

## FDI FLOWS TO INDIA IN RECENT PERIOD – AN ANALYSIS OF SLOWDOWN DESPITE STRONG FUNDAMENTALS

**Dr.Karuppasamy Ramanathan\* Mr. Lakshmi Narasimhan .S\*\***

*\*Director, Management Studies, Nehru Institute of Technology, Coimbatore, Tamil Nadu, India.*

*\*\*Research scholar, Bharathiar University &HOD- MBA Department, MVJ College of Engineering, Bangalore.*

### **Abstract**

*Global FDI flows changed significantly since the outbreak of global financial crisis in 2008, with an uneven pattern across regions and countries. FDI flows to India also moderated during 2009 but unlike trends in other EMEs, flows continued to be sluggish during 2010 despite strong domestic growth ahead of global recovery.*

*The paper proposes to offer plausible explanations for this effect and attempts to offer econometric evidence for the same. The paper identifies select major emerging market economies to ascertain determinants of FDI flows. The data set comprises observations for the period from 2003-04 to 2009-10 for 10 major emerging economies, FDI flows have been measured as FDI inflows to GDP ratio which has been regressed over a range of explanatory variables. Variables that have been chosen and could be significant in determining the FDI flows comprise: market size, openness, currency valuation, growth prospects, macroeconomic sustainability, regulatory regime and proportion of global FDI received by emerging economies.*

*A panel exercise for 10 major EMEs showed that FDI is significantly influenced by openness, growth prospects, macroeconomic sustainability, labour cost and policy environment. In continuation the paper attempts to trace recent policy changes of Government of India in 2011 to attract more FDI's and rounds off the discussion by presenting a bird's eye view of the legal and policy framework in India*

**Keywords:** *Foreign Direct Investment, Emerging Market Economies, Global Development Finance, Government Effectiveness.*

### **INTRODUCTION**

Global FDI flows moderated significantly since the eruption of global financial crisis in 2008, albeit with an uneven pattern across regions and countries. Though initially developing countries showed some resilience, crisis eventually spread through the trade, financial and confidence channels and FDI flows declined in both the advanced and developing economies during 2009. Subsequently, while FDI flows to advanced countries continued to decline, FDI flows to many of the Latin American and Asian countries witnessed strong rebound during 2010 on the back of improved corporate profitability and some improvement in M&A activities.

FDI flows to India also moderated during 2009 but unlike trends in other EMEs, flows continued to be sluggish during 2010 despite strong domestic growth ahead of global recovery. This raised concerns for policy makers in India against the backdrop of expansion in the current account deficit.

<b>Table 1: FDI Inflows in Select EMEs</b>								
(US\$ billion)								
	Argentina	Brazil	Chile	India	Indonesia	Mexico	South Africa	Thailand
<b>2007</b>	6.5	34.6	12.5	25.5	6.9	29.1	5.7	11.3
<b>2008</b>	9.7	45.1	15.2	43.4	9.3	24.9	9.6	8.5
	(50.2)	(30.3)	(21.1)	(70.3)	(34.5)	-(14.3)	(68.1)	-(24.7)

