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ROLE OF FDI IN SOCIO-ECONOMIC GROWTH OFDEVELOPING COUNTRIES

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Abstract: *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." Foreign direct investment (FDI) is prized by developing countries for the bundle of assets that multinational enterprises (MNEs) deploy with their investments. Most of these assets are intangible in nature and are particularly scarce in developing countries. They include technology, management skills, channels for marketing products internationally, product design, quality characteristics, brand names, etc. In evaluating the impact of FDI on development, however, a key question is whether MNEs crowd in domestic investments (as, for example, when their presence stimulates new downstream or upstream investments that would not have taken place in their absence), or whether they have the opposite effect of displacing domestic producers or pre-empting their investment opportunities. This is an important issue. In recent theoretical and empirical work, investment has been identified as a key variable determining economic growth. Thus, if FDI crowds out domestic investment or fails to contribute to capital formation, there would be good reasons to question its benefits for recipient developing countries. Moreover, given the scarcity of domestic entrepreneurship and the need to nurture existing entrepreneurial talent, a finding that MNEs displace domestic firms would also cast doubts on the favourable development effects of FDI. These are all the important questions when one considers FDI as an important contributor of economy.*

Key Words: *Foreign direct investment., Multinational enterprises, Investments, Economic growth.*

1. INTRODUCTION:

Among the different forms of capital flows, academics and policymakers, talk about foreign direct investment (FDI) the most. This is because of several benefits of FDI and its importance in the world economy vis-à-vis other forms of capital flows. In the past fifteen years, FDI has been the dominant form of capital flow in the global economy, even for developing countries. Opening an economy for FDI attracts great attention and likewise many opinions pop-up. People, who oppose the opening up of economies to foreign investors condemn FDI as risky and destabilizing for developing economies. At the other end of the spectrum, supporters vouching for FDI say that it is stable and is a source of advanced technology and better managerial practices. So it is good for developing economies. The reality, however, is that it is not easy to draw any conclusions. A number of factors come into play to determine the growth and development effects of FDI. Therefore, here we have discussed some of the crucial socio economic factors of developing countries which are affected by FDI. The following research and information dissemination can rectify some of the misconceptions regarding FDI in developing countries. .We can see that the investment that is done is huge and is on rise on yearly basis. So it is not at all wrong if FDI is mentioned as "known Opportunity" which any developing country can avail at any point of time. But the only necessity is to understand the Cost-benefits associated with FDI, the evaluation done should not only be in terms of money but overall impact must be studied.

2. FDI and The Host Economy: A Brief Review of The Literature:

This section reviews the empirical studies on the relation between FDI and economic activities in the host economy, which could facilitate in identifying the issues relating to the impact of FDI at the sartorial level. In the earlier stage, few studies had shown that FDI has a negative impact on the growth of the developing countries (Singer, 1950; Griffin, 1970; Weisskof, 1972). The main argument of these studies was that FDI flows to Less Developing Countries (ldcs) were mainly directed towards the primary sector, which basically promoted the less market value of this sector. Since these primary products are exported to the developed countries and are processed for import, it receives a lower price for its primary product. This could create a base for the negative impact of FDI flows in the economy. On the other hand, Rodan (1961), Chenery and Strout (1966) in the early 1960s argued that foreign capital inflows have A study by Kasibhatla and Sawhney (1996) in the U.S. supports a unidirectional causality from GDP to FDI and not the reverse causation. This may be due to the fact that for a developed country, FDI follows GDP, as GDP is an indicator for market size. Aitken, et al. (1997) showed the external effect of FDI on export with example of Bangladesh, where the entry of a single Korean Multinational in garment exports led to the establishment of a number of domestic export firms, creating the country's largest export industry. The study by Chen, Chang and Zhang (1995), using time series data for the period of 1979-93, estimated the regression between GNP, domestic saving in one period lag, and FDI in one period lag (all in logarithmic value). The results of the study show that there is a positive relationship between FDI and GNP and it is significant at 5 per cent level for the Chinese economy. Bashir (1999) examined the relationship between FDI and growth empirically in some MENA countries, using panel data. The study found that FDI leads to economic growth; the effect however varies across regions and over the time.

