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FDI and Economic Performance of Firms in India

Keshab Bhattarai[1] and Vipin Negi[2]

FDI contributed positively to sales, profit, employment and wages of firms in India from 2004 to 2018. Foreign capital is complementing domestic capital well embodying technology and innovations required for expansion of domestic firms in it. Foreign promoters have played quite significant economic roles among firms across production sectors in manufacturing industry in India. Besides sales, total expenses, managerial remunerations and corporation taxes, involvement of foreign promoters are statistically significant determinants of profits, employment and wages among firms across all seven sectors of the manufacturing industry is clear from analysis of the Prowess database for years 2004, 2008, 2012 and 2014. These effects were even stronger in each of Modi–I years between 2015-2019 that followed the Make in India initiative in 2014. Reforms including the outright 100 percent ownership provision in the automatic route in most industrial sectors have produced good outcomes that have not only raised the volume of FDI per-capita from around 16 dollars in 2000 to 285 dollars in 2018 but also raised the global ranking of India to 63 out of 190 economies in 2019 on the ease of doing business, putting India 79 places above now than in 2014. Based on theoretical and empirical analysis it can be concluded that good sentiments of FDI in India in Modi-II years started in 2019 will prevent diminishing returns on capital and contribute towards sustainable growth in coming years.

Key words: FDI, Indian firms, sales, wage and Profit

JEL Classification: F21, F23, F14, J3, O53

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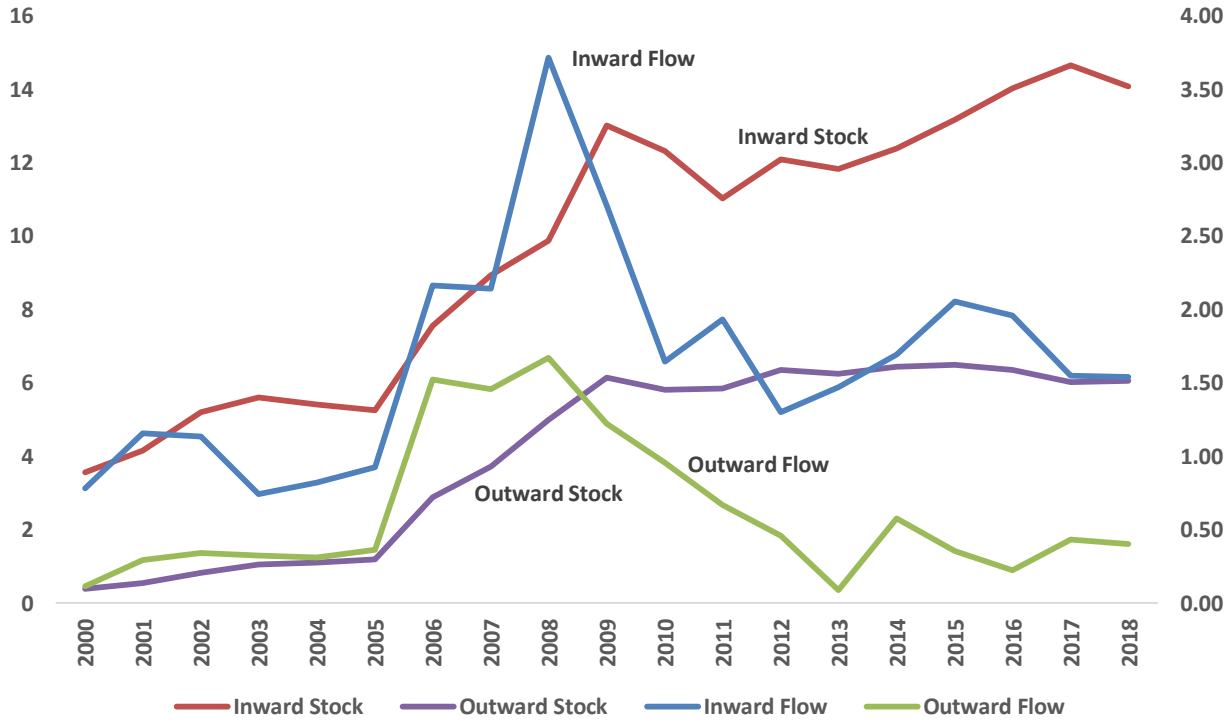
1. Introduction

Economic globalization has led to major changes in the world economy over last few decades; different parts of the world have become more integrated. The Foreign Direct Investment (FDI) to developing countries from multinational enterprises, mostly located in advanced economies, has been a key element for this. FDI[i] policy in India, particularly after the initiation of the "Make in India" policy in 2014 is reckoned to be the most liberal one among emerging economies. It permits FDI up to 100 percent from foreign/NRI investors without prior approval in almost every sector including services under an automatic route. FDI does not require any prior approval either from the government or the RBI under automatic route. Claims in the literature such as Huang and Tang (2012) that India is less open, rigid and lagging behind in terms of FDI are not accurate in the current context. Similarly FDI also has raised prospects of exports in supporting export-led growth strategy of India (Lancheros, 2016).

Figure 1: Inward and outward FDI flows and stocks as a percent of GDP in India (stocks on left scale and flows in the right scale)



It is pertinent to look at some facts relating to FDI to motivate the formal analysis. As shown in Figure 1 (and Table 11 in the appendix) based on UCTAD statistics, per capita FDI inflows (outflows) increased from $3.5 (0.5) in 2000 to $31.2 (8.2) in 2018; in FDI stocks per capita increased from $15.5 (1.6) in 2000 to $285.3 (122.2) in 2018. Similarly the share of FDI inflows as a percent of gross capital formation increased from 3.1 to 5.1 percent between 2000 and 2018. Stock of FDI inflows and outflows increased from 3.6 (0.38) to 14.1 (6.1) percent of GDP during the same period. As a result the India's share in the global FDI inflows (outflows) increased from 0.22 (0.02) percent in 2000 to 3.26 (1.1) percent in 2018. From these we can say that India is becoming more important in global inflows and outflows of FDI. According to the World Bank, India's ranking on ease of doing business has improved 79 places - to 63 in 2019 from 142 out of 190 countries in 2014 in five years of the Modi I regime. The government of India has committed to reach to 30th rank by improving qualities of enforcing contracts, registering property, starting a business, and paying taxes in Modi II years. (https://tradingeconomics.com/india/ease-of-doing-business).

India's strengths as an investment destination rest on strong fundamentals which include a large and growing market, world-class scientific, technical and managerial manpower, cost-effective and skilled labour, an abundance of natural resources, a large proportion of English-speaking population and a stable democratic political system. There is no doubt that there is renewed optimism on India as an emerging investment destination.

FDI provides various advantages from the perspective of the host firms. By FDI collaborations foreign firms bring foreign ownership as well as an advanced technology to make domestic firms more efficient and cost effective. FDI is one of the most significant channels for the dissemination of sector specific modern technologies. Whether specific advantages of multi-

national corporations (MNC), are realized by firms in specific industries depends on overall competitive environment for the host and foreign firms in India. How the presence of FDI operations impact on sales, profits and wages of Indian firms is not well known. Thus there is a gap in the literature on the impacts of FDI on activities and performance of firms in India. This study aims to fill in this gap in the literature.