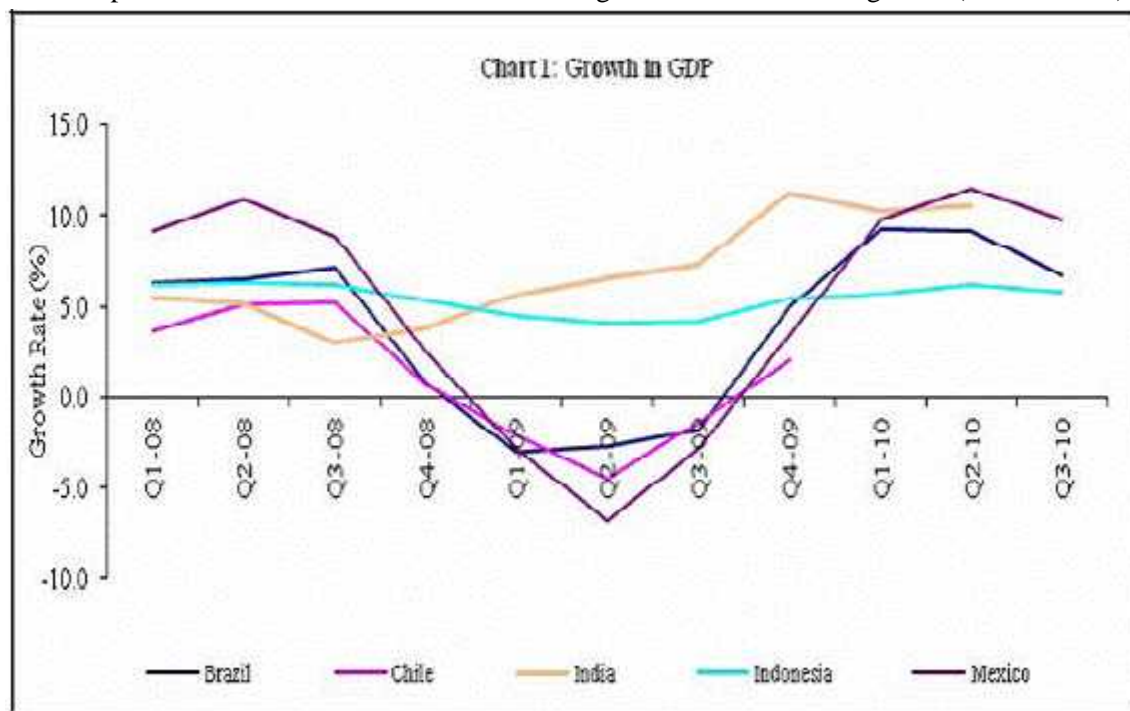
2009	4.0	25.9	12.7	35.6	4.9	14.5	5.4	5.0
	-(92.0)	-(14.3)	-(39.9)	-(49.4)	-(85.9)	-(200.8)	-(92.1)	-(120.2)
Q1-10	1.9	5.5	5.5	6.1	2.9	4.8	0.4	1.5
Q2-10	0.0	6.6	2.5	6.0	3.3	7.6	0.4	2.0
Q3-10	1.9	10.5	5.3	6.7	3.4	2.4	0.1	1.5
Q4-10	0.9	25.9	1.9	5.3	3.7	2.8	-	0.7
2010	4.7	48.5	15.2	24.1	13.3	17.6	0.9	5.7
	(17.5)	(87.3)	(19.7)	-(32.3)	(171.4)	(21.4)	-(80.4)	(14.0)

**Note:** Figures in brackets relate to percentage variation over the corresponding period of the previous year.

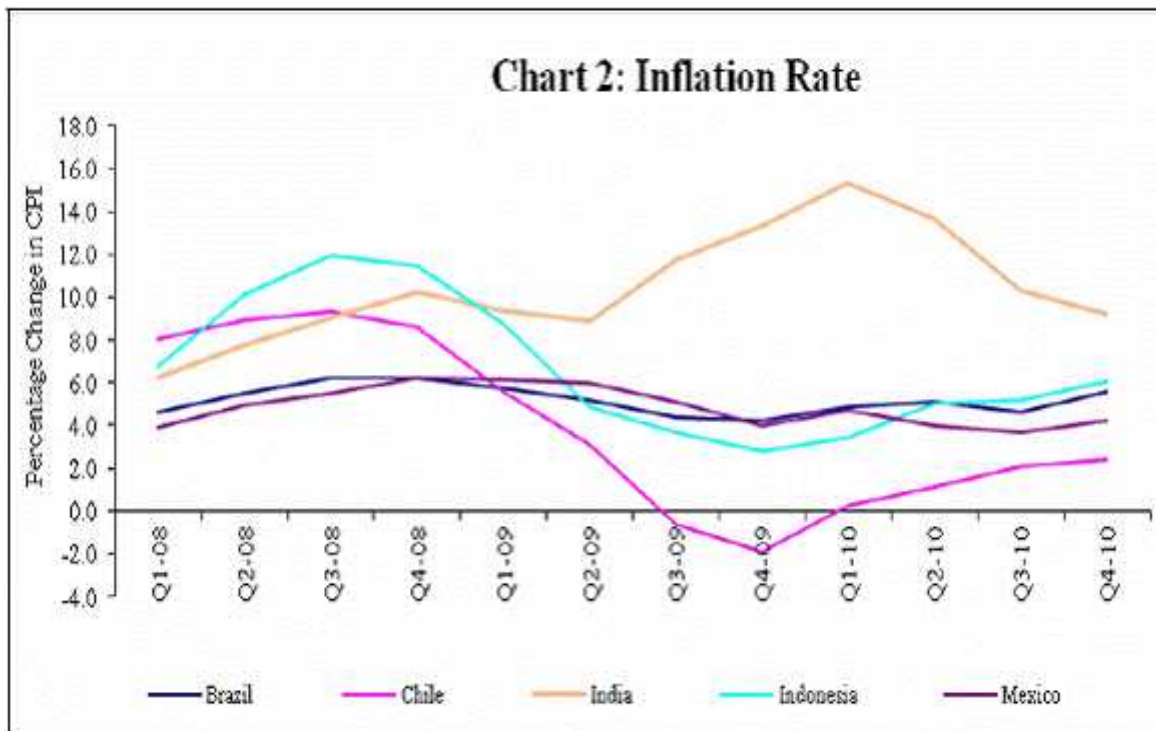
**Source:** IMF, BOP Statistics.

