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- 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.
- Kiran Ravi, Kaur Manpreet (2008), Global Competitiveness and Total Factor Productivity in Indian Manufacturing, International Journal of Indian Culture and Business Management, Vol. 1, No.4 pp. 434-449.

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ANALYSIS OF FDI INFLOWS IN INDIA

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ABSTRACT
FDI is a tool for jump-starting economic growth through its strengthening *of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. The present paper attempts to analyze significance of the FDI Inflows in India since 1991 and analysis of various Indian sectors attracting FDI from 2005-2010.*

KEYWORDS
FDI, domestic capital, productivity, employment, economy, sectors.

INTRODUCTION
FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources.

IMPORTANCE OF FDI STUDY
For developing countries FDI is significant not only for employment generation but also for improving its productivity as well. Hence the international flow of capital is concerned as an alternative to labour migration from the poor countries (Meier, 1995). FDI brings to the recipient country not only foreign capital, but also efficient management, superior technology and innovations in products and marketing technique, which are generally in short supply in the developing countries. Thus access to foreign capital helps overcome the managerial and technological gaps in the host country. Further, foreign firms can increase competition in domestic markets, reduce monopoly profits and improve the quality of products and services (Meier, 1995, IFC, 1997 and Goldar and Ishigami, 1999).

OBJECTIVES OF STUDY
To study the FDI inflows in India from 1991-2010
To study and analyze the FDI inflows in various sector attracting highest equity FDI inflows in India from 2005-2010
To study and analyze the FDI inflows within the various Indian sectors from 2005-10

METHODOLOGY OF THE STUDY
The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

FDI NEW DEFINITIONS
The IMF definition of FDI includes as many as twelve different elements-equity capital, reinvested earnings of foreign companies, inter-company debt transactions, short-term and long-term loans, financial leasing, trade credits, grants, bonds, non-cash acquisition of equity, investment made by foreign venture capital investors, earnings data of indirectly-held FDI enterprises, control premium and non-competition fee.
India, however, does not adopt any other element other than equity capital reported on the basis of issue or transfer of equity or preference shares to foreign direct investors.

FDI ROUTES IN INDIA
First is an automatic route through and second is through an investment with prior approval of the government. In India, FDI is permitted in the forms of Financial Collaborations, Joint Ventures and Technical Collaborations, Capital Markets via Euro Issues and Private Placements or Preferential Allotments.

REVIEW OF LITERATURE
The aspects of foreign direct investment i.e. political scenario and trends are analyzed by most of the studies and they are, Bhattacharyya (1994), Jain (1994), 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 Subramanian, et al. (1996) and Gopinath (1997) examined the determinants of FDI. Subramanian, et al. (1996) found that the availability of primary material inputs for manufacture and the large size of the domestic market for the sale of the manufactured products are the two principal economic determinant of location of FDI inflow. Other two factors that influenced the FDI are the growth rate of GDP and the level of infrastructure facility.

P.D. Jeromi (2001) in his study of Foreign Direct Investment in India, Policy, Trends and Impact finds there three reasons for FDI in India viz, Real Sector Reform, Infrastructural Development, Privatization. Further he analyzed FDI Growth Phase for India and finds that 1994-1997 is High approval but low FDI Inflows and 1998-2001 is Low approval and high actual FDI inflows. He argues that the 1990's economic reforms of India since the beginning has emphasized on attracting more FDI. India's FDI policies have been liberalized considerably in nineties resulting to the number of FDI approval and inflows have increased significantly till 1997. After that there was a decline in the FDI approval even though policies have been more and more liberal. He concludes in his study that, 40% of total FDI was used for Mergers and Acquisitions and More FDI is needed in Greenfield projects. His findings are Performance of FDI is companies are better than that of non-FDI companies and however FDI companies' contribution to exports is not great and their import propensity is quite high.

