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FOREIGN DIRECT INVESTMENT REFORMS AND ITS IMPACT ON THE INDIAN ECONOMY

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ABSTRACT
Reforms in the financial sector was identified as an integral part of the economic reforms initiated in 1991, when the then government appointed a high level committee on the financial system known as the "Narasimham Committee" to uplift the country from the clutches of deep economic crisis. It was at this backdrop, that the floodgates to Foreign Direct Investment (FDI) was opened which witnessed the entry of overseas companies to invest directly in fast growing Indian businesses thereby generate cash inflows to the country's ailing economy. FDI has played a significant role in the uplift of the Indian economy and is seen as a means to supplement domestic investment of achieving a higher level of economic growth and development. Reforms in FDI not only turned out to be a blessing for the country's otherwise ill economy, but it also acted as a catalyst for domestic industrial development which is considered to be an important vehicle for economic upliftment. The 'Make in India' campaign, a direct investment reform in its own sense, has witnessed a tremendous response ever since it was launched. This paper is therefore an attempt to study the sectoral reforms in FDI since liberalization of the Indian economy and its impact thereafter. The data and evidences are collected from various journals, research papers, government websites and articles.

KEYWORDS
Indian economy, foreign direct investment (FDI), FDI reforms, Narasimhan committee, economic reforms, economic growth and development.

1. INTRODUCTION
Considered as the backbone of any economy, reforms in the financial sector was identified as an integral part of the economic reforms initiated in 1991, when the then government appointed a high level committee on the financial system known as the "Narasimham Committee" to uplift the country from the clutches of deep economic crisis. It was at this backdrop, that the floodgates to Foreign Direct Investment (FDI) was opened which witnessed the entry of overseas companies to invest directly in fast growing Indian businesses thereby generate cash inflows to the country's ailing economy. FDI plays a multidimensional role in the overall development of the host country. Not only that it generates foreign capital resources but also improves technology upgradation, skill enhancement thereby generates more employment opportunities and boost entrepreneurship. FDI plays a complementary role in overall capital formation and filling the gap between domestic saving and investment. At the macro level it is a non-debt creating sources of additional external finances. At the micro level it is expected to boost output, technology, skill level, employment and linkages with other sectors and the regions of the host economy. Reforms in FDI has not only turned out to be a blessing for the country's otherwise ill economy, but it also acted as a catalyst for domestic industrial development which is considered to be an important vehicle for economic upliftment. The *'Make in India'* campaign, a reform in its own sense, has witnessed a tremendous inflow of direct investment ever since it was launched. After the great reforms in the early 90s, the role of FDI in India has changed tremendously. Pre-reforms, the contribution of FDI was low conforming to some selected sectors, but now the inflow of FDI has grown tremendously and almost in all the sectors of the Indian economy. The objective of this work therefore is to highlight the sectoral reforms in FDI since liberalization and its impact on the economy of India.

FOREIGN DIRECT INVESTMENT (FDI) IN INDIA: A BRIEF HISTORY

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. However, researchers could not portray the complete history of FDI pouring in India due to lack of abundant and authentic data. Before independence, major amount of FDI came from the British companies. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K. remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. The first Prime Minister of India considered foreign investment as "necessary" not only to supplement domestic capital but also to secure scientific, technical, and industrial knowledge and capital equipment. However, the country faced two severe crises in the form of foreign exchange and financial resource mobilization during the second five-year plan (1956 -61). Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India. The government also provided many incentives such as tax concessions, simplification of licensing procedures and de- reserving some industries such as drugs, aluminium, heavy electrical equipment, fertilizers, etc. in order to further boost the FDI inflows in the country. This liberal attitude of government towards foreign capital lures investors from other advanced countries like USA, Japan, and Germany, etc. But due to significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties etc., the government had to adopt stringent foreign policy in 1970s. During this period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned. The world economy has observed a phenomenal change in volume and pattern of FDI flow from developed nations to EMEs in 1980s and 1990s compared to earlier decades. The hostile attitude of developing nations regarding multinationals investment has become generous during this transition period. FDI was fostered by liberalisation and market-based reforms in EMEs. The financial sector deregulation and reforms in the industrial policy further paved the way for global investments. Some of the most phenomenal developments during the last 20 years is the fabulous growth of FDI in the global economic arena. Starting from a baseline of less than USD 1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI to the country. In 2013, the government relaxed FDI norms in several sectors, including telecom, defence, PSU oil refineries, power exchanges and stock exchanges, among others. In retail, UK-based Tesco submitted its application to initially invest US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia-based Air Asia and Singapore Airlines teamed up with Tata Group to launch two new airline services. Also, Abu Dhabi-based Etihad picked up a 24 per cent stake in Jet Airways that was worth over Rs 2, 000 crores (US$ 319.39 million). Currently, while foreign portfolio investments to India are slowing, net foreign direct investment (FDI) inflows, which are far more stable, have touched a record high of $34.9 billion in 2014-15. In fact, net FDI inflows touched 1.7% of gross domestic product (GDP) in the just-ended fiscal year, up from 1.1% of GDP the previous year. Foreign investment inflows to India are predominantly to infrastructure, mainly telecom, oil and gas, mining sectors, as well as the services sector. Higher FDI flows are good for India's current account deficit and also help drive domestic investments.

