Chapter-3

PROFILE OF FDI INFLOWS IN INDIA

Over the last six decades, there has been a significant change in the policy relating to FDI in order to adjust it with changes in industrial policies and foreign exchange situation, from time to time. The government has been following a restrictive policy till 1980s, but later on revised its policy and adopted liberal attitude towards FDI. It is, therefore, worthwhile to know the circumstances that prompted the government toadopt a liberal view towards FDI inflow. In this chapter, we will focus on various aspects of policy changes regarding FDI inflow in India, namely, change in policy towards FDI over different periods, sectoral caps on FDI, shares of DI, FDI and total investment in GDP, composition of FDI, country wise distribution and sector-wise distribution of FDI inflows in India.

3.1 Government Policy towards FDI

India's policy towards FDI has gone through a number of phases. The government has initiated several policy measures to regulate FDI inflow. Thoughthe chronological development of FDI policy over time is not strictly separable but it is convenient to divide the overall period into four phases:[1]

(a) First phase from 1950 to 1967 – the period characterized by receptive attitude or cautious welcome;

(b) Second phase from 1976-1980- the period considered as restrictive and selective policy;

(c) Third phase from 1980 to 1990- the period of gradually liberalization and

(d)Fourth phase from 1991 onwards – the period of open door policy

[1] This has been classified as mentioned by Uma Kapila, (2009) and Nagesh Kumar, (1995).

3.1.1 Phase 1 (1950-1967)

Soon after independence, India went through a strategy of import substitution[2]policy in the framework of development. The Second Five Year Plan was launched in the mid of 1950s. The industrialisation strategy of this plan was highly focused on development of capability domestic firms. Foreign investors were allowed to fulfil the shortage of domestic capital as well as for technology assistance. They were assured of no restrictions on the remittances of profits and dividends, fair compensation in the event of acquisition, and were promised a 'national treatment'.[3] However, it was provided that, as a rule, the major interest in ownership and effective control would be always in Indian hands. While foreign exchange crisis developed towards the end of 1950s, FDI policy was further liberalised and offered incentives and concessions to the foreign investors. The government issued a list of industries in 1961 taking into account the gaps in capacity in relation to plan targets where foreign investments were to be welcomed. These included some of the industries earlier reserved for the public sector, such as drugs, aluminium, heavy electrical equipment, fertilizers and synthetic rubber.[4]

In this period volume of FDI was for seeking natural resources so that they could be traded after processing. FDI was concentrated in raw materials, service sector, tea plantation and jute industry. Over a quarter of first phase period, total FDI was contributing half of India's exports; about 32 percent in trading and other service, 9 percent in petroleum and only 2 percent in manufacturing other than jute[5].

3.1.2 Phase 2 (1967-1980)

As seen from the preceding discussion, the government policy has been quite favorable towards FDI in the first phase. In this phase, the government policy was more restrictive towards FDI. The domestic firms especially infant industries were inefficient to compete at international level needed protection from foreign firms. The domestic firms were highly protected in the form of tariff and quantitative restriction on imports. On the other hands

[2] The import substitution policy is that almost everything that could be manufactured in the country itself.
[3]Nagesh Kumar, N. (2005), p. 1459.
[4]Nagesh Kumar. (1995), p. 5.
[5] M. Kidorn,.(1965), p. 30.

out flow on account of remittances of dividends, profits, royalties and technical fees on account of servicing of FDI and technology imports mounted pressure on foreign exchange reserves.[6] Therefore, government created Foreign Investment Board (FIB) in 1968 to deal with all cases involving foreign investment or collaboration with up to 40 percent foreign equity and more than this cap will be monitored by Cabinet Committee. Consequently, in 1969 a more precise policy towards FDI was adopted. The major features of the policy followed during this phase are:

(a) Restrictions on FDI proposal without technical collaboration and those seeking more than 40 percent foreign ownership were imposed.

(b) Only technical collaboration requiring exclusive of Indian consultancy service were available.

(c) The renewals of foreign collaboration agreements were restricted.

(d) The government listed industries in which FDI was not considered desirable in view of availability of local capabilities.

Moreover, Foreign Exchange Regulating Act (FERA) came into exist in 1974. From 1973 onwards, the further activities of foreign companies along with those of large industrial houses were restricted to a select group of core or high priority industries. The enhancement of FERA became key to guiding and controlling FDI inflows. The phase of tight regulation and selective policy was implemented by an administrative system based on discretionary power. The government policy was more restrictive towards FDI in late 1960s to protect the interest of domestic firms. Indian economy was following import substitution policy till mid 1970s and imposed restriction on foreign investment to protect the domestic investors.

3.1.3 Phase 3 (1980-1990)

Towards the end of the 1970s, India's export-oriented firms were suffering in wake of second oil price shock, which further, deteriorated the foreign exchange position of India.

[6]NageshKumar(1995), p. 7.

Another problem for India's manufactured exports was that marketing channels in the industrialized countries were substantially dominated by MNCs. In compare to them India's products were quite inferior. Since Indian goods were suffering from technological obsolescence. It evoked the government to change its attitude towards FDI. Therefore, it adopted more liberal attitude towards FDI and permitted to import technology and capital goods. MNCs have been assigned with a great role in modernizing industrial system. Infusion of foreign capital and technology will increase efficiency of local firms. Moreover, allowing FDI to export oriented manufacturing firm will help earning foreign exchange. However, after first oil shock, government adopted quite restrictive policy towards foreign investment, but after second oil shock, government policy was more favorable for FDI rather than to control it. This is because later government realized that FDI into export oriented firms might help to solve foreign exchange crisis. The liberalization policy of 1980 and 1982 was an incentive for the foreign investor especially giving exception to foreign equity form FERA to 100 percent export oriented units. In addition, it was also decided to set up Export Processing Zone (EPZ) with the intention of increasing quantum of exports. Between 1984-1985, 150 items and 200 types of capital goods were added to Open General License (OGL) list. Moreover, liberalization of industrial and trade policies was accompanied by an increasingly receptive attitude towards FDIs and foreign licensing collaborations.

