



STUDY OF FDI INFLOWS IN INDIA, TRENDS AND PATTERNS

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Abstract

The purpose of this study is to study changing trends in the flow of foreign direct investment (FDI) (With the adoption of new economic policy 1991 and subsequent reform process) India has witnessed a change in the flow and direction of foreign direct investment (FDI) into the country. This is mainly due to the removal of restrictive and regulated practices. Foreign direct investment in India increased from 409 crores in 1991-92 to 122,919 crores in 2008-09. However, the country is far behind in comparison to some of the developing countries like China. In so far as growth trend of FDI is concerned, there has been quite impressive growth of FDI inflow into the country during this period. However, negative growth rate is noticed during the period 1998 - 2000 primarily due to falling share of major investor countries, steep fall of approval by 55.7% in 1998 compared to 1997 and slackening of fresh equity. However, traditional industrial sectors like food processing industries, textiles, etc. which were once important sectors attracting larger FDI, have given way to modern industrial sectors like electronics and electrical equipments, etc. In this paper analysis on the potentiality and challenges of FDI in the country is discussed and open a room for future discussion.

Key Words : FDI, Liberalization, FIPB, FIPB, DIPP.

INTRODUCTION

Foreign direct investment has been directed towards the developed world, although the share of developing countries had been growing steadily until 1997 when it reached a peak of around 40 percent. There are three important features characterize FDI flows to emerging market Economies (EMEs) in the 1990s, owing largely to the adoption of macroeconomic and structural reforms by a number of these countries and the strengthening of their growth prospectus. Second, the surge in FDI, especially in the latter half of the 1990s was led by increased merger and acquisition activity .A number of EMEs in Latin America and eastern Europe including Argentina, Brazil, Mexico, and the Czech republic-undertook extensive privatization of state owned assets during this period which in many cases took the form of mergers and acquisitions ^[1]. Third, for a number of countries there was a significant shift of FDI into services sector in tandem with the increasing share of services activities in these

host countries. It may be noted that traditionally, FDI was directed towards the development of natural resources and manufacturing enterprises.

FOREIGN DIRECT INVESTMENT –INDIAN SCENARIO

With the liberalization of the capital account and the initiation of structural reform, there has been a marked shift in the magnitude and instruments of capital flows to India during the 1990s. Reflecting the growing confidence among international investors. FDI to India which stood at a low level of US \$97 million during 1990-91, picked up significantly thereafter, reaching a peak of US \$ 6.1 billion in 2001-02. FDI inflows have, however, showed down in 2002-03 in tune with the global scenario. However FDI inflows increase in 2009 up to 27,309 US \$ dollars.

Country-wise break up of FDI inflows reflecting the increasing importance of Mauritius as a source of FDI in India during the recent years. This pattern highlights the role of tax policies in influencing the pattern of FDI flows at the global level. The realisation of approved FDI into actual disbursements has been quite slow, the average realization ratio (i.e. actual inflows to approvals was about 36 percent over the entire period. Reason being that for this gap is the type of investment projects involved.

The data from 1991 to 2002 depicts that the approval and inflows have wide divergence implying there by a lower rate of realisation. The total FDI proposals approved from 1991-2002 amounted to Rs 2, 84,812 crores against just Rs 1,274 crores approved during the whole of the previous decades (1981-90). There is no doubt that it takes time for all these proposals to fructify into actual inflows. Unfortunately, the actual flows as a proportion of approvals were low till 1997. Industry- wise approvals of FDI from August 1991 to March 2009 reveal that for the entire period, basic goods industries accounted for about 39 percent of FDI. Out of this, the major share was appropriated by power (15.6 percent) and oil refineries (10.8 percent). Mining and metallurgy (ferrous and non- ferrous) accounted for 5.6 percent and chemicals only 4.6 percent. The next group in order of importance was that of services accounting for 37 percent of FDI.

The share of telecommunication was about 20 percent and that computer software was 6.4 percent financial services contributed to 4.2 percent .Capital goods and intermediate goods accounted for only 11 percent of FDI approvals. Although it is commonly believed that consumer durables are attracting large share of FDI, but that data reveal that they only accounted for 3.4 percent of FDI Consumer non durables shared about 10 percent FDI. Analysis of FDI approvals underlines the fact that nearly 75 Percent was accounted for by

basic goods industries, capital good and Telecommunication and computer software service, which are high on our priority list. Since segregated data about actual flows industry-wise is not available, it is not possible to comment whether the intensions are being realised in practice, are distorted in the process of implementation.

Although India took significant steps towards inviting FDI in pursuance of its policy of emphasizing non- debit creating capital inflows during the reforms period, the actual FDI inflows did not pick up on he expected lines. FDI inflows in India remained low in comparison of annual average FDI and FDI inflows for the period 1997-2001 shows that such inflows to India were lower than those to emerging market economies like Argentina, Brazil, China, Korea, Mexico, Thailand, and Malaysia, India's failure to attract enhanced inflows of FDI strongly underlines that need for further reforms^{[3] [4] [8]}. The data reported in the world investment report reveal that the receipts of FDI inflows in the top ten developing countries in 2002 was highest in China with US\$52.70 billion compared with US \$3.45 billion in India. The China has been the largest receipt of FDI inflows among the developing economies of Asia with its share 3.1 percent in the world total with 2.1 percent of Hon Kong and 0.5 percent of India. India is in the thick of tough competition to attract of FDI.