2. RESEARCH OBJECTIVES
The main objectives of the study are:
1. To analyse sector wise inflow of direct investment post FDI reform in India.
2. To analyse country wise FDI inflows to India.
3. To identify FDI and GDP growth in India.
4. To identify suitable suggestions for attracting more FDI in India

3. RESEARCH METHODOLOGY

1. Type of research: - Quantitative & Analytical Research
2. Data Collection Method: - Secondary data from different web sites, research journals, DIPP, Government websites, RBI bulletin (different issues).

4. LITERATURE REVIEW

Kulwinder Singh (2005) in his study "Foreign Direct Investment in India: A Critical analysis of FDI from 1991-2005" explores the uneven beginnings of FDI, in India and examines the developments (economic and political) relating to the trends in two sectors: industry and infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link. Montek Singh Ahluwalia (1994) while rejecting the arguments of the critics of economic reforms considered India's efforts of liberalising its economy since 1991 as an 'economic revolution'. Balasubramanyam. V.N and Vidya Mahambre (2003) concluded that 'FDI is a very good means for the transfer of technology and knowhow to the developing countries'. Laura Alfaro (2003) finds that FDI flows into the different sectors of the economy (namely primary, manufacturing, and services) exert different effects on economic growth. FDI inflows into the primary sector tend to have a negative effect on growth, whereas FDI inflows in the manufacturing sector a positive one. Chandana Chakraborty and Peter Nunnenkamp (2008) said that booming foreign direct investment in post-reform India is widely believed to promote economic growth. A. S. Shiralashetti and S. S. Hugar (2009) analyzed the initiatives of The Government of India to attract FDI inflows, to boost the Indian economy since economic liberalization on the basis of different parameters such as year-wise, country-wise, sector-wise and region-wise FDI inflows. To sum up, it can be said that large domestic market, cheap labour, human capital, are the main determinants of FDI inflows to India, however, its stringent labour laws, poor quality infrastructure, centralize decision making processes, and a very limited numbers of SEZs make India an unattractive investment location.

FDI reform and its impact: "(Foreign) direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Immediate direct investment relationships arise when a direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise**"** (IMF 2011, 100-101). The key feature of foreign direct investment is that it is an investment made that establishes either effective control of or at least substantial influence over the decision making of a foreign business. Foreign direct investments can be made in a variety of ways, including the opening of a subsidiary or associate company in a foreign country, acquiring a controlling interest in an existing foreign company, or by means of a merger or joint venture with a foreign company. FDI was introduced in India in 1991 under Foreign Exchange Management Act (FEMA) executed by the then Finance Minister Dr. Manmohan Singh. In a report published in *"The Hindu" dated 28th May, 2016*, FDI inflows in India have increased by 29 percent to a record $40 billion during the financial year ended March 2016. It further mentioned that of the FDI inflows in FY'16, services sector including financial, banking, insurance, non-financial, outsourcing, R&D, courier, technology testing and analysis attracted maximum investment of $6.88 billion followed by computer hardware and software ($5.90 billion), trading business ($3.84 billion) and automobile industry ($2.52 billion). It is noteworthy that of the FDI inflows, the maximum inflow was from Singapore with $13.69 billion followed by Mauritius with $8.35 billion, the U.S. ($4.19 billion), the Netherlands ($2.64 billion) and Japan ($2.61 billion). The previous highest FDI inflow was in FY'12 when the country received $46.55 billion, which was a 34 percent increase over $34.8 billion it received in FY'11. As per the latest World Investment Report released by the *"United Nations Conference on Trade and Development (UNCTAD)"*, India became the tenth largest recipient of foreign direct investment in 2015 in the world, grossing $44 billion following a series of reforms by the government. In August 2014, the Cabinet of India allowed 49% foreign direct investment (FDI) in the defence sector and 100% in railways infrastructure. The defence sector previously allowed 26% FDI and FDI was not allowed in railways. This was in hope of bringing down the military imports of India. However, FDI is not permitted in the areas of Arms and ammunition, Atomic Energy, Railway Transport, Coal and lignite, Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc, Lottery Business, Gambling and Betting, Business of Chit Fund, Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations), Housing and Real Estate business, Trading in Transferable Development Rights (TDRs), Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

5. MAKE IN INDIA: AS A CONCEPT OF FDI

Make in India is an initiative launched by the Government of India to encourage multi-national, as well as national companies to manufacture their products in India. It was launched by Prime Minister Narendra Modi on 25 September 2014. India emerged, after initiation of the programme in 2015 as the top destination globally for foreign direct investment, surpassing the United States of America as well as the People's Republic of China. In 2015, India received US$63 billion in FDI. The major objective behind this initiative was to focus on job creation and skill enhancement in 25 sectors of the economy. It further aimed at high quality standards and minimising the impact on the environment and hoped to attract capital and technological investment in the country. Because of the 'Make in India' initiative, the government received ₹1.20 lakh crore (US$18 billion) worth of proposals from companies interested in manufacturing electronics in India between September 2014 and November 2015.

