Research Papers

Structure of Foreign Direct Investment in India during globalization period

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Abstract

The main object of this paper is to study the changing structure and direction of India's foreign direct Investment during globalization period. It is well known that FDI can complement local development efforts in a number of ways, including boosting export competitiveness; generating employment and strengthening the skills base; enhancing technological capabilities and increasing financial resources for development. The world foreign direct investment (FDI) has been accounted US $ 386140 million in 1996 to US $ 1114189 million in 2009 and India accounted 2525 millions of US Dollars in 1996 to 34613 millions of US Dollars in 2009.

Global FDI inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3-1.5 trillion in 2011, and head towards $1.6-2 trillion in 2012. The service sector has attracted highest (21 per cent) FDI inflows; then Computer software, and hardware (9 per cent), telecommunication sector (8 per cent) and Housing and Real estate (7 per cent) during 2008 to August 2010. Mauritius (42 per cent to total inflows of FDI) has been largest investor in India, followed by Singapore (9 per cent) during 2008 to August 2010 among top ten countries.
Keywords: FDI, Investment, Globalization and Economic Growth.

Introduction:

The changing structure of world investment, trade, and capital flow has been the wave of the last three decades. Globalization has altered the economic frameworks of both developed and developing nations in ways that are difficult to comprehend. The persistent rise in the dispersion of current account balances of the world as a whole, wherein the sum of surpluses match the sum of deficits has grown substantially since the World War II. Also the emergence of unregulated global markets appears to have moved towards a more stable and growth oriented economic globe. Economies have been hit one after the other with the fashion and need for market driven capitalist and liberalized economic system has been the urging need. The 90's has also seen the emergence of finance, which apart from the efficiency, product enhancement, and lower cost of transaction has facilitated the crisis frequencies, globalization, and movement of capital flows internationally without much control. The significant reduction in global trade barriers over the past half century has contributed to a marked rise in the ratio of world trade to GDP. External finance has set forth the movements for growth in trade and development across regional barriers.

As a result of controversy surrounding Foreign Direct Investment owing to a lack of understanding, it has become the eye of a political storm. FDI eludes definition owing to the presence of many authorities: Organization for Economic Co-operation and Development (OCED), International Monetary Fund (IMF), International Bank for Reconstruction and Development (IBRD) and United Nations Conference on Trade and Development (UNCTAD). All these bodies attempt to illustrate the nature of FDI with certain measuring methodologies.

Generally speaking, FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills, and technology." It is furthermore described as a source of economic development, modernization, and employment generation, whereby the overall benefits (dependant on the policies of the host government)
"…triggers technology spillovers, assists human capital formation, contributes to international trade integration and particularly exports, helps create a more competitive business environment, enhances enterprise development, increases total factor productivity and, more generally, improves the efficiency of resource use."

In most narratives on India's liberalization, 1991 has acquired a revolutionary status as a time of change in the planning of India's future. The appointment of Economist Manmohan Singh, considered a non-political figure, as finance minister signaled a different approach to economics; one that in itself was radical, but did not significantly permeate the economic imagination of the Nation or the State.
The UNCTAD (1999) notes that transnational corporations (TNCs) can complement local development efforts by: (a) Increasing financial resources for development; (b) boosting export competitiveness; (c) generating employment and strengthening the skills base; (d) protecting the environment and social responsibility; and (e) enhancing technological capabilities (transfer, diffusion and generation of technology). Apparently, developing countries need to have reached a certain level of educational, technological and infrastructure development before being able to benefit from a foreign presence in their markets. An additional factor that may prevent a country from reaping the full benefits of FDI is imperfect and underdeveloped financial markets. India, with its relatively well developed financial sector, strong industrial base and critical mass of well educated workers, appears to be well placed to reap the benefits of FDI In view of this, it is appropriate that Indian policy makers continue to make concerted efforts to make India an attractive destination for FDI. Recognizing the potential benefits of FDI, the government seeks to double the FDI inflow to US$ 30 billion in fiscal 2009 in order to maintain a growth rate of 9 per cent per annum over the next five years.

Global FDI inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3-1.5 trillion in 2011, and head towards $1.6-2 trillion in 2012, (UNCTAD 2010). FDI FDI in India increased from 2525 millions of US Dollars in 1996 to 34613 millions of US Dollars in 2009, (World Investment Report 2010).

This paper will focus on these arguments only as they apply to foreign direct investment (FDI), current state of FDI in India, focusing on the country sources, state wise destinations, and main sectors that have attracted FDI. The lastly concludes with current Indian FDI policy.

