LOOKING TO THE FUTURE: TRENDS IN FDI INFLOWS TO INDIA

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Abstract

India is one among the fastest growing economies and is the largest democratic country in the world. It is the third largest economic in terms of its Purchasing Power Parity (PPP) and the tenth industrialized country of the world. India's burgeoning population, and its public debt and fiscal deficit would continue to be sustainable only if the Indian economy grew by at least eight per cent per annum. This required a rising of its level of investment to around 30 percent of its Gross Domestic Product (GDP). The domestic savings rate in India has not been enough to sustain the desired rate of economic growth. There was a wide gap between India's domestic savings and its level of investments. In order to achieve the desired level of economic growth rate, India will require an investment rate of 28 to 30 percent of its GDP. However, the present investment rate was only about 25 percent. The actual FDI flows received till the year 2018 were found to be lower than that of the estimated figures. As far as the FDI realisation rate was concerned, it was found that India has achieved a very low rate. In this context it has become very essential to study the trends in FDI inflows in India and its implications.

INTRODUCTION

World economy witnessed large-scale decolonization during post-war period, which resulted in an intense desire for development among the newly independent countries. In fact, the 'Big-Push' theory gained acceptance during this period and raised the quantum of investment through greater mobilization of domestic resources and external support in these countries. There was a common belief that the gains from growth would automaticallytrickle down to the lowest rung of the economic ladder. However, the growth rate remained very low despite huge investment. The structural weaknesses or defective macroeconomic policies came in the way of the very process of growth. Apart from structural weaknesses on the domestic front, developing countries had to face severe external shock (Balassa1981). The soaring international oil prices of 1973-74 and 1979 gave a jolt to the balance of payments position of the net oil-importing developing countries. All these reasons hampered the process of economic growth of the developing countries. The economic measures and efforts of over three decades failed to pull the developing countries like India out of stagnation. In the mean time, the developing countries were made to believe that liberalization and globalization of their economies could help to come out of this stagnation. Thus, many developing national economies were opened for international business.

In this backdrop, India tried to come out of the stigma of a perceived closed economy and started liberalizing her economy gradually. In the financial year 1990-91, India entered a period of severe balance of payment crisis and political uncertainty. A rapid increase in India's external debt coupled with the political instability led international credit rating agencies to lower India's rating both for short and long-term borrowing. This made borrowing in international commercial markets difficult and also led to an outflow of foreign currency deposits kept in India by the NRIs. Further, the situation was made worse by the Gulf war and resulted in an increase in petroleum prices and virtual stoppage of remittances from Indian workers in the Gulf. These developments brought the country almost to theverge of default in respect of external payments liability, which could only be averted by borrowing from IMF under standby arrangement and certain emergency measures taken by the then government to restrict imports. In June 1991, a new government headed by P. V Narasimha Rao came to power following the mid-term election. This government initiated a programme of macro-economic stabilization and structural adjustment' supported by the IMF and World Bank. The programme was substantially different from the earlier ones and launched a variety of policy reforms. It was believed that FDI had the cheapest and most effective way of obtaining latest technology from abroad instead of direct purchasing of capital goods or licensing. Thus, apart from some structural adjustment both in the internal as well as external economy, the new economic policy aimed at attracting more FDI into the economy.

4.1 FDI IN PRE-LIBERALIZATION PERIOD

At the time of independence in 1947, India Was a host of significant stock of FDI and it was largely owed to her colonial master: the UK. Soon after independence, India embarked on a strategy of industrialization with active governmental intervention. Domestic enterprises accumulated considerable capabilities in the process of industrialization. Which influenced the pattern of FDI flows to the economy in the subsequent periods. The changes in the government policies had also an important bearing on the FDI position of India. The Indian government's attitude towards foreign investment evolved over the post-independence period in four distinct phases (Kumar 1995). The period from independence up to the late I960s was marked by gradual liberalization attitude. The period from the late 1960s through to the I970s was characterized by a more selective stance. The 1980s were marked by acertain liberalization policy. In 1991. India liberalized its policy regime with respect to FDI as a part of the reform process.

The Reserve Bank of India's (RBI) survey on international assets and liabilities in India shows that foreign investment in the country was only Rs. 2.56 billion in the mid-1948. The bulk of the FDI stock was of natural resource seeking and of trading type, which had concentrated on raw materials, extractive or service sectors. It can be observedthat tea plantation and Jute accounted for a higher share of FDI as compared to manufacturing and service sectors in mid-1948. It is important to note that the locational advantages encouraged the market seeking FDI in spite of more protections accorded to local manufacture as evidenced from the FDI policy in India. In fact, most of the foreign enterprises served in the Indian market through exports started establishing manufacturing affiliates in the country during that period. In the later stage, the western multinational enterprises started showing real interest in India especially in late 1950s and early

1960s. In fact, their response was not enthusiastic except in the case of one-shot investment in oil refineries in early 1950s (Kidron 1965). Most of the foreign drug companies exporting to India also set up their manufacturing subsidiaries in India during this period. As a result, the FDI stock in the country increased more than two times. It accounted for nearly Rs565.5crores in 1964 as compared to Rs 256 crores in 1948. Though there was increase in the total FDI stock in 1964, the sector-wisecomposition changed during the period. It shows that the manufacturing and petroleum sectors gained with FDI stock, which accounted for nearly 40.5 and 14.7 per cent respectively.

The absolute difference of total FDI inflows between 1964 and 1974 were around Rs.35 crores. The composition of sector-wise FDI inflows indicates that manufacturing sector attracted more FDI during the period. It accounted for nearly Rs.628.6 crores with a share of around 68 per cent (Table 4.1). It may be due to the liquidation of FDI stock in nonmanufacturing sector, which was largely through taking over certain government activities such as general insurance companies in 1971 and of petroleum sector between 1974 and 1976. Within the manufacturing sector, new inflows were directed to technology-intensive sectors such as electrical goods, machinery and machine tools, and chemical and allied products (in particular, chemicals, and medicines and pharmaceuticals). These three subsectors of manufacturing accounted for nearly 58 per cent of total FDI in 1980 as against 41 per cent in 1964 (Kumar 1995). It is also important to note that the rise in technology intensive products in the FDI stock has been at the expense of traditional consumer goods industries such as food and beverages, textile products and other chemical products.

The restrictions put on FDI during 1970s had virtually neutralized the internalