



INQUEST OF FDI AMPLIFIED APPROACH- AN EMPIRICAL STUDY

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ABSTRACT

FDI has gained momentum in the economic landscape of world economies in the last three decades. It has surpassed almost all other economic indicators of economic transactions worldwide. It has been influencing the contemporary process of global economic development of the developing countries like India experience both strong capital accumulation and technology transfer. FDI is considered as the safest type of external finance both by the developed and developing nations. There is a growing competition among the countries in receiving maximum inward FDI.

The paper mainly examines the relationship between FDI inflow and gross domestic product (GDP) of an Indian economy in post-liberalisation period along with comparing the FDI inflow of country during the post liberalization period with pre liberalization period. This paper also analyzes the trend and pattern of FDI inflow into the country during the Pre and Post liberalization period by looking at the prospects of FDI inflow to India five years hence which shows an increasing trend. 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 also contributes to the GDP and foreign exchange reserves of the country.

Keywords: FDI Growth, Liberalization, Indian Economic Growth and GDP.

INTRODUCTION

Foreign investment policy 1991 was enacted in India under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh to reduce the dependence on foreign debt and encouraging the entry of foreign investment. Since the economic liberalisation of 1991, there has been a surge in the FDI and portfolio investment in India. FDI refers to investment in a foreign country where the investor retains control over the investment. It is kind of the investment by

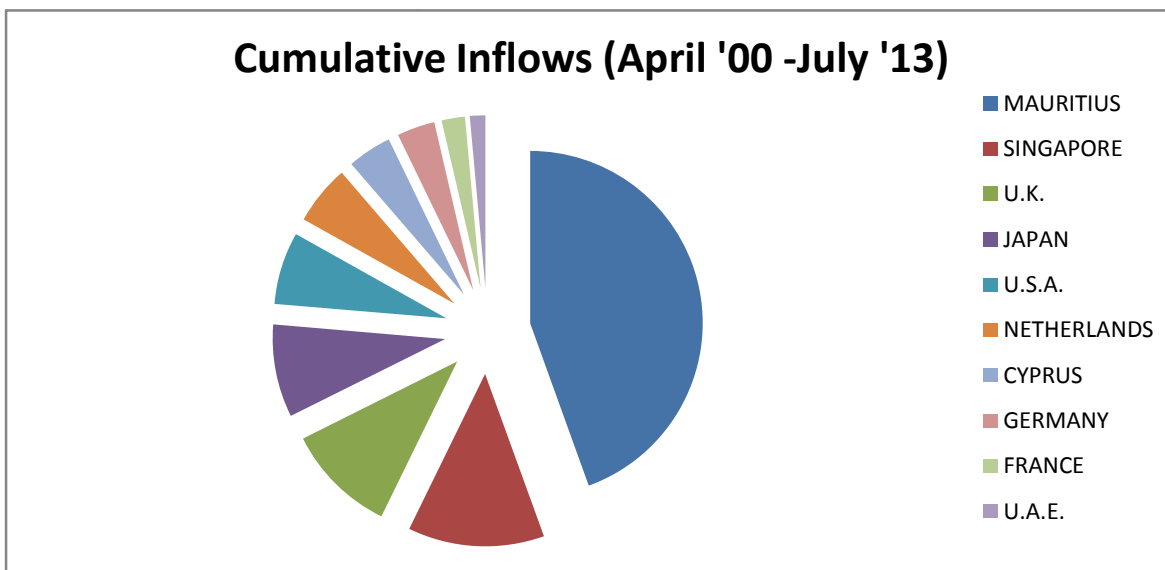
non-resident entity or person residing outside India in the capital of an Indian economy, under schedule 1of the Foreign Exchange Management (Transfer or Issue of security by a person Resident outside India Regulations, 2000). It flows into any country in the form of either investment in the equity capital of an enterprise in a recipient country by Multinational companies (MNC) or an individual, Profit ploughed back by the subsidiary of an MNC. Such retained profits are assumed to be reinvested in the subsidiary or Short term or long term borrowing and lending of funds between the MNC and its subsidiary. According to International Monetary Fund (IMF), defined as “an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor” FDI usually involves participation in management, joint-venture, transfer of technology and expertise. It can be made in the forms of wholly owned subsidiary company, joint ventures, acquisitions or foreign collaborations such as merger, amalgamation of an Indian company, franchising, contract, manufacturing etc.

