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India – Destination for the Global Market In FDI Perspective

Kamaladevi B

Abstract—**Foreign Direct Investment (FDI) is a superb conduit for the transfer of technology and know-how to developing countries. To put in simple words, FDI refers to capital inflows from abroad that are invested in or to enhance the production capacity of the economy. This message has not been lost on India's policy makers. They have though until the decade of the nineties attempted to regulate and control its spheres of activity and the contractual forms of foreign enterprise participation in the economy. It is the policy of the Government of India to attract and promote productive from non-residents in activities which significantly contribute to industrialization and socio-economic development. FDI supplements the domestic capital and technology. This paper firstly speaks about the FDI culture in India, secondly, reviews economic reforms in India and global response to India's reforms, the next level discusses the policy issues that would address India's relative lack of success in attracting FDI and the key recommendations *towards* attracting diasporic FDI is presented. The last part reveals the 'Expanding Opportunities for Global Retailers' with reference to the retail sector.**

*Index Terms—E***conomic reforms, equity inflows, FDI, FDI culture, FDI requirements, global investors, global retailers.**

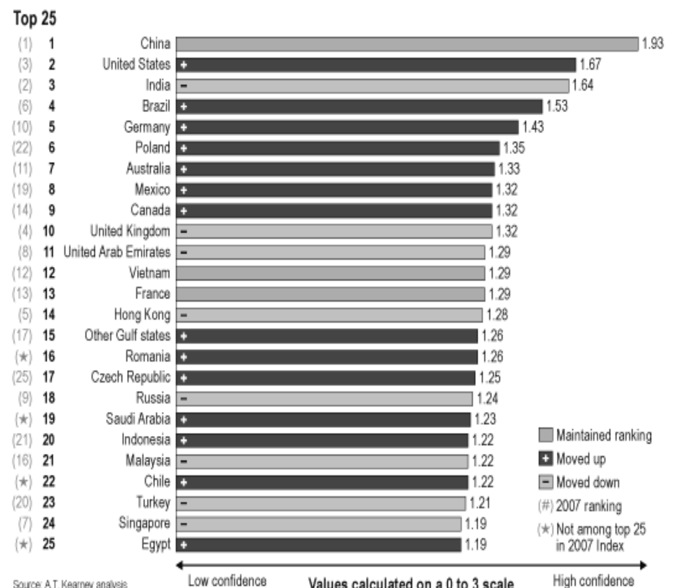
I. Introduction

'Investment' is usually understood as financial contribution to the equity capital of an enterprise or purchase of shares in the enterprise. 'Foreign investment' is investment in an enterprise by a Non-Resident irrespective of whether this involves new equity capital or re-investment of earnings. Foreign investment is of two kinds – (i) Foreign Direct Investment and (ii) Foreign Portfolio Investment.

'FDI' means investment by non-resident entity/person resident outside India in the capital of the Indian company under Schedule 1 of FEM (Transfer or Issue of Security by a Person Resident Outside India) Regulations 2000. International Monetary Fund (IMF) and Organization for Economic Cooperation and Development (OECD) define FDI similarly as a category of cross border investment

made by a resident in one economy (the direct investor) with the objective of establishing a 'lasting interest' in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. The motivation of the direct investor is a strategic long term relationship with the direct investment enterprise to ensure the significant degree of influence by the direct investor in the management of the direct investment enterprise. Direct investment allows the direct investor to gain access to the direct investment enterprise which it might otherwise be unable to do. The objectives of direct investment are different from those of portfolio investment whereby investors do not generally expect to influence the management of the enterprise.

FDI flows will remain disappointing through 2011, according to the 2010 A.T. Kearney Foreign Direct Investment Confidence Index, a regular assessment of senior executive sentiment at the world's largest companies. The Index also found executives are wary of making investments in the current economic climate and revealed that they expect the economic turnaround to happen no earlier than 2011. Half of the companies surveyed also report that they are postponing investments as a result of market uncertainty and difficulties in obtaining credit. China remains the top-ranked destination by foreign investors, a title it has held since 2002. The United States retakes second place from India, which had surpassed it in 2005. India, Brazil and Germany complete the top five favored investment destinations.



