



Proceedings of GLOGIFT 12
July 30 – August 1, 2012
University of Vienna, Austria
pp. 773-785

Economic and Policy Flexibility and Foreign Direct Investment: An Indian Perspective

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Abstract

India is identified as one of the most attractive foreign investment destinations all over the world. Given its distinct features of large domestic market, high market growth rate, fairly well developed financial system and skilled human resources, it has a potential to attract much larger foreign investments than it has done in the past. Apart from other factors, the potential of India to attract FDI depends on its economic and international investment policy flexibility. Till 1990, the policy was heavily restrictive as FDI was permitted in handful of industries with restriction on investment through equity caps and profit repatriation. India's present international investment policy facilitates easy entry of foreign capital in almost all areas subject to specific limits on foreign ownership. Entry options have not only become procedurally simpler, but the prospects for higher yields from investment have also become brighter. The paper provides the brief synthesis of the FDI policy and analyzes how economic and policy flexibility has contributed to the recent surge in FDI in India since the economic reforms of 1991 have been initiated by the government. The result of the analysis concludes that the policy and economic variables like openness, stable exchange rate and economic growth influence FDI significantly. It also emphasizes the areas where the policy needs to be reviewed and to be made more flexible for foreign investment.

Introduction

Since the inception of economic reforms in 1991, India has become the most promising destination for foreign direct investment. The various reforms initiated in economic and policy framework aimed at integrating the Indian economy to global economic system. The process of globalization has facilitated trade and investment of India with other countries. The focus shifted from inward looking policy to a more liberalized and competitive approach. The phase before 1991 was restrictive in terms of in terms of sectoral investment and limits being specified for foreign investment. Furthermore, there were areas where no FDI was permitted. However, in 1991 Indian economy opened its door for foreign investment in major sectors and the process is still continuing, which is evident from the fact that foreign investment is allowed in almost all areas under automatic route (DIPP, 2012).

India is ranked eighth in the top twenty host countries for FDI in 2009-10. India is also ranked third as the top priority host country for FDI for the period 2010-2012 (UNCTAD, 2012). The liberalization of international policy regime of India has contributed to increase in FDI inflows from USD 165 million in 1990-91 to USD 91 billion in 2008-09. While India has an overall

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market-friendly and liberal policy towards foreign investment, foreign capital still does not enjoy equally easy access in all parts of the economy. Also there are areas like manufacturing and agriculture in which FDI investment is still below its potential. India's future foreign investment policy faces the critical challenge of increasing access of foreign capital to these segments.

The role of FDI in the economic growth of host country is plausible. The benefit of FDI can be in the form of knowledge & technology spillovers, employment generation and enterprise development (NACER (2009), OECD (2002), Magnus et.al (2008)). Agosin and Mayer (2000) concluded that the effects of FDI on domestic investment are by no means always favorable. Calvo et.al (1996) observed that apart from the other macroeconomic effects of FDI on developing countries, widening current account deficit is one of major problems associated with capital inflows. FDI may cause imbalance in current account that threaten macroeconomic stability of the host country.

It can be construed from the above that FDI inflows need to be regulated as well as liberalized at the same time. This requires the policy and economic flexibility such that FDI can be directed to the areas where the benefits from FDI overcome its costs. The study is undertaken to achieve the following objectives:

- To study the trends and performance of Foreign Direct Investments in India.
- To critically analyze the current International Investment policy on FDI.
- To analyze the impact of economic and policy variables flexibility on FDI inflows to India.

Paper is divided into four sections. Section I is the introduction which is the present one. Section-II contains the literature review on economic and policy variables influencing FDI. Section-III represents the data and methodology. Section-IV examines FDI trends and performance for a period of 9 years from 2000-2009. Empirical results are represented in Section-V followed by concluding remarks.

While analyzing the data an attempt has been made to test the following hypothesis:

H1: There is no effect of market size on the inflows of FDI in India.

H2: There is no significant effect of trade openness on the inflows of FDI.

H3: Debt service does not influence FDI inflows in India.

H4: There is no effect of economic growth of India on FDI inflows.

