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CONTENTS

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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

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WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

TREND AND PATTERNS OF FDI INFLOW INTO INDIA

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ABSTRACT

The objective of my paper is to understand the trends and patterns of FDI in India. This study is based on secondary data. The required data have been collected from various sources viz., i. RBI Hand Book of Statistics, ii. UNCTAD, WIR series (various issues), iii. Economic Survey, Government of India, IV. World Development Indicators, World Bank, v. Economist Intelligence Unit (EIU): Country Data.vii. Bombay Stock Exchange (BSE) data base. It is a time series data and the relevant data have been collected for the period 1980 to 2010.The simple graphical and tabular analyses are used to study the trends and progress of FDI in India. From 1947-48 to 1990-91, there was an absolute increase in the FDI stock. After year 1992-93 on wards to 2009-10 FDIin India as percentage of worlds has increased continuously; it may be the liberalization policy in Indiathat was introduced in 1991. The regional distribution of FDI inflows is highly concentrated patterns. Five regional offices receive around more than 70% of Indian FDI inflows. The share of FDI in GDP has been very small in absolute term, remaining less than one (1980-1993-94). However the ratio improved dramatically after that. GDP growth rate is steadier than FDI after post reform era. India's FDI as percentage of GFCF is at a much lower rank improving from 0.21 in 1980 to a ratio of 0.36 in 1993 and then showing a marked improvement reaching to a ratio of 9.40 in 2008-09.Acquisition of existing shares of companies by foreign investors contributed substantially to the FDI Equity Inflows and it peaked in 2005-06 and 2006-07 to reach almost two-fifths of the total FDI Equity flows. Acquisition of shares together with reinvested earnings (which do not represent actual inflows) account for a substantial proportion of the reported total inflows.

KEYWORDS
FDI, foreign trade, GDP.

1. INTRODUCTION

Ever since Indian economy opened up in 1991 with the framework of liberal economic reforms, the variation in the effect of policy is clearly reflected in the trends and patterns of inward FDI flows. FDI inflows rose by leaps and bounds both in amount and in number of foreign collaboration, approval. Economic reforms in India have deregulated the economy and stimulated domestic and foreign investment, taking India firmly into the forefront of investment destinations. The government, keen to promote investment in the country, has radically simplified and rationalised policies, producers and regulatory aspects. Foreign investment is welcomed in almost all the sectors, except those of strategic concern (defence and atomic energy). A series of incentives has been announced to promote investments. These include import of capital goods at concessional customs duty, liberalisation of external commercial borrowing norms and concessional tax treatments for certain sectors. Since the initiation of economic liberalisation process in 1991, sectors such as automobiles, chemicals, services, chemicals, food processing, oil and natural gas and telecommunications have attracted considerable investments. Today, in the changed investment climate, India offers exciting business opportunities in virtually every sectors of the economy. The expectation of the policy makers was that an "investor friendly" regime will help India establish itself as a preferred destination of foreign investors. These expectations gave mixed results despite the consistent attempts by the policy makers to increase the attractiveness of India by further changes in policies that included opening up of individual sectors, raising the hitherto existing caps on foreign holding and improving investment procedures. The major questions that are addressed here: What are the sectors attracting most FDI in India in the post reform era? Which countries are bringing more FDI into India in the post reform era and why? What are trends of FDI Indicators in India? What are the internal determinants of FDI inflows in India? This chapter analyses the trends and patterns of inward FDI flows of India.

1.1 THE RESEARCH PROBLEM

As argued earlier, FDI plays a vital role as a source of capital, management and technology in India. FDI can also fill the gap between desired investments and locally mobilised saving. Output of a foreign firm can be an input of the domestic industry and vice versa. If this is so, the FDI can create demand for the products of industries producing goods purchased. The adverse implications of FDI are those when FDI is competitive with home investment , and the profit in the domestic industries falls, leading to fall in domestic saving. Added to this problem, the outflow of profit is too large in many cases, putting pressure on the foreign exchange reserves.

It can be observed from the fact that FDI highlights the possibility of substantial opportunities as well as considerable dangers. Therefore, the main objective to examine the trends of FDI inflows to India .

1.2 OBJECTIVE OF THE STUDY

To understand the trends and patterns of FDI in India.

1.3 HYPOTHESES OF THE STUDY

The following hypothesis can be derived on the basis of above objectives;

Hypothesis 1: It is hypothesized that there is a change in trends and patterns of FDI in India.

1.4 DATA AND METHODOLOGY

This study is based on secondary data. The required data have been collected from various sources viz., i. RBI Hand Book of Statistics, ii. UNCTAD, WIR series (various issues), iii. Economic Survey, Government of India, iv. World Development Indicators, World Bank, v. Economist Intelligence Unit (EIU): Country Data.vii. Bombay Stock Exchange (BSE) data base. It is a time series data and the relevant data have been collected for the period 1980 to 2010.The simple graphical and tabular analyses are used to study the trends and progress of FDI in India.

Singh S., Singh M. (2011), "Trends and prospects of FDI in India" This study investigates the trend of FDI inflow to India, during 1970–2007 using time series data. This paper aims to study the reasons behind the fluctuations of the FDI inflow in India and to search the cause that is responsible for the fluctuations of the trends of FDI.

My paper is divided into three sections. In the first section i.e in introduction I explained the objective of my study,the advantage of FDI in india, the hypothesis and data and methodology. In the second section I will do the literatute survey. In the third section I will analyse the policy and pattern of FDI inflow into india which will include FDI inflow in India (from 1948-2010), Source Countries of FDI Flow into India, FDI Inflows in India in Post Reform Era, Sectors Attracting Highest FDI Equity Inflows, Region Wise Distribution of FDI, Policy Stance towards FDI: Post-Reforms etc and conclusion.

2. LITERATURE REVIEW

Singh J. (2010), "Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns", in the context of increasing competition among nations and subnational entities to attract Foreign Direct Investment (FDI), the present paper tries to analyze the emerging trends and patterns of FDI inflows into India in response to various policy measures announced by the Government of India since mid-1980 and later. The empirical analysis tends to suggest that the FDI inflows, in general, show an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicates that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years. Thus, the study indicates that the FDI inflows into India responded positively to the liberalization measures introduced in the early 1990s.

The aspects of foreign direct investment i.e. political scenario and trends are analyzed by most of the studies by and they are, Bhattacharya (1994), Jain (1994), and Prasad and Chandra (1994), Subramanian, et al, (1996) and Kumar (1998) and (2000). These studies in general highlighted the difference phases in the policies relating to FDI and brought out the significant changes in the composition of FDI in the 1990s. Studies by Subramaniam, et al. (1996) found that the availability of primary material inputs for manufacturing and the large size of the domestic market for the sale of the manufactured products are the two principal economics determinants of location of FDI inflow. Other two factors that are influenced the FDI are the growth rate of GDP and the level of infrastructure. P.D. Jeromi (2001) in his studies of Foreign Direct Investment in India, Policy, Trend and Impact finds there three reasons for FDI in India viz, Real Sector reforms, Inrastucture development and Privatization.

Naga Raj (2003) discusses the trends in FDI in India in the 1990s and compare them with china. The study raises some issues on the effects of the recent investments on the domestic economy. Based on the analytical discussion and comparative experience, the study concludes by suggesting a realistic foreign investment policy.

Kulwinder Singh (2005) analyzed the developments (economic and political) in India relating to the trends in two sectors:- Industry and Infrastructure. The study concludes that the impact of the reforms in India on the policy environment for FDI presents a mixed picture. The industrial reforms have gone far, though they need to be supplemented by more infrastructure reforms, which are a critical missing link.

Basu P., Nayak N.C, Vani Archana (2007) in their paper "Foreign Direct Investment in India: Emerging Horizon", intends to study the qualitative shift in the FDI inflows in India in – depth in the last fourteen odd years as the bold new policy on economic front makes the country progress in both quantity and the way country attracted FDI.

Morris Sebastian (1999) in his study "Foreign Direct Investment from India: 1964-83" studied the features of Indian FDI and the nature and mode of control exercised by Indians and firms abroad, the causal factors that underlie Indian FDI and their specific strengths and weaknesses using data from government files. To this effect, 14 case studies of firms in the textiles, paper, light machinery, consumer durables and oil industry in Kenya and South East Asia are presented. This study concludes that the indigenous private corporate sector is the major source of investments. The current regime of tariff and narrow export policy are other reasons that have motivated market seeking FDI.