We present a theoretical and empirical analysis and evaluate the role of FDI on growth in the economy by focusing on impacts of foreign capital and ownership on profits, sales, employment and wages of individual firms across various sectors from India's manufacturing industry. We find positive impacts of FDI from both theoretical and empirical analysis.

The rest of the paper is organized as follows. Section 2 reports on reforms in FDI policies in India in recent years. Section 3 reviews literature relating to impacts of FDI on economic performance of firms in India and abroad. Then section 4 contains a growth model where foreign capital with FDI complements domestic capital and prevents diminishing marginal productivity of capital in the economy sustaining a higher rate of growth of output and employment. Section 5 provides empirical evidences on the positive role of FDI on sales, wage, employment and profit of firms based on regression estimates using data for pre-Modi years. Then section 6 presents empirical impacts for Modi-I years up to 2018 focusing on impacts of FDI on sales, employment, wage and profit of firms in construction materials sector. We choose this sector as it is the most important driver of economic growth in India. For space reasons impacts in services and other sectors will be carried on in subsequent studies. Finally, section 7 ends with conclusions and recommendations.

2. FDI Policies in India

Foreign Direct Investment (FDI) for this study means a long term investment by multinational corporations in firms in India with ownership of 10 per cent or more of the ordinary shares or voting power in them. According to the Mayaram Committee Report, 'Foreign Investment of 10 per cent or more in a listed company will be treated as FDI in India. In addition an investor may be allowed to invest below 10 per cent and this still can be treated as FDI subject to the condition that the FDI stake is raised to 10 percent or beyond within one year from the date of the first purchase' (Ministry of Finance, Government of India (GOI), 2014). While foreign investment in an unlisted company irrespective of the threshold limit may be treated as FDI, it involves both initial and subsequent transactions.

India has opened up her doors for the foreign investment since 1990s with an aspiration of gaining its potential benefits and to fulfill gaps of domestic capital required for steady and higher rates of economic growth. The GOI recognized the key role of FDI in economic development not only as an addition to domestic capital but also as an important source of technology and the best of global management practices to India. It has put a liberal and transparent FDI policy in place to achieve this objective. In the last 25 years of liberalization period of economic policies in India, FDI has played an important role in accelerating domestic capital formation and in generating economic growth. As stated earlier, inflows of total FDI increased by 13 times from $ 3.6 billion in 2000 to $ 46.4 billion in 2016 (SIA Newsletter Vol. 23 No 21, January 2017, DIPP, Ministry of Commerce, GOI).

The 'Make in India' initiative was launched in the beginning of Modi-I period in 2014 by the GOI with an aim to promote India as an important investment destination and hub for manufacturing, design and innovations. The GOI has taken various measures like opening up

various sectors for the FDI, amending its FDI related policies and giving tax and other incentives and relaxing regulations and procedures to foreign owned companies to accelerate the space of investment and to bring the foreign capital in India. The FDI in the manufacturing sector is crucial for making India a hub of production for global markets.

There are two routes for FDI in India. First one is an Automatic Route in which neither the foreign investor nor the Indian company does require any approval from the Reserve Bank India (RBI) and the GOI for the investment in permitted sectors/activities. The second one is the Government Route in which foreign investor or the Indian company should obtain prior approval of the GOI through various institutions such as the Department of Economic Affairs (DEA) and Ministry of Finance or Department of Industrial Policy & Promotion (DIPP). The government recently removed need for prior approval in eleven sectors leaving the DIPP to handle their administration. FDI in banks needs approval by the Department of Financial Services.

According to a press notice of Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce and Industry, Government of India (GOI) on 18 September 2019, a hundred percent FDI, under the automatic route, has been permitted in Indian entities engaged in coal and lignite mining for captive consumption for power projects, iron and steel and cement units and for other related activities including associated processing infrastructure subject to the provisions of the Coal Mines (Special Provisions) Act, 2015 and the Mines and Minerals (Development and Regulation) Act, 1957 and other relevant laws on the subject matter. Similarly, new provisions in recent FDI Policy introduces a new entry of digital media that permits 26 percent FDI under the government approval route in entities that are engaged in uploading/streaming of news & current affairs through digital media. This amendment is expected to give a boost to domestic manufacturing. We put more details on GOI policy elements in the endnote[ii].

3. Review of FDI literature

The research on determinants and roles of FDI from the micro level perspective is limited, particularly in the developing Indian economy, due to the unavailability of adequate and reliable data. Most studies are done at macro level. For instance, Pradhan (2002) employs a production function analysis to analyze the effect of inward FDI on economic growth in India; he finds that FDI does not have significant positive impacts on growth. Agrawal (2005) confirms the findings of Pradhan (2002) in that FDI had little to do with economic growth in India. On the other hand, Chandana & Nunnenkamp (2008) use a panel co-integration method to explore the dynamic relationship between FDI and economic growth; they find that the influx of FDI contributes to economic growth for the Indian economy. Dash & Parida (2013) utilize a vector error-correction (VEC) model in examining the issue; they report in passing a beneficial effect of FDI on growth, after controlling for trade. Hu (2006) analyses various determinants that influence FDI inflows in India which include economic growth, domestic demand, currency stability, government policy and labour force availability against other countries that are attracting FDI inflows. Hussain (2012) highlights the vital economic determinants of FDI inflows in India. They also examine sector-wise trends in the Foreign Direct Investment (FDI) inflows into India. The study is conducted for 20 years from 1991 to 2009 limiting to the top 10 sectors of Indian economy. The analysis revealed that the FDI inflows over the decades were very unsteady and fluctuating in various sectors of the Indian economy. FDI inflows were found to be highly correlated with the economic factors taken into consideration. It is in India's interest to continue to boost foreign investment by liberalizing rules on equity caps, investment reviews and reforming heterogeneous provisions that have impeded India's ability to attract more foreign investment over the recent years. This study also focuses on determinants of FDI at sectoral level and lacks firm level analysis. Lai and Sarkar (2017) investigate the relationship between wage dispersion and output

of firms belonging to industry sectors with high foreign investment in India and Taiwan. They found that the current wage dispersion and gender disparity may have a stronger significant effect on the decreasing current output. The low paying firms in the industry sector with high foreign investment however would generate more output in the next year compared to high paying firms. In contrast to above studies, we provide micro-firm level perspectives on impact of FDI on output (sales), wages, profit and employment for eight sectors of manufacturing industry in India. No such study is found in the literature.