H6: Inflation does not have significant effect on FDI

H7: FDI is not influenced by level of interest rates.

H8: Exchange rate does not influence FDI inflows.

Openness and exchange rate are the policy variables while GDP growth, GDP, debt service, interest rates and inflation are the important economic variables included in the present study. Trade openness of India with other countries measures the flexibility of India's trade policy and it is assumed to have positive influence on FDI.

Literature Review

FDI is a category of international investment in which a resident entity in one economy (the foreign direct investor) acquires a lasting interest in an enterprise resident in another economy (the direct investment enterprise). Whether the lasting interest is related to a controlling interest or to potential control is immaterial. However, the foreign investor should own at least 10 percent

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of on overseas direct investment enterprise to control and influence the management of the investment (IMF, 1996). FDI consists of both the initial transaction that creates investments as well as subsequent transactions between the direct investor and the direct investment enterprises in the host country aimed at maintaining, expanding or reducing investments.

The data on FDI it includes three broad components, new equity flows (either through M & A or Greenfield investment), intra company loans and reinvested earnings.

FDI in India means investment by non-resident entity/person resident outside India in the capital of the Indian company under Schedule 1 of FEM (Transfer or Issue of Security by a Person Resident Outside India) Regulations 2000 (Consolidated FDI Policy Circular, DIPP, 2010).

According to the OLI paradigm of Dunning, three important set of determinants which influence FDI include the presence of ownership-specific competitive (O) advantages in a transnational corporation, the presence of location advantages (L) in a host country and the presence of superior commercial benefits internally in a firm (I).

Researchers have emphasized that there are various factors in the host countries that act as a determinant of FDI. In their study of developing Asia and India, Palit & Nawani (2007) argues that some countries in the region having comparative advantages in the form of superior technological capabilities and supporting infrastructure consistently attracted greater volumes of FDI. Bevan & Estrin (2000) using panel dataset established the determinants of FDI in transition economies as country risk, unit labour costs, host market size and gravity factors.

Table 1 shows the select studies on economic and policy factors influencing FDI inflows in host countries. The studies have highlighted that apart from economic and policy flexibility the other set of determinants include the infrastructure, financial sector development and the business facilitation measures in the form of Bilateral Investment Treaties, Investment Promotion Agencies etc.

Table 1: Select Studies of FDI and its Economic and Policy Determinants

Author (Year)	Country/Sector	Key Findings
Moosa, Imad A, Cardak, Buly A(2006)	138 countries	Countries with high degree of openness and low country risk attract more FDI.
Kok, Reap, Ersoy Bernur A(2009)	Developing countries	Countries should develop policies particular to their own economic structure depending on the FDI determinant.
Neumayer, Eric, Spess, Laura(2005)	Developing countries	Higher number of Bilateral Investment Treaties(BITs) results in more inflows of FDI
Zheng, Ping(2009)	India and China	Inward FDI is influenced by economic growth, exports, country and political risks/policy liberalization.
Sahoo, Pravakar(2006)	South Asia	Major determinants of FDI in South Asia are market size, labor force growth, infrastructure index and trade openness.
Peter Montiel, Carmen M. Reinhart(1999)	Emerging Economies	Sterilized intervention in policies increases the capital flows in the form of portfolio investment than FDI. Reduced capital controls increases FDI.
Sung-Hoon Lim(2008)	China	Investment promotion positively affects the attraction of FDI.
Qian Sun , Wilson Tong, Qiao Yu(2002)	China	FDI determinants move through time. Labor quality and infrastructure are important determinants of the distribution of FDI. High labor quality and good infrastructure attract foreign investors. For the country as a whole, political stability and its openness to the foreign world add another important dimension to drawing in foreign capital.
Douglas E. Thomas, Robert Grosse (2001)	Mexico	Economic, socio-political, and geographic factors are hypothesized to be important country-of-origin determinants of FDI into Mexico.
Steven Globerman, Daniel Shapiro (2002)	Developed and developing countries	Governance Infrastructure in the form of institutions and policies is important determinant of FDI inflows and outflows.
Singh Harinder, Jun, Kwang W (1995)	Developing countries	Political risk, business conditions and macroeconomic policies matter for FDI.
Bevan Alan A, Estrin Saul (2000)	Transition Economies	Determinants of FDI to transition economies are country risk, host market size and unit labour costs

Major determinants of FDI in South Asia are market size, labor force growth, infrastructure index and trade openness. South Asian countries need to maintain growth momentum to improve the market size, frame policies for better use of the abundant labor force, improve infrastructure facilities and follow more open trade policies to attract increased FDI (Sahoo, 2006).

