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CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	FDI TRENDS IN INDIA: A MULTI-DIMENSIONAL ANALYSIS <i>DR. K. R. PILLAI & DR. M. S. RAO</i>	1
2.	BEHAVIORAL ANALYSIS OF THE FARMERS, AS END USERS, TOWARDS ORGANIC FERTILIZER: AN EMPIRICAL STUDY IN BANGLADESH <i>MUJAHID MOHIUDDIN BABU</i>	6
3.	ECONOMIC GROWTH NEXUS TO PERFORMANCE OF BANKING SECTOR IN PAKISTAN <i>SHAHZAD GHAFUOR & UZAIR FAROOQ KHAN</i>	11
4.	BANK CONSOLIDATION AND CREDIT AVAILABILITY TO SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM NIGERIA <i>DR. AHMAD BELLO DOGARAWA</i>	19
5.	STUDY OF LINKAGE OF DIVERSIFICATION STRATEGY AND CAPITAL STRUCTURE OF FIRMS: A SURVEY <i>NEETA NAGAR</i>	26
6.	A STUDY ON MONEY SUPPLY, INFLATION RATE AND GDP – AN EMPIRICAL EVIDENCE FROM INDIA <i>UMANATH KUMARASAMY</i>	33
7.	MICROFINANCE FOR SMES: PROSPECTS, CHALLENGES & IMPLICATION <i>GAURAV SEHGAL & DR. ASHOK AIMA</i>	37
8.	TRADE ORIENTATION OF INDIAN INDUSTRIES <i>NAGENDRA KUMAR MAURYA & J. V. VAISHAMPAYAN</i>	44
9.	GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN INSURANCE INDUSTRY <i>S. H. ASHRAF & DHANRAJ SHARMA</i>	49
10.	FOOD INFLATION IN INDIA- WHERE ARE THE PRICES HEADING? <i>DR. YASMEEN K. AOWTE</i>	57
11.	SOCIAL ENTREPRENEURSHIP – STUDY OF KAUSHALYA FOUNDATION <i>DR. SHILPA BENDALE & DR. ARVIND CHAUDHARI</i>	61
12.	DYNAMISM OF INDIA'S FINANCIAL SECTOR DURING THE GLOBAL ECONOMIC RECESSION <i>DR. B. KUBERUDU & DR. T. V. RAMANA</i>	64
13.	MANAGING RELIGIOUS PHILANTHROPY FOR SOCIO-ECONOMIC DEVELOPMENT <i>BEERAN MOIDIN B. M. & DR. FAISAL U.</i>	67
14.	INVESTMENT PROCESS OF VENTURE CAPITAL: AN EXPLANATORY STUDY OF ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION VENTURE CAPITAL LIMITED (APIDC-VCL) <i>DR. A. AMRUTH PRASAD REDDY & DR. S. RAGHUNATHA REDDY</i>	72
15.	MICRO FINANCE LOANS – ENHANCING BUSINESS OR MEETING PERSONAL EXPENSES? <i>ARADHANA CHOUKSEY & DR. YAMINI KARMARKAR</i>	78
16.	INTERNATIONALIZATION OF INDIAN BUSINESS: DRIVERS AND CHALLENGES <i>DR. VILAS M. KADROLKAR & SHREESHAIL G. BIDARKUNDI</i>	83
17.	SMEs IN THE ECONOMIC GROWTH OF AGRA: OPPORTUNITIES AND CHALLENGES (WITH SPECIAL REFERENCE TO AGRA SHOE CLUSTER) <i>SHAVETA SACHDEVA & LAXMI R. KULSHRESTHA</i>	90
18.	SAFE MANAGEMENT OF HEALTH CARE WASTE <i>DR. A. SHYAMALA</i>	94
19.	POST MARITAL SEXUAL ANXIETY AMONG DOCTORS (A COMPARATIVE STUDY AMONG MALE AND FEMALE DOCTORS) <i>VIJAYA U. PATIL, CHANDRAKANT JAMADAR & RUKMINI S.</i>	98
20.	CLIENTS SATISFACTION TOWARDS PRIVATE LIFE INSURANCE COMPANIES <i>DR. M. DHANABHAKYAM & M. KAVITHA</i>	101
21.	RURAL ENTREPRENEURSHIP IN JAMMU AND KASHMIR: OPPORTUNITIES AND CHALLENGES <i>DR. DARAKHSHAN ANJUM</i>	105
22.	IMPACT OF DEMOGRAPHIC VARIABLES ON PERFORMANCE OF ENTREPRENEURS IN KERALA <i>DR. R. JUBI</i>	111
23.	MARKET ORIENTATION IN AGRICULTURE: CASE STUDIES OF DEVELOPMENT INTERVENTIONS IN INDIA <i>NISHA BHARTI</i>	118
24.	TRENDS AND PATTERNS OF FDI IN INDIA: AN ANALYSIS <i>PRADEEP</i>	126
25.	THE NEW CONSOLIDATED FDI POLICY 2011: WHETHER IGNORING SOMETHING IN ITS DRIVE TOWARDS BOOSTING INVESTOR CONFIDENCE? <i>VAIBHAV CHOUDHARY & DEEKSHA CHAUDHARY</i>	131
	REQUEST FOR FEEDBACK	134

