Volume No. 3 (2014), Issue No. 6 (June) ISSN (Online): 2320-0685

Emergence and Role of Foreign Capital in India

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Abstract: *Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth. Since the introduction of the reform process in the early 1990s, India has witnessed a significant increase in cross-border capital flows, a trend that represents a clear break from the previous two decades. As regards the composition of capital flows, the thrust of the policy reform in India in the aftermath of the balance of payments crisis was to encourage non-debt-creating flows and discourage short-term debt flows. Equity flows under foreign direct investment (FDI) and foreign portfolio investments constitute the major forms of non-debt-creating capital flows to India. There has been a marked increase in the magnitude of FDI inflows to India since the early 1990s, reflecting the liberal policy regime and growing investor confidence. Domestic factors, such as strong macroeconomic fundamentals, a resilient financial sector, a deep and liquid capital market, the improved financial performance of the corporate sector and attractive valuations also attracted large portfolio flows.*

Introduction

Foreign capital has significant role for every national economy, regardless of its level of development. For the developed countries it is necessary to support sustainable development. For the developing countries, it is used to increase accumulation and rate of investments to create conditions for more intensive economic growth. Foreign resources or foreign capital may be classified and analysed according to several dimensions such as origin, type and conditions etc. Following the standardized classification adopted by the World Bank and OECD, the capital flows to developing countries can be broadly divided in to official flows and private flows.

The official flow includes Official Grants, Concessional Loans and Non-concessional Loans. Private flows include Commercial Bank Loans, Direct Foreign Investment and Portfolio Investments (World Bank Policy Research Report, 1997). The Concessional loans are from either bilateral sources which comprise governments and governmental agencies or multilateral sources including IBRD and its two affiliates- International Development Association (IDA) and International Finance Corporation (IFC); International Monetary Fund (IMF); United Nations Agencies (UN) and Regional Banks related to particular areas such as Latin America, Asia and Africa. Non- Concessional Loans are from bilateral and multilateral services or export credit agencies. Foreign Direct Investment (FDI) involves the ownership of means of production such as factories and land with the intention of exercising control over the enterprise in search for profits; and Portfolio investments involve the purchase of stocks, debentures or bonds issued by foreign companies or governments.

Private Foreign Capital in India: Long-Term Trends

India’s approach towards external capital flows can be divided in to three phases. In the first phase, starting at the time of independence and spanning up to the early 1980s. India’s reliance on external flow was mainly restricted to multilateral and bilateral concessional finance. However in the context of widening current account deficit during the 1980s, India supplemented this traditional external source of financing with recourse to external commercial loans, including short-term borrowings and deposits from non-resident Indians (NRIs). As a result, the proportion of short-term debt in India's total external debt had increased significantly by the late 1980s. The third phase was marked by the balance of payment crisis of 1991 and the initiation of the reform process.

External Debt of India

One of the underlying causes of the 1991 balance of payment crisis was the rapid growth in external indebtedness in the latter half of the 1980s and the associated deterioration in key external debt indicators. The Table 1.1 shows total external debt to GDP ratio (which measures the size of debt in relation to the domestic output) has risen to a peak of 38.7 per cent in 1991-1992, short-term debt (debt with the original maturity of up to one year) as a proportion of total debt had also attained a peak of 10.2 per cent by march 1991, debt service payments as a ratio of current receipts had risen above 35per cent in 1990-91.

Following the severe strains on the external front policy-makers deliberately adopted a multi-pronged strategy to bring the external debt situation in to comfortable condition. The principle elements of this strategy are:

- Short-term debt was reduced and strict controls were put in place to prevent unwarranted expansion in future;
- Medium-term borrowing from private commercial sources was made subject to annual caps and minimum maturity requirements;
- Foreign exchange reserves were intentionally accumulated to promote higher insurance against external sector uncertainties and stresses;
- The growth of Non-Resident deposits was moderated through specification of interest rates or interest ratio ceilings for different maturities and schemes; and
- Foreign trade and payment policies were regulated to encourage growth of exports and other current receipts.

The Table 1 shows that this multi-pronged strategy has helped to improve the India's external indebtedness position.