In this study we have tried to examine how the flexible economic and policy framework has contributed to attract FDI inflows to India. Furthermore, it can highlight the areas where policy needs to be reviewed and made more conducive for foreign investment. The paper will also suggest some policy implications favoring FDI by indentifying the significant policy variables in context of India.

It is important to examine why FDI takes place. It is noticed that determinants vary according to the purpose of FDI. Figure 1 explains the host country determinants based on the motive of FDI:

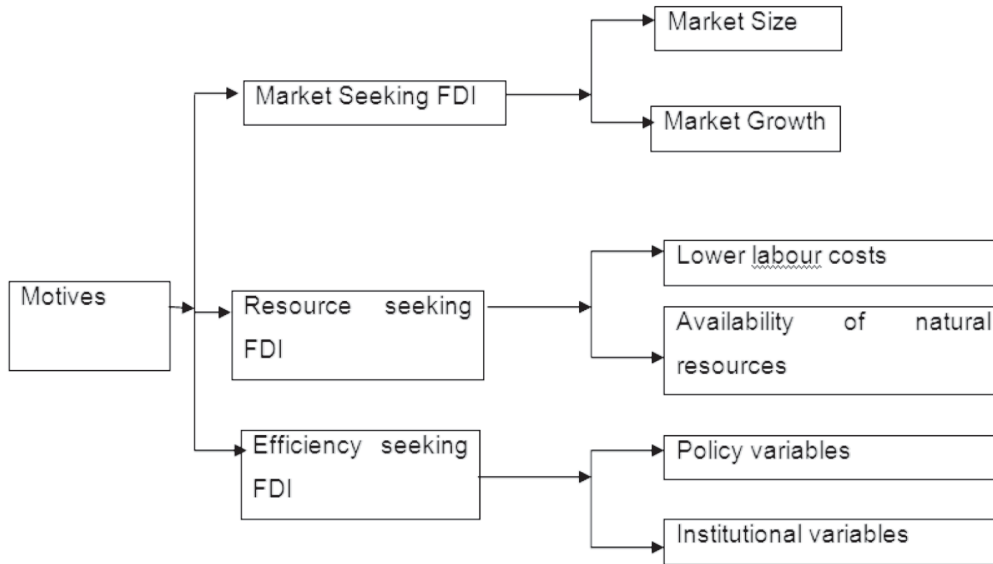


Figure 1: Motives of FDI and Corresponding Determinants

Data and Methodology

The data consists of annual time series for the period of 19 years from 1991-2009. The reforms in the policy framework of India were initiated in the year 1991 and the process is still continuing. This period is referred to as post liberalization period and the analysis is based on the observations from the post liberalization period only as the data before 1991 may lead to incorrect conclusions. The various sources of data consist of:-

- World Development Indicators published by World Bank.
- FDI Fact Sheet published by Department of Industrial Policy & Promotion, Ministry of Finance, India.
- Annual report (various years) of Reserve Bank of India.

To understand the relationship between FDI and policy variables multiple correlation and step wise regression is used. Multiple correlation explain the direction of relationship between FDI and its various independent variables. We have used step wise regression to identify the

significant variables that explain FDI. It eliminates one insignificant variable every time the regression is done based on the value of F ratio and gives the best model based on the maximum value of R-square. The effect of multi collinearity is explained by Darwin Watson test.