3.1.4 Phase 4 (1991 onwards)

There has been a paradigm shift in policies towards FDI with the adoption of industrial policy in 1991. One of the objective of Industrial Policy was that foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports as well as productivity capacity. The Industrial policy followed an open door policy on foreign investment and technology transfer. The policy since then has been aimed at encouraging foreign investment particularly in core and infrastructure sectors. During this phase, favorable policy environment on the foreign investment, foreign technology collaboration, foreign trade and foreign exchange have been exerting positive influence on foreign firms decision on investment. As a result of this, there is a sharp increase in FDI inflow, while it was just Rs 327 crores during 1991-2 and in recent year, it reached to Rs 1,51,182crores.

In 1999 FERA was replaced by Foreign Exchange Management Act. Government has permitted access to the automatic route for FDI, except a small list of sectors (detail given below). Moreover, companies with more than 40 percent of foreign equity are now treated at par with fully Indian owned company. New sectors such as mining, banking, telecommunications, highways, constructions, airports, hotels &tourism, courier and management has been opened for foreign investors. Even the defense industry sector opened up to 100 percent for Indian private investors with 26 percent FDI.

FDI was allowed to all sectors except the following activities/sectors:

(a) Retail Trading (except single brand product retailing)

(b) Lottery Business including Government /private lottery, online lotteries,etc.

(c) Gambling and Betting including casinos etc.

(d) Atomic Energy

The international trade has been considerably liberalized with removal of quantitative restrictions and lowering the tariffs rate. The rupee was made convertible on current account and gradually to capital account. These steps reinforce the foreign investor's confidence to investin India.

In addition, Government of India provides tax exemptions and incentives to foreign investors in following activities i.e. deduction of 100 percent of the profit from business of

a. Development or operation and maintenance of ports, airports, roads, highways, bridges, water treatment systems, irrigation projects, sanitation and sewage projects, solid waste management systems.
b. Generation, distribution and transmission of power.
c. Development, operation and maintenance of an industrial park or SEZ.

d. Setting up of Industries in certain notified areas of the North eastern states, Sikkim, Uttaranchal and Himachal Pradesh.
e. Undertakings set up in Jammu and Kashmir.
f. Export of articles or software by undertakings in FTZ/ EHTP / STP
g. Export of articles or software by undertakings in SEZ
h. Export of articles or software by 100 per cent EOU.

The actual inflow of FDI is reported under five broad heads such as,

(a) Reserve Bank of India's approval route for equity holdings up to 51 percent,

(b)Foreign Investment Boards' discretionary approval route for large projects with equity holding greater than 51 percent,

(c) Acquisition and approval route which is considered as a part of FDI since 1996,

(d) RBI's non residential Indian (NRI schemes)

(e) External commercial borrowings through ARDs and GRD route;

3.2 Cap on FDI Inflows in Different Sector

The actual cap on FDI inflow in different sectors has been presented in Table-3.1. In case of agriculture, FDI has been allowed to a limited number of agricultural activities such as Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture and Cultivation of Vegetables & Mushrooms under controlled conditions and services related to agro and allied sectors. Though100 percent FDI is allowed in tea plantation but government has made compulsory for the investor to disinvest up to 26% equity of the company in favor of an Indian partner/Indian public within a period of 5 years. Again prior approval of the State Government is required in case of any future changeof land use.

In case of mining FDI permitted only in the activities such as Mining and Exploration of metal and non-metal ores including diamond, gold, silver and precious ores but excluding titanium bearing minerals and its ores, mining and mineral separation of titanium bearing minerals & ores, its value addition and integrated activities. Moreover, 100 percent FDI is permitted to these activities such as Coal & Lignite mining for captive consumption by power projects, iron & steel and cement units and other eligible activities, setting up coal processing plants like washeries. Butthe company shall not do coal mining and shall not sell washed coal or sized coal from its coal processing plants in the open market and shall supply the washed or sized coal to those parties who are supplying raw coal to coal processing plants for washing or sizing.

FDI in MSEs will be subject to the sectoral caps, entry routes and other relevant sectoral regulations. Any industrial undertaking which is not a Micro or Small Scale Enterprise, but manufactures items reserved for the MSE sector would require Government route where foreign investment is more than 24% in the capital. Such an undertaking would also require an Industrial License under the Industries (Development & Regulation) Act 1951, for such manufacture. The issue of Industrial License is subject to a few general conditions and the specific condition that the Industrial Undertaking shall undertake to export a minimum of 50% of the new or additional annual production of the MSE reserved items to be achieved within a maximum period of three years. The export obligation would be applicable from the date of commencement of commercial production and in accordance with the provisions of section 11 of the Micro, Small and Medium Enterprises Development Act 2006.

In power sector FDI is permitted up to 100 percent through automatic route in activities like

a. Generation and transmission of electric energy produced in-hydro electric, coal/lignite based thermal, oil based thermal and gas based thermal power plants.
b. Non-Conventional Energy Generation and Distribution.
c. Distribution of electric energy to households, industrial, commercial and other users.
d. Power Trading

But the activities from a to c above do not include generation, transmission and distribution of electricity produced in atomic power plant/atomic energy since private investment in this sector/activity is prohibited.

In banking (private sector), FDI is allowed up to 74 percent including investment by FIIs but the foreign banks regulated by banking supervisory authority in the home country and meeting Reserve Bank's licensing criteria will be allowed to hold 100 per cent paid up capital to enable them to set up a wholly-owned subsidiary in India. A foreign bank may operate in India through only one of the three channels viz., (i) branches (ii) a wholly-owned subsidiary and (iii) a subsidiary with aggregate foreign investment up to a maximum of 74 per cent in a private bank. But in public banking sector both FDI and FPI is allowed only up to 20 percent through governments prior approval. However 100 percent foreign investment is allowed through automatic route in Non-Banking Financial Companies (NBFC)[7].

