Trends in FDI Inflows to India after Liberalization

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ABSTRACT

This paper examines the booming foreign direct investment in post reform period to India due to legal issues and its impact on Indian economy. During the decade of the 90s foreign direct investment was one of the major external sources of financing for most of the countries that were growing from an economic perspective. India has continually sought to attract FDI from the world's major investors. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage FDI and present a favourable scenario for investors. Emerging markets possess a lot of potential for FDI. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. It has enabled India to achieve a certain degree of financial stability, growth and development. With continued liberalization of the Foreign Direct Investment (FDI) policy, procedural relaxations, the sustained growth in the economy, and a favorable investment regime, a horde of global corporations are keen on investing in India. India continues to be regarded as one of the fastest expanding economies. The liberalization policy of the country has improved the investment climate of the country for foreign investors. This paper tried to explore the impact of liberalized policies on FDI inflow in India and its impact on economic growth.

Key Words: FDI, Economic development, Post-reform, Economic Growth

Introduction

One of the advantages of foreign direct investment is that it helps in the economic development of the destination country, especially the destination developing country. During 1990s foreign direct investment (FDI) was one of the major external sources of financing for most of the developing countries.

Foreign direct investment also permits the transfer of technologies and training of personnel. The former is done basically through the provision of capital inputs. The latter is facilitated by providing training to the employees of destination country on the existing facilities in the country of origin. It has normally been observed that foreign direct investment allows for the development of the manufacturing sector of the recipient country, creates new jobs and provides a boost to the salaries of workers. This should enable them to get access to a better lifestyle and more facilities in life.

Foreign direct investment can also bring in advanced technology and skill set in the destination country. There is also some scope for new research activities being undertaken. Foreign direct investment assists in increasing the income that is generated through revenues realized through taxation. It also plays a crucial role in the context of rise in the productivity of the host countries. It has also been observed that as a result of receiving foreign direct investment from other countries, it has been possible for the recipient countries to keep their rates of interest at a lower level. It becomes easier for the business entities to borrow finance at lesser rates of interest. The biggest beneficiaries of these facilities are the small and medium-sized business enterprises. In case of countries that make foreign direct investment in other countries this process has positive impact as well. In case of these countries, their companies get an opportunity to explore newer markets and thereby generate more revenue and profits. It also opens up the export window that allows these countries the opportunity to cash in on their superior technological resources.

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Emerging markets possess a lot of potential for FDI. The World Development Report 2005 focuses on FDI and calls on poor countries to adopt liberal policies to facilitate investment climate, which in turn enhances development. Most developing countries consider FDI as an important channel for accessing resources for economic development. FDI represents transfer of a bundle of assets like capital, technology and access to export markets, skills and management techniques and modern environment management system.

The year 1991 marks a new growth phase of FDI in India with an all time high flow of FDI. Foreign Direct Investment (FDI) has boomed in post reform India. Moreover, the composition and type of FDI has changed considerably since India has opened up to world markets. This has fuelled high expectations that FDI may serve as catalyst to higher economic growth.

A parent business enterprise and its foreign affiliate are the two sides of the FDI relationship. Together they comprise an MNC. The parent enterprise through its foreign direct investment effort seeks to exercise substantial control over the foreign affiliate company. 'Control' as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares or access to voting rights in an incorporated firm. For an unincorporated firm one needs to consider an equivalent criterion. Ownership share amounting to less than that stated above is termed as portfolio investment and is not categorized as FDI.

This paper attempts to study the composition and trends of FDI in India since liberalization, and analyze impact of recent policies on FDI.

2. Review of Literature

National policies are key for attracting FDI. These policies have to be seen in the broader context as determinants of FDI, among which economic factors predominate. Policies are decisive in preventing FDI from entering a country. But once an enabling FDI regulatory framework is in place, the economic factors become dominant. Even then, the regulatory regime can make a location more or less attractive for foreign investors and for maximizing the positive developments of FDI, while minimizing negative ones (Borenzstein et al., 1998). Foreign Direct Investment consists of long term holdings of equity which aim to control or exercise influence over local firms. FDI has become increasingly linked to trade as it is no longer sufficient simply to ship products across borders to customers waiting in 'foreign lands'. Customer and business products often require local servicing operations as well as research & development and marketing enterprises, if they are sold effectively in other countries (Litan, 2000). The quality of FDI spillovers depends on the scope and competence of the subsidiary. These depend partly on factors internal to Multinational Enterprises (MNEs), including their internationalization strategy, the role of particular affiliates in their global system and the motivation for their investment. Internal strategies interact with host country capabilities and resources (Benito et al., 2003).