3. FDI AND GROWTH:

(a)Trade and Investment : While the empirical evidence of FDI's effects on host-country foreign trade differs significantly across countries and economic sectors, a consensus is nevertheless emerging that the FDI-trade linkage must be seen in a broader context than the direct impact of investment on imports and exports. The main trade-related benefit of FDI for developing countries lies in its long-term contribution to integrating the host economy more closely into the world economy in a process likely to include higher imports as well as exports. In other words, trade and investment are increasingly recognized as mutually reinforcing channels for cross-border activities. However, host-country authorities need to consider the short and medium-term impacts of FDI on foreign trade as well, particularly when faced with current-account pressures, and they sometimes have to face the question of whether some of the foreign-owned enterprises' transactions with their mother companies could diminish foreign reserves.

(b) Technology Transfers : Economic literature identifies technology transfers as perhaps the most important channel through which foreign corporate presence may produce positive externalities in the host developing economy. MNEs are the developed world's most important source of corporate research and development (R&D) activity, and they generally possess a higher level of technology than is available in developing countries, so they have the potential to generate considerable technological spillovers. However, whether and to what extent MNEs facilitate such spillovers varies according to context and sectors.

(c) Human Capital Enhancement : The major impact of FDI on human capital in developing countries appears to be indirect, occurring not principally through the efforts of MNEs, but rather from government policies seeking to attract FDI via enhanced human capital. Once individuals are employed by MNE subsidiaries, their human capital may be enhanced further through training and on-the-job learning. Those subsidiaries may also have a positive influence on human capital enhancement in other enterprises with which they develop links, including suppliers. Such enhancement can have further effects as that labor moves to other firms and as some employees become entrepreneurs. Thus, the issue of human capital development is intimately related with other, broader development issues.

(d) Competition : FDI and the presence of MNEs may exert a significant influence on competition in host-country markets. However, since there is no commonly accepted way of measuring the degree of competition in a given market, few firm conclusions may be drawn from empirical evidence. The presence of foreign enterprises may greatly assist economic development by spurring domestic competition and thereby leading eventually to higher productivity, lower prices and more efficient resource allocation. Conversely, the entry of MNEs also tends to raise the levels of concentration in host-country markets, which can hurt competition. This risk is exacerbated by any of several factors: if the host country constitutes a separate geographic market, the barriers to entry are high, the host country is small, the entrant has an important international market position, or the host-country competition law framework is weak or weakly enforced. While it is economically desirable that strongly performing foreign competitors be allowed to replace less productive domestic enterprises, policies to safeguard a healthy degree of competition must be in place. Arguably the best way of achieving this is by expanding the "relevant market" by increasing the host economy's openness to international trade. In addition, efficiency-enhancing national competition laws and enforcement agencies are advisable to minimize the anti-competitive effects of weaker firms exiting the market. When mergers are being reviewed and when possible abuses of dominance cases are being assessed, the accent should be on protecting competition rather than competitors. Modern competition policy focuses on efficiency and protecting consumers; any other approach may lead to competition policy being reduced to an industrial policy that may fail to deliver long term benefits to consumers.

(e) Enterprise Development : FDI has the potential significantly to spur enterprise development in host countries. The direct impact on the targeted enterprise includes the achievement of synergies within the acquiring MNE, efforts to raise efficiency and reduce costs in the targeted enterprise, and the development of new activities. In addition,

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efficiency gains may occur in unrelated enterprises through demonstration effects and others pillovers akin to those that lead to technology and human capital spillovers. Available evidence points to a significant improvement in economic efficiency in enterprises acquired by MNEs, albeit to degrees that vary by country and sector. The strongest evidence of improvement is found in industries with economies of scale. Here, the submersion of an individual enterprise into a larger corporate entity generally gives rise to important efficiency gains.

4. FDI AND ENVIRONMENTAL ANDSOCIAL CONCERNS:

FDI has the potential to bring social and environmental benefits to host economies through the dissemination of good practices and technologies within MNEs, and through their subsequent spillovers to domestic enterprises. There is a risk, however, that foreign-owned enterprises could use FDI to “export” production no longer approved in their home countries. In this case, and especially where host country authorities are keen to attract FDI, there would be a risk of a lowering or a freezing of regulatory standards. In fact, there is little empirical evidence to support the risk scenario. The direct environmental impact of FDI is generally positive, at least where host-country environmental policies are adequate. There are, however, examples to the contrary, especially in particular industries and sectors. Most importantly, to reap the full environmental benefits of inward FDI, adequate local capacities are needed, as regards environmental practices and the broader technological capabilities of host-country enterprises. The technologies that are transferred to developing countries in connection with foreign direct investment tend to be more modern, and environmentally “cleaner”, than what is locally available. Moreover, positive externalities have been observed where local imitation, employment turnover and supply-chain requirements led to more general environmental improvements in the host economy. There have been some instances, however, of MNEs moving equipment deemed environmentally unsuitable in the home country to their starting to happen in India.