FDI inflows received by India during the 1990s showed a marked increase till 1997 when they peaked at \$3,682 million. However, in the subsequent period the inflows have stagnated despite progressive liberalization of the policy regime. In the year 2001, they rose again to a level of \$4.222 billion the expansion of FDI inflows in the mid-1990s can be partly attributed to the liberalization of FDI policy in the form of the opening up of new sectors, and partly to the expanded scale of global FDI inflows in the 1990s^[2]. Still, the magnitude of FDI flows into India is relatively small, especially if compared with those received by other countries in the region the difference is particularly striking in terms of making FDI contribute to manufactured exports. While foreign-owned enterprises contribute about 44 per cent of manufactured exports and about 80 per cent of high-technology exports in China, this share in India's exports was a marginal 3 per cent in the early 1990s and is unlikely to exceed 10 per cent at present⁷¹.

After the adoption of liberal foreign investment policy by government of India in 1991, FDI inflow has shown an upward trend in stock sense but varied in size over the period of time. FDI inflow in India has increased up to 5, 28,108 from 1991-2009 in cumulative sense. The inflow of FDI to the country has witnessed fluctuations during the period under consideration. It increased from 409 crores in 1991-92 to 13548 crores in 1997- 98, which

declined to 10311 crores in 1999-2000. It increased to a peak of 19361 crores in 2001-02 before declining in the subsequent years in 2002-03 and 2003-04. The inflow again increased to 17138 crores in 2004-05. From the period 2005-06 up to 2009 it continuously increased up to 85700 crores.

During this period, the growth rate was positive though it varied year to year. During the period 1991-2005, growth rate of FDI inflow to India was negative for four years (1998-99, 1999-2000, 2002-03 and 2003-04). The reasons for this negative growth can be substantiated with the help of various government publications in different times. Falling share of FDI inflow by key source countries like USA and Mauritius was a main reason for the decline of FDI inflow for the period 1998 to 2000. FDI inflows from Mauritius and USA declined by 34.5 percent and 34.1 percent respectively in 1998-99 over the previous year (Economic Census, 2000). One of the expected reasons for low inflow during the period may be the impact of Pokhran Nuclear tests, though there is no evidence at large scale (ENS Economic Bureau, 1999). Moreover, Germany, South Korea and Netherlands accounted for a decline of US\$ 391.3 million in 1998-99 compared to 1997-98. Similarly, inflows routed through Mauritius and USA declined by 15.1 percent and 21.6 percent in 1999-2000. Besides, FDI inflows from Japan also declined in 1999-00 compared to the previous period. There was steep fall of approvals in 1998 compared to 1997 (a reduction of 55.7 percent in dollar terms)^[9]. It is worrying to note that India's share in developing countries inflows declined from 1.9 per cent in 1997 to 1.4 percent in 1998. The reason of the overall decline in 2002-03 was principally slackening of fresh equity injected through FDI in the year 2002-03. During the year 2003-04 FDI inflows has shown a negative growth rate of 7.2 percent^[10]. The reduction can be attributed to a decline of \$ 379 million in fresh equity capital inflows in 2003-04. During the year growth rate was (-13.6) percent for equity capital and (-1.9) percent for reinvested earnings. The FDI inflows from Mauritius and Singapore increased up to 204,196 and 42,040 \$ million respectively in cumulative sense from 2000 to 2009.

RECENT FDI TRENDS IN INDIA

The major investing countries are Mauritius (mainly routed from developed countries), USA, Japan, UK, Germany, the Netherlands and South Korea. The States that account for maximum FDI are Maharashtra, Delhi, Tamil Nadu, Karnataka and Gujarat. During the first half of 2002 the FDI inflows went mainly into transportation industry, services, telecom and electronics/IT/software. Factors that are responsible for the recent spurt in FDI inflows into India are: (i) Progressive liberalisation of FDI policy has strengthened investor confidence –

opening up of new sectors (integrated townships, defence industry, tea plantations, etc.) removal of FDI caps in most sectors, including advertising, airports, private sector oil refining, drugs and pharmaceuticals, etc.; and greater degree of automaticity for investment. (ii) Liberalisation of foreign exchange regulations by way of simplification of procedures for making inward and outward remittances. (iii) Sectoral reforms, especially in sectors such as telecom, information technology and automobiles have made them attractive destination for FDI. (iv) Policy to allow foreign companies to set up wholly owned subsidiaries in India has enabled foreign companies to convert their joint ventures into wholly owned subsidiaries. The percentage of FDI through merger and acquisition route has increased to around 30 per cent (from around 10 per cent in 1999), which still much lower than the global percentage of 70-80 per cent. (v) Public sector disinvestment has finally emerged as an important means to promote FDI. (vi) Liberal policy towards Foreign Venture Capital Investment (FVCI) has given an impetus to investments in technology and infrastructure projects. (vii) Various investment facilitation measures taken by DIPP such as facility for electronic filing of applications, online chat facility with the applicants, online status on registration/ disposal of applications, dedicated e-mail facility for Investment related queries, etc., have also contributed substantially to improving investor confidence. On an average about 2,000 responses in a year are given to investors and potential investors^[3].

Government has set up an inter-ministerial Committee to examine the extant procedures for investment approvals and implementation of projects, and suggest measures to simplify and expedite the process for both public and private investment. The Committee, which was set up in September 2001, has submitted Part I of its report to the Government, which is under examination. A sub-Group of the Committee is specifically looking into simplification of procedures relating to private investment. The sub-Group will submit its report shortly.

The Foreign Investment Implementation Authority (FIIA) has been activated and now meets at regular intervals to review and resolve investment-related problems. A recent study conducted by FICCI, FIIA acknowledges that has emerged as a problem-solving platform.