- India's External Debt as Percentage of GDP shows a steady decrease from 28.7 per cent in 1991 to 17.8 per cent in 2011 and 20 percent in 2012;
- The short term debt to total debt sharply declined from 10.2 per cent in 1991 to 2.8 per cent in 2002, but later increased and remain as 22.6 per cent in 2012

- Emergence of Foreign Direct Investment (FDI) in India

Since the introduction of the reform process in the early 1990s, India has witnessed a significant increase in cross-border capital flows, a trend that represents a clear break from the previous two decades. As regards the composition of capital flows, the thrust of the policy reform in India in the aftermath of the balance of payments crisis was to encourage non-debt-creating flows and discourage short-term debt flows. Accordingly, the composition of capital inflows to India clearly reflects a shift towards non-debt-creating flows. The substantial contribution of external aid towards the capital account in the 1950s, 1960s, 1970s and 1980s has dwindled steadily since the 1990s (excluding IMF loans in 1991 and 1992) as the official flows started to be replaced by private equity flows and external commercial borrowing.

Table 1: India's External Debt Outstanding

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
	Us Dollars Million										
Long-Term Debt	75,257	78,215	83683	89068	94,739	88696	86,744	88,485	92,162	94,330	97,504
Short-Term Debt	8,544	7,070	6340	3627	4,269	5034	6,726	5,046	4,274	3,933	3,628
Total External Debt	83,801	85,285	90023	92695	99,008	93730	93,470	93,531	96,436	98,263	101,132
Rupees Crores											
Long-Term Debt	1462.26	2322.6	2609.42	2790.43	2982.37	3040.91	3116.74	3497.53	3931.60	4114.05	4548.05
Short-Term Debt	167.75	206.42	198.04	113.75	134.48	166.37	241.53	199.29	181.37	171.50	169.19
Total External Debt	1630.01	2529.1	2807.46	2904.18	3116.85	3207.27	3358.27	3696.82	4112.97	4285.55	4717.24
External Debt Key Indicators											
External Debt to GDP	28.7	38.7	37.5	33.8	30.8	27.0	24.5	24.3	23.4	21.9	21.9
Short Term Debt To Total Debt	10.2	8.3	7.0	3.90	5.4	7.2	7.2	5.4	4.4	4.0	3.5
Debt Service Ratio	35.3	30.2	27.5	25.4	25.9	26.2	23.0	19.5	18.7	17.1	16.6

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Us Dollars Million										
Long-Term Debt	96,012	100289	107284	115.25	118.59	143.20	177.77	181185	208606	240941	78179
Short-Term Debt	2,745	4669	4431	17.72	19.54	28.13	47.00	49373	52329	64990	65130
Total External Debt	98,757	104958	111715	132.97	138.13	171.33	224.77	224498	260936	305931	345819
	Rupees Crores										
Long-Term Debt	4685.1	4768.3	4721.28	5042.74	5289.89	6242.87	7108.26	9214.69	9424.50	10761.43	13677.40
Short-Term Debt	133.9	221.8	192.51	775.28	871.55	1226.31	1879.24	2206.56	2361.88	2901.49	3999.62
Total External Debt	4819.0	4990.1	4913.79	5818.02	6161.44	7469.18	8987.50	11421.25	11786.3	13662.92	17677.02
	External Debt Key Indicators										
External Debt to GDP	21.1	21.1	17.8	17.3	17.2	18.1	19.0	20.3	18.3	17.8	20.0
Short Term Debt to total Debt	2.8	4.5	13.3	14.1	16.4	20.9	20.4	19.3	20.0	21.2	22.6
Debt Service Ratio	13.7	16.0	16.1	5.9	10.1	4.7	4.8	4.4	5.8	4.3	6.0

Source: India's External Debt, A Status Report, (1991-2012), External Debt Management Unit, Ministry of Finance, Department of Economic Affairs, Government of India, 2012

- External assistance, External Commercial Borrowings (ECBs), trade credits and the non-reparable component of NRI deposits constitute the major portion of the external debt in India.
- External assistance, which consists of external aid flows from bilateral and multilateral sources, constituted the major source of external financing for India in the 1950s and 1960s. Its importance has declined steadily during the last three decades as it gave way to private capital flows, with the share in India's total capital flows falling from 31.2per cent in 1990-91 to 1.9 per cent in 2007-2008. Consequently the debt creating flows declines from 71.1per cent in 1990-91 to 51.2 per cent in 2006-2007 as shown in Table 2

