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Inflows of Fdi in India: Pre and Post Reform Period

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ABSTRACT: *FDI has played a significant role in the growth and development of Indian economy. Our GDP has been grown four-fold since the year 1991. FDI play multidimensional role in the overall development. It may generate benefits through bringing non-debt creating foreign capital resources, technology upgradation, skill enhancement, new employment, spillovers and allocative efficiency effects. Thus FDI acts as a catalyst for domestic industrial development and considered to be an important vehicle for economic development. During pre liberalization period FDI increased at CAGR of 19.05% while during post liberalization period it has grown 24.28%. This indicates that liberalization has had a positive impact on FDI inflows in India. Since 1991 FDI inflows in India has increased approximately by more than 165 times.*

Keywords: *economic development, economic reform, FDI, foreign capital, liberalization.*

I. INTRODUCTION

FDI play multidimensional role in the overall development of the host country. It may generate benefits through bringing non-debt creating foreign capital resources, technology upgradation, skill enhancement, new employment, spillovers and allocative efficiency effects. FDI plays a complementary role in over all capital formation and filling the gap between domestic saving and investment. At the macro level it is a non-debt creating sources of additional external finances. At the micro level it is expected to boost output, technology, skill level, employment and linkages with other sectors and the regions of the host economy. According to Chaturvedi (2011) the value of Karl Pearson correlation is found to be +0.89 means a high degree correlation between FDI and economic development.

FDI has grown considerably in its importance in Indian economy. After liberalization its role has changed significantly. Earlier the amount of FDI was low conforming to some selected sectors, but now the inflow of FDI has grown tremendously and almost in all the sectors of the economy. The objective of this paper is to examine the significance and assess the various aspects pertaining to performance of the FDI in India viz-a-viz sector-wise, country-wise, state-wise and year-wise during pre and post reform period. The present study relies mainly on secondary data, includes World Investment Report, FDI Data Cell, Department of industrial policy & promotion (DIPP), and Reserve Bank of India Bulletin etc.

II. TRENDS OF GLOBAL FDI FLOW

Global regional flows of FDI have witnessed manifold growth during the period from 1991 to 2008, representing a more than ten-fold increase from a level of US $ 158.94 billion in 1991 to US $ 1697.0 billion in 2008 (Table 1). The major share of FDI flow of about 62% during 1991-98 was towards the developed countries, leaving nearly 34% to developing countries.

There has been improvement in the shares of developing nations from about 21% in 1999 to 31% in 2003. There after due to financial and economic crisis, global FDI inflows fell from a historic high of US $ 1979 billion in 2007 to US$1697 in 2008 (Table 1). The crisis also changed the investment landscape, of developing and transition economies. The share of developed and developing countries in the global FDI inflow was 57% and 37% respectively in 2008. FDI flows to developing countries when compared with all other capital flows, constituted a major component, accounting for more than 72% of all resources flows (UNCTAD, 2004).

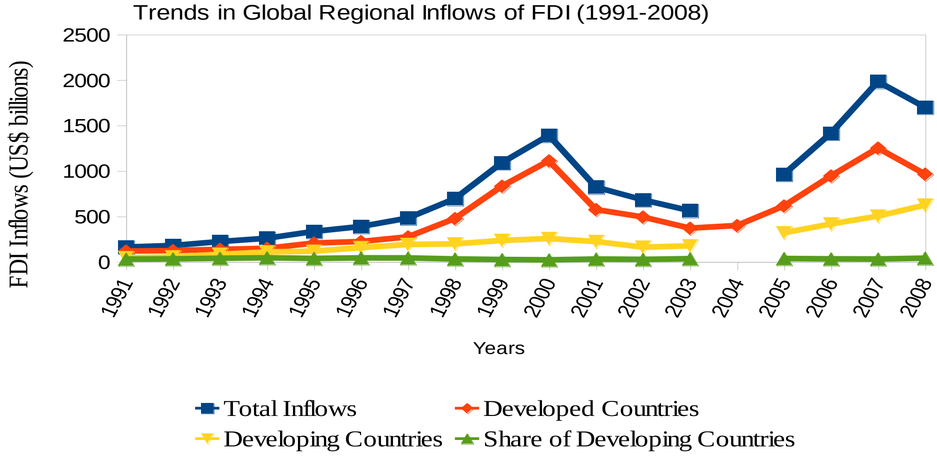
It is interesting to note that while global FDI inflow increased more than ten times, the increase for developed and developing nations was more than eight and fifteen times respectively during 1991-2008. As far as compound annual growth rate (CAGR) are concerned for the total FDI inflows, and to developed and developing countries was 22.76%, 17.87% and 24.28% respectively during 2005-08.