An analysis of trends in FDI flows during 2010 reveal that among the EMEs, countries such as Indonesia, Thailand, Brazil, Argentina, Chile and Mexico registered increases in the range of 14-171 per cent during 2010 over 2009. In contrast, FDI inflows to India declined by 32 per cent, year-on-year, during 2010. This moderation in FDI inflows warrants a deeper examination of the causal factors from a cross-country perspective.

An analysis of key macroeconomic indicators in the select EMEs reveals that India's macroeconomic performance compares with other EMEs which received higher FDI inflows during 2010 (Charts 1 & 2).



For instance, the GDP growth of India improved during 2010 as was the case with the select EMEs. The current account balance as percent of GDP deteriorated across the select EMEs, except Argentina. However, inflation in India was generally higher than other select EMEs (except Argentina).



Thus, without any significant deterioration in Indian macroeconomic performance compared to the select EMEs during 2010, the moderation in FDI inflows to India points towards the probable role of institutional factors that might have discouraged FDI inflows.

### FDI slowdown – Explanations Offered

In the recent past, various economists, policymakers, academicians and corporate researchers suggested that India’s regulatory policies in terms of procedural delays, complex rules and regulations related to land acquisition, legal requirements and environmental obligations might have played a role in holding the investors back from investing into India. The uncertainty created by the actions taken by policy makers might have led to unfriendly business environment in India. In this context, some of the statements and observations made in various reports are detailed below.

“Infrastructure projects in India carry significant risks associated with meeting government regulation, environment norms and legal requirements; inadequate user charges; and execution and construction risks” (CRISIL Report, January 2011).

“Procedural delays are bothering nearly all of the respondents with almost 93 percent of the respondents indicating this issue to be ‘quite to very serious’. The time consuming systems and procedures to be complied with, the bureaucratic layers to be dealt with and the multiple bodies from which clearances are to be obtained- all add up substantially to the transaction cost involved and take up a lot of management time thus making it an issue of serious concern for the investors” (FDI Survey by FICCI, December 2010).

“Apart from hundreds of industry projects, he (environment Minister) has held up construction of a second airport in the commercial hub of Mumbai and dozens of road and dam projects await clearance” (China Daily, November 6, 2010).

To ascertain these assertions which seek to imply that probably relatively more restrictive policy environment in India vis-à-vis other countries might have caused sluggishness in FDI flows, following section undertakes an econometric exercise using data of select EMEs.

### **Reasons for FDI slowdown – An Econometric Evidence**

The review of theoretical and select empirical literature reveals that FDI flows are driven by both pull and push factors. While pull factors that reflect the macroeconomic parameters could be influenced by the policies followed by the host country, push factors essentially represent global economic situation and remain beyond the control of economies receiving these flows.

### **FOREIGN INVESTMENT FLOWS – THEORETICAL UNDERPINNINGS**

The research on this subject has so far been largely devoted to factors determining the FDI and policy formulations in response to those factors. Until 1960s, FDI was modeled as a part of neoclassical capital theory and the basic motive behind the movement of this capital into a host country was search for higher rate of returns. Later with growing realization the motives for capital movement have been far more diverse, there has been a lot of empirical research directed towards identifying factors determining different types of capital flows.

It was the insight of Hymer (1960) who by differentiating direct investment from portfolio investment created basis for studies on factors determining the FDI flows. Later, Caves (1971) expanded upon Hymer's theory and identified factors such as possession of superior knowledge or information, motives to avoid uncertainty in a market characterized by a few suppliers and objective of creating entry barriers, etc., as being responsible for rising FDI flows.