3. FDI INFLOW IN INDIA (FROM 1948-2010)

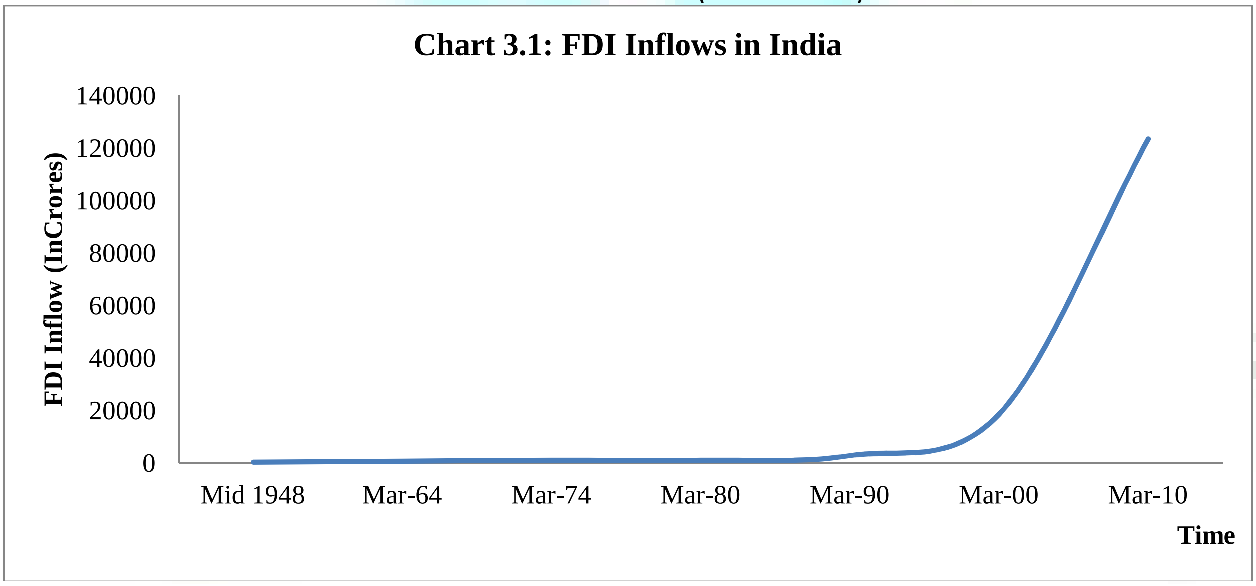
Table –3.1 shows FDI inflows in India from 1948-2010. FDI inflows during 1991-92 to March 2010 in India increased manifold as compared to during mid 1948 to march 1990 (Chart-3.1). The measures introduced by the government to liberalize provisions relating to FDI in 1991 lure investors from every corner of the world. There were just few (U.K, USA, Japan, Germany, etc.) major countries investing in India during the period mid 1948 to march 1990 and this number has increased to fifteen in 1991. India emerged as a strong economic player on the global front after its first generation of economic reforms. As a result of this, the list of investing countries to India reached to maximum number of 120 in 2008. Although, India is receiving FDI inflows from a number of sources but large percentage of FDI inflows is vested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 72 percent of the entire FDI inflows to India.

TABLE 3.1: FDI INFLOWS IN INDIA (FROM 1948-2010)

Amount of FDI	Mid 1948	Mar-1964	Mar-1974	Mar-1980	Mar-1990	Mar-2000	Mar-2010
In crores	256	565.5	916	933.2	2705	18486	1,23,378

Source: Kumar (1995), various issues of SIA (Secretariat for Industrial Assistance) Publication.

CHART 3.1: FDI INFLOWS IN INDIA (FROM 1948-2010)



Source: Compiled from various issues of SIA (Secretariat for Industrial Assistance) Publication.

The FDI inflows in India during mid 1948 were a modest sum of Rs, 256 crores. It is almost double in March 1964 and increases further to Rs. 916 crores. India received a cumulative FDI inflow of Rs. 5,384.7 crores (3.78 %) during mid 1948 to march 1990 as compared to Rs.1, 41,864 crores during August 1991 to march 2010 (Table-3.1). It is observed from the (Chart 3.1) that there has been a relatively marginal flow of FDI in India upto 1980. It slightly started improving since then and structurally improved during 1990s and since 2000 there has been a sharp rise. The FDI inflows in India during mid 1948 were Rs, 256 crores. It is almost double in March 1964 and increases further to Rs. 916 crores. India received a cumulative FDI inflow of Rs. 5,384.7 crores during mid 1948 to march 1990 as compared to Rs.1,41,864 crores during August 1991 to march 2010 (Table-3.1). It is observed from the (Chart – 3.1) that there has been a steady flow of FDI in India after its independence. But there is a sharp rise in FDI inflows from 1998 onwards.

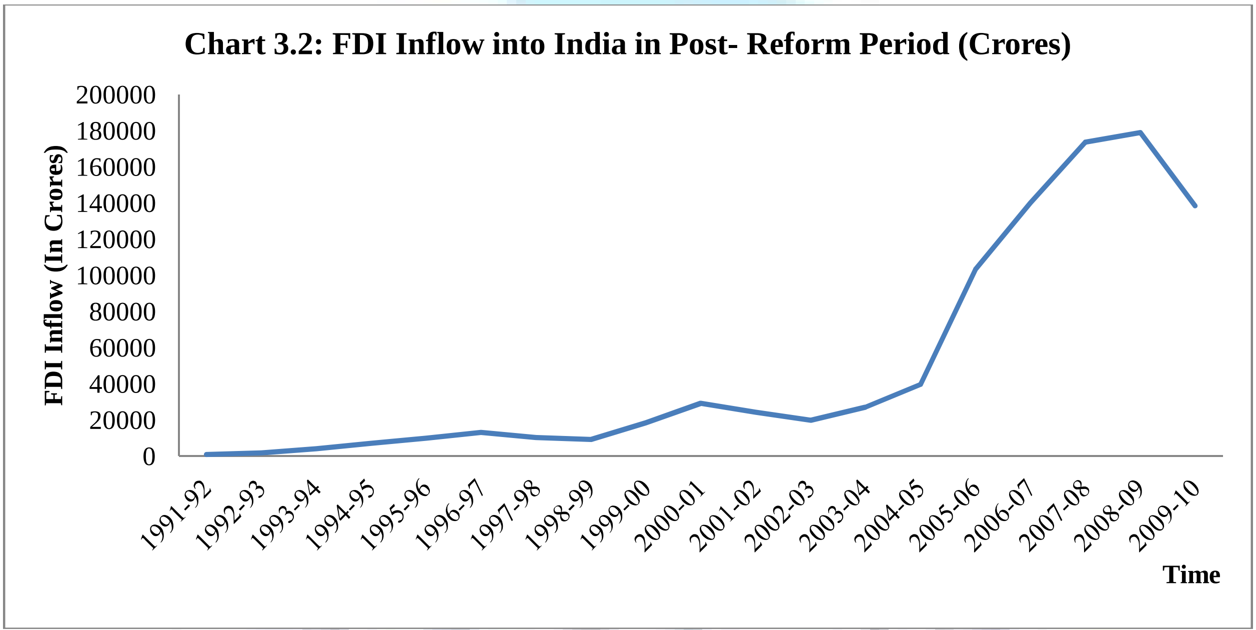
3.1 FDI INFLOWS IN INDIA IN POST REFORM ERA

TABLE 3.2: FDI INFLOWS IN INDIA IN POST REFORM ERA

Year	FDI (Crores)	Annual % increse
1991-92	965	
1992-93	1838	90.47
1993-94	4126	124.48
1994-95	7172	73.82
1995-96	10015	39.64
1996-97	13220	32.00
1997-98	10358	-21.65
1998-99	9338	-9.85
1999-00	18406	97.11
2000-01	29235	58.83
2001-02	24367	-16.65
2002-03	19860	-18.50
2003-04	27188	36.90
2004-05	39674	45.92
2005-06	103367	160.54
2006-07	140180	35.61
2007-08	173741	23.94
2008-09	179059	3.06
2009-10	138462	-22.67
Compound growth rates		
1991-10	0.30	
2000-10	0.22	
2005-10	0.08	