Table 1: Trends in Global Regional Inflows of FDI (1991-2008). (In US $ billions)

Year	Total Inflows	Developed Countries	Developing Countries	Share of Developing Countries
1991	158.9	114.8	41.7	26.2
1992	175.8	120.3	51.1	29.1
1993	219.4	133.9	78.8	35.9
1994	256.0	145.1	104.9	41.0
1995	331.1	203.5	113.3	34.2
1996	384.9	219.7	152.5	39.6
1997	477.9	271.4	187.4	39.2
1998	690.9	472.6	194.1	28.1
1999	1086.8	828.4	231.9	21.3
2000	1388.0	1108.0	252.5	18.2
2001	817.6	571.5	219.7	26.9
2002	678.8	489.9	157.6	23.2
2003	559.6	366.6	172.0	30.7
2004	N.A.	396.0	N.A.	N.A.
2005	959.0	611.0	316.0	33.0
2006	1411.0	941.0	413.0	29.3
2007	1979.0	1248.0	500.0	27.3
2008	1697.0	962.0	621.0	37.0

Notes: (a) Classification of developing countries is as per the UNCTAD.
(b) Percentage share may not sum up to 100 due to reporting errors.
Source: Compiled from UNCTAD, world investment report, United Nations (various issues).

Figure .1 :



III. FDI INFLOWS IN PRE-REFORM PERIOD:

At the time of independence, the attitude towards foreign capital was one of fear and distrusts due to previous exploitative role played by the Britishers. The legal and constitutional framework governing FDI in India consisted of a complex jumble of legislative enactment and policy directions designed primarily for the regulation of domestic investment. The government exercised complete discretion and authority in interpreting and applying these legal and policy provisions to shape and control the FDI. The indoor government policy towards FDI before economic reform may be classified under three different phases:
1) The Phase of Cautious and Selective Attitude towards FDI (1948-1967);
2) The Phase of Semi-Liberalization (1980-1990);
3) The Phase of Restrictive Attitude towards FDI (1968-1979);
4) Trends of FDI Inflows during Pre-reform Period: Before 1991;

After independence the cautious FDI policy was resulted in a low level of FDI inflow in India. The amount of FDI increased from US$ 79 million in 1980 to reach a peak level US $ 252 million in 1989 thereafter it declined US $ 237 million in 1990 (Table 2). The overall FDI inflow during 1980 to 1990 was fluctuating.

FDI increased three times during the period of 1980-1990 and the CAGR (actual) was19.05% during the same period of time.

Table 2: FDI Inflow in India: Approval Vs Actual during 1980-90.(US$ million)

Year	Approval	Actual	% growth (Actual)
1980	11.2	79.0	-
1981	12.5	92.0	16.5
1982	66.2	72.0	-21.7
1983	61.0	6.0	-91.7
1984	99.4	19.0	216.7
1985	102.9	106.0	457.9
1986	84.9	118.0	11.3
1987	83.1	212.0	79.7
1988	172.3	91.0	-57.1
1989	195.2	252.0	176.9
1990	73.3	237.0	-6.0

Source: Compiled from India's Investment Center, New Delhi and UNCTAD, World Investment Report (various issues).

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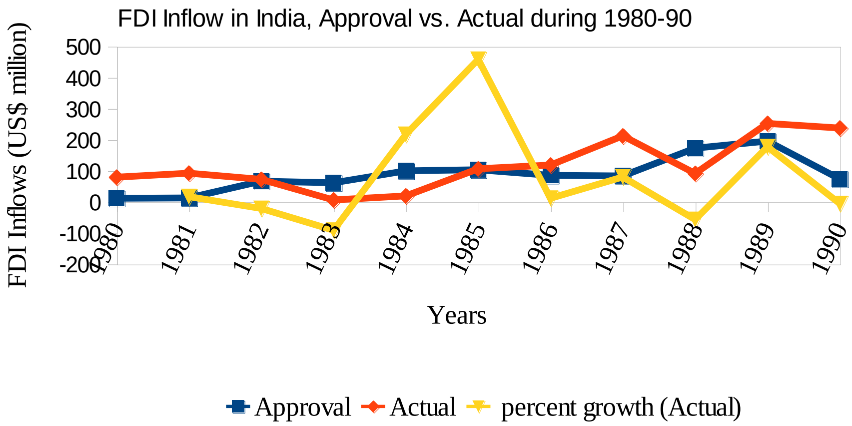


1.1 COUNTRY-WISE BREAK-UP OF FDI FLOWS DURING PRE-REFORM PERIOD:

There was almost a fluctuating trend during the 1981 to 1990. The important feature is that except Germany almost all the countries have positive trend in FDI in inflows in India. In the year 1981 the top five investing countries were Germany, USA, UK, Japan and Switzerland and together they accounted for 86% of total FDI inflows. In 1990, the top five investing countries are USA, Switzerland, Germany, UK and Italy and together, they accounted nearly 57% of FDI inflows (Table 3).

