THINK INDIA JOURNAL

ISSN:0971-1260
Vol-22-Issue-03-July-2019

A Study Of Outside Direct Investment (Odi) Profits, In Procedure Planin Indian Economics

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ABSTRACT: *The study tries to examine the various set of factors which influence the flow of ODI Identifying the causes for low inflow and suggestive remedial measures to increase the flow of ODI in India with that of other developing nations in the world.Outside Direct Investment (ODI) plays a very important role in the development of the nation. It is very much vital in the case of underdeveloped and developing countries. A typical characteristic of these developing and underdeveloped economies is the fact that these economies do not have the needed level of savings and income in order to meet the required level of investment needed to sustain the growth of the economy. This research study aims to examine the impact of ODI on the Indian economy, particularly after two decades of economic reforms, and analyzes the challenges to position itself favorably in the global competition for ODI.Outside direct investment (ODI) has boomed in post-reform India. Moreover, the composition and type of ODI has changed considerably since India has opened up to world markets. This has fuelled high expectations that ODI may serve as a catalyst to higher economic growth. We assess the growth implications of ODI in India by subjecting industry-specific ODI and output data to Granger causality tests within a panel cointegration framework. It turns out that the growth effects of ODI vary widely across sectors. ODI stocks and output are mutually reinforcing in the manufacturing sector. In sharp contrast, any causal relationship is absent in the primary sector. Most strikingly, we find only transitory effects of ODI on output in the services sector, which attracted the bulk of ODI in the post-reform era. These differences in the ODI-growth relationship suggest that ODI is unlikely to work wonders in India if only remaining regulations were relaxed and still more industries opened up to ODI.*

KEYWORDS: Development, Income, Economy, Growth, Country, Technology, Outside Direct Investment, Important, Infrastructure, India.

INTRODUCTION: India is a country with one of the oldest civilization in the world. It is a country where religions, languages and customs different from one another CO-exist. It appears to be a place of contrast with strong reactions and conflicting feelings, adding to the value and identity of the country. An Indian business man, Jagdish Parekh once observed that 'The Indian economy is like a coconut - it is hard on the outside, but once broken one can enjoy the taste of sweet liqueur. It is a favoured fruit for one who has patience'.

The World Bank has identified India as one of the powerful economic giants. With nearly a billion people, India is not only the world's largest democracy but a country of enormous economic and political potential. India has a long history of wide and specific economic Strategies swinging between regulation and Liberalization, based on the prevailing social, political and economic environment. Now India is changing faster than at any time as a result of new economic reforms oriented towards Privatization, Liberalization and globalization of the economy. All the regulated and liberal Strategy changes have proved to be significant in their own way resulting in the transformation of the Indian economy.

Outside Direct Investment (ODI) is the investment made by one country to other country for the purpose of developing industrial activities. ODI provided mutual help to both the countries. For the home country, it is an investment-generating income and a source for spreading business operations globally, and for the host country, it is source of capital for the development of infrastructure, which is the corner-stone for economic development. Infrastructure development is needed for the growth of domestic trade, outside trade for reducing imports and external borrowings and for correcting the fiscal deficit. Developing nations are perpetual victims of a resource crunch. They find it hard to develop basic infrastructure which is badly needed for industrial development. The ODI should be taken in the righter perspective. There is no danger in increasing flow of ODI in India. It is need of the hour that huge investment of ODI should be allowed in most of the sectors of the economy for long-term economic development of the country. Most of us do not know that aid is nothing but a loan. It is concessional loan as the rate of interest to be paid on aids is slightly lower than other loans and the duration of payment is usually longer during which it is to be repaid. This practice was raising the amount of interest to be paid rapidly and country had to face difficulties in making the payment of interest for which outside exchange was needed. Therefore to come out from such a situation the country had introduced economic reforms in 1991 and allowed on large scale inflow of Outside direct investment in most of the sectors of the economy. The policy has successfully controlled the crisis of Outside exchange since 1991. However, the progress of