Foreign Trade review Vol. XLI No 04 Jan-Mar 2007. Quarterly Journal of IIFT Economic Survey 2006-07, Ministry of Finance, GOI, India's External Survey, 4th July 2007, Service Trade- India has been recording high growth in the export of services during the last few years. Such exports have increased three fold during the last three years in 2005-06 with growth of 42.0% it reached US61.4 billion. Growth has been particularly rapid in the miscellaneous services category, which comprises services and communication services. In 2005 while India's share and ranking in world merchandise exports were 1% and 29th respectively. Its share and ranking in the world commercial services exports was 2.3% and 11th rank respectively. By growing faster than merchandise exports, services exports constituted almost 60% of merchandise exports in 2005-06.

According to Economic Survey of India, 2006-07, FDI inflows (net) which had declined from US $ 4.7 billion in 2001-02 to US $ 2.4 billion in 2003-04, continued its growth for the second consecutive year in 2005-06 to climb back to US $ 4.7 billion gain. The overall FDI reported is inward FDI needed for outward FDI. FDI on a comparative net basis, year on year, exhibited a growth of 27.4% in 2005-06 reflecting the improved investment climate. Outward investment also simultaneity showed signs of a pickup with domestic companies making deeper forays for acquisition abroad. FDI inflows were mainly in the form of equity accounting for about 75.2% of the total FDI into India during 2005-06. FDI abroad (outward investment) grew sharply to reach US $ 3.2 billion in 2005-06.

The rising trend in FDI observed in 2005-06 accelerated further in 2006-07. As per provisional data available FDI (net) in April-Sept 06 at US $ 4.2 billion was almost twice as less in April-Sept 2005. As per the latest data on FDI inflows, there has been a 98.4% jump in the equity investment into India in April-Sept 2006-07 over April-Sept 2005-06 levels.

According to United Nations Conference on Trade and Development (UNCTAD) in a new report on world investment prospects titled, 'World Investment Prospects Survey 2009-2011, improved global sentiment and strong industrial output numbers in India are increasingly attracting foreign investors in the country. Other factors being attributed to the revival in foreign direct investment (FDI) in recent times include increasing consumer confidence. India has been ranked at the third place in global foreign direct investments this year, following the economic meltdown, and will continue to remain among the top five attractive destinations for international investors during the next two years.

India attracted FDI inflows of US$ 1.74 billion during November 2009, a 60 per cent increase over the US$ 1.08 billion achieved in same month last year. The cumulative amount of FDI inflows from Aug 1991 to Dec 2009 stood at US$ 127.46 billion, according to the latest data released by the Department of Industrial Policy and Promotion, India attracted FDI equity inflows of US$ 1.54 billion during December 2009. On a cumulative basis, FDI equity inflows of US$ 20.92 billion were recorded during Apr-Dec 2009.

The 2009 survey of the Japan Bank for International Cooperation conducted among Japanese investors continues to rank India as the second most promising country for overseas business operations, after China. According to the Minister of Commerce and Industry, Mr. Anand Sharma, FDI equity inflows as a percentage of GDP has grown from 0.75 per cent in 2005-06 to nearly 2.49 per cent in 2008-09. India's FDI inflows touched US$ 26.5 billion in the April-December period this fiscal. The country has attracted FDI worth US$ 23.82 billion in the January-October 2009 period and October 2009 alone witnessed a 56 per cent year-on-year jump in FDI with inflows of US$ 2.33 billion, according to the DIPP.

The services sector comprising financial and non-financial services attracted FDI worth US$ 3.54 billion during April-December 2009-10, while computer software and hardware sector garnered about US$ 595 million during the said period. The telecommunications sector attracted US$ 2.36 billion FDI during April-December 2009-10. During the April- December period in 2009-10, Mauritius has led the investors into India with US$ 8.91 billion worth of FDI, followed by Singapore with US$ 1.7 billion and the US with US$ 1.58 billion, according to latest data released by DIPP. The Indian retail market, which is the fifth largest retail destination globally, has been ranked the most attractive emerging market for investment in the retail sector by A T Kearney's annual Global Retail Development Index (GRDI), in 2009.