With the rising presence of multinational enterprises in the global economy, the view on FDI was expanded with the internationalization theories of FDI that stressed on transaction costs (Dunning and Rugman, 1985; Horaguchinad Toyne, 1990).

Wheeler and Mody (1992) identified classical variables such as geographical features, labor costs, transport costs and market size and externalities that emerge from investment in firms experiencing agglomeration economies, in other words, indicating the clustering effects of FDI.

The research work of Dunning (1973, 1981) provided a comprehensive analysis of FDI based on ownership, location and the internationalization (OLI) paradigm. The role of strategic motivations was first analyzed by Knickerbocker (1973), and Acocella (1992). As per these strategic theories, the reasons behind strategic alliances included economies of scale, the reduction of risk and access to knowledge and expertise. The strategic alliances highlight the motivation for mergers and acquisitions taking place in the current era of M&A boom.

All these theories mainly explain the supply side of FDI that creates a push to FDI for flowing out of the home economy. A vast literature on demand side factors is also available.

The studies such as World Bank (1995) and Markusen and Venables (1999), highlight gains from FDI in the form of competition and efficiency effects, spillover effects, effects of backward and forward linkages, technological effects, accumulation of knowledge capital, stable flow of funds without any debt-servicing obligation, greater external market discipline on macroeconomic policy, broadening and deepening of national capital markets, etc. for the host country.

The UNCTC (1991) has provided seven policy instruments used to attract FDI: ownership policies, tax and subsidy measures, policies concerning convertibility of foreign exchange and remittance of earnings, price control measures, performance requirements, sector-specific limitations and incentives and procedural rules that are assumed to impose a considerable cost on a potential FDI. A World Bank report on indicators of FDI regulation (2010) has found that restrictive and obsolete laws and regulations impede FDI, red tape and poor implementation of laws creates further barriers to FDI, good regulations and efficient processes matter for FDI and effective institutions help in fostering FDI. Thus, the report highlights the importance of regulatory framework.

## DATA AND METHODOLOGY

The paper identifies select major emerging market economies to ascertain determinants of FDI flows. The data set comprises observations for the period from 2003-04 to 2009-10 for 10 major emerging economies, viz., Argentina, Brazil, Chile, India, Malaysia, Mexico, Philippines, Russia, South Africa and Thailand. To ensure the comparability entire dataset has been sourced from the Global Development Finance, published by the World Bank. FDI flows have been measured as FDI inflows to GDP ratio which has been regressed over a range of explanatory variables. Drawing from the literature review presented above, some of the variables that have been chosen and could be significant in determining the FDI flows comprise: market size, openness, currency valuation, growth prospects, macroeconomic sustainability, regulatory regime and proportion of FDI received by emerging economies.

**Market size:** Larger market size is expected to attract more FDI as it provides greater potential for demand and lower production costs through scale economies. Market size has been proxied by GDP in purchasing power parity (PPP) terms.

**Openness:** Impact of openness or liberalized trade is somewhat ambiguous and depends on relative strength of two effects. First, economy with trade barriers is expected to attract more horizontal FDI so that production sites could be built within the national boundaries of those restricted economies. Second, increasing openness attract FDI flows in search of cheap intermediate and capital goods (Resmini, 2000). Also, openness in trade is correlated with economic liberalization policy of an economy that may sound favorable to investors. Openness has been proxied by sum of current receipts and payments to GDP ratio.

**Macroeconomic stability** - Lower inflation rate and stable exchange rate are expected to attract greater FDI by mitigating uncertainty risk. It has been proxied by inflation and exchange rate volatility.

**Exchange rate valuation** - Froot and Stein (1991) have found that a weaker host country currency tends to increase inward FDI as depreciation makes host country assets less expensive relative to assets in the home country which may act as an attraction.

**Clustering effects:** A larger stock of FDI is regarded as a signal of a benign business climate for foreign investors and thus may attract more FDI. Moreover, by clustering with other firms, new investors benefit from positive spillovers from existing investors in the host country.