A developing country is characterized by low saving, low capital formation and low investment. They also suffer from lack of advanced technology, technical knowhow, spare part etc. Such a country obviously looks for an external source to fill its gap and need to accelerate the pace of their economic growth. It plays an important role of bridging the gap between the available resources or funds and the required resources or funds. India is blessed with the exemplary characteristics associated with any booming economy i.e. a huge and productive commitment of skilled manpower and excellent earnings growth providing attractive opportunities for international investors to diversify portfolio risks. The advantages of India as an investment destination rest upon strong fundamentals, which include a large and growing market; world-class scientific, technical and managerial manpower; cost effective and highly skilled labors; abundant natural resources; a large English speaking population; independent judiciary, etc. This is now recognized by a number of global investors who have either already established a base in India or is in the process of doing so. Ongoing initiatives, such as further simplification of rules and regulations and improvements in infrastructure are expected to provide the necessary impetus to increase FDI inflows in future. UNCTAD’ World Investment Report, 2010 considers India the 2nd most attractive destination among the TNCS after the China. China, being the major recipient of global FDI flows among the emerging economies of the world. It is also the most preferred destination of global FDI flow. India is at 5th position in the category of most attractive location of global FDI. In the south, East and South-East Asia block India is at 3rd place after China and Singapore in receiving FDI inflows. However, it has failed in raising R&D and in stabilizing the exchange rates of the economy. The positive sign of exchange rate variables depicts the appreciation of Indian Rupee in the international market. This appreciation in the value of India Rupee provides an opportunity to the policy makers to attract FDI inflows in Greenfield Projects rather than attracting FDI inflows in Brownfield projects.

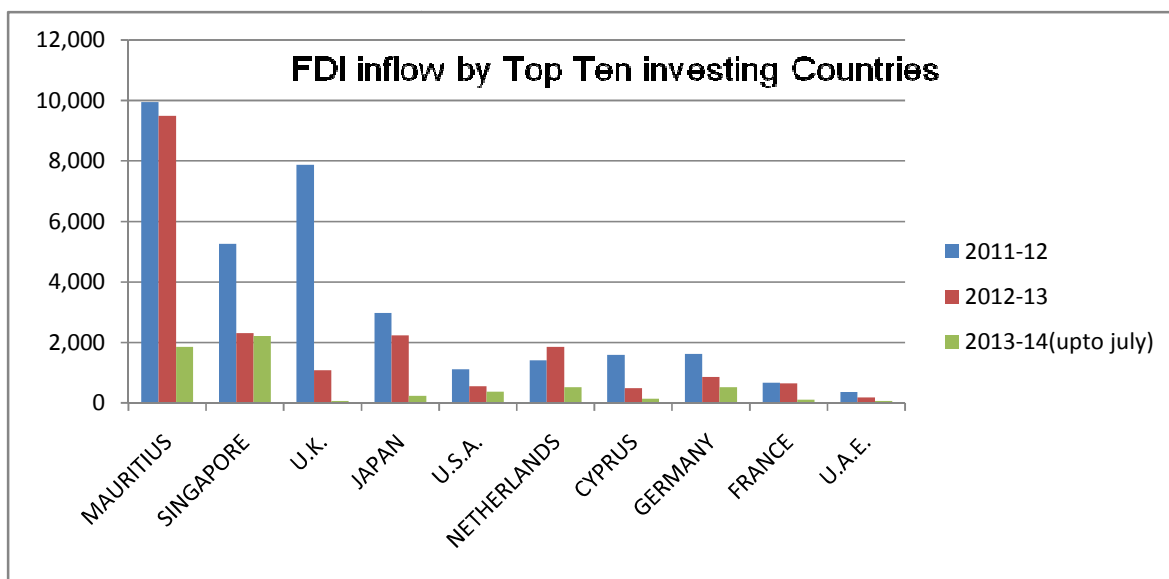
UNCTAD survey projected India as the 2nd most important FDI destination (after China) for transnational corporations during 2010–2012. India has retained its position as the world's third most attractive destination for investment by transnational corporations (TNCs) during 2013-15, a survey by UNCTAD. In the survey based on responses of 159 companies, India was ranked after China and United States. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, U.S and UK were among the leading sources of FDI.