Countries seek FDI to promote their growth and development with its package of tangible and intangible assets, FDI can contribute directly and indirectly to building capabilities. The growing appreciation of the benefits of FDI reflects several factors. Concessional aids in dealing with various financial crises have created a preference for long-term and more stable capital inflows. Access to innovative technologies is more important. And some of earlier fears about FDI may have been exaggerated, given the economic benefits that many developing countries have drawn from FDI. Many governments are now more confident in dealing with MNCs as MNCs have learned to be more responsive to the concerns and priorities of host countries (Basu et al., 2003).

Foreign investment takes two forms Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI). Foreign direct investment helps to increase the productive capacity of the economy, while foreign portfolio investment is of more speculative nature and is thus very volatile. A careful perusal of the data about foreign investment flows during the nineties reveals that during 1990-91 and 1994-95, the share of FDI was only 24.2 percent. In other words, only one-fourth of the total foreign investment was directly available for increasing productive capacity while about three-fourth was volatile. In the subsequent period (1995-96 to 2000-01), portfolio investment started declining after 1994-95 and it became negative in 1998-99. It can be seen that for the same period the proportion of FDI in total investment improved to 53%. However, the share of portfolio investment is still high at about 47 percent. The total average inflow of foreign investment during the six years period (1995-96 to 2000-01) was $ 4.85 billion which was just half the level targeted by the Government of India, that is $10 billion. India has not benefited from FDI to the extent to which the globalization had made us to believe that it would (Datt & Sundharam, 2003).

The best way of attracting and drawing benefits from FDI is not always passive liberalization (Kumar, 2003). Liberalization can help get more FDI, but alone it is not enough. Investment now requires stronger locational advantage and more focused efforts at promotion. Getting FDI in technologically advanced or export oriented activities is even more demanding (Bhalla, 2005). Investment and technology are crucial to economic growth and competitiveness in international trade. One of the reasons for the phenomenal success of China in manufacturing is the huge foreign direct investment that it has been attracting, especially in export-oriented production. The importance of foreign investment can be appreciated from the fact that nearly a third of world trade today is between transnational and their affiliates (Gupta, 2005). India's approach to foreign investment has of late become positive, but a lot is still required to be done. Also, there is a need to evolve a composite approval system that would accord all approvals simultaneously, including the approvals required from different state-level agencies and technological advancements (Joshi, 2005).

Liberalization of norms relating to FDI and adoption of a policy stance supportive of globalization do not by themselves ensure that the economy would attain a high growth path. On the contrary, such policies could, in fact, be inimical to the long term development process of a country in the absence of 'safeguards' (Mathiyazhagani, 2005). If FDI is to be utilized for sustaining growth process of a country, it is essential to create local technological capabilities. In order to create such process within an economy, the Government has to formulate a strategic FDI policy. Government intervention in factor markets in order to develop local skills and to target FDI in areas where the country has dynamic comparative advantage, aimed at reducing macro level ineffectiveness and improving micro level conditions (Arabi, 2005). These basic theoretical proportions have been put to work through cross border financial flows to the advantage of many organizations which seek to business globally (Kefer & Steve, 2006; Shajahan, 2006).

India is emerging as a top destination for FDI in services. In the early 1990s, India's services exports were amounted to just US $ 0.5 billion. Presently, this figure has touched an all time high of US $ 12 billion (Badar, 2006). However, China is still at top in the developing countries for export oriented FDI in manufacturing and it is able to attract so much of FDI because of its infrastructural advantage and favourable environment. Its connectivity to the developed world is very impressive (The Hindu Business Line, 15 July 2005). In the remaining sectors /activities, FDI up to 100% would be allowed on the automatic route (Global Vistas, 2006).

Important factors which are conductive to FDI Inflows in electronics are the availability of low-cost, efficient, and technically skilled workforce, opportunities for the manufacturing of consumer electronic goods and mobile handsets are high given the growing demand in the domestic electronics market, electronics hardware is growing leaps and bounds globally, large-scale manufacturing units of electronics hardware will be set up in the special economic zones with a total exemption of duties and taxes (Safiuddin, 2010).