ISSN:0971-1260
Vol-22-Issue-03-July-2019

ODI is still not satisfactory when it is compared with the other developing countries of the world such as China, Singapore, Malaysia and Korea etc.India has got a great potentiality for attracting more inflow of ODI. For capital-scare developing economies, outside direct investment (ODI) implies access to not only capital, but also advanced technology and know-how, managerial expertise, global marketing networks and best-practice systems of corporate government. ODI inflows are not-debt creating and more stable than portfolio flows that are guided by short-term risk-return pay offs and are prone to quick reversals in the event of adverse expectations. Thus, following withdrawal of most restrictions on cross-border movement of capital in a globalized Economy, almost all developing countries have adopted liberal policies towards ODI for exploiting the virtuous aspects of such flows. Inspite of enabling policies, however, success in attracting ODI has widely varied between countries.

India has recently opened up more sectors, including defense, to Outside direct investment. But many developing countries have liberalized their economies even more in the past. The measures undertaken by them have included the rules regarding procedures of investment approvals, removing the controls on outside exchange transactions, reducing performance requirement and increasing access to sectors as well as the extent of Outside ownership. But only few countries have managed to get huge ODI flows. Multinationals are interests in coming to a country which has a big market because they want to internationalize their operations. They also want to access natural resources and raw materials. Thirdly, they are interested in the quality and cost of labour of the host country, its growth prospects as well as its polices. High growth prospects are responsible for the biggest chunk of ODI going to China which has had an average GDP growth of 9 per cent over the last two decades. China also has a skilled population which has caused invested heavily in China. Non-Resident Indians too can bring more ODI to India except that they are scattered thinly across the globe and unlike the non-resident Chinese who live close to China, most NRIs are not near India. They do not also have as much investable resources because most are professionals. Many are also not happy with the existence of corruption and procedural delays in India.

Indian Government's resources are very much limited to overcome the problem of unemployment, modernization of industries including agriculture industry and numerous related problems. The best solution for this has been found that the large investment of ODI should be allowed. The Economic and Social Survey: 2001 by the World Bank shows that out of $207 billion in ODI flows to developing countries, $40 billion went to China as compared to $2.1 billion for India. Within the Asian region, Malaysia, Singapore, Korea and Thailand have received much more ODI than India. Because from the point of view of Outside investors, apart from rapid liberalization, other things are also important in determining the choice of destination. In this the share of China is 19.32 per cent while India's share is only 1 per cent. The above information suggests that there is no need to be afraid that India economy will go in the hands of Outside investors, if the larger investment is allowed. For rapid growth and development, there is need to increase the flow of ODI in coming years by further liberalizing ODI policy so as to make the Indian economy more free and competitive in the global market. For a long period of time India too much depended on outside aids considering it cheapest source of having outside exchange.

ODI Strategies in India: The Strategy of our government towards ODI has undergone rapid changes since independence. Viewed in a historical perspective, the Indian Strategy on ODI could be seen as ambivalent and swinging between regulation and Liberalization. These Strategy changes can be explained under four distinct phases, viz (Subramanian, 1996).

1. 'Cautious Welcome Strategy (1948 - 67)
2. Selective and Restrictive Strategy (1968- 1979)
3. Partial Liberalization Strategy During 1980s
4. Liberalization and Open door Strategy since 1991.

Each of the phases marks different degrees of freedom or regulation on the entry of outside investment and technology transfer in India.

Benefits of ODI: Some benefits from Outside investment may also accrue to consumers. When the investment is cost-reducing in a particular industry, there may be a gain not only to the suppliers of factors in this industry through higher factor prices but also to consumers of the product through lower product prices. If the investment is product-improving or product-innovating, consumers may then enjoy better quality products or new products. In order that labour and consumers might gain part of the benefit from the higher productivity in Outside enterprises, the overseas withdrawal by the investors must be less than the increase in output. But even if the entire increase in productivity accrues as