Global trends in FDI flows:

Global foreign direct investment (FDI) flows began to bottom out in the latter half of 2009. This was followed by a modest recovery in the first half of 2010, sparking some cautious optimism for FDI prospects in the short term. In the longer term, the recovery in FDI flows is set to gather momentum. Global inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3-1.5 trillion in 2011, and head towards $1.6-2 trillion in 2012. There are some major changes in global FDI patterns that preceded the global crisis and that will most likely gain momentum in the short and medium term. Firstly, the relative weight of developing and transition economies as both destinations and sources of global FDI is expected to keep increasing. These economies, which absorbed almost half of FDI inflows in 2009, are leading the FDI recovery. Secondly, the recent further decline in manufacturing FDI, relative to that in the services and primary sectors, is unlikely to be reversed. Thirdly, in spite of its serious impact on FDI, the crisis has not halted the growing internationalization of production, (World Investment Report- 2010).

The current recovery is taking place in the wake of a drastic decline in FDI flows worldwide in 2009. After a 16 per cent decline in 2008, global FDI inflows fell a further 37 per cent to $1,114 billion, while outflows fell some 43 per cent to $1,101 billion. FDI flows contracted in almost all major economies, except for a few FDI recipients such as Denmark, Germany, and Luxembourg, and investment sources such as Mexico, Norway and Sweden. Unless private investment regains its leading economic role, the sustainability of the global recovery remains questionable. FDI flows bounced back slightly in the second quarter of 2009, but remained low for the rest of the year. According to UNCTAD's Global FDI Quarterly Index, however, foreign investment showed renewed dynamism in the first quarter of 2010. Cross-border mergers and acquisitions (M&As) – still low at $250 billion in 2009 – rose by 36 per cent in the first five months of 2010 compared to the same period in the previous year. This suggests that annual FDI flows are likely to recover in 2010, thanks to higher economic growth in the main home and host countries, improved corporate profitability, and higher stock valuations. As foreign investment continued to flow, albeit at a much reduced pace, FDI inward stock rose by 15 per cent in 2009, reaching $18 trillion. This rise, however, also reflects the improved performance of global stock markets at the end of 2009, as FDI stock is usually valued at market price, as opposed to book value. In contrast, devastated stock markets and currency depreciations vis-a-vis the United States dollar had resulted in a 14 per cent decline in FDI stocks in 2008. These depreciations also further reduced FDI stock when measured in United States dollars (World Investment Report- 2010).

The world foreign direct investment (FDI) has been increased from US $ 386140 million to US $ 1114189 million during 1996 to August 2010. The value of developed economies in FDI inflows has been raised from US $ 219908 million to US $ 565892 million and the developing economies in FDI inflows accounted US$ 152685 million to US$ 478349 million during 1996 to August 2010 (Table 1).

Table 1 FDI inflows by Region and Economy

(US Millions of dollars)

Region/ Economy	1996	1997	1998	1999	2000	2001	2007	2008	2009
World	386140	478082	694457	1088263	1491934	735146	2 099 973	1 770 873	1 114 189
Developed economies	219908	267947	484239	837761	1227476	503144	1 444 075	1 018 273	565 892
Developing economies	152685	191022	187611	225140	237894	204801	564 930	630 013	478 349
Asia	93331	105828	96109	102779	133707	102066	336 922	372 739	301 367
South, East and South-East Asia	87843	96338	86252	999901	31123	94365	258 830	282 440	233 050
A. China	40180	44237	43751	40319	40772	46846	83 521	108 312	95 000
B. India	2525	3619	2633	2168	2319	3403	25 001	40 418	34 613
C. Indonesia	6194	4677	-356	-2745	-4550	-3277	6 928	9 318	4 877
D. Korea	2325	2844	5412	9333	9283	3198	2 628	8 409	5 844
E. Malaysia	7296	6324	2714	3895	3788	554	8 538	7 318	1 381
F. Philippines	1520	1249	1752	578	1241	1792	2 916	1 544	1 948
G. Singapore	8608	10746	6389	11803	5407	8609	35 778	10 912	16 809
H. Thailand	2271	3626	5143	3561	2813	3759	11 355	8 544	5 949

Source: World Investment Report, UNCTAD, 2010, database (www.unctad.org/fdistatistics).

