Literature Review:

Bhattacharyya Jita, Bhattacharyya Mousumi (2012), “Impact of Foreign Direct Investment and Merchandise and Services Trade of the Economic growth in India: an Empirical study”, the study revealed that there was a long term relationship between FDI, merchandise, service trade and economic growth of India. Bi-directional causality is observed between merchandise trade and economic growth, services trade and economic growth. Unidirectional causality is observed from FDI to economic growth and FDI to merchandise trade. A unidirectional causality is also observed from merchandise trade to services trade.

The study found that two factors, “registering property” and “trading across borders”, were found to be related to FDI over all six years of the study (2000-2005) for the combined sample. Also, several factors were found to be related to FDI received by SSA and Asian countries during various years.

This study investigates the trend of FDI inflow to India, during 1970–2007 using time series data. This paper aims to study the reasons behind the fluctuations of the FDI inflow in India and to search the cause that is responsible for the fluctuations of the trends of FDI.

The study found that both enjoys healthy rates of economic growth but FDI inflow in China is higher than India.

Agarwal G., Khan M. A. (2011), “Impact of FDI on GDP: A Comparative Study of China and India”, the study found that 1% increase in FDI would result in 0.07%
increase in GDP of China and 0.02% increase in GDP of India. We also found that China’s growth is more affected by FDI, than India’s growth.

Saini A., Law S. H., Ahmad A. H. (2010), “FDI and economic growth: New evidence on the role of financial markets”, it was proved that the positive impact of FDI on growth “kicks in” only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent.

Gubbi S. R., Aulak P. S., Ray S., Sarkar M. B., Chittoor R. (2010), “Do international acquisitions by emerging-economy firms create shareholder value? The case of Indian firms” found that the international acquisitions facilitate internalization of tangible and intangible resources that are both difficult to trade through market transactions and take time to develop internally, thus constituting an important strategic lever of value creation for emerging-economy firms. An event study of 425 cross-border acquisitions by Indian firms during 2000–2007 supports our predictions.

Singh J. (2010), “Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns”, in the context of increasing competition among nations and sub-national entities to attract Foreign Direct Investment (FDI), the present paper tries to analyze the emerging trends and patterns of FDI inflows into India in response to various policy measures announced by the Government of India since mid-1980 and later. The empirical analysis tends to suggest that the FDI inflows, in general, show an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicates that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years. Thus, the study indicates that the FDI inflows into India responded positively to the liberalization measures introduced in the early 1990s.

The empirical analysis showed that financial sector development enhances the contribution of FDI on economic growth in the region. It also showed that the complementary role of FDI and financial sector development on economic growth is most important for least developed economies in the region. Key strategies to enhance the role of FDI and financial development on economic growth in developing and least developed Asia and Oceania countries are also discussed in the paper.

Sarkar S., Lai Y. C. (2010), “Foreign Direct Investment, Spillovers and Output Dispersion - The Case of India”, data suggest that foreign investment affects the firms’ output positively and significantly and domestic firms are less productive in sectors with more foreign investment compared to those firms in sectors with relatively small foreign direct investment is present.

John W. (2010), “China's FDI and non-FDI economies and the sustainability of future high Chinese growth”, this study found that foreign Invested Enterprises (FIEs), enterprises account for over 50% of China's exports and 60% of China's imports. Their share in Chinese GDP has been over 20% in the last two years, but they employ only 3% of the workforce, since their average labor productivity exceeds that of Non-FIEs by around 9:1. Their production is more heavily for export rather than the domestic market because FIEs provide access to both distribution systems abroad and product design for export markets. China's FIEs may have contributed over 40% of China's economic growth in 2003 and 2004, and without this inward FDI, China's overall GDP growth rate could have been around 3.4 percentage points lower.

Kumar G. L., Karthika S. (2010) “Sectoral Performance Through Inflows of Foreign Direct Investment (FDI)”, the study revealed that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. Over the years, foreign direct investment has helped the economies of the host countries to obtain a launching pad from where they can make further improvements. Any forms of foreign direct
investment pumps in a lot of capital knowledge and technological resources into the economy of the country. This helps in taking the particular host economy ahead. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country. Using a process framework this paper examines Foreign Direct Investment inflow into to India and share of top ten investing countries flow into India.