Considerable controversy remains regarding the impacts of FDI on economic growth in cross-country studies. For instance, applying mixed fixed and random (MFR) panel data estimator for 24 developing countries Nair-Reichert and Weinhold (2001) had found a causal positive but heterogeneous relationship between FDI and growth. In contrast using panel data from the World Bank for lower, middle and upper income countries, Lensink and Morrissey (2006) argue that evidence for a positive effect of FDI on growth was not robust as the volatility of FDI had a consistent negative impact on growth. Again in comparison to macro-determinants, the research on FDI's micro-determinants is scarce due mainly to unavailability of data. Among these, Ng and Tuan (2003) and Binh and Haughton (2002) use firm-level data to show how trade cost plays a negative role in inviting FDI from outside. Lin (2011) uses firm-level data based on the first national economic census to prove how labor quality measured by education level plays an important role in deciding the distribution of FDI but labor quality measured by working certificates loses its significance. Furthermore, firm ownership has specific advantages such as product differentiation and the size of the firm can also be an important micro-determinant. He finds that ownership advantages, irrespective of firm size and product differentiation, play important roles at micro level. Ng and Tuan (2003) use firm-level data to show that trade cost

plays a negative role in inviting FDI from outside after the WTO accession in China. Other studies on FDI growth relations for other developing countries including Tsai (1991) for Taiwan, Wang and Swain (1997) for China, Liu et.al. (2002) for China; Shan (2002) for China, Hansen (2005) for developing countries, Yao (2006) for China and Chang (2007) for China, have generally reported positive effects of FDI on economic growth. Ayanwale and Bamire (2004) observed that the expansion of private investment was the main impetus for economic growth in developing countries such as Nigeria.

FDI relates more deeply to capital structure, stock returns, ownership characteristics, size of firms and the value added in the economy. Kahle and Kuldeep (2005) observe that capital structure, including FDI, may be related to factor such as the debt-equity choice made by firms, size, profitability, growth, collateral value of assets, non-debt tax shields from operations, and uniqueness. Firms' ability to introduce new products may be hampered because of the need to clear excess inventory in the distribution channel (Singhal, 2005). Gurbuz and Aybars (2010) performed an empirical analysis on 205 non-financial companies listed on Irish stock exchange (ISE), covering the period from 2005–2007, to examine the effect of FDI on the firm performance in emerging economies. They concluded that minority foreign ownership (up to 50%) improves performance in terms of return on assets (ROA) but major foreign owned firms (over 50%) display worse performance than the minority foreign owned and domestic firms. Also economic value added (EVA) was a good predictor for abnormal returns in Turkey (Basar & Tosunoglu, 2006).

FDI have also been linked to labour market outcomes. Podrecca and Rossini (2015) analyze joint influence of migration inflows and outward foreign direct investment for 13 European Union countries. A wage curve is designed theoretically reflecting cross-border labor and capital

mobility, and estimated on panel data for 13 European countries over the period 1995–2013. The findings of this study show negative wage effects of both capital outflows and migration inflows. They also suggest that migration inflows lowers the unemployment rate. In addition, migration inflows tend to weaken the wage response to total unemployment and hence flattens the wage curve. We report positive effects FDI on wage and employment later in sections 5 and 6.

In theory Hymer (1976) and Caves (1982) provide some early microeconomic studies about the effects of FDI which are further refined in Batra and Ramachandran (1980) with a comparative static exercise within a general equilibrium framework to analyse the impacts of subsidy or taxes relating to FDI. Strategic models of FDI are found in the works of Calderon-Rossel (1985), Horstmann and Markusen (1987) and Markusen (1995). These microeconomic models focus on the profit maximising motivations and strategic interactions of multinationals engaged in FDI with the underlying downward sloping demand functions and firm specific cost functions that are differentiated across countries.

Licensing of copyrights or blueprints versus subsidiary based productions are based on microeconomic motives for minimizing the cost of production and maximizing profits. These motives determine the nature of inflows and outflows or joint ventures between MNCs and firms serving in domestic markets. MNCs move to a foreign country for a number of reasons: a) cost advantages in producing there rather than exporting commodities; b) ownership (O) of firm specific capital; c) location (L) based advantages of production; d) licensing abroad for reasons of natural resources or customer bases; e) internalisation (I) of benefits of technical knowhow by firms doing R & D. These OLI factors indicate why MNCs have cost advantages in going abroad because of ownership of firm specific factors such as R&D, scientific and technical workers, product novelty and complexity, and marketing expenditures when they have more intangible

assets such as management, engineering, marketing, financial services, patents and trademarks. Similarly, tariffs, quota, transportation cost, cheap production and customer base are also key location factors for FDI by a MNC. The degree of economies of scale and the structure of market determine the amount of inflows and outflows of FDI in the long run.

Our study empirically tests whether FDI inflows contribute to sales, profits, wages and employment in various sectors of manufacturing industry in twelve years up to 2019 in India. The objective of the MNCs investment is to enhance the share of profit but in this process these are likely to raise the share of income going to skilled workers causing a decline in aggregate share of labour income. MNCs are investing in locations of emerging markets such as India where they may add up more to their share of profit as compared to those in other less developing countries. It must be noted however that the unequal income gains by skilled and unskilled workers due to increased FDI could be the result of allocation of FDI to sectors with higher relative profitability.

4. Theoretical Model on Impacts of Foreign Capital and Economic Growth

For theory of growth with FDI, we use a dynamic optimization and production function approach to set up a model of determinants of profit, employment and wage across firms in India considering the long run nature of FDI and its consequences. Outputs of these firms depend not only on employment, capital and foreign capital and technology but also preferences of consumers. Consumer is the king in a market economy like India. With a standard CES lifetime utility function $U = \sum_{t=0}^{\infty} \frac{C^{1-\theta}}{1-\theta} e^{-\rho t}$ an a representative consumer solves a constrained dynamic optimization problem using the current value Hamiltonian while accepting the amount of FDI amidst constraints on domestic investment, FDI and resources as:

$$J = \frac{C^{1-\theta}}{1-\theta} e^{-\rho t} + v[I_K - \delta K] + \mu[I_F - \delta F] + \omega[A\,K^{\alpha} F^{1-\alpha} - C - I_K - I_F] \ldots\ldots\ldots\ldots \quad (1)$$

Here *C* represents consumption, *K* capital stock, *F* amount of FDI (foreign capital), I_K and I_F are domestic and foreign investments respectively, *A* is technology and *Y* is output. Then $\theta, \rho, \alpha, v, \mu, \delta, \omega$ are parameters of the model. Symbol θ measures relative rate of risk aversion in the inter-temporal preference of the representative consumer; ρ is the discount factor; α the productivity of capital; v, μ and ω are shadow prices on domestic capital, foreign capital and the resources of the economy (see the appendix B and Bhattarai (2016) for detailed derivation).