The Government of India has taken many initiatives to attract FDI inflows, to boost the Indian economy since economic liberalization .As a result; India has received FDI to the tune of Rs 2,522,687.38 crore at the end of June 2007. FDI inflows in India has been analyzed on the basis of the following categorization, viz., year-wise, country-wise , sector- wise and region-wise FDI inflows .The year-wise FDI inflows in India are presented in Table1

Table1: Year wise FDI inflows in India

Year	Rs crores	Growth rate (%)	Amount (\$)	Growth rate (%)
1991-92	409	-	167	-
1992-93	1,094	167.47	393	135.32
1993-94	2,018	84.46	654	66.41
1994-95	4,312	113.68	1,378	110.09
1995-96	6,916	60.39	2,141	55.82
1996-97	9,654	39.59	2,770	29.38
1997-98	13,548	40.34	3,682	32.92
1998-99	12,343	-8.89	3,083	-16.27
1999-00	10,311	-16.64	2,439	-20.89
2000-01	12,645	22.64	2,908	19.23
2001-02	19,361	5.11	4,222	45.19
2002-03	14,932	-22.86	3,134	-25.77
2003-04	12,117	-18.85	2,634	-15.95
2004-05	17,138	41.44	3,754	42.52
2005-06	24,613	43.61	5,546	47.53
2006-07*	20,630	186.96	15,726	183.55
2007-08*	98,664	39.69	24,579	56.29
2008-09*	122,919	24.58	27,309	11.10

Source: www.dipp.nic.in/fdi.statistics/India

Note: -* Includes stock swap of share US\$ 3.2 billion for the year 2006-07 and US \$ % 5.0 billion for the year 2007-08.

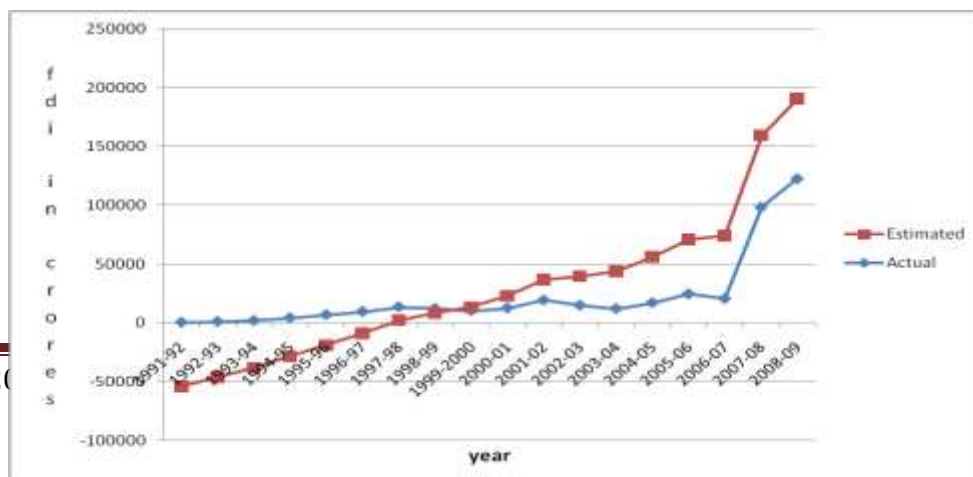
Table1 shows the year wise FDI inflows in India. It is clear from the table that FDI inflows went up from 409 crore in 1991-92 to Rs 122,919 crores in 2008-09 i.e. an increase by more than 40 times within a span of 18 years. This is mainly due to the initiatives (liberal policies) taken by the Government of India in attracting FDI inflows in India ^[5]. However, there has been inconsistency in the growth rate of FDI inflows. The FDI growth rate was positive till the end of 1997-98, but thereafter it was negative in the year of 1998-99, 1999-00, 2002-2003, and 2003-2004 and positive in 2000-2001, 2001-2002, and 2004-2005. The growth rate in FDI inflows was the highest in 1992-1993 and the decline rate was highest in 2002-03, as compared to their respective previous years. The growth rate was again highest in 2006-07, but it declines in 2008-09.

Table 2:- Year wise FDI inflows in India: Trend values

YEAR	Y = Current Year Figures	YC = Trend in relation to Base Year
1991-92	409	-54403.4
1992-93	1,094	-47197
1993-94	2,018	-39990.5
1994-95	4,312	-32784
1995-96	6,916	-25577.6
1996-97	9,654	-18371.1
1997-98	13,548	-11164.6
1998-99	12,343	-3958.16
99-2000	10,311	3248.315
2000-01	12,645	10454.79
2001-02	19,361	17661.26
2002-03	14,932	24867.73
2003-04	12,117	32074.2
2004-05	17,138	39280.67
2005-06	24,613	46487.14
2006-07	20,630	53693.61
2007-08	98,664	60900.08
2008-09	1,22,919	68106.55

Source: Calculated on the basis of Table 1

Fig 1 Estimated Trend lines on the basis of Table 2



The trend values of FDI inflows in India are presented in the table 2, shows that the estimated trend values from 1991-92 to 1998-99 are negative, where as actual inflows show positive trend i.e. actual inflows increases. Year 2000-01 to 2009 shows that both estimated values and actual inflows increased ^[6]. The table shows the inverse relationship between actual inflows and estimated values from 1991-92 to 1998-99, but from the period 2000-01 to 2008-09 it depicts direct relationship between actual inflows and estimated values.

COUNTRY-WISE FDI INFLOWS

The country-wise FDI inflows in India from top ten investing countries, reveals that Mauritius has been investing the most in various sectors of Indian economy among the top ten investing countries in India from August 1991 to 2009. Out of the total FDI inflows from the top ten investing countries, 44% was from Mauritius at the end 2009. Further it also reveals that inflows of FDI from France is the lowest among the top ten investing countries accounting only to the tune of 1 % in the total. The Singapore, USA and U.K stood at second, third and fourth positions among the top eight investing countries in India in terms of FDI. The FDI inflows from Mauritius were 44,483 and 50,794 crores during the period, 2007-08 to 2008-2009. There is inconsistency in the share of FDI inflows from almost all the countries.