Source: RBI, Handbook of Statics on Indian Economy

CHART 3.2: FDI INFLOWS IN INDIA IN POST REFORM ERA



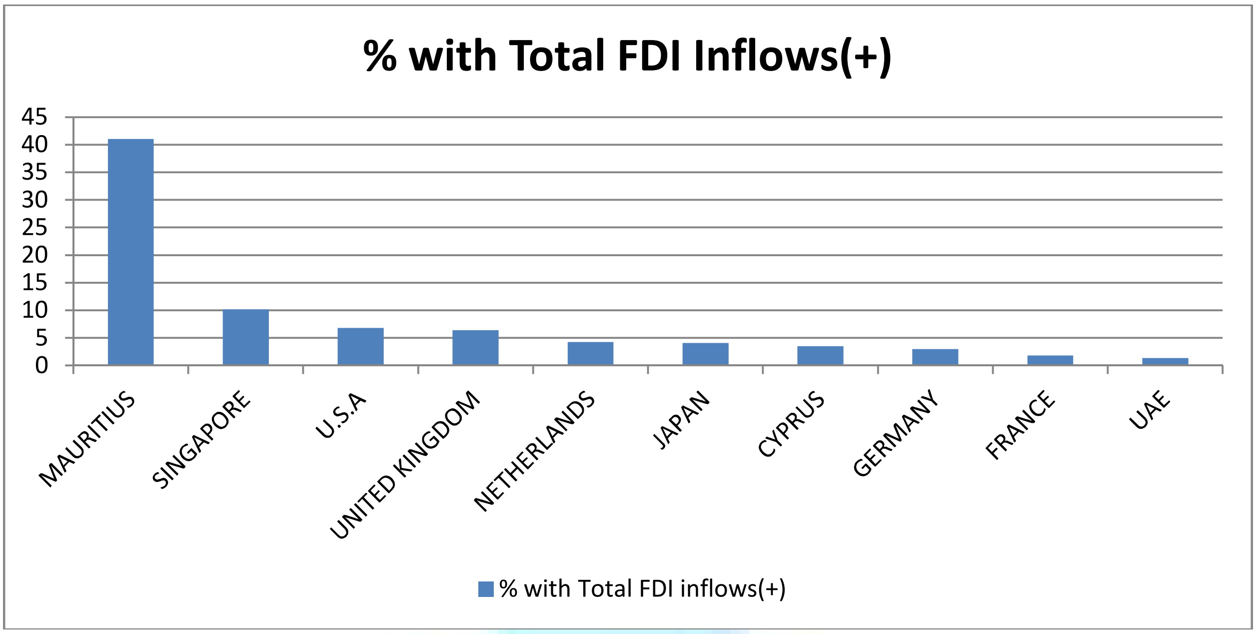
Source: Compailed from RBI, Handbook of Statics on Indian Economy

India's economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. According to A.T. Kearney[1], India ranks second in the world in terms of attractiveness for FDI. A.T. Kearney's 2007 Global Services Locations Index ranks India as the most preferred destination in terms of financial attractiveness, people and skills availability and business environment. Similarly, UNCTAD's 76th World Investment Report, 2005 considers India the 2nd most attractive destination among the TNCS. The positive perceptions among investors as a result of strong economic fundamentals driven by 19 years of reforms have helped FDI inflows grow significantly in India. The FDI inflows grow at about 20 times since the opening up of the economy to foreign investment. India received maximum amount of FDI from developing economies. FDI flow in India was valued at 173741 crore in 2008. In 2008-09, India's FDI touched Rs. 173741 crores up 56% against Rs. 103367 crores in 2005-06.The FDI inflow has declined since 2008 onwards because of the global financial crisis and it is also clear from the above chart. The percentage growth is 124.48 % in the year 1993-94 i.e just after liberalisation. In the year 2005-06 it touched to 160.54 % it's due to relaxation of FDI caps in mojar secors. Again the growth rate decreased in the year 2009-10 it's due to world financial crisis. The FDI grows at the rate 30% annually over the period 1991-2010. From 2000-10 it grows at the rate 22% annualy. The compound growth rate from year 2005 -10 is 8% per annum.

[1] A.T. Kearney's (2007): Global Services Locations Index", www.atkearney.com

3.2 SOURCE COUNTRIES OF FDI FLOW INTO INDIA

CHART 3.3: TOP TEN COUNTRIES' FDI INFLOW INTO INDIA



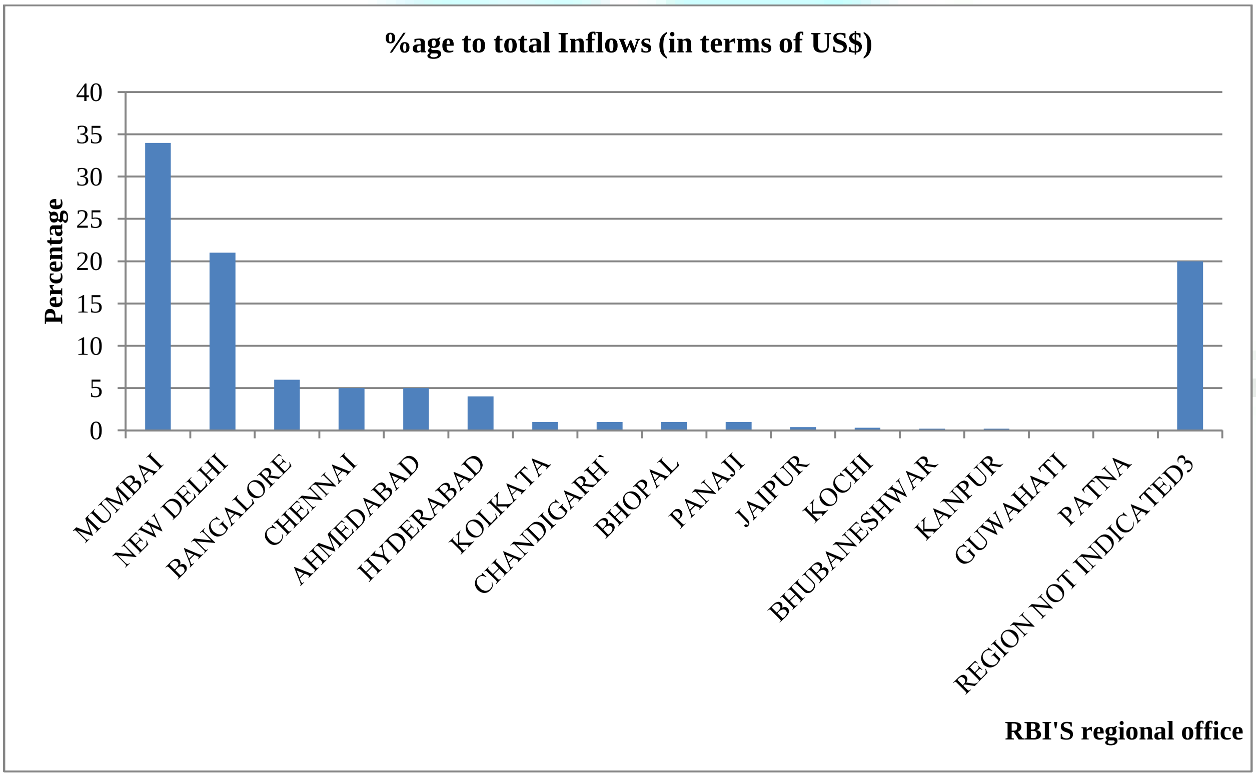
Source: Compiled from DIPP (Department of Industrial Policy & Promotion)

Among the source countries, Mauritius, Singapore, South Korea, Malaysia, Cayman Islands and many more countries predominantly appears on the list of major investors apart from U.S., U.K., Germany, Japan, Italy, and France which are not only the major investor now but during pre- liberalizations era also. The Table A3.1 presents the major investing countries in India during 2010-11. Mauritius (Chart-3.3) is the largest investor in India during 2010-11. FDI inflows from Mauritius constitute about 41.04% of the total FDI in India and enjoying the top position on India's FDI map from 1995. This is because of the Double Taxation Avoidance Treaty (DTAA) between the two countries, which favours routing of investment through this country. This (DTAA) type of taxation treaty has been made out with Singapore also. Much of this investment is suspected to be from Indian investors who route their investment to enjoy the concessions that FDI is entitled, which is often referred as `round tripping'. Singapore is the second largest investing country in India. While comparing the investment made by both (Mauritius and Singapore) countries one interesting fact comes up which shows that there is a huge difference (between FDI inflows to India from Mauritius and the Singapore) in the volume of FDI received from Mauritius and the Singapore. The share of FDI from developed countries like US, UK, Germany, Japan etc, is 21.5%. Presently 132 countries are investing in India.

Thus an analysis of FDI inflow shows that only eight countries accounted for nearly 79.25 percent of the total FDI inflow in India. India is having DATT with most of the countries that they are investing in India. Countries with which we have DATT are USA, United Kingdom, UAE, Russia, Singapore, Mauritius, Netherlands, Japan, Cyprus, Germany, Grance and etc.[2] Their to total FDI inflow in to India is 82.1%.

3.3 REGION WISE DISTRIBUTION OF FDI

CHART 3.4: REGION WISE PERCENTAGE OF TOTAL INFLOW OF FDI



Source: Compailed from DIPP.

[2] www.allindiantaxes.com/income-tax-dtaa.php

The regional distribution of FDI inflows in the Table A3.2 shows highly concentrated patterns. Five regional offices receive around more than 70% of Indian FDI inflows. Mumbai, New Delhi, and their surroundings include almost the half of the FDI received by India since 2000. The areas of Bangalore, Ahmadabad receives 6 % and 5% respectively and Chennai and Hyderabad each with 5% lag behind. Then there are places surrounding Kolkata (1%), Chandigarh (1%) Panaji (1%). Most software companies are in Bangalore, Hyderabad, and Mumbai where the Indian industry originally developed, but they are also developing quickly in Delhi and Tamil Nadu. As to the main pole of competitiveness, they are mainly concentrated there only.