Essence of this model is that despite the diminishing rate of return on domestic and foreign capital individually, the complementarity between these two types of capital makes the marginal productivity of domestic capital [*MPK*] equal to $A\left(\frac{1-\alpha}{\alpha}\right)^{1-\alpha}$ which remains constant and does not diminish with stock of capital in the economy. In fact it increases with stock of technical knowledge (A). Also note that lower the share of capital going domestic capital (α) greater is the impact on economic growth [if α =0.1, the MPK =7.2A and if α =0.8 then MPK =0.76A]. Anyway given the value of α, adding domestic or foreign capital generates economic growth at a constant rate in the manner close to the AK endogenous growth as given by:

$$Y = A\,K^{\alpha} F^{1-\alpha} = AK\frac{F^{1-\alpha}}{K^{\alpha}} = A\,K\left(\frac{1-\alpha}{\alpha}\right)^{1-\alpha} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

Thus the growth rates of technology and capital directly correspond to the growth rates of output. This basic model can be extended by introducing a stochastic shock (*z*) in technology, *A*(z); by making technical progress a function of accumulation of foreign or human capital appropriate for multinational firms to operate and invest in the domestic economy, thereby letting them fully

realize their potential for increasing returns of scale. In steady state the growth rate of output relates to growth rate of technology and capital as follows:

$$g_y = \frac{\dot{Y}}{Y} = \frac{\dot{C}}{C} = \frac{\dot{K}}{K} = \frac{\dot{F}}{F} = \frac{\dot{v}}{V} = \frac{\dot{\mu}}{\mu} = g_a + \alpha g_k + (1 - \alpha) ln\left(\frac{1-\alpha}{\alpha}\right) \quad \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Our objective in this paper is to test whether this theoretical result is true in India, particularly in the context of 'Make in India' campaign of FDI promoted by the GOI in recent years. We do this first by regressing sales and employment on FDI in the next section and study welfare consequences estimation wages for workers and profit of firm owners. This is the theoretical connection between this model and the empirical analysis.

5. Empirical Methodology and Data Analysis

We apply a regression model in order to study coefficients of correlation and regression of sales, profits, employment and wages (Y_i) with or on independent X_i variables as:

$$Y_i = a_0 + a_1X_1 + a_2X_2 + a_3X_3 + \cdots + a_nX_n + e_i \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

Rising sales is an indicator of growth; more sales implies higher growth of that firm. Profit, employment and wages are performance indicators of impacts of FDI. Independent variables in sales regression include total outsource expensing, employment, managerial remunerations, corporate taxes, share of foreign promoters and domestic promoters. Our focus is on empirical evaluation of the impacts of FDI on sales, profit, employment and wage rates in India first from 2004 to 2016 and then up to 2019.

We take data from the Prowess database provided by the Center for Monitoring Indian Economy (CMIE; https://www.cmie.com/), first up to 2014 and then up to 2019 covering Modi-I years, for firms in seven sectors in manufacturing industry in India. As stated above firm level analysis is

preferred over aggregate industry level analysis, since the latter fails to account for firm-specific micro-level characteristics, which are real drivers of economic growth and benefitiaries of reforms under the "Make in India" initiative. Also, pseudo panel data, by firms over various regimes, are much more informative, permit relatively larger degrees of freedom, and display some consistency of analysis over years. The manufacturing sector has been divided into seven sub-sectors, namely, textiles, chemical & chemical products, construction material, consumer goods, machinery, metals and metal products, transport and miscellaneous manufacturing. Firms of all these subsectors, which possess the foreign equity share, are grouped as FDI firms with foreign ownership consistent to Mayaram report and rest which do not meet such criteria are in categories as domestic firms. Annual financial statements of these firms provide information of all important characteristics of these firms including the financial situation, market size, number of both skilled and unskilled workers, outsourcing by the firm, the main indicators of prosperity and future financial prospects of the concerned firms.

As stated above this dataset provides proportion of share owned by foreigner and domestic investors. Foreign ownership ratio is proxy for FDI in our study as the database does not provide explicit dollar values of FDI in firms. Even though the full sample had 18,000 observations, the sample size for the study had to be reduced to missing values for many variables across these firms. Final observations across seven industries with information on all variables were very small but still could be used for meaningful analysis. From the summary statistics of this reduced sample we observed that about 28 percent of FDI in India goes to chemical sector followed by 19 percent in machine sectors and 13 percent in transport sector. Among the consumer goods, construction materials, textile or metal sectors, each had 8 to 9 percent of FDI. We classify firms

broadly in seven categories to show how FDI impacts activities of firms in India. We provide definitions variables at the end of each Tables in Tables 1 to Table 10.

There is high and significant correlation in sales of firms between 2004 and 2016. This indicates positive correlations among sales, compensations, outsourcing expenses and profits as shows in Table 1. There was negative correlations between corporate tax and compensations, implying lower wages due to higher corporate taxes. On the other hand, correlation is not causality. Determining causality is possible using regressions. Following hypotheses are tested in the first round of empirical analysis:

1. Do profits depend on sales?
2. Do higher expenses cause fall in profit?
3. Do more employment and managerial remuneration raise the levels of profits?
4. Do corporate taxes reduce levels of profits?

Table 1: Correlation among model variables, 2004-2016

	(1)				(2)
	Sales_M04	Sales_M08	Sales_M12	Sales_M16	CompEM16
Sales_M04	1				
Sales_M08	0.915***	1			
Sales_M12	0.940***	0.982***	1		
Sales_M16	0.885***	0.848***	0.903***	1	
TExpnsM16					0.782***
OutsManfJobsM16					0.688***
OutsProfJob16					0.484***
MangRem16					0.521***
Corpttax16					-0.0192
Imptrm16					0.307***
TExpnsM12					0.740***
OutsManfJobsM12					0.632***
OutsProfJob12					0.498***
MangRem12					0.538***
Corpttax12					0.0930
Imptrm12					0.156*

*p< 0.05, **p< 0.01, ***p< 0.001

Definitions: OutsManfJobsM16 = out sourced manufacturing jobs (in Million Rupees) in March 2016; TExpnsM16 = total expenses of firms in March 2016 ; Corpttax12 = corporate tax as a percent of profit before tax (PBT) in 2012; MangRem16 = manager's remuneration in 2016 ; MangRem12 = managerial remuneration in million Rupees; OutsProfJob12 = out sourcing of professional jobs in million Rupees

Results presented in Table 2 provide positive answers to these questions. Sales is a significant variable in determining profit. Higher expenses reduce profit. More employment and managerial compensation make managers work efficiently leading to higher profit. Corporate taxes have reduced profit. Foreign promoters led to higher rate of profit. Thus FDI has positive impacts on profits, wages, sales and outputs of firms in India even before Modi-I years.

We also test determinants of wages among firms across industries in India. Following four hypotheses were tested with this data.

1. Do more total expenses by a firm lead to higher wages? We expect more resources to enhance productivity.
2. If jobs are outsourced, do they lower wages? Lower demand for labour should depress wages. Outsourcing of professional jobs leads to higher wages; reason being that firms may get professional jobs done at cheaper rates outside.
3. Do higher managerial remunerations have negative impacts on wages of workers? In general these are expected to impact adversely on morale of employees in general.
4. Do higher corporate taxes lower wage rates? Such taxes create adverse incentives.

These hypotheses are tested for 2004, 2008, 2012 and 2016 and results have been presented in Table 3. The empirical results support our hypotheses 1 to 4 respectively: 1) FDI enhances productivity, 2) outsourcing reduces wage rates, but outsourcing skilled jobs raise wages in general, 3) higher managerial remunerations reduce wages of workers, and 4) higher corporate taxes reduce wages but these were mostly insignificant.

