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Analysis of FDI Inflows and Outflows in India

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***Abstract*—FDI and trade are often seen as important catalysts for economic growth in the developing countries. FDI is an important vehicle for technology transfer from developed countries to developing countries. Since 1991 the government has focused on liberalization of policies to welcome foreign direct investments. India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. The FDI inflows grow at about 20 times since the opening up of the economy to foreign investment. Further, the explosive 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. These investments have been a key driver for accelerating the economic growth through employment generation, and improved access to managerial expertise, global capital, product markets and distribution network. FDI in India has enabled to achieve a certain degree of financial stability; growth and development to sustain and compete in the global economy. Most importantly FDI is central for India's integration into global production chains which involves production by MNCs spread across locations all over the world. (Economic Survey 2011-12).**

***Index Terms*—FDI, flows of FDI, determinants of FDI, economic growth**

I. Introduction

FDI is generally defined as "A form of long term international capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm." FDI is an important vehicle of technology transfer from developed countries to developing countries. FDI is an important source of non-debt financial resources for country for economic development. It is a means of achieving technical knowhow and employment generation of employment. India has emerged as an attractive FDI destination in services sector and FDI isone of the important sources of financing the country's economic development.

This paper is a general analysis of the inflows and outflows of FDI since the post liberalization era. FDI also stimulates domestic investment and facilitates improvement in human capital and institutions in the host countries. This article analyzes the role of foreign direct investment and trade in promoting economic growth across selected developing country i.e. India and the interaction among FDI, trade and economic growth. We find a strong positive interaction between FDI and trade in advancing economic growth.

The objective behind allowing FDI is to complement and supplement domestic investment, for achieving a higher level of economic development and providing opportunities for technological upgradation, as well as access to global managerial skills and practices.

II. Literature Review

The emergence of FDI has been extensively explained in the literature by corresponding streams of thoughts. Early studies on FDI traced its roots to the international trade theory and identified comparative advantage of the host countries as the most important determinant of FDI.

Many empirical studies have been undertaken to analyze the trends and determinants of Foreign Direct Investment (FDI) in India, few of them are as follows:

Sapna Hooda [1] **(2011)** analyzed the impact of FDI on economic growth of Indian economy for the period 1991-92 to 2008-09. She used OLS method for this purpose. The empirical results found that foreign Direct Investment (FDI) is a vital and significant factor influencing the level of growth in Indian economy.

Burak Camurdan and Ismail Cevis [2] **(2009)** developed an empirical framework to estimate the economic determinants of FDI inflows by employing a panel data set of 17 developing countries and transition economies for the period of 1989-2006. Seven independent variables were taken for this research namely, the previous period FDI, GDP growth rate, wage, trade rate, inflation rate and economic investment. The empirical results conclude that the previous period FDI is important as an economic determinant.

Jaya Gupta [3] **(2007)** in her paper made an attempt to review the change in sectoral trends in India due to FDI Inflows since liberalization. This paper also examines the changed policy implications on sectoral growth and economic development of India as a whole.

Sasidharan Subash and Ramanathan A. [4] **(2007)**, study on "Foreign Direct Investment and Spillovers: Evidence from Indian Manufacturing". It is an attempt to empirically examine the spillover effects from the entry of foreign firms using a firm level data of Indian manufacturing industries. Firm–level data of Indian manufacturing industries are used for the period 1994-2002. They consider both horizontal and vertical spillover

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effects of FDI. Consistent with the results of the previous studies, the study finds no evidence of horizontal spillover effects. However, the study finds negative vertical spillover effects.

AnandVirmani and Susan Collins [5] **(2007)** studied empirically India's economic growth experience during 1960-2004 focussing on the post 1973 acceleration. The analysis focuses on the unusual dimensions of India's experience. They find that India will need to broaden its current expansion to provide manufactured goods to the world market and jobs for its large pool of low skilled workers.

Balasubramanyam V. N Sapsford David [6] **(2007)** in their article "Does India need a lot more FDI" compares the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also finds that India may not require increased FDI because of the structure and composition of India's manufacturing, service sectors and her endowments of human capital. The requirements of managerial and organizational skills of these industries are much lower than that of labour intensive industries such as those in China. Also, India has a large pool of well – Trained engineers and scientists capable of adapting and restructuring imported know – how to suit local factor and product market condition all of these factors promote effective spillovers of technology and know- how from foreign firms to locally own firms.