**Institutions and Governance** - Institutional and Governance quality has been identified as a likely determinant of FDI, particularly for less developed countries, for a variety of reasons. First, good governance is associated with higher economic growth, which should attract more FDI inflows. Second, poor institutions that enable corruption tend to add to investment costs and reduce profits. Third, the high sunk cost of FDI makes investors highly sensitive to uncertainty, including the political uncertainty that arises from poor institutions. Institutional framework and governance has been captured by 'Government Effectiveness' Index (Kaufmann Index)<sup>3</sup>. It captures "perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies". Score is assigned on the scale of -2.5 to 2.5. Higher score means Government procedures are more efficient.

Macro-Economic Sustainability could be a key factor in attracting foreign investment. Sustainability has been captured through two variables. Fiscal sustainability has been captured by GFD to GDP ratio and external sector sustainability has been captured by net IIP to GDP ratio.

Apart from these pull factors, push factors such as global economic environment and policy stance of the developed world may be critical factors in determining the FDI flows. For instance, higher global liquidity would cause larger flow of resources to EMEs searching for higher returns. It could be proxied by the FDI to EMEs.



## LIMITATIONS OF THE DATA

Inferences drawn in the study should however be seen in the light of following data limitations:

- The study is based on the macro level data and may not capture strictly the firm specific characteristics in the determination of FDI.
- Dataset for each variable have been sourced from a single source to ensure comparability. Since international agencies may make suitable adjustments for the sake of comparability, data for an individual country may marginally vary from the country's own datasets.
- The sectoral caps for India, as provided by the World Bank in its survey 'Investing across Borders', in respect of agriculture, banking, media, 'construction, tourism and single brand retail' are apparently at variance with extant guidelines. This is because the average caps were reported for the respective sectors in its publication and the same have been reproduced in the study.

Fixed effect model<sup>4</sup> of the following form was estimated for a group of emerging economies, where  $fy(i, t)$  is the FDI to GDP ratio of an individual economy  $i$  in the year  $t$ , and  $x(i, t)$  is the vector of explanatory variables.

$$y(i,t) = a_1 d_1(i,t) + a_2 d_2(i,t) + \dots + b\phi x(i,t) + e(i,t) \\ = a(i) + b\phi x(i,t) + e(i,t),$$

Where the  $a(i)$ s are individual specific constants, and the  $d(i)$ s are group specific dummy variables which equal 1 only when  $j = i$ .

Panel has been estimated for the period 2000-01 to 2010-11 for 10 countries<sup>5</sup>.

## RESULTS

The estimated equation<sup>6</sup> is shown below, with t-statistics shown in parentheses:

$$fy = -1.42 + 0.03 openness - 0.004 dwages + 0.009 FDIEMERG + 0.08 Gdiff + 4.08 Govt.Effect + 0.02 IIPY \\ (2.6) \quad (6.1) \quad (2.3) \quad (3.5) \\ (2.6) \quad (4.1) \quad (2.4) \\ R^2 = .75, \quad D.W = 2.04$$

Where  $fy$  – foreign direct investment to GDP ratio; Openness – current flows to GDP ratio; Gdiff – growth differential amongst the sample countries; dwages – change in labor cost; FDIEMERG = size of FDI to emerging economies; IIPY – Net International Investment Position; Govt. Effect – Index of Government Effectiveness (Kaufmann Index).

In line with a priori expectations, all the pull factors viz., openness, growth differential, net international investment position and Kaufmann Index of Government Effectiveness were found to be positively related. Labor cost, as expected, had inverse relationship with FDI inflows. All the variables were statistically significant. Similarly, the push factor captured through size of FDI flowing into emerging economies was also found to be positively related and impact has been statistically significant.

GDP in PPP terms capturing size of the market was also examined. Although it was statistically insignificant (not reported), its sign was in line with a priori expectations, i.e., bigger the market size larger the FDI flows. Similarly, the sign for exchange rate although correct as per a priori expectation, was statistically insignificant and has not been reported.