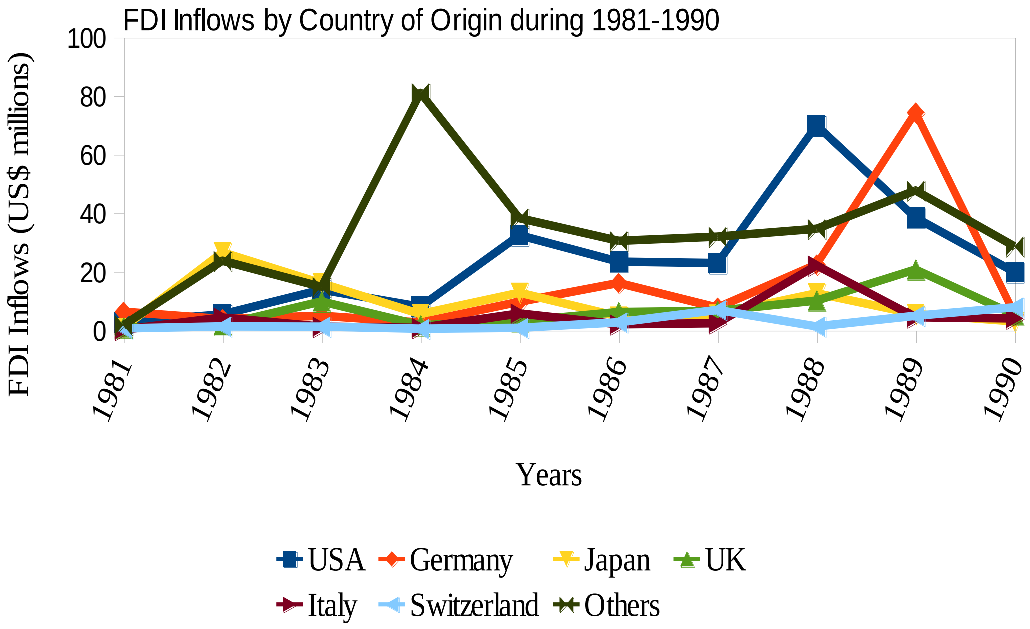
Table: 3- FDI Inflows by Country of origin during 1981-1990. (In US$ million)

Year/ Country	USA	Germany	Japan	UK	Italy	Switzerland	Others	Total
1981	2.6	6.2	0.7	0.8	0.1	0.5	1.6	12.5
1982	5.3	3.7	26.5	1.7	4.2	1.2	23.6	66.2
1983	13.7	4.8	15.9	9.7	1.1	1.1	14.7	61.0
1984	7.9	2.5	5.4	1.6	0.7	0.4	80.9	99.4
1985	32.3	9.6	12.7	3.0	5.6	0.7	38.1	102.0
1986	23.3	16.0	4.6	6.1	1.9	2.6	30.4	84.9
1987	22.8	7.6	5.3	6.5	2.3	6.8	31.8	83.1
1988	69.8	22.3	12.5	10.0	22.0	1.2	34.5	172.3
1989	38.3	74.2	5.4	20.6	4.3	4.8	47.6	195.2
1990	19.7	5.4	2.9	5.2	3.9	7.7	28.5	73.3

Note: Data are on approval basis and has been transferred from the exchange rate taken from the International Financial Statistics (Year Book) IMF, 2003.

Source: Compiled from Indian Investment Center.

Figure 3.6 :



1.2 SECTOR-WISE BREAK-UP OF FDI INFLOW DURING PRE-REFORM PERIOD:

The top five sectors which have attracted the bulk of FDI were industrial machinery, chemicals, mechanical engineering, electrical and electronics and metallurgy and together they accounted for 54.87% in the year 1981. In 1990, the top five sectors were electrical and electronics, chemicals, industrial machinery, mechanical engineering and metallurgy and together they accounted 68.14% of the total FDI inflows (Table 4).

Table: 4- Sector-wise distribution of FDI Inflows during 1981-1990. (In US million)

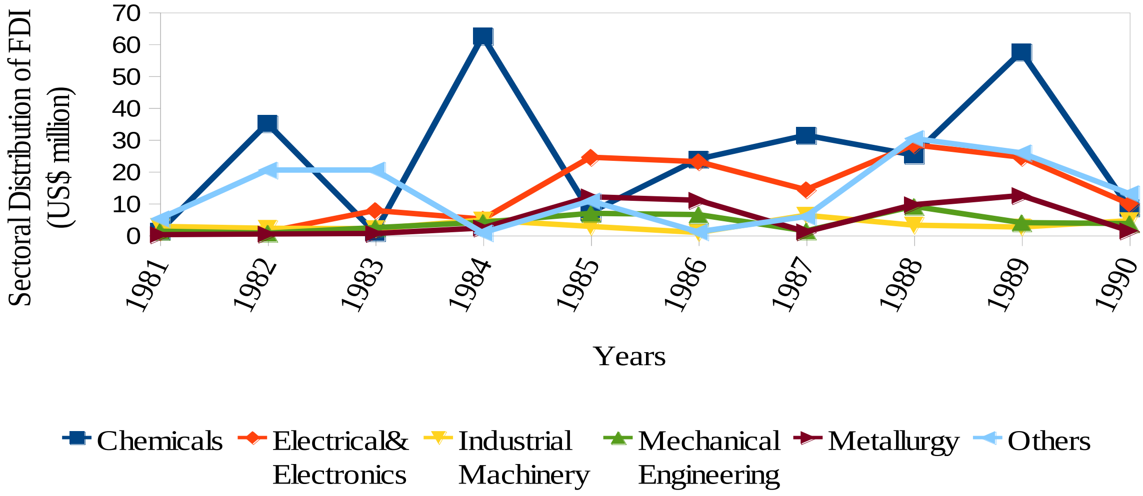
Years / Sectors	**Chemicals**	**Electrical& Electronics**	**Industrial Machinery**	**Mechanical Engineering**	**Metallurgy**	**Others**	**Total**	**% share of top five sectors**
1981	**1.2**	**1.0**	**2.7**	**1.2**	**0.1**	**5.1**	**11.3**	**54.87**
1982	**35.0**	**1.0**	**2.1**	**0.6**	**0.3**	**20.4**	**59.4**	**65.66**
1983	**0.8**	**7.7**	**2.0**	**2.3**	**0.5**	**20.4**	**33.7**	**39.47**
1984	**62.4**	**5.0**	**4.7**	**4.0**	**2.2**	**0.7**	**79.0**	**99.11**
1985	**7.1**	**24.4**	**2.7**	**6.8**	**12.0**	**10.7**	**63.7**	**83.20**
1986	**23.8**	**23.0**	**0.8**	**6.4**	**10.9**	**1.0**	**65.9**	**98.48**
1987	**31.3**	**14.2**	**6.2**	**1.3**	**1.0**	**5.8**	**59.8**	**90.30**
1988	**25.1**	**28.3**	**3.1**	**9.0**	**9.5**	**30.3**	**105.**	**71.23**
1989	**57.5**	**24.4**	**2.5**	**3.9**	**12.4**	**25.8**	**126.**	**79.60**
1990	**8.6**	**9.8**	**4.5**	**3.6**	**1.3**	**13.0**	**40.8**	**68.14**