Chart1 : Share Of Top Ten Investing Countries In FDI Inflows

I. Cumulative FDI inflow from April '00 -July '13



(ii) FDI inflow from 2011- 2013 (year-wise)



Source: Department of Industrial policy and promotion, Ministry of Commerce and Industry, GOI

Chart 1(i) and (ii) shows the cumulative FDI flows into India from 2000 up to July 2013 as well as the actual investment flows of top ten countries during the period of 20011-12 to 2013-14 (up to July). The cumulative FDI flows by all foreign investors' countries into India during the period from 2000 up to July 2013 are US\$ 200,457 million. For this period, Mauritius has highest cumulative inflow of amounting US\$ 75,519 million which is the largest 38 percent followed by other

top nine countries i.e. Singapore, Japan, UK, USA, Netherlands, Cyprus, Germany, France and UAE. FDI inflow by Singapore has highest for the period 2013-14(July). It implies that these top ten countries accounted for well over 86 percent of the FDI inflows during the above period. The Mauritius which was not in the picture till 1992 has the highest growth rate because such investment is represented by the holding companies of Mauritius set up by the US firms. The reason behind the US companies have routed through Mauritius is the tax treaty between Mauritius and India stipulates a dividend tax of five percent while the treaty between Indian and US stipulated a dividend tax of 15 percent. The 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(*Economic survey 2003-04*).

Service sector attracting highest FDI equity inflow amounted US \$ 38255 which is 19 % to total inflow of various sectors to the country followed by construction development (i.e townships, housing, built-up infrastructure) which attracts 11% of total inflow of FDI. Telecommunication, computer software & hardware, Drugs & Pharmaceuticals, Chemical other than Fertilizer, Automobile Industry, Power, Metallurgical industries and Hotel & tourism also obliging for attracting the FDI. Maharashtra, Delhi, Karnataka, Gujarat and Tamil Nadu together accounted more than 75 percent of inflows because of the infrastructural facilities and favourable business environment provided by these states in India.

OBJECTIVE OF THE STUDY

The study based on following objective:

1. To compare FDI inflow during the post liberalization period with pre liberalization period.
2. To study the trends and patterns of flow of FDI.
3. To find out the linkages between FDI and GDP in a future perspective view.

Hypothesis of the study

1. There is no significant difference between FDI inflows during Pre-liberalization and Post-liberalization.
2. Flow of FDI showing shows positive trend over the post liberalization period.
3. There is no relationship between FDI Inflow and GDP in post-liberalisation period.

REVIEW OF LITERATURE

The literature reviews focused on foreign direct investment (FDI) inflow during the pre and post economic reforms era (i.e. Liberalization) and the effects of FDI particularly on GDP of the Indian economy and vice-versa. Balasundaram Maniam and Amithava Chatterjee, 1998 studied on the determinants of US foreign investment in India; tracing the growth of US FDI in India and the changing attitude of the Indian Government towards it as a part of the liberalization program and revealed that after post economic reforms era, FDI inflow increased to country. Growth (proxy by GDP) of country is a very important pull factor of FDI that affect positively for attracting FDI inflow to India. They also identifying the causes for low inflow and suggestive remedial measures to increase the flow of FDI in India with that of other developing nations in the world and found that even though there has been increased flow of FDI into the country during the post liberalization period, the global share of FDI in India is very less when it is compared to other developing countries(R. Anitha,2012).Lack of proper infrastructure, instable government and political environment, high corporate tax rates and limited export processing zones are considered to be the major problems for low FDI into the country. FDI is following an increasing trend over the forecasted period (2004-2025) which indicated the expected positive impact of FDI inflows on