ISSN:0971-1260
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Outside profits, there will still be a national benefit when the government taxed these profits or receives royalties from concession agreements. From the standpoint of contributing to the development process the major benefits from Outside investment are likely to arise in the form of external economics. Besides bring to the recipient country physical and financial capital, direct Outside investment also includes non-monetary transfers of other resources-technological knowledge, market information, managerial and supervisory personnel, organizational experience, and innovations in products and production techniques-all of which are in short supply. By being a carrier of technological and organizational change, the Outside investment may be highly significant in providing "private technical assistance" and "demonstration effects" that are of benefit elsewhere in the economy. New techniques accompany the inflow of private capital, and by the example they set, Outside firms promote the diffusion of technological advance in the economy. Technical assistance may also be provided to suppliers and customers of the Outside enterprise. In addition, Outside investment frequently leads to the training of labour in new skills, and the knowledge gained by these workers can be transmitted to other members of the labour force, or the newly trained workers might be later employed by local firms.

The inflow of private capital contributes to the recipient country's development programme in two general ways by helping to reduce the shortage of domestic savings and by increasing the supply of Outside exchange. To this extent, the receipt of private Outside investment permits a more rapid expansion in real income, eases the shortage of Outside exchange, and removes and necessity of resorting to a drive toward self-sufficiency and the deliberate stimulation of import-substitution industries out of deference to Outside exchange considerations. Beyond this initial contribution, the essence of the case for encouraging outside investment is that in time, as the investment operates, the increase in real income resulting from the act of investment is greater than the resultant increase in the income of the Outside investor. There is a national economic benefit if the value added to output by the Outside capital is greater than the amount appropriated by the investor: social returns exceed private returns. As long as Outside investment raises productivity, and this increase is not wholly appropriated by the investor, it follows that the greater product must be shared with others, and there must be some direct benefits to other income groups. These benefits can accrue to (1) domestic labour in the form of higher real wages, (2) consumers by way of lower prices, and (3) the government through expanded revenue. In addition, and of most importance in many cases, there are likely to be, (4) indirect gains through the realization of external economies.

The scope for Outside Direct Investment:

Direct investment has other advantages also. It often introduces new industries or improved methods. It provides employment and sometimes specialized technical training for local workers. It contributes to local public revenue; for instance by paying income tax and in many cases export duties. If it establishes or expands export industries it increases exports and thereby Outside exchange earnings. A number of large outside companies (notably those owning estates) provide housing and social services for their workers.

Some of the chief industries, especially export industries, of underdeveloped countries have been built up largely by direct outside investment. Leading examples are the oil industries of the Middle East and Venezuela; the rubber estates and tin mines of Malaya and Indonesia; the tea estates of India and Ceylong; the sugar estates of Cuba and the British West Indies; the banana estates of Central America and the copper mines of Northern Rhodesia and Chile. In some countries, direct Outside investment has played a leading part also in the field of railways, electric power, and other public utilities, and in international trade. While the inflow of capital in any form supplements the inadequate savings of low-income counties, direct investment has various advantages over loans (including export credits). Loans leave an aftermath of interest charges and repayments, which often become a serious burden on the budgets and Outside-exchange reserves of the borrowing countries. It is true that loans could be spent in ways which increase output, taxable capacity and export earnings, but often they are not; they may be used for what seems an urgently needed expansion of social services or to tide over a deficit in the balance of payments which turns out to be a long-period rather than a temporary deficit, so that the loans merely postpone the need to reduce levels of consumption. Direct investment leaves no such aftermath. The Government of the country incurs no obligation to make payments if the industry goes through a lean period it is the Outside shareholders who suffer.

Most underdeveloped countries, however, are very nationalistic. Against these advantages of Outside direct investment is the great disadvantage, from their standpoint, that it places control over part of their economic activity in the hands of Outsiders. Some countries feel that large Outside companies may interfere in their political and economic life, introducing an element of Outside domination or, in the case of ex-colonies, re-introducing 'colonialism' through the

ISSN:0971-1260
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back door. Moreover, most underdeveloped countries are socialistic in their outlook and consider that certain key industries, such as public utilities and steel mills, should be owned by the state rather than by private capital, whether Outside or local. Owing to these attitudes the scope for Outside direct investment has been substantially reduced during the middle of the 20th century. But now all countries – developed, developing and underdeveloped are encouraging flow of ODI with incentive packages. More directly, many countries have come to realize that an inflow of Outside capital can offer some unique qualitative advantages. For no problem of productive use arises with outside direct investment: by its very nature, an Outside investment necessarily entails the identification of an economic opportunity, the formulation of a productive project, and its efficient implementation.