MAKE IN INDIA FOCUSES ON THE FOLLOWING TWENTY-FIVE SECTORS OF THE ECONOMY

Automobiles, Automobile Components, Aviation, Biotechnology, Chemicals, Construction, Defence manufacturing, Electrical Machinery, Electronic systems, Food Processing, Information Technology and Business Process Management, Leather, Media and Entertainment, Mining, Oil and Gas, Pharmaceuticals, Ports and Shipping, Railways, Renewable Energy, Roads and Highways, Space and astronomy, Textiles and Garments, Thermal Power, Tourism and Hospitality and Wellness.

MAKE IN INDIA REFORM AND FDI INFLOW

1. Global beverage company Pepsi plans to invest Rs. 500 crore to set up another unit in Maharastra to make mango, pomegnerate and orange based citrus juices.
2. Japan has won the right to construct India's first bullet train while offering a loan of US $ 8.11 billion to India for the same.
3. Kellogg.co. world's largest cereal maker, is making large investment in manufacturing and plans to set up its first R&D in India near Mumbai.
4. According to data released by RBI in its report for the financial year 2014-15 the aggregate FDI rose by 54% which is the highest FDI in last five years.
5. The manufacturing sector which was showing a declining trend in the past few years has shown a sharp jump of 50% in FDI in year 2014-15 which shows a clear impact of 'Make in India' initiative.
6. Mauritius continued to be the country contributing the single largest share of the foreign direct investment pie. FDI equity inflow from Singapore trailed Mauritius, with $6.4 billion in fiscal year.
7. Drugs and pharmaceuticals and the automobile industry in India are other sectors attracting FDI.
8. India's investments in UK have increased nearly by 65% in 2015.
9. FDI has increased 37% after the launch of Make in India.
10. India is the world's top destination for FDI. According to the report Make in India campaign and as a result of it the increase in FDI has also lead to job creation

6. DISCUSSION AND ANALYSIS

OBJECTIVE 1

TABLE 1: ANALYSIS OF SECTOR WISE INFLOW OF FDI IN INDIA (from 1991 to 1999)

Sl.no.	Sector	FDI Inflows (in US $ million)
1	Electrical equipment	1393.13
2	Service Sector	1213.66
3	Telecommunications	1211.64
4	Chemicals & Other fertilizers	1196.17
5	Power	1093.32
6	Food processing Industries	710.51
7	Paper & Pulp	259.85
8	Mechanical & Engg. Industries	255.41
9	Textiles (including dyed & printed)	248.88
10	Drug & Pharmaceuticals	246.71
11	Trading	201.48
12	Metallurgical industry	190.55
13	Industrial Machinery	108.55
14	Hotels & Tourism	91.33
15	Ceramics	51.6
16	Cement & gypsum products	49.92
17	Fermentation industry	24.15
18	Consultancy services	6.61
19	Computer software & hardware	0
20	Housing & real estates	0
21	Construction activities	0
22	Automobiles Industry	0
23	Petroleum & natural gas	0
24	Information Broadcasting	0
25	Others	2401.36
	Total	**10954.66**

Source: Rajeswari, R.G. & Akilandeswari, K. (2015), "Sector-Wise Foreign Direct Investment Inflows into India", Journal of Business Management & Social Sciences Research (JBM&SSR), Volume 4, No.1, January 2015.

From the above table it is observed that during the period 1991 to 1999, electrical equipment, services sector and telecommunications received the highest FDI inflows with 1393, 1213 and 1211 in terms of US $ in million.

FIG. 1: DIAGRAMMATIC REPRESENTATION OF TABLE 1-ANALYSIS OF SECTOR WISE INFLOW OF FDI IN INDIA (from 1991 to 1999)