Table 3 : Share of top investing countries FDI equity inflows crores (US\$ in millions)

Amount Rupees in crores

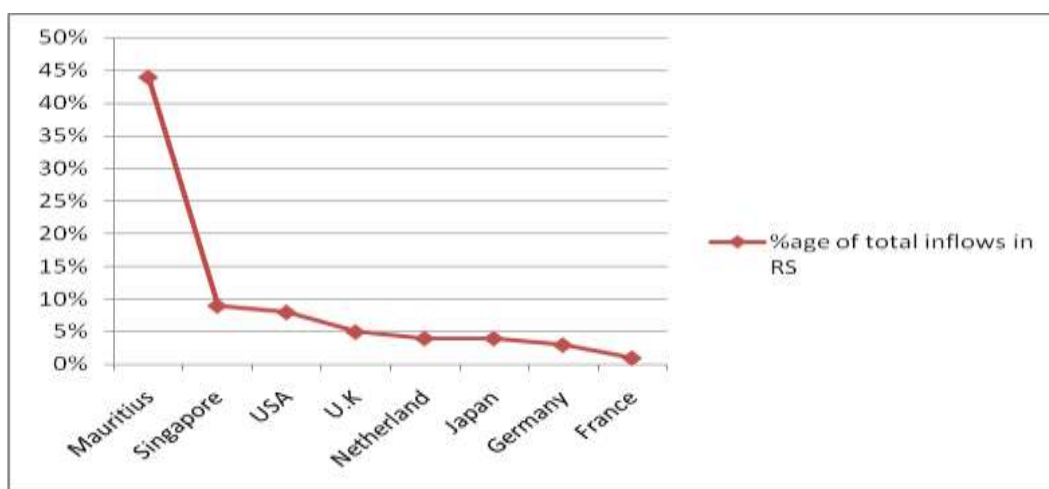
Rank	1991-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Cumulative inflows (April 00 to Dec.09)	%age of total inflows in RS
Mauritius	27,446	3,766	2,609	5,141	5,033	28,759	44,483	50,794	42,924	204,196	44 %
Singapore	1,997	180	172	822	660	2,662	12,319	15,727	8,188	42,040	9 %
USA	12,248	1,504	1,658	3,055	1,498	3,861	4,377	8,002	7,577	35,536	8 %
U.K	4,263	1,617	769	458	845	8,389	4,690	3,840	1,841	24,746	5 %

Netherland	3,856	836	2,247	1,217	70	2,905	2,780	3,922	3,687	19,539	4 %
Japan	5,099	1,971	360	575	410	382	3,336	1,889	5,197	16,421	4 %
Germany	3,445	684	373	663	170	540	2,075	2,750	2,581	12,069	3 %
France	1,947	534	176	537	36	528	583	2,098	1,158	6,639	1 %

Source: www.dipp.nic.in/fdi.statistics/India

Table 3 also reveals that Mauritius is the top most investing country in various sectors of Indian economy. Further it also reveals that Germany and France are the lowest among the top eight investing countries in India.

Fig 2 : Percentage of Total Inflow in INR



SECTOR-WISE FDI INFLOWS IN INDIA

The Department of Industrial Policy and Promotion has recently modified the classifications of the sectors and data released from August 2007 has been based on the new sectoral classifications. According to that classification, the top performers are the services and computer software & hardware sectors. Clearly, India has attracted significant overseas investment interest in services. It has been the main destination for off-shoring of most services as back-office processes, customer interaction and technical support. Indian services have also ventured into other territories such as reading medical X-rays, analyzing equities, and processing insurance claims. However, increasing competition is making it more difficult for Indian firms to attract and keep BPO employees with the necessary skills, leading to increasing wages and other costs.

Considering the sectoral composition of FDI over the period August 1991 to September 2006, shows that the largest recipient of such investment was the sector of electrical equipment (including computer software and electronics).The share of this sector in

cumulative FDI inflows over the period was 17.54 % (i.e. one sixth). It was followed by service sectors (share 12.69%),telecommunication industry (share 10.39%),transportation industry (share 9.31%),power and oil refinery (share 7.45%),chemicals excluding fertilizers (share 5.79%),food processing industries (share 3.12%),drugs and pharmaceuticals (share 2.91%),metallurgical industries (share 2.14%)and cement and gypsum products (share 2.14%).in fact these ten sectors accounted for more than 70%of the FDI in India.

The information technology industry is one of the growing sectors in India. In the Asian pacific region India is one of the leading country pertaining to the information technology industry. With more international companies entering the industry, the Foreign Direct Investments (FDI) has been continuous over the year. The rapid development of the telecommunication sector was due to the FDI inflows in the form of international players entering the market and transfer of advanced technologies. The Telecom industry is one of the fastest growing industries in India. With a growth rate of 45%.The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is due to the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction finance scheme, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharma Industry in India. Multinational pharmaceutical corporations outsource these activities and help the growth of the sector. The Indian Pharmaceutical Industry has been experiencing a vast inflow of FDI. The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such Holcim, Heidelberg, Italcementi, Lafarge, etc. The FDI in Semi-conductor sector in India were crucial for the development of the IT and the ITES sector in India. Electronic hardware is the major component of several industries such as information technology, telecommunication, automobiles, electronic appliances and special medical equipments.

The country is said to be developed only when there is development in all sectors of the economy. Accordingly, the government of India has been trying to attract foreign capital in all sectors of the economy. The FDI inflows from August 1991 to October 2005, the Electrical equipments including software industries enjoyed the lion's share, as compared to all other sectors of the Indian Economy. Out of total, 14.93% of FDI inflows went to the

service sector and 2.14% to the Metallurgical industries in India. These refers to the highest and the lowest percentages respectively in total FDI inflows in India, from August 1991 to October 2005. This signifies the importance of the service sector in the development of Indian economy. Further, it also reveals that the FDI inflow was also highest in Transportation industry between 1991 to October 2005.