different macroeconomic variables in Jordan economy (A. Bashier and Bataineh Talal,2007). Basu P., Nayak N.C, Vani Archana⁵ (2007) intends to study the qualitative shift in the FDI inflows in India in – depth in the last fourteen odd years as the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI. Chandana Chakraborty and Peter Nunnenkamp (2008) said that booming foreign direct investment in post-reform India is widely believed to promote economic growth and also pointed out that GDP per capita has a positive effect on FDI inflows in the long run. Indian economy shows a positive GDP growth even period due to FDI inflow during the recession. FDI in India has been following a positive growth rate and Act as a key driver for accelerating the economic growth through technology transfer, employment generation, and improved access to managerial expertise, global capital, product markets and distribution network in the economy and enables to achieve a certain degree of financial stability; growth and development to sustain and compete in the global economy (Syed Azhar And K.N.Marimuthu, 2012). FDI shows a gradual increase and has become a staple for successes for India which reflect that FDI inflow positively affect the growth of economy. (Dr. Ashok Purohit, 2005). Analyzing the new findings, it is observed that India has some competitive advantages in attracting FDI inflows, like a large pool of high quality labour force which is an absolute advantage of India against other developing countries like China and Mexico (Peng Hu, 2006). FDI inflow has become stronger in the aftermath of reforms. It appears to be associated with higher growth. FDI is thus likely to increase regional income disparity in India (Peter Nunnenkamp and Rudi Stracke , 2007). From the various literature surveys, it is found that FDI inflow has been beneficial for the economic growth of the country and has positively affected Gross Domestic Product which is one of the important factors of economic growth of the country. So, we can say that FDI also positively affected by growth of an Indian economy. Although the studies are more theoretical rather than analytical, still they have been of enormous help informing the base for the following work.

RESEARCH METHODOLOGY

The study is analytical in nature based on secondary data have been extracted from Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India, Economic Survey of Government of India, Department of Industrial Policy and Promotion (DIPP), Secretariat of Industrial Assistance (SIA). It is a time series data and the relevant data have been collected for the period 1981 to 2013. The magnitude of FDI inflows is analyzed during the Pre and Post Liberalization period, hence the study is undertaken for a period of years from 1981 to 2013. Gross Domestic Product at Factor cost (GDPFC) which influence the flow of FDI into the country during the Post Liberalization period i.e., from 1991 to 2013. GDP factor cost is equal to the GDP at market prices minus indirect taxes plus subsidies. It is called GDP at factor cost because it is the summation of the income of the factors of production. The present study uses Gross Domestic Product at Factor cost (GDPFC) as the macroeconomic variable of the Indian economy is one of the pull factors of FDI inflows into India at national level. There is direct relationship between GDP growth and FDI inflows. If market size of an economy is large than it will attract higher FDI inflows i.e. an economy with higher GDPFC having good source of resources and industries buildup will attract more foreign investors that pooled FDI inflow to the country.

Using relevant econometric techniques i.e. Independent t test, Trend analysis, Simple Linear Regression analysis, Durbin-Watson statistic test were carried out in order to analyze the data in order to assess the relative significance, desirability and reliability of model estimation parameters. Simple regression method was used to measure the impact of FDI flows on economic growth (proxy by GDP at Factor cost) in India. Trend of FDI flow has been calculated with the help of time series analysis. The second degree parabola of Least square method were carried out in order to provide a better model for forecasting FDI inflow of five financial year i.e. 2014 to 2018 in India. The

importance of the present study arises from the fact that FDI flows play a key role in India through affecting macroeconomic variable mentioning economic growth. Therefore, forecasting the volume of FDI inflows in India over the future period 2014-2018 provides policy-makers with a clear vision of the volume of future inflows.

1. Trend analysis(second degree parabola) are uses to show the trend and pattern of FDI inflow in India calculated as below:

$$Yc = a+ b X + c X^2$$

To determine the value of a, b, and c ; we use the following normal equations:

$$\begin{aligned} \sum X &= Na + b\sum X + c\sum X^2 \\ \sum Y &= a\sum X + b\sum X^2 + c\sum X^3 \\ \sum X^2 Y &= a\sum X^2 + b\sum X^3 + c\sum X^4 \end{aligned}$$

2. Annual Growth Rate (AGR) of FDI inflows for each and every year and Compounded Annual Growth Rate (CAGR) during the pre and post liberalization period shown in Table 2 are calculated by using the formula:

$$\text{Annual Growth Rate (AGR)} = (X_2 - X_1) / X_1$$

Where, X₁ = first value of variable X

X₂ = second value of variable X

Further, Compounded Annual Growth Rate (CAGR) for the Pre liberalization and Post Liberalization period is calculated by using the formula:

$$\text{CAGR (t}_0, \text{t}_n) = \{V(\text{t}_n)V(\text{t}_0)\}^{1/\text{t}_n - \text{t}_0 - 1}$$

Where, V (t₀): start value,

V (t_n): finish value,

3. Linear Regression Analysis uses to show the effect of GDP on FDI during post-liberalisation period where GDP is independent variable and FDI is dependent variable.

$$\text{FDI} = \alpha + \text{GDP}_t + \epsilon_t$$

Where, α is constant, t is different time period (i.e. 1991, 1992, 1993.....2013) and ϵ_t is the residual error.