Source: A T Kearney analysis 2010 - Foreign Direct Investment Confidence Index
Chart No.1.1 2010 FDI Confidence Index

Overall, developed economies rose in the Index as investors looked for safety. The most striking exception is the United Kingdom, whose reliance on financial services left it exposed in the current crisis. At the same time, the placement of China, India and Brazil in the top five shows a strong vote of confidence for the strength of these economies. Investors also expressed the most optimism about the future outlook for China, India and Brazil.

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Kamaladevi B, Research Scholar, Dravidian University, Kuppam, Andhra Pradesh, India (e-mail: kamaladevimba@gmail.com).

II. Review of Literature

Is India capable of attracting much larger volumes of FDI than it does at present? Should India throw all doors wide open to FDI as advocated by the Harvard economists? Is China's experience a role model for India? The literature on FDI has some light on these issues.

Why do firms go abroad? Why do they choose to invest in specific locations? The origins of the theoretical literature on determinants of FDI are to be found in Stephen Hymer's doctoral dissertation (1978). His thesis briefly put is that firms go abroad to exploit the rents inherent in the monopoly over advantages they possess and FDI is their preferred mode of operations. The advantages firms possess include patented technology, team specific managerial skills, marketing skills and brand names. Hymer's insights form the basis for other explanations such as the transactions costs and internalization theories (Buckley and Casson, 1991), most of which in essence argue that firms internalize operations, forge backward and forward linkages in order to by-pass the market with all its imperfections. Dunning (1973) neatly synthesizes these and other explanations in the well-known eclectic paradigm or the OLI explanation of FDI. For a firm to successfully invest abroad it must possess advantages which no other firm possess (O), the country it waits to invest in should offer location advantages (L), and it must be capable of internalizing operations (I). Internalization is synonymous with the ability of firms to exercise control over operations. And such control is essential for the exploitation of the advantages which firms possess and the location advantages which host countries offer.

Dunning's (1973, 1981) analysis proved influential and were pursued further by others (Agarwal 1980, Root and Ahmed (1979), Levis, 1979, Balasubramanyam and Salisu, 1991) Although the empirical literature continues to grow unabated both in size and econometric sophistication, its overall message is host countries with sizeable domestic markets, measured by GDP per capita and sustained growth of these markets, measured by growth rates of GDP, attract relatively large volumes of FDI. Resource endowments of host countries including natural resources and human resources are a factor of importance in the investment decision process of foreign firms. Infrastructure facilities including transportation and communication networks are an important determinant of FDI.

Srinivas Gumparthi, Dr.V.Manickavasagam and M.Ramesh's study says since 2000, the auto component industry has recorded an investment level of Rs 18 bn and has attracted US$ 530 mn in terms of foreign direct investment. Investments in the sector have been growing at 14% per year. The Investment Commission has set a target of attracting foreign investment worth US$ 5 bn for the next five years to increase India's share in the global auto components market from the present 0.4% to 3-4%. This is a sizeable target considering the meager amount of FDI currently coming into the industry. The changing perception of global auto makers is however fast altering this scenario.

How does India fare on these attributes? It does possess a large domestic market, it has achieved growth rates of around 5 to 6 percent per annum in recent years, its overall record on macroeconomic stability, save for the crisis years of the late eighties, is superior to that of most other developing countries. So it's too complex and cumbersome FDI regime in place until the nineties.

III. Research Objectives

The case for attracting large volumes of FDI into India requires an analysis of the determinants and impact of FDI in the Indian context. This is the purpose of this paper which is based on the vast literature on FDI in general and FDI in India in particular.

The main objective of the paper is

- Understand the FDI culture in India
- Review the economic reforms in India and global response to India's reforms
- Discussion on the policy issues that would address India's relative lack of success in attracting FDI
- Key Recommendations towards Attracting diasporic FDI
- Reveals the 'Expanding Opportunities for Global Retailers' with reference to the retail sector

IV. FDI Culture in India

Many economists in the country have now realized the advantages of FDI to India. While the achievements of the Indian government are to be lauded, a willingness to attract FDI has resulted in what could be termed an "FDI Industry". While researching the economic reforms on FDI, it was discovered that there exists a plethora of boards, committees, and agencies that have been constituted to ease the flow of FDI. A call to one agency about their mandate and scope usually results in the quintessential response to call someone else. Reports from FICCI and the Planning Commission place investor confidence and satisfaction at an all time high; citizens too deserve to be clued in on the government bodies are doing.