We extend the above wage model further for inter temporal analysis including lags and leads of same variables from different waves of data as independent variable. This measures persistency of wages in a particular firms using backward and forward looking expectations. Firms that pay higher wages in 2004 are also expected to pay higher wage in 2008, 2012 or 2016. Do wages in 2016 depend on relevant variables in 2012? Similarly do wages in 2008 depend on variable from 2004? Better prospects in future may also impact well on wages. Do forward-looking factors affect wages? This we measure by whether wages in 2008 impact on wages in 2004 or whether

wages in 2016 impact on wages in 2012. These tests are in spirit of adaptive or rational expectation within a firm. Results shown in Table 4 indicate both backward and forward looking factors remain significant determinants of the level of wages among firms in India.

Table 2: FDI and other Determinant of Sales of firms in India in 2004

VARIABLES	(1) Sales 04	(2) Sales 04	(3) Sales 04	(4) Sales 04
PrmtN04		1.10e-06	9.43e-07	
		(1.08e-06)	(1.07e-06)	
o.PrmtN04		-		
Sales_M04	0.760***	0.772***	0.777***	0.805***
	(0.0629)	(0.0643)	(0.0642)	(0.0647)
TExpnsM04	-0.733***	-0.746***	-0.752***	-0.777***
	(0.0644)	(0.0660)	(0.0659)	(0.0664)
EmplysM04	0.0305*	0.0308*	0.0319*	0.0353
	(0.0167)	(0.0169)	(0.0169)	(0.0225)
MangRem04	2.690***	2.488***	2.534***	2.015**
	(0.838)	(0.856)	(0.856)	(0.852)
Corpttaxo4	1.030	1.964		0.154
	(1.796)	(1.775)		(2.037)
ForPromP04	1.797			
	(1.099)			
ID				24.80*
				(12.87)
IndPromN04				-3.27e-06*
				(1.79e-06)
Constant	-68.66	-40.17	-7.371	-90.08
	(50.92)	(46.15)	(35.40)	(67.36)
Observations	98	98	98	70
R-squared	0.951	0.950	0.949	0.967

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

PrmtN04 – No of total promoters in 2004, IndPrmtN04 - No. of Indian promoters in 2004, ManRem – Managerial remuneration in 2014 in million rupees, Corpttax – Corporate tax as a percent of profit before tax, EmplysM – No. of Employees Sales – Total sales in million rupees ForPromP – No. of Foreign Promoters, TExpnsM16 = Total expenses of firms in March 2004

Table 3: Determinant of wage from 2004 to 2016: contemporary analysis

VARIABLES	(1) 2016	(2) 2012	(3) 2008	(4) 2004
TExpnsM16	0.0552***			
	(0.00936)			
OutsManfJobsM16	-0.146			
	(0.210)			
OutsProfJob16	1.180***			
	(0.302)			
ForPromN16	-3.22e-06**			
	(1.54e-06)			
PrmtN16	3.33e-06***			
	(1.09e-06)			
MangRem16	-1.978			
	(2.298)			
Corpttax16	3.252			
	(5.020)			
Imptrm16	-0.00392			
	(0.0242)			
TExpnsM12		0.0790***		
		(0.0145)		
OutsManfJobsM12		0.192		
		(0.253)		
OutsProfJob12		-1.249		
		(1.240)		
ForPromN12		4.85e-06		
		(4.60e-06)		
PrmtN12		-4.75e-06		
		(4.37e-06)		
MangRem12		4.731		
		(2.900)		
Corpttax12		-6.865		
		(4.967)		
Imptrm12		-0.117***		
		(0.0292)		
TExpnsM08			0.0555***	
			(0.00735)	
OutsManfJobsM08			-0.145***	
			(0.0486)	
OutsProfJob08			2.101***	
			(0.505)	
ForPromN08			3.68e-06**	
			(1.69e-06)	
PrmtN08			-3.07e-06*	
			(1.55e-06)	
MangRem08			1.210	
			(0.942)	
Corpttaxo8			-2.394	
			(1.859)	
Imptrm08			-0.0805***	
			(0.0115)	
TExpnsM04				0.0579***
				(0.00895)
OutsManfJobsM04				0.00997
				(0.153)
OutsProfJob04				3.024***
				(1.140)
ForPromN04				4.52e-06
				(2.78e-06)
PrmtN04				-4.19e-06
				(2.70e-06)
MangRem04				1.442
				(2.433)
Corpttaxo4				2.148
				(1.591)
Imptrm04				-0.0746*
				(0.0384)
Constant	186.6	326.1	136.9**	25.39
	(150.8)	(193.1)	(54.80)	(38.44)
Observations	72	29	82	83
R-squared	0.940	0.855	0.942	0.938

Standard errors in parentheses*** p<0.01, ** p<0.05, * p<0.1

PrmtN – No of total promoters , IndPrmtN - No. of Indian promoters , ForPromN – Number of Foreign Promoters, ManRem – Managerial remuneration in million rupees, Corpttax – Corporate tax as a percent of profit before tax, EmplysM – No. of Employees Sales – Total sales in million rupees ForPromP – No. of Foreign Promoters, TExpnsM - Total expenses of firms , OutsProfJob – No. of outsourced professional jobs, OutManfJobs – No of Outsourced jobs, Imptrm – Import of raw materials

Table 4: Determinant of wage from 2004 to 2016 in larger model: with backward and forward looking effects

VARIABLES	(1) 2016	(2) 2012	(3) 2008	(4) 2004
TExpnsM12	0.173	0.0940**		
	(0.166)	(0.0321)		
OutsManfJobsM12	-1.331	-1.721**		
	(1.889)	(0.466)		
OutsProfJob12	-1.695	-1.830		
	(6.048)	(1.183)		
ForPromN12		1.16e-05***		
		(2.51e-06)		
PrmtN12		-1.39e-05***		
		(3.23e-06)		
MangRem12	16.29	9.518*		
	(12.30)	(4.060)		
Corpttax12	1.767	-0.621		
	(10.49)	(1.970)		
Imptrm12	-0.101	0.0841		
	(0.229)	(0.0439)		
CompEM16		0.561***		
		(0.0894)		
TExpnsM16	-0.0169	-0.0738**		
	(0.116)	(0.0207)		
OutsManfJobsM16	1.383	2.691***		
	(2.123)	(0.507)		
OutsProfJob16	0.857	-0.513		
	(4.637)	(0.686)		
MangRem16	-9.586	-4.721**		
	(11.87)	(1.764)		
Corpttax16	-14.91	-0.251		
	(15.16)	(1.981)		
Imptrm16	-0.0426	-0.00783		
	(0.160)	(0.0297)		
ForPromN16	1.25e-05			
	(1.36e-05)			
PrmtN16	-1.83e-05			
	(1.61e-05)			
TExpnsM08			0.0675***	-0.0513***
			(0.00753)	(0.00995)
OutsManfJobsM08			-0.427***	0.281***
			(0.0661)	(0.0797)
OutsProfJob08			0.515*	-0.360
			(0.266)	(0.272)
ForPromN08			-2.57e-07	
			(8.97e-07)	
PrmtN08			6.56e-07	
			(7.77e-07)	
MangRem08			1.162*	-0.595
			(0.690)	(0.625)
Corpttaxo8			-0.508	0.286
			(0.981)	(0.902)
Imptrm08			-0.0420**	0.0110
			(0.0163)	(0.0171)
CompEM04			0.748***	
			(0.0894)	
TExpnsM04			-0.0673***	0.0609***
			(0.0108)	(0.0117)
OutsManfJobsM04			1.053***	-0.519*
			(0.246)	(0.273)
OutsProfJob04			0.571	0.582
			(0.740)	(0.742)
MangRem04			1.672	-3.201
			(2.410)	(2.194)
Corpttaxo4			-0.00385	0.357
			(0.997)	(0.968)
Imptrm04			-0.0982**	0.146***
			(0.0409)	(0.0395)
ForPromN04				2.80e-06*
				(1.48e-06)
PrmtN04				-2.50e-06*
				(1.44e-06)
CompEM08				0.825***
				(0.0871)
Constant	584.1	114.4	8.046	14.57
	(641.9)	(98.11)	(28.29)	(26.20)
Observations	20	21	62	69
R-squared	0.931	0.995	0.994	0.989