At present, the government allows FDIs in real estate, but does not permit foreign institutional investment. It is, however, considering a proposal not to view FDIs and FII as distinct investment flows while specifying an overall limit. It is yet to permit foreign venture capital investors (FVCI) in the realty sector. To ensure that the concept of special economic zones (SEZs) did not distort the realty market, the RBI has classified lending to SEZs on par with commercial real estate, according it higher risk weight and provisioning. India in the next five-year period is estimated to require investments worth US $ 25 billion with the urban housing sector. This again has opened up opportunities for foreign investments in the realty sector. The Central government allowed up to 100% FDIs for setting up townships in 2002. However, the flow of FDI's investments has been thwarted by the 100 acre criterion; since acquiring such a large chunk of land was impossible in metropolitan cities and even satellite cities and state capitals (Mamata, 2011).

The economic activities which registered significant growth in Q3 of 2010-11 over Q3 of 2009-10 are: agriculture, forestry & fishing at 8.9 per cent, construction at 8.0 percent, trade, hotels, transport and communication at 9.4 per cent, and financing, insurance, real estate and business services at 11.2 per cent. The growth rate in mining & quarrying, manufacturing and community, social and personal services is estimated at 6.0 per cent, 5.6 per cent and 4.8 per cent respectively in this period (Trading Economics, 2011).

The last two decades has witnessed an extensive growth in FDI flows to developing countries. This has been accompanied by an increase in competition amongst the developing countries to attract FDI, resulting in a rise in investment incentives, offered by the host governments and removal of restrictions on operations of foreign firms in their countries. The growth of FDI inflows in India was not significant until 1991 due to the regulatory policy framework. However under the new policy regime, it is expected to assume a much larger role in catalyzing Indian economic development. It could be observed that there has been a steady build up in the actual FDI inflows in the post-liberalization period. The actual inflows have steadily increased from Rs. 3514.30 million (US $ 143.6 million) in 1991 to Rs. 143,009.40 million (US $ 3,108.9 million) in 2003. The dimensions of the FDI flows into India could be explained in terms of its growth and size, sources & sectoral compositions.

3. Methodology

To fulfil the stated objectives our principal source of data is the reports of Reserve Bank of India (RBI) since 1991, World Bank Reports (WBR), and Asian Development Reports (ADR). The concept, trend, role & determinants of FDI are referred from secondary sources of information such as articles & acts. The journals referred for this purpose include Journal of Economics, Journal of International Business Studies etc.

Foreign direct investment has a major role to play in the economic development of the host country. It has often been observed that the developing countries are dependent on the developed countries for financial assistance that helps achieve economical stability. The developed countries, on their part, can help these countries financially by investing in these countries. This trend has manifested itself in the last twenty years. Any form of foreign direct investment brings along capital and technological resources into the host country. This helps the host country to use these resources as a launching pad from where it can make further improvements. Further, it can also assist in helping the host country to build their own research and development base that can contribute to the technological development of the country. These assistances come in handy, especially in the context of the manufacturing and services sector of the host country. This enhances productivity. At times foreign direct investment could be provided in the form of technology. This is an indirect way in which foreign direct investment plays an important part in the context of economic development. Foreign direct investment can also be helpful in assisting the host countries to set up mass educational programs, and tackle a number of healthcare issues.

4. Regulatory Framework

The key Indian regulatory authorities in the context of Foreign Direct Investment (FDI) are the Foreign Investment and Promotion Board (FIPB), which formulates foreign investment policy, and the Reserve Bank of India (RBI), central bank, with the primary responsibility of implementing and enforcing foreign exchange regulations and government policy. Since 1991, policies have been liberalized to facilitate greater flow of FDI into India (Table 1).

Table 1: Liberalization of FDI Policies

Pre 1991	FDI was allowed selectively up to 40% under FERA
1991	35% priority industry groups were placed on the Automatic Route for FDI up to 51%
1997	Automatic Route expanded to 111 high priority industry groups up to 100%,74%,51%, 50%
2000	All sectors placed on the Automatic Route for FDI except for a small negative list
Post 2000	Many new sectors opened to FDI like insurance (26%), integrated townships (100%), Mass Rapid Transit System (100%), Defence Industry (26%), Tea Plantations (100%) and Print Media (26%).