FDI Inflows into India:

According to UNCTAD (2007), India has emerged as the second most attractive destination for FDI after China and ahead of the US, Russia and Brazil. While India has experienced a marked rise in

FDI inflows in the last few years (doubling from an average of US$5-6 billion the previous three years to around US$ 19 billion in 2006-07), it still receives far less FDI flows than China or much smaller economies in Asia like Hong Kong and Singapore was ahead of India. Not surprisingly, India's growth strategy has depended predominantly on domestic enterprises and domestic demand as opposed to FDI and export demand. For instance, India's FDI as a share of GDP in 2007 represented only about 1.7 percent compared to 2.8 percent in China and even below Pakistan, and its share of gross fixed investment is 5.2 percent compared to 7.0 in China and 16.7 percent in Pakistan. FDI has been a relatively limited source of external financing and reserve buildup in India.

The value of FDI inflows increased to the highest level of 3.6 billions of US Dollars in 1997 from 75 millions of US Dollars in 1991 and then it started showing a declining trend, it has come down to 2.1 billions of US Dollars in 1999. The average value of FDI inflows and annual growth rate in this decade works out to 1.5 billions of US Dollars and 90.53 per cent per year respectively. During the period from 2000 to 2007, the FDI inflows into India had grown sizeably. The value of FDI inflows has rose from 3.9 billions of US Dollars in 2000 and touched the highest level of 23 billions of US Dollars in 2007. The average value of FDI inflows and annual growth in this period works out to 9.4 billions of US Dollars and 77.17 per cent per year respectively, (International Research Journal of Finance and Economics, 2010).

FDI inflows are an indicator of the foreign investor community's long-term stakes in the host economy. In 2009, developing economies of Asia accounted for around 27 per cent of total global FDI inflows. China has been the largest recipient of FDI inflows among developing economies of Asia with its share in total FDI of these economies increasing from 43 per cent in 1996 to almost 46 per cent in 2001. However, it has been decreased to 24 per cent in 2007; it has marginally improved at 31.5 per cent in 2009. India, though way behind China in attracting FDI inflows, has marginally improved its share in total FDI inflows of developing economies of Asia from 2.7 per cent in 1996 to 11.49 percent in 2009 (Table 1).

Sector - wise FDI Inflows of India:

The analysis of sector-wise FDI inflows shows that electrical equipments, transportation, telecommunication, power and fuels, service, chemicals, food processing, drugs and pharmaceuticals, metallurgical, textile and industrial machinery sectors attracted more FDI, which together accounted for more than 73 per cent of total FDI inflows during 1991-1999. Among these core sectors, transportation industry accounted for 12.45 per cent followed by electrical equipments including IT and electronics with 9.76 per cent, and service and telecommunication sector with 9.77 per cent and 9.76 per cent respectively of the total investment. It is important to note that though food-processing sector attracted less FDI inflows, it recorded a significant share (5.72 per cent) in attracting total FDI inflows in India. The share of the FDI inflows to the top sectors is not very encouraging baring electrical equipments, telecommunications, and power and fuels sectors in recent years. Cumulative FDI inflows reached just over US$60 billion between August 1991 and July 2007. Since 2002, some sectors such as electrical equipment, services, drugs and pharmaceuticals, cement and gypsum products, metallurgical industries have also been doing very well in attracting FDI. The electrical equipment sector and the services sector in particular received the largest shares of total FDI inflows between August 1991 and July 2007. These were followed by the telecommunications, transportation, fuels, and chemicals sectors, (R. S. Rajana, Sunil Rongalab and Ramya Ghoshc, April 2008).

The Department of Industrial Policy and Promotion has recently modified the classifications of the sectors and data released from August 2007 has been based on the new sectoral classifications. According to that classification, the top performers are the services and computer software & hardware sectors. Clearly, India has attracted significant overseas investment interest in services. It has been the main destination for off shoring of most services as back-office processes, customer interaction, and technical support (UNCTAD, 2007).

The analysis of sector - wise FDI inflows shows that service sector has attracted 21 per cent in total FDI inflows during 2008 to August 2010. Computer software, and hardware accounted for 9 per cent, telecommunication sector with 8 per cent and Housing and Real estate accounted 7 per cent followed by Construction activities. It is important to note that though Petroleum and Natural Gas and Chemicals sector attracted less FDI inflows (2 per cent) during 2008 to August 2010 period (Table 2).