In Terrestrial Broadcasting FM (FM Radio), a 20 percent FDI, NRI, FPI and PIO investment are allowed, while 49 percent is allowed in cable network and Direct to Home services. In all these sectors FDI can enter through prior government approval. But in Headend-In-The-Sky (HITS) 74 percent of FDI and FPI are allowed. But beyond 49 percent of foreign investment prior government permissionis requires.

In infrastructure like townships, housing, built-up infrastructure and construction development projects (which include housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure) cent percent FDI is permitted through automatic route. But FDI is not allowed to Real Estate business.

Hundred percent foreign investment is allowed through automatic route in following activities of Petroleum and Natural Gas sector such as exploration activities of oil and natural gas fields, infrastructure related to marketing of petroleum products, actual trading and marketing of petroleum products, petroleum product pipelines, natural gas/LNG pipelines, market study and formulation and petroleum refining sector. Which are owned by private sector. But 49 percent foreign investment allowed through prior government approval in such activities like Petroleum refining by the Public Sector Undertakings (PSU).

[7] Foreign Investment is allowed these NBFC activities: Merchant Banking, Under Writing, Portfolio Management Services, Investment Advisory Services, Financial Consultancy, Stock Broking, Asset Management, Venture Capital, Custodian Services, Factoring, Credit Rating Agencies, Leasing & Finance, Housing Finance, Forex Broking, Credit Card Business, Money Changing Business Micro Credit and Rural Credit.

Cent percent FDI trough government route is allowed in the following Print Media activities such as Publishing/printing of Scientific and Technical Magazines/specialty journals/ periodicals, subject tocompliance with the legal framework and Publication of facsimile edition of foreign newspapers.

Through prior government approval 100 percent FDI is permitted in courier services for carrying packages, parcels and other items which do not come within the ambit of the Indian Post Office Act, 1898.

Table -3.1 Caps on FDI inflow in Different Sectors

<table>
<tr><td colspan="2">Sectors</td><td>Cap (percentage)</td><td>Entry Rout</td></tr>
<tr><td colspan="2">Agriculture & Animal Husbandry</td><td>100</td><td>Automatic</td></tr>
<tr><td colspan="2">Tea Plantation</td><td>100</td><td>Government</td></tr>
<tr><td colspan="2">Coffee & Rubber processing and warehousing</td><td>100</td><td>Automatic</td></tr>
<tr><td colspan="2">Mining</td><td>100</td><td>Automatic</td></tr>
<tr><td colspan="2">Coal and Lignite</td><td>100</td><td>Automatic</td></tr>
<tr><td colspan="2">Defense production</td><td>26</td><td>Government</td></tr>
<tr><td colspan="2">Power</td><td>100</td><td>Automatic</td></tr>
<tr><td rowspan="2">Airport</td><td>(a) Greenfield projects</td><td>100</td><td>Automatic</td></tr>
<tr><td>(b) Existing projects</td><td>0-74
74-100</td><td>Automatic
Government</td></tr>
<tr><td colspan="2">Schedule Air Transport Service/ Domestic Scheduled Passenger Airline</td><td>49 FDI
100 NRIs</td><td>Automatic</td></tr>
<tr><td colspan="2">Non-Schedule Air Transport Service/ Non-Schedule airlines, Charted airlines and Cargo airlines</td><td>0-49
49-74</td><td>Automatic
Government</td></tr>
</table>

Helicopter service / seaplane service requiring DGCA approval	100	Automatic
Ground Handling Service (sectoral regulation and security)	0-49 49-74	Automatic Government
Maintenance and Repair organizations; flying training institutes; and technical training institutions	100	Automatic
Bank –Private sector	0-49 49-74	Automatic Government
Banking- Public Sector	20 (FDI & FPI)	Government
Broadcasting		
Terristrial Broadcasting FM (FM radio)	20	Government
Cable network	49	Government
Direct to Home	49	Government
Setting up of Up-linking HUB/ Teleports	49	Government
Up-linking a Non-News & Current Affairs TV Channel	100	Government
Up-linking a News & Current Affairs TV Channel	26	Government

Townships, housing, built-up infrastructure and construction development projects	100	Automatic
Credit Information Companies	49	Government
Industrial Parks – both setting up and already established Industrial Parks	100	Automatic
Insurance	26	Automatic
Infrastructure Company in the Securities Market	26 (FDI) 23 (FII)	Government
Non-Banking Finance Companies (NBFC)	100	Automatic
Exploration activities of oil and natural gas fields and other activities	100	Automatic
Petroleum refining by the Public Sector Undertakings	49	Government
Print Media		
Publishing of Newspaper	26	Government
Publication of facsimile edition of foreign newspapers	100	Government
Satellites – Establishment	74	Government
Telecom services	0-49 49-74	Automatic Government

ISP with gateways	0-49 49-74	Automatic Government
Electronic Mail, Voice Mail	0-49 49-100	Automatic Government
Cash & Carry trading Wholesale Trading	100	Automatic
Trading for exports	100	Automatic
E-commerce activities	100	Automatic
Trading of items sourced from MSE sector	100	Government
Single Brand product trading	51	Government
Courier services	100	Government
Export Promotion Zone	100	Automatic

Source: FDI Manual, 2008, Department of Industrial Policy & Promotion, Ministry of Industry and Commerce, Government of India.

Note: Foreign investment through Automatic route does not require government permission to invest while through Government route , prior government permission is require for investment.