Source: SIA Newsletter, Government of India.

5. Policy for Automatic Route

For new Ventures all items/activities for FDI/NRI investment up to 100% fall under the Automatic route with some exception. There is some restriction on products falling under reserved category of SME sectors. Government of India is having a locational policy regarding investment, to protect environment. The industries for which licenses are required are not included in the automatic routes. NRI investment in acquisition of an Indian company is also excluded from automatic route. Apart from this, there is some relaxation in case of IT industries and investment from multilateral agencies. Investment in public sector units also for EOU/EPZ, etc. units would qualify for the automatic route. Investment under the automatic route shall continue to be governed by the notified sectoral policy and equity caps and RBI ensures compliance of the same. RBI has granted general permission under Foreign Exchange Management Act (FEMA) in respect of proposal approved by the Government. For the existing companies, automatic routes are open for expansion of investment in the industries which are listed under the automatic route.

The proposals for approval under the automatic route are to be made to the Reserve Bank of India in the FC (RBI) Form. In a major drive to simplify procedures for foreign direct investment under the "automatic route", RBI has given permission to Indian Companies to accept investment under this route without obtaining prior approval from RBI. However, investors are required to notify the concerned Regional office of RBI within 30 days after issue of shares to foreign investors. The facility is available also in regard to NRI investment.

6. Policy for FIPB Route (Government Approval)

All activities which are not covered under the automatic route are subject to government approval through FIPB route. Areas/sectors/activities hitherto not open to FDI/NRI investment shall continue to be so unless otherwise decided and notified by government. Any change in sectoral policy /sectoral equity cap is notified from time to time by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy and Promotion. To seek the approval applications in Form FC-IL for FDI other than NRI Investments and 100% EOU should be submitted to the Department of Economic Affairs (DEA), Ministry of Finance. FDI applications with NRI Investments and 100% EOU should be submitted to the Entrepreneur Assistance Unit (EAU) of Secretariat of Industrial Assistance (SIA), Department of Industrial Policy and Promotion. Applicants should mention about previous/ existing collaboration in India in the same or allied field. Foreigners can also submit their proposal to Indian Missions abroad. Investment below Rs.6 billion is approved by the Finance Ministry, and for an investment exceeding Rs.6 million Cabinet Committee approval is required. For issuing shares and equities, Indian Company Act applies.

Indian companies getting foreign investment approval through FIPB route do not require any further clearance from RBI for the purpose of receiving inward remittance and issue of shares to the foreign investors. For inward remittance and issue of shares to NRI up to 100 percent equity also, prior permission of RBI is not required.

All foreign investments are freely repatriable except for the cases where NRIs choose to invest specifically under non-repatriable schemes. Non-residents can sell shares on stock exchange without prior approval of RBI. They can approach a bank for repatriation of the sale proceeds if they hold the shares on repatriation basis and if they have necessary NOC/tax clearance certificate issued by Income Tax authorities. Some sectors like investment in development of integrated township etc. may attract a lock in period.

7. Global Depositary Receipts (GDR)/American Deposit Receipts (ADR)/Foreign Currency Convertible Bonds (FCCB)

Indian companies having a consistent track record for good performance (financial or otherwise) for a minimum period of 3 years are allowed to raise equity capital in the international market through the issue of GDR/ADRs/FCCBs. These are not subject to any ceilings on investment. In case of infrastructure projects the polices are more liberal. There are no end-use restrictions on GDR/ADR issue proceeds, except for an express ban on investment in real estate and stock markets. The FCCB issue proceeds need to conform to external commercial borrowing end user requirements. The government is encouraging companies to use this for general corporate restructuring.

8. FDI channels

FDI is permitted through following forms of investments:

(i) Financial collaborations,
(ii) Joint ventures and technical collaborations,
(iii) Capital markets via Euro issues (Foreign Currency Convertible Bonds (FCCBs)/Equity Shares under the Global Depository Mechanism), and
(iv) Private placements or preferential allotments.

FDI is freely allowed in all sectors including the service sector in India, with certain restrictions in a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for most cases can be brought through Automatic Route under the powers delegated to the RBI and for the remaining cases through the FIPB Government approval. Under current rules, foreign investment up to 100% is permitted in almost all industry sectors. There remain only a handful of industry sectors in which no FDI or limited FDI is permitted, these tend to be “sensitive” sectors, either for security reasons, such as defense or telecommunications, or for political reasons, such as agriculture, retail, real estate, banking and insurance.