Garrick Blalock [7] **(2006)** in his work, "Technology adoption from Foreign Direct Investment and Exploring: Evidence from Indonesian Manufacturing" contains three essays on technology adoption from foreign direct investment and exploring. The first essay investigates how technology that accompanies FDI diffuses in the host economy and finds that multinationals wish to limit technology leakage to domestic rivals, they benefits from deliberate technology transfer to suppliers that may lower input prices or raise input quality.

Nirupam Bajpai and Jeffrey D. Sachs [8] **(2006)** in their paper "Foreign DirectInvestment in India: Issues and Problems", attempted to identify the issues and problems associated with India's current FDI regimes, and more importantly the other associated factors responsible for India's unattractiveness as an investment location. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location.

Kulwinder Singh [9] **(2005)** has analyzed FDI flows from 1991-2005. A sectoral analysis in his study reveals that while FDI shows a gradual increase has become a staple of success in India, the progress is hollow. The telecommunication and power sector are the reasons for the success of infrastructure. He finds that in the comparative studies the notion of infrastructure has gone a definitional change. FDI in sectors is held up primarily by telecommunication and power is not evenly distributed.

Nagesh Kumar [10] **(2001)** analyses the role of infrastructure availability in determining the attractiveness of countries for FDI inflows for export orientation of MNC production.

It is therefore topical to get an insight into the effect of FDI outflows into corresponding inflows. Recent empirical works have tried to establish the determination of FDI inflows by considering economic growth, export, import, labor productivity, or a combination of them. But in the literature review, relatively few published empirical works deal with determinant relations among more than two variables simultaneously in a group of countries. India appears to be well placed in terms of reaping benefits because it has relatively well developed financial sector, strong industrial base and critical mass of well educated workers.

III. Research Methodology

This study is based on secondary data. The required data have been collected from various sources i.e. World Investment Reports, Asian Development Bank's Reports, various Bulletins of Reserve Bank of India, publications from Ministry of Commerce, Govt. of India, Economic and Social Survey of Asia and the Pacific, United Nations, Asian Development Outlook, Country Reports on Economic Policy and Trade Practice-Bureau of Economic and Business Affairs, U.S. Department of State and from websites of World Bank, IMF, WTO, RBI, UNCTAD, EXIM Bank etc.. It is a time series data and the relevant data have been collected for the period 1991 to 2011.

Thus the objectives of the study can be enumerated as follows:

- To assess the determinants of FDI inflows.
- To analyze the pattern and direction of FDI flow in India.
- To identify factors those are responsible for comparatively lesser flow of FDI.

IV. Determinants of FDI Inflows

Foreign direct investment to developing countries has increased substantially in the nineties. The accrual of the benefits of FDI depends largely on factors such as income, growth and appropriate infrastructure and labor policy. According to Dunning [11] (Dunning 1977, 1988; 1993), multinational firms enjoy three distinct types of advantages to producing abroad. They are: (i) ownership advantages; (ii) location advantages; and (iii) internalization advantages. Thus, producing abroad enables the firm to minimize transaction costs and increase productive efficiency. Location advantages, therefore, complete what is known as the eclectic ownership, location and internalization (OLI) paradigm, which is frequently used to explain investment abroad in the form of FDI.

A. Market Size

The most important of the economic fundamentals, as recognized in the literature, are the market-related variables that may affect market-seeking FDI. Here, there are two factors, i.e., current market size and potential market size. While a large market size generates scale economies, a growing market improves the prospects of market potential and thereby attracts FDI flows (Bhattacharya *et al.* 1996, Chen and Khan 1997, Mbekeani 1997) [12].

B. Cost Factors

Factors that cause investment cost differentials across countries are categorized as cost factors. These include cost of labour, cost of capital and infrastructure costs. Cost factors may significantly influence the choice of an investment location for the resource seeking and efficiency-seeking FDI. It is observed that lower real wages plays an important role in the host country to attract inward FDI. The availability of skilled labour and productivity of labourare also considered as important determinants for FDI inflows where productivity of labour is defined as value added per unit of labour.