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

PrmtN – No of total promoters , IndPrmtN - No. of Indian promoters , ForPromN – Number of Foreign Promoters, ManRem – Managerial remuneration in million rupees, Corpttax – Corporate tax as a percent of profit before tax, EmplysM – No. of Employees Sales – Total sales in million rupees ForPromP – No. of Foreign Promoters, TExpnsM - Total expenses of firms , OutsProfJob – No. of outsourced professional jobs, OutManfJobs – No of Outsourced jobs, Imptrm – Import of raw materials, CompEM –Compensation of employees

6. Performance of Indian Firms with FDI during Modi-I Years

How have changes in FDI policy during Modi-I years impacted on performances of firms in India? We update the data and estimate our pseudo panel regression models to assess this question. Results show that performance of Indian firms has been improving significantly because of these changes. For space reasons we discuss results for the firms in the construction material sector in the next section.

Analysis of construction material sector during Modi-I years, 2014-18

Construction material sector is very important sector for the growth of the economy. We regress sales on FDI, compensation of employees, taxes and other various determinants for the construction materials sector first in pre-Modi years 2004, 2008, 2012 and 2014. Results as presented in Table 5. Then we conduct similar analysis for years 2015, 2016, 2017 and 2018 reporting results in Table 6 for firms in the construction industry. The total expenses (TExpns) significantly and positively contributes to sales of these firms. If a firm increases expenses faster, it gains more in terms of sales and revenue. Firms with higher investment get better chances of earning a better return during these 15 years. As firms expand, there is more outsourcing of jobs, which also is a good indicator for growth. Outsourcing had positive effect on sales of companies with FDI. This can be interpreted as outsourcing makes firm more flexible in terms of employment of workers in the firm. In addition to this it brings efficiency by reducing per unit cost of the product and allows firms to increase their margins. Thus outsourcing in India's FDI has a positive impact in terms of making the investment productive and efficient.

Larger the number of employees in firms with FDI higher is the wage of workers among these firms. Thus wages were positively and significantly affected by the number of workers in these firms in years 2004, 2008, 2012 and 2014 as presented in Table 7 and more so for years 2015, 2016, 2017 and 2018 as shown in Table 8. Empirical results show the size of firms to be important factor of higher wages among firms with FDI in India. This is intuitively sensible result. Not only the number of jobs has increased in firms with FDI but also the wages paid by these firms are rising. Thus increasing role of FDI in the corporate sector has benefitted workers during Modi-I years. In recent years after 2014 outsourcing of work in these FDI firms has positive relation with the wages of workers in these firms. We can say that outsourcing has contributed to productivity and raised the wages of employees in firms with FDI.

Employment is major issue in India. The determinants of employment among firms with FDI in years 2004, 2008, 2012 and 2014 as presented in Table 9 and for years 2015, 2016, 2017 and 2018 are shown in Table 10. Total expenses of the firms do not significantly contribute to creation of employment. Profit after tax has a positive contribution in the job creation in these firms. This implies that as the profit for these firms' increases they are willing to employ more workers and expand hiring more workers. While the pseudo panel data on firms allow us to control the time-invariant worker productivity differentials by estimating fixed-effect model, the aggregate data offers limited possibilities of controlling for difference among worker and job characteristics.

Table 5: Sales of Indian Firms with FDI Operations in Construction Material Sector for 2004 to 2014

VARIABLES	(1) Sales 04	(2) Sales 08	(3) Sales 12	(4) Sales 14
Totex0304_cmt	1.054***			
	(0.000864)			
OUTsjb0304_cmt	0.611***			
	(0.144)			
Stkch0304_cmt	-3.694***			
	(0.0684)			
Compns0304_cmt	-0.0793***			
	(0.0208)			
Totex0308_cmt		0.998***		
		(0.00170)		
OUTsjb0308_cmt		1.589***		
		(0.300)		
Stkch0308_cmt		-0.0208		
		(0.158)		
Compns0308_cmt		0.595***		
		(0.0576)		
Totex0312_cmt			1.021***	
			(0.000908)	
OUTsjb0312_cmt			-0.693***	
			(0.0935)	
Stkch0312_cmt			-0.685***	
			(0.0628)	
Compns0312_cmt			-0.121***	
			(0.0254)	
Totex0314_cmt				1.026***
				(0.00156)
OUTsjb0314_cmt				-2.679***
				(0.213)
Stkch0314_cmt				-0.631***
				(0.0671)
Compns0314_cmt				-0.0667*
				(0.0383)
Constant	-48.06**	-167.9	252.1***	634.5***
	(21.71)	(110.4)	(58.51)	(120.5)
Observations	1,369	1,231	908	880
R-squared	1.000	0.999	1.000	0.999
Number of ID	539	524	460	439

Standard errors in parentheses;*** p<0.01, ** p<0.05, * p<0.1

Totex –Total Expenses, OUTsjb – Outsourcing of Jobs, Stkch – Capital Stock in million rupees, Compns –Compensation of employees

Table 6: Sales of Indian Firms with FDI Operations in Construction Material Sector for 2015 to 2018

VARIABLES	(1) Sales 15	(2) Sales 16	(3) Sales 17	(4) Sales 18
Totex0315_cmt	1.070***			
	(0.00368)			
OUTsjb0315_cmt	-4.178***			
	(0.283)			
Stkch0315_cmt	-0.937***			
	(0.106)			
Compns0316_cmt	-0.0482	-0.435***		
	(0.0602)	(0.0590)		
Totex0316_cmt		1.036***		
		(0.00413)		
OUTsjb0316_cmt		-1.666***		
		(0.292)		
Stkch0316_cmt		2.667***		
		(0.205)		
Totex0317_cmt			1.071***	
			(0.00420)	
OUTsjb0317_cmt			-3.038***	
			(0.394)	
Stkch0317_cmt			-0.383	
			(0.338)	
Compns0317_cmt			-0.554***	
			(0.0776)	
Totex0318_cmt				0.826***
				(0.0271)
OUTsjb0318_cmt				3.998***
				(1.237)
Stkch0318_cmt				0.264
				(0.902)
Compns0318_cmt				0.717**
				(0.302)
Constant	528.1***	543.0***	778.3***	297.8
	(181.1)	(187.0)	(238.5)	(795.5)
Observations	803	787	772	547
R-squared	0.997	0.997	0.997	0.909
Number of ID	411	412	404	318