3.3 PercentageShare of DI, FDI and total investment in GDP

The share of FDI, DI and total investment in GDP and growth rate of GDP have been presented in Table-3.2. In the initial period of economic reform, FDI inflows share in GDP is negligible amount. But its share has started increasing early 2000 onwards, which registered around 3 percent of GDP in 2008-09. In 1999-00, FDI inflow is in down ward trend this might be caused of Asian crisis. In absolute figure FDI inflow is 270 crores rupee in early 1990 thatincreased to Rs 1, 51,182 crores in 2009-10. While domestic investment share on GDP has marginally declined. However, it has slightly increased in early 2000. It is around 12.5 percent of FDI during early 1990s but in 2009-10, it is around 10 percent of total GDP. It is clear from the table that DI is gradually declining and FDI is increasing significantly. The total investment shared on GDP also declining, which is 12.6 percent of GDP in 1991 declined to 11.7 percent in 2007-08. However, economy achieved impressive GDP growth rate. The GDP growth rates is 5.4 in 1992-93 registered 9 percent growth in 2007-08. The slowdown in GDP growth rates during 2008-2010 is because of financial crisis.

Table- 3.2Percent Share of FDI, DIand total investment in GDP

Year	FDI	DI	Total Investment	GDP growth
1991-92	0.1	12.5	12.6	1.4
1992-93	0.1	12.3	12.4	5.4
1993-94	0.2	12.2	12.4	5.7
1994-95	0.5	11.4	11.8	6.4
1995-96	0.7	11.3	12.0	7.3
1996-97	0.8	10.9	11.7	8.0
1997-98	1.4	11.0	12.4	4.3
1998-99	0.6	12.7	13.3	6.7
1999-00	0.5	13.6	14.1	6.4
2000-01	0.9	12.9	13.8	4.4
2001-02	1.4	12.0	13.4	5.8
2002-03	1.1	11.8	12.9	3.8
2003-04	0.8	11.4	12.2	8.5
2004-05	0.9	11.4	12.4	7.5
2005-06	1.2	11.0	12.2	9.5
2006-07	2.6	9.0	11.6	9.7
2007-08	3.2	8.5	11.7	9.0

2008-09	3.1	9.8	12.9	6.7
2009-10	2.7	10.8	13.5	6.7

Source: Balance of Payment, Handbook of Statistic on Indian Economy published by Reserve Bank of India

3.4 Composition of FDI from 1991-2009

Indian definition of FDI differs from that of the IMF as well as UN's World Investment Report. While IMF definition includes external commercial borrowing, reinvestment earnings and subordinated debt, the world Investment Report excludes external commercial borrowings.

FDI statistic in India is officially monitored and published by Reserve Bank of India (RBI) and Secretariat for Industrial Assistance (ASI), Ministry of Commerce and Industry. While the IMF's definition of FDI incorporates equity capital[8], reinvested earnings[9] and 'other direct investment capital[10]', FDI statistics compiled by the RBI in the Balance of Payments prior to 2000 included only equity capital. This led to an underestimation of FDI inflows. The accounting system was revised in 2000 in order to make the FDI data- reporting system equal with international best practices.[11] The composition of FDI inflows from 1991-92 to 2009-10 is reported in Table- 1.

The revised practice of reporting FDI statistic included reinvestment earning and other capital in the figure. Only equity capital was component of FDI until 2000-01. Therefore, the share of equity capital in FDI inflow is 100 percent from 1991-92 to 2000-01. The equity capital, dominating share of FDI component is 67 percent of total flow in 2001-2, increased to 72 percent in 2009-10. While in 2003-4 it has declined to 52 percent. The second important component of FDI, reinvestment earning was 27 percent of total flow in 2001-2 and in 2009-10 it registered 25 percent of total flow. Inflows through other capital is registered 6 percent of total inflows in 2001-2 declined to 2 percent 2009-10.

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[8]Equity capital constitutes the value of the MNC's investment in shares of an enterprise in a foreign country. It comprises equity in branches, all shares in subsidiaries and associates, and other capital contributions. An equity capital stake of 10 per cent or more of the ordinary shares or voting power in an incorporated enterprise, or its equivalent in an unincorporated enterprise, is normally considered as a threshold for the control of assets.

[9]Reinvested earnings consists of the sum of direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by subsidiaries or associates, and earnings of branches not remitted to the direct investor.

[10] Other capital included short-term and long-term inter-corporate borrowings, trade and supplier credit, financial leasing, financial derivatives, debt securities, and land and buildings.

[11] RBI was not following international definition of FDI till 2000. It was excluded reinvestment earning and other capital.

Table-3.3 Composition of FDI inflows in India

Year	Equity capital	Reinvested earning	Other capital	Total flow	Equity capital	Reinvested earning	Other capital	Total flow
1991-92	327	-	-	327	100	-	-	100
1992-93	959	-	-	959	100	-	-	100
1993-94	1837	-	-	1837	100	-	-	100
1994-95	4216	-	-	4216	100	-	-	100
1995-96	7216	-	-	7216	100	-	-	100
1996-97	10093	-	-	10093	100	-	-	100
1997-98	19961	-	-	19961	100	-	-	100
1998-99	10388	-	-	10388	100	-	-	100
1999-00	9396	-	-	9396	100	-	-	100
2000-01	17694	-	-	17694	100	-	-	100
2001-02	19546	7841	1858	29245	67	27	6	100
2002-03	13415	8866	2116	24349	55	36	9	100
2003-04	10213	6710	2907	19830	52	34	15	100
2004-05	16741	8555	1651	26947	62	32	6	100
2005-06	26239	12220	998	39457	67	31	3	100
2006-07	73969	26317	2312	102652	72	26	2	100
2007-08	107315	30916	1189	139420	77	22	1	100

2008-09	125355	29713	3560	158628	79	19	2	100
2009-10	109350	38334	3497	151182	72	25	2	100