Country Sources of FDI to India:

The analyses of the origin of FDI inflows to India show that the new policy has broadened the source of FDI into India. There were 86 countries in 2000 which increased to 106 countries in 2003 as compared to 29 countries in 1991 whose FDI was approved by the Indian Government. Thus, the number of countries investing in India has increased during the period of reform. The FDI stock for the period of 1991-1999 from Mauritius is the largest (30.12%) even though the US alone accounted for nearly a quarter (20.19%) of the total FDI inflows. The other top eight countries viz., Japan, UK, Netherlands, Germany, South Korea, Singapore, France, and Switzerland collectively shared 35.79 per cent of the total actual FDI inflows to India for a decade. It implies that these top ten countries accounted for well over 86 per cent of the FDI inflows during the above period, (Sahoo and Mathiyazhagan, 2003).

Table No. 2 Sector - wise FDI Inflows in India

Amount US$ in million

Ranks	Sector	2008-09 (April-March)	2009-10 (April-March)	2010-11 (April-August)	Cumulative Inflows (April '00 - August '10)	% age to total Inflows (In terms of US $)
1.	**Services Sector** (financial & non-financial)	6,138	4,353	1,260	24,862	21 %
2.	**Computer Software & Hardware**	1,677	919	458	10,330	9 %
3.	**Telecommunications** (radio paging, cellular mobile, basic telephone services)	2,558	2,554	1,054	9,985	8 %
4.	**Housing & Real Estate**	2,801	2,844	539	8,895	7 %
5.	**Construction Activities** (including roads & highways)	2,028	2,862	294	8,347	7 %
6.	**Power**	985	1,437	677	5,305	4 %
7.	**Automobile Industry**	1,152	1,208	114	4,710	4 %
8.	**Metallurgical Industries**	961	407	613	3,743	3 %
9.	**Petroleum & Natural Gas**	412	272	218	2,883	2 %
10.	**Chemicals** (other than fertilizers)	749	362	146	2,642	2 %

Note: Cumulative Sector- wise FDI equity inflows (from April 2000 to August 2010).

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry, August 2010. (www.dipp.nic.in/fdi_statistics/india_FDI_August 2010.pdf).

In 1990, only six countries, viz. the US, UK, Germany, Japan, Italy and France were responsible for over two-thirds of the total FDI inflows in India. The country-wise annual growth rate of the FDI inflows shows that Mauritius, which was not in the picture till 1992, has the highest growth rate. A lion's share of such investment is represented by the holding companies of Mauritius set up by the US firms. It means that the investment flowing from the tax havens is mainly the investment of the multinational corporations headquartered in other countries. Now an important question arises as to why the US companies have routed their investment through Mauritius. It is because, firstly, the US companies have positioned their funds in Mauritius, which they like to invest elsewhere. Secondly, the tax treaty between

Mauritius and India stipulates a dividend tax of five per cent, while the treaty between Indian and the US stipulated a dividend tax of 15 per cent (World Bank, 1999).

Among top ten countries, Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US$20 billion in India between August 1991 and July 2007 or over two-fifth of total FDI inflows during that 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. In addition, major parts of the investments from Mauritius to India are actually round tripping by Indian firms, not unlike that between Mainland, China and Hong Kong. The United States (US) is the second largest investor in India. The total capital flows from the US was around US$6 billion between August 1991 and July 2007, which accounted for 12 percent of the FDI inflows. Most of the US investments were directed to the fuels, telecom, electrical equipment, food processing, and services sectors. The United Kingdom (UK) and the Netherlands are India's third and fourth largest FDI inflows. The investments from these countries to India are primarily concentrated in the power/energy, telecom, and transportation sectors. Japan was the fourth largest source of cumulative FDI inflows in India between 1991 and 2007, but inflows from Japan to India have decreased during this time period. This is opposite to the general trend, (ISAS Working Paper No. 6, November 2005).

Among top ten countries, Mauritius has been largest investor in India during 2008 to August 2010. This country invests 42 per cent to total inflows of FDI. Second largest investor is Singapore (9 per cent), then USA, UK, Netherlands, Japan, Cyprus, Germany, France and UAE respectively during 2008 to August 2010 (Table 3).

Distribution of FDI within India:

Mumbai and New Delhi have been the top performers, with the majority of FDI inflows within India being heavily concentrated around these two major cities. Chennai, Bangalore, Hyderabad, and Ahmedabad are also drawing significant shares of FDI inflows. For statistical purposes, India's Department of Industrial Policy and Promotion (DIPP) divides the country into 16 regional offices. The top 5 regions account for more than two-thirds of all FDI inflows to India between January 2000 and July 2007.