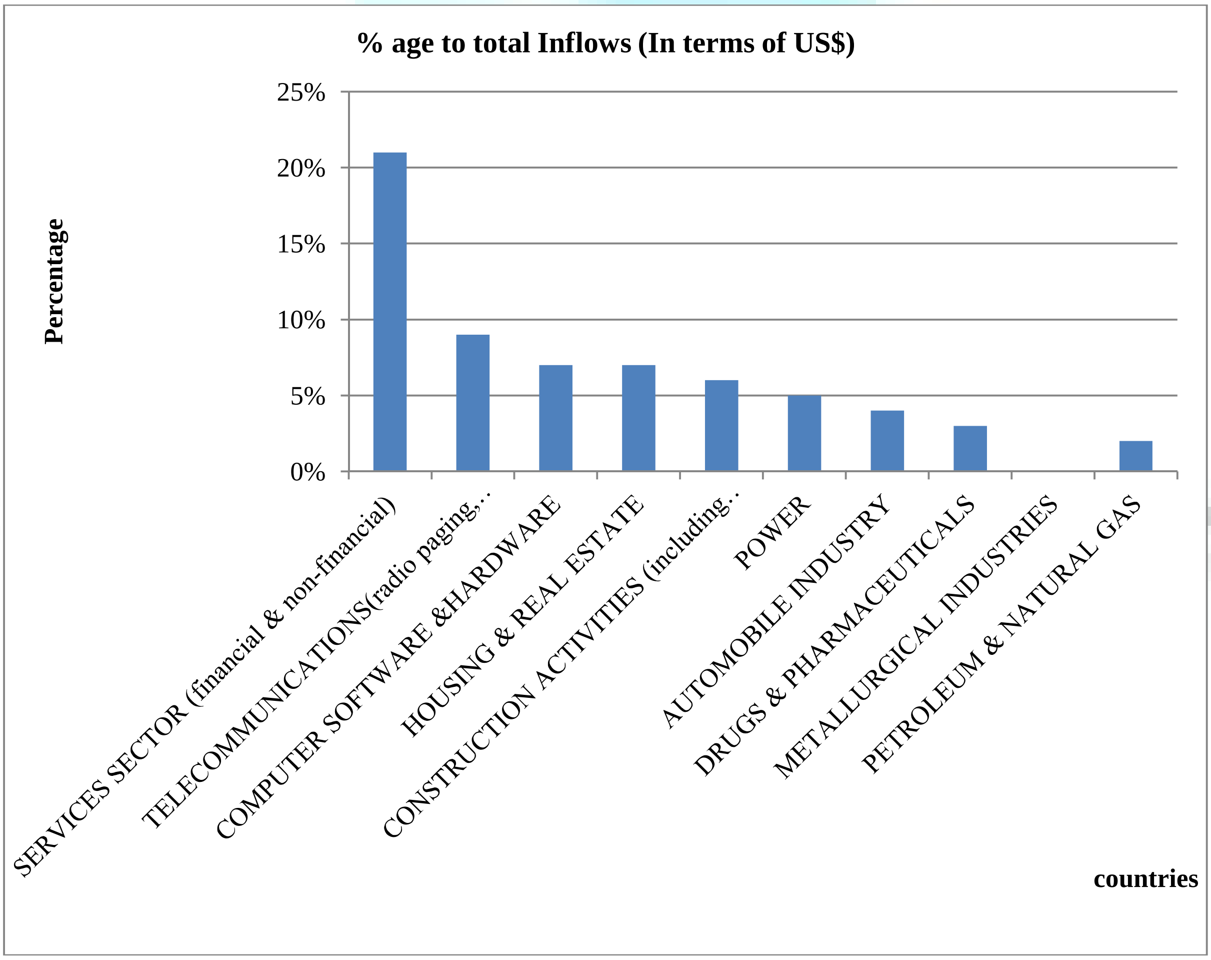
3.4 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS

TABLE 3.3: SECTOR WISE FDI INFLOW IN INDIA

			Amount Rupees in crores (US$ in million)
Ranks	**Sector**	**% age to total Inflows (In terms of US$)**	**Cumulative Inflows (April "00 - July „11)**
1	SERVICES SECTOR (financial & non-financial)	21%	132,069 (29,587)
2	TELECOMMUNICATIONS(radio paging, cellular mobile, basic telephone services)	9%	55,880 (12,299)
3	COMPUTER SOFTWARE &HARDWARE	7%	47,721 (10,723)
4	HOUSING & REAL ESTATE	7%	47,614 (10,683)
5	CONSTRUCTION ACTIVITIES (including roads & highways)	6%	41,314 (9,250)
6	POWER	5%	29,555 (6,545)
7	AUTOMOBILE INDUSTRY	4%	28,426 (6,280)
8	DRUGS & PHARMACEUTICALS	3%	21,885 (4,894)
9	METALLURGICAL INDUSTRIES	3 %	18,899 (4,325)
10	PETROLEUM & NATURAL GAS	2%	14,286 (3,276

Source: DIPP

CHART 3.5: SECTOR WISE PERCENTAGE OF TOTAL INFLOW OF FDI

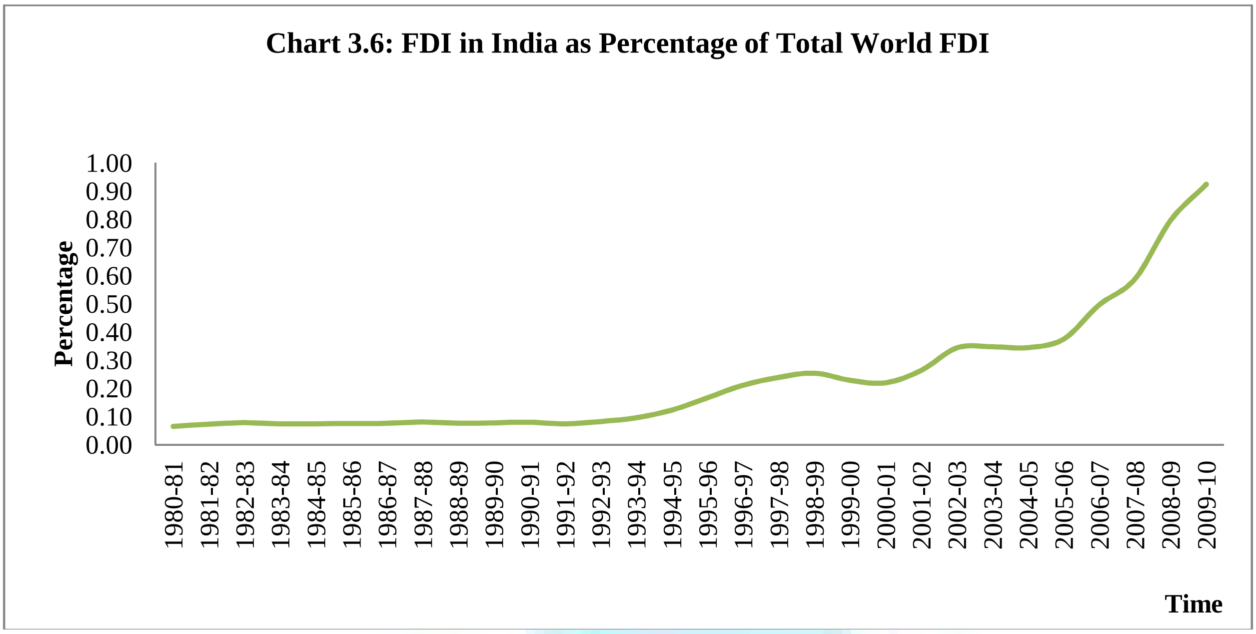


Source: Compailed From DIPP

Between 2000-2011, most of the FDI received by India was mainly in service sectors. Notably sectors such as Computer soft ware and hardware and telecommunication received 9 per cent of FDI inflows, housing and real estate(7%), construction activities (6%), automobile industry(4%), power(5%), metallurgical industries(3%), petrol and natural gas and chemical each (2%). In recent years some sectors such as services, computer software and hardware, telecommunications, constructions, housing and real estate have shown impressive results which is shown in the above Chart 3.5 and in table 3.3.
The Sector-wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector including the telecommunication, information technology, travel and many others. The service sector is followed by the manufacturing sector in terms of FDI. High volumes of FDI take place in electronics and hardware, automobiles, pharmaceuticals, cement, metallurgical and other manufacturing industries.