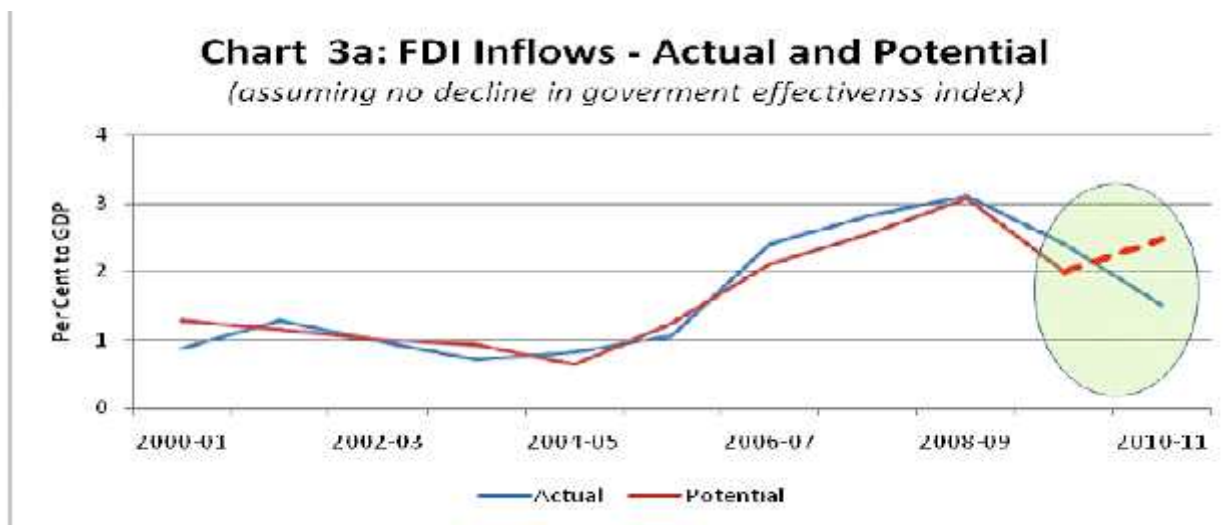
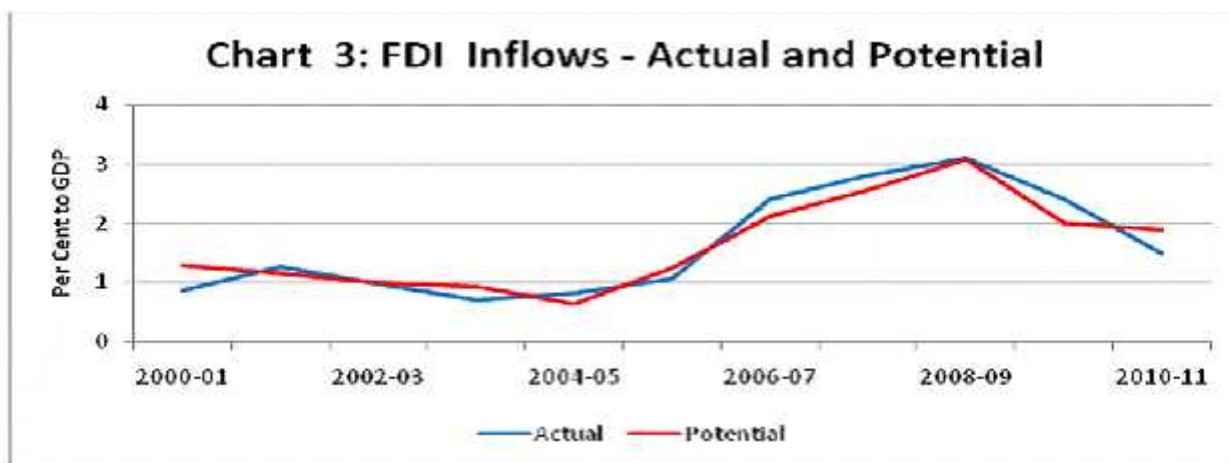
The results show that ten percentage points rise in openness, growth differential and IIP cause 0.3, 0.8 and .2 percentage point rise in FDI to GDP ratio, respectively. Similarly, every US\$ 10 billion rise in the size of global FDI to emerging economies causes 0.09 percentage point rise in FDI/GDP ratio. On the other hand, every US\$ 10 rise in the wage rate is likely to reduce the FDI ratio by .04 percentage points.

The Index denoting ‘Government Effectiveness (Gov. Effect)’ as expected has inverse relationship with FDI flows implying that policy certainty could be a major determinant of FDI inflows. As per our results, if Gov Effect Index rises by one point on the scale of -2.5 to 2.5, FDI to GDP ratio rises by 4 percentage points.