According to the current policy FDI can come into India in two ways. Firstly FDI up to 100% is allowed under the automatic route in all activities/sectors except a small list that require approval of the Government. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or RBI. The investors are required to notify the Regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors. All proposals for foreign investment requiring Government approval are considered by the Foreign Investment Promotion Board (FIPB). The FIPB also grants composite approvals involving foreign investment/foreign technical collaboration.

(a) Doing Business in India – World Bank

The World Bank conducts an annual study on "Doing Business in India". The latest report available is Doing Business 2008 and in this report, India is ranked a rather inglorious 120 out of 178 economies. The report is based on a "series of annual reports investigating the regulations that enhance business activity and those that constrain it. Doing Business presents quantitative indicators on business

regulations and the protection of property rights that can be compared across 178 economies from Afghanistan to Zimbabwe and over time. The report considers 10 indicators and they are fairly self-explanatory. These indicators are; starting a business, dealing with licenses, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

TABLE NO.4.1 DOING BUSINESS IN INDIA

		Rank
Easy of Doing Business		*120*
1	Starting a Business	111
2	Dealing with Licenses	134
3	Employing Workers	85
4	Registering Property	112
5	Getting Credit	36
6	Protecting Investors	33
7	Paying Taxes	165
8	Trading Across Borders	79
9	Enforcing Contracts	177
10	Closing a Business	137

Source: Doing Business: World Bank

India fairs "decently" in only two areas, viz. getting credit and protecting investors' categories. Perhaps the truly embarrassing rank is for the "enforcing contracts" category in which India is ranked a dismal 177 out of 178 countries.

According to the report, it takes 1420 days to enforce a contract and the cost to enforce that contract is almost two-fifths of the claim. This is a key concern for businesses.

TABLE NO. 4.2 FDI EQUITY INFLOWS (MONTH-WISE) DURING THE CALENDAR YEAR 2010

Calendar Year 2010 (Jan.-Dec.)		*Amount of FDI inflows**	
		(In ` Crore)	*(In US$ mn)*
1.	January 2010	9,386	**2,042**
2.	February 2010	7,955	**1,717**
3	March 2010	5,497	**1,209**
4.	April 2010	9,697	**2,179**
5.	May 2010	10,135	**2,213**
6.	June 2010	6,429	**1,380**
7.	July 2010	8,359	**1,785**
8.	August 2010	6,196	**1,330**
9.	September 2010	9,754	**2,118**
10	October 2010	6,185	**1,392**
11.	November 2010	7,328	**1,628**
Year 2010 (up to November 2010) #		**86,921**	**18,993**
Year 2009 (up to November 2009)		123,795	25,504
%age growth over last year		**(-) 30 %**	**(-) 26 %**

Source: RBI's Bulletin January 2011 dt. 12.01 .2011

Table 4.2 clearly shows the month wise FDI Equity inflows during the calendar year 2010. The % of FDI inflows come down by 30% comparing to 2009.

TABLE NO. 4.3 SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS (FINANCIAL YEARS)

AMOUNT ` IN CRORES (US$ IN MILLION)