3.5 FDI AS % OF TOTAL WORLD FDI

CHART 3.6: FDI IN INDIA AS A PERCENTAGE OF TOTAL WORLDS FDI



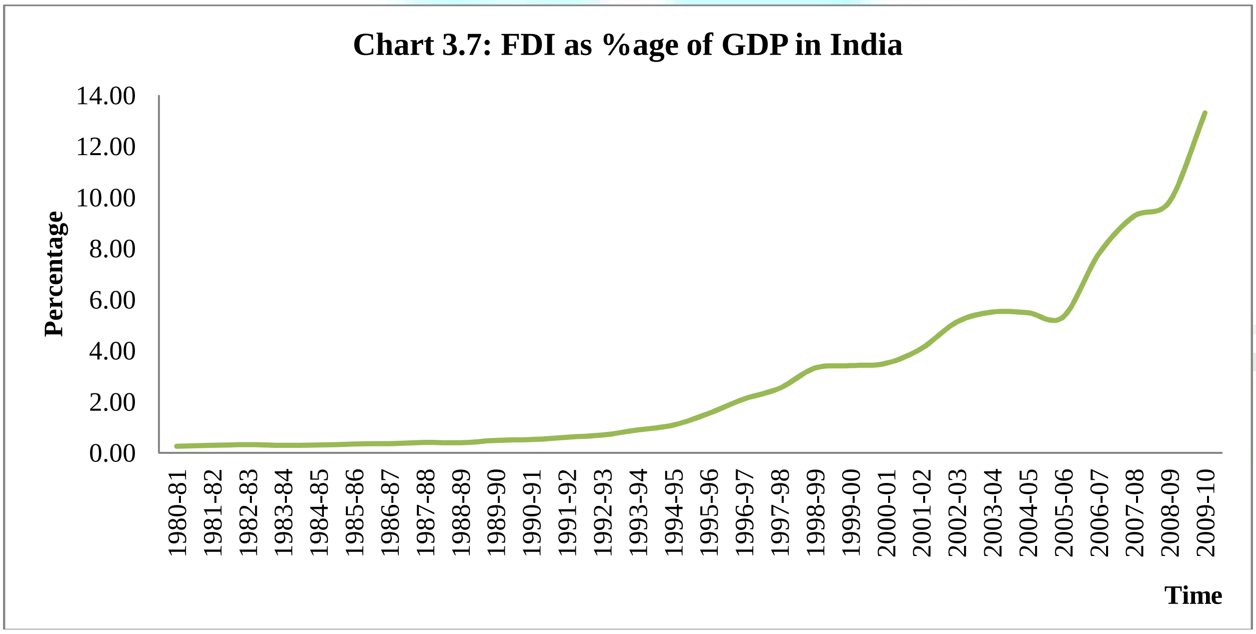
Source: UNCTAD

In the year 1980-81 it was only 0.06% of total world FDI. In the year 2009-10 it has become 0.92%, (15 times) as it shows a persistent increase of FDI as a percentage of total worlds FDI. Between the years 1985-86 to 1990-90 India's share in world FDI was more or less stagnant. After year 1992-93 on wards to 2009-10 it has increased continuously; it may be the liberalization policy in India introduced in 1991.

3.6 FDI AS THE % OF GDP IN INDIA

A country with ratio of FDI to GDP that is greater than unity is reckoned to have received more FDI than that implied by size of its economy[3]. It indicates that the country may have a comparative advantage in production or better growth prospect reflecting larger market size for foreign firms. However, if the country has the ratio value of less than one may be protectionist and backward or may possess a political and social regime that is not conducive for investment. Over all, FDI-GDP ratio is an index of the prevailing investment climate in the host economy.

CHART 3.7: FDI AS THE % OF GDP IN INDIA



Source: Compiled from DIPP

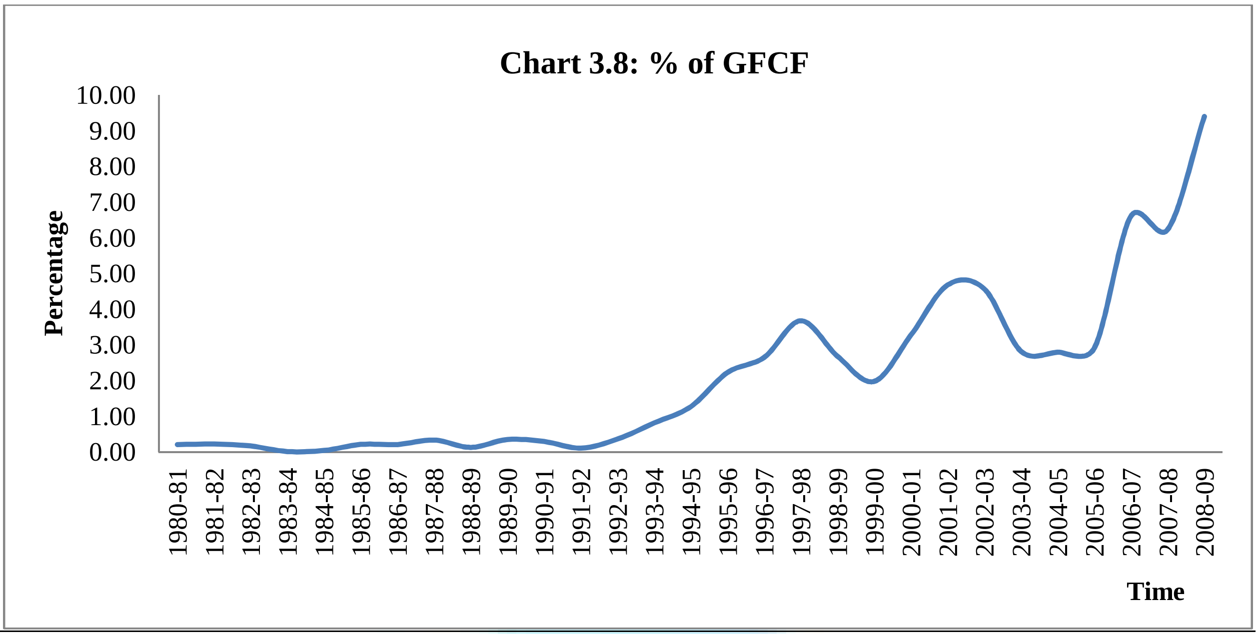
The Chart 3.7 gives a picture of FDI as a percentage of GDP for India for the year 1980-2009. The share of FDI in GDP has been very small in absolute term, remaining less than one (1980-1993-94). However the ratio improved dramatically after that. In the year 2006 it was 7.78 now it is 13.31, which reflects the growth in the domestic economy, improvement in the investment climate as well as the buoyancy in FDI flows.

[3] Nirupam Bajpai and Nandita Dasgupta (2004): "What Constitutes Foreign Direct Investment? Comparison of India and China", CGSD,Working Paper No. 1

In the year 1980-81 it was only 0.24% of total GDP. In the year 2009-10 it has become 13.31, it shows the persistent increase of FDI as a % of total DGP .The average increase of FDI as % of total GDP is 2.96.In the year 1983-84 to 1987-88 it was more or less stagnant. After year 1993-94 on wards to 2009-10 it has increased continuously, it may be the liberalization policy in India introduced in 1991.

3.7 FDI AS % OF GFCF IN INDIA

CHART 3.8: FDI AS THE % OF GDP IN INDIA



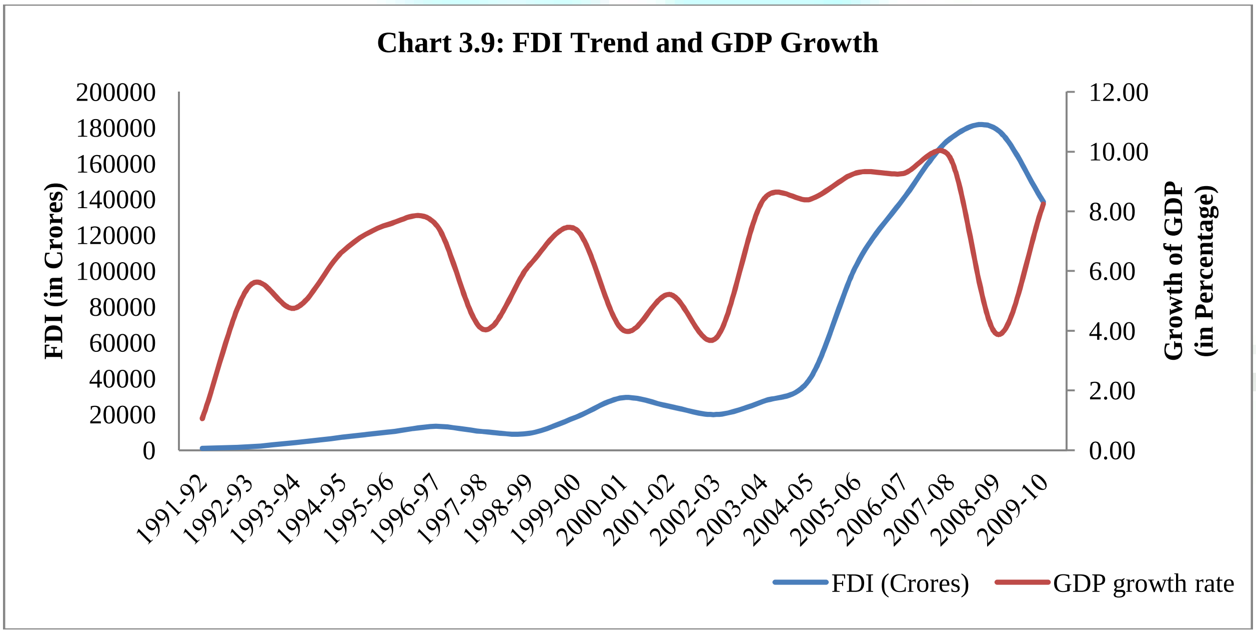
Source: Compiled from DIPP

A common measure of the relative size of the FDI is the FDI-Capital Formation Ratio given by the amount of FDI inflows in one year divided by the total fixed assets investment made by domestic and foreign firms in the same year. This can be a crude measure of significance of FDI to the capital formation. The share of inward FDI flows as a percentage of GFCF measures the relative weight of FDI in total aggregate investment taking place in host economy. Total investment includes both public and private sector investment taking place in the host economy. India is at a much lower rank improving from 0.21 in 1980 to a ratio of 0.36 in 1993 and then showing a marked improvement reaching to a ratio of 9.40 in 2008-09(Chart 3.8). This implies that FDI is increasingly playing a greater role in the capital formation of the domestic economy which has implication for the growth prospects after liberalisation.