Source: Balance of Payment, Handbook of Statistic on Indian Economy published by Reserve Bank of India. Notes: (1) The figures are in rupees (million) and parentheses contain percentage shares. Since RBI was not considering reinvesting earning and other capital as a part of FDI inflow till 2001-02. Therefore, data on these two components are not available for before 2001-02. (2) Equity capital constitutes the value of the MNC's investment in shares of an enterprise in a foreign country. It comprises equity in branches, all shares in subsidiaries and associates, and other capital contributions. An equity capital stake of 10 per cent or more of the ordinary shares or voting power in an incorporated enterprise, or its equivalent in an unincorporated enterprise, is normally considered as a threshold for the control of assets. (3) Reinvested earnings consists of the sum of direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by subsidiaries or associates, and earnings of branches not remitted to the direct investor.(4) Other capital included short-term and long-term inter-corporate borrowings, trade and supplier credit, financial leasing, financial derivatives, debt securities, and land and buildings.

3.5 Distribution of FDI Inflows by Source

The country-wise distribution of FDI inflow in India and its growth rate have been presented in Table – 4.4. Moreover, the total period has been divided into two sub period is shown in Figure 1 and 2 to observe the change in source of FDI inflow.

Over the years, there has been diversification of sources of FDI. Until 1990, European countries are the major source of FDI inflow in India. They have accounted for nearly two-third of total flow of FDI in 1990.[12] In post reform period also FDI inflow share is dominated by European countries. Among the top FDI funding countries, Mauritius is the major source of FDI inflows in India as highlighted in table. This could be attributed to the double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius.[13] In mid 1990s her share was around 23 percent of total inflow which increased to 40 percent in 2009-10. Moreover, this country registered 46 percent of total flow in 2005-06. After Mauritius, Singapore is the second largest source of FDI in India followed by the USA, the UK and Netherlands. Singapore's share is just 1 percent of total FDI inflows in 1992-93 that increased to 9 percent in 2009-10 and secured second position as FDI funding country in India. While U.K.'s share is more or less remained stable, this is 2 percent of total FDI inflows in 1992-

[12]UmaKapila (2009),
[13] RajeshChadha, et .al (2010).

93 and equal share in 2009-10 also. FDI inflow from USA is 8 percent in 1992-93 increased to 27 percent in 1993-94 but it declined to 9 percent in 2009-10. However, in 1992-93 countries like Netherland, Japan and Germany's share is 7, 9 and 8 percent respectively but there share declined to less than 5 percent in 2009-10. Singapore and Japan are only two Asian countries, who are among the top six FDI contributing countries in India.

The growth rates of countries-wise FDI inflows also highlighted in Table 3.3. The growth rate of total country-wise FDI inflow is 25 percent. While FDI inflow from Singapore is growing at the rate of 35 percent which is more than growth rate of total FDI inflow. In compare to other countries, FDI inflow from France and Japan is growing very slow with 16 and 17 percent respectively.

The cumulative share of country wise distribution of FDI has been classified into two sub periods. First period is between 1992-93 to 2001-02 and second period is between 2002-03 to 2009-10. This is presented in Figure-3.1 and 3.2. In first period cumulative share of Mauritius is 37 percent that increased to 41 percent in next period. But the share of USA has significantly declined, which is 18 percent in first phase declined to 7 percent in second phase. Moreover, share of other countries like Netherland, Japan, Germany and France also declined in second phase in compare to first phase, while UK's share has remained stable.

Table – 3.4 Distribution FDI inflows by Source (1992-93 to 2008-09)

Year	Mauritius	Singapore	U.S.A.	U.K.	Netherlands	Japan	Germany	France	Other	Total
1992-3	#	9	66	20	64	79	66	28	526	858
		(1)	(8)	(2)	(7)	(9)	(8)	(3)	(61)	(100)
1993-4	#	31	310	201	146	116	111	33	211	1157
		(3)	(27)	(17)	(13)	(10)	(10)	(3)	(18)	(100)
1994-5	618	77	637	450	140	298	108	45	365	2738
	(23)	(3)	(23)	(16)	(5)	(11)	(4)	(2)	(13)	(100)
1995-6	1697	201	651	237	167	204	334	211	1697	4743
	(36)	(4)	(14)	(5)	(3)	(4)	(7)	(4)	(22)	(100)
1996-7	3005	22	858	132	439	343	590	166	1757	7312
	(41)	(0)	(12)	(2)	(6)	(5)	(8)	(2)	(24)	(100)
1997-8	3346	1238	2555	275	590	607	563	224	1587	10986
	(30)	(11)	(23)	(2)	(5)	(5)	(5)	(2)	(14)	(100)
1998-9	2482	359	1905	174	224	989	478	157	1647	8414
	(29)	(4)	(23)	(2)	(3)	(12)	(6)	(2)	(20)	(100)

1999-00	8011	234	1577	195	295	620	134	381	1439	12885
	(62)	(2)	(12)	(1)	(2)	(5)	(1)	(3)	(11)	(100)
2000-1	2491	182	1250	1045	438	308	527	247	1119	7607
	(33)	(2)	(16)	(14)	(6)	(4)	(7)	(3)	(15)	(100)
2001-2	1859	73	1449	759	961	327	361	166	999	6955
	(27)	(1)	(21)	(11)	(14)	(5)	(5)	(2)	(14)	(100)

Contd.