Thus, the panel results show that higher the degree of openness, expected growth of the economy, net international assets and size of FDI flows to EMEs, larger the size of FDI that flows to the country. Similarly, higher the certainty of implementation of efficient and quality policies, higher would be the flow of FDI. On the other hand, higher labor cost is likely to discourage the flow of FDI to the country.

### WHAT CAUSED DIP IN FDI FLOWS TO INDIA DURING 2010-11?

Our empirical exercise portrays a range of factors that significantly impact the size of FDI flows. With a view to segregate the impact of non-economic factors including government policy, a contra factual scenario is generated for the year 2010-11 by updating values for all the explanatory variables except for the Kaufmann Index. Estimated potential and actual FDI levels are presented in the [Chart 3](#) and contra factual scenario that assumes no deterioration in government effectiveness index has been presented in [Chart 3a](#).



It could be observed from Chart 3 that actual FDI to India closely tracked the potential FDI path. The potential FDI level is the estimated level that should occur given the trends in underlying fundamentals. In the year 2010-11, the actual FDI flows at 1.5 per cent of GDP are marginally lower than the estimated level of 1.8 per cent of GDP. Chart 3a, presents a contra-factual scenario where potential level of FDI flows for the year 2010-11 is

worked out by updating values of all the variables except 'Govt. Effect'. The latter is retained at preceding year's level. It could be observed that in case of contra-factual scenario, in the year 2010-11, gap between potential and actual level of FDI increased by more than 25 per cent. Since, the contra-factual estimated for 2010-11 updated value of all other variables except Govt. Effect, the larger gap between potential and the actual in the year could be attributed to index of Government Effectiveness<sup>7</sup>.

In other words, contra-factual estimate of FDI for the year 2010-11 incorporates impact of all the economic variables, viz., growth differential, openness, net IIP, labor cost and size of 'FDI to all emerging economies' whereas it keeps qualitative variable 'Govt. Effect' unaltered. Keeping 'Govt. Effect' unaltered means that had there been no amplification in policy uncertainty over the preceding year's level, FDI inflows to India would have been more than 35 per cent higher than that was actually received.

Thus, empirical results corroborate our assertion made in the analytics presented above that the qualitative factors play an important role in attracting FDI flows, and slowdown in FDI flows in the absence of any deterioration in the macro-economic variables could probably be on account of such qualitative factors.

## CONCLUSIONS

An analysis of the recent trends in FDI flows at the global level as well as across regions/countries suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and gradual liberalization of the FDI policy as part of the cautious capital account liberalization process. Even during the recent global crisis, FDI inflows to India did not show as much moderation as was the case in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained sluggish despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3 per cent.

In order to analyze the factors behind such moderation, an empirical exercise was undertaken which did suggest the role of institutional factors in causing the slowdown in FDI inflows to India despite robustness of macroeconomic variables. A panel exercise for 10 major EMEs showed that FDI is significantly influenced by openness, growth prospects, macroeconomic sustainability (International Investment Position), labor cost and policy environment.

A comparison of actual FDI flows to India vis-à-vis the potential level worked out on the basis of underlying macroeconomic fundamentals showed that actual FDI which has generally tracked the potential level till 2009-10, fell short of its potential by about 25 per cent during 2010-11. Further, counter-factual scenario attempted to segregate economic and non-economic factors seemed to suggest that this large divergence between actual and potential during 2010-11 was partly on account of increased policy uncertainty.

Apart from the role of institutional factors, as compared to other EMEs, there are also certain sectors including agriculture where FDI is not allowed, while the sectoral caps in some sectors such as insurance and media are relatively low compared to the global patterns. In this context, it may be noted that the caps and restrictions are based on domestic considerations and there is no uniform standards that fits all countries. However, as the economy integrates further with the global economy and domestic economic and political conditions permit, there may be a need to relook at the sectoral caps and restrictions on FDI flows (especially in multi-brand retail). Further, given the international experience, it is argued that FDI in retail would help in reaping the benefits of organized supply chains and reduction in wastage in terms of better prices to both farmers and consumers. The main apprehensions in India, however, are that FDI in retail would expose the domestic retailers – especially the small family managed outlets - to unfair competition and thereby eventually leading to large-scale exit of domestic retailers and hence significant job losses. A balanced and objective view needs to be taken in this regard. Another important sector is the generation, transmission and distribution of electricity produced in atomic power, where FDI is not permitted at present, may merit a revisit. In this context, it may be noted that electricity distribution services is a preferred sector for FDI. According to UNCTAD four out of top ten cross-border deals



during 2009 were in this segment, which led to increase in FDI in this sector even in the face of decline in overall FDI.