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TRENDS AND PATTERNS OF FDI IN INDIA: AN ANALYSIS

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ABSTRACT

Foreign Direct Investment (FDI) has assumed a lot of significance for the emerging economies. India has also learnt a lesson from the experienced of the other Asian economies. During the last decade there has been a remarkable change in the composition of sources of FDI inflows in India. Due change in FDI regime, many countries have started investing heavily in India. This paper investigates the changing scenario and also analyses the inflows of FDI in India, countrywise, sectorwise and statewide inflow of foreign direct investment in India during the period 1992-2009.

KEYWORDS

FDI, Business, India, Investment.

INTRODUCTION

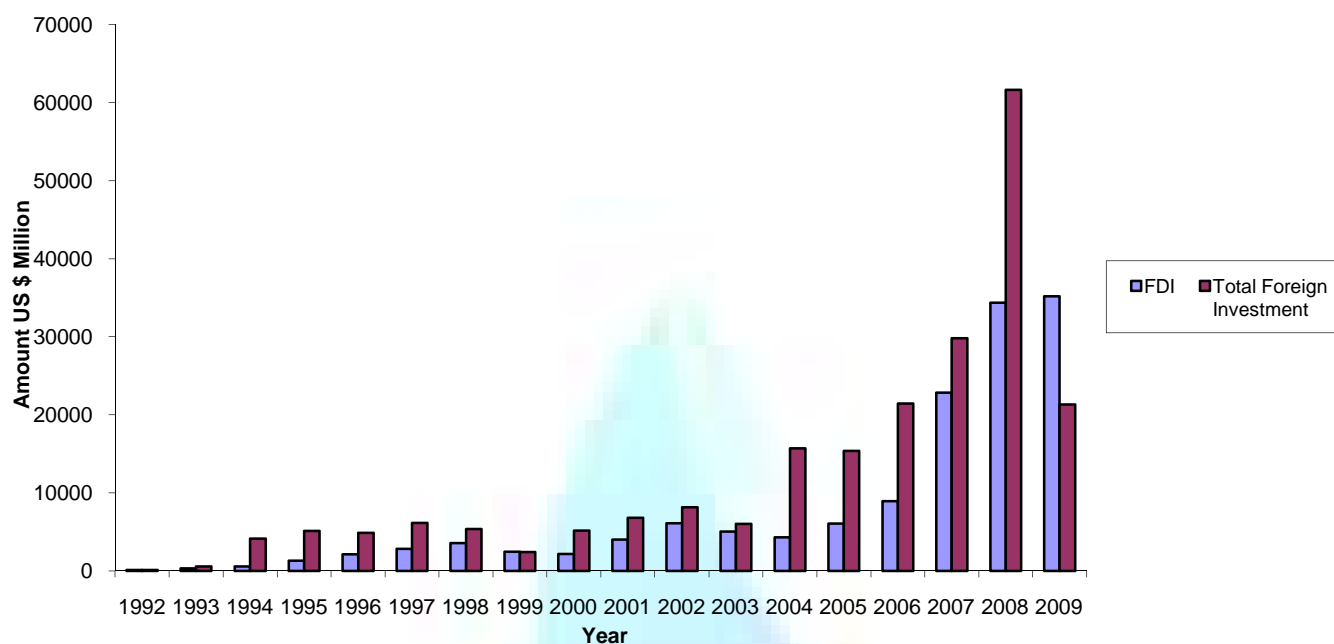
Capital is stated as the engine of economic growth. This statement has gained more importance in the recent times. Traditionally, the various sources of capital for developing countries were – either the demand of their output by industrial countries or foreign aid or loans from foreign banks. However, now-a-days, the official development assistance flows are steadily declining, Foreign Direct Investment (FDI) is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor. One of the more noteworthy financial developments in developing countries during the past decade is the enormous growth of foreign direct investment (FDI): From \$36 billion a year in 1991 to \$173 billion in 1997, according to the world bank's 2001 Global Development Finance Report. Although the growth in FDI flows cooled off after the Asian, Russian and Brazilian financial crises of 1997-98 in 2000 they stood at an estimated \$178 billion, not only higher than before these crises, but well above where they were at the beginning of the decade. The resurgence in investment flows and technology transfer through FDI to the developing world indicate that developing countries today receive twice as much as the value of world FDI flows was in mid-eighties. This was possible due to the liberalization of FDI policy by the host countries. Today the transnational corporations and other investors are more attracted to deploy their tangible and intangible assets in the developing countries with a view to increase their competitiveness and profitability, and the developing countries consider the increased FDI inflow as necessary for strengthening their resource base, technological capability, access to external capability, access to external markets and thus, improve the overall economic performance. India is one of the developing countries, which have introduced liberalization policy from July 1991 and as its past relaxed the FDI regulatory framework on a selective basis. Such a positive and 'open-door' policy of India toward foreign investment.