Singh, Shikha (2009), “Foreign Direct Investment (FDI) and Growth of States of India”
This study stated that foreign direct investment (FDI) policies play a major role in the economic growth of developing countries around the world. Attracting FDI inflows with conductive policies has therefore become a key battleground in the emerging markets. The prospect of new growth opportunities and outsized profits encourages large capital inflows across a range of industry and opportunity types. And this has led to competition among the states in formulating flexible policies and providing incentives to woo private investors to invest more and more. In the light of the above the paper highlights the trend of FDI in India after the economic reforms, sector-wise and country-wise share of FDI, the manner in which FDI has effected the growth of Indian states. Various factors which play a significant role in attracting FDI into a particular state are also examined. Efforts made by the state governments in order to attract maximum FDI are also studied.

Banga, Rashmi (2009), “Impact of Government Policies and Investment Agreements on FDI Inflows” revealed that the impact of fiscal incentives offered, removal of restrictions and signing of bilateral and regional investment agreements with developed and developing countries on FDI inflows. Fiscal incentives do not have any significant impact on aggregate FDI, but removal of restrictions attracts aggregate FDI. However, FDI from developed and developing countries are attracted to different selective policies.

Acharyya J. (2009), “FDI, GROWTH AND THE ENVIRONMENT: EVIDENCE FROM INDIA ON CO2 EMISSION DURING THE LAST TWO DECADES” shown that long run positive, but marginal, impact of FDI inflow on GDP growth in India
during 1980-2003. On the other hand, the long run growth impact of FDI inflow on CO2 emissions is quite large. The actual impact on the environment, however, may be larger because CO2 emission is one of the many pollutants generated by economic activities.


It was found that there is a long term relationship between FDI and employment opportunities.

Keshava, Dr. S.R. Rathnamma (2008), The Effect of FDI on India and Chinese Economy: A Comparative Analysis: stated that India and China are the two emerging economic giants of the developing world, both situated in Asia with 37% of world population (Asian Development Outlook2005) and with more than 9% growth in their respective GDP of their economies (World Development Report 2006). China got independence in 1949, after 2 years of India's political Independence (1947), but today, China has surged far ahead of India in socio-economic development indicators. The FDI in India is just 3.4% of FDI flows as a percentage of Gross Fixed Capital Formation in India by 2004 and 5.9% of FDI stocks as a percentage of GDP by 2004, whereas in China it was 8.2% of FDI flows as a percentage of Gross Fixed Capital Formation and 34.9% of FDI stocks as a percentage of GDP during the same year.

In order to estimate the effect of FDI on economic growth the model formed is $Y = A X_1 a X_2 b X_3 y X_4 x$. The 't' ratio for the constant (a), GDI(x1), HC (x3), LF (x4) all are greater than two implying the strong significance of these variables on the GDP, but FDI is showing positive, but not relatively significant effect on GDP. The R2 for the model as a whole is 0.93, the F value is significantly high revealing the significance of the fitness of the model. The D-W Statistics for the model is 1.825 revealing, the problem of auto-correlation has been fairly solved. The model shows that 1 percent increase in GDI leads to increase in GDP by all most 0.5 percent. The 1% increase in FDI brings about an increase in GDP by 0.12 percent. The coefficient for
human capital is 0.34 percent and that of the labour force is 0.7 percent. Thus GDI and HC significantly affect the GDP. However the coefficient of FDI though not significant as other variables in the study, is positive.

Kumar N. (2007), “Emerging TNCs: trends, patterns and determinants of outward FDI by Indian enterprises” investigated that the sharp rise in OFDI since 1991 has been accompanied by a shift in the geographical and sectoral focus of Indian investments. Enterprises that are already engaged in exporting are more likely to be outward investors. Finally, policy liberalization of the 1990s has encouraged Indian enterprises to venture abroad.

The paper highlighted the export-diversifying impact of foreign direct investment (FDI) in a developing country. FDI may lead to export diversification in the host country if it positively affects the export intensity of industries that have a low share in world exports. Indirectly, FDI may encourage export diversification through spillover effects: that is, the presence of FDI in an industry may increase the export intensity of domestic firms. The empirical results for the Indian economy in the post-liberalisation period show that FDI from the US has led to diversification of India's exports, both directly and indirectly. However, Japanese FDI has had no significant impact on India's exports.

Kamalakanthan, Abby and Laurenceson, James (2005) How Important is Foreign Capital to Income Growth in China and India?
The picture often painted is that foreign capital inflows in China and India are prominently linked to rapid growth at the national level, and contribute to widening income disparities at the provincial/state level. In this paper we revisit Krugman's (1993) contention that foreign capital can hardly be considered an important income growth driver, when in most developing countries it only accounts for a fractional share of gross capital formation. In the case of contemporary China and India, the data suggests that
Krugman's critique holds largely true, even in the coastal regions that are considered magnets for foreign investment. Thus, domestic factors, rather than the driving forces of globalization, appear to be the more important determinants of income growth in both countries.