The impact of cost of capital (i.e. lending interest rates) on FDI inflows is found to be ambiguous in nature and statistically insignificant by many studies. On one hand, it can be argued that higher lending rates may have a positive impact on FDI inflows, i.e., higher the cost of capital in the host country the more capital is brought in by the foreign firms. Alternatively, it can be argued that host country's cost of capital impacts directly on domestic consumption. Thus the lower the interest rates, the higher the domestic consumption and hence higher the FDI inflows (Bende Nende, *et al* 2000) [13].

With regards to infrastructure costs, it is found that higher the availability of infrastructure lower is the infrastructure costs and higher is the ability of the host country to attract FDI. However, different studies have used different measures to capture availability and cost of infrastructure. Some of the variables used are land and property rents, fuel costs, index of infrastructure, availability of electricity and its cost, transport costs and share of transport and communication to GDP.

C. Real Exchange Rates

There is mixed evidence on the impact of depreciation of real exchange rate in the host country on FDI inflows. Foreign investors may gain or lose from a devalued exchange rate. They may gain due to larger buying power in host countries. Also they can produce more cheaply and therefore export more easily. This may therefore attract resource seeking and efficiency seeking FDI. However, foreign firms may not enter if they believe that depreciation may continue after they enter a country as this would imply costs to be too high to justify their investments (Trevino, *et al.* 2002) [14]. They observed devalued exchange rate to encourage inflow of FDI in the host countries, as this would reduce the cost of investment to the foreign firms.

D. Macro-Economic Stability

FDI faces variability of basic macroeconomic variables (inflation, budget deficit, balance of payments, etc.) across countries. Volatility of macroeconomic policy creates both problems and opportunities for international firms, requiring them to manage the risk inherent in volatile countries, but also presenting the opportunity of moving production to lower cost facilities. A particular kind of macroeconomic instability is that of exchange rate volatility. If exchange-rate changes merely offset price movements so that real purchasing power parity is maintained, the exchange-rate movements would have little real effects.

Nevertheless, there is empirical evidence to indicate that purchasing power parity does not hold for all time periods and thus exchange-rate changes can affect the competitiveness of plants in different countries. We observed high volatility of the exchange rate of the currency in the host country to discourage investment by foreign firms as it increases uncertainty regarding the future economic and business prospects of the host country.

E. Rate of Inflation

Low inflation rate is taken to be a sign of internal economic stability in the host country. High inflation indicates inability of the government to balance its budget, and failure of the central bank to conduct appropriate monetary policy (Schneider and Frey, 1985) [15].

F. Overall Economic Stability

The financial health of the host economy is captured by ratio of external debts to exports. It is expected that lower this ratio higher is the probability of economic stability in the country. Studies have used country credit ratings given by various institutions as an indicator of overall economic stability that includes political and macroeconomic stability. However, there arises the question of subjectivity in these ratings since it is found that the ranking of countries based on these ratings differ across estimates provided by different agencies.

V. Trends and Patterns of FDI in India

This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. In fact, FDI provides a win – win situation to the host and the home countries. Foreign direct investment in India increased from US $ 0.129 billion in 1991-92 to US $ 40.885 billion in March, 2005, and US$ above 1, 00, 000 million in 2011 an increase of about 1026 times. (See Table I, Fig. 1)

As India is a developing country, capital has been one of the scare resources that are usually required for economic development. Capital is limited and there are many issues such as Health, poverty, employment, education, research and development, technology, global competition. The flow of FDI in India from across the world will help in acquiring the funds at cheaper cost, better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms.