Table 2: List of Variables used in the Analysis

Variable	Definition	Reasons for inclusion
OPENNESS	Exports less imports as a percentage of GDP	Indicates the degree of International exposure and economic flexibility. A measure of openness of the economy.
DEBTSERV	External debt as a percentage of Export	Signifies a burden on the economy to service debt out of exports. Higher ratio burden to service debt and reduces FDI.
GDP	GDP in US \$	Captures demand for goods and services Provides a representation of the market size.
GDPGR	Rate of growth of GDP in percentage	Indicates the rate of growth of economy and market.
REER	Real effective exchange Rate	Signifies the stability of the Indian rupee in comparison to other currencies. It measures the policy flexibility.
INTR	Level of Interest rate in percentage	Indicates the efficiency of macroeconomic policy regarding general level of interest rates in the Economy
INFLN	Rate of inflation in percentage	Indicates the economic flexibility related to general price level in the economy.

The variables measuring economic and policy flexibility and their reason for inclusion are listed in Table 2. The increase in their values indicates the extent of flexibility and its impact on FDI in terms of increase in inflows. Based on the hypotheses posed, the proposed model can be stated as:

$$FDI = f(\text{openness, Debt/GDP ratio, exchange rate, inflation, interest rates, GDP, GDP growth})$$

FDI Trends and Performance

The foreign investment inflows increased from US\$ 4 billion in 2000-01 to US\$ 38 billion in 2008-09. This has resulted in increase in FDI by 9 times from April 2000 to March 2009.

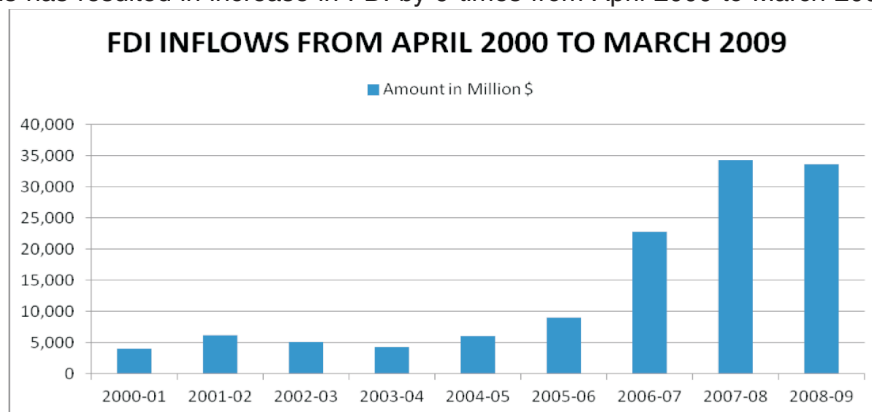


Figure 3: FDI Inflows from 2000-2009.

Complied from FDI fact Sheet

Country based analysis

Among countries, Mauritius has been the largest direct investor in India. Firms based in Mauritius have invested over US\$ 37 billion in India constituting 44 per cent of the total FDI received during March 2000 to April-2009. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. It is for this reason many companies have set up dummy companies in Mauritius before investing to India. Singapore is the second largest investor in India with the total capital inflow of US\$7 billion from April 2000 to March 2009, which accounted for 9 percent of the FDI inflows. U.S.A, United Kingdom (UK) and the Netherlands are India's third, fourth and fifth largest source of FDI inflows. The investments from these countries to India are primarily concentrated in the power/energy, telecom, transportation sector, fuel, telecom, electrical equipment, food processing, and services sectors.

Japan was the sixth largest source of cumulative FDI inflows in India between April 2000 to March 2009, but it was fifth till 2007. This is particularly interesting because Japan's FDI outflows in 2006 increased by 10 percent to reach a record US\$50 billion, the second highest since 1990.³ It is hard to explain the recent decline of Japanese FDI to India and it might as well be a temporary anomaly.

India, however, continues to be one of the biggest recipients of Japanese Official Development Assistance (ODA). Most of the assistance was in building infrastructure, including electricity generation, transportation, and water supply.