**Pradhan, Prakash J., Abraham, Vinoj and Sahoo, Kumar M. (2004), “Foreign Direct Investment and Labour: The Case of Indian Manufacturing”** shown that This paper makes an attempt to evaluate the employment and wage effects of FDI in Indian manufacturing. The findings suggest that foreign firms do not have any adverse effects on the manufacturing employment in India as compared to their domestic counterparts while they significantly pay relatively higher to their workers. Therefore this study tends to imply that labour in fact had benefited from foreign investment in India.

**Srivastava S. (2004), “Competing for Global FDI: Opportunities and Challenges for the Indian Economy”** investigated that impact on FDI inflows to India as a result of increasing competition from another major emerging market economy, i.e., China, in the wake of its accession to the WTO.

**Blomstorm M., Koko A. (2003), “The Economics of Foreign Direct Investment Incentives”** stated that the use of investment incentives focusing exclusively on foreign firms, although motivated in some cases from a theoretical point of view, is generally not an efficient way to raise national welfare. The main reason is that the strongest theoretical motive for financial subsidies to inward FDI spillovers of foreign technology and skills to local industry is not an automatic consequence of foreign investment.

**Blomstorm M., Koko A. (2003), “Human Capital and Inward FDI”** the study was conducted to examine the nature of skills provided by FDI, and ways in which training institutions, business schools, for example, can complement in-service training by firms in FDI host countries.
Bhaumik S. K. (2003), “Survey of FDI in India”, this research project explores the relation between institutions in emerging markets and the entry strategies chosen by foreign direct investors. The merits of alternative strategies from investors’ perspective as well as the impact on the host economy are investigated. For this purpose, FDI strategies are investigated and compared in four important emerging markets India, Egypt, South Africa and Vietnam.

Kathuria V. (2002), “Liberalisation, FDI, and productivity spillovers—an analysis of Indian manufacturing firms” The results shown that after liberalisation, the productivity of Indian industry, especially the foreign owned firms, has improved. The econometric results suggested that only ‘scientific’ non-FDI firms have benefited from the liberalisation. For the ‘non-scientific’ firms, the impact is found to be productivity depressing. With respect to spillovers, only those domestic firms, which invested in R&D to decode the spilled knowledge, could benefit.

Chakraborty C. (2002), “Foreign direct investment and growth in India: a cointegration approach” VECM model revealed three important features: (a) GDP in India is not Granger caused by FDI; the causality runs more from GDP to FDI; (b) trade liberalization policy of the Indian government had some positive short run impact on the FDI flow; and (c) FDI tends to lower the unit labour cost suggesting that FDI in India is labour displacing.

M.M. Metwally, (2004) "Impact of EU FDI on economic growth in Middle Eastern countries", developed the simultaneous equations model which suggested that higher rates of economic growth result in a greater inflow of foreign capital. The regression results also suggest that interest rate differentials exert a much stronger effect than economic growth on the attraction of foreign capital in the case of Egypt. However, this variable does not seem to play a significant role in the case of Oman. Moreover, the simultaneous equations model results suggest that there is a feedback effect in the
relationship between economic growth and capital inflow in all sample countries. A greater inflow of foreign capital leads to growth in the exports of good and services. The expansion in exports leads to growth in gross national product that, in turn, encourages the attraction of more foreign capital.

Pradhan J. P. (2004), “The determinants of outward foreign direct investment: a firm-level analysis of Indian manufacturing”, found that several firm-specific characteristics such as age, size, R&D intensity, skill intensity and export orientation are observed to be important explanatory factors in the outward foreign direct investment (O-FDI) activity of Indian firms. The impact of age and size on O-FDI has been observed to be non-linear. The product differentiation activities and the productivity of firms are other useful factors in overseas production expansion in certain industries. The study reveals that the performance of these firm-specific variables is subject to sectoral dynamics. Internationalization of production activities of Indian firms has been observed to be partly fuelled by policy liberalization during the 1990s.