FDI is not permitted in the arms, nuclear, railway, coal & lignite or mining industries. A number of projects have been announced in areas such as electricity generation, distribution and transmission, as well as the development of roads and highways, with opportunities for foreign investors. The Indian national government also provided permission to FDIs to provide up to 100% of the financing required for the construction of bridges and tunnels, but with a limit on foreign equity of INR 1,500 crores, approximately $352.5m.Currently, FDI is allowed in financial services, including the growing credit card business. These services include the non-banking financial services sector. Foreign investors can buy up to 40% of the equity in private banks, although there is condition that stipulates that these banks must be multilateral financial organizations. Up to 45% of the shares of companies in the global mobile personal communication by satellite services (GMPCSS) sector can also be purchased.

9. FDI Trends in India

India has continually sought to attract FDI from the world's major investors. India has been rated as the fourth most attractive investment destination in the world, according to a global survey conducted by Ernst and Young in June 2008. India was after China, Central Europe and Western Europe in terms of prospects of alternatives business locations. According to a report of the National Council of Applied economic Research (NCAER), in the first nine months of 2007-2008, the net capital flow rose to US$ 83 billion. As per the global survey of corporate investment plans carried out by KPMG International, released in June 2008, India will see the largest overall growth in its share of foreign investment, and it is likely to increase by 8 percent to 18 percent over the next five years, helping it rise to the fourth, from the seventh position, in the investment league table, pushing Germany, France and the UK behind. According to the FDI Confidence Index 2007, India continues to be the second most preferred destination for attracting global FDI inflows, a position it has held since 2005. India topped at the AT Kearney's 2007 Global Services Location Index, emerging as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly UNCTAD's World Investment Report, 2005 considers India the second most attractive investment destination among the Transitional Corporations (TNCs). A recent survey conducted by the Japan Bank for International

Table 2: FDI Inflow to India (1991-2010)

Year	FDI, net inflows (current US$)	GDP (current US$)	FDI as %age of GDP
1991-92 (Aug-March)	167	267524	0.06
1992-1993	393	245553	0.16
1993-1994	654	276037	0.24
1994-1995	1374	323506	0.42
1995-1996	2141	356299	0.60
1996-1997	2770	388344	0.71
1997-1998	3682	410915	0.90
1998-1999	3083	416252	0.74
1999-2000	2439	450476	0.54
2000-2001	2908	460182	0.63
2001-2002	4222	477849	0.88
2002-2003	3134	507190	0.62
2003-2004	2634	599461	0.44
2004-2005	3759	721573	0.52
2005-2006	6051	834036	0.73
2006-2007	8961	951339	0.94
2007-2008	22826	1242426	1.84
2008-2009	34835	1215993	2.86
2009-2010	35180	1377265	2.55
2010-2011*	34167	1727111	1.97
2011-2012*	38887		
2012-2013*	43020		
2013-2014*	47154		