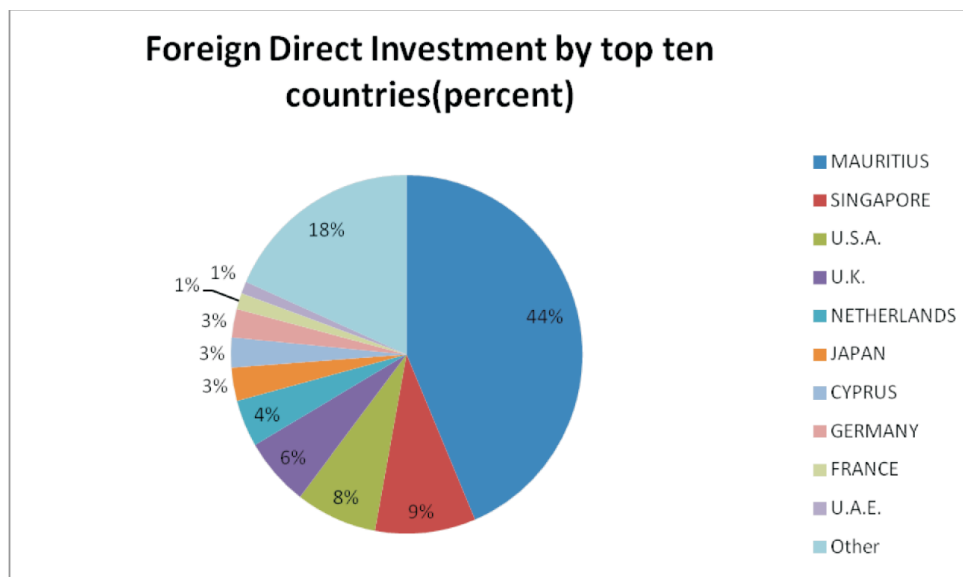


Figure 4: Top Ten Countries Investing in India.
Source: FDI Fact Sheet, DIPP

Distribution of FDI within India

Mumbai and New Delhi have been the top performers, with the majority of FDI inflows within India being heavily concentrated around these two major cities (Figure 5). Chennai, Bangalore, Hyderabad and Ahmadabad are also drawing significant shares of FDI inflows. For statistical

purposes, India's Department of Industrial Policy and Promotion (DIPP) divides the country into 16 regional offices. The top 6 regions account for more than two-thirds of all FDI inflows to India between January 2000 and July 2009. The key sectors attracting FDI to the Mumbai-Maharashtra region are energy, transportation, services, telecommunications, and electrical equipment. Delhi attracts FDI inflows in sectors like telecommunications, transportation, electrical equipment (including software), and services.