FDI POLICY INITIATIVES IN INDIA

GOI not only has promised to bring out an updated FDI policy every six months as stated in a comprehensive press note consolidating the entire regime for foreign investments in one place for easy reference but also proposes to improve investment environment in the country in the Union Budget for 2010-11 announced by the Union Finance Minister, Mr. Pranab Mukherjee, in Parliament on February 26, 2010 includes number of steps taken to simplify the FDI regime, clearly defined methodology for calculation of indirect foreign investment in Indian companies and the complete liberalization of pricing and payment of technology transfer fee and trademark, brand name and royalty payments.

Furthermore, the government has allowed the Foreign Investment Promotion Board (FIPB), under the Ministry of Commerce and Industry, to clear FDI proposals of up to US$ 358.3 million. Earlier all project proposals that involved investment of above US$ 129.16 million were put up before the Cabinet Committee of Economic Affairs (CCEA) for approval. The relaxation would expedite FDI inflow, according to the Union Home Minister, Mr. P Chidambaram. The government has accepted the recommendations of the Telecom Regulatory Authority of India to move to fast track mobile television (TV) technology services, for a composite foreign investment limit of 74 percent in mobile TV services. As announced by Minister for New and Renewable Energy, Mr. Farooq Abdullah, the GOI has allowed 100 per cent FDI in the renewable energy sector as favourable policy to attract foreign companies.

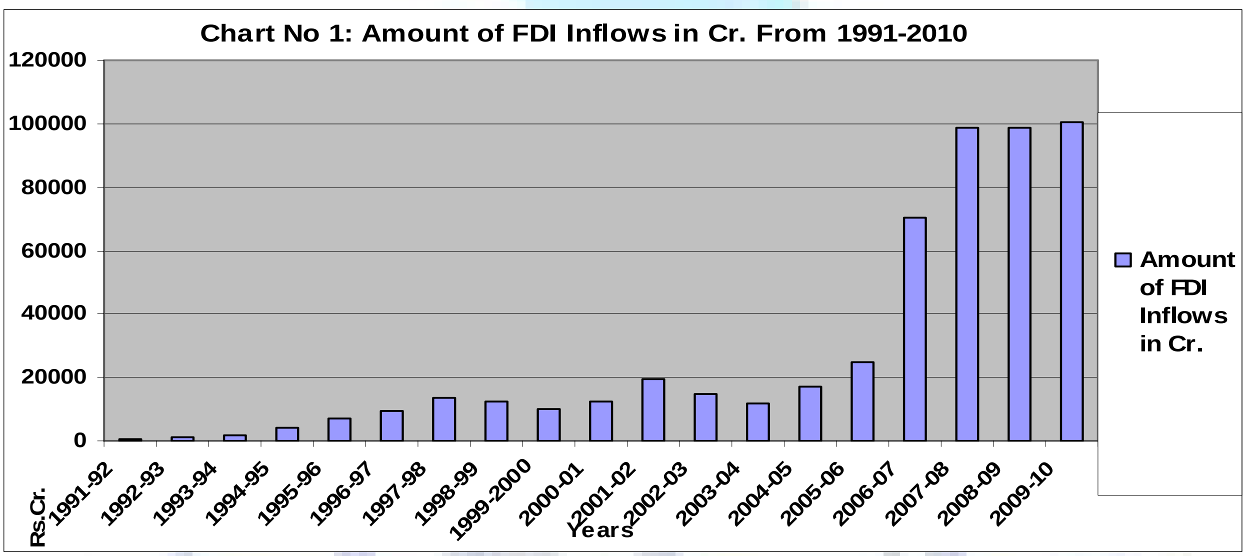
TABLE NO-1: YEAR WISE FDI INFLOWS IN INDIA FROM 1991-2010

Year	Amount of FDI Inflows in Cr.
1991-92	409
1992-93	1094

1993-94	2018
1994-95	4312
1995-96	6916
1996-97	9654
1997-98	13548
1998-99	12343
1999-00	10311
2000-01	12645
2001-02	19361
2002-03	14932
2003-04	12117
2004-05	17138
2005-06	24613
2006-07	70630
2007-08	98664
2008-09	98860
2009-10	100539

Source: Department of Industrial Policy & Promotion Ministry of Com & Industry Govt. of India & Lok Sabha Unstarred Question No. 535, dated 24.02.2009

CHART NO-1: YEAR WISE FDI INFLOWS IN INDIA FROM 1991-2010



Source: Department of Industrial Policy & Promotion Ministry of Com & Industry

The above chart shows the inflow of FDI in India from 1991-2010 and it's clear that though there is a bumpy ride from 1999 till 2006, FDI inflows have picked up from 2006 onwards except from 2008-09. Irrespective of the global meltdown the last three years i.e. from 2007-08 to 2009-20, show the stagnation and not the decline in the inflow of FDI in India.