Note: Note: Data are on approval basis and has been transferred from the exchange rate taken from the International Financial Statistics (Year Book) IMF, 2003.

Source: Compiled from Reserve Bank of India Bulletin (various issues).

Figure 4 :

Sector-wise Distribution of FDI Inflows during 1981-1990



1.3 FDI INFLOWS IN POST-REFORM PERIOD: SINCE 1991:

After mid 1990 the political disturbances along with other economic problem gave rise to severe financial crisis in the Indian economy. The high rate of inflation, fiscal deficit and political instability downgraded the international credit of the country. This resulted in the erosion of the international community's confidence on our economy. The outflow of deposits especially by NRIs, a virtual stoppage of remittances from Indian workers in the Gulf countries and a sudden break out of Gulf war in January 1991 exacerbated the balance of payments crisis. The foreign exchange became so scanty that, it was insufficient to pay even for one week imports.

As a result the economic liberalization process was introduced under Structural Adjustment Programme (SAP) with the support of IMF and the World Bank. This culminated into a series of economic reforms in 1991 along with a host of industrial policy reforms. NIP 1991 recognized the role of FDI in the process of industrial development in India in terms of bringing greater competitiveness and efficiency and also modernization, technological upgradation, creation a sound base for export promotion and above all integrating India with rest of the world. The major highlights of NIP 1991 changes are as followings:

- Abolition of industrial licensing system except for 18 industries specified in the Annex-II of the statement, which includes those industries which manufactured, hazardous chemicals and items of elitists consumption or of national concerns social well being and the environment concerns.
- Ceiling of 40 percent foreign equity under FERA was done away with.
- Removal of registration under MRTP Act.
- Foreign investment promotion board (FIPB) was established and has been authorized to provide a single window clearance for all project proposals regarded by it.
- Introduction of the dual approval system for FDI proposals viz. (i) through an automatic approval channel for FDI in 35 priority sectors by RBI upto equity participation 51 percent and (ii) through formal government of India channel via FIPB/SIA.
- Existing companies were allowed to hike their foreign equity upto 51 percent in priority sector.
- Dilution of dividend balancing conditions and its related exports obligation except in case of 22 consumer goods industries.
- Removal of restrictions of FDI in low technology sectors.
- Automatic permission for technology agreement in high priority industries.
- Removal of condition for FDI with necessary technology agreements etc.

Besides these in August 1999 government of India set up Foreign Investment Implementation Authority (FIIA) within the ministry of industry to facilitate quick translation of FDI approvals into implementation by providing a pro-active one step after care service to foreign investor like helping them obtain necessary approvals and sorting their operational problems. FIIA is assisted by Fast Track Committee which has been established in 30 Ministries/Departments of Government of India for monitoring and resolution of difficulties for sector specific projects (Chopra, 2004: 123)

The steering committee on FDI was set up by the planning commission in August 2001 under Chairmanship of N.K. Singh which submitted its report in September 2002 to the Prime Minister. It recommended that the ban on FDI in retail trade should not be lifted while for other sector such as oil marketing, petroleum exploration, banking and financial services and real estates was raised to limit of 100 percent.

These policy changes intended for making India an investors, 'friendly destination' for FDI has undergone more than a decade's experience. On the other hand, some FDI restrictions have been imposed by the government of India in order to protect the interest of the country. Sectors such as atomic energy, lottery business and gambling and betting are prohibited.

IV. TRENDS OF FDI DURING POST-REFORM PERIOD

The 1991, New economic policy measures reversed the past policies to rebuild foreign investors confidence in making investment outlets in India. During initial years of the reform periods, there used to be a large gap between FDI pledged during approval and actual FDI inflows realized in the country (Table 5). Further, during this period, many sectors were kept outside the FDI and those sectors that were available for FDI were tagged with upper limit, and other terms and conditions in the form of special case-by-case approval if the FDI proposal was outside the automatic channel. Besides, investors were cautious about continuity of the policy changes in future. These factors led to the large difference in FDI actual inflows and approvals, which subsequently narrowed down during 1998 to 2000.