In the year 1980-81 it was only 0.21% of total GDP. In the year 2008-09 it has become 9.40, it shows the persistent increase of FDI as a % of total GFCF. .The average increase of FDI as % of total GFCF is 2.10.In the year 1980-81 to 1991-92 it was more or less stagnant. After year 1993-94 on wards to 2009-10 it has increased continuously, it may be the liberalization policy in India introduced in 1991. After 2005-06, official statistics started reporting steep increases in FDI inflows.

3.8 FDI TREND AND GDP GROWTH RATE IN THE POST REFORM PERIOD

CHART 3.9: FDI TREND AND GDP GROWTH RATE IN THE POST REFORM PERIOD



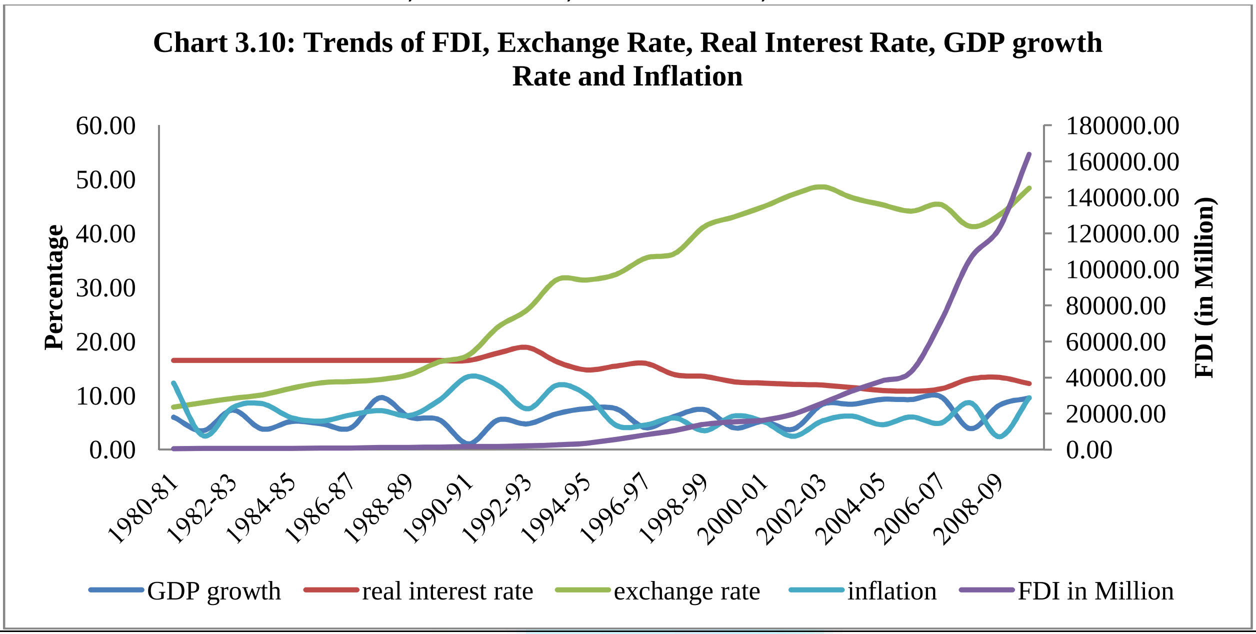
Source: RBI

The above graph dipcts that the GDP growth rate is more steady than FDI after post reform era. Almost for a decade between 1991-03, after liberalization, FDI inflow was slow and it has indeed picked up from 2002-03. The GDP growth rate also remained between 5.4-6 percent during this period and started accelerating to 9 percent during 2005-09. The GDP growth rate again declined in the year 2007-08 and thereafter. However, the FDI flow seems to have accelerated since a year before GDP rate began to accelerate. It is perhaps ambiguous from the simple graph to conclude whether FDI followed GDP or preceded. After 2005-06, official statistics started reporting steep increases in FDI inflows because of raising the hitherto existing caps on foreign holding and improving investment procedures. Therefore, this can be verified in through the regression exercise, which shall undertake in the next chapter.

3.9 TRENDS OF FDI, EXCHANGE RATE, GDP GROWTH RATE, REAL INTEREST RATE AND INFLATION

Let us see the trends in the other macroeconomic variables such as real interest rate, inflation, exchange rate, visa-a-vis FDI. From the chart no [3.10] we can see that FDI increases exponentially since 2005-06, and falls after 2008-09. First, during the early post-reform phase, exchange rate depreciated significantly than before, from Rs.24 a dollar to Rs.49 a dollar during 1991-03 and thereafter during 2003-07 it appreciated to Rs.43 and depreciated to Rs.49 by 2010-11. One can surmise that big depreciation during 1991-03 itself could have taken exchange rate sufficiently high to lure FDI. This certainly can boost the net profitability of FDI, hence laid the foundation for attracting it. The appreciation has happened when the windfall flow of foreign exchange due to FDI arrival since 2005-06.

CHART 3.10: TRENDS OF FDI, EXCHANGE RATE, REAL INTEREST RATE, GDP GROWTH RATE AND INFLATION



Source: Economist Intelligence Unit (EIU)

When it comes to the inflation rate, it remained high between 7-12 percent during 1991-08, but steadily came down and remained below 4 percent during 1999-04. This has increased the real interest rate and encourages growth of capital formation in the country.

3.10 SECTORAL CAPS IN FDI INFLOWS TO INDIA- STATUS AS ON MARCH 31, 2010

When we take a look at the policy towards allowing FDI into different sectors, we observe the following. Sectoral Caps/Limits on investments by persons resident outside India or foreign companies for each industry includes FDI Prohibited Sectors,FDI permitted up to 26%, FDI Permitted up to 49%, FDI Permitted up to 51%, FDI Permitted up to 74% and FDI Permitted up to 100%.The following table 3.4 shows the sectoral caps in FDI inflows to India and it varies with due course of time.

TABLE 3.4: SECTORAL CAPS IN FDI INFLOWS TO INDIA :STATUS AS ON MARCH 31, 2010

(A)	**FDI Prohibited**
	(i) Retail trading(except single brand product retailing) (ii) Automatic energy (iii) Lottery business (iv) Gambling and betting (v) Nidhi company (vi) Trading in Transferable Development Rights(TDRs) (vii) Activities /sectors not opened to private sector investment (viii) Agriculture (excluding Floriculture ,Horticulture, Development of Seeds ,Animal Husbandry,Pisciculture and cultivation of vegetables,mushoormsetc. Under controlled conditions and services related to agro and allied sectors) and plantation (other than tea plantation)
(B)	**FDI Permitted up to 26%**
	(i) Broad Casting FM Radio-(FII+FDI) Limit up to 20 % approval News TV channels Radio--(FII+FDI) Limit FIPB approval (ii) Print Media- approval route (iii) Defence –approval route (iv) Insurance - -(FII+FDI) autonomy route (v) Petroleum and Natural Gas- FIPB Route
(C)	**FDI Permitted up to 49%**
	(i) Broadcasting(Setting up hardware facilities(FII+FDI) - approval route (ii) Scheduled Domestic Passenger Airline- autonomy route (iii) Assets Construction Companies – FIPB route (iv) Petroleum refining by PSUs(No disinvestment of domestic equity) - autonomy route (v) Commodity Exchanges- FII at 23%and FDI at 26% (vi) Stock exchanges- FII at 23%and FDI at 26% (vii) Credit Information Companies – FII + FDI up to 49% with a sublimit for FII at 24%
(D)	**FDI Permitted up to 51%**
	(i) Single brand product retailing
(E)	**FDI Permitted up to 74%**
	(i) Telecommunications(basic and cellular)-beyond 49% under FIPB route (ii) ISP with gate ways,radio-paging and end to end band with –beyond 49% under approval route (iii) Establishment and operation of satellites- approval route.-approval route (iv) Private Sector Banks- (FII + FDI)- automatic route (v) Non-schedule and Charactered Airlines - automatic route (vi) Cargo airlines and Ground handling - automatic route
(F)	**FDI Permitted up to 100%**
	(i) Development of existing Airport-beyond 74% under fipb route (ii) Exploration and mining of coal and lignite –automatic route (iii) Courier services (iv) Tea Sector –disinvestment of 26% within 5 years subject to government approval (v) NBFCs(subject to minimum capitalization norms)-automatic route (vi) Construction Development Projects- (automatic route (vii) ISP without gateway ,infrastructure provider (category1), and electronics mail and voice mail- beyond49 % under FIPB route automatic route. (viii) NRI investment in Domestic Airlines And air transport services- automatic route. (ix) Power Trading (x) Cigar and Cigarates- FIPB route(subject to industrial licensing under industries (Devt.% Regulation Act,1951) (xi) Alcohol distillation and brewing –automatic route
	Source: manual on investment in india- Foreign Direct Investment, Policy and Procedures ,2010