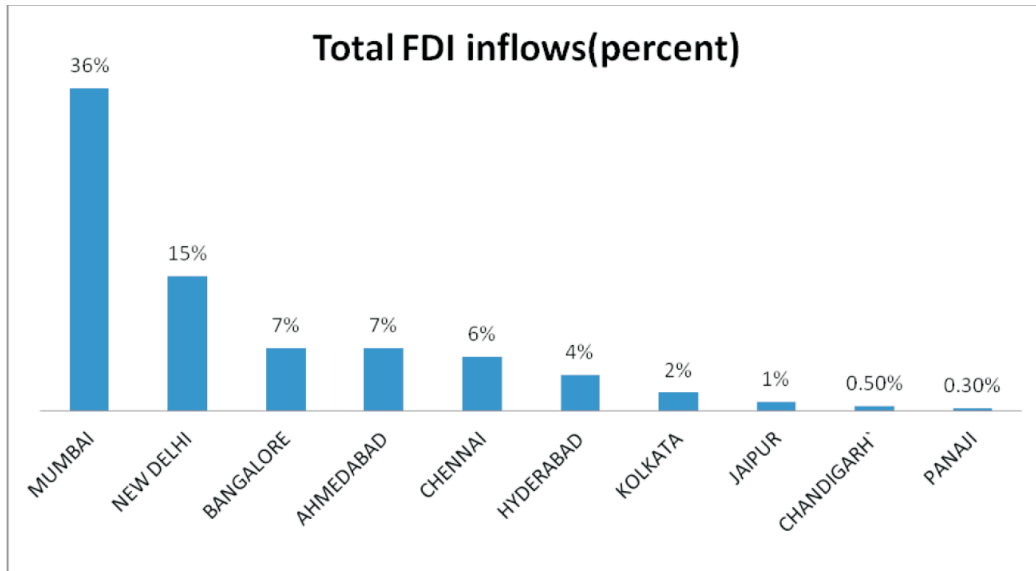


Figure 5: Top ten FDI Recipient Regions
Source: FDI Fact Sheet, DIPP

India's present policy framework for inward FDI was introduced by the Industrial Policy Statement of July 24, 1991. The foreign investment regime in India has been gradually liberalized by successive governments since the liberalization process commenced in 1991. Attempts have been made to simplify the regime to encourage FDI and foster competition in the Indian market. Foreign investment, while still controlled, is actively encouraged by the Indian government and amounted to USD 35.1 billion in fiscal year 2009. The policy is reviewed on continued basis and amendments are notified through Press Notes by SIA, DIPP.

Strengths of the Policy

The strengths of the policy are highlighted below:-

- All sectors are covered under automatic route with no approval required from RBI or FIPB.
- Withdrawal of external controls/restrictive provisions which were imposed earlier. Simplified procedures of entry to India. All the information is available on www.dipp.nic.in which is a single window for all foreign investments inquiries.
- No restriction on repatriation of investments, dividends and profits which was earlier subject to restrictions.
- Acquiring stakes under merger and acquisition is usually permitted under automatic route.
- Additional benefits to NRIs, Persons of Indian Origin (PIOs) and overseas corporate Bodies (OCBs) like they can invest more than the ceiling prescribed to the foreign investors.

- India has Double Taxation Avoidance Agreements (DTAA) with 69 countries which imply that India has friendly investor policy.
- Financial and non-financial services have been the top drawers of FDI despite being relatively restricted than manufacturing due large domestic markets and infrastructure.

Inadequacies of the Policy

- Sectors covered under automatic route are subject to other caveats either of the State or the respective Ministry managing the sector.
- Most of the agriculture closed to FDI due to falling in the domain of States like Tea Plantation.
- FII holding is capped at 24 percent showing preference for longer-term FDI.
- FDI is restricted to 24% in SSIs which has the potential to increase beyond this limit.
- Commercial scopes of unincorporated enterprises are narrower compared to incorporated counterparts in terms of tax incentives, remittances receipts/payments and setting up of new unit etc.
- Activities promising higher returns like telecommunication, defense production, print media have limitation on foreign ownership and require government approval.
- Though DIPP notifies the policies on foreign investments in services, investment guidelines are accompanied by specifications by ministries. For e.g FDI in power and airports despite being allowed up to 100% under automatic route is subject to the provisions of Electricity Act, 2003 and departmental regulations of Ministry of Civil Aviation.
- 100% foreign investment, without government approval (automatic route), is permitted in townships, housing, built-up infrastructure and construction-development projects. Under Construction development services automatic route is allowed but as an incorporated entities only, subject to minimum capitalization requirement and minimum lock in period of 3 years.
- Courier services are subject to FIPB Approval and exclude distribution of letters covered under Indian Post Office Act.

Empirical Results

The direction and magnitude of capital flows between emerging and developed-country markets depend on the relative attractiveness of placing funds in emerging markets vis-a'-vis developed-country markets, as well as on the ease with which such transactions can be carried out which in turn depends on the liberalization of policy regime.

The FDI environment in India has undergone a sea change since the inception of economic reforms in 1991. India's strengths as an investment destination rest on strong fundamentals, including a large and growing market; world-class scientific, technical and managerial manpower, cost-effective and highly skilled labor, an abundance of natural resources, liberal and investor friendly international regime and an independent judiciary.

To estimate the effect of above factors on FDI which is a dependent variable multiple correlation and regression model is used. The results are explained below.