The Table 4 shows that out of the total FDI inflows from April 2006 to December 2009, the service sector enjoyed the highest share of 22% of FDI inflows as compared to other sectors of the Indian economy. When we compare it with the last years data, the largest share goes to the electric equipment including software i.e. 14.93%. Here in Table 4 computer software and Hardware attains the second position i.e. 9% of the total share of FDI inflows and chemicals 2% in India. These refer to the highest and the lowest percentage respectively in total FDI inflows in India from April 2006 to December 2009. This signifies the importance of service Sector in the growth of Indian economy. Further there has been no consistency in the growth of FDI inflows.

Table 4 .SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS:

Amount Rupees in crores (US\$ in millions)

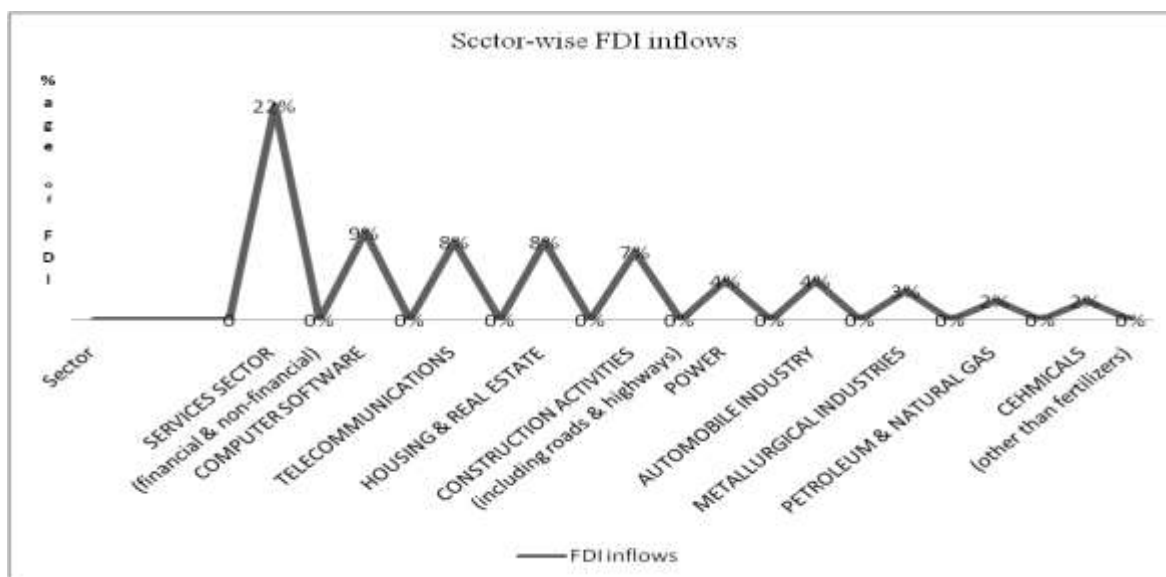
<i>Ranks</i>	<i>Sector</i>	<i>2006-07 (April- March)</i>	<i>2007-08 (April- March)</i>	<i>2008-09 (April- March)</i>	<i>2009-10 (April- Dec. '09)</i>	<i>Cumulativ e Inflows (April '00 - Dec. '09)</i>	<i>% age to total Inflows (In terms of rupees)</i>
1.	SERVICES SECTOR (financial & non-financial)	21,047 (4,664)	26,589 (6,615)	28,411 (6,116)	17,074 (3,547)	101,527 (22,796)	22 %
2.	COMPUTER SOFTWARE & HARDWARE	11,786 (2,614)	5,623 (1,410)	7,329 (1,677)	2,857 (595)	42,353 (9,549)	9 %
3.	TELECOMMU NICATIONS (radio paging, cellular mobile, basic telephone services)	2,155 (478)	5,103 (1,261)	11,727 (2,558)	11,442 (2,359)	39,809 (8,735)	8 %
4.	HOUSING & REAL ESTATE	2,121 (467)	8,749 (2,179)	12,621 (2,801)	11,472 (2,383)	35,255 (7,896)	8 %
5.	CONSTRUCTI ON ACTIVITIES (including roads & highways)	4,424 (985)	6,989 (1,743)	8,792 (2,028)	10,543 (2,218)	32,720 (7,409)	7 %

6.	POWER	713 (157)	3,875 (967)	4,382 (985)	6,088 (1,258)	20,099 (4,448)	4 %
7.	AUTOMOBILE INDUSTRY	1,254 (276)	2,697 (675)	5,212 (1,152)	4,696 (976)	19,763 (4,365)	4 %
8.	METALLURGI CAL INDUSTRIES	7,866 (173)	4,686 (1,177)	4,157 (961)	1,613 (336)	13,118 (3,060)	3 %
9.	PETROLEUM & NATURAL GAS	401 (89)	5,729 (1,427)	1,931 (412)	1,085 (219)	11,262 (2,612)	2 %
10.	CEHMICALS (other than fertilizers)	930 (205)	920 (229)	3,427 (749)	1,258 (264)	10,825 (2,398)	2 %

Source: www.dipp.nic.in/fdi.statistics/India

Note: Cumulative Sector- wise FDI inflows (from April 2000 to December 2009).