Table 2: Composition of Capital Inflows to India

	1990-91	2000-2001	2003-2004	2005-2006	2006-2007
Net Capital Flows (US $ million)	7,056	8,840	16,736	25,470	45,779
of which (in per cent)					
1. Non-Debt Creating Flows	1.5	66.3	82.1	73.6	34.5
a) Foreign Direct Investment	1.4	37.0	14.3	20.2	18.8
b)Foreign Portfolio Investment	0.1	29.3	67.9	53.4	15.7
2. Debt Creating Flows	71.1	30.3	7.7	29.6	51.2
a) External Assistance	31.2	4.6	-17.1	7.2	3.9
b) External Commercial Borrowings	31.9	48.7	-17.5	11.6	35.8
c) Short-term Credits	15.2	6.2	8.5	7.3	7.3
d) Banking Capital	9.7	-22.2	36.0	5.9	4.6
of which (in per cent)					
NRI Deposits	21.8	26.2	21.8	11.9	8.7
e) Rupee Debt Service	-16.9	-7.0	-2.2	-2.4	-0.4
3. Other Capital	27.4	3.3	10.2	-3.2	14.2
Total (1+2+3)	100.0	100.0	100.0	100.0	100.0

Source: Annual Report, Reserve Bank of India, 2006/07.

The Table 2 indicates that Net Capital Flows which was $ 7.056 Million in 1990-91 increased to about $ 45,779 Million during 2006-07. Out of this total capital flow, the proportion of non-debt creating flows increased from 1.5 per cent in 1990-91 to 82.1 per cent in 2003-04, but after then declined to 73.6 per cent in 2005-06 and 34.5 per cent in 2006-07. The FDI and Foreign Portfolio Investment (FPI) shows an increasing trend, but the flow of FPI is rather very high compared to FDI flow. However the flow of FDI which was just 1.4 per cent in net capital flow has increased to 37 per cent in 2000-01, but after then shows a declining trend. Similarly FPI which was a meagre share 0.1 per cent in 1990-91 increased to 67.9 per cent in 2003-04. This indicates that, whenever there is a huge investment flows in to India either in the form of FDI or FPI the total debt-creating flows declined steadily. Accordingly during 2000-01, when the inflow of FDI was at the peak of 37 per cent in 2000-01, the debt creating flow has declined to 30.3 per cent in 2000-01, which was 71 per cent previously during 1990-91. Similarly, when the FPI was at the peak of 67.9 peak of 2003-04 the debt creating flow was only 7.7 per cent during that period. Thus, it is imperative to conclude that foreign capital flow by means of FDI and FPI are to be welcomed more as they are non-debt creating flows and they also reduce the debt burden of the country.

- FDI as Non-Debt Creating Flows

Equity flows under foreign direct investment (FDI) and foreign portfolio investments constitute the major forms of non-debt-creating capital flows to India. There has been a marked increase in the magnitude of FDI inflows to India since the early 1990s, reflecting the liberal policy regime and growing investor confidence. India's share in global FDI flows increased from 2.3 per cent in 2005 to 4.5 per cent in 2006. Domestic factors, such as strong macroeconomic fundamentals, a resilient financial sector, a deep and liquid capital market, the improved financial performance of the corporate sector and attractive valuations also attracted large portfolio flows. Consistent with the principle of the hierarchy of capital flows, India has been making efforts towards encouraging more inflows through FDI and enhancing the quality of portfolio flows by strict adherence to the "know your investor" principle (Reddy (2005).

- Growth of FDI in India : Evolution and Growth of India's FDI Policy

Many developing countries have undertaken policies that attract foreign direct investment (FDI), which stems from the belief that foreign investment positively influences Economic growth (Asiedu 2002). The Foreign Investment Policy of India can be broadly classified in to three phases:

i) Cautious non-discrimination in controls during the period of 1948 to the mid-1960s-selective restrictions and control from mid 1960s to end 1970s with the proliferation of Foreign Exchange Regulation Act (FERA), 1973, as the main instruments of control.

ii) Gradual and partial liberalisation in the 1980s with special incentives for investment in export-oriented units; and

iii) Wide- ranging liberalisation since 1991- as per the existing policy, FDI up to 100% is allowed under the automatic route in most activities with ceilings for some sector crucial from the view point of strategic consideration or financial stability.