Table 3 : Descriptive Statistics

	Mean	Std. Deviation	N
LFDI	9.54147563	.703172709	19
LGDP	.76910792953	.224476305469	19
LGDP	.000000001153	.1035789765539	19
LOPENNESS	1.334009379	.1245099845	19
LDEBTSERV	.4412323758	.12116597764	19
LINFLT	.8306702858	.20061901540	19
LREER	1.998058	.0149664	19
LRINTR	.775638	.1630310	19

The correlation matrix represented by Table 4 reflects the relationship between FDI and economic and policy variables. It is obvious from the table that there exist an association between the explanatory variables under consideration and FDI. Amongst the various independent variables, OPENNESS is found having the highest positive correlation (0.887) with FDI, implying that amongst all the explanatory variables, the trade openness of Indian economy is the most important factor influencing the inflows of FDI. Correlation coefficients of FDI with GDP growth, GDP and DEBTSERV are also significant at 1% level of significance. However, the correlation coefficient of DEBTSERV is negative. The negative correlation indicates an inverse relation between FDI and the independent variables

Table 4: Result of Correlations between FDI and Various Independent Variables

	LFDI	LGDP	LGDP	LOPENNESS	LDEBTSERV	LINFLT	LREER	LRINTR
LFDI Pearson Correlation	1	.623**	.747**	.887**	-.458*	-.359	.053	.005
LFDI Sig. (2-tailed)		.004	.000	.000	.048	.131	.829	.983
LFDI N	19	19	19	19	19	19	19	19
LGDP Pearson Correlation	.623**	1	.384	.485*	-.157	-.269	.097	.027
LGDP Sig. (2-tailed)	.004		.105	.035	.520	.265	.692	.912
LGDP N	19	19	19	19	19	19	19	19
LGDP Pearson Correlation	.747**	.384	1	.890**	-.474	-.032	.257	-.299
LGDP Sig. (2-tailed)	.000	.105		.000	.040	.897	.287	.214
LGDP N	19	19	19	19	19	19	19	19
LOPENNESS Pearson Correlation	.887**	.485*	.890**	1	-.450	-.232	.132	-.105
LOPENNESS Sig. (2-tailed)	.000	.035	.000		.053	.339	.590	.669
LOPENNESS N	19	19	19	19	19	19	19	19
LDEBTSERV Pearson Correlation	-.458*	-.157	-.474	-.450	1	.006	.300	.267
LDEBTSERV Sig. (2-tailed)	.048	.520	.040	.053		.980	.212	.270
LDEBTSERV N	19	19	19	19	19	19	19	19
LINFLT Pearson Correlation	-.359	-.269	-.032	-.232	.006	1	-.291	-.192
LINFLT Sig. (2-tailed)	.131	.265	.897	.339	.980		.227	.430
LINFLT N	19	19	19	19	19	19	19	19
LREER Pearson Correlation	.053	.097	.257	.132	.300	-.291	1	-.006
LREER Sig. (2-tailed)	.829	.692	.287	.590	.212	.227		.982
LREER N	19	19	19	19	19	19	19	19
LRINTR Pearson Correlation	.005	.027	-.299	-.105	.267	-.192	-.006	1
LRINTR Sig. (2-tailed)	.983	.912	.214	.669	.270	.430	.982	
LRINTR N	19	19	19	19	19	19	19	19

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

In order to analyze the relationship between FDI and economic variables, we have applied the step-wise multiple regression. The presence of multi-collinearity tends to make the results of regression analysis unreliable. To overcome this problem of multi-collinearity in regression we have computed Durbin-Watson test statistic value. If the value is low, it implies the absence of muti-collinearity in analysis. The log value of FDI inflow is taken as the dependent variable and the seven variables namely, GDP, Openness, DEBTSERV, GDPGR, IFTLN and REER are taken as the independent predictor variables representing economic and policy flexibility. Table .. depicts the summary results of stepwise regression model and F ratios were found significant at one per cent level in all the five models, which implies the existence of linear relationship between the independent variables and foreign direct investment (FDI) inflows in India. Hence, there is a strong evidence of a linear relationship between FDI and economic as well as policy variables. The table further indicates that the data are free from the problem of auto-correlation as shown by the value of Darwin Watson test which is less than one.

Table 5 : Results of R-square and Standard Error for Different Models

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.933 ^a	.871	.789	.323053884	
2	.933 ^b	.870	.805	.310736396	
3	.930 ^c	.866	.814	.303422811	
4	.927 ^d	.859	.819	.299142921	
5	.922 ^e	.850	.820	.298334829	
6 Model	.914 ^f	.836	.815	.302172217	.848

Table 5 shows that the value of R-square is maximum (0.820) in model 5. The variation in FDI is explained by three variables namely, GDPGR, INFLTN and OPENNESS. GDP growth and openness have positive influence on FDI with positive beta coefficients, while the beta coefficient of inflation is found to be negative but statistically insignificant (Table 6).