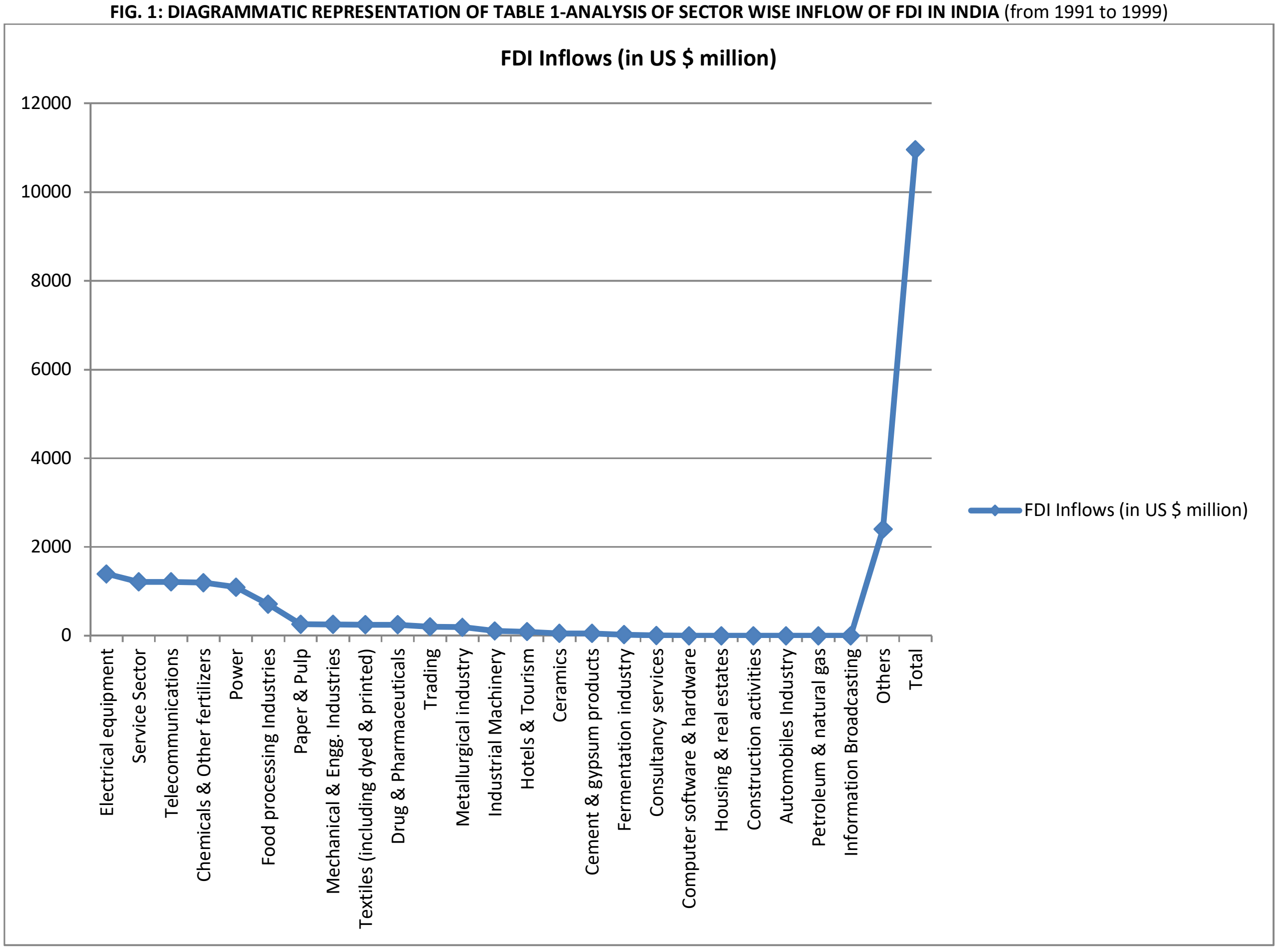


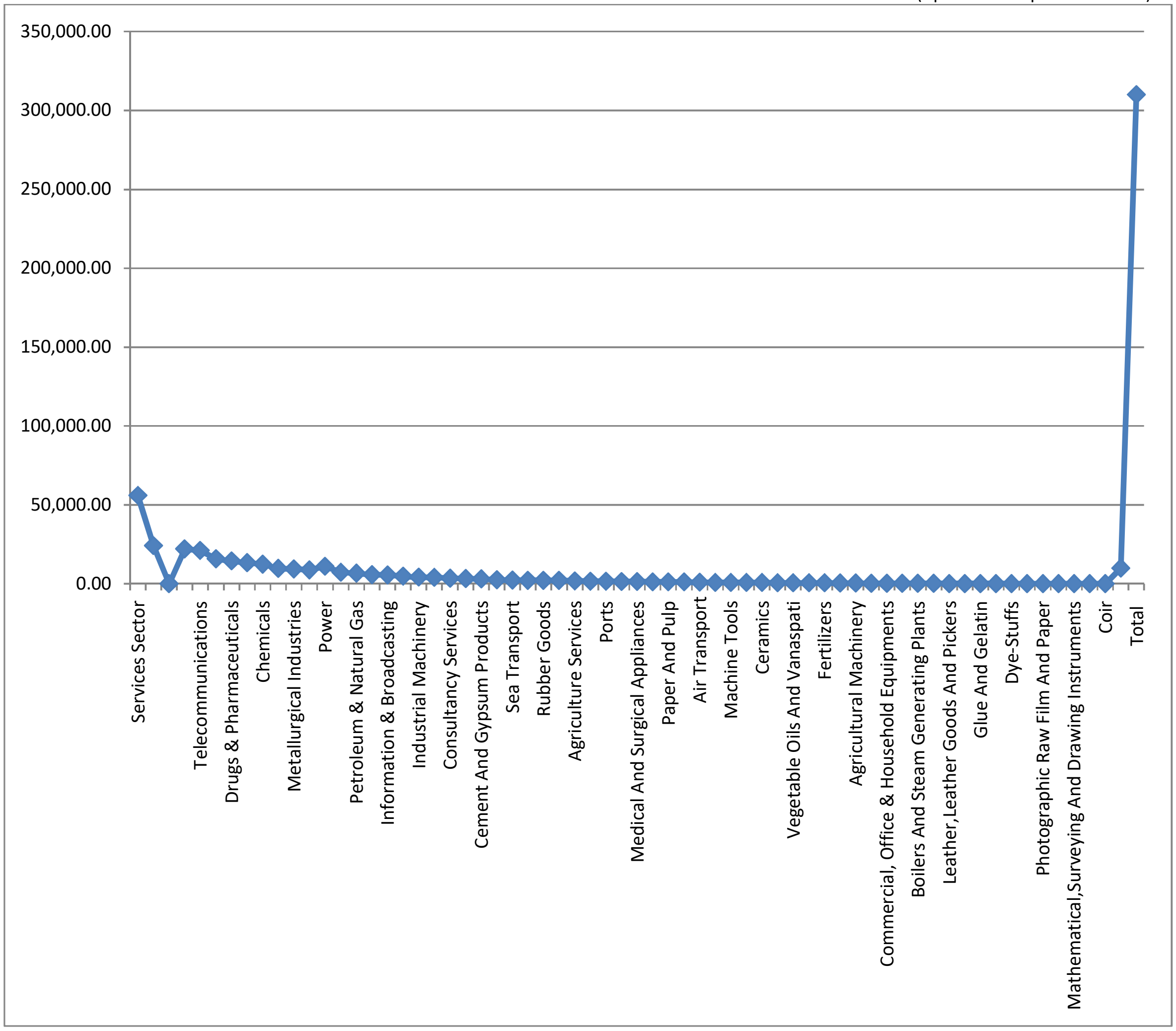
TABLE 2: ANALYSIS OF SECTOR WISE INFLOW OF FDI IN INDIA (April 2000-September 2016)