TABLE I. FDI INFLOWS IN THE WORLD, SHARE OF INDIA IN WORLD FDI, INDIA'S SHARE IN DEVELOPING COUNTRIES' FDI(AMOUNT IN US BILLION DOLLARS)

Years	World FDI	Developed Economies share in world FDI	Developing Economies share in world FDI
1991	52.22	64.96	32.82
1992	133.92	65.23	32.44
1993	215.61	65.49	32.06
1994	297.31	65.75	31.68
1995	225.3	64.4	33
1996	386.1	57.1	39.5
1997	478.1	56	39.9
1998	694.5	69.7	27
1999	1088.3	77.1	20.7
2000	1492	82.2	15.9
2001	735.1	68.4	27.9
2002	716.1	76.5	21.7
2003	632.6	69.9	26.3
2004	648.1	58.6	36
2005	958.7	63.8	33
2006	1411	66.7	29.3
2007	1833.3	68	27.3
2008	2441.03	69.7	26.39
2009	2522.75	70	26.01
2010	2604.41	72.3	25.64
2011	2686.11	72.6	25.26

Source: Issues of World Bank, WIR and UNCTAD

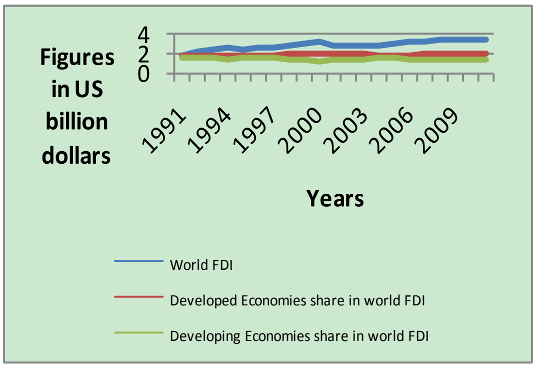

Figure 1. Developed & developing economies share in world FDI.

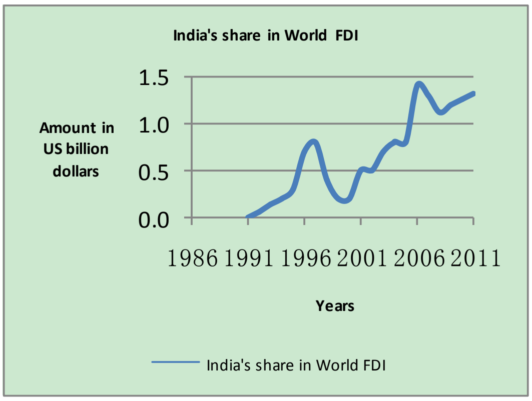

Figure 2. India's share in World FDI (amount in US billion $).

The explosive 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. Most importantly FDI is central for India's integration into global Production chains which involves production by MNCs spread across locations all over the world. (See Table II, Fig. 2, and Fig. 3)

TABLE II. FDI INFLOWS IN INDIA (AMOUNT IN US BILLION $)

Years	Developing Economies share in world FDI	India's share in World FDI (amount in US billion dollars)
1991	32.82	0.0
1992	32.44	0.1
1993	32.06	0.1
1994	31.68	0.2
1995	33	0.3
1996	39.5	0.7
1997	39.9	0.8
1998	27	0.4
1999	20.7	0.2
2000	15.9	0.2
2001	27.9	0.5
2002	21.7	0.5
2003	26.3	0.7
2004	36	0.8
2005	33	0.8
2006	29.3	1.4
2007	27.3	1.3
2008	26.39	1.1
2009	26.01	1.2
2010	25.64	1.3
2011	25.26	1.3

Source: Issues of World Bank, WIR and UNCTAD

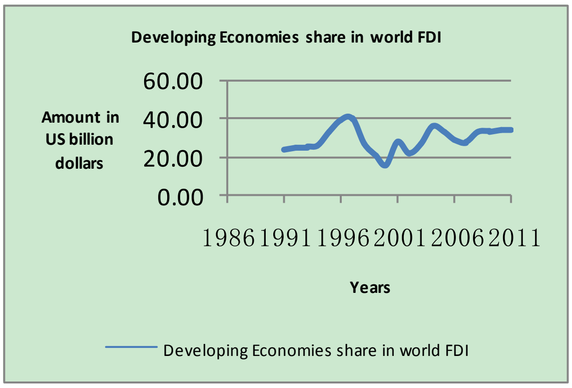

Figure 3. Developing economies share in World FDI (amount in US billion $).