Table 6: Results of Backward Stepwise Regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	14.352	15.467		.928	.373
	LG DPR	.713	.396	.228	1.802	.099
	LGDP	.752	2.352	.111	.320	.755
	LOPENNESS	3.548	1.814	.628	1.956	.076
	LDEBTSERV	-.456	.852	-.079	-.535	.603
	LINFLTN	-.565	.493	-.161	-1.147	.276
	LREER	-4.862	7.158	-.103	-.679	.511
	LRINTR	.377	.540	.087	.699	.499
2	(Constant)	11.071	11.138		.994	.340
	LG DPR	.711	.381	.227	1.868	.086
	LOPENNESS	4.068	.779	.720	5.222	.000
	LDEBTSERV	-.548	.771	-.094	-.710	.491
	LINFLTN	-.485	.407	-.138	-1.190	.257
	LREER	-3.554	5.654	-.076	-.629	.541
	LRINTR	.314	.483	.073	.650	.528

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3	(Constant)	4.114	1.239		3.320	.006
	LG DPR	.719	.372	.230	1.935	.075
	LOPENNESS	3.949	.738	.699	5.352	.000
	LDEBTSERV	-.751	.684	-.129	-1.097	.292
	LINFLTN	-.414	.382	-.118	-1.083	.298
	LRINTR	.363	.465	.084	.780	.450
4	(Constant)	4.419	1.159		3.812	.002
	LG DPR	.730	.366	.233	1.995	.066
	LOPENNESS	3.921	.727	.694	5.396	.000
	LDEBTSERV	-.630	.657	-.109	-.959	.354
	LINFLTN	-.472	.370	-.135	-1.277	.223
5	(Constant)	3.718	.897		4.145	.001
	LG DPR	.710*	.364	.227	1.948	.050
	LOPENNESS	4.227*	.650	.749	6.499	.000
	LINFLTN	-.436	.367	-.124	-1.189	.253
6	(Constant)	3.170	.780		4.066	.001
	LG DPR	.790	.363	.252	2.177	.045
	LOPENNESS	4.321	.654	.765	6.606	.000

Concluding Remarks

It can be concluded that India's present policy framework is made more conducive to foreign investment since 1991. The economic and policy flexibility has contributed in making India an attractive FDI destination which, in turn, has resulted in huge amounts of FDI inflows to India. The pre-1991 phase was restrictive in terms of sectoral investment and limits being specified for foreign investment. Furthermore, there were areas where no FDI was permitted. However, in 1991 Indian economy opened its door for foreign investment in major sectors and the process is still continuing, which is evident from the fact that foreign investment is allowed in almost all areas under automatic route. The matter of concern is the manufacturing sector which is still not able to attract large foreign direct inflows in spite of its huge potential. More investment in manufacturing sector implies improving the production efficiency of the country.

The present study also analyses whether the policy related variables like openness of the economy, exchange rate and economic variables like GDP, GDP growth, interest rates and inflation influence the foreign direct investment inflows in India. The analysis shows that the policy variable trade openness and economic variable GDP growth significantly influence FDI. It leads to the conclusion that the policy flexibility has contributed to FDI inflows in India. The policy makers must strive to make more flexible policies related to taxation, business laws and regulations in spite of maintaining the trade openness. At the same time, policy makers should take steps to maintain minimum level of economic growth which is one of the important determinants of FDI to India.

India must have FDI promotion strategy to be implemented through investment promotion agencies to promote FDI through support measures and incentives of fair regional distribution of FDI. Also, FDI in agriculture should be enhanced.

All in all more open policy frame is required so that India can receive Foreign Direct Investment in the sectors that have potential to grow from foreign capital. Before that the integration at National level is required as sectors which are covered under automatic route are subject to other caveats imposed by State and respective Ministry.

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