Amount ` in crores (US$ in million) Ranks	*Country*	*2008-09 (April-March)*	*2009-10 (April-March)*	*2010-11 (April-Nov.)*	*Cumulative Inflows (April '00 - Nov. '10)*	*%age to total Inflows (in terms of US $)*
1.	MAURITIUS	50,899 (11,229)	49,633 (10,376)	23,576 (5,158)	234,482 (52,398)	42 %
2.	SINGAPORE	15,727 (3,454)	11,295 (2,379)	6,198 (1,367)	51,344 (11,557)	9 %
3.	U.S.A.	8,002 (1,802)	9,230 (1,943)	4,247 (926)	41,436 (9,204)	7 %
4.	U.K.	3,840 (864)	3,094 (657)	1,765 (385)	27,764 (6,269)	5 %
5.	NETHERLANDS	3,922 (883)	4,283 (899)	3,643 (802)	23,769 (5,289)	4 %
6.	JAPAN	1,889 (405)	5,670 (1,183)	4,141 (917)	21,036 (4,631)	4 %
7.	CYPRUS	5,983 (1,287)	7,728 (1,627)	2,746 (598)	20,523 (4,498)	4 %
8.	GERMANY	2,750 (629)	2,980 (626)	473 (104)	12,941 (2,903)	2 %
9	FRANCE	2,098 (467)	1,437 (303)	1,569 (340)	8,488 (1,870)	2 %
10.	U.A.E.	1,133 (257)	3,017 (629)	1,289 (278)	8,312 (1,828)	1 %
TOTAL FDI INFLOWS *		123,025 (27,331)	123,120 (25,834)	64,083 (14,025)	556,819 (124,436)	-

Source: RBI's Bulletin January 2011 dt. 12.01 .2011

TABLE 4.3 SPEAKS ABOUT THE SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS, IN WHICH MAURITIUS HOLD THE HIGHEST TABLE NO.4.4 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

Amount ` in crores (US$ in million) Ranks	*Sector*	*2008-09 (April-March)*	*2009-10 (April-March)*	*2010-11 (April-Nov.)*	*Cumulative Inflows (April '00 - Nov. '10)*	*% age to total Inflows (In terms of US$)*
1.	SERVICES SECTOR (financial & non-financial)	28,516 (6,138)	20,776 (4,353)	11,885 (2,596)	117,114 (26,197)	21 %
2.	COMPUTER SOFTWARE & HARDWARE	7,329 (1,677)	4,351 (919)	2,617 (574)	46,464 (10,446)	8 %

3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	11,727 (2,558)	12,338 (2,554)	4,962 (1,093)	45,668 (10,023)	8 %
4.	HOUSING & REAL ESTATE	12,621 (2,801)	13,586 (2,844)	4,569 (999)	41,938 (9,356)	8 %
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	8,792 (2,028)	13,516 (2,862)	3,762 (834)	39,455 (8,887)	7 %
6.	POWER	4,382 (985)	6,908 (1,437)	4,491 (984)	25,411 (5,611)	5 %
7.	AUTOMOBILE INDUSTRY	5,212 (1,152)	5,754 (1,208)	2,399 (533)	23,221 (5,129)	4 %
8.	METALLURGICAL INDUSTRIES	4,157 (961)	1,935 (407)	4,402 (960)	17,842 (4,090)	3 %
9.	PETROLEUM & NATURAL GAS	1,931 (412)	1,328 (272)	2,421 (529)	13,925 (3,195)	3 %
10.	CHEMICALS (other than fertilizers)	3,427 (749)	1,707 (362)	1,238 (271)	12,513 (2,767)	2 %

Source: RBI's Bulletin January 2011 dt. 12.01 .2011

Table 4.4 lists the sectors attracting highest FDI equity inflows, in which service sector holds the highest of 21% and the list goes on.

V. Economic Reforms in India

Major economic reforms in India have been associated with crises. For example, after nearly two decades of industry-oriented planning, India accorded due importance to the agricultural sector in the late 1960s, in response to massive food shortages. The consequence of the policy shift was the Green Revolution in the early 1970s. The balance of payments crisis of the early 1980s, together with the stagnation that had become known as the "Hindu" rate of growth, precipitated the "new" economic policy of 1984-85, in which lay the genesis for the economic reforms of the 1990s. The reforms process in the 1980s was aimed mostly at opening up the economy to import competition, and at streamlining the process of tax administration.

The much discussed economic reforms of the 1990s, the first sustained effort at restructuring the economy, came in response to another balance of payments crisis in 1991, when India was left with two weeks' import cover. The government reacted by ushering in sweeping macroeconomic and structural changes. Direct tax rates were reduced for both individuals and corporate entities, with the expectation that reduced tax rates would lead to greater compliance. Tariff rates too were reduced, and the peak tariff rate came down from 350 percent in 1990-91 to 35 percent in 2000-01. The structure of the other indirect taxes was rationalized, and a process was put in place to enable the introduction of value added tax in the foreseeable future.