TABLE 1: SHOWING INFLOW OF FOREIGN DIRECT INVESTMENT AND TOTAL FOREIGN INVESTMENT IN INDIA DURING 1992-2009 Amount US \$ Million

Year	FDI	Total Foreign Investment	Percentage
1992	129	133	96.99
1993	315	559	56.35
1994	586	4153	14.11
1995	1314	5138	25.57
1996	2144	4892	43.83
1997	2821	6133	46.00
1998	3557	5385	66.05
1999	2462	2401	102.54
2000	2155	5181	41.59
2001	4029	6789	59.35
2002	6130	8151	75.21
2003	5053	6014	83.72
2004	4322	15699	27.53
2005	6051	15366	39.38
2006	8961	21453	41.77
2007	22826	29829	76.52
2008	34360	61631	55.75
2009	35168	21313	165.00
CAGR	36.56%	32.58%	

Source: RBI Bulletin

DIAGRAM 1: SHOWING INFLOW OF FOREIGN DIRECT INVESTMENT AND TOTAL FOREIGN INVESTMENT IN INDIA DURING 1992-2009



This table 1 clearly explains that the percentage share of foreign direct investments inflow is found more than 27.00 percent of total foreign investment throughout the study period, except the year 1994 and 1995. Table further shows that the total foreign direct investment of US \$129 million in 1992 to inflow of US \$35168 million in 2009 is a long journey of 18 years represents a whopping increase of 272.62 times. In 1997 inflow of FDI increased by 21 times touching the figure of US \$2821 million, just within its existence of six years, representing 46 percent of total foreign investment of this year. In the year 2000 FDI inflow declined to US \$2155 millions due to slow FDI inflows in India. Within a period of next six years its FDI reached the figure of US \$5035 million in the year 2003 which was nearly seven times increase. After this inflow of FDI increased year after year except the year 2004, touching the figure of US \$22826 million in the year 2007 representing 76.52 percent of its total foreign investment. During the period of five (1999 to 2004) years inflows of FDI started declining, fluctuating, in different years and ultimately touching the low amount of US \$2135 million representing the 41.59 percent of its total foreign investment. From the year 2005, inflow of FDI again started increasing and touched the figure of US \$35168 million in 2009. The CAGR of FDI is 36.56 percent. In the case of foreign investment the CAGR is 32.58 percent. In 2005 government announced the SEZ Act, SEZs scheme was launched with the specific intent of providing an internationally competitive and hassle free environment for exports. SEZs are being increasingly perceived as a major source of attracting FDI across the globe. In the year 1999 and 2009 inflow of FDI has increased to the level of US \$2462 million and US \$35168 million and its percentage is 102.54 and 165.00 of total foreign investment respectively. In these years indirect foreign investment has moved in negative direction because the total foreign investment was found less than foreign direct investment.