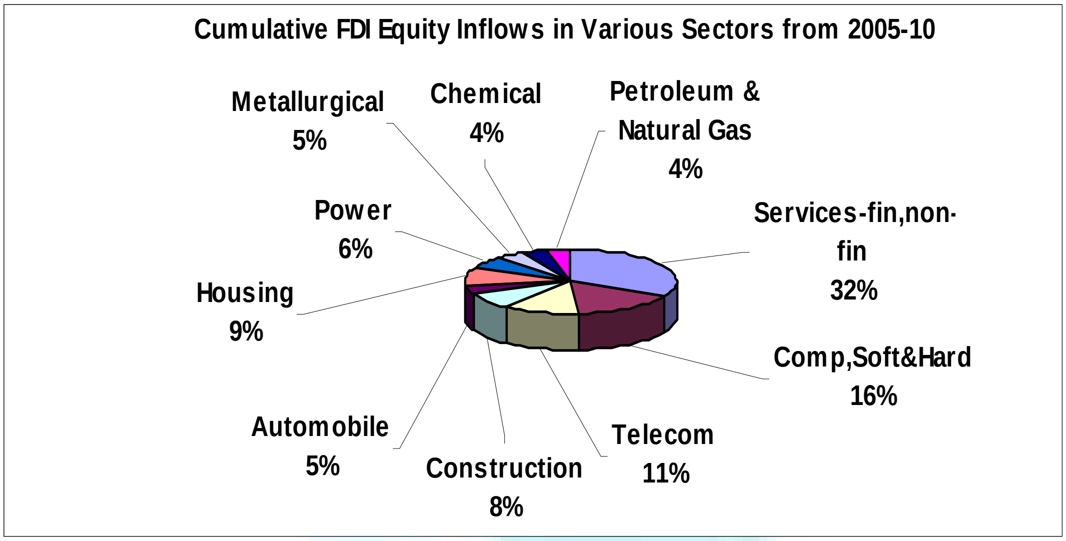
TABLE N0-2: CUMULATIVE FDI EQUITY INFLOWS IN SECTORS FROM 2005-2010

SECTORS	2005-06	2006-07	2007-08	2008-09	Cumulative	Total Inflow%
Services(Fin- Non Fin)	2399	21047	26589	23045	78742	32%
Comp-S/W & Hardware	6172	11786	5623	6944	39111	16%
Telecom	2776	2155	5103	10797	27544	11%
Construction	667	4424	6989	6224	19606	8%
Automobile	630	1254	2697	1792	11648	5%

Housing & Real Estate	171	2121	8749	10632	21794	9%
Power	386	713	3875	4079	13709	6%
Metallurgical	6540	7866	4686	3608	10956	5%
Chemical	1731	930	920	2561	9442	4%
Petroleum & Natural Gas	64	401	5729	1196	8509	4%

Source: DIPP, Federal Ministry of Commerce and Industry, GOI

CHART N0-2: CUMULATIVE FDI EQUITY INFLOWS IN SECTORS FROM 2005-2010



Source: DIPP, Federal Ministry of Commerce and Industry, GOI

From above chart its clear that of all the sectors of Indian economy, services (fin and non fin) attracted maximum FDI inflows of 32% from 2005-10 followed by Computer software & Hardware 16%, Telecom 11%, Housing 9%, Construction 8%, Power 6%, Automobile and Metallurgical 5%, and least was attracted by Petroleum & Natural Gas and Chemicals i.e. 4%.