The government also made is easier for MNCs to invest in India. Today, India welcomes foreign investment in virtually all sectors except defence, railway transport and atomic energy. In sectors like road and port infrastructure, mining of gold and minerals, and pharmaceuticals, MNCs can own up to 100 percent of their Indian affiliates without government approval. In certain other lines of business like generation of power and development of integrated townships, 100 percent foreign ownership is possible with government approval. In activities like exploration for petroleum reserves, development of marketing infrastructure for petroleum products, and exploration and mining of coal, MNCs are allowed majority stake in the affiliates, usually varying between 51 percent and 74 percent. In most cases, however, their stakes in SOEs are restricted to 26 percent. Finally, in sectors like media and insurance, MNCs are restricted to minority stake, and are expected to obtain government approval prior to initiation of business.

All is not well with the business environment in India, however. Aside from continuing bureaucratization of many processes affecting business, the reforms process in India has three weak links. First, the policy of protecting small firms in some sectors has not completely been eliminated, thereby preventing entry of larger and more solvent firms, with greater economies of scale, to these sectors. This has had adverse impact on the competitiveness of firms in these sectors. Second, privatization in India has largely been a tame affair, despite some major privatization deals involving companies like the aluminum giant BALCO, the (former) telecom monopoly VSNL and the country's flagship (automobile) product Maruti Suzuki. Successive governments have failed to meet privatization targets and privatization of large and inefficient firms like Indian Airlines and Air India have repeatedly been postponed. Third, the labour code remains largely unchanged, and closure of bankrupt firms remains a difficult and tedious process.

(a) Global Response to India's Reforms

How has the rest of the world reacted to the width and depth of the Indian reforms? As measured by the quantum of FDI inflow, global response has been, by and large, positive. The annual flow of FDI rose from a paltry USD 0.1 billion in 1991 to USD 4.28 billion in 2001. FDI in 2001 accounted for 1 percent of GDP and 4.3 percent of domestic investment, the corresponding figures for 1991 being 0.07 and 0.12 respectively. However, the aggregate stock of FDI received by India during the 1990s stands at a low USD 18 billion, less than half of China's annual flow of FDI. From the average policymaker's perspective, more worrisome is the fact that an exponential growth in FDI inflow is not

expected in the near future, despite the elimination of a large number of barriers to FDI during the last 10 years.

VI. Discussion on the Policy Issues That Would Address INDIA'S Relative Lack of Success in Attracting FDI

A. Dynamics of FDI in India and China

The strength of the Chinese Diaspora in managing transnational export businesses based on low cost, small scale manufacturing is further strengthened through a very strong network of ethnic Chinese businesses across the world. This network helps the diasporic entrepreneurial community to reduce the transaction cost of managing trade across borders even without the kind of capital and marketing networks of their larger MNC competitors. As Kao points out, 39% of business relations of Chinese firms in SE Asia were with other Chinese firms.

The Indian diaspora lacks such business networks, which is not surprising, given that a very large proportion of Indian diaspora are not directly engaged in manufacturing, but are either professionals or engaged in services oriented businesses. However, the Indian diaspora has been successful in certain niche export-oriented global trading networks, a good example being the diamond cutting and retailing network managed by Indian entrepreneurs based in South Africa, Surat (in Gujarat), Amsterdam and New York.

A good example that supports this argument of FDI dynamics influenced by global market opportunities coupled with diasporic expertise and networks is the IT and ITES sector in India. India's professional IT and management oriented diaspora realized the cost arbitration offered by off shoring IT and ITES work to India. Given the diasporic expertise in this sector and the strong linkages amongst the diasporic community in the Silicon Valley, it did not take long before several startups took place in Bangalore and Hyderabad followed by rest of India.