3.11ENTRY ROUTE-WISE DISTRIBUTION OF FDI EQUITY INFLOWS IN US $ mn IN 2010

TABLE 3.5: ENTRY ROUTE -WISE DISTRIBUTION OF FDI EQUITY INFLOWS IN US $ mn

Year	Entry Route				Share in Total (%)		
	FIPB/SIA	Automatic	Acquisition of shares	Total (2)+ (3)+ 4)	FIPB/SIA	Automatic	Acquisition of shares
1	2	3	4	5	6	7	8
2000-01	1,456	521	362	2,339	62.25	22.27	15.48
2001-02	2,221	802	881	3,904	56.89	20.54	22.57
2002-03	919	739	916	2,574	35.70	28.71	35.59
2003-04	928	534	735	2,197	42.24	24.31	33.45
2004-05	1,062	1,258	930	3,250	32.68	38.71	28.62
2005-06	1,126	2,233	2,181	5,540	20.32	40.31	39.37
2006-07	2,156	7,151	6,278	15,585	13.83	45.88	40.28
2007-08	2,298	17,127	5,148	24,573	9.35	69.70	20.95
2008-09	4,699	17,998	4,632	27,329	17.19	65.86	16.95
2009-10(P)	3,471	18,990	3,148	25,609	13.55	74.16	12.29
2010-11 (Apr-Nov)(P)	1,604	8,950	3,471	14,025	11.44	63.81	24.75
Source:Based on Table No.44, RBI Monthly Bulletin,January 2011,p.S 86,P:Provisional							

It can be seen from Table (3.5) that acquisition of existing shares of companies by foreign investors contributed substantially to the FDI Equity Inflows and it peaked in 2005-06 and 2006-07 to reach almost two-fifths of the total FDI Equity flows. Acquisition of shares together with reinvested earnings (which do not represent actual inflows) account for a substantial proportion of the reported total inflows. It can be seen that even this level of inflow was sustained by a sudden increase in the inflows through the acquisition route. From a share of 12.29% in the FDI Equity inflows of 2009-10, its share doubled to 24.75% in

2010-11. Acquisition related inflows in value terms during the first eight months of 2010-11 already exceeded that for the entire 2009-10. And it is the inflows through the automatic route which were affected substantially rather than those through the Foreign Investment Promotion Board/Secretariat for Industrial Assistance (FIPB/SIA). It is the voluntary restraint on part of the foreign investors which was responsible for the slow down. The fall in FDI inflows has caused concern in policy circles.[4]

3.12 POLICY STANCE TOWARDS FDI: POST-REFORMS

Liberalisation has been combined with globalisation, thus benefiting deregulation since 1991. As global capital flows expanded manifold and into different sectors, From being assigned the role of supplementing and strengthening the domestic private sector, FDI was given greater freedom and a role of its own to contribute to India's development process along with gradual liberalization of India's economic policies which started in the 1980s.The New Industrial Policy, 1991, which accelerated the process of liberalisation, stated: While Government will continue to follow the policy of self-reliance, *there would be greater emphasis placed on building up our ability to pay for imports through our own oreign exchange earnings*. …*Foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base….*

Foreign investment would bring attendant advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports.The government will therefore welcome foreign investment which is in the interest of the country's *industrial development.*[5]

A.Major Policy Reforms regarding FDI

Followings are some of the measures taken by the government to boost the inflows of FDI in the country after liberalisation:

- Removal of quantative restrictions of imports
- Financial sector reforms and decontrol of interest rates
- The Fiscal Responsibility and Budget Management Act enacted in 2003.
- Rupee made fully convertible on trade account
- Portfolio investments by FII allowed in both equity and debt markets.
- Rationalization of both indirect and direct tax structure.
- FDI up to 100 percent allowed in most sectors under the Automatic Route"
- Abolition of industrial licensing, except in few 'strategic' sectors.[6]

B.Various incentive schemes for attracting FDI

a.Cental Government Investment Incentives

- 100 % profit deduction for developing , maintaining and operating infracture facilities
- Tax deduction of 100 % on profit for 5years and 50% for the next two years for undertaking in special economic zones
- Various capital study schemes and final incentives foe expansion in the north eastern region
- Tax exemption of 100 % on export profits for 10 years

Deduction in respect of certain intercorporatye dividends to the extent of dividend declared

b. State Government Investment Incentives

- Interest rate and fixed capital subsidy
- Rebate on land cost, tax concessions and octroi
- Electricity duty, registration fee and stamp duty exemptions
- Single windows approval system for setting up industrial units.[7]

c. Progressive Liberalisation

TABLE 3.6: PROGRESSIVE LIBERALISATION

Progressive Liberalisation	
Pre -1991	FDI was allowed selectively up to 40% under FERA
1991	35 high 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%/505
2000	All sectors placed on the automatic route for the FDI except for a small negative list
Post 2000	Many new sectors opened to FDI ; i.e insurance(26%),defence industry(26%),tea plantation(100%). Sectoral caps in many sectors relaxed

Source: Invest India: A joint Venture of DIPP: Ministry of Commerce and Industry, FICCI and State Governments

3.13 RANKING OF THE VARIOUS FACTORS GROUPED UNDER CHARACTERISTICS OF INDIAN ECONOMY

TABLE 3.7: RANKING OF THE VARIOUS FACTORS GROUPED UNDER CHARACTERISTICS OF INDIAN ECONOMY

No.	Factors	Rank
1	Size of Indian Market	1
2	Size of Middle Income Class	2
3	Availability of Cheap Raw Material	3
4	Industrial Sector Diversifaction	4
5	Availability of Skilled Labour	5
6	Existence of Large Private Sector	6
7	Availibility of Unskilled Labour	7

Source: Kamlesh Gakhar (2006), pp-100

The huge size of market is considered as the most important factors attracting FDI in India, of all the factors related to the characteristics of Indian Economy. Every efficient international firms want to produce on a large scale to reap the economies of scale and to reduce the cost of production. Among the factors under characteristics of Indian economy, the second rank goes to large size of middle –income class in Indian economy. Large size of middle class implies there is a demand for standard products of international firms. This provides a good opportunity for foreign investment. Cheap labor reduces the cost of production and products can be sold at competitive price. So this factor is quite significant in its positive impact on FDI inflows in India. Indian industry has been diversified to a large extent and the growth rate is also appreciable. This leads to rise in demand for various items. Foreign investors consider this factor of crucial importance while talking decision to invest abroad. Availability of skilled labor got 5th rank among the factors grouped under characteristics of Indian economy.

[4] A study by the Standard and Chartered Bank is reported to have identified issues relating to governance (e.g. scams, slow pace of public infrastructure projects and stalled economic reforms) and inflation have hurt investor confidence. It was suggested that unless more sectors are opened up and policies streamlined FDI inflows are unlikely to bounce back. See: "Governance, inflation hit FDI flow", at http://timesofindia.indiatimes.com/business/india-business/Governance-inflation-hit-FDIflow/articleshow/7428514.cms. See also: Rajat Guha, "The FDI Trickle", The Financial Express, January 2, 2011.

[5] See: "Statement on Industrial Policy July 24, 1991" in Ministry of Commerce and Industry, Handbook of Industrial Policy and Statistics, 2001.

[6] Kumar, U(2004): " India's Investment policy and outlook" ; OECD –India Investment Round Table

[7] .Check List for FDI Investment policy

3.14 RANKING OF DETERRENTS TO FDI IN INDIA

TABLE 3.8: RANKING OF DETERRENTS TO FDI IN INDIA

No.	Factors	Rank
1	Foreign investment policy and procedure	1
2	Infracture bottlenecks	2
3	High tax rate	3
4	Pro-labour laws or lack of exit policy	4
5	High import tariff	5
6	Political risk	6
7	Weak intellectual property rights	7
8	High rate of interest	8
9	Regional conflicts/tension	9

Source: Source: Kamlesh Gakhar (2006), pp-117

Certain drawbacks in the Indian foreign investment policy and procedures are the most important hurdles in the inflow of FDI. These drawbacks are lack of transparency in the policy, bureaucratic delay, and widespread corruption. At the macro level the , 2nd most significant barrier to FDI inflow to India , as reported by the sample firms is the prevalence of infrastructure bottlenecks. Lack of developed infrastructure is a stumbling block in the way of international direct investment in India. High tax rates in India are the 3rd most prominent deterrent to FDI inflow in India. High corporate tax rates are reported as the most important impediment to FDI in India. Pro lablor law is reported as 4th major macro-economic barrier to FDI inflow in India. Foreign investors want there should be flexibility in labor market conditions. Political risk is reported to be significant deterrent of FDI inflow in India.