New Horizons and Policy Challenges for Foreign Direct Investment in the 21st Century

Perhaps much more is written on Foreign Direct Investment (FDI) in the development process than any other aspect of development. This should be of little surprise; the characteristics of FDI, its rapid growth and pivotal role in the process of globalisation in recent years, its intimate relationship with trade, and its historical antecedents have all attracted the attention of economists, political scientists, economic historians and in recent years management specialists and anthropologists. The principal characteristic of FDI, which sets it apart from other sorts of international capital flows, is the control over operations exercised by the investing entity over the investor entity. Ownership of equity and more importantly command over technology and know-how enable firms to exercise control over operations. It is control over operations that enables foreign firms to transfer technology and know- how to the recipients of FDI. And FDI is a potent instrument of development because of its ability to transfer technology and skills to developing countries. Several developments in the global economy since the decade of the eighties have softened the opposition to FDI and rekindled faith in its ability to promote development. Indeed, suspicion and distrust of foreign firms seems to have yielded place to a newfound faith in their ability to promote growth and development objectives. A number of factors have influenced this change in attitudes including increased familiarity with the operations of MNEs, reduced flows of alternative sources of finance such as bank credit and foreign aid and the demonstrable success of several developing countries with FDI. . Further, the information technology revolution has wrought dramatic changes both with respect to the channels through which technology and know how is transmitted and its impact on the technology absorptive capacity of host entities.

Macroeconomic Stability

Low inflation rates and stable exchange rates are important determinants of FDI for more reasons than one. First they attest to the stability and the underlying strength of the economy. Second, they provide a degree of certainty relating to the future course of the economy and impart confidence in the ability of firms to repatriate profits and dividends. Weak economies with high levels of domestic borrowing and debt, measured by the ratio of budget deficits to GDP and total volume of borrowing to GDP, are often compelled to institute exchange controls and controls on the capital account of the balance of payments. Third, more often than not a stable macro economic environment also implies a stable political environment. Political and economic stability are usually intertwined (Bala subramanyam and Salisu, 1991).

Product and Labour Market Distortions

One of the most significant determinants of FDI is a distortion free economic environment. Admittedly, a stable macro economic environment presupposes a distortion free environment. A distortion free environment though has specific implications for trade and investment policies. Distortions in product and factor markets are said to occur when product and factor prices deviate from their true social opportunity costs. For example wage rates for labour in the manufacturing sector may exceed that which it can earn in an alternative occupation such as agriculture. Again domestic market prices for goods and services may exceed those for comparable imports and prices for exportables may be lower than that for comparable goods sold on the domestic markets. These distortions are mostly policy induced in the sense that minimum wage policies and restrictions on imports in the form of quotas and tariffs and subsidies for exports serve to distort market prices away from their true social opportunity costs. A predictable consequence of such distortions is the misallocation of resources and investments away from sectors and activities in which the country possess a competitive advantage. Such distortions also have an impact on the volume of FDI host countries are able to attract. For long it was the received wisdom that restrictions on imports in the form of tariffs and quotas would induce increased flows of FDI. This belief is based on the proposition that trade and capital flows are substitutes for one another and a restriction on trade would induce firms to invest in the protected markets. (Mundell 1957) Recent research, however, suggests that trade and FDI complement one another and need not necessarily be substitutes (Greenaway and Milner, 1988) Also, countries with a distortion free market environment, free of policy induced incentives and restrictions, tend to attract relatively large volumes of FDI than distortion ridden economies. We owe a precise enunciation of this proposition to Jagdish Bhagwati of Columbia University who argued that "With due adjustments for differences among countries for their economic size, political attitudes towards DFI and political stability, both *the magnitude of DFI inflows and their efficacy* in promoting economic growth will be greater over the long haul in countries pursuing the export promotion (EP) strategy than in countries pursuing the import substitution (IS) strategy" (Bhagwati 1978) Several features of Bhagwati's hypothesis are noteworthy. First, is the reference to the trade policy framework of countries host to FDI. The inward looking IS strategy, pursued with vigour by countries such as India until recently, is exemplified by tariffs and quotas on imports, and in many cases restrictions on spheres of activity and volumes of investment by both domestic and foreign investors . Quite often, IS regimes are also characterised by subsidies on exports, a sort of second best policy to promote exports, but the protection from import competition afforded to import substituting industries exceeds the incentives for exports provided by subsidies. The policy orientation of EP regimes, as defined by Bhagwati, is its neutrality. In other words, the policy regime favours neither the production of import-substitutes nor exportables, on average tariffs on imports match the subsidies on exports. Resource allocation in an EP regime would be dictated by market forces and the dictats of comparative advantage as opposed to the policy induced investments in the IS regime. In general EP regimes tend to be relatively free of policy induced distortions.