ANALYSIS AND INTERPRETATION

I. FDI inflow during the post liberalization period with pre liberalization period

The inflows of FDI would depend on domestic economic conditions, world economic trends, and strategies of global investors. Government, on its part, is fully committed to creating strong economic fundamentals and an increasingly proactive FDI policy regime. The dimensions of FDI flows into India can be explained in terms of their growth and size, sources and sectoral compositions.

The growth of FDI inflows in India was not significant until 1991, due to its regulatory policy framework. However, under the new policy regime, it is expected to assume a much larger role in India's economic development. The analyses of the origin of FDI inflows to India show that the new economic policy has broadened the source of FDI into India. It can be observed from table 1 that there has been a steady build up in the actual FDI inflows in the post-liberalisation period.

Table 1: FDI Inflows to India during Pre-Liberalization and Post-Liberalization Period

FDI Inflows during Pre-Liberalization Period			FDI Inflows during Post-Liberalization Period		
Year	Amount US\$ million	Annual Growth Rate (AGR) %	Year	Amount US\$ million	Annual Growth Rate (AGR)%
1980-81	8	-	1991-92	129	-
1981-82	10	25.00	1992-93	315	144.18
1982-83	60	500.00	1993-94	586	86.03
1983-84	60	-	1994-95	1314	124.23
1984-85	60	-	1995-96	2144	63.16
1985-86	160	166.67	1996-97	2821	31.57
1986-87	196	22.50	1997-98	3557	26.09
1987-88	190	-3.06	1998-99	2462	-30.78
1988-89	267	40.52	1999-00	2155	-12.46
1989-90	330	23.59	2000-01	4029	86.96
1990-91	97	-70.60	2001-02	6130	52.14
			2002-03	5035	-17.86
			2003-04	4322	-14.16
			2004-05	6051	40.04
			2005-06	8961	48.09
			2006-07	22826	154.72
			2007-08	34835	52.61
			2008-09	41873	20.20
			2009-10	37182	-9.85
			2010-11	34847	-7.94
			2011-12	46556	33.60
			2012-13	36860	-20.82
CAGR		25.46%	CAGR		30.90%

Source: Department Of Industrial Policy & Promotion: Government of India

The cumulative annual growth rate during the period of 1991-2013 has 30.90% which is more than the cumulative annual growth rate i.e. 25.46% during 1980 to 1991 showing that new economic reforms has broadened the FDI inflow to India. Foreign direct investment (FDI) in India declined to US \$36,860 million in 2012-2013 as against US\$ 46,556 million in the last financial year. In 2011-12, FDI into India has boost very well after significant decrease from both 2009-10 and 2010-11. FDI in 2009-10 was \$ 37,182 million. In 2008-09, FDI stood at \$41,873 million. India has seen an eightfold increase in its FDI in March 2012

Table 3: Result of Independent Samples t-Test

Group Statistics

GROUP		N	Mean	Std. Deviation
FDI inflow	Pre	11	130.73	106.157
	Post	22	13863.05	16381.699

Independent Samples t-Test

		t-test for Equality of Means		
		t	df	Sig. (2-tailed)
FDI inflow	Equal variances assumed	-2.758	31	.010
	Equal variances not assumed	-3.932	21.004	.001

*at 1% level of significance **at 5% level of significance

We have run the Independent sample t test mention in methodology on SPSS software taking FDI inflow data which have categorized into pre-liberalisation for the time period from 1981 to1991 and post-liberalisation for the time period from 1991 to 2013. By hypothesis testing result, we found that the mean of FDI inflow during period of post liberalization is much higher than Pre liberalization and the difference in mean of FDI inflow was found statistically significant at 1% level of significance as well as at 5% level of significance which indicates that FDI inflow has amplify during post liberalization period in India.