Just like the Chinese diaspora's global networks helped small entrepreneurs to tap the global market successfully, the Indian diasporic network in IT and ITES helped small Indian start-ups (with seed capital of less 3-4 million USD) succeed globally. The transaction costs of exporting services where relatively low in India compared to manufacturing, it did not have to depend on India's poor quality of roads, logistics shipping infrastructure. Proactive policies in the IT sector initiated in the mid 1980's also helped. Thus, given the right conditions, the Indian diaspora will be second to none in seeking economic opportunities in their countries of origin and contribute to its economic growth.

B. FDI Requirement

The requirement for FDI arises out of three basic rationale; first, to meet the gap between required investments to funnel economic growth and national savings, second, to get strategic technology transfer and managerial expertise, and third, to add to the competitive edge for exports given the international linkages (as well as technology and management resource transfer mentioned earlier) arising out of FDI.

TABLE NO.6.1 FINANCIAL YEAR-WISE FDI INFLOWS DATA AS PER INTERNATIONAL BEST PRACTICES

(Amount US$ million)

S. No.	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional Investors Fund (net)
		Equity		Re-invested earnings +	Other capital +	FDI FLOWS INTO INDIA		
		RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI Flows	%age growth over previous year (in US$ terms)	
FINANCIAL YEARS 2000-2011								
1	**2000-01**	2,339	61	1,350	279	**4,029**	-	**1,847**
2	**2001-02**	3,904	191	1,645	390	**6,130**	**(+) 52 %**	**1,505**
3	**2002-03**	2,574	190	1,833	438	**5,035**	**(-) 18 %**	**377**
4	**2003-04**	2,197	1,460	1,460	633	**4,322**	**(-) 14 %**	**10,918**
5	**2004-05**	3,250	1,904	1,904	369	**6,051**	**(+) 40 %**	**8,686**
6	**2005-06**	5,540	2,760	2,760	226	**8,961**	**(+) 48 %**	**9,926**
7	**2006-07**	15,585	5,828	5,828	517	**22,826**	**(+) 146 %**	**3,225**
8	**2007-08**	24,573	7,679	7,679	292	**34,835**	**(+) 53 %**	**20,328**
9	**2008-09**	27,329	9,030	9,030	777	**37,838**	**(+) 09 %**	**(-) 15,017**
10	**2009-10 (P) (+)(++)**	25,609	8,669	8,669	1,945	**37,763**	**(-) 0.2 %**	**29,048**
11	**(up to November 2010)**	**14,025**	**4,237**	**4,237**	**303**	**19,002**	**-**	**31,007**
CUMULATIVE TOTAL (from April 2000 to November 2010)		**126,925**	**7,303**	**46,395**	**6,169**	**186,792**	**-**	**101,850**

Source: RBI's Bulletin January 2011 dt. 12.01 .2011

Table 6.1 shows FDI inflows as per international best practices in which investments by Foreign Institutional

Investors are growing positive in 2010.

VII. Key Recommendations Towards Attracting Diasporic FDI

A. Allow 100 % FDI in retail and Small & Medium Enterprises (SME)

FDI in SME's is limited to only 24%, with any foreign investment above 24% being subject to industrial license with a mandatory export obligation of 50% of annual production and the manufacturer losing small scale status. Such restrictions are major impediments to FDI, and specifically diasporic FDI. A large number of Indian entrepreneurs in the US, UK and other parts of the developed world are very successful retailers. Their expertise and capital are being prevented from being put to productive use in the Indian economy. A viable retail chain network often creates backward linkages with extremely positive effects on growth of efficient supply chain networks. Such networks in turn reduce cost to market and induce scale economies in several products that then become more competitive in the global market.

B. Develop a Strategic Vision for FDI with focus on exports, technology, geographic specialization, and employment creation

In comparison with the Chinese approach, the Indian FDI regime suffers because it is passive (open to all, without any targeting) and not strategic as in China. India's FDI policy should have prioritized investment in labor intensive manufacturing, for acquisition of technology and for the establishment of international trading channels to facilitate labour-intensive exports. The FDI policy environment also lacks a sense of sectoral and geographic specialization. Certain regions of India, though backward on the whole, possess competitive natural and human resources in certain specific sectors. The FDI requirement and its international marketing network for that sector need to be identified and global leaders in that sector actively wooed with this geographic-sectoral specialization in mind.