Tariffs on imports do attract FDI into the protected industries, but ultimately they will not be as large as that attracted by EP regimes. This is because incentives offered by the IS regime tend to be artificial, in the sense that they are often designed to compensate for the lack of location specific advantages, and their continuation is subject to the whims of the policy makers. Foreign firms wary of unexpected policy changes are unlikely to commit large volumes of FDI in IS countries. And FDI that is attracted by restrictions on imports , the tariff jumping variety of FDI is likely to be transient, lasting as long as the artificial policy induced incentives. Statistical evidence in favour of these propositions is robust (Balasubramanyam and Salisu 1981 , Balasubramanyam, Sapsford and Salisu, 1996)

Incentive Schemes

Apart from trade policies most developing countries offer a variety of subsidies to foreign firms. These include tax holidays, tax concessions and exemptions from duties on imports of parts and components and export duties. The ubiquitous export processing zones found in most developing countries are also designed to attract FDI. It is doubtful if these incentives weigh heavily in the investment decision process of foreign firms. The evidence on the issue is not conclusive. (Guisinger, 1986) Developing countries may be compelled to offer such incentives only because their competitors for FDI offer them. If none of the countries offer such incentives the location decision of FDI would be based on the resource endowments of host countries and the climate for efficient operations they provide. Most such incentives are tied to performance requirements of one sort or the other. Given the nature of these incentives and the fact that each of the host countries offer such incentives only because others do so, it is likely that they are yet another source of distortions in the market for FDI.

Integration Schemes

Much is written on the impact of regional integration schemes and preferential trading arrangements on FDI, mostly in the context of the EU and the NAFTA. Whist the impact of such arrangements between developing countries on FDI is yet to be investigated in detail, there is little reason to argue that integration schemes per se induce increased flows of FDI. In general integration schemes allow for free trade between member countries, but restrict imports from third countries. The free trade element serves to enhance the size of markets whist the tariff element impedes imports from third countries into the region. Both these effects are likely to induce increased inflows into the region. The received wisdom though is that the market enlargement effect is much more significant than the tariff effect in inducing increased flows of FDI. Furthermore, it is policies designed to eliminate distortions and liberalise trade and investment, which often either precede or accompany integration arrangements, which are likely to induce increased flows of FDI.

Methods of Foreign Enterprise Participation

In the past several developing countries such as India and Brazil attempted to have their cake and eat it too. Technology licensing agreements with foreign owned firms and joint-ventures were seen as methods of importing technology and know how without at the same time yielding control over operations to foreign entities. The characteristic feature of licensing agreements is the absence of ownership of capital on the part of foreign firms and hence control over operations. Foreign firms entering into such agreements with locally owned firms provide management services, technical information or both in return for an agreed upon fee and royalties. Although seemingly attractive to both parties licensing agreements pose a number of organisational problems, most of which arise from the imperfections in the market for knowledge. First is the ever- present threat of imitation and loss of monopoly over rent yielding advantages firms possess. Knowledge is a public good in the sense that once produced the volume of it does not diminish with use. It can be replicated at very little cost, in other words the marginal cost of replicating knowledge is far below the average cost of producing it. Second, there are problems associated with the pricing of technologies; purchasers of technology would be reluctant to name a price in the absence of information on its nature and characteristics and sellers would be loath to impart such information lest they lose their monopoly over their assets. Third, most complex technologies cannot be effectively transferred in the absence of involvement in operations through asset participation and managerial control on the part of the owners of technology. In the face of these and other market imperfections FDI is the preferred option for the exploitation of the rent yielding advantages firms possess.