VI. STATUS OF FDI IN INDIA

According to the fact sheet (see Table III) on foreign direct investment dated October 2010, Mauritius is the highest FDI investment in equity inflows with 42% of the total inflow followed by Singapore, USA, UK and Netherlands with 9%, 7%, 5% and 4% respectively. Service sector is the highest FDI attracting inflows with 21% of the total inflows, followed by computer software and hardware, telecommunication and housing and real estate with 9%, 8%, 7% and 7% inflows respectively.

TABLE III. SOURCES OF FDI IN INDIA

Country	Amount of FDI Inflows (amount in US million $)	% with total FDI inflows
Mauritius	51719.5	42.16
Singapore	11471.9	9.35
USA	9186.37	7.49
UK	6225.58	5.07
Netherlands	5254.89	4.28
Cyprus	4322.36	3.52
Japan	4300.29	3.51

Source: compiled & computed from the various issues of Economic Survey, RBI Bulletin, Ministry of Commerce

A report released in February 2010 by Leeds University Business School, commissioned by UK Trade & Investment (UKTI), ranks India among the top three countries where British companies can do better business during 2012-14. According to Ernst and Young's 2010 European Attractiveness Survey, India is ranked as the fourth most attractive foreign direct investment destination in 2010.

VII. OUTFLOWS

A significant uptrend in outward FDI has also been observed in the case of India in recent years. Since globalization is a two-way process, integration of the Indian economy with the rest of the world is evident not only in terms of higher level of FDI inflows but also in terms of increasing level of FDI outflows.

In the Indian context, overseas investments in joint ventures (JV) and wholly owned subsidiaries (WOS) have been recognised as important channels for promoting global business by the Indian entrepreneurs. The broad approach has been to facilitate outward foreign direct investment through joint ventures and wholly owned subsidiaries and provision of financial support to promote exports including project exports from India. With a steady rise in capital inflows, particularly in the second half of 2000s, the overall foreign exchange reserve position provided comfort to progressive relaxation of the capital controls and simplification of the procedures for outbound investments from India. Three distinct overlapping phases as under can be discerned in the evolution of the Indian outward FDI policies.

According to UNCTAD’s World Investment Report 2011, the stock of outward FDI from developing economies reached US$ 3.1 trillion in 2010 (15.3 per cent of global outward FDI stock), up from US$ 857 billion (10.8 per cent of global outward FDI stock) 10 years ago. On flow basis, outward FDI from developing economies has grown from US$ 122 billion in 2005 to US$ 328 billion in 2010 accounting for around a quarter of total outward FDI witnessed at global level.

Even though policy changes undertaken in respect of overseas investment have facilitated the growing cross-border acquisitions by the Indian corporate sector, other structural reforms undertaken since 1992, such as, industrial deregulation, trade liberalization and relaxation of regulations governing inward FDI, led to major restructuring in the Indian industry. In fact, many of the leading companies owe their competitiveness to the reform process. Greater exposure to internal as well external competition proved to be instrumental in building confidence among the Indian companies to compete with foreign competitors in world market. Apart from liberalized policy environment for overseas investment, India has gained ground as an important investor on the back of (a) rapid economic growth, (b) easy access to financial resources and (c) strong motivations to acquire resources and strategic assets abroad.

A trend analysis shows that the level of outward FDI from India has increased manifold since 1999-2000. The level of net outward FDI flows (on BOP basis), however, recorded a sharp uptrend at US$ 74.3 billion during the second half of 2000s (2005-06 to 2009-10) as compared to US$ 8.2 billion in the first half of 2000s (2000-01 to 2004-05). Even though trend in India’s outward FDI was moderately affected during crisis year of 2009-10, a sharp rebound was seen in 2010-11 (Table IV).

Outward FDI from India has mainly been by way of equities and loans (Table IV). According to UNCTAD’s World Investment Report 2011, based on the magnitude of FDI outflows, India was placed 21st in the world. In terms of value of net purchases (*i.e.*, cross border acquisition deals) by Indian companies in 2010, India was placed fifth in the World after the US, Canada, Japan and China.