Especially significant is the merit that Outside direct investment has in carrying with it an integral ingredient of technical assistance-the managerial and technical knowledge which are usually in even shorter supply than capital. As an instrument for transmitting technical and organizational change, integrating technical and financial assistance, and helping to overcome the skill and management limitations in development, the private outside investment has a distinct advantage over Outside public capital.

ODI Strategies in Developing Economies:

An Overview ODI means an investment in an Outside country where the investor retains control over the investment. It constitutes a relatively stable element of international private capital flows that is insulated from short term and cyclical pressures, since it primarily reflects the long term strategies of international investors. In the present global economy ODI is not only a source of capital funds and Outside exchange, but also a dynamic and efficient vehicle to secure the much needed industrial technology, managerial expertise and marketing knowledge and networks to improve on growth, employment, export and productivity of an economy. Obviously it has become the single largest source of net capital inflows for the developing countries.

Factors that influence the effectiveness of ODI flows are not uniform across developing countries. So different Strategy initiatives by governments and strategies by multinational corporations are required in different nations. Most of the developing economies use a complex set of direct and indirect incentives to attract ODI. In some countries repatriation of earnings is unrestricted and profits and dividends are freely convertible into the currency of home country and some have specific laws regarding transfer of technology, ownership rights etc. Thus laws and Strategies regarding the ownership and entry, transfer of technology, repatriation of profits, fiscal incentives all vary across countries.

Outside Direct Investment Policy in India:

Outside direct investment (ODI) has gained importance globally as an instrument of international economic integration. Outside direct investment policies along with trade policies have, in fact, become the focus of liberalization efforts in almost every country. Liberalized trade regime along with an open door outside investment policy creates pressures to achieve higher levels of efficiency and flexibility at the firm level. The Government of India's policy towards Outside direct investment of 'Outside collaboration' as it is most commonly referred to in official statements has evolved from cautious promotion in the late 1940s to a brief period of near "open door" in the 1950s, to a policy of rigorous selectivity in the late 1960s and 1970s and to a policy of increasing liberalization in the 1980s. These policy swings have reflected the socio-economic-cum-political objectives of the Government.Investment made in machinery fabrication facilities, manpower development, scientific and technological infrastructure made in the previous period had led to development of certain 'created' assets in the country. For instance, certain capabilities for process and product adaptations had been built up in the country. Constraints on local supply of capital and entrepreneurship had begun to ease somewhat. On the other hand outflow on account of remittances of dividends, profits, royalties, and technical fees, etc., abroad on account of servicing of ODI and technology imports from the earlier period had grown sharply and had become a significant proportion of the Outside exchange account of the country.

There has been a growing recognition in India that any credible attempt towards economic reforms must involve up gradation of technology, scale of production and linkages to the increasingly integrated globalize production system chiefly through the participation of transnational corporations. Neglected in India's development strategy before 1991, the Government is now pursuing a pro-active policy to attract outside direct investment. The industrial policy of 1991 provides a fairly liberalized policy framework to attract outside direct investment into the country. India has a number of advantages to offer to potential outside investors. Among these are: political stability in a democratic polity, an economy characterized by steady growth and a single digit inflation rate, a vast domestic market, a large and growing

ISSN:0971-1260
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pool of trained manpower, a strong entrepreneurial class, fairly well developed social and physical infrastructure, a vibrant financial system including a rapidly expanding capital market and a diversified industrial base.