Attitudes and Business Environment

The list of determinants of FDI discussed here may seem exacting, but they are not insuperable. Most of the determinants of FDI are policy driven. Admittedly, resource endowments, including natural resources and labour, are beyond the control of policy makers. But not all FDI is of the resource seeking variety, and labour can be trained and organised through appropriate education and training policies. The most significant determinants of FDI, which are amenable to policy, include the institution of distortion free product and factor markets. These can be achieved, as several developing countries in East Asia and elsewhere have demonstrated, through openness to trade and investment and abolition of domestic policies which impede competition in the market place. Another important determinant of FDI is transparency and stability of policies towards FDI. Frequent changes in policies relating to the spheres of activity of foreign firms, fiscal and exchange rate policies are unlikely to inspire confidence on the stability of the host economies on the part of foreign firms.

Competition in the Market Place and Efficacy of FDI

The foregoing discussion has centred mainly on the static or a locative efficiency in the presence of FDI. Much more significant are the dynamic benefits FDI can confer on host countries. Such dynamic benefits, which can shift the growth path of host countries on to a new trajectory, include spill overs of production technology and know how from foreign owned firms to the rest of the economy, production of new knowledge and product innovations with investments in research and development. Growth theory, in its recent incarnation referred to as the endogenous growth theory, provides rich insights into the sort of dynamic benefits FDI can provide and the preconditions necessary for the generation and dissemination of such benefits. In the traditional literature technological change is usually assumed to be exogenous. In other words, there are no specific explanations for its generation and diffusion. Also increased investments in capital formation meet with diminishing returns to capital. The so- called endogenous growth theory contests these propositions. Technical change can be endogenous in the sense that firms compete with each other on the basis of new cost reducing methods of production and innovations designed to produce new and differentiated products. Those in the lead capture markets and retain their market shares until imitators of their products and processes appear. The emergence of competition spurs renewed research and development efforts. Technical change is associated not only with physical capital but also human capital. Learning by doing, learning by doing what others are doing and investments in education all contribute to the growth of productivity of labour.

Apart from effective competition in the market place, appropriate policies for the dissemination of knowledge and its absorption by the recipients have to be instituted. These include provision of information on the sources of know how, investments in education and training of labour, efficient financial institutions which can provide resources for potential suppliers of components and parts to foreign firms and government support as opposed to needless intervention.

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The Policy Framework and Efficiency of FDI

In most developing countries FDI is subject to an array of rules and regulations. There are also a number of incentive schemes including tax exemptions, tax concessions and various sorts of subsidies designed to attract FDI. These are collectively referred to as Trade Related Investment Measures (TRIMS). Export Processing Zones (EPZS) also known as Free Trade zones (FTZS) to be found in most developing countries can also be included under this head. Firms located on these zones are allowed to import equipment and parts free of import duties and exports from the zone are also exempt from export duties.

Issues for Debate

The foregoing has merely skimmed the copious literature on FDI and noted the main issues. Most of this is what may be termed received wisdom. In recent years though the debate on globalisation, with FDI being the prime force of Globalisation, has tossed up several new issues have emerged. Three issues figure on most agendas on globalisation. First of these relates to labour standards and the MNE. Second is the argument that the MNE and FDI contribute to the degradation of the environment. Third is the longstanding thesis, which has surfaced again in the debates on globalisation, that FDI deprives developing countries sovereignty over economic policy, concentrates economic power in the hands of foreign owned firms and poses a threat to local interests. Here we merely identify the issues at debate for further discussion.