As far as amount of FDI is concerned it has been increased from US$ 165 million in 1991 to US$ 4222 million in 2001, but thereafter it declined to US$ 3134 and US$ 2634 in the year 2002 and 2003 respectively. However 2004 it has shown increasing trend. Similarly, growth rate too fluctuated during 1991 to 2009. In the year 1998, 1999, 2002 and 2003 it was negative i.e. -16.3, -20.9, -25.8 and -15.9% respectively. Thereafter it increased to a high level of in 2006 i.e. 183.56%. The CAGR of actual FDI inflow is 24.28% during 1991-2008.

Table 5: FDI in India: Approvals Vs Actual during 1991-2008. (US $ million)

Year (April-March)	**Approval**	**Actual**	**Share of Inflows Approval (percent)**	**percent growth (Actual)**
1991-92#	**527**	**165**	**31.31**	**-**
1992-93	**1976**	**393**	**19.89**	**138.18**
1993-94	**2428**	**654**	**26.94**	**66.41**
1994-95	**3178**	**1374**	**43.23**	**110.09**
1995-96	**11439**	**2141**	**18.72**	**55.82**
1996-97	**11484**	**2770**	**24.12**	**29.38**
1997-98	**10984**	**3682**	**33.52**	**32.92**
1998-99	**7532**	**3083**	**40.93**	**-16.27**
1999-2000	**4266**	**2439**	**57.17**	**-20.89**
2000-2001	**5754**	**2908**	**50.54**	**19.23**
2001-2002	**3160**	**4222**	**133.60**	**45.18**
2002-2003	**1654**	**3134**	**189.48**	**-25.77**
2003-2004	**1353**	**2634**	**194.68**	**-15.95**
2004-2005	**1913**	**3759**	**196.50**	**42.71**
2005-2006	**1610**	**5546**	**344.47**	**47.54**
2006-2007*	**NA**	**15726**	**-**	**183.56**
2007-2008*	**NA**	**24581**	**-**	**56.30**
2008-2009*	**NA**	**27331**	**-**	**11.19**

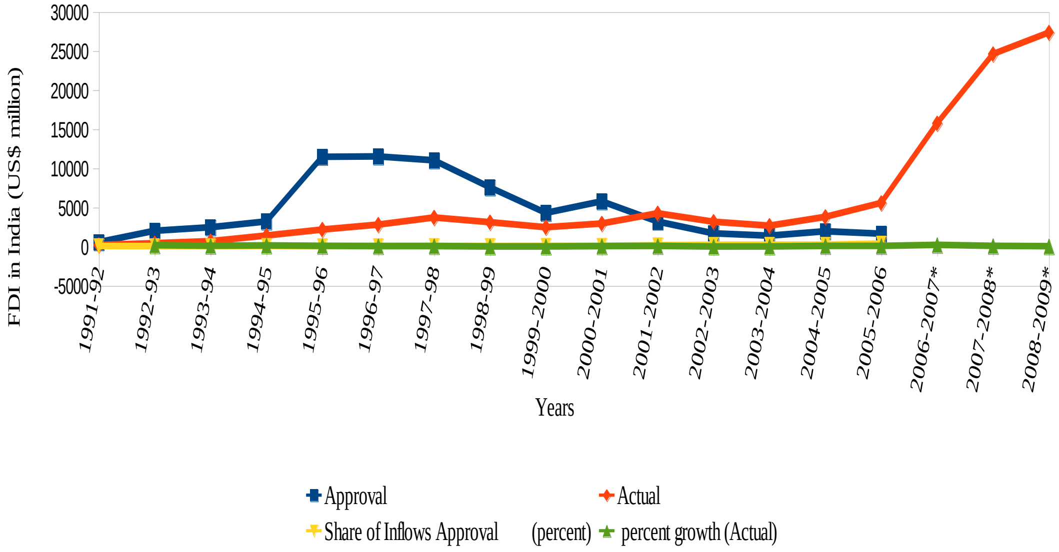
Note: There is difference in aggregate FDI inflows data reported by RBI and SIA, Ministry of Commerce & Industry, Government of India, the difference may be due to errors and emissions.

\# August- march

* Includes stock swap of shares US$ 3.2 billion for year 2006-2007 and US$ 5 billion for the year 2007-2008.

Source: Economic Survey 2004-2005, Government of India, New Delhi and SIA Newsletter (various FDI fact sheets).

Figure 3.8 :[5]
FDI in India: Approvals Vs. Actual during 1991-2008



There are two main channels for the entry of FDI in India, the SIA/FIPB and the RBI Automatic Approval Route. From the inception economic reforms in India in 1991 until the year 2000, most of the FDI came through the government route as there was strict monitoring of the approvals, therefore, FDI coming through the SIA/FIPB route was greater than the FDI coming through the RBI route. However, there has been a dilution of this trend in the past several years.