Table 3.4 Contd

Year	Mauritius	Singapore	U.S.A.	U.K.	Nether lands	Japan	Germany	France	Other	Total
2002-3	3766	180	1504	1617	836	1971	684	534	3840	14932
	(25)	(1)	(10)	(11)	(6)	(13)	(5)	(4)	(26)	(100)
2003-4	2609	172	1658	769	2247	360	373	176	3753	12117
	(21)	(1)	(14)	(6)	(18)	(3)	(3)	(1.5)	(31)	(100)
2004-5	5141	822	3055	458	769	575	663	537	5118	17138

	(30)	(5)	(18)	(3)	(4)	(3)	(4)	(3)	(30)	(100)
2005-6	11441	1218	2210	1164	340	925	1345	82	5888	24613
	(46)	(5)	(9)	(5)	(1)	(4)	(5)	(0)	(24)	(100)
2006-7	28759	2662	3861	8389	2905	382	540	528	22604	70630
	(41)	(4)	(5)	(12)	(4)	(0)	(1)	(1)	(32)	(100)
2007-8	44483	12319	4377	4690	2780	3336	2075	583	24021	98664
	(45)	(12)	(4)	(5)	(3)	(3)	(2)	(1)	(24)	(100)
2008-9	50899	15727	8002	3840	3922	1889	2750	2098	33898	123025
	(41)	(13)	(6)	(3)	(3)	(1)	(2)	(2)	(28)	(100)
2009-10	49633	11295	9230	3094	4283	5670	2980	1437	35498	123120
	(40)	(9)	(7)	(2)	(3)	(4)	(2)	(1)	(29)	(100)
Trend growth	21	35	19	24	21	16	17	18	26	25

Soure: Annual Report, Reserve Bank of India, various issues and Department of Industrial Policy and Promotion, Ministry of Industry and Commerce, Government of India.

Notes: The figures are in rupees (million) and Parentheses contain percentage shares.

Data in this table exclude FDI inflows under NRI direct investment route as country wise detail is not available.

'#' indicates non-availability of data.

Overall growth rate of Country-wise FDI inflows has been given in last row.

Figure -3.1 Pie Chart Representation of FDI Distribution by Source (Cumulative) from 1992-93 to 2001-02

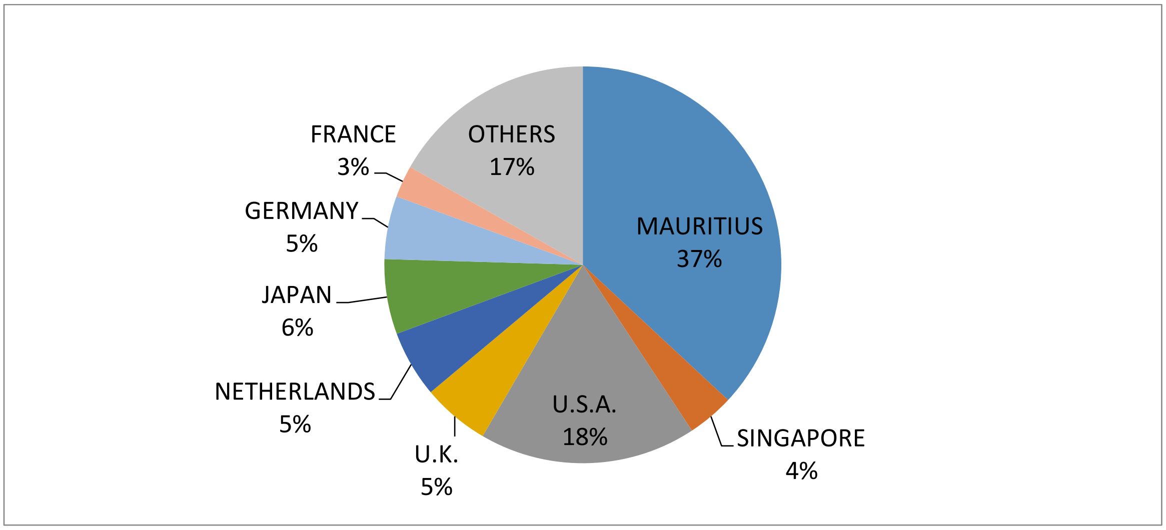
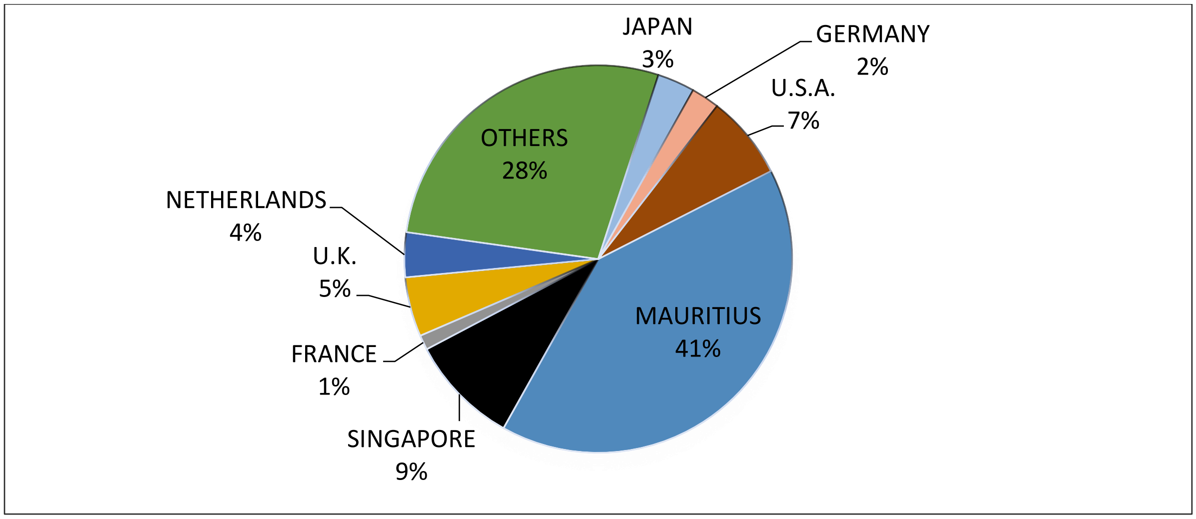


Figure- 3.2 Pie Chart Representation of FDI Distribution by Source (Cumulative) from 2002-03 to 2009-10



Source: Figures 3.1 and 3.2 have been derived from the information in Table 3.4.