Fig 3 : Sector-wise FDI Inflow



Note: Trend line based on Table 4

REGIONAL DISTRIBUTION OF FDI INFLOW TO INDIA:

Regional distribution of FDI is probably one of the prominent indicators to gauge the local business investment climate with a strong implication for the state policy maker. FDI inflow besides other regional distribution of FDI inflow shows disparity in regional level, which is evident from table during the period April 2000 to December 2009, a total number of inflows received with an amount of Rs 493,664.65 crores. The share of major FDI attracting six

regions in terms of percentage was about 76.93 percent. Mumbai tops the list with a share of 35.89 percent of the total approved amount of FDI to India followed by Delhi (19.40 percent) and Bangalore (6.358percent). Out of sixteen regions as mentioned in the table, two regions and states covered under these regions are above the average level for the mentioned period, which comprises 55.29 percent share of total FDI approved amount. One interesting fact of the regional distribution of FDI to India is that nine regions as shown in the table, which has individual share of less than one percent, attract only 1.74 percent of total FDI inflows. The RBI's region-wise FDI inflows from January 2000 to June 2007 is evident that Mumbai region of the RBI had the Lion's share of total FDI inflows in India from January 2000 to 2009. Further, New Delhi region of the RBI stood at second position during the same period. In addition, Mumbai and New Delhi of the RBI together account for around 50 percent of the total FDI inflows in India. This indicated that the FDI inflows were concentrated mostly in these two regions. However, the FDI inflows in Patna and Guwahati regions of the RBI were very less and both taken together are less than 1 percent of the total.

It is also observed from table 5 that regions like Patna, Kanpur, Guwahati, Bhubaneswar and Bhopal, which received a small number of FDI inflows from 2000 to 2009 i.e. (0.0 percent, 0.05, 0.06, 0.17 and 0.18 percent respectively), which implies pathetic condition of local business environment. Foreign investors are attracted towards developed states like Mumbai and New Delhi due to a number of reasons (Narayana, 2006 and Business Today, 2003). Availability of power at affordable rate, availability of raw materials, availability of labour, proximity to markets, connectivity to international cities, flexibility of state government policies, advance banking facilities, telecom facilities, hassle free regulation, overall business environment, developed IT sector, etc. are some factors which attract FDI to these states. Above all investment incentives are very much attractive to conduct a business in these regions.

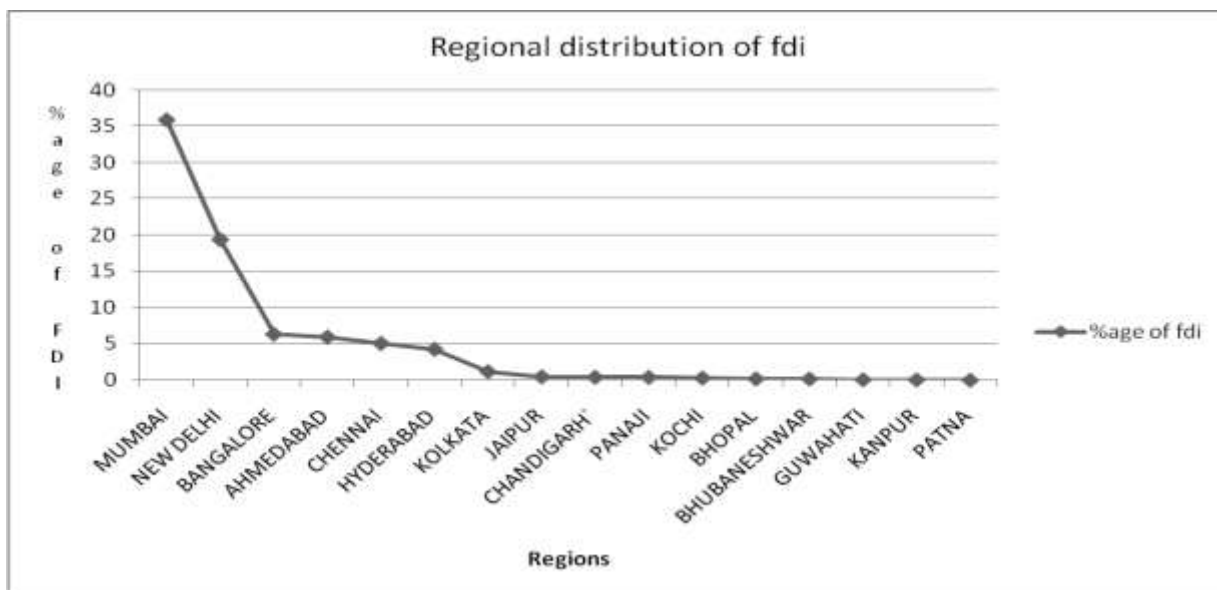
**Table 5 STATEMENT ON RBI'S REGIONAL OFFICES (WITH STATE COVERED)
RECEIVED FDI EQUITY INFLOWS
(from April 2000 to December 2009):**

S. No.	RBI's - Regional	State covered	Amount of FDI Inflows	%age with FDI inflows
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	Office2		<i>Rupees in Crores</i>	<i>US\$ in million</i>	
1	MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	168,442.62	37,803.12	35.89
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	91,077.15	20,144.47	19.40
3	BANGALORE	KARNATAKA	29,789.25	6,736.95	6.35
4	AHMEDABAD	GUJARAT	27,927.48	6,328.95	5.95
5	CHENNAI	TAMIL NADU, PONDICHERRY	23,819.42	5,299.34	5.07
6	HYDERABAD	ANDHRA PRADESH	20,043.49	4,531.91	4.27
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	5,506.61	1,297.84	1.17
8	JAIPUR	RAJASTHAN	2,201.99	465.46	0.47
9	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	1,987.79	434.22	0.42
10	PANAJI	GOA	1,844.88	399.48	0.39
11	KOCHI	KERALA, LAKSHADWEEP	1,396.41	310.48	0.30
12	BHOPAL	MADHYA PRADESH, CHATTISGARH	841.73	186.65	0.18
13	BHUBANESHWAR	ORISSA	794.60	171.00	0.17
14	GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	262.26	60.31	0.06
15	KANPUR	UTTAR PRADESH, UTTRANCHAL	220.70	47.52	0.05
16	PATNA	BIHAR, JHARKHAND	1.78	0.39	0.00
17	REGION NOT INDICATED3		93,206.44	21,103.67	19.86