STATEWISE INFLOW OF FDI

The statewide trends in FDI show that the RBI's regional offices during 2000 to 2009. The data relevant to the analysis is presented in table.

TABLE 2: SHOWING INFLOW OF FDI DURING 2000-09 RBI'S REGIONWISE Amount in US \$ million

Regional offices of RBI	States covered	Amount	Share in total FDI inflows
Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	30700.4	36
New Delhi	Delhi, Part of Uttar Pradesh and Haryana	12716.9	15
Bangalore	Karnataka	5867.9	7
Ahmedabad	Gujarat	5624.8	7
Chennai	Tamil Nadu, Pondichery	4725.0	6
Hyderabad	Andhra Pradesh	3495.4	4
Kolkata	West Bengal, Sikkim, Andaman & Nicobar Island	1277.6	1.5
Jaipur	Rajasthan	438.3	0.5
Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	384.2	0.5
Panaji	Goa	252.9	0.3
Kochi	Kerala, Lakshadweep	203.1	0.2
Bhopal	Madhya Pradesh, Chhattisgarh	148.7	0.2
Bhuvneshwar	Orissa	97.4	0.1
Guwahati	Assam, Arunachal Pradesh, Maipur, Meghalaya, Mizoram, Nagaland, Tripura	53.2	0.1
Kanpur	Uttar Pradesh, Uttarakhand	16.4	0.0
Patna	Bihar, Jharkhand	.04	0.0
Region not indicated	-	18431.2	21.6
Total	-	84433.6	100

Source: RBI.

DIAGRAM 2: SHOWING INFLOW OF FDI DURING 2000-09 RBI'S REGIONWISE

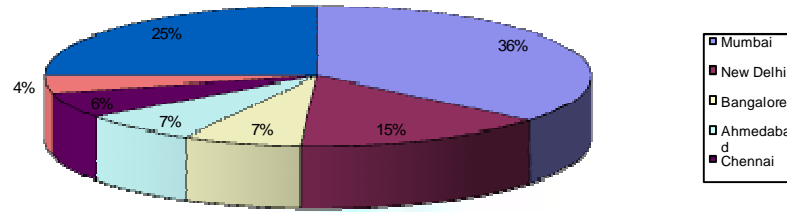


Table 2 shows that the Mumbai region has attracted largest amount of foreign direct investment of US \$ 30700.4 million that is the 36 percent of the total foreign direct investment flows during the period 2000-09. New Delhi region has attracted the total of US \$ 12716.9 million which is the 15 percent of the total foreign direct investment in flows during the same period. Bangalore region and Ahmedabad region have received foreign direct investment of US \$ 5867.9 million and US \$ 5624.8 million which are the 7 percent and 7 percent of the total inflows of foreign direct investment. While regionwise, this percentage in Mumbai, New Delhi, Bangalore, Ahmedabad, Chennai, Hyderabad, Kolkata, Jaipur, Chandigarh, Panaji, Kochi, Bhopal, Bhunveshwar and Guwahati turns out to be 36, 15, 7, 7, 6, 4, 1.5, 0.5, 0.5, 0.3, 0.2, 0.2, 0.1 and 0.1 percent respectively during the above said period.

Countrywise inflow in India

It is proposed to analyze the country wise inflow of Foreign Direct Investment in India during 1992 to 2009. The data relevant to the analysis is presented in table 3.

TABLE 3: SHOWING INFLOW OF FDI DURING 1992-2009 TOP 10 INVESTORS IN INDIA Amount in US \$ Million

Country	Amount	Percentage	Rank
Mauritius	40214.81	38.03	1
USA	8709.21	8.24	2
Singapore	8146.99	7.71	3
UK	5865.78	5.55	4
Metherland	4199.24	3.97	5
Japan	3314.60	3.13	6
Germany	2795.76	2.64	7
Cyprus	2774.04	2.62	8
France	1507.24	1.43	9
Switzerland	1403.64	1.33	10
Other country	26801.78	25.35	-
Total	105732.31	100.00	-

Source: RBI.