S.No.	Sector	(In US$ million)
1	Services Sector	56,080.38
2	Construction Development: Townships, housing, built-up infrastructure and construction-development projects	24,249.79
3	Computer Software & Hardware	22,050.02
4	Telecommunications	21,169.09
5	Automobile Industry	15,793.24
6	Drugs & Pharmaceuticals	14,490.21
7	Trading	13,354.42
8	Chemicals (Other Than Fertilizers)	12,432.77
9	Hotel & Tourism	9,749.97
10	Metallurgical Industries	9,337.63
11	Construction (Infrastructure) Activities	8,886.97
12	Power	11,034.73
13	Food Processing Industries	7,316.46
14	Petroleum & Natural Gas	6,700.62
15	Electrical Equipments	5,764.92
16	Information & Broadcasting (Including Print Media)	5,629.02
17	Non-Conventional Energy	4,773.95
18	Industrial Machinery	4,233.86
19	Hospital & Diagnostic Centres	4,098.19
20	Consultancy Services	3,512.57
21	Miscellaneous Mechanical & Engineering Industries	3,230.69
22	Cement And Gypsum Products	3,117.90
23	Fermentation Industries	2,463.88
24	Sea Transport	2,287.22
25	Mining	2,218.79
26	Rubber Goods	2,211.31
27	Textiles (Including Dyed,Printed)	2,122.09
28	Agriculture Services	1,859.17
29	Electronics	1,668.31
30	Ports	1,637.30
31	Prime Mover (Other Than Electrical Generators)	1,486.40
32	Medical And Surgical Appliances	1,452.70
33	Education	1,318.23
34	Paper And Pulp (Including Paper Products)	1,245.31
35	Soaps, Cosmetics & Toilet Preparations	1,165.13
36	Air Transport (Including Air Freight)	979.20
37	Retail Trading	909.12
38	Machine Tools	857.42
39	Diamond,Gold Ornaments	851.34
40	Ceramics	756.43
41	Railway Related Components	724.03
42	Vegetable Oils And Vanaspati	622.00
43	Printing Of Books (Including Litho Printing Industry)	601.87
44	Fertilizers	565.07
45	Glass	538.84
46	Agricultural Machinery	440.66
47	Earth-Moving Machinery	364.11
48	Commercial, Office & Household Equipments	352.30
49	Scientific Instruments	252.00
50	Boilers And Steam Generating Plants	194.08
51	Sugar	189.12
52	Leather,Leather Goods And Pickers	166.85
53	Timber Products	148.66
54	Glue And Gelatin	123.70
55	Tea And Coffee (Processing & Warehousing Coffee & Rubber)	110.73
56	Dye-Stuffs	86.43
57	Industrial Instruments	75.63
58	Photographic Raw Film And Paper	67.29
59	Coal Production	27.73
60	Mathematical,Surveying And Drawing Instruments	7.98
61	Defence Industries	5.12
62	Coir	4.07
63	Miscellaneous Industries	9,972.08
	Total	**310,137.12**

Source: Department of Industrial Policy and Promotion, Govt. of India

From the above table it is observed that services sector, construction development and computer hardware & software received the highest FDI inflows during the period from April 2000 to September 2016 with US $ in millions of 56080, 24249 and 22050 respectively.