1 India's FDI Policy during Phase I (1948- 1980)

The FDI policy during this phase was governed by three important government regulations such as:

1. Industrial Development and Regulation Act (IDRA) 1951

The IDRA with its elaborate industrial licensing system was sought to regulate the establishment of new industries and expansion and diversification of existing enterprises.

2. MRTP Act 1969 (MRTP)

The MRTP Act has restricted the entry of large industrial houses including dominantly foreign owned companies in a number of industries other than 'core' industries and that requiring heavy investments.

3. Foreign Exchange Regulation Act (FERA 1973)

FDI in India was discouraged by imposing severe limits on equity holdings by foreigner and restricting FDI to the production of only a few reserved items. The Foreign Exchange Regulation Act (FERA) 1973 prescribed the detailed regulations in this regard and the firms belonging to this group were identified as 'FERA Firms'. All foreign firms were virtually driven out from Indian industrial sector by FERA. Technology transfer was possible only through the purchase of foreign technology. Due to severe limits on royalty payments to foreigners to reduce foreign exchange use, this option was also ineffective. However, the government granted liberal tax incentives to encourage indigenous generation of technology by domestic firms. In the absence of foreign technology, Indian industries suffered both in terms of cost of production and quality.

India's FDI Policy during Phase II (1980-1991)

In the 1980s India's FDI policy began to liberalize. The inward looking industrial and trade policies followed till 1970s with rigorous pursuance of import restrictions and indiscriminate import substitution, excessive planning, industrial licensing. Anti-export bias, absence of domestic competition and restrictive FDI policy led to emergence of Indian-manufacturing as high cost, poor quality and low exported-oriented. This status of manufacturing sector led government to implement partial measures of liberalisation, de-licensing and a host of incentives to break the stagnation in the industrial sector and to promote exports. As a part of this liberalisation measures government approach to FDI became more liberal. Foreign countries were allowed to enter in to de-licensed 28 broad categories of industries and 82 bulk drugs and their formulations. The foreign companies with 100 percent export-orientation were exempted from the general ceiling of 40 percent under FERA and were exempt from licensing requirement for production in excess of licensed capacity and were provided duty-free access to imports of raw materials, intermediate goods and capital goods on Open General License (OGL).

India's FDI Policy during the Phase III (Since 1991)

The much discussed economic reforms of the 1991, the first sustained effort at restructuring the economy, came in response to Balance of Payments crisis in 1990s, when India was left with two weeks imports to cover. India announced full-scale economic reforms on 24th July 1991 with radical changes in government policies relating to trade, industry, technology, foreign investment, exchange rate and so on.

Direct tax rates were reduced for both individuals and corporate entities. Tariff rates too were reduced and the peak tariff rate came down from 350 percent in 1990-91to 35 percent in 2000-01. Capital account restrictions were eased to allow Indian companies to raise capital abroad, by way of Eurobonds and GDRs/ADRs and acquire firms in other countries.

Beginning with July 1991, the government introduced a number of changes in the country's regulatory policies under the acceptance of the policy package commonly known as the Structural Adjustment Programme (SAP). The external sector policies designed to progressively open up the Indian Economy formed an integral part of the structural reforms. However, the initial reforms in FDI policy announced in July 1991 had undergone significant changes with government announcing new reform measures in each passing year.

The Exhibit 1 summarizes the measures announced by the government towards FDI policy.

Exhibit 1 Chronology of India's FDI Policy Since 1991

Year	Progression of FDI Policy
1991	✦ The government abolished the industrial licensing system, with a few exceptions, and approval for the expansion of large firms, including foreign firms, was no longer necessary. Foreign firms were allowed major shareholding in joint ventures, and foreign investment up to 51 per cent of equity in 35 priority industries received automatic approval. The new investment policy also spelled more incentives to attract FDI from non-resident Indians, including 100 per cent ownership shares in many sectors and full repatriation of profits. ✦ The limit of foreign equity participation was raised from 40 to 51% in a