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1
Totex –Total Expenses, OUTsjb – Outsourcing of Jobs, Stkch – Capital Stock in million rupees, Compns –Compensation of employees

Table 7: Wages of Indian Firms with FDI Operations in Construction Material Sector for 2004 to 2014

VARIABLES	(1) Wage 04	(2) Wage 08	(3) Wage 12	(4) Wage 14
Employee0304_cmt	0.332***			
	(0.0122)			
OUTsjb0304_cmt	-0.451			
	(0.314)			
Employee0308_cmt		0.564***		
		(0.0475)		
OUTsjb0308_cmt		-0.700		
		(0.585)		
Employee0312_cmt			0.637***	
			(0.0308)	
OUTsjb0312_cmt			0.194	
			(0.170)	
Employee0314_cmt				0.495***
				(0.0112)
OUTsjb0314_cmt				0.810***
				(0.130)
Constant	-146.3	-329.6	-725.5***	-306.2**
	(98.11)	(409.3)	(229.2)	(124.2)
Observations	224	236	237	287
R-squared	0.936	0.742	0.877	0.965
Number of ID	170	184	175	214

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1; *Employee – No of employees, OUTsjb – Outsourcing of Jobs*

Table 8: Wages of Indian Firms with FDI Operations in Construction Material Sector for 2015 to 2018

VARIABLES	(1) Wage 15	(2) Wage 16	(3) Wage 17	(4) Wage 18
Employee0315_cmt	0.535***			
	(0.0120)			
OUTsjb0315_cmt	0.690***			
	(0.113)			
Employee0316_cmt		0.521***		
		(0.0187)		
OUTsjb0316_cmt		0.142		
		(0.167)		
Employee0317_cmt			0.465***	
			(0.0193)	
OUTsjb0317_cmt			0.447***	
			(0.170)	
Employee0318_cmt				0.162***
				(0.0188)
OUTsjb0318_cmt				1.364***
				(0.116)
Constant	-208.9**	-18.46	-57.60	294.9***
	(94.35)	(135.5)	(148.5)	(105.6)
Observations	485	501	480	275
R-squared	0.915	0.802	0.765	0.808
Number of ID	293	299	287	200

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1; *Employee – No of employees, OUTsjb – Outsourcing of Jobs*

Table 9: Number of Employees of Indian Firms with FDI Operations in Construction Material Sector for 2004 to 2014

VARIABLES	(1) Employee 04	(2) Employee 08	(3) Employee 12	(4) Employee 14
prftatx0304_cmt	0.340			
	(0.513)			
OUTsjb0304_cmt	-4.040			
	(4.610)			
Totex0304_cmt	-0.0319*			
	(0.0179)			
prftatx0308_cmt		0.615***		
		(0.144)		
OUTsjb0308_cmt		-0.716		
		(1.528)		
Totex0308_cmt		-0.00577		
		(0.00477)		
prftatx0312_cmt			1.683***	
			(0.364)	
OUTsjb0312_cmt			1.296*	
			(0.736)	
Totex0312_cmt			-0.0646***	
			(0.0165)	
prftatx0314_cmt				0.532
				(0.504)
OUTsjb0314_cmt				-1.097
				(1.573)
Totex0314_cmt				-0.0266
				(0.0282)
Constant	3,727***	2,635**	1,658*	3,945***
	(1,213)	(1,008)	(830.0)	(1,397)
Observations	224	236	237	287
R-squared	0.092	0.273	0.315	0.043
Number of ID	170	184	175	214

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1;
Prftatx – profit after tax, OUTsjb – No. of outsourced jobs, Totex – Total expenses in million rupees

Table 10: Number of Employees of Indian Firms with FDI Operations in Construction Material Sector for 2015 to 2018

VARIABLES	(1) Employee 15	(2) Employee 16	(3) Employee 17	(4) Employee 18
prftatx0305_cmt	2.893***			
	(0.115)			
OUTsjb0315_cmt	2.844***			
	(0.347)			
Totex0315_cmt	-0.0789***			
	(0.00503)			
prftatx0316_cmt		-0.427***		
		(0.0650)		
OUTsjb0316_cmt		-0.0613		
		(0.613)		
Totex0316_cmt		0.0634***		
		(0.00964)		
prftatx0317_cmt			-0.425***	
			(0.0821)	
OUTsjb0317_cmt			0.0798	
			(0.711)	
Totex0317_cmt			0.0557***	
			(0.00946)	
prftatx0304_cmt				-2.682***
				(0.875)
OUTsjb0318_cmt				-0.205
				(1.184)
Totex0318_cmt				0.0569**
				(0.0242)
Constant	1,527***	2,011***	2,501***	3,030***
	(272.8)	(457.2)	(531.9)	(613.6)
Observations	476	501	480	273
R-squared	0.781	0.217	0.178	0.225
Number of ID	290	299	287	199

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1

Prftatx – profit after tax, OUTsjb – No. of outsourced jobs, Totex – Total expenses in million rupees

Based on above empirical results we can conclude that the FDI has played significant roles in improving sales, profits, wages and employments in firms with FDI in construction industry in India. We expect this relation to hold among firms in other industries as well; these are issues for further investigation.

Empirically we find positive impacts of FDI on performance of firms in India and on their growth. These results are closer to findings of Chandana & Nunnenkamp (2008) and Hussain (2012) but in sharp contrast to Pradhan (2002) and Agrawal (2005) who claimed that FDI does not have significant positive impacts on growth. In theory our results confirm to Hymer (1976) and Caves (1982) Horstmann and Markusen (1987) and Markusen (1995) and also to development economists including Barro (1991) and Barro and Sala-I-Martin (2004) who have

identified a strong association between investment and economic growth and predict that output can only grow through increased factor accumulation and through technical progress. Since investment determines the rate of accumulation of physical capital, FDI complementing the domestic investment becomes an important factor and channel in the growth of productive capacity and contributes to growth of the economy as shown by theoretical derivation in section 4 earlier. Our study contributes to understanding of the benefits of firm level FDI inflows in enhancing economic performance of firms in India. More detailed study is required particularly considering the growing role of the India among the emerging and global economies.

7. Conclusions

FDI has played significant role in raising sales, profits, wages and employment among firms in India. Such positive role comes with advanced technology and skill in management practices that comes with the FDI. Gradual improvement in the ease of doing business index has enhanced the experience of foreign promoters who normally have significant economic roles among firms across all production sectors and industries in India. Besides sales, total expenses, managerial remunerations and corporation taxes, involvements of foreign promoters have been found statistically significant determinants of profits and wages among firms across all eight sectors included in the study for years 2004, 2008, 2012 and 2014 and for the firms in construction material sector industry for each of Modi-I years between 2015 to 2019.