TABLE IV. YEAR–WISE POSITION OF ACTUAL OUTFLOWS IN RESPECT OF OUTWARD FDI & GUARANTEES ISSUED (AMOUNT IN US MILLION DOLLARS)

Period	Equity	Loan	Guarantee Invoked	Total	Guarantee Issued
2000-2001	602.12	70.58	4.97	677.67	112.55
2001-2002	878.83	120.82	0.42	1000.07	155.86
2002-2003	1746.28	102.10	0.00	1848.38	139.63
2003-2004	1250.01	316.57	0.00	1566.58	440.53
2004-2005	1481.97	513.19	0.00	1995.16	315.96
2005-2006	6657.82	1195.33	3.34	7856.49	546.78
2006-2007	12062.92	1246.98	0.00	13309.90	2260.96
2007-2008	15431.51	3074.97	0.00	18506.48	6553.47
2008-2009	12477.14	6101.56	0.00	18578.70	3322.45
2009-2010	9392.98	4296.91	24.18	13714.07	7603.04
2010-2011	9234.58	7556.30	52.49	16843.37	27059.02
2011-12*	4031.45	4830.01	0.00	8861.46	14993.80
Total	**75247.61**	**29425.32**	**85.40**	**104758.30**	**63504.05**

Sectoral pattern of outward FDI during 2006-07 to 2010-11 shows that it has been mainly invested in services and manufacturing sector. In 2010-11, within manufacturing, major sub-sectors which attracted outward FDI from India included agriculture machineries and equipments, basic organic chemicals, drugs, medicines & allied products, refined petroleum products, indigenous sugar, *etc*. Similarly, within services sector, a majority of outward FDI had gone into business services, data processing, financial services, architectural and engineering, engine architectural and other technical consultancy activities (Table V).

Since late 1990s, Indian outward FDI began to be in more high-tech and trade supporting sectors. Many Indian IT firms like Tata Consultancy Services, Infosys, WIPRO, and Satyam acquired global contracts and established overseas offices in developed economies to be close to their key clients. In addition, other sectors which have attracted significant share of outward FDI from India in the recent years included extraction of crude petroleum, oil and gas field services and services incidental to mining.

As far as policy regarding the funding of overseas investments is concerned, it is allowed in number of ways. These sources mainly include (i) purchase of foreign exchange on-shore from an authorized dealer in India, (ii) capitalization of foreign currency proceeds to be received from the foreign entity on account of exports, fees, royalties or any other dues from the foreign entity for supply of technical know-how, consultancy, managerial and other services, (iii) swapping of shares of Indian entity with those of overseas entity, (iv) use of balances held in the Exchange Earners' Foreign Currency (EEFC) accounts of Indian entity maintained with an authorized dealer, (v) foreign currency proceeds through ECBs/FCCBs, and (vi) exchange of ADRs/GDRs issued in accordance with the scheme for issue of Foreign Currency Convertible Bonds.

TABLE V. MAJOR SECTOR-WISE OVERSEAS INVESTMENTS BY INDIAN COMPANIES (AMT IN US BILLION $)

Period	2008-09	2009-10	2010-11	2011-12*	Total
Manufacturing	10.18	5.35	5.04	2.74	**23.31**
Financial Insurance, Real Estate Business & Business Services	3.55	4.41	6.53	2.53	**17.03**
Wholesale & Retail Trade, Restaurants & Hotels	1.17	1.13	1.89	1.00	**5.19**
Agriculture & allied activities	2.38	0.95	1.21	0.41	**4.94**
Transport, Communication & Storage Services	0.31	0.38	0.82	1.34	**2.85**
Construction	0.35	0.36	0.38	0.37	**1.46**
Community, Social & Personal Services	0.39	0.18	0.70	0.18	**1.45**
Electricity, Gas & Water	0.14	0.84	0.10	0.04	**1.19**
Miscellaneous	0.12	0.11	0.18	0.10	**0.51**
Total	**18.58**	**13.71**	**16.84**	**8.73**	**57.86**

In order to facilitate such financial support of Indian business abroad, the Reserve Bank has enhanced the prudential limit on credit and non-credit facilities extended by banks to Indian Joint Ventures (where the holding by the Indian company is more than 51 per cent) /Wholly Owned Subsidiaries abroad from the existing limit of 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and Tier II capital). Banks in India were also allowed in May 10, 2007 to extend funded and / or non-funded credit facilities to wholly owned step-down subsidiaries of subsidiaries of Indian companies (where the holding by the Indian company is 51 per cent or more) abroad. Banks, however, have to, among others, ensure that the JV/WOS is located in a country which has no restriction on obtaining such foreign currency loan or repatriation of loan/interest and they can create legal charge on overseas securities/assets securing such exposures.