C. Reduction in Transaction Costs, Improvement of Infrastructure and Enabling Trade Facilitation

More than any FDI policy, it is the level of business comfort and profitability of operation that attract FDI. India had a more liberal trade regime than either China or Malaysia but was not even close to attracting the kind of FDI that these economies attract. Transaction costs of operating a business in India remain prohibitive and infrastructure and logistical support poor. Transaction costs arising out of poor infrastructure, logistics and administration affect SME's and other smaller players the most. In order to attract FDI, India first must become a competitive production base where people would want to invest. Implementation of Trade Facilitation reforms will lead to stronger trade linkages with ASEAN and other emerging markets in Asia, an imperative if India is to become a global production hub (prospect of which will attract FDI).

D. Similar Treatment to International and Domestic Entrepreneurship

Capital and associated entrepreneurship is an important factor of production. The quality of entrepreneurship is the key to allocative and productive efficiency in an economy. To give preferential treatment to FDI over domestic capital and the associated entrepreneurial resources that go with it is to restrict this factor of production from contributing efficiently in the economy. The success of the Indian entrepreneur is now recognized globally, especially by global financial institutions that are the best arbiters of global firm level efficiency. India should have a holistic investment policy that creates an enabling mechanism for both India's domestic as well as international investors and entrepreneurs, not single out preferential treatment for any one set of investors.

E. Decentralization of Administration Process

A major reason behind China's relative success in attracting FDI has been the relatively higher level of decentralization of the FDI policy and administration process. According to Kundra, the Indian FDI policy process still remains highly centralized in Delhi and that is a major impediment in effective competition between states and efficacy in administration of FDI initiatives in many parts of India. While things have improved in terms of decentralization since Kundra's analysis in 2000, the entire FDI policy environment still remains in centered around Delhi and not the state capitals where they should be given the diversity of India's economic geography.

F. Drastically Reduce Overly Bureaucratic FDI facilities

India's bureaucratic set-up maintains several investment and trade promotion bodies that work at cross purposes. There are too many 'single' windows and investment development commissions working at the same time. There is also a lack of policy consistency. For example, the Development India Initiative to showcase India as a manufacturing hub was discontinued without the initiative being allowed to reach a logical conclusion. There needs to be a real 'single window' that draws from the sectoral expertise of the different ministries, and more importantly the private sector.

G. Private Public Partnership with Private Sector taking the lead

Foreign investors are lured not by the proverbial persuasion of the bureaucracy or the politicians as they are by the broad policy framework, stability of the government and consistency in policy. Thus, having several government dominated investment commissions might not have any positive impact on FDI. Foreign investors are unlikely to be interested in holding talks with bureaucrats, ex-ministers or experts, however eminently qualified they might be. Foreign investors are more likely to respond to actual business plans and proposals from their business counterparts in India.

H. Networking Overseas Indian Professionals placed in key Decision making positions

A large part of the FDI in the IT and ITES sector was facilitated by Indians placed in key decision making

position in Silicon Valley based giant companies. It is also important to tap diasporic human resource to make Indian enterprise more globally competitive. In firm level perspective this would involve engaging with diasporic managerial, technical and business talent worldwide to work for Indian enterprise. In a more macro-level perspective this would involve tapping diasporic human and financial capita for the development of India's domestic human resources and social sector. India is very likely to face an acute shortage of skilled human resources as the economy grows. The Indian higher education system is in a poor state (with some exceptions like the IIT's and IIM's) and there is a great need for investment in this sphere.

I. Creative Joint Ventures (JV) and Partnership to tap diaspora entrepreneurship

Continuing on the theme of JV's, new and creative mechanisms need to be found to tap diaspora entrepreneurship for India. Joint Ventures and partnerships with Indian stakeholders provide the diaspora a firmer footing and surer way to deal with local risks. A few examples of the many ways by which diaspora entrepreneurship can invest and profit from the Indian market is given below:

(1) Marketing Joint Venture in consumer goods, textiles and clothing.

(2) Production Joint-Venture in venture capital funds can be used to augment existing production facilities, upgradation, or for new ventures.