FIG. 2: DIAGRAMMATIC REPRESENTATION OF TABLE 2- ANALYSIS OF SECTOR WISE INFLOW OF FDI IN INDIA (April 2000-September 2016)



OBJECTIVE 2

TABLE 3: COUNTRY WISE FDI INFLOW (in US $million) (from 1992 to 2000)

Sl. No.	Countries	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000
1	Mauritius	NA	NA	197	507	846	900	590	501
2	USA	22	99	203	195	242	687	453	355
3	U.K.	7	98	144	71	54	NA	N A	N A
4	Germany	21	35	35	100	166	151	114	31
5	Netherlands	21	47	45	50	124	159	53	82
6	Japan	26	37	95	61	97	164	235	142
7	France	9	10	12	14	NA	NA	NA	NA
8	Singapore	3	10	25	60	76	NA	NA	NA
9	Switzerland	35	23	26	NA	NA	NA	NA	NA
10	South Korea	NA	NA	12	24	6	333	85	8
11	Others	136	45	76	351	446	562	470	462
	Total	**280**	**404**	**872**	**1419**	**2057**	**2956**	**2000**	**1581**

Source: Akhtar, G. (2013), "Inflows of FDI in India: Pre and Post Reform Period", International Journal of Humanities and Social Science Invention, Volume 2 Issue 2, February 2013

From the above table it is evident that the year 1997-98 witnessed the highest inflow of FDI into the Indian economy with US $ 2956 million and the highest FDI came from Mauritius in the same year itself with US $ 900 million.

FIG. 3: DIAGRAMMATIC REPRESENTATION OF TABLE 3- COUNTRY WISE FDI INFLOW (in US $million) (from 1992 to 2000)