II. Trend and pattern of flow of FDI from 1980 to 2013 in India

When initial reforms took place in 1991, Industry was one of the first to benefit from the reforms as it resulted in changing the overall system. Firstly the new policy of July 1991 sought substantially to deregulate industry so as to promote the growth of a more efficient and competitive industrial economy. During this process the procedures for investment in non-priority industries were streamlined. On a central level the foreign Investment Promotion Board (FIPB) was established to negotiate with large international firms and to expedite the clearances required. The FIPB also considered individual cases involving foreign equity participation over 51 percent. Furthermore for industry an important step was the removal of the Mandatory Convertibility Clause. The government realized that foreign investment had been traditionally tightly regulated in India and now the government hand was lifting. These changes while dramatic did not yield results immediately; though Foreign Investment was liberalized in 1992, manufacturing declined. The widespread social disturbances and economic uncertainties which prevailed during the year contributed to this decline and to a weakening of investment demand as investment intentions suffered from the uncertain conditions which prevailed. On a positive note by this time due to the announcement of the new industrial policy in July 1991, a large number of Government induced restrictions, licensing requirements and controls on corporate behaviour were eliminated.

Chart1 : FDI Inflow of India during Pre-liberalization period (1980-91) and Post-liberalization period (1991-13)

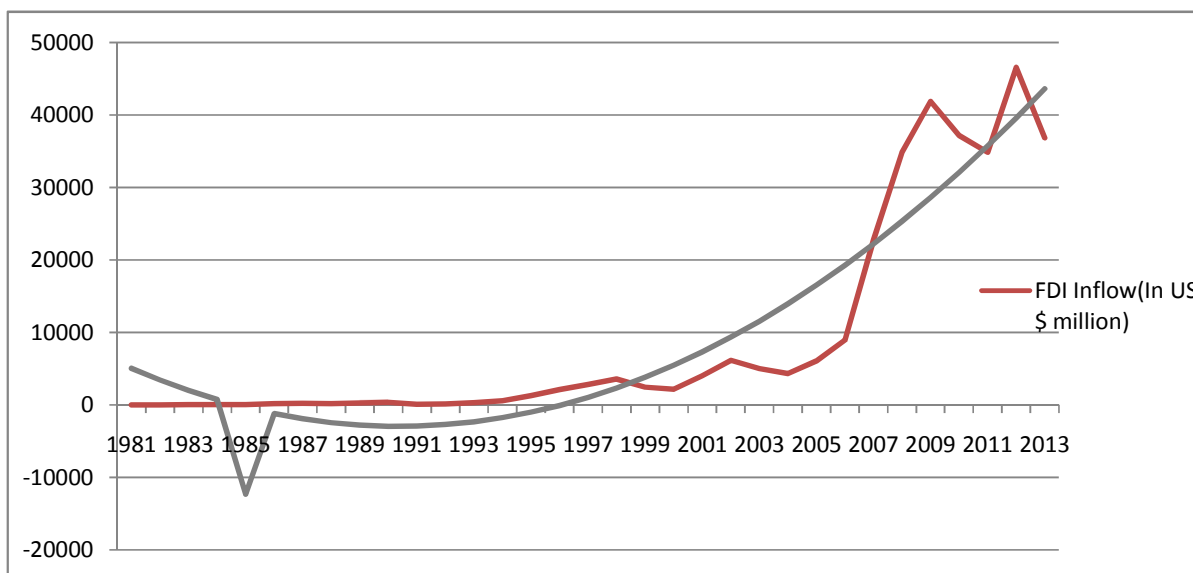
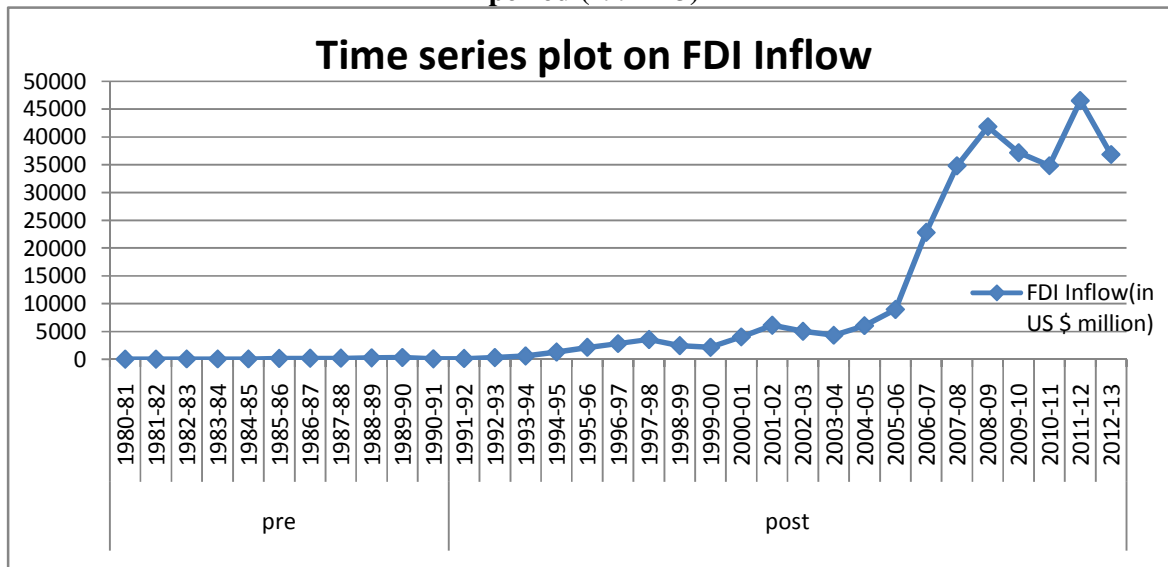