Pradhan, Prakash J. (2003), “Rise of service sector outward foreign direct investment from Indian economy: trends, patterns, and determinants” reviewed the recent trends and patterns and tries to identify determinants of such investment. As compared to the eighties, the character of service sector OFDI flows has gone through several transformations. In the seventies it is largely a phenomenon led by firms from hotels & restaurants, finance and marketing segments and is being directed at developing regions in overwhelming cases and is mostly minority owned. In contrast, during nineties it is predominantly led by the software segment of the service sector, locationally developed country oriented and is largely majority-owned ventures.

Chipalkatti N., Rishi M. (2001), “External Debt and Capital Flight in the Indian Economy” This paper estimates Indian capital flight at US $88 billion (in 1997 dollars) over the 1971-97 period, a sum that is roughly 20% of the US $448 billion real external debt disbursed to the country over the same time period. There is also evidence of a strong year-to-year correlation between debt inflows and flight-capital outflows
Sharma K. (2000), “EXPORT GROWTH IN INDIA: HAS FDI PLAYED A ROLE?” Export supply is positively related to the domestic relative price of exports and higher domestic demand reduces export supply. Foreign investment appears to have statistically no significant impact on export performance although the coefficient of FDI has a positive sign.

Frank B., John B. (1997), “FDI AND TRADE: THE IRISH HOST-COUNTRY EXPERIENCE”, this study was conducted in Irish manufacturing, the foreign sector accounts for about one half of employment and some 60% of gross output. The Irish experience therefore provides us with a textbook case study of the effects on an EU host economy of export-oriented FDI. We explore in this paper the structural changes induced by FDI and the effects of FDI on the determinants of growth in Ireland. We also consider some possible adverse effects that may be associated with such strong reliance on multinational investment.

Ganesh S. (1997), “Who Is Afraid of Foreign Firms? Current Trends in FDI in India” examined that paper examines whether foreign direct investment (FDI) is assuming a dimension which can threaten Indian industry. Data on FDI approvals in the post liberalisation period have been compared with data on capital formation by local industry during the same period. From an analysis of the current level of dominance by foreign firms, the likely impact of fresh FDI has been analysed and assessed at the sectoral level. The findings are likely to have relevance at least over the next five years. While the thrust of the paper is on whether there is a basis for the fear that foreign firms will gradually wipe out indigenous industry, some other issues related to FDI are also examined. These include trends in technical collaboration approvals (compared with FDI), sectoral levels of exports and trade balance and dividend outgo (compared with know-how and royalty payments).

Chen C. (1997), “The Location Determinants of Foreign Direct Investment in Developing Countries”
The study shows that countries with larger market size, faster economic growth, higher per capita income, a higher level of FDI stock and more liberalised trade policies represented by a higher degree of openness attracted relatively more FDI inflows, while higher efficiency wages and greater remoteness from the rest of the world deterred FDI inflows. The study also found that China's relative performance in attracting FDI inflow was only at a level moderately above average both among the developing countries and among the East and South-East Asian countries.

Nanad J., Delios A. (1996), “Competing globally: How Japanese MNCs have matched goals and strategies in India and China” stated that Japanese MNCs have established strong investment positions in the US, Europe and Asia. China has been a major recipient of Japanese foreign direct investment (FDI), while investment in India has grown much more slowly.

Kumar N. (1995), “Changing Character of Foreign Direct Investment From Developing Countries: Case Studies from Asia” highlighted another aspect of growing internationalisation of the world economy in the recent period viz., an increasing resort by developing country enterprises to direct investments abroad as a strategic tool for strengthening their competitiveness. The threat of losing markets in industrialised countries because of rising protectionism in the wake of formation of regional trading blocks has been responded to by making trade supporting and strategic asset seeking investments in major markets. The trend of shifting labour intensive production by newly industrialising economies to low wage developing countries helps the developing host countries to expand their manufactured exports.
Research Gap:

The majority of the research conducted in these areas are covering a period prior to 2007 and as we are all aware that FDI has received importance only in the recent past & hence calls for research for the current period i.e: 2000 - 2010.

FDI effect could not be gauged in the past as the flows were limited but in the recent period they have shown a great increase.

Further Saini A., Law S. H., Ahmad A. H. (2010), “FDI and economic growth: New evidence on the role of financial markets”, it was proved that the positive impact of FDI on growth “kicks in” only after financial market development exceeds a threshold level. Until then, the benefit of FDI is non-existent.

There have been studies in the past on sectoral inflows but they do not conduct study on impact on sectors share in GDP & hence called for research on the same.

Further the role of government has always been changing new suggestions have always emerged to increase the FDI flows in India and hence calls for research.

The researcher has undertaken a comparative study of BRICS nations as a group with each nation which is not done so far.