Source: World Development Indicators data base, World Bank 2010
* Predicted

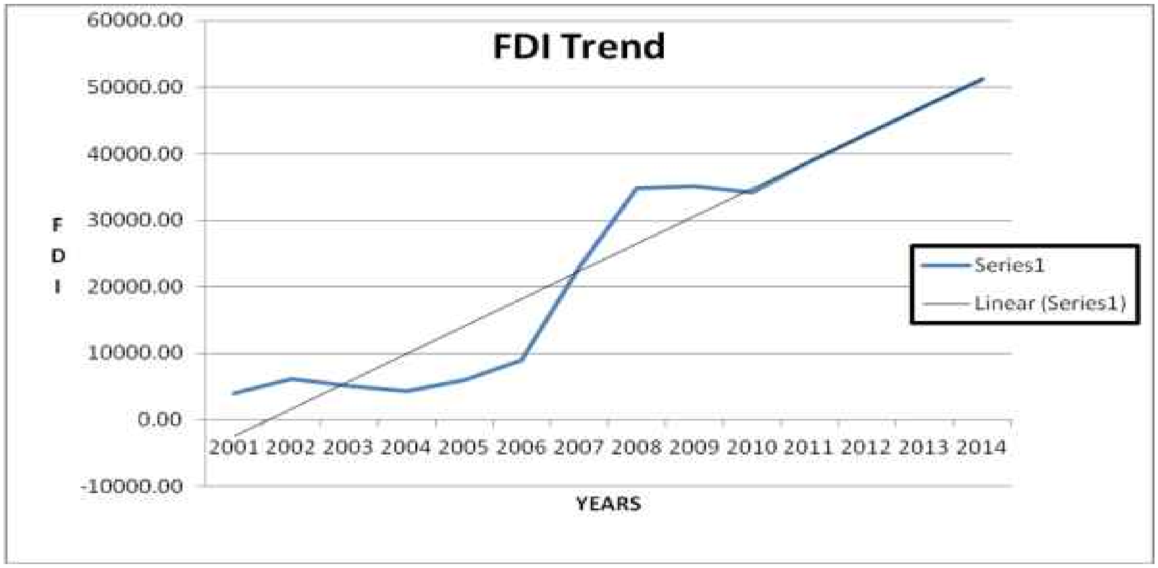


Figure 1: FDI Inflows to India

Figure 2. FDI, Net Inflow (% of GDP)

Cooperation (JBIC) shows that India has become the most-favoured destination for long-term Japanese investments. FDI flow to India during the period 1991-92 to 2009-10 is given in Table 2.

10. Sectoral Composition of FDI

The important sectors of the Indian Economy attracting investments in the country are as follows:

- ? Electrical Equipments (Including Computer Software & Electronic)
- ? Real Estate
- ? Telecommunications (radio paging, cellular mobile, basic telephone service)
- ? Transportation Industry
- ? Services Sector (financial & non-financial)
- ? Fuels (Power + Oil Refinery)
- ? Chemical (other than fertilizers)
- ? Food Processing Industries
- ? Drugs & Pharmaceuticals
- ? Cement and Gypsum Products
- ? Metallurgical Industries

FDI equity inflows in different sectors in India are given in Table 3 for the period 2006-07 to 2009-10. From Table 3, it would be noted that, during 2000-10, service sector accounted for a major share of FDI (21%) that is followed by computer Software and Hardware (9%), Telecommunications (8%), Housing and Real Estate (8%), Construction (7%), Power (4%), Automobile Industry (4%), and

Table 3: FDI Equity Inflows in Different Sectors in India

Amount Rupees in crores (US$ in million)

Ranks	Sector	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-March)	Cumulative Inflows (April '00 - Mar. '10)	% age share in total Inflows (In terms of US$)
1.	SERVICES SECTOR (financial & non-financial)	21,047 (4,664)	26,589 (6,615)	28,411 (6,116)	20,958 (4,392)	105,411 (23,640)	21 %
2.	COMPUTER SOFTWARE & HARDWARE	11,786 (2,614)	5,623 (1,410)	7,329 (1,677)	4,350 (919)	43,846 (9,872)	9 %
3.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	2,155 (478)	5,103 (1,261)	11,727 (2,558)	12,338 (2,554)	40,706 (8,931)	8 %
4.	HOUSING & REAL ESTATE	2,121 (467)	8,749 (2,179)	12,621 (2,801)	13,586 (2,844)	37,369 (8,357)	8 %
5.	CONSTRUCTION ACTIVITIES (including roads & highways)	4,424 (985)	6,989 (1,743)	8,792 (2,028)	13,544 (2,868)	35,721 (8,059)	7 %
6.	POWER	713 (157)	3,875 (967)	4,382 (985)	6,908 (1,437)	20,919 (4,627)	4 %
7.	AUTOMOBILE INDUSTRY	1,254 (276)	2,697 (675)	5,212 (1,152)	5,609 (1,177)	20,677 (4,565)	4 %
8.	METALLURGICAL INDUSTRIES	7,866 (173)	4,686 (1,177)	4,157 (961)	1,935 (407)	13,440 (3,130)	3 %
9.	PETROLEUM & NATURAL GAS	401 (89)	5,729 (1,427)	1,931 (412)	1,328 (272)	11,504 (2,666)	2 %
10.	CHEMICALS (other than fertilizers)	930 (205)	920 (229)	3,427 (749)	1,707 (362)	11,274 (2,496)	2 %