Chart 2: Chart showing Trend of FDI Inflows from 1980 to 2013 in India

The Chart 2 shows two lines in which the red line shows the actual values and the grey line shows the trend values of FDI inflow to India. The last two decades have witnessed a tremendous increase in global FDI flows. This has been accompanied by a slow shift in the pattern of FDI, which has gradually become more favourable to the developing countries. Chart2 presents Trend of FDI Inflows from 1980 to 2013 in India and it reveals that FDI inflow India showing increasing trend with liberal economic policy. Chart1 showing that FDI inflow increases with the passage of time. In 1990-91, Annual growth of FDI inflow fallen due deregulation. It could be observed that there has been a steady build up in the actual FDI inflows in the pre-liberalization period in chart 1. But during that time, measures introduced by the government to liberalize provisions relating to FDI in India.

After the economic liberalisation of 1991, the reforms did away with the Licence Raj, reduced tariffs and interest rates and ended many public monopolies, allowing automatic approval of foreign direct investment in many sectors FDI inflow by foreign countries to India which increases the flow of FDI to India. The positive perceptions among investors as a result of strong economic fundamentals driven by 22 years of reforms have helped FDI inflows grow significantly in India. The trend of FDI flow into India has been calculated with the help of trend analysis as the second degree parabola of least square method. Along with the trend, forecast value of the FDI flow to India has been calculated for the next five year i.e. from 2014 to 2016 which are shown in table 4 are as follows:

Table 4: Forecasted Value (In US \$ million) for the next five financial year (i.e. up to 2018)

Year	Forecasted Value (In US \$ million)
2014	47785
2015	52171
2016	56739
2017	61488
2018	66419

The above table indicates that there is an increasing trend and pattern over the forecasted period. The analysis of trend value showing the flow of FDI in 2014 as US\$ 47785, 2015 as US\$ 52171, 2016 as US\$ 56739, 2017 as US\$ 61488 and 2018 as US\$ 66419, which clearly shows that FDI is going to grow in the near future, thereby brings prosperity for the economic growth.

III. FDI Inflow and Economic Growth

Gross domestic product of India rose rapidly since 1991. Higher FDI inflow in India in recent period can be argued to be facilitated by the relatively stable GDP growth rate, which in turn acted as a major boost towards a sustainable high domestic investment. The logarithm transformation is used to overcome the problem of nonlinearity of the parameters. The effect of foreign direct investment inflow on GDP growth by linear regression equations:

Table 4: Estimation of Linear regression model

LNFDI	Coefficient	Standard deviation	T statistic	P> t
LogGDP	3.601046	.2597277	13.86 *	0.000
Constant	-44.69902	3.843701	-11.63	0.000
Number of observation = 22		R-squared = 0.9058		
F(1, 20) = 192.23		Adj. R-squared = 0.9011		
Prob. > F = 0.0000		Root MSE = .52074		

*significant at 5% level of significance

	Sum of Square	Degree of Freedom	Mean of Square
Model	52.1273809	1	52.1273809
Residual	5.42344522	20	.271172261
Total	57.5508261	21	2.74051553