V. COUNTRY-WISE BREAK-UP OF FDI INFLOWS DURING POST-REFORM PERIOD

Changing composition of FDI inflows by country of origin is another feature observed during post-reform period. The important feature is that almost all the leading investing countries have responded positively in response to liberalization policies. Mauritius is a major source of FDI inflows because of its 'tax haven' status. Double taxation avoidance agreement that India entered with Mauritius had become an additional benefits in the form of reducing tax liability for TNCs from the USA and the UK to route their investments through Mauritius. Although the share of USA has declined considerably, however these countries are still the largest source of FDI inflows. During the period 1992 to 2008 percentage shares of FDI inflows from top ten countries underwent a compositional shift in favour of Mauritius, Singapore and the USA comprising 45.12%, 10.04% and 9.92% of the total inflows of FDI worth US$ 72718 million. With share of the UK 5.8%, Germany 3.3%, and Netherlands 4.3% and so on. Together they account for nearly 84.9% of total FDI inflows (table 6).

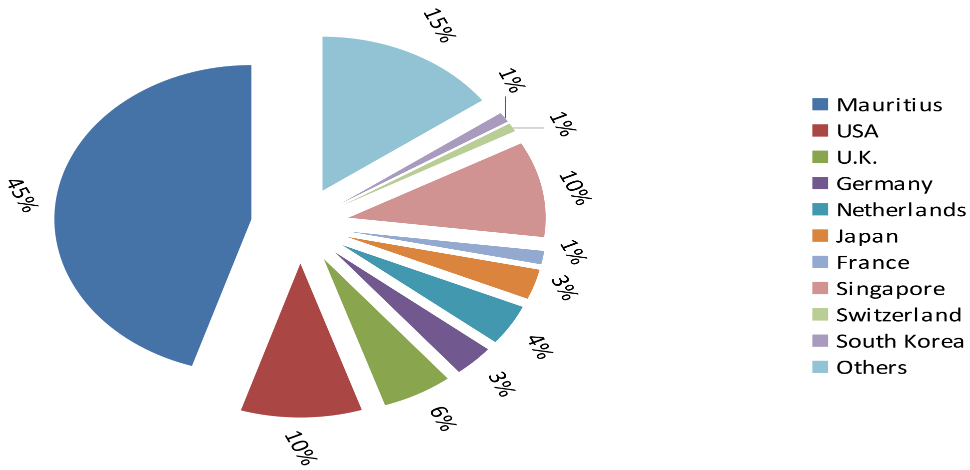
Table 6: FDI Inflows by Country of Origin during 1992-2008. (US$ million)

S. No.	Countries	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09 (P)	Total	Share percent
1.	Mauritius	NA	NA	197	507	846	900	590	501	843	1863	534	381	820	1363	3780	9518	10165	32808	45.12
2.	USA	22	99	203	195	242	687	453	355	320	364	268	297	469	346	706	950	1236	7212	9.92
3.	U.K.	7	98	144	71	54	NA	NA	NA	61	45	224	157	84	261	1809	508	690	4213	5.79
4.	Germany	21	35	35	100	166	151	114	31	113	74	103	69	143	45	116	486	611	2413	3.32
5.	Netherlands	21	47	45	50	124	159	53	82	76	68	94	197	196	50	559	601	682	3104	4.27
6.	Japan	26	37	95	61	97	164	235	142	156	143	66	67	122	86	80	457	266	2300	3.16
7.	France	9	10	14	NA	NA	NA	NA	NA	93	88	53	34	44	12	100	136	437	1030	1.41
8.	Singapore	3	10	25	60	76	NA	NA	NA	22	54	39	15	64	166	582	2827	3360	7303	10.04
9.	Switzerland	35	23	26	NA	NA	NA	NA	NA	8	6	35	5	64	68	57	192	135	654	0.90
10.	South Korea	NA	NA	12	24	6	333	85	8	24	3	15	22	14	61	68	86	NA	761	1.05
11.	Others	136	45	76	351	446	562	470	462	194	280	227	218	300	762	1014	2780	2597	10920	15.02
12.	Total	280	404	872	1419	2057	2956	2000	1581	1910	2988	1658	1462	2320	3220	8871	18541	20179	72718	100.00

Note: NA refers to Not Available.
P: Refer to Provisional
* Data in this table related to only equity capital under the RBI Automatic route and the Government route. Acquisition by shares of Indian companies by Non-Resident under section FEMA, 1999 and equity capital of unincorporated bodies are not included.

Figure 3.10 :

Country-wise FDI Share(%)



Source: Compiled from Annual Report, Reserve Bank of India (various issues).

SECTOR-WISE BREAK-UP OF FDI INFLOWS DURING POST-REFORM PERIOD:

Liberalization of FDI policy is also responsible for a changing sectoral distribution of FDI inflows in India. Manufacturing and other sectors which was dominating the aggregate FDI inflows during 1990 came down due to the emergence of services sector as an important recipient of FDI. During 1992-2000 engineering sector was the top most sector for receiving FDI with 20.4% followed by electronics & electrical equipment (12.5%), chemicals and allied product (11.7%), services (9.4%), Finance (7.6%), computers (5.8%), food and dairy products (5.8%) and pharmaceuticals (2.6%) of the total worth US$ 13485. Their share together stood at 76.32%. Conversely during 2000 to 2010 service sector has attracted the largest amount of FDI with a percent share of 20.35 followed by computer software with 8.5%, telecommunications 7.9% etc. Together these top ten sectors accounted for 65.30% of total inflow during the same period (Table 7).