Source: DIP&P, Ministry of Commerce, 2010

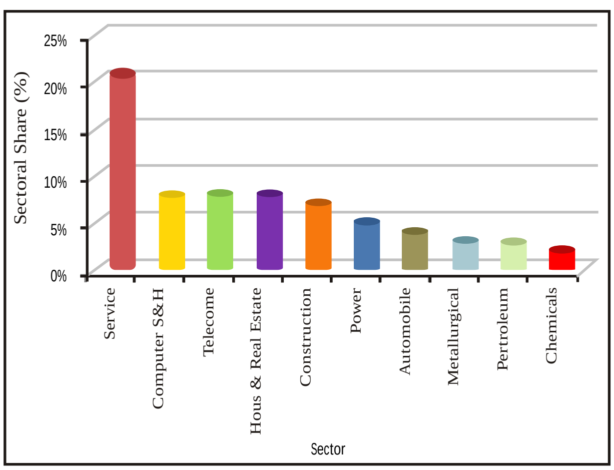


Figure 3: Sector wise FDI Equity inflows to India (2010)

Metallurgical Industries (3%). Each of the other sectors accounted for less than 3% share. The largest share of service sector is consistent with its largest share in GDP.

11. Composition of FDI by Country

Table 4 shows share of different countries in total FDI equity inflow to India. Mauritius invested Rs.19,18,633 million in India up to January 2010, equal to 44.01 percent of total FDI inflows, which is the highest amount of FDI inflow contributed to the Indian economy followed by Singapore, USA, UK,

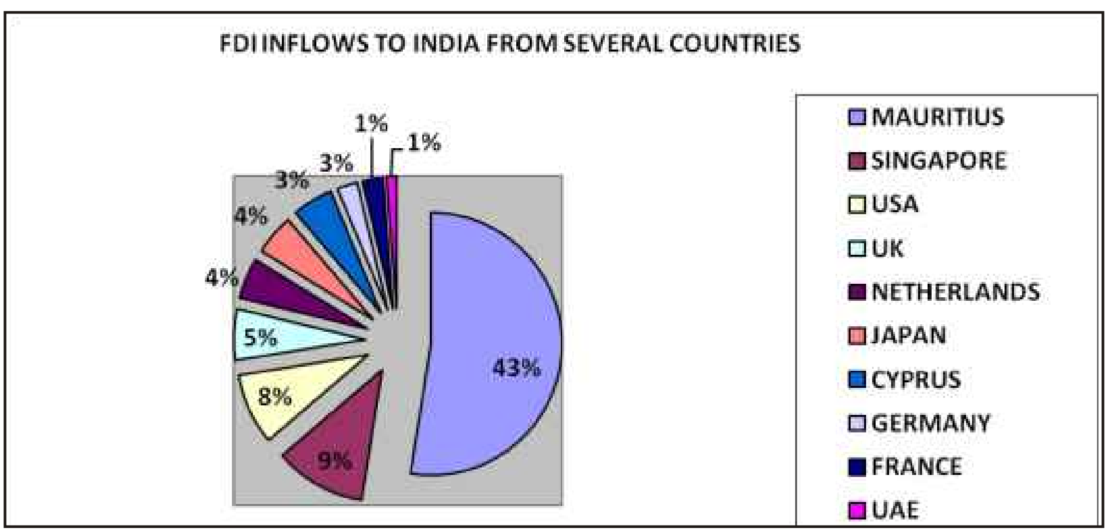
Table 4: Share of Top Investing Countries FDI Equity Inflows (Financial year-wise)

Amount Rupees in crores (US$ in million)