As the liberalisation of FDI policies, including outright 100 percent ownership provision in the automatic route in most sectors in manufacturing industry have produced good outcomes, this

study recommends more open, flexible and innovative approaches among Indian firms to enhance prosperity in India and the global economy.

Table 11: Inflows and outflows of FDI in India, 2000-2018

MEASURES	US dollars at current prices per capita	US dollars at current prices per capita	US dollars at current prices per capita	US dollars at current prices per capita	Percentage of total world	Percentage of total world	Percentage of total world	Percentage of total world	Percentage of Gross Domestic Product	Percentage of Gross Domestic Product	Percentage of Gross Domestic Product	Percentage of Gross Domestic Product	Percentage of Gross Fixed Capital Formation
DIRECTION	Inward	Inward	Outward	Outward	Inward	Inward	Outward	Outward	Inward	Inward	Outward	Outward	Inward
MODE	Flow	Stock	Flow	Stock	Flow	Stock	Flow	Stock	Flow	Stock	Flow	Stock	Flow
2000	3.4072	15.5158	0.4885	1.6461	0.2645	0.2215	0.0442	0.0234	0.7805	3.5541	0.1119	0.3771	3.1174
2001	5.1122	18.3634	1.3042	2.3629	0.7089	0.2634	0.2044	0.0348	1.1541	4.1454	0.2944	0.5334	4.4552
2002	5.1657	23.6980	1.5398	3.7351	0.9544	0.3524	0.3377	0.0556	1.1345	5.2043	0.3381	0.8203	4.3498
2003	3.8998	29.3758	1.6929	5.4810	0.7849	0.3563	0.3542	0.0658	0.7436	5.6009	0.3228	1.0450	2.6905
2004	5.1306	33.7972	1.9317	6.8681	0.8346	0.3613	0.2401	0.0713	0.8217	5.4130	0.3094	1.1000	2.5655
2005	6.6617	37.7597	2.6094	8.5142	0.8035	0.3782	0.3584	0.0819	0.9254	5.2454	0.3625	1.1828	2.7279
2006	17.4941	60.9911	12.2937	23.2669	1.4486	0.5037	1.0571	0.1800	2.1647	7.5469	1.5212	2.8790	6.2233
2007	21.4888	89.6772	14.6086	37.3663	1.3402	0.5900	0.7948	0.2366	2.1397	8.9295	1.4546	3.7207	5.7932
2008	39.3456	104.5917	17.6607	52.9073	3.1831	0.8332	1.2429	0.4086	3.7163	9.8789	1.6681	4.9972	10.3054
2009	29.3460	141.0048	13.2242	66.5744	3.0398	0.9705	1.4618	0.4362	2.7093	13.0181	1.2209	6.1464	7.5625
2010	22.2725	167.0052	12.9551	78.7182	2.0084	1.0408	1.1613	0.4771	1.6421	12.3130	0.9552	5.8038	4.6364
2011	29.0165	165.4493	9.9870	87.8012	2.3179	1.0128	0.7962	0.5298	1.9333	11.0237	0.6654	5.8501	5.1958
2012	19.1564	178.1264	6.7183	93.4807	1.6456	0.9871	0.6642	0.5219	1.3002	12.0903	0.4560	6.3450	3.5928
2013	22.0556	177.1903	1.3130	93.7284	1.9704	0.9183	0.1219	0.4826	1.4710	11.8176	0.0876	6.2511	4.4935
2014	26.7279	195.6318	9.1072	101.6525	2.5480	0.9766	0.9073	0.5060	1.6928	12.3900	0.5768	6.4380	5.3299
2015	33.6610	215.8939	5.7846	106.2128	2.1666	1.0741	0.4500	0.5295	2.0538	13.1723	0.3529	6.4803	6.8593
2016	33.5913	240.3916	3.8306	108.8119	2.3183	1.1271	0.3272	0.5217	1.9594	14.0225	0.2234	6.3472	6.5995
2017	29.7972	281.7297	8.3189	115.8737	2.6649	1.1565	0.7816	0.4792	1.5493	14.6481	0.4325	6.0247	5.1651
2018	31.2290	285.3316	8.1511	122.7378	3.2599	1.1972	1.0883	0.5365	1.5403	14.0734	0.4020	6.0538	..

Data source: UCTAD Statistics; https://unctadstat.unctad.org/EN/

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[i] A direct investor may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct investment enterprises may be subsidiaries, associates or branches that could establish in the foreign country. The IMF and the OECD define FDI in terms of "Direct investor" and "Direct investment enterprise".

[ii] In general we can classify benefits of FDI to the Indian economy in seven categories. First, FDI stimulates the economic development in India, creating a more favorable environment for the investor and benefits for the local industry. Secondly, FDI opens access of domestic forms to foreign markets expanding demands for products of domestic firms. Thirdly, FDI creates employment and enhances purchasing power in general. FDI not only creates new jobs but also creates new economic opportunities as it leads to an increase in per capita income which in turn has multiplier effects in the economy. Fourth, FDI raises prospects of training and sharing experience at a global level and thus would increase the education and overall human capital. Fifth, FDI is an effective way to acquire important natural resources, such as precious metals and fossil fuels. Oil companies, for example, often make tremendous FDIs to develop oil fields or refineries. Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills. Sixth, FDI opens up trade opportunities of India with the global economy. There are industries which require FDI to penetrate the international markets to raise their sales and profits. Seventh, FDI reduces cost of production and increases in productivity. Facilities and equipment provided by foreign investors can increase productivity of workers reducing the cost of production. This happens more when labour inputs are cheaper and regulations are less restrictive in India compared to targeted foreign markets[ii].

The GOI has clarified that FDI in Indian entities engaged in manufacturing through a legally tenable contract, whether on a principal to principal basis or on a principal to agent basis is also permitted under the 100 percent automatic route. Earlier FDI Policy permitted up to 100 percent investment in the Single Brand Retail Trade (SBRT); however investments exceeding 49 percent had to procure prior government approval and were not under the automatic route. In recent FDI policy all FDI in SBRT is permitted 100 percent under the automatic route.

The recent amendments in FDI policy have also introduced changes to the sourcing norms. In all cases of investments beyond 51 percent, 30 percent of the value of the good has to be procured from India as in case of the earlier FDI policy. However, for the purpose of meeting local sourcing requirements, all procurements made from India by the SBRT entity for that single brand shall be counted towards local sourcing, irrespective of whether the goods procured are sold in India or exported. The SBRT entity is also permitted to set off sourcing of goods from India for global operations against the mandatory sourcing requirement of 30 percent. Further under the previous FDI policy, an entity undertaking SBRT could only under take retail trade through e-commerce after opening a brick and mortar store. This requirement has been relaxed under new provisions which provides that online retail trading can be undertaken prior to opening a brick and mortar store provided the brick and mortar store is opened within two years from the date of start of online retail trading.