DIAGRAM 3: SHOWING INFLOW OF FDI DURING 1992-2009 TOP 10 INVESTORS IN INDIA

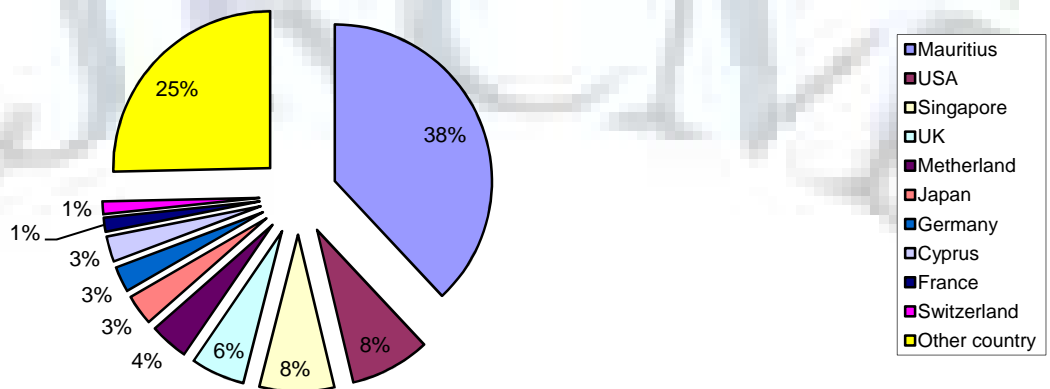


Table 3 indicates the inflow of FDI in India during 1992 to 2009 total amount of US \$105.73 billion received various countries. Among all the countries Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US \$40 billions in India between 1992 to 2009 or over two fifth approximately of total FDI inflows during this period. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. To take advantage of that situation, many companies have set up dummy companies in Mauritius before investing to India. The United States (US) is the second largest investor in India. The total capital flows from the US was around US \$8 billion, which accounted for 8.24 percent of the FDI inflows. The Singapore and United Kingdom are India's third and fourth largest FDI inflows. Netherland, Japan, Germany, Cyprus, France, and Switzerland keep the fifth, sixth, seventh, eight, ninth and tenth positions with share figures 3.97, 3.13, 2.64, 2.62, 1.43 and 1.33 percent respectively under the study.

SECTORWISE ANALYSIS

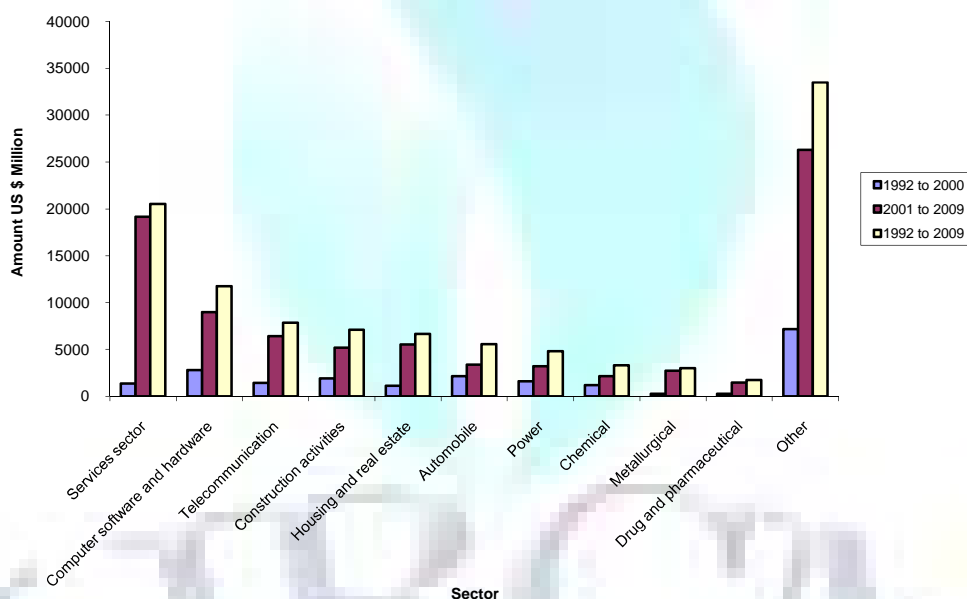
The sector wise break-up of foreign direct investment provides a wide list of items in which India is attracting foreign direct investment as a part of its reform policies. The top ten sectors which have received the larger amount of foreign direct investment during the study period includes services sector, computer software and hardware, telecommunication, construction activities, housing and real estates, automobile industry, power, chemicals, metallurgical industries and drugs and pharmaceuticals. In the present study time period has been divided into two parts i.e. 1992-2000 and 2001-2009.