Against this backdrop, it is pertinent to highlight the number of measures announced by the Government of India on April 1, 2011 to further liberalize the FDI policy to promote FDI inflows to India. These measures, inter alia included (i) allowing issuance of equity shares against non-cash transactions such as import of capital goods under the approval route, (ii) removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the 'same field', (iii) providing the flexibility to companies to prescribe a conversion formula subject to FEMA/SEBI guidelines instead of specifying the price of convertible instruments upfront, (iv) simplifying the procedures for classification of companies into two categories – 'companies owned or controlled by foreign investors' and 'companies owned and controlled by Indian residents' and (v) allowing FDI in the development and production of seeds and planting material without the stipulation of 'under controlled conditions'. These measures are expected to boost India's image as a preferred investment destination and attract FDI inflows to India in the near future.

India is one of the fastest growing economies since last few years and witnessed a large amount of foreign investment in various sector. The government has formulated its Policy aiming towards attracting more and more funds considering the domestic business concerns simultaneously. This article throws a light upon what has been formulated and the procedure to be followed in the same.

### **POLICY AND REGULATORY FRAMEWORK TOWARD FDI**

The Government has put in place a policy framework on Foreign Direct Investment, which is embodied in the Circular on Consolidated FDI Policy, issued which is updated every six months, to capture and keep pace with the regulatory changes. The Department of Industrial Policy and Promotion (DIPP), makes policy pronouncements on FDI through Press Notes/ Press Releases which are notified by the Reserve Bank of India.

#### **AUTOMATIC ROUTE**

FDI Policy permits FDI up to 100 % from foreign/NRI investor without prior approval in most of the sectors including the services sector under automatic route. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI. The investors are required to notify the concerned Regional office of RBI of receipt of inward remittances within 30 days of such receipt. The present Automatic Route allows Indian companies engaged in all industries except for certain select industries/sectors to issue shares to foreign investors up to 100% of their paid up capital in Indian companies. There are also some areas where though Automatic Route is available, foreign investors cannot invest beyond a certain percentage of the paid up capital of the Indian companies or where investment is subject to some other conditions.

#### **ACTIVITIES/ITEMS THAT REQUIRE AN INDUSTRIAL LICENSE**

All proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted. Prior Government approval for new proposals would be required only in cases where the foreign investor has an existing joint venture, technology transfer, trade mark agreement in the same field. Application for proposals requiring prior Govt's approval should be submitted to FIPB.

#### **GENERAL PERMISSION OF RBI UNDER FEMA**

RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposals approved by the Government. Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors.

#### **FDI IN LIMITED LIABILITY PARTNERSHIPS (LLP'S)**

Government of India recently allowed FDI in LLP's.. FDI in LLP is allowed with the previous approval of the Government. Further it is allowed with the Government's approval only in those sectors in which 100% FDI is

allowed under automatic route under the FDI policy. Thus those sectors which are not available under automatic route is not available for FDI in LLP.

### **FDI IN EOUS/ SEZS/ INDUSTRIAL PARK/ EHTP/ STP**

#### **Special Economic Zones (SEZs)**

100% FDI is permitted under automatic route for setting up of special Economic Zone. Units in SEZ qualify for approval through automatic route subject to sectoral norms. Details about the type of activities permitted are available in the Foreign Trade Policy issued by Department of Commerce. Proposals not covered under the automatic route require approval by FIPB.

#### **100% Export Oriented Units (EOUs)**

100% FDI is permitted under automatic route for setting up 100% EOU, subject to sectoral norms. proposals not covered under the automatic route would be considered and approved by FIPB.

### **FDI IN SSI UNITS**

A small scale unit cannot have more than 24 per cent equity in its paid up capital from any industrial undertaking, either foreign or domestic. If the equity from another company (including foreign equity) exceeds 24 per cent, even if the investment in plant and machinery in the unit does not exceed Rs 10 million, the unit loses its small-scale status.

### **FOREIGN TECHNOLOGY AGREEMENTS**

For promoting technological capability in Indian industry, acquisition of foreign technology is encouraged through foreign technology collaboration agreements. Inductions of know-how are permitted either through automatic route or with prior government approval.

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