3.6 Sector Wise Distribution of FDI

The sector wise distribution of FDI inflow has been presented in two tables, Table-3.5and 3.6.As the sector wise distribution of FDI changes, the total period has been divided into two-sub period such as between 1992-3 and 2001-2 and between 2002-3 and 2009-10. Moreover, the cumulative share of sector-wise distribution of FDI inflow also presented in Figure-3.3 and Figure-3.4.

The tables show the sector wise destination of FDI inflow is not stable. The engineering goods are the major attracting sector in 1992-93 receiving 25 percent of total FDI inflow. It further increased to 35 percent in 1996-97 but later dipped to 3 percent in 2001-02. Chemical and Allied Product is the another leading FDI receiving sector in 1992-93 and in 1998-99. This sector's share is 17 percent in 1992-93 and further increased to 19 percent in 1998-99. While electry and electrical equipment's share is only 12 percent in 1992-93 but this is the top FDI receiving sector in 1997-98 with 22 percent share. The service sector's share is negligible in 1992-93 with 1 percent, but this sector is the highest FDI receiving sectorin 2001-02. But the financial service is major FDI attracting sector only during the period of 1993-94 to1996-97.

In the next period (i.e from 2002-3 to 2009-10), the FDI destination has changed.Though sectors like engineering goods, chemical & allied product, electry& electrical equipment and food and beverage are the major destination of FDI during early 1990s but it shifted towards service, computer, telecommunicationand power in early 2000s. computer service is the top FDI receiving sector in 2002-03 with 22 percent and further 54 percent in 2003-04 but later reduced to 4 percent in 2009-10. While service sector is second major destination in 2002-03 with 10 percent share but late 2000 this sector is the top attracting sector. Telecommunication is the third leading FDI receiving sector following power, chemical and metal. The telecom sector is attracting 7 percent in 1992-93, further increased to 10 percent during 2008-10.

Cumulative share of major FDI receiving sectors has been shown in Figure-3.3 and 3.4. The total period has been sub divided into two sub periods; first from 1992-93 to 2001-02 and second from 2002-03 to 2009-10. Figure-3.3 shows that engineering goods has received 17 percent of total flow during first phase while electry& electrical equipment received 11 percent. Service and capital & allied product are receiving 9 percent each. But finance and computer receiving only 6 percent each. The corresponding information pertain to the next phase (i.e. from 2002-03 to 2009-10) has been charted in figure 3.4, according to which service is the leading FDI receiving sector with 22 percent of total inflow. Moreover, the cumulative share of computer service also increased to 10 percent while it is only 6 percent in first phase. Telecommunication, power and metallurgical industry are new emerging sectors in this phase; these sectors are receiving 7, 5 and 4 percent of total flow respectively in recent decades.

Table – 3.5 Sector Wise Distribution of FDI inflows(1992-03 to 2001-02)

Year	Finance	Engineering	EQ	C.A.P	Service	FB	Pharmaceutical	Computer	Others	Total
1992-03	11 (1)	214 (25)	101 (12)	144 (17)	8 (1)	86 (10)	10 (1)	25 (3)	260 (30)	858 (100)
1993-04	132 (11)	103 (9)	179 (15)	118 (10)	63 (5)	137 (12)	155 (13)	24 (2)	246 (21)	1157 (100)
1994-05	307 (11)	413 (15)	177 (6)	443 (16)	293 (11)	191 (7)	32 (1)	32 (1)	849 (31)	2738 (100)
1995-06	903 (19)	843 (18)	434 (9)	424 (9)	336 (7)	284 (6)	183 (4)	174 (4)	1162 (25)	4743 (100)
1996-07	770 (11)	2592 (35)	545 (7)	1079 (15)	54 (1)	843 (12)	169 (2)	208 (3)	1051 (14)	7312 (100)
1997-08	550 (5)	2155 (20)	2396 (22)	956 (9)	1194 (11)	418 (4)	126 (1)	517 (5)	2675 (24)	10986 (100)
1998-09	778 (9)	1800 (21)	960 (11)	1580 (19)	1550 (18)	78 (1)	120 (1)	447 (5)	1101 (13)	8414 (100)
1999-10	86 (1)	1432 (11)	750 (6)	523 (4)	506 (4)	529 (4)	236 (2)	433 (3)	8391 (65)	12886 (100)
2000-01	184 (2)	1264 (17)	974 (13)	626 (8)	284 (4)	341 (4)	284 (4)	1397 (18)	2253 (30)	7607 (100)

2001-02	22 (0)	231 (3)	659 (9)	67 (1)	1128 (16)	49 (1)	69 (1)	368 (5)	4362 (63)	6955 (100)
Trend growth	-1	11	23	1	40	3	21	45	26	24

Soure: Annual Report, Reserve Bank of India various issues and Department of Industrial Policy and Promotion, Ministry of Commerce and Industry

Note: The figures are in rupees (million) andparentheses contain percentage share. Data in this table exclude FDI inflow through acquisition of shares by non-residents under section 6 of FEMA, 1999.CAP is Chemical and Allied Product, FB is food and beverage and EQ is electric and electrical equipment. Percentage share is presented in parenthesis.