(3) Diaspora-Small Entrepreneur Group Joint Ventures helps consolidation and corporatization by selling the investment opportunity.

J. Policies to Convert Remittances into Investment and Create Venture Capital

India is the highest recipient of remittances in the world. India received just under 25 billion USD worth of remittances in 2005, more than 3 times the amount of FDI for the same year (6.6 billion USD). Indians also invest heavily in India's bonds and funds market. The outstanding NRI deposits to be 32 billion USD in 2005. If such remittances and investable funds are properly harnessed, it can generate vast amounts of capital to finance India's industrial expansion just like FDI. The more substantive impact of remittances is likely to be felt through the easing of credit constraints in relatively poorer households that enable incremental investment in the more productive use of existing economic resources.

For example, remittances might allow credit constrained households to invest in better technology for agriculture or expand informal retail businesses. Return migrants can use their savings to invest in SME upon their return to their country of origin. Such entrepreneurial activity can be better organized if there was a policy environment that helped sustain it.

VIII. Expanding Opportunities for Global Retailers' With Reference to the Retail Sector

- Carrefour, the world's second-largest retailer, has opened its first cash-and-carry store in India in New Delhi.
- Germany-based wholesale company Metro Cash & Carry (MCC) opened its second wholesale centre at Uppal in Hyderabad, taking to its number to six in the country.
- Electronic retail chain major, Next Retail India, plans to open 400 showrooms across the country during January-March 2011 increasing the total number of retail stores to 1,000 by the end of the fiscal year 2010-11.
- Jewellery retail store chain Tanishq plans to open 15 new retail stores in various parts of the country in the 2011-12 fiscal.
- Bharti Retail, owner of Easy Day store—supermarkets and hyper marts—plans to invest about US$ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country by then, according to a company spokesperson.

100 per cent FDI is permitted under the automatic route for trading companies for cash & carry trading wholesale trading/ wholesale trading. FDI up to 51 per cent under the Government route is allowed in retail trade of Single Brand products, according to the Consolidated FDI Policy document. The Consumer Affairs Ministry has given the green signal to allow 49 per cent FDI in multi-brand retail. It has written a letter to this effect to the Commerce Ministry. "Multi-brand retail should be permitted with a cap of 49 per cent… A significant chunk of investments should be spent on back-end infrastructure, besides logistics and agro-processing," Thus, major international brands are in the process of expanding their retail presence.

IX. Conclusion

India has emerged as the second most attractive investment destination globally and also promises some strong future growth prospects. Some key advantages India enjoys are: a 10- fold increase in the Indian middle class and a three-fold growth in household income, leading to an increase in consumer spending to around €1 trillion by 2025. This growth will further boost opportunities for the manufacturing industry, which is forecast to be worth €125 billion in the next five years. Further, the infrastructure sector will be the focus area for the Indian government with a targeted investment of approximately €14 billion over the next two years. With French companies expressing interest to invest close to € 10 billion during 2007-12 in various sectors, India is becoming a future growth hub.

Japan PM promises to link rupee with yen to boost FDI. This would allow Japanese companies to invest directly in India, rather than the current norm of coming through Singapore and Mauritius. The Japanese FDI in India tripled to $5.4 billion (nearly Rs 25,160 crore) in 2008 from $1.78 billion (nearly Rs 8,290 crore) in 2007, overtaking the Japanese FDI in China. The key reason for increasing the momentum of Japanese investments in India is the growth potential of the local market. Japanese automobile and general machinery companies were the most interested in India as an investment destination.

'Invest in India and India – destination for the global market', is the vehicle to guide investments into the country

as overseas investors had seen that even in difficult times, during the post-meltdown period, the Indian economy had performed encouragingly.

So,

Invest in India….

Let the FDI inflows into India…

Let India leads the global market…

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Kamaladevi Baskaran was born in India and qualified in B.Com, DTE, DECT, MBA, PGDPMIR, PGDRM, M.Phil, from various universities in India. She has many international journal publications and few book publications in the field of retail marketing. She has presented papers and won national & state awards for best papers. Her interest is to contribute the innovative concepts to the management world.