FOREIGN DIRECT INVESTMENT IN INDIA: TRENDS, IMPACT, DETERMINANTS AND INVESTORS' EXPERIENCES

by:

MANPREET KAUR
Department of Management Studies

Submitted

in fulfillment of the requirements of the degree of Doctor of Philosophy

to the

INDIAN INSTITUTE OF TECHNOLOGY DELHI

MAY 2013

CERTIFICATE

The thesis titled, "Foreign Direct Investment in India: Trends, Impact, Determinants and Investors' Experiences", being submitted by Ms Manpreet Kaur to the Indian Institute of Technology, Delhi, for the award of the degree of Doctor of Philosophy (Ph.D.) is a record of bonafide research work carried out by her. She has worked under our guidance and supervision, and has fulfilled all the requirements for the submission of this thesis, which has attained the standard required for a Ph.D. degree of this Institute. The results presented in this thesis have not been submitted elsewhere for the award of any degree or diploma.

(Surendra S. Yadav)
Professor
Department of Management Studies
Indian Institute of Technology
New Delhi

(Vinayshil Gautam)
Professor
Department of Management Studies
Indian Institute of Technology
New Delhi

ACKNOWLEDEGEMENTS

"Gratitude is the attitude that takes you to your altitude."

This study has been accomplished with the help, encouragement, cooperation and guidance of many people and I convey my heartfelt thanks to all of them. At the outset, I would like to thank The Almighty for His blessings which helped me to achieve this academic endeavor.

I would like to express my deepest gratitude to respected guides, Prof. Surendra S. Yadav and Prof Vinayshil Gautam, for their invaluable guidance, inspiration, motivation, encouragement and support to develop an independent researcher out of me. Further, I would like to thank them again from the core of my heart for having offered me unique opportunity to teach at the IIT, involving in different academic activities and their untiring fatherly support which helped me to grow both as an academician and as an individual.

A special gratitude goes to my father, Mr Mohan Singh Panesar, whose stimulating suggestions and encouragement helped me in accomplishing this research work. I take this opportunity to thank my mother, husband, father-in-law, brother and bhabhi for their motivation and encouragement. My sincere indebtedness also goes to Prof. P.K Jain, Prof. S.K. Jain, Prof. V. Upadhyaya (Department of Humanities) and all other faculty members of DMS who spared their valuable time for providing useful insights in this research effort. I am grateful to Prof. Kanika T. Bhal, Head, DMS, for providing all the support needed for this research.

My sincere gratitude is also due to Mr. D.S Tarzan who has always rendered a helping hand to me during the course of my research. I am indebted to my fellow researchers, especially Ms. Ishita G. Tripathy, at IIT-D for their valuable discussions, help and support.

I am also obliged to all the respondents of the survey, who took out time from their busy schedules to provide useful data for this research.

A special thanks to my little angel, Gurbani Kaur, who helped me in her own ways to achieve this uphill task.

Last but not the least, I would like to thank Prof. Barjesh Kochar (GNIM) for his unending support and guidance in the accomplishment of this research work.

Date: May 27, 2013 **(Manpreet Kaur)**

ABSTRACT

The process of Globalization has made world a single global village. Foreign Direct Investment is one of the important outcomes of globalization. FDI is increasingly considered as an important source of economic growth and development for emerging economies. The role of FDI in reinforcing domestic growth in many countries has given way to a greater openness to FDI in order to support investment and productivity of the host countries. In the present era of Liberalization, Privatization and Globalization (LPG), there is a tremendous scope for increase in the trade and investment across countries all over the world. This trend is more pervasive in developing countries like India with huge domestic market and abundant labor force, making it a preferred foreign investment destination. FDI is increasingly described as source of economic growth and development that triggers technology and knowledge spillovers, contributing to international trade & commerce by enhancing exports, in particular, and improves the productive efficiency of the host country. FDI and trade provide stimulus to economic growth and development of the recipient country. It is, therefore, pertinent to investigate the relationship between these two variables. India is the largest democracy and fourth largest economy in terms of GDP (based on Purchasing Power Parity) in the world. With its consistent growth performance and highly skilled manpower, India provides enormous opportunities for foreign investments. As a result, the focus of the study is India, one of the attractive destinations for FDI, all over the world.

Foreign direct investment (FDI) is a category of international investment in which a resident entity in one economy (the direct or foreign investor) acquires a lasting interest in an enterprise resident in another economy (the direct investment enterprise). Before 2000-2001, while

reporting FDI, only the equity capital component was considered. However, after 2000, India began to report FDI as per the reporting practices of OECD to make the FDI data comparable with other countries of the world.

This study aims at examining the relationship between FDI and select economic variables. A comprehensive study including three set of variables categorized into economic and policy variables, infrastructure variables and financial sector development variables is undertaken to identify and analyze the determinants of FDI in the pre-liberalization and post-liberalization phase. Moreover, a survey has been administered amongst the FDI firms to gauge their experiences on investment in India and corroborate the findings from the secondary data.

The major finding of the study, based on the analysis, is that there are various factors which affect the inflow of FDI to India. Apart from the policy issues, the factors like extent of human resource development, availability of infrastructure facilities and efficiency of banking sector as well as capital market affect FDI inflows. Another notable finding of the study reveals that FDI has a strong relationship with economic growth of India. On the other hand, FDI is contributing to current account deficit due to increased imports of goods and technology.

Given the legitimate political climate, FDI undoubtedly emerges as a dominant source of economic development. Although FDI is certainly having overwhelming preponderance on investors' confidence, its role in recipient countries is untenable. Planners need to take cognizance of extent of foreign investment required to bolster economic development.

Table of Contents

Chapter-9

Summary and conclusions