The correlation coefficient between FDI flows and GDP during in post-liberalisation period (i.e. between 1991 and 2013) is shown in the above Table 4. In the initial estimation model is found to be significant to explain the outcomes as p-value is significant at 5 percent level. Estimation of the model reflects the significant and high positive association of GDP and FDI Inflow. Further R-Squared is 91 percent which means FDI inflow can explained about 91 percent by GDP which indicates that there is positive association between FDI and GDP of the Indian economy during the post-liberalisation period meaning that when GDP goes up then Indian economy attracts more FDI which says the observation will fall with near about perfection in the fitted regression line. FDI flows and GDP growth rate are strongly correlated in India which revealed that growth of Indian economy attracts the foreign direct investment. 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 contributing to the level of growth in India. In our case we have taken only one explanatory variable i.e. GDP, but there are other variables also which effects the FDI inflow and are not considered as there is an observed pattern in residuals. Thus, there is further scope to study the relationship of FDI with other factors also.

CONCLUSION

Foreign Direct Investment plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. MNC's consider FDI as an important means to reorganize their production activities across borders in accordance with their corporate strategies and competitive advantage of host countries. Domestic sources of outside finance are limited in many countries, particularly those with emerging markets. The paces of FDI inflows in India initially were low due to regulatory policy framework but there is a sharp rise in investment flows from 1991 towards because of the new policy has broadened. In the post-liberalization when the emphasis is on attracting a large amount of FDI, approvals for FDI marked a significant increase as compared to the earlier phase. This paper empirically observed that the research that GDP growth is the strong basis for attracting more foreign investment in India. The foreign institutional investors with draw their money when the GDP growth starts sliding down. According to findings and results, it is concluded that FDI did has significant impact on GDP growth rate. Also FDI is not the only factor affecting the GDP growth rate. There are other major factors that influence the GDP growth rate in the country but FDI can be termed as one of the major factor contributing to GDP growth.

The effect of FDI on growth of the host country depends to a large extent on the macroeconomic policies in practice and the institutional framework of the host country. Hence, to increase the effect of FDI inflow on GDP growth, India need to improve the governance and rule of law in order to maintain the environment friendly to foreign investors. UNCTAD estimated that FDI flows for 2013 will remain close to the 2012 level. The third generation economic reforms make India not only a favourable FDI destination in the world but also set an example to the rest of the world by achieving what is predicted by Goldman Sachs^{23, 24} (in 2003, 2007) that from 2007 to 2020, India's GDP per capita in US\$ terms will quadruple and the Indian economy will overtake France and Italy by 2020, Germany, UK and Russia by 2025, Japan by 2035 and US by 2043. Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy.

RECOMMENDATIONS

It is observed that FDI, being a strategic component of investment, needed by India for its sustained economic growth and development. FDI is necessary for creation of jobs, expansion of existing manufacturing industries and development of the new one. Indeed, it is also needed in the healthcare, education, R&D, infrastructure, retailing and in long term financial projects. So, the study recommends the following suggestions:

- The policy makers need to focus on attracting diverse types of FDI.
- The policy makers should design investment policies for enhancing domestic production, saving and exports and as medium of technological learning and technology diffusion, while providing access to the external market.
- It is suggested that the government should push for the speedy improvement of sector's requirements which are important for diversification of business activities.
- Government should ensure the equitable distribution of FDI inflows among states. They should open doors to foreign companies in the export-oriented services which could increase the demand of unskilled workers and low skilled services and also increases the wage level in these services.
- Government must target at attracting specific types of FDI that are able to generate spillovers effects in the overall economy i.e. in human capital, R&D activities, environmental issues, dynamic products, productive capacity, infrastructure and sectors with high income elasticity of demand.
- Government must pay attention to the emerging Asian continent as the new economic power – house of business transaction and try to boost the trade through bilateral, multilateral agreements and also concludes FTAs with the emerging economic Asian giants.
- FDI should be guided so as to establish deeper linkages with the economy, which would stabilize the economy (e.g. improves the financial position, facilitates exports, stabilize the exchange rates, supplement domestic saving and foreign reserves, stimulates R&D activities and decrease interest rates and inflation etc.) and providing to investors a sound and reliable macroeconomic environment.
- Finally it is suggested that the policy makers should ensure optimum utilisation of funds and timely implementation of projects. It is also observed that the realization of approved FDI into actual disbursement is quite low. The government while pursuing prudent policies must also exercise strict control over inefficient bureaucracy, red-tapism, and the rampant corruption, so that investor's confidence can be maintained for attracting more FDI inflows to India.

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