TABLE 4: SHOWING SECTOR WISE INFLOWS OF FDI IN INDIA DURING 1992 TO 2009 Amount in US \$ million

Sector	1992 to 2000	2001 to 2009	1992 to 2009	Percentage	Growth rate in times
Services sector	1361.02	19173.76	20534.78	19.42	14.08
Computer software and hardware	2799.34	8953.83	11753.17	11.12	3.20
Telecommunication	1427.58	6399.92	7827.50	7.40	4.48
Construction activities	1912.31	5191.01	7103.32	6.72	2.71
Housing and real estate	1124.37	5512.49	6636.86	6.27	4.90
Automobile	2160.73	3388.37	5549.10	5.25	1.57
Power	1611.53	3190.15	4801.68	4.54	1.98
Chemical	1190.15	2133.95	3324.10	3.14	1.79
Metallurgical	276.55	2723.26	2999.81	2.84	9.84
Drug and pharmaceutical	268.45	1457.91	1726.35	1.63	5.43
Other	7166.69	26306.94	33475.64	31.67	-
Total	21298.72	84433.39	105732.31	100.00	-

Source: RBI.

DIAGRAM 4: SHOWING SECTOR WISE INFLOWS OF FDI IN INDIA DURING 1992 TO 2009



$$\text{Growth rate in times} = \frac{\text{Amount of Phase II}}{\text{Amount of Phase I}}$$

Table 4 shows that the services sector has attracted largest amount of foreign direct investment which has increased from US \$1361.02 million to US \$19173.76 million during the study phase. In the entire period of 1992-2009 this sector has attracted the foreign direct investment of US \$20534.78 million that is the 19.42 percent of the total foreign direct investment flows. It is followed by computer software and hardware sector as their share has been increased from US \$2799.34 million to US \$8953.83 million during the same period. This sector has attracted a total of US \$11753.17 million which is the 11.12 percent of the total foreign direct investment flows. The telecommunication sector has received foreign direct investment of US \$7827.50 million which is the 7.40 percent of the total flows of foreign direct investment. While sector wise, this growth rate in services sector, computer software, telecommunication, construction activities, housing real estates, automobile industry, power, chemicals, metallurgical industries and drugs and pharmaceuticals turns out to be 14.08, 3.20, 4.48, 2.71, 4.90, 1.57, 1.98, 1.79, 9.84 and 5.43 times respectively during the study period.

CONCLUSION

It emerges from the foregone analysis that overall inflow of foreign direct investment in India witnessed an increasing trends during the study period. Compound Annual Growth Rate (CAGR) of foreign direct investment inflow and foreign investment are 36.56 percent and 32.58 percent respectively during the whole

period under study. Policy of the Indian Government related to SEZ is mainly responsible for the FDI inflows. It is because government announced the SEZ Act, SEZs scheme was launched with the specific intend of providing an internationally competitive and hassle free environment for exports. SEZs are being increasingly perceived as a major sources of attracting FDI across the global markets. The countrywise analysis found that Mauritius has been the largest direct investor in India. Mauritius has low rates of taxation and an agreement with Indian double tax avoidance regime. The United States (US) is the second largest investor in India. To take advantage of double tax avoidance regime, many companies have set up dummy companies in Mauritius before investing to India. Sectorwise analysis that the services sector has attracted largest amount of foreign direct investment inflows within 19.42 percent of total FDI inflows during the period 1992 to 2009. The statewise trends in FDI shows that the RBI's regional offices at Maharashtra, New Delhi, Karnataka, Tamil Nadu and Gujarat have been the largest recipients of FDI. These states are either known for their strong industrial base or as software hubs. The key sectors attracting FDI to the Mumbai-Maharashtra region are energy, transportation services, telecommunications and electrical equipment. Delhi attracts FDI inflows in sectors like telecommunications, transportation, electrical equipment and services. The states of Uttar Pradesh and Haryana have also performed really well in recent years due to its abundance of natural resources, Uttar Pradesh attracts FDI in chemical, pharmaceuticals and minerals whereas Haryana attracts FDI in the electrical equipment, transportation and food processing sectors. Tamil Nadu has done well in sectors related to automotive and auto components. Andhra Pradesh and Karnataka have attracted FDI mainly in areas associated with software and to a lesser extent, hardware for computer and telecommunication.

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