The issue of labour standards has several strands to it. First, there is the widespread concern that wage rates in poor countries are abysmally low compared with what labour earns in developed countries and this amounts to exploitation of labour. Second, is the concern that profit maximising MNEs adopt dual standards in their labour policies. The standards they set for wage payments and labour welfare in developing countries fall far short of the standards they adopt in their home countries. Third is the concern that practices such as employment of child labour is morally reprehensible. There is no dispute that exploitation of labour including child labour is socially undesirable and must be eliminated. The issue though is what is a just wage? Is the theoretical precept that wage rates reflect the opportunity cost of labour, what it can earn in alternative occupation, and that the opportunity cost for labour is close to zero in poor countries, is much too glib an explanation for the low wages in poor countries? Is it right to say that if MNEs do adopt dual standards on labour welfare, they are not to be blamed, the blame should rest with host country governments and the absence of labour legislation in these countries? Is it legitimate to argue that labour standards are culture specific and it would be injudicious to transplant developed countries standards into developing countries? Is child labour an economic phenomenon born out of poverty, inefficient credit markets, and lack of education (see Jafarey and Lahiri (2001) for an excellent discussion of Child Labour) and the MNEs passively react to prevailing labour market conditions? The issue of the environment and the MNEs too has several strands. Do MNEs move production facilities to countries with lower standards? Do lower standards in some countries force other countries to follow suit in order to protect their competitive advantage in trade and investments. Is it legitimate to impose developed country standards on poor countries? The environment issue appears to be much more tractable than the labour standards issue. Evidence in favour of the first proposition appears to be weak. In the face of widespread concern for the environment, which is a global problem, MNEs wish to be seen as good citizens keen on protecting the environment (Bhagwati, 1995) Most MNEs invest in technologies which preserve and promote the environment. Whether or not the concern for the environment on the part of MNEs is born out of self interest rather than altruism is arguable, but they can't be accused of deliberately seeking locales with low standards. There is no reason to suspect that poor countries blithely ignore the need to preserve the environment and let loose the MNEs to despoil it. Their concerns though may be different than that of the developed countries, they may accord priority to objectives such as access to safe drinking water rather than the preservation of non-renewable resources. And imposing uniform standards on poor countries may be injudicious. Even so, there are issues relating to the environmental obligations of MNEs, institution of incentive structures which promote the environment and whether or not trade and investment policies should be geared to the preservation of the environment.

5. CONCLUSION:

The main policy conclusion that can be drawn from the study is that the economic benefits of FDI are real, but they do not accrue automatically. To reap the maximum benefits from foreign corporate presence a healthy enabling environment for business is paramount, which encourages domestic as well as foreign investment, provides incentives for innovation and improvements of skills and contributes to a competitive corporate climate. The net benefits from FDI do not accrue automatically, and their magnitude differs according to host country and context. The factors that hold back the full benefits of FDI in some developing countries include the level of general education and health, the technological level of host country enterprises, insufficient openness to trade, weak competition and inadequate regulatory frameworks. Conversely, a level of technological, educational and infrastructure achievement in a developing country does, other things being equal, equip it better to benefit from a foreign presence in its markets. Yet even countries at levels of economic development that do not lend themselves to positive externalities from foreign presence may benefit from inward FDI through the limited access to international funding. By easing financial restraint, FDI enables host countries to achieve the higher growth rates that generally emanate from a faster pace of gross fixed capital formation. The eventual economic effect of FDI on economies with little other recourse to finance depends crucially on the policies pursued by host-country authorities. The sectoral composition of an economy can also make a difference. While the service sectors of many developing countries may be underdeveloped and hence unable to attract large inflows of FDI, extractive industries in countries with abundant natural resources can be developed beneficially with the aid of foreign investors. In addition to the potential drawbacks of inward FDI mentioned earlier, some micro-oriented problems could arise. For instance, while the overall impact of FDI on enterprise development and productivity is almost always positive, it generally also brings distributional changes and need for industrial restructuring in the host economy.

Changes give rise to adjustment costs and are resisted by social groups that do not expect to be among the beneficiaries. Structural rigidities in the host economy exacerbate such costs, not least where labour markets are too slow to provide new opportunities for individuals touched by restructuring. Overall, the costs are best mitigated when appropriate practices are pursued toward flexibility, coupled with macroeconomic stability and the implementation of adequate legal and regulatory frameworks. While the responsibility for this lies largely with host-country authorities, home countries, MNEs and international forums also have important roles to play. So the suggestion after a detailed discussion of Cost-Benefit Analysis, we can see for ourselves that FDI is overall beneficial for all from top to bottom, so we must support it for the end result which is overall Growth and Development of developing economies.

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc. Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. FDI can help to raise the output, productivity and export at the sectoral level of the Indian economy. However, it can observed the result of sectoral level output, productivity and export is minimal due to the low flow of FDI into India both at the macro level as well as at the sectoral level. Therefore for further opening up of the Indian economy, it is advisable to open up the export oriented sectors and higher growth of the economy could be achieved through the growth of these sectors.

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