Table 3 Top Country Investors in India

Amount US$ in million

Ranks	Country	2008-09 (April- March)	2009-10 (April- March)	2010-11 (April- August)	Cumulative Inflows (April '00 - August '10)	%age to total Inflows (in terms of US $)
1.	Mauritius	11,229	10,376	2,924	50,164	42 %
2.	Singapore	3,454	2,379	1,085	11,275	9 %
3.	U.S.A.	1,802	1,943	636	8,914	7 %
4.	U.K.	864	657	274	6,158	5 %
5.	Netherlands	883	899	481	4,968	4 %
6.	Japan	405	1,183	515	4,230	4 %
7.	Cyprus	1,287	1,627	310	4,209	4 %
8.	Germany	629	626	69	2,868	2 %
9	France	467	303	254	1,784	2 %
10.	U.A.E.	257	629	224	1,773	1 %
Total FDI Inflows *		27,331	25,834	8,887	121,261	-

Notes:

(i) *Includes inflows under NRI Schemes of RBI and advances pending for issue of shares.

(ii) Cumulative country-wise FDI equity inflows (from April 2000 to August 2010) .

(iii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route+ acquisition of existing shares only.

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry, August 2010. (www.dipp.nic.in/fdi_statistics/india_FDI_August 2010.pdf).

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 (including software), and services. The states of Uttar Pradesh and Haryana (especially those parts of the National Capital Region) have also performed really well in recent years. Due to its abundance of natural resources, Uttar Pradesh attracts FDI in chemicals, pharmaceuticals, and mining 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 computers and telecom. Hyderabad and Bangalore are the cities, which received the major share of the projects in these two states. (R. S. Rajana, Sunil Rongalab and Ramya Ghoshc, April 2008).

The six Indian states received the largest number of Greenfield FDI projects were Maharashtra (35 percent, includes the city of Mumbai), Delhi (20 percent, includes the city of New Delhi). Followed by Karnataka (7 percent, includes the city of Bangalore), Gujarat (6 percent, includes the city of Ahmadabad), Tamil Nadu (5 percent, includes the city of Chennai) and Andhra Pradesh (4 percent, includes the city of Hyderabad) (Table 4).

Table 4 FDI Inflows by Region (With State Covered), (from April 2000 to August 2010)

Amount US$ in million

Sr. No.	RBI's - Regional Office[1]	States covered	2008-09	2009-10	2010-11	Cumulative Inflows (April '00 - August '10)	%age to total Inflows (in terms of US$)
1	Mumbai	Maharashtra, Dadra & Haveli, Daman & Diu	12,431	8,249	2,431	41,402	35
2	New Delhi	Delhi, Parts of UP and Haryana	1,868	9,695	1,857	24,269	20
3	Bangalore	Karnataka	2,026	1,029	936	7,833	7
4	Ahmadabad	Gujarat	2,826	807	230	6,661	6
5	Chennai	Tamil Nadu, Pondicherry	1,724	774	316	5,815	5
6	Hyderabad	Andhra Pradesh	1,238	1,203	451	5,149	4
7-17	All Others	-	5219	4077	2666	28046.4	23
1-17	Total	-	27,332	25,834	8,887	119,175	100

1. The Region-wise FDI inflows are classified as per RBI's – Regional Office received FDI inflows, furnished by RBI, Mumbai.
2. On the basis of clarification received from RBI, the amount of Stock Swap has been deleted from the cumulative FDI data from August 2010 onwards.

Source: Department of Industrial Policy & Promotion Ministry of Commerce and Industry, August 2010. (www.dipp.nic.in/fdi_statistics/india_FDI_August 2010.pdf).

Forecast of FDI in India:

Table 5 shows the level of FDI that has been forecasted by the EIU for India. The numbers, by any stretch, show a quantum leap in terms of levels of inward FDI with big numbers such as $50 billion for 2011 and $60 billion for 2012. However, it should be noted that India will still only account for 4.2% of total world inward FDI flows. Clearly, forecasts have flaws, especially those that look beyond a year; the

forecasts in Table 5 are based on expectations that India has a great growth story. They also are forecasts made on the expectation that the government will fix the impediments that are responsible for the current low of levels of FDI. The remainder of this section focuses on ideas as to what India can do to ensure that actual match, if not better, the medium term forecasts.