3.15 ATTRACTIONS FOR FDI

India is becoming an attractive location for global business on account to its buoyant economy, its increasing consumption market, infrasture growth and cost efficiency. According to exports and MNC managers, India is ranked just behind china and behind or equal terms with U. S (WIR, 2005). Though literacy and education rates are comparatively low level, when human resources are normalized by population size, this factor does not remain at deterrent. Indeed, Indian skills in research, product design, and customization of services, are acknowledged. India has one of the largest pools of scientist, engineers and technicians in the world, particularly in information technology, with competitive wage levels when compared to other industrialized countries and the use of English in the business and technical and managerial education.

The government also aims to attract foreign investments by setting up Special Economic Zones[8], Science Parks and Free Trade and Warehousing Zones[9]. Foreign investment is particularly sought after in power generation, telecommunications, ports, roads, petroleum exploration and processing and mining. A ten years tax holiday is offered to companies engaged exclusively in scientific R& D with commercial applications. Since November 2005, FDI is allowed up to 100 percent in most activities under the automatic route. FDI is now freely allowed in many sectors with automatically approval[10] freedom of location and choice of technology. Import and exports, repatriation of profits, dividends and capital are also free. Also IPRs are guaranteed. India is a more and more active partner in regional arrangements and agreements such as ASEAN, Gulf Cooperation Council, South Asian Free Trade Area, and Indian Ocean Rim Association for Regional Cooperation and SAARC. Since 2000 India has signed, many bilateral investment and trade agreements as well as double taxation treaties with increasing number of countries that stimulate export and investments (elimination of quotas, reduction of customs duties). Being the second most populous country in the world, India is also attractive for “market seeking” FDI. Half of the population is under 25 year’s age. India’s consumer market is growing quickly with an average of 12 percent a year. Living standards are rising, a vibrant middle class estimated to be 300 million with spending power is emerging in cities, and infrastructure needs are tremendous. The availability of qualified workers , the existence of internationally reputed R&D institutes(Indian Institute of Technology, Indian Institute of Science, Indian Institute of Chemical Technologies, Centre for Drug and Research etc), and the emergence of many Indian firms as service providers or as partners[11] contributed to attract MNCs in India to perform R& D.

4. CONCLUSIONS

This paper has examined the growth patterns and changing nature of Indian inward Foreign Direct Investment, with an emphasis on the post liberalization period, since FDI, along with trade, has been an important mechanism which was brought about a greater integration of Indian economy with world economy. The changing patterns reflect the growing investors’ confidence in the country.

From 1947-48 to 1990-91, there was an absolute increase in the FDI stock. After year 1992-93 on wards to 2009-10 FDIin India as percentage of worlds has increased continuously; it may be the liberalization policy in Indiathat was introduced in 1991. The regional distribution of FDI inflows is highly concentrated patterns. Five regional offices receive around more than 70% of Indian FDI inflows. The share of FDI in GDP has been very small in absolute term, remaining less than one (1980-1993-94). However the ratio improved dramatically after that. GDP growth rate is steadier than FDI after post reform era. India’s FDI as percentage of GFCF is at a much lower rank improving from 0.21 in 1980 to a ratio of 0.36 in 1993 and then showing a marked improvement reaching to a ratio of 9.40 in 2008-09.Acquisition of existing shares of companies by foreign investors contributed substantially to the FDI Equity Inflows and it peaked in 2005-06 and 2006-07 to reach almost two-fifths of the total FDI Equity flows. Acquisition of shares together with reinvested earnings (which do not represent actual inflows) account for a substantial proportion of the reported total inflows.

Inward FDI has boomed in post –reform periods. The Indian government policy towards FDI has changed over time in tune with the changing needs in different phases of development. The changing policy framework has influenced in trends and patterns of FDI inflows received by the country. At the same time, the composition and type of FDI has changed considerably. Even though service sector have attracted rising FDI, the manufacturing industries accounted for a steeply rising share of FDI stocks in India since mid-nineties. Thus, although the magnitude of FDI inflows has increased, in the absence of policy direction the bulk of them have gone into services and soft technology consumer goods industries bring the share of manufacturing and technology intensive among them down. In terms of investing countries, it can be noted that there is a high degrees of concentration with more than 50 percent of the investment coming from Mauritius, U.S, and Japan. Although, while FDI in India continues to be local “market seeking” in the first place, its world-market orientation has clearly increased in the aftermath of economic reforms. Thus while the growth of FDI inflows to India seem to be fairly improved; India’s share in the global FDI regime is still negligible. This calls for policy review to remove obstacles such as infrastructural and bureaucratic hurdles.

[8] For example export oriented units and units in export processing zones benefit of tax holidays (100 percent) for five years.
[9] In free trade warehousing zones, FDI is permitted up to 100 percent
[10] Initially FDI approval relied on matching exports and dividend repatriation. In July 1991, this approval becomes automatic in 34 industries designated high priority, up to an equity limit of 51 per cent.
[11] India software companies like TCS, Wipro, and Infosys have alliance with Ericssion, Nokia, and IBM.

TABLE A 4.1: SOURCE COUNTRIES OF FDI FLOW INTO INDIA IN 2010

Ranks	Country	Amount of Foreign Direct Investment Inflow		
		In Rupees Crore	In US $ Million	% with Total FDI inflows(+)
1	MAURITIUS	263,018.83	58,752.83	41.04
2	SINGAPORE	64,802.78	14,566.64	10.18
3	U.S.A	44,036.83	9,782.47	6.83
4	UNITED KINGDOM	40,554.71	9,115.89	6.37
5	NETHERLANDS	27,377.23	6,090.86	4.25
6	JAPAN	26,588.57	5,865.11	4.1
7	CYPRUS	22,898.94	5,026.21	3.51
8	GERMANY	19,003.79	4,253.92	2.97
9	FRANCE	11,771.43	2,601.84	1.82
10	UAE	8,893.75	1,957.25	1.37
11	SWITZERLAND	8,574.90	1,894.62	1.32
12	ITALY	4,399.79	1,002.42	0.7
13	SPAIN	3,786.00	852.17	0.6
14	SOUTH KOREA	3,665.93	818.34	0.57
15	SWEDEN	3,665.44	807.44	0.56
16	CAYMEN ISLANDS	3,301.14	784.84	0.55
17	HONGKONG	3,361.43	749.33	0.52
18	BRITISH VIRGINIA	3,205.15	716.87	0.5
19	INDONESIA	2,798.91	605.43	0.42
20	THE BERMUDAS	2,252.11	502.05	0.35
21	RUSSIA	2,231.21	467.11	0.33
22	AUSTRALIA	2,096.45	461.76	0.32
23	BELGIUM	1,698.86	375.68	0.26
24	LUXEMBOURG	1,574.37	350.39	0.24
25	CANADA	1,554.20	348.85	0.24
26	OMAN	1,537.56	335.68	0.23
27	MALAYSIA	1,371.20	298.8	0.21
28	DENMARK	1,078.04	238.77	0.17
29	FINLAND	1,039.43	221.73	0.15
30	IRELAND	623.54	142.4	0.1
31	AUSTRIA	615.61	135.71	0.09
32	CHILE	625.39	135.29	0.09
33	SOUTH AFRICA	507.41	110.19	0.08
34	BRITISH ISLES	401.02	88.8	0.06
35	THAILAND	385.83	86.39	0.06
36	WEST INDIES	343	77.24	0.05
37	NORWAY	314	70.38	0.05
38	CHINA	318.23	67.4	0.05
39	ISRAEL	235.47	53.31	0.04
40	TURKEY	204.62	45.02	0.03

Source: Collected from DIPP.

TABLE A 4.2: REGION WISE DISTRIBUTION OF FDI

			Amount Rupees in crores (US$ in million)
S.No.	RBI's - Regional Office	%age to total Inflows (in terms of US$)	Cumulative Inflows(April'00-March'10)
1	MUMBAI	34	221,818 (49,611)
2	NEW DELHI	21	134,353 (29,710)
3	BANGALORE	6	40,434 (9,072)
4	CHENNAI	5	33,915 (7,541)
5	AHMEDABAD	5	32,853 (7,417)
6	HYDERABAD	4	27,972 (6,277)
7	KOLKATA	1	7,697 (1,785
8	CHANDIGARH`	1	4,840 (1,059)
9	BHOPAL	1	3,364 (733)
10	PANAJI	1	3,329 (725)
11	JAIPUR	0.4	2,502 (532)
12	KOCHI	0.3	2,042 (454)
13	BHUBANESHWAR	0.2	1,302 (282)
14	KANPUR	0.2	1,089 (239)
15	GUWAHATI	0.1	316 (72)
16	PATNA	0	27 (6)
17	REGIONNOT INDICATED	20	127,917 (28,742)
SUB. TOTAL		100	645,772 (144,258)

Source: DIPP (Department of Industrial Policy & Promotion)

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