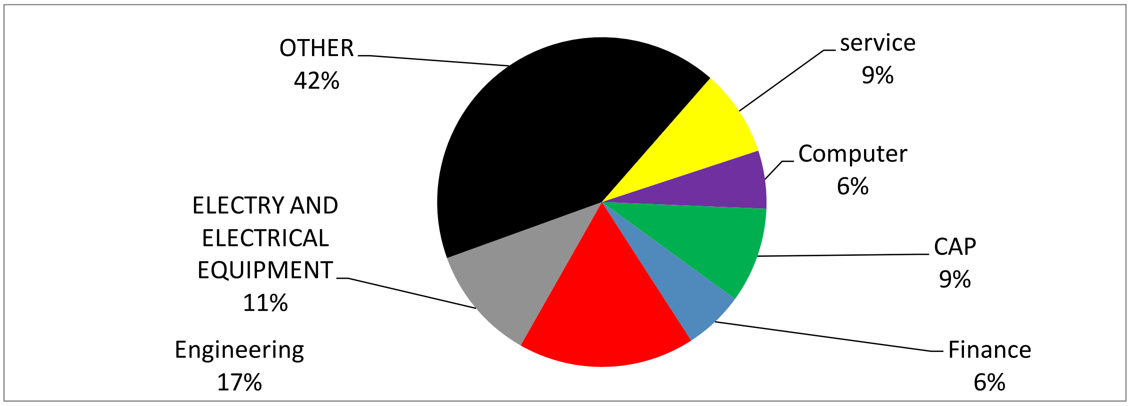
Table – 3.6 Sector Wise FDI received from 2002-03 to 2009-10

YEAR	Service	computer	Telecomm	Power	metal	Chemical	OTHER	Total
2002-03	1511 (10)	3310 (22)	1058 (7)	551 (4)	222 (1)	611 (4)	7669 (51)	14932 (100)
2003-04	1235 (10)	6559 (54)	532 (4)	521 (4)	146 (1)	94 (1)	3030 (25)	12117 (100)
2004-05	2108 (12)	2441 (14)	588 (3)	759 (4)	881 (5)	909 (5)	9452 (55)	17138 (100)
2005-06	2399 (10)	6172 (25)	2776 (11)	386 (2)	6540 (27)	1731 (7)	4609 (19)	24613 (100)
2006-07	21047 (30)	11786 (17)	2155 (3)	713 (1)	7866 (11)	930 (1)	26133 (37)	70630 (100)
2007-08	26589 (27)	5623 (6)	5103 (5)	3875 (4)	4686 (5)	920 (1)	51868 (53)	98664 (100)
2008-09	28516 (23)	7329 (6)	11727 (10)	4382 (4)	4157 (3)	3427 (3)	63487 (52)	123025 (100)
2009-10	20776 (17)	4315 (4)	12338 (10)	6908 (6)	1935 (2)	1707 (1)	75141 (61)	123120 (100)
Trend growth	52	7	45	40	44	29	45	38

Soure: Annual Report, Reserve Bank of India various issues and Department of Industrial Policy and Promotion, Ministry of Commerce and Industry

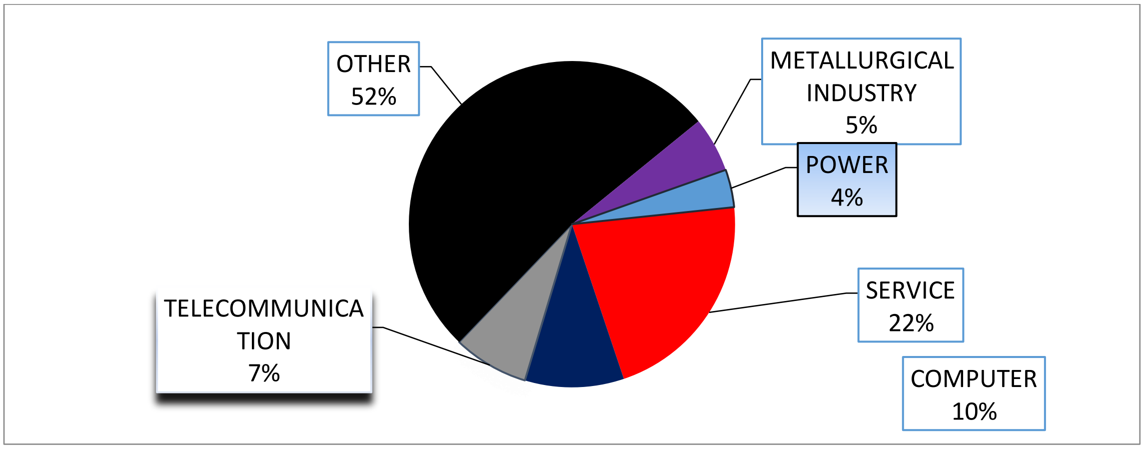
Note: (1) The figures are in rupees (million) and parentheses contain percentage shares. (2) Data in this table exclude FDI inflow through acquisition of shares by non-residents under section 6 of FEMA, 1999. (3) CAP is Chemical and Allied Product, FB is food and beverage and EQ is electric and electrical equipment. Percentage share is presented in parenthesis.

Figure – 3.3Pie Chart Representation of FDI Distribution by Sectors (Cumulative) from 1992-93 to 2001-02



Source: Figures 3.3 has been derived from the information in Table 3.5.

Figure-3.4Pie Chart Representation of FDI Distribution by Sectors (Cumulative) from 2002-03 to 2009-10



Source: Figures 3.4 has been derived from the information in Table 3.6.

3.7 Conclusion

In this chapter, we evaluate the government attitude towards FDI and the trend and pattern of FDI inflows from 1992 onwards. The changing policy framework has intensely driven the trend and pattern of FDI inflow. In recent year, removing caps from FDI inflows made the foreign investors more comfortable to invest I India. In country wise flow, Mauritius is the major source of FDI inflow, which alone contributes 40 percent of total inflows. The double Taxation Treaty between India and Mauritius has significant impact on FDI inflow. In recent years service sector is a largest destination of FDI, though in early 1990s, manufacturing industry like engineering, capital goods and allied product and food& beverage dominated the sector wise distribution of FDI. This clearly indicates a changing structure of investment in Indian economy.