Source: www.dipp.nic.in/fdi.statistics/India

Fig. 4 : Regional Distribution of FDI



Note: Trend Lines are based on 5

FOREIGN INVESTMENT AND FOREIGN EXCHANGE RESERVES IN INDIA:-

There has been increase in foreign exchange reserves accumulation in India during previous decades on account of foreign investment inflows. During nineteen seventies, foreign exchange reserves increases amounted to US \$ 6084 million. External assistance, which contributed most to the capital inflows, was the major contributor to foreign exchange reserves. During nineteen eighties, there has been heavy deficit on the current account to the extent of US \$ 44140 million. Capital accounted totalled US \$ 39317 million only. Foreign investment amounted to US \$ 1396 million only. This was an improvement over the previous decades but there was decrease in foreign exchange reserves to the extent of US \$ 7916 million.

The post liberalization period resulted a large increase in foreign exchange reserves. The foreign exchange reserves has increased from 23850 crores in 1991-92 79781 in 1994-95, but it decrease in 1995-96 to 74384 crores. Despite the marked declaration in capital inflows during 1998-99, there was net increase I foreign exchange reserves to the extent of 138005 crores. The declaration in private capital inflows in 1998- 99 was partly offset by an inflow of US \$ 4.2 billion from Resurgent India Bonds for NRIs/OCBs. During 2000-01 the foreign exchange reserves increase up to 197204 crores. A large of this accumulation can be explained by funds raised under the MD scheme. The foreign exchange reserves have shown

an upward trend from 2001-02 to 2008-09, which rises from 264036 crores to 1283865 crores.

Table 6 Growth rates of FDI and Foreign exchange reserves.

Year	Rs crores	Growth rate (%)	For. Reser.	Ex.	Growth rate (%)
1991-92	409	-	23850		0
1992-93	1,094	167.47	30744		28.90566
1993-94	2,018	84.46	60420		96.52615
1994-95	4,312	113.68	79781		32.04403
1995-96	6,916	60.39	74384		-6.76477
1996-97	9,654	39.59	94932		27.62422
1997-98	13,548	40.34	115905		22.09266
1998-99	12,343	-8.89	138005		19.06734
1999-00	10,311	-16.64	165913		20.22246
2000-01	12,645	22.64	197204		18.85988
2001-02	19,361	5.11	264036		33.88978
2002-03	14,932	-22.86	361470		36.90179
2003-04	12,117	-18.85	490129		35.59327
2004-05	17,138	41.44	619116		26.31695
2005-06	24,613	43.61	676387		9.250447
2006-07*	20,630	186.96	868222		28.36172
2007-08*	98,664	39.69	1237965		42.58623
2008-09*	122,919	24.58	1283865		3.707698

Source: www.dipp.nic.in/fdi.statistics/India

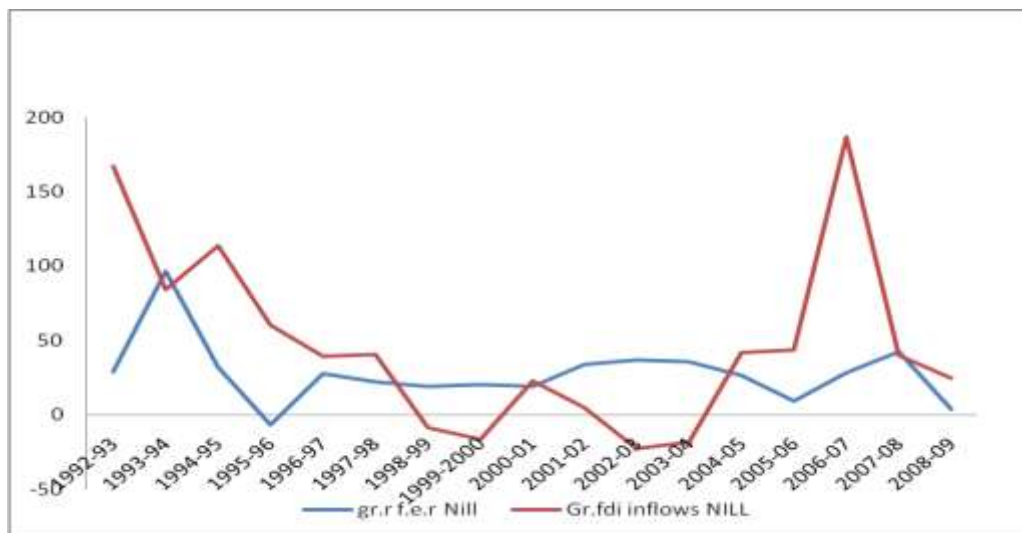


Fig. 5 Trend Lines are based on calculated Growth rate of Table 6

Trends in FDI inflows by various channels:-

The policy change in post reform period brought a major alteration in terms of actual inflows of FDI and through various channels. The total FDI inflows in absolute term has gone up from US \$ 130 million in 1991-92 to a staggering US \$ 3557 million in 1997-98, recording an annual average growth of 79 % during the period 1991-98.