ODI Policy and Prospects:

The cumulative approval of ODI since 1991 adds up to approximately US $ 46 billion (excluding GDRs) and the total inflows up to December, 1998 are nearly US $ 13.30 billion (excluding GDRS) giving a success rate of around 29%. To bridge the Investment saving gap (of 3 to 4 per cent) in order to achieve a sustained growth of 6 to 7 per cent, ODI of the order of US $ 10 billion or more per annum is required. It is in this light that ODI is invited as a measure to supplement domestic efforts, especially because assistance from multi-lateral and bilateral sources is either stagnant or declining in comparison to private capital flows. Even in the private capital flows, the short-term outside capital flows are prone to quick reversal in terms of investors' perception on how the domestic economy is shaping. ODI, which is a long-term investment, is, therefore, of crucial importance. ODI is the most desirable form of external funding not only for the long-term additional capital it brings in, but also for the technology up gradation and modern production and management practices that accompany it.

Recent policy initiative taken by the Government is as follows:

- Requirement of prior/final approval by RBI for binging in Outside investment/allotment of shares against proposals duly approved has been dispensed with. New companies will only have to file the required documents with the RBI regional office within 30 days of issue of shares;
- The Reserve Bank of India has delegated powers to its regional offices for granting Automatic Approval in respect of Outside Collaboration;
- Outside Equity up to 100 per cent in the power sector for electric generation, transmission and distribution has been made eligible for automatic approval (barring atomic-reactor plants) provided outside equity does not exceed Rs.1500 crore;
- In case of shortfall in NRI contributions in private sector banks, multilateral financial institutions would be allowed to contribute outside equity to the extent of the shortfall in NRI contributions within the overall limit of 40 per cent;
- Select infrastructure projects of Rs.100 crore and above are taken up for detailed monitoring to remove bottlenecks and expedite implementation; and

Two additional activities, namely, "Credit Card Business" and "Money Changing Business" have been included in approved Non-Banking Financial activities for ODI and minimum capitalization norms have been dispensed with, in respect of non-fund based Non-Banking Financial activities. The measures introduced by the Government to liberalize provisions relating to ODI have been consolidated and further expanded into new areas. The Government is committed to promote increased inflow of ODI and its intended benefits such as better and high technology, modernization, increased opportunity of exports and providing products and services of international standards to Indian consumers.

Importance of Outside capital:

Outside Direct Investment involves the ownership and control of a Outside company in an Outside country. In exchange for this ownership, the investing country usually transfers some of its financial, technical, managerial, trademark and other resources to the recipient country. The international transfer of funds need not be prerequisite for this exchange. The Government of India, in March 2003 revised the ODI definition in line with international practices. The revised ODI data now includes 'equity capital' including that of unincorporated entities, non-cash acquisition against technology transfer, plant and machinery, goodwill, business development, control premium, and non-competition fees. It also includes 'reinvested earnings' including that of incorporated entities, unincorporated entities and reinvested earnings of indirectly held direct investment enterprises. Besides, 'other capital' including short-term and long-term inter-corporate borrowings, trade-credit, supplier credit, financial leasing, financial derivatives, debt securities, land and buildings are factored in. ODI is seen as a mean to supplement domestic investment for achieving a higher level of economic growth and development. ODI offer benefits to domestic industry as well as to the consumer by providing opportunities for technological up gradation, access to global managerial skills and practices, optimal utilization of human and natural resources, making industry internationally competitive, opening up exports market, providing backward and forward linkages and access to international quality goods and services.

The role of ODI has undergone tremendous changes since 1991. It is evident from the changing composition of the

ISSN:0971-1260
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Outside capital flow into India. When the whole world is marching ahead toward the "New Order", India is of no exception to this phenomenon in a globalized and well-integrated world. India's approach to development witnesses a gradual shift from the inward oriented import-substitution approach to the outward looking approach during the late 1980's and specifically after experiencing a severe crisis during 1990-91. It ultimately resulted in decontrol, delicensing and pursuance of a more liberal and investment friendly 'open door' policy towards ODI. In this context, private outside capital in general and ODI in particular has been widely recognized as an imperative input for sustainable development. In the process of global integration and Co-operation, the promotion and diversification of trade and ODI assumed greater importance in Indian economy.