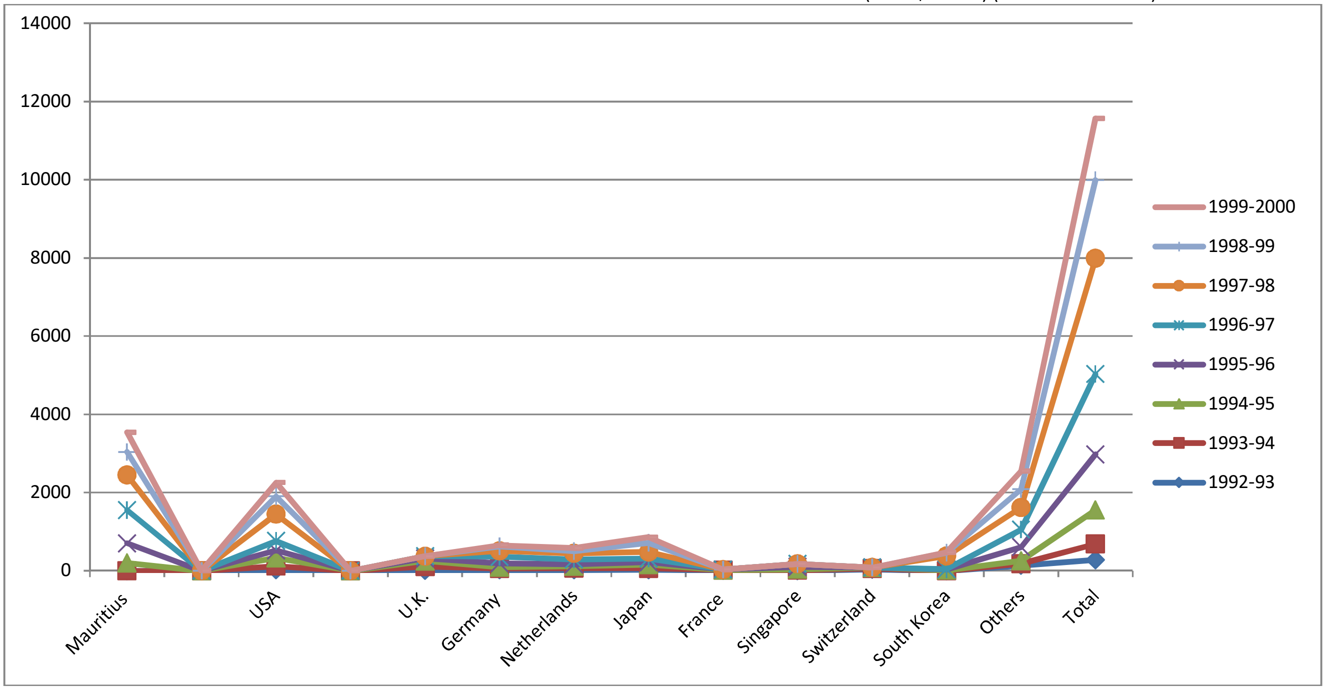


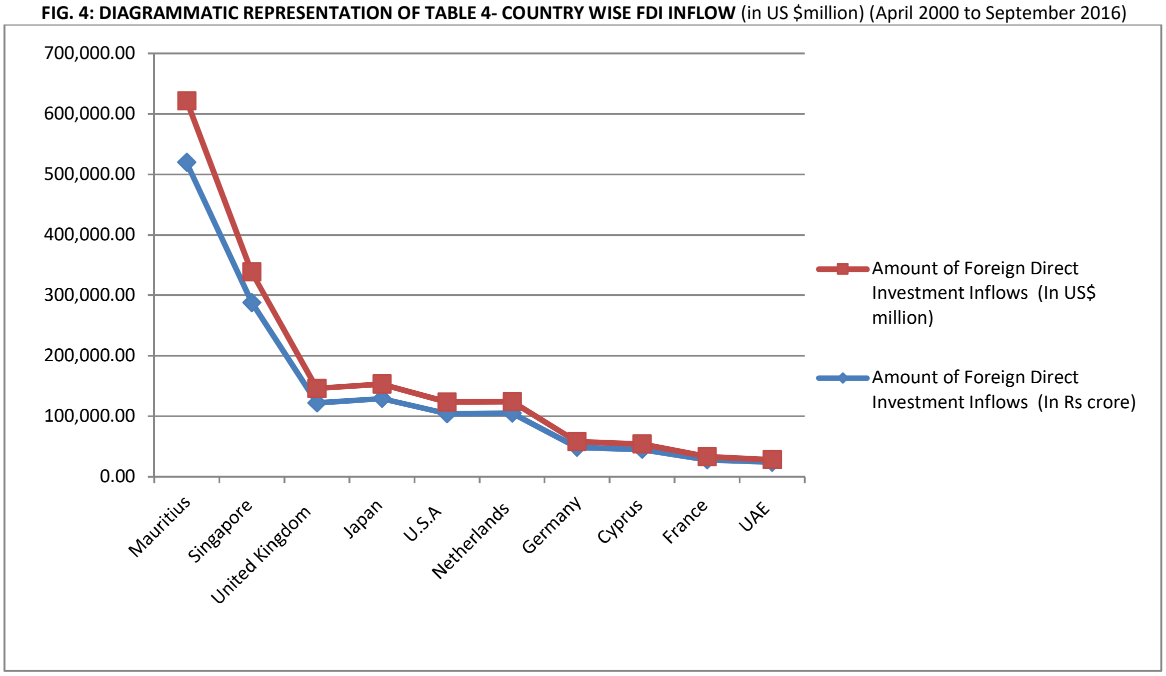
TABLE 4: COUNTRY WISE FDI INFLOW (in US $million) (April 2000 to September 2016)

S.No	Name of the Country	Amount of Foreign Direct Investment Inflows		%age with Inflows
1		(In Rs crore)	(In US$ million)	
2	Mauritius	519,499.57	101,759.68	32.81
3	Singapore	287,948.94	50,559.91	16.3
4	United Kingdom	122,028.31	24,072.30	7.76
5	Japan	129,416.11	23,760.47	7.66
6	U.S.A	104,193.13	19,380.43	6.25
7	Netherlands	105,327.96	18,929.16	6.1
8	Germany	48,806.50	9,217.02	2.97
9	Cyprus	45,227.13	8,933.35	2.88
10	France	27,749.56	5,294.36	1.71
11	UAE	24,023.67	4,384.82	1.41

Source: Department of Industrial Policy and Promotion, Govt. of India

From the above table it is observed that Mauritius has been India's delight making maximum investment of US $ 101759.68 million followed by Singapore and U.K. with US $ 50559.91 and 24072.30 million respectively.

FIG. 4: DIAGRAMMATIC REPRESENTATION OF TABLE 4- COUNTRY WISE FDI INFLOW (in US $million) (April 2000 to September 2016)