Table 7: Sector-wise distribution of FDI Inflows during April 2000 to April 2010.

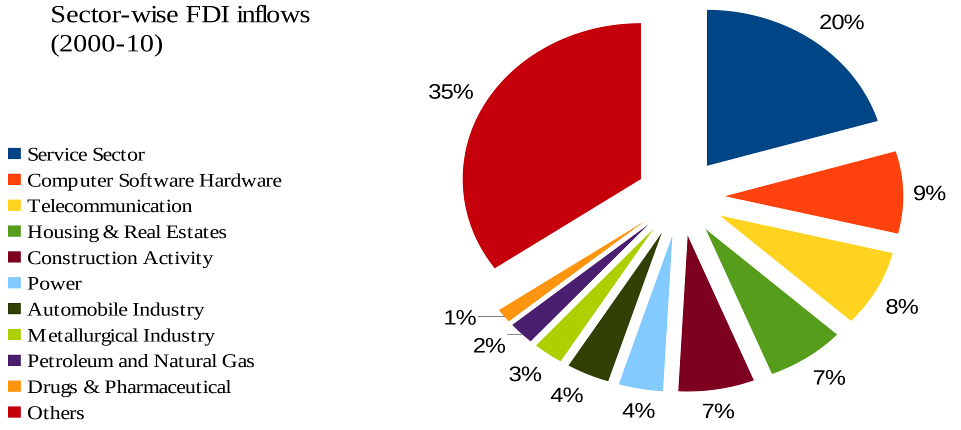
Sectors	Amount of FDI Inflows		Percentage of Inflows in US$
	In Rupees Crores	In US$ million	
Service Sector	106992.07	23995.66	20.35
Computer Software Hardware	44611.13	10044.41	8.52
Telecommunication	42619.88	9360.76	7.94
Housing & Real Estates (including Cineplex, Multiplex, Integrated Township & Commercial Complex etc.	37614.76	8411.77	7.13
Construction Activity	36065.91	8136.35	6.90
Power	21466.46	4750.32	4.03
Automobile Industry	20863.91	4607.06	3.90
Metallurgical Industry	13844.71	3220.78	2.73
Petroleum and Natural Gas	12026.07	2782.74	2.35
Drugs & Pharmaceutical	7586.01	1707.52	1.45
Others	182666.34	40925.49	34.70
Total	526357.25	117942.86	100.00

Note: (1) Sector-wise FDI inflows data re-classified as per segregation of data from April 2000 onwards.

(2) Percentage of Inflows worked out in terms of US$ and the above amount of inflows received through FIPB/SIA route, RBI's automatic route and acquisition of existing shares only.

Source: Compiled from, SIA Newsletter, Fact Sheet on FDI from August 1991 to April 2010.

Figure 12 :
Sector-wise FDI inflows (2000-10)



VI. STATE-WISE BREAK-UP OF FDI INFLOWS DURING POST-REFORM PERIOD

India is a Union of States with a strong central government. In practice, even in the absence of major constitutional reform, the balance of centre-state relations is beginning to shift from centralization to a greater acceptance of regional autonomy. Economic reforms assigned greater power to state governments and provoked greater competition among them. Orissa and Bihar are ranked as the worst states; to invest Bihar is graded the lowest due to lack of infrastructure facilities, low literacy rate and lowest purchasing power in the country however their position are improved now.

Table 8: State-wise distribution of FDI Inflows during April 2000 to April 2010. (In US$ million)

1. RBI's Regional Office*	2. State covered	3. Amount of FDI inflows	4. percent with FDI inflow
5. Mumbai	6. Maharashtra, Dadar and Nagar Haveli, Daman & Diu	7. 39631	8. 35.24
9. New Delhi	10. Delhi, Part of UP & Haryana	11. 23055	12. 20.50
13. Bangalore	14. Karnataka	15. 7035	16. 6.26
17. Ahmadabad	18. Gujarat	19. 6517	20. 5.79
21. Chennai	22. Tamil Nadu, Pondicherry	23. 5527	24. 4.91
25. Hyderabad	26. Andhra Pradesh	27. 4735	28. 4.21
29. Kolkata	30. West Bengal, Sikkim, Andaman and Nicobar Islands	31. 1393	32. 1.24
33. Chandigarh	34. Chandigarh, Punjab, Haryana and Himachal Pradesh	35. 749	36. 0.67
37. Panaji	38. Goa	39. 488	40. 0.43
41. Jaipur	42. Rajasthan	43. 469	44. 0.42
45. Others	46. -	47. 22869	48. 20.33
49. Total	50. -	51. 112468	52. 100.00

