includes regions such as Mumbai, Chennai etc. which are regarded as the financial centers of the country, rise in the domestic savings can be directly linked to the accumulation of FDI in the financial service segments of RHIF such as insurance, banking, pension funds etc.
6. In RHIF, it has been proven that FDI tends to decrease with an increase in the domestic investment measured by gross fixed capital formation. The domestic investment might crowd out FDI inflows. Rather than attracting more and more green-field and brown-field investment to RHIF, FDI in the form of mergers and acquisitions as well as joint ventures are to be encouraged in RHIF so that the existing domestic firms in RHIF can grow further with the gathering of knowledge, technological, managerial and marketing spillovers got transferred from the foreign firms. At the same time, green-field and brown-field investments shall be encouraged widely in RLIF. The FDI policy, in this respect, shall be revised. There exists an absolute necessity to form two sets of FDI policy; one for RHIF and the other one for RLIF. The specific economic conditions and requirements of RLIF should be taken in to account during the framing of FDI policy on behalf of them.
7. The revenue base of regional governments also proved to have a specific role in attracting FDI inflows both in RLIF and RHIF. While deficit financing proxied by gross fiscal deficit play a role (negative impact) attracting FDI flows to RHIF,

capital asset creation by government represented by government capital expenditure (negative impact) play behind bringing FDI to RLF. In this regard, in RLIF, government expending should be lowered significantly in Public Private Partnerships (PPPs) projects. These PPPs shall be dominantly financed by FDI.

8. Following the liberalization of FDI flows in the 1970s, China confronted with rather similar type of experience like India. With the country's introduction of coastal preference open door policy[1] in 1978, the regional disparity between the coastal belt and China's interior had increased. As a result, the country witnessed the concentration of a few world class industrial clusters located in five coastal Chinese provinces at the expense of the Chinese hinterland. Gradually, foreign investors began preferring the earlier opened regions in China over the hinterland. Thus, by taking note of the raising regional disparity in the distribution of FDI, one important policy changes enacted by the Chinese government was to raise the entry requirements for FDI into coastal belt designed to secure high value investments, while encouraging labour intensive investments in the interior. Accordingly, since the late 1990s, most MNEs in China have made fundamental changes to their business strategies and operational policies to adjust to changes in policy, market conditions and the regulatory environment. In view of the Chinese experience, in the context of India also, similar set of policies shall be framed to direct part of the FDI flows to the laggard states and to curb the raising disparity in the distribution of FDI inflows.

[1]The reform and open-door policy of China began with the adoption of a new economic development strategy at the Third Plenary Session of the 11th Central Committee of the Chinese Communist Party (CCPCC) in late 1978.

9. The laggard states are suggested to constantly examine the trend and pattern of FDI inflows in the advanced regions (RHIF). Based on such constant and continuous observations, they shall mould their own investment models with the desire of becoming FDI hubs. The laggard states including Kerala collectively can initiate the formation of regional forums in this regard. Such regional forums shall hold constant meetings and conferences with the sole purpose of boosting the quantity and quality of FDI inflows to them and thereby to reduce the FDI induced regional imbalance in the economic growth.

7.4 Limitations of the Study

1. Secondary data alone has been considered for analysis due to the difficulties confronted with approaching foreign firms operating in the country.
2. The study is limited to the magnitude of distribution of FDI in regions, its determinants and role. The study does not cover the magnitude of interregional variations and its determinants.
3. A firm level analysis could not be conducted due to the difficulties faced in gathering primary data.
4. The principal analysis has been carried out using data for a short span of time i.e. nine years from 2007-08 to 2015-16 due to the non- availability of historical data on FDI inflows in to India.

7.5 Scope for Further Research

1. A study on the disparity of FDI inflows in the global scenario can be conducted as developed economies receive a major portion of the global FDI inflows.

2. Studies shall be conducted regarding the magnitude of interregional variations of FDI, divergence, convergence and its determinants.
3. Disparity in FDI inflows both within the regional integration forums such as BRICS, SAARC, OECD, ASEAN, APEC, OPEC etc. and within the continents can be carried out.
4. Disparity of FDI inflows is crucial within the individual states of India such as Kerala, Karnataka, Maharashtra, Gujarat, Andhra Pradesh etc. For instance, in Karnataka, FDI gets accumulated in the region of Bangalore while the state's hinterlands lie ignored by foreign investors. Thus, in depth and separate study is to be conducted about the magnitudinal wise regional disparity in FDI inflows across the districts of the states of India.

7.6 Conclusion

This study has four objectives; to evaluate the trend and pattern of FDI inflows to India during the post reform period, to evaluate the FDI policy framework of India, to evaluate the trend and pattern and also to identify the determinants and role of FDI in Regions with High Inflow of FDI (RHIF) in India and to evaluate the trend and to identify the determinants of FDI in Regions with Low Inflow of FDI (RLIF) in India. An evaluation of the trend and pattern of FDI inflows to India during the post reform shows that, FDI inflows are being rightly directed during the post reform period. Regarding the pattern, it has been inferred that FDI is not rightly distributed across sectors and regions. The evaluation of policy framework showed that the landmark changes brought in the FDI policy have significantly improved the important macroeconomic parameters. RHIF in India has been sufficiently attracting substantial quantity of FDI inflows to its various sectors and regions. However RLIF is deprived of the benefits of FDI since it had received only a negligible portion of FDI. Hence, it is essential to have a conscious and coordinated effort at the national and the state government level to make the laggard states, especially RLIF, more attractive to FDI flows. The efforts may include special thrust on the manufacturing, services and the infrastructure sectors along with direct policy endeavors adopted by China or a blend of both.