TABLE VI. INDIA'S FOREIGN DIRECT INVESTMENT INFLOWS AND OUTFLOWS (US $ MILLIONS)

Years	Inward FDI	Outward FDI
1991	16	54
1992	476	50
1993	937	44
1994	1397	89
1995	2125	119
1996	2525	240
1997	3619	113
1998	2633	47
1999	2168	80
2000	3585	509
2001	5472	1397
2002	5627	1669
2003	4323	1879
2004	5771	2179
2005	7606	2978
2006	19622	12842
2007	22950	13649
2008	29876	14456
2009	36231	15263
2010	42586	16070
2011	48941	16877

Source: UNCTAD 2008 and other sources

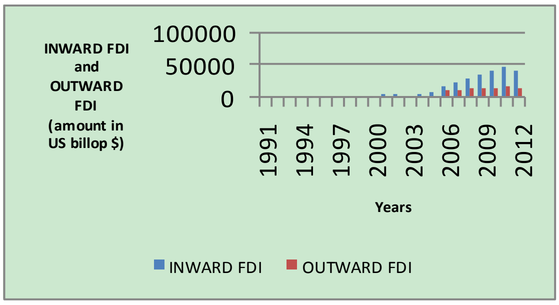

Figure 4. Inward FDI and Outward FDI.

VIII. CONCLUSION

This paper analyzes the role of foreign direct investment and trade in promoting economic growth across selected developing country i.e. India and the interaction among FDI, trade, and economic growth. We observed a strong positive interaction between FDI and trade in advancing economic growth. FDI encourages the incorporation of new inputs and technologies in the production systems of host countries. India emerged as an attractive FDI destination in services but has failed to evolve a manufacturing hub which has greater economic benefit. FDI though one of the important sources of financing the economic development, but not is not a solution for poverty eradication, unemployment and other economic ills.

FDI may be an attractive source of investment but they may exploit the natural resources at faster rate and leave the host country deprived in the long run. Despite of being an important contributor to economic development, FDI is a big threat to survival of domestic players. FDI also leads to many disadvantages such as, increased income inequalities, inappropriate consumption patterns, fall in profits of domestic industries and also influence on political decisions.

It is universally acknowledged that FDI inflow offers many benefits to an economy. UNCTAD (1999) reported that Transnational Corporations (TNCs) can complement local development efforts by (i) increasing financial resources for development; (ii) boost export competiveness; (iii) generate employment and strengthening the skill base; (iv) protecting the environment to fulfill commitment towards social responsibility; and (v) enhancing technological capabilities through transfer, diffusion and generation.

It has been observed that outward FDI relates to multi-layered structures. The motivations range from genuine business/commercial considerations to taxation benefits which are available to any global investors. On the flip side at times the underlying motive could be to create opacity through a labyrinth of structures for reasons unjustified on business grounds or from the point of view of home country's interest. Hence, there is a need to have a greater clarity in our approach in this regard.

As the Indian corporate becomes increasingly competitive, they may aggressively explore globalization opportunities as part of their future growth plans. Outward FDI related to acquisition of strategic resources, expansion of market base, leveraging new technologies for local markets, etc. would facilitate long-term growth in India and absorption of technology by Indian corporates along with improvements in the managerial skills. At the same time, through such overseas investments, Indian companies would play a critical role in the developed as well as developing countries by rejuvenating the economies and providing employment.

It is, thus, imperative that all the stakeholders including the government, the Reserve Bank, professional bodies and Indian corporates bring together their collective experience and wisdom to constantly review the policies and procedures including Home Country Measures (HCMs) that would further facilitate our globalization efforts through outward FDI without adverse implications for vast domestic economy and its macro-economic stability. System, procedures and basic infrastructure can be developed to attract more FDI and also things to be taken care of in case of fast track clearance systems and system for legal disputes.

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