OBJECTIVE 3

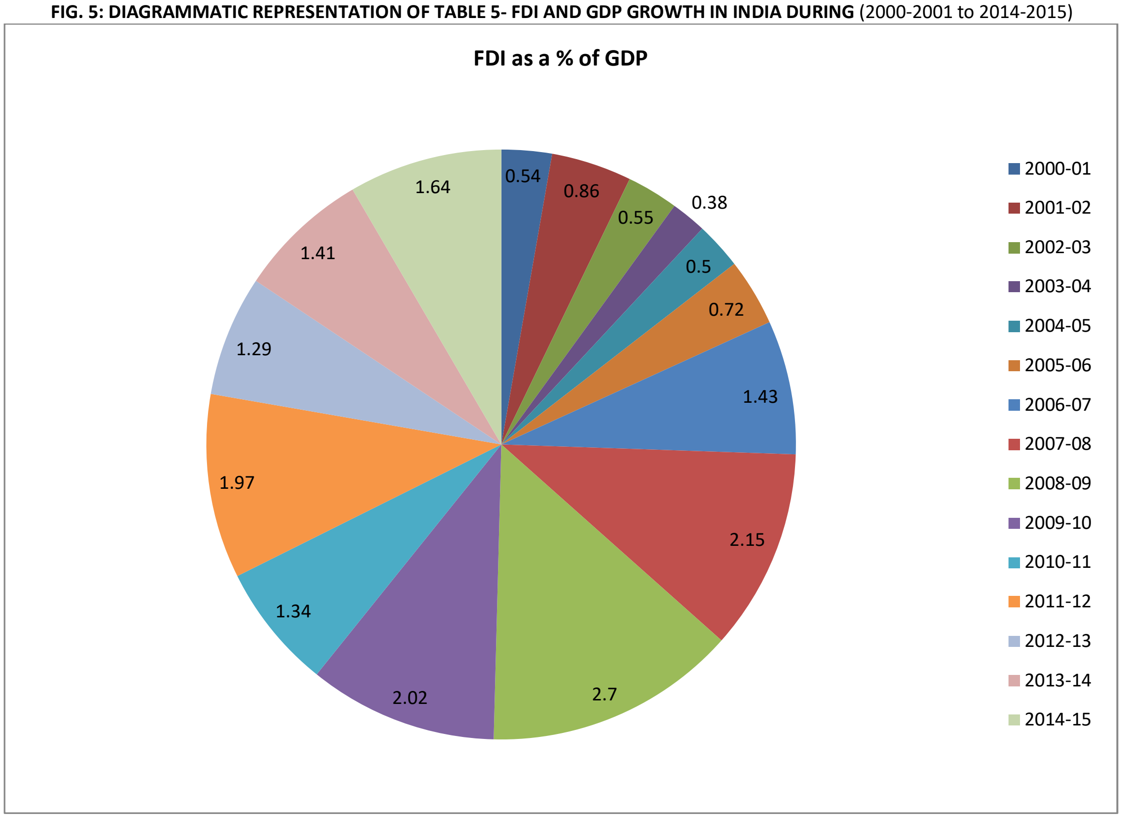
TABLE 5: FDI AND GDP GROWTH IN INDIA DURING (2000-2001 to 2014-2015)

Years	FDI Inflow (Rs. Crores)	FDI Inflow (US Million $)	Growth rate of FDI Inflow	GDP at current prices	Growth rate of GDP	FDI as a % of GDP
	Equity Capital Components Only		(In terms of $)	(In Crores)	(In terms of Rs)	
2000-01	10733	2463	-	2,000,743	-	0.54
2001-02	18,654	4065	+65	2,175,260	8.72	0.86
2002-03	12,871	2705	-33	2,343,864	7.75	0.55
2003-04	10,064	2188	-19	2,625,819	12.03	0.38
2004-05	14,653	3219	+47	2,971,464	13.16	0.50
2005-06	24,584	5540	+72	3,390,503	14.10	0.72
2006-07	56,390	12,492	+125	3,953,276	16.60	1.43
2007-08	98,642	24,575	+97	4,582,086	15.91	2.15
2008-09	1,42,829	31,396	+28	5,303,567	15.75	2.70
2009-10	1,23,120	25,834	-18	6,108,903	15.18	2.02
2010-11	97,320	21,383	-17	7,248,860	18.66	1.34
2011-12	1,65,146	35,121	+64	8,391,691	15.77	1.97
2012-13	1,21,907	22,423	-36	9,388,876	11.88	1.29
2013-14	1,47,518	24,299	+8	10,472,807	11.54	1.41
2014-15	1,89,107	30,931	+27	11,550,240	10.28	1.64

Source: Website of "Department of Industrial Policy and Promotions, Ministry of Commerce & Industry, Govt. Of India"

From the data shown in the table we can verdict that FDI has been increasing with increasing rate except in 2 or 3 years when it had decreased. If we talk comparatively between FDI & GDP, we can say that since 2000-01 to the 2014-15 the impact of FDI on GDP has been vigorous except same in those years when the FDI was down.

FIG. 5: DIAGRAMMATIC REPRESENTATION OF TABLE 5- FDI AND GDP GROWTH IN INDIA DURING (2000-2001 to 2014-2015)



OBJECTIVE 4

Suggestions to attract more FDI in India

1) The "Make in India" campaign is aimed to convert India into a manufacturing hub by improving the ease of doing business.
2) Implementation of GST
3) Fixed Labour Laws
4) Geographical disparities of FDI should be removed
5) Promoting Greenfield projects
6) Developing proper debt market
7) Education sector should be open to FDI
8) Strengthening R&D in the country.

7. CONCLUSION

From the above discussion it is evident that India has been a favourite destination for direct investment ever since the reforms were being initiated. India's Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been more encouraging with the launching of the 'Make in India' campaign and with the introduction of GST bill, more FDI is expected to flow in. Moreover, it has been observed that there has been a direct relation between FDI and GDP rate in the country as FDI has made a tremendous and positive impact on the growth rate of the economy of India. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy. FDI off course might be one of the important sources of financing the economic development. However, one should not forget that FDI alone is not a solution for poverty eradication, unemployment and other economic ills. India needs a massive investment to achieve the goals of Vision 2020. Policy makers need to ensure transparency and consistency in policy making along with comprehensive long term development strategy.

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