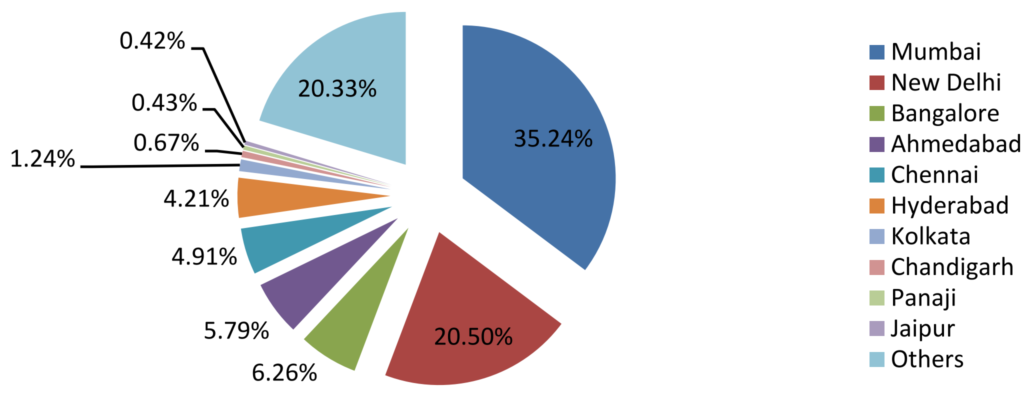
Note: Includes equity capital components only.

* Refer to the region-wise FDI inflows are classified as per RBI's Regional Office received FDI inflows, furnished by RBI, Mumbai.

Source: Compiled from, SIA Newsletter, Fact Sheet on FDI from August 1991 to April 2010.

The North and North Eastern States of Jammu & Kashmir, Assam, Arunachal Pradesh, Meghalaya, Mizoram, Manipur and Nagaland do not even figure on investors maps. Though they have a high investment potential in the field of tourism, huge hydropower potential scope for gains from border trades but the inadequate infrastructure, high security maintenance, spread of terrorist activities and natural calamities makes them unattractive of FDI. The state wise trends in FDI shows that the RBI's regional offices at Maharashtra, New Delhi, Karnataka, Gujarat and Tamil Nadu and others have been the largest recipients of FDI in terms of cumulative FDI inflows with percentage share of 35.2%, 20.5%, 6.3%, 5.8% and 4.9% respectively from April 2000 to April 2010 (Table 8). These states are known for their strong industrial base or as the software hub and could be attributed to their better resources, infrastructure facilities, investors friendly, policies like single window clearance and investment promotion schemes like SEZs. Their share stood at 79.67% of total FDI inflow during the same period.

FIGURE 8



VII. FDI IN INDIA: REASONS FOR SLOW INFLOWS

It has been observed that in absolute figures the FDI inflows in India is impressive but compared to the global flows the share of India is far from satisfactory. Since, India is a late comer in opening up her economy so it is unable to attract sufficient amount of FDI as compared to other developing countries. This is basically linked to its socio-economic set up and policies taken after independence. The review presents broad generalization based on the perceptions of potential foreign investors and independent consultants who interact closely with them. It is argued that FDI is expected to play a supplementary and subsidiary role since it was used as a vehicle for technology transfer. The complete web of regulatory control and bureaucratic intervention accompanied by inadequate infrastructure is also regarded as major constraints. These are some important measurement for checking the low level of FDI inflows in India.

- Legal and Regulatory Framework and FDI Policy;
- Raising FDI Sectoral Caps and other Allied Issues;
- Decentralization of Administration Process;
- Reduce Overly Bureaucratic Facilities;
- Proper Coordination between Centre and States;
- Investment Opportunities in North-Eastern Region;
- Reduce Level of corruption;

VIII. CONCLUSION

FDI has played a significant role in the growth and development of the developing economy, particularly in India. Our GDP has been grown four-fold since the year 1991. According to World Development Report (2010) India ranked 3rd in terms of purchasing power parity. It is also the 10th largest economy in terms of U**S** dollar exchange rate. Furthermore, India is also the second fastest growing economy in the world with the highest economic growth rate. Though, China is the largest recipient of FDI but India is also increasingly becoming an important destination for FDI in Asia. Progressive liberalization of FDI policy has strengthened investor confidence with opening up of new sectors like integrated township, defence industry tea plantation etc. India's capacity as a host nation in attracting FDI has been enhanced during the post reforms period, but the quantum of FDI inflows relative to its size has been low as compared to other developing countries. Main reasons for these low FDI inflows has been related to the investment climate, poor infrastructure, foreign exchange rate fluctuation and business facilitation, which are comparatively at lower level. However, during pre liberalization period FDI increased at CAGR of 19.05% while during post liberalization period it has grown 24.28%. This indicates that liberalization has had a positive impact on FDI inflows in India. Since 1991 FDI inflows in India has increased approximately by more than 165 times.

Yet, it is important to note that the focus should not just be on the absolute amount of gross FDI inflows but also on the type. More specifically, while India has experienced an infusion of FDI inflows in recent times, a large portion of the new inflow have been in the form of Brownfield investment. Given that the latter does not necessarily imply new capital infusion into a country, the macroeconomic consequences of the two types of FDI can be quite different. The focus should not just be on the amount of Greenfield FDI inflows but also the positive externalities to be derived from them, including in terms of technological development.

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