During initial years of reform period, there used to be a large gap between FDI pledged during approval and actual FDI inflows realized in the country. That is percentage share of FDI inflows in FDI approvals, which averaged at 28.25 % during the period 1991-92 to 1997-98. The large difference between approvals and inflows during the early period 1991-92 to 1997-98 may be due to phased liberalization process of FDI adopted during 1991.and subsequently during 1997-2000. During the early period many sectors were kept outside the FDI on sectors available for FDI were tagged with FDI limit and other terms and conditions in the form of special case-by-case approval. If the FDI proposal was outside the automatic channel. Secondly during initial period, investors were cautious about continuity of the policy changes in future. These factors would have led to the large difference in FDI inflows and approvals, which is subsequently narrowed during the second period 1998-99 and 2002-03. Dual channels of FDI approvals, viz, RBI automatic route and govt. (FIPB/SIA) channels were opened to attract FDI into India. While RBI automatic route was opened for FDI in most preferred high priority sectors with an equity cap, govt. channel was opened to deal with proposals coming outside the purview of automatic channel. Third channel was through NRI channel basically entertained through RBI. During the post policy period 1991-92 to 1997-98, out of total FDI inflows of US \$ 10872 million, FDI inflows through RBI automatic channel were quite meagre at US \$ 806 million, comprising only 7.41 %. On the other hand, FDI inflows through FIPB/SIA were quite high at US \$ 7195 million, comprising 66.18 % of total FDI inflows during the period, FDI inflows through NRI route were US \$ 2375 million, with a percentage share of 21.85 % of total inflows during period. FDI through acquisition of shares was reported from 1996. Such FDI inflows rose from US \$ 11 million 1995-96 to US \$ 360 million between 1995-96 and 197-98.

The table shows that foreign direct investment inflows amounted to US \$ 15438 million from the liberalization period of 1991- 2000. From the period of 2000 to 2002 FDI inflows from FIPB route/ RBIs automatic route and acquisition route has increased from US \$ 2339 million to US \$ 3904 million, likewise other capital investment increased from US \$ 4029 to US \$ 6,130. The investment by foreign institutional investors (FII's) has decreased from US \$ 1874 to US \$ 1505 million, while as from 2002-2004 FDI from FIPB and acquisition has decreased from US \$ 2574 to US \$ 2197 million. Equity capital of unincorporated bodies has also decreased from US \$ 190 to US \$ 32 million, but other capital increased from US \$ 438 to US \$ 633. The total FDI inflow has decreased from US \$ 5053 to US \$ 4322 million.

While percentage growth rate decreased from -18 to -14 %. The FII's has shown a tremendous increase from US \$ 377 to US \$ 10,918 million.

The FDI inflows from FIPB route/ RBI's route has increased from 2005-06 up to 2008-09 i.e. US \$ 5540 million to 27329 respectively. While as other capital investment has shown fluctuations. In case of percentage growth, FDI increased from US \$ 40 to US \$ 146 million, but decreased in subsequent years. The investment by foreign institutional investors (FII'S) shows a fluctuation from 2005 to 2008-09.

**TABLE 7 FOREIGN INVESTMENT FLOWS BY DIFFERENT CATEGORIES
(AMOUNT US \$ MILLION)**

Financial year (April-March)	Equity		Reinvested Earnings	Other capital	FDI inflows		Investment by FIIs Foreign institutional investors fund (net)
	FIPB route/RBIs Automatic route /Acquisition Route	Equity capital of unincorporated bodies			Total FDI inflows	%age growth over previous year	
A.1991-2000 Aug.toMarch	15,483	-	-	-	15,483	-	-
(B) 2000-2009							
2000-01	2,339	61	1,350	279	4,029	-	1,847
2001-02	3,904	191	16,45	390	6,130	52	1,505
2002-03	2,574	190	1,833	438	5,035	-18	377
2003-04	2,197	32	1,460	633	4,322	-14	10,918
2004-05	3,250	528	1,904	369	6,051	40	8,686
2005-06	5,540	435	2,760	226	8,961	48	9,926
2006-07	15,585	896	5,828	517	22,826	146	3,225
2007-08	24,575	2,292	7,168	327	34,362	51	20,328
2008-09	27329	666	6,426	747	35,168	02	-15,017
2009-10	15,272	385	1,696	391	17,744	-	15,284
Total	102,565	5,676	32,070	4,317	144,628	-	57,059
Cumulative total A+B	118,048	5,676	32,072	4,317	160,111	-	

Source: www.dipp.nic.in/fdi.statistics /India

CONCLUSION

An attempt has been made in the present chapter to analyse the prevailing patterns of foreign direct investment inflows into the country during different periods. The changing pattern reflects the growing investor's confidence in the country.

There have been substantial increases in FDI inflows since 1991. Government of India has taken many initiatives to attract FDI inflows, to boost the Indian economy since economic liberalization. As a result, India has received FDI inflows from 1991 to 2008-09 was 409, 122,919 crores respectively.

The country- wise FDI inflows reveals that Mauritius is the top investing country in India, out of the FDI inflows. Mauritius share was 44% out of the total FDI inflows since 1991-2009 while as France share was only up to 1 % of the total FDI inflows. Considering the sectoral composition of FDI over the period of 1991- 2006, shows that the largest recipient of such investment was the sector of electric equipment (including computer software and electronics). The share of this sector in cumulative FDI inflows over the period was 17.54%. But from the period 2006 to December 2009, the service sector enjoyed the highest share of 22% of FDI inflows as compared to other sectors of Indian economy. Regional distribution of FDI is probably one of the prominent indicators to gauge the local business investment climate with a strong implication for the state policy makers. The share of major FDI attracting regions in terms of percentage was about 76.63%, Mumbai tops the list with a share of 35.89 % of the total approved amount of FDI to India. However, the FDI inflows in Patna, Kanpur and Guwhati regions of the RBI were very less and both taken together are less than 1 % of the total. There have been substantial increases in foreign exchange reserves accumulation in India during previous decades on account of foreign investment inflows. There is a marked difference between the foreign direct capital approved and its actual inflows. An insight into the facts shows that post approval hassles, setting up of foreign investment promotion council in place of Indian investment centre, ambiguous agenda of the state governments on foreign investment, overestimating Indian market non-competitive Indian banks, political instability and lack of interaction with credit rating agencies are the main factors behind the wide gap between impressive foreign investment approvals and sluggish and actual foreign direct investment inflows.

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