ODI Inflows in India in Post Reform Era: India's economic reforms way back in 1991 has generated strong interest in Outside investors and turning India into one of the favorite destinations for global ODI flows. According to A.T. Kearney, India ranks second in the World in terms of attractiveness for ODI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's76 World Investment Report, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 18 years of reforms have helped ODI inflows grow significantly in India. The ODI inflows grow at about 20 times since the opening up of the economy to Outside investment. India received maximum amount of ODI from developing economies. Net ODI flow in India was valued at US$ 33029.32 million in 2008. It is found that there is a huge gap in ODI approved and ODI realized. It is observed that the realization of approved ODI into actual disbursements has been quite slow. The reason of this slow realization may be the nature and type of investment projects involved. Beside this increased ODI has stimulated both exports and imports, contributing to rising levels of international trade. India's merchandise trade turnover increased from US$ 95 bn in FY02 to US$391 bn in FY08 (CAGR of 27.8%).

India's exports increased from US$ 44 bn in FY02 to US$ 163 bn in FY08 (CAGR of 24.5%). India's imports increased from US$ 51 bn in FY02 to US$ 251 bn in FY08 (CAGR of 30.3%). India ranked at 26th in world merchandise exports in 2007 with a share of 1.04 percent. Further, the explosive growth of ODI gives opportunities to Indian industry for technological up gradation, gaining access to global managerial skills and practices, optimizing utilization of human and natural resources and competing internationally with higher efficiency. Most importantly ODI is central for India's integration into global production chains which involves production by MNCs spread across locations all over the world.

Economic Strategy Changes in India:

The poor economic conditions in the first phase led to rethinking of + the entire economic Strategy during 1977-84. This has resulted in the formulation of several committees to review the Strategy framework in general. They recommended a shift from physical to fiscal controls, Liberalization in industrial licensing and trade regime, export promotion in the place of import substitution, greater role for private sector, and measures to improve the performance and efficiency of public sector enterprises. All these recommendations had been taken into account by the government for further Strategy improvement. The economic reforms initiated in India really aimed at restoring macroeconomic balance and economic growth, regaining external credit worthiness and preparing the Indian economy to respond effectively to emerging global challenges and opportunities.Outside exchange regulations, controls and regulations of monopoly and Restrictive trade practices and Import Controls were evolved to direct private investment in conformity with planned objectives and targets. Human resource development, food self-sufficiency, diversified industrial structure etc. have been cited as some of the achievements of these Strategy changes. Still the functioning of the Indian economy was unsatisfactory on several counts. Neither the industrial growth nor the growth of the economy as a whole was impressive. Lack of competition due to protective shelter has resulted in high cost inefficient economy characterized by low and stagnant productivity. A plethora or rules and regulations have created a cumbersome system involving too many agencies leading to time and cost over-run for many investment proposals. Aggressive import substitution and export pessimism has led to Balance of Payments problems.

CONCLUSION:

In a globalized economy, the world marked is reduced as a village market. There is a wider transaction of goods and services between the countries in the world. Each and every country in the world has necessarily to depend other countries in the world for the development of their economy. ODI inflows and outflows create higher level of

ISSN:0971-1260
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employment generation in the world, because of the MNCs there is no questions of unemployment in the world in general, the Developing countries in particular but there is only a question of employability. The impact of ODI inflows into India in recent years is highly significant.In other words, these economic growth factors have a profound impact on the inflows of ODI in India. ODI plays a significant role in enhancing the level of economic growth of the country. This analysis also helps the future aspirants of research scholars to identify the main determinants of ODI at sectorial level. Finally, the study observes that ODI is a significant factor influencing the economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country.Outside direct investment occurs when a business invests in a Outside country by either acquiring a Outside business that it controls or starting a business in the Outside country. Even though global economies are suffering with financial crisis and other economic hurdles, India still stands as a global investment destination. Keeping in view of current requirements and benefits of the nation the government of India comes up with new policies from time to time. Government should design the ODI policy such a way where ODI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract ODI inflows at their own level. Further the study shows the share of ODI in different economic growth factors from 1995 to 2014. From the above discussions of the study, it is observed from the results of above analysis that Trade, GDP, Reserves GDP, Exchange rate, are the main determinants of ODI inflows to the country.

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