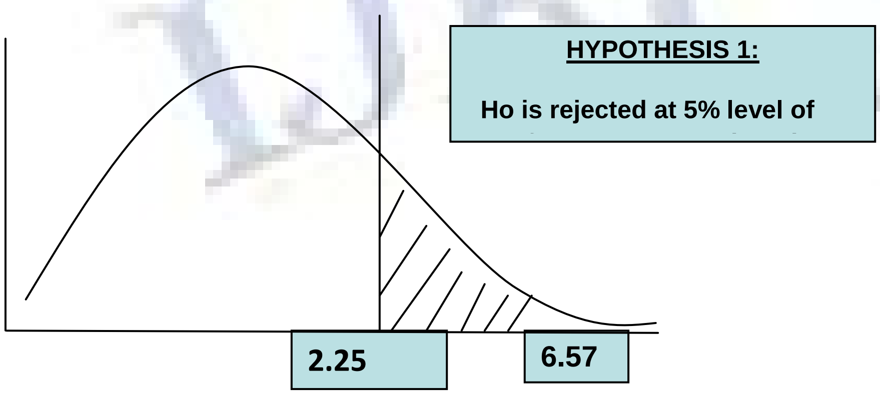
The FDI Inflows to Service Sector has helped the development of several industries in the service sector of the Indian Economy, such as Tele Communication, Financial and Non financial, Hotel & Tourism, and many others. FDI Inflows to Service Sector has been phenomenal in the past few years. Since the onset of the liberalization of the Indian economy in 1991, the country has experienced a huge increase in the inflow of Foreign Investments. The service sector in India has tremendous growth potential and as such it has attracted huge Foreign Direct Investments.

HYPOTHESIS 1

*Ho= There is **NO** statistically significant difference amongst the different components of sector with respect to FDI Inflows in India from 2005-2009.*

FINDINGS

Ho is **rejected** at 5% level of significance F3= 6.57 (9, 27)

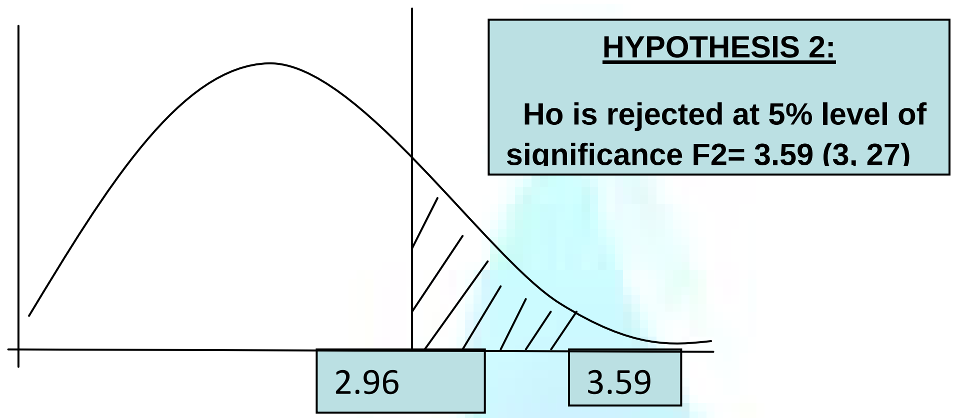


HYPOTHESIS 2

*Ho=There is **NO** statistically significant difference in year wise FDI inflows in various sectors from 2005-2009.*

FINDINGS

Ho is **rejected** at 5% level of significance F2= 3.598 (3, 27)



CONCLUSION

The decision is to reject the null hypothesis if the test statistic from the table is greater than the F critical value with k-1 numerator and N-k denominator degrees of freedom. Based on the ANNOVA of sectoral data available there is a statistically significant difference amongst the different components of sector with respect to FDI Inflows in India from 2005-2009. It is found that there is a significant difference in year wise FDI inflows in various sectors from 2005-2009. However, with the government planning more liberalization measures across a broad range of sectors and continued investor interest, the inflow of FDI into India is likely to further accelerate.

Note: Exchange rate used: 1 $ = 46.46 INR (as on February 2010) &1$ = 46.25 INR (as on December 2009)

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