	wide range of industries as listed in Annexure III of the New Industrial Policy statement of July 1991 and the automatic route has been put in place. ✦ The Foreign Investment Promotion Board (FIPB) has been established to negotiate with large international firms and to expedite the clearances required.
1992-1993	✦ The Security and Exchange Board of India (SEBI) Act was passed, and the SEBI has since been an independent regulator ✦ The dividend-balancing condition earlier applicable to foreign investment up to 51% equity is no longer applied except for consumer goods industries. FDI has been allowed in exploration, production and refining of oil and marketing of gas and coal mines. ✦ NRIs and Overseas Corporate Bodies (OCBs) predominantly owned by them are permitted for 100% investment in high-priority industries with reparability of capital and income ✦ 100% NRIs investment is also permitted in export houses, trading houses, hospitals, EOUs, sick industries, hotels and tourism. Disinvestment of equity is no longer needs to be determined by the Reserve Bank. Adoption of national treatment principle by which companies with more than 40% of foreign equity are now treated on par with fully-owned companies India has signed the Multilateral Investment Guarantee Protocol for the protection of foreign investment on 13th April 1992.
1993-1994	✦ Foreign institutional investors (FIIs) were given permission to participate in the Indian market. One FII could own up to 5 per cent of a firm and all FIIs combined could own 24 per cent. FIIs had to have at least 50 investors
1994-1995	✦ De-licensing of almost all bulk drugs and allowing automatic approval of foreign equity up to 51% in most drugs and formulations. ✦ Basic telecommunication services hitherto reserved for the public sector were opened for private participation including foreign investment up to 49% ✦ RBI based automatic approval policy for foreign investment was made applicable to mining subject to a limit of 50% foreign equity. ✦ Areas like development and maintenance of airport infrastructure and material handling at major airports have been opened up for private participation.
1995-1996	✦ The number of items requiring licensing has been further reduced to 15, which account only 15% of manufacturing value added. ✦ The number of industries reserved for public sector has been further reduced to defence products, atomic energy, coal and lignite, mineral oils, railway transport and minerals specified in the schedule to the Atomic Energy Order 1953. ✦ Foreign investment has also been liberalised in many other sectors such as power (100%) and industries reserved for SSI (up to 24% equity which require prior approval and export obligations).
1996-1997	✦ The list of industries for automatic approvals of foreign equity by RBI has been expanded from 35 industries as mentioned in the Annexure III by

	including 3 industries relating to mining activity for foreign equity up to 50% and 13 additional industries for foreign equity up to 51%. These 13 industries include a wide range of industrial activities in the capital goods and metallurgical industries, entertainment electronics, food processing and service sector like health, R&D, technical testing ✦ In 9 industries including electricity, non-conventional energy, construction and maintenance of roads, bridges, harbours, runways etc, industrial and power plants, water transport, etc the automatic approval of FDI enhanced up to 74% ✦ For expeditious approval of FDI in areas not covered under automatic approval, the first ever guidelines for approval of foreign investment has been announced.
1997-1998	✦ 100% FDI is permitted under automatic route for setting up of Industrial Park.
1998-1999	✦ Projects for electricity generation, transmission and distribution as also roads and highways, ports and harbours, and vehicular tunnels and bridges have been permitted foreign equity participation up to 100 per cent under the automatic route, provided foreign equity does not exceed Rs. 1500 crore. ✦ FDI permissible under Non-Banking Financial Services now includes "Credit Card Business" and "Money Changing Business". Regarding equity participation in private sector banks, multilateral financial institutions have been allowed to contribute equity to the extent of the shortfall in NRI holdings within the overall permissible limit of 40 per cent. ✦ Permit FDI up to 49 per cent of the total equity, subject to license, in companies providing Global Mobile Personal Communication by Satellite (GMPCS) services. ✦ Minimum capitalization norms earlier required for pure financial consultancy services have been relaxed.
1999-2000	✦ Foreign Investment Implementation Authority (FIIA) was established within ministry of industry to facilitate approvals of foreign investment are quickly translated in to actual. In particular cases where FIPB clearance is needed, approval time has been reduced to 30 days. ✦ Except a small negative list, all industries are placed under the automatic route for FDI/NRI/OCB investment. ✦ Foreign equity limit for FDI through automatic route for FDI through automatic route for drugs and pharmaceuticals raised to 74% from 51%
2000-2001	✦ 100% FDI permitted for business to business e-commerce ✦ The cap on FDI in the power sector has been removed ✦ 100% FDI in oil refining ✦ 100% FDI allowed in Special Economic Zones (SEZs) for all manufacturing activities ✦ Removal of dividend balancing condition on 22 consumer items ✦ 100% FDI permitted in telecom sector for certain activities with some condition ✦ Existing companies with FDI are eligible for automatic route to undertake