Ranks	Sector	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-March)	Cumulative Inflows (April '00 - Mar. '10)	% age share in total Inflows (In terms of US$)
1.	MAURITIUS	28,759 (6,363)	44,483 (11,096)	50,794 (11,208)	49,633 (10,376)	210,906 (47,240)	43 %
2.	SINGAPORE	2,662 (578)	12,319 (3,073)	15,727 (3,454)	11,295 (2,379)	45,147 (10,190)	9 %
3.	U.S.A.	3,861 (856)	4,377 (1,089)	8,002 (1,802)	9,230 (1,943)	37,190 (8,278)	8 %
4.	U.K.	8,389 (1,878)	4,690 (1,176)	3,840 (864)	3,094 (657)	25,998 (5,884)	5 %
5.	NETHERLANDS	2,905 (644)	2,780 (695)	3,922 (883)	4,283 (899)	20,126 (4,487)	4 %
6.	CYPRUS	266 (58)	3,385 (834)	5,983 (1,287)	7,728 (1,623)	17,777 (3,899)	4 %
7.	JAPAN	382 (85)	3,336 (815)	1,889 (405)	5,670 (1,183)	16,895 (3,714)	3 %
8.	GERMANY	540 (120)	2,075 (514)	2,750 (629)	2,980 (626)	12,468 (2,799)	3 %
9.	U.A.E.	1,174 (260)	1,039 (258)	1,133 (257)	3,017 (629)	7,023 (1,549)	1 %
10.	FRANCE	528 (117)	583 (145)	2,098 (467)	1,437 (303)	6,919 (1,530)	1 %
TOTAL FDI INFLOWS		70,630 (15,726)	98,664 (24,579)	122,919 (27,329)	123,378 (25,888)	516,503 (115,728)	

Source: DIP&P, Ministry of Commerce, 2010

Figure 4: Share of Top Investing Countries FDI Equity Inflow to India, 2010



Netherlands, Japan, Cyprus, Germany, France and UAE. Contribution of UAE and France was the least in FDI inflow to India which amounts to only 1 percent.

12. Conclusion

Foreign Direct Investment (FDI) plays an important role in global business. As a result of various legal and policy initiatives taken, the Indian economy is rapidly changing from restrictive to liberal economy. The present legal framework allows an easy entry to a foreign investor in India. It provides a firm with new markets and marketing channels, and cheaper production facilities. For a host country, it provides access to new technology, products, skills and financing. FDI has helped the Indian economy to grow, and the government encourages more investments of this sort in the country. A horde of global corporations are keen on investing in India due to the continued liberalization of the foreign direct investment (FDI) policy, procedural relaxations, the sustained growth in the economy, and a favorable investment regime. India continues to be regarded as one of the fastest expanding economies. FDI equity inflows between AprilSeptember 2008 were US$ 17.21 billion that showed a growth of 137 per cent over the same period last year. The inflow of the FDI in the country during the last five years showed a phenomenal growth in terms of volume of money and investing countries that contributed to the growth of the economy. This is being reflected by the inflow of FDI equity, the month of September 2008 alone showed an investment to the tune of US$ 2.56 billion, and a staggering growth of 259 per cent over the same month in last year. Accordingly to the report of Reserve Bank of India (RBI), FDI received in the first quarter of fiscal year 2009 (US$ 10.07 billion) had exceeded the total FDI inflow for fiscal year 200506 (US$ 8.96 billion). India's FDI inflow until 200506, was below US$ 10 billion annually. In 200607, India received US$ 22 billion and it went up to US$ 32 billion in 200708. This FDI inflow increased due to high GDP growth and attractive policies of Government of India. India has been ranked third for global foreign direct investments (FDI) in 2009 and will continue to remain among the top five attractive destinations for international investors during the next few years, as per the world investment prospects survey 2009-11. Further, the World Bank had given India an added US$ 3 billion a year till 2011, as part of a larger plan to provide US$ 100 billion of additional liquidity to globally developing economies.

It is possible that government regulations and policies may deter some forms of FDI, particularly where they affect ownership. Thus, the Government needs to assess the benefits of such interventions against the costs of creating impediments to FDI, which reduce the ability of the country to compete with other developing countries for foreign investments.

Many of the motivations influencing the investment decisions of multinational companies apply equally to domestic investors. Addressing the problems identified by foreign investors already committed to the region should not only in the long run make India more attractive to new FDI but should in the shorter term encourage increased domestic investment.

If the economy has to benefit from the spill-over effects of FDI and economic growth, the country needs to attract FDI through a bundle of policies that cater for the interests of all the potential investors from different countries. This implies that the country needs stable macroeconomic indicators, better country risk profile followed by cost related and investment environment improving factors.

India should continue its program of economic reforms, as a sustained healthy economic growth is the biggest attraction for foreign capital. However, any political reforms need to ensure that instability does not ensue. Further, the government should create specific location advantages in areas and sectors which have not been able to attract adequate FDI, such as skilled employees and better infrastructure. This will also help reduce the disparities in development across regions and sectors.

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