Table 5 Forecast of FDI in India

	2008	2009	2010	2011	2012
Inward direct investment (US$ billion)	25	35	40	50	60
Inward direct investment (% of GDP)	1.8	2.1	2	2.2	2.3
Inward direct investment (% of gross fixed investment)	5	5.7	5.4	5.7	5.7
Outward direct investment (US$ billion)	-15.0	-20.0	-25.0	-30.0	-35.0
Net foreign direct investment (US$ billion)	10.0	15.0	15.0	20.0	25.0
Stock of foreign direct investment (US$ billion)	116.2	151.2	191.2	241.2	301.2
Stock of foreign direct investment per head (US$)	103	133	166	206	254
Stock of foreign direct investment (% of GDP)	8.3	8.9	9.7	10.6	11.4
Memorandum items					
Share of world inward direct investment flows (%)	2.07	2.81	3.09	3.69	4.24
Share of world inward direct investment stock (%)	0.83	1	1.16	1.36	1.57

Source: Economist Intelligence Unit (EIU)

It is well known that FDI can complement local development efforts in a number of ways, including boosting export competitiveness; generating employment and strengthening the skills base; enhancing technological capabilities (transfer, diffusion and generation of technology); and increasing financial resources for development. It can also help plug a country in the international trading system as well as promote a more competitive business environment. In view of this, India should continue to take steps to ensure an enabling business environment to improve India's attractiveness as an investment destination and a global manufacturing hub. The investment climate in India has undoubtedly become friendlier and investing in India is a much more attractive proposition today than in yesteryears. Much of the FDI has been in the form of M&A activities rather than Greenfield investment and a great deal is aimed at the attractive domestic consumer market. Large-scale Greenfield FDI into labour intensive, export-oriented manufacturing has been very disappointing. To this end, much more remains to be done to improve the consistency in policymaking and implementation and quality of governance and overall regulatory framework. This is particularly imperative in the case of investments in the infrastructure sector, such as the power sector, which is so critical for overall growth and development.

Apart from taking steps to improve infrastructural facilities and enhancing labour market flexibility, we highlight ten further policy recommendations for India's FDI strategy for policymakers going forward. Most of these recommendations are not 'game changing' or innovative recommendations but are meant to be practicable.

India needs massive investments to sustain high-quality economic growth, particularly in the energy and infrastructure sectors (both physical and social). Policymakers are looking at FDI as the primary source of funds. It is important to keep in mind that FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This ought to go a long way to fulfilling the ultimate goal of permanently eradicating poverty over the medium and longer-terms.

Many economists in the country have now realized the advantages of FDI to India. While the achievements of the Indian government are to be lauded, a willingness to attract FDI has resulted in what could be termed an “FDI Industry”. While researching the economic reforms on FDI, it was discovered that there exists a plethora of boards, committees, and agencies that have been constituted to ease the flow of FDI. A call to one agency about their mandate and scope usually results in the quintessential

response to call someone else. Reports from FICCI and the Planning Commission place investor confidence and satisfaction at an all time high; citizens too deserve to be clued in on the government bodies are doing.

According to the current policy, FDI can come into India in two ways. Firstly, FDI up to 100% is allowed under the automatic route in all activities/sectors except a small list that require approval of the Government. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or by RBI. The investors are required to notify the Regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors. All proposals for foreign investment requiring Government approval are considered by the Foreign Investment Promotion Board (FIPB). The FIPB also grants composite approvals involving foreign investment/foreign technical collaboration. As this clarity is useful for future investors, it has to be seen if these bodies are effective.

Findings:

The world foreign direct investment (FDI) has been accounted US $ 386140 million in 1996 to US $ 1114189 million in 2009 and India accounted 2525 millions of US Dollars in 1996 to 34613 millions of US Dollars in 2009. Global FDI inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3-1.5 trillion in 2011, and head towards $1.6-2 trillion in 2012.

The service sector has attracted highest (21 per cent) FDI inflows; then Computer software, and hardware (9 per cent), telecommunication sector (8 per cent) and Housing and Real estate (7 per cent) during 2008 to August 2010. Mauritius (42 per cent to total inflows of FDI) has been largest investor in India, followed by Singapore (9 per cent) during 2008 to August 2010 among top ten countries.

It is well known that FDI can complement local development efforts in a number of ways, including boosting export competitiveness; generating employment and strengthening the skills base; enhancing technological capabilities (transfer, diffusion and generation of technology); and increasing financial resources for development. It can also help plug a country in the international trading system as well as promote a more competitive business environment. In view of this, India should continue to take steps to ensure an enabling business environment to improve India's attractiveness as an investment destination and a global manufacturing hub.

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