	additional activities covered under automatic approval route. ✦ 26% FDI in the insurance sector is eligible for automatic route subject to obtaining a license from the Insurance & Development Authority. ✦ Automatic route is also open to 100% FDI proposals in the information technology sector for certain activities.
2001-2002	✦ FDI up to 49% is permitted in the private banking sector on the automatic route subject to conformity with RBI regulations. ✦ 74% FDI is permitted in telecom sector involving Internet Service Provider with gateways, Radio paging, and end-to-end bandwidth subject to licensing and security requirements. ✦ 100% FDI is permitted in airports, with FDI above 74% requiring prior approval of the government. ✦ 100% FDI is allowed with prior government approval in courier services subject to existing laws and exclusion of activities relating to distribution of letters. ✦ 100% FDI is permitted with prior government approval for development of integrated township including housing, commercial premises, hotels, resorts, city and regional level urban infrastructure like roads and bridges, mass rapid transit systems and manufacture of building materials in metros. ✦ 100% FDI is permitted under automatic route in hotel and tourism sector and for mass rapid transport systems in all metropolitan cities including associated commercial development of real estate. ✦ The defence sector is opened up to 100% for private sector participation with FDI permitted up to 26% both subject to licensing.
2002-2003	✦ Limitations on FII hedging using the forward currency market were removed. ✦ Approvals for FIIs at both the SEBI and the RBI were replaced by single approval at the SEBI
2003-2004	✦ Guidelines on equity cap on FDI, including investments by NRI and OCBs were revised. ✦ FDI up to 100% is permitted in printing scientific and technical magazines, periodicals and journals subject to compliance with legal framework and with the prior approval of the government. ✦ FDI up to 100% is permitted through automatic route for petroleum product marketing.
2004-2005	✦ Increase in the FDI limits in Air Transport Services (Domestic Airlines) up to 49%, through automatic route and up to 100% by NRIs through automatic routes, (no direct or indirect equity participation by foreign airlines is allowed) ✦ Foreign Investment in the banking has been further liberalised by raising FDI limits in the private sector banks to 74% under the automatic route including investments by FIIS. ✦ FDI ceiling in telecom sector in certain services such as basic, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communication Services (GMPCS) and other value-added services has been increased from 49% to 74% in February 2005.

2005-2006	✦ Foreign Direct Investment in the mining sector for all non-atomic and nonfuel Minerals have now been fully opened up to 100% through the automatic route including diamonds and precious stones. ✦ 100% FDI in the construction sector, including built-up infrastructure and construction development projects comprising housing, commercial premises, hospitals, educational institutions, recreational facilities, and city- and regional-level infrastructure
2006-2007	✦ FDI up to 100% permitted for E-commerce activities subject to the condition that such companies would divest 26% of their equity in favour of the Indian public in five years, if these companies are listed in other parts of the world. Such companies would engage only in business to business (B2B) e-commerce and not in retail trading, inter alia, implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well. ✦ For petroleum products and pipeline sector, FDI is permitted upto 51%. ✦ FDI is permitted upto 74% in infrastructure related to marketing of petroleum products. ✦ FDI up to 100% under automatic route is permitted in projects for Highways, construction and maintenance of roads, highways, vehicular Bridges, toll roads, vehicular tunnels, ports and harbours.
2007-2008	✦ Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline - FDI up to 49% and investment by Non-resident Indians (NRI) up to 100% allowed on the automatic route. ✦ Non-Scheduled Air Transport Service/ Non-Scheduled airlines, Chartered airlines, and Cargo airlines- FDI up to 74% and investment by Non-resident Indians (NRI) up to 100% allowed on the automatic route. ✦ Helicopter services/seaplane services requiring DGCA approval- FDI up to 100% allowed on the automatic route.
2008-2009	✦ Permit 100 per cent foreign investment in maintenance, repair and overhauling (MRO) facilities for aircraft as also aviation training units. ✦ 100% Foreign investment will henceforth be permitted in mining of titanium bearing minerals and up to 49 per cent in credit information companies. However, for investment in credit information companies, the permission of the Reserve Bank of India (RBI) will be necessary. ✦ FDI in public sector refineries has also been raised to 49 per cent from its existing cap of 26 per cent.
2009-2010	✦ Liberalisation of Foreign Technology Agreement Policy- payments for royalty, lump sum fee for transfer of technology, use of trade mark/brand name have been allowed under the automatic route, without the need for government approval.
2010-2011	✦ FDI, up to 100%, under the automatic route, would continue to be permitted for Greenfield investments in the pharmaceuticals sector. ✦ FDI, up to 100%, would be permitted for Brownfield investments (i.e. investments in existing companies), in the pharmaceuticals sector, under the Government approval route.
2011-	✦ Floriculture, Horticulture, Apiculture and Cultivation of Vegetables &

2012	Mushrooms under controlled conditions ✦ Development and production of Seeds and planting material ✦ Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, under controlled conditions and services related to agro and allied sectors ✦ Mining and Exploration of metal and non-metal ores including diamond, gold, silver and precious ores but excluding titanium bearing minerals and its ores; subject to the Mines and Minerals (Development & Regulation) Act, 1957 ✦ 26% government approval Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act 1951 ✦ 100% automatic approval for Townships, housing, built-up infrastructure and construction-development projects

Source: Compiled from Various Circulars of Consolidated FDI Policy, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India.

Annual Trend of FDI Since 1991

The measures introduced by the government to liberalize provisions relating to FDI in 1991 attract investors from every corner of the world. As a result FDI inflows during 1991-92 to March 2010 in India increased manifold as compared to 1990. As per the fact sheet on FDI, there was Rs 6,303.36 billion FDI equity inflows between the periods of August 1991 to January 2011.

Table 3: Growths of FDI Inflows (Actual) in Post -Liberalisation Period

Year	Amount in Rupees million
1991-92	3534.8
1992-93	6912
1993-94	18619.6
1994-95	31122.3
1995-96	64853.6
1996-97	87521.9
1997-98	129897.6
1998-99	132692.1
1999-00	101667.1
2000-01	123537.5
2001-02	167777.5
2002-03	181955.6
2003-04	116172.3
2004-05	172665.2
2005-06	192990.9
2006-07	503857.4
2007-08	797355.63
2008-09	1397687.07
2009-10	1309798.53

Source: Compiled from Fact Sheet on FDI (1991-2010), Department of Industrial Policy and Promotion

. Note: Data is for January to December except for 1991, which is from August to December.

The two decades of 1991 to 2000 and 2001 to 2010 experienced a phenomenal rise in FDI inflows. In absolute sense the FDI inflows jumped nearly 34 times from rupees 3534.8 million in the year 1991 to Rs.12, 35, 375 million in the year 2000. Since the quantum of FDI had already risen high till the year 2000, the growth of FDI inflows during the period 2001-2010 does not appear high, as it is nearly 8 times from Rupees 167,777.5 million in the year 2001 to Rupees 130,97,98.53 million in the year 2010.

A close review of the Table 3 indicates that the magnitude of FDI inflows has escalated manifold over the two decades.

- Inward and Outward Stock of FDI Stock in India

India has been continually attracting massive foreign investments from the world's major investor's since the opening up of its economy with a series of liberalization policies since 1991. Moreover, a number of measures during 1998 and 1999 designed to encourage inward FDI has boosted the inflow of FDI to India in the recent years. High rate of economic growth, deregulation, liberal investment rules and operational flexibility further result in increased the inflow of FDI to India.

Table 4 indicates that India's Inward FDI in the pre-liberalisation was just $ 451.75 Million, constituting a meagre share of 0.064633 per cent in the Global Inward share. The share of inward FDI continues to increase and reaches the peak of $ 201723.9 Million in the year 2011 thereby the percentage share also increases to 0.986995 per cent. The increase in the Inward has remained slow in the pre-liberalisation period and picked up momentum in the post-liberalisation period. Similarly India's outward FDI was very low in the beginning of 80's and it increased only after the year 199. The actual share of outward FDI in the year 1980 was $ 78.07079 Million, with a percentage share of 0.014213. This trend however has increased steadily and remains as $ 111257 Million in the year 2011 and the global share of India's outward FDI is 0.525579. However the trend is very minimal and hence the country has to strive to encourage more inflow of FDI by implementing suitable policy measures that attract foreign investors.

Foreign Direct Investment (FDI) flows are more preferable 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. In a world of increased competition and rapid technological change, their complimentary and catalytic role can be very valuable.

Table 4: India's share in Global FDI

Year	Inward FDI	Outward FDI	Percentage of total world (Inward FDI)	Percentage of total world (Outward FDI)
	US Dollars at current prices and current exchange rates in millions			
1980	451.75	78.07079	0.064633	0.014213
1981	543.67	80.07079	0.07257	0.013632
1982	615.75	81.07079	0.078539	0.013544
1983	621.39	86.07079	0.074285	0.012673
1984	640.63	90.07079	0.073985	0.012871
1985	746.72	93.07079	0.07561	0.010344
1986	864.45	92.07079	0.076075	0.00797
1987	1076.77	97.07079	0.080529	0.007065
1988	1168.02	108.0708	0.076417	0.006701
1989	1420.12	118.0708	0.077268	0.006103
1990	1656.81	124.0708	0.07961	0.005928
1991	1731.81	113.0708	0.073868	0.00482
1992	1983.81	293.8931	0.081797	0.012317
1993	2515.81	294.2438	0.096437	0.010605
1994	3489.81	376.2438	0.122372	0.012095
1995	5640.81	495.2438	0.164069	0.013067
1996	8165.81	735.2438	0.204871	0.017076
1997	10630.1	617.29	0.231674	0.012381
1998	14065.36	705.78	0.24408	0.01188
1999	15051.81	1665.9	0.210883	0.023077
2000	16338.95	1733.476	0.219314	0.021797
2001	19675.92	2531.754	0.263132	0.032799
2002	25826.28	4070.579	0.344294	0.052282
2003	32549.19	6073.154	0.346728	0.061243
2004	38060.24	7734.425	0.342865	0.066135
2005	43201.58	9741.303	0.373619	0.07815
2006	70870.28	27035.64	0.495582	0.172232
2007	105790.5	44080.35	0.590973	0.22872
2008	125211.7	63337.82	0.810364	0.387558
2009	171217.9	80839.25	0.949048	0.418298
2010	204691.7	96420.68	1.028257	0.46212
2011	201723.9	111257	0.986995	0.525579

Source: Various Issues of World Investment Report

Table 5: Inflow of FDI in India

Year	FDI Inward Stock (millions $)	Inflows of FDI (% of GDP)	Inflows of FDI (% of GCF)
1990	1657	0.5	0.3
1991	1732	0.6	0.1
1992	1984	0.7	0.4
1993	2516	0.9	0.8
1994	3490	1.1	1.3
1995	5641	1.5	2.2
1996	8166	2.1	2.7
1997	10630	2.5	3.7
1998	14065	3.3	2.7
1999	15426	3.4	2.0
2000	16399	3.5	3.3
2001	19676	4.1	4.7
2002	25826	5.1	4.6
2003	32549	5.5	2.8
2004	38060	5.3	2.7
2005	43202	5.1	2.9
2006	79870	7.5	6.6
2007	105790	8.8	6.2
2008	125212	9.8	9.7
2009	167023	13.0	8.2
2010	197939	12.0	4.5

Source: FDI Statistics, UNCTAD, Retrieved from: http//www.unctad/fdi statistics.

Thus Table 5 indicates that in FDI inward stock in India was just $ 1657 Million in 1990 has increased to $ 19, 7939 Million in 2010. Further measured in terms of percentage share of FDI inflows in GDP and GCF, its share in GDP was 0.5 per cent in 1990 has increased to 13 per cent in 2009, with a small decline of 12 per cent in 2010. Similarly, the share of inflow of FDI in GCF was 0.3 per cent in 1990 has increased to 9.7 per cent in 2008 with a recent year slowdown of 8.2 per cent and 4.5 per cent in 2009 and 2010 respectively. This slight decline in percentage share inflow of FDI in GDP and GCF in recent years may be probably due to Global Economic crisis in 2007 that affected both developed countries and developing countries like India. However this small decline is also an indicator of the fact that foreign investments are less prone to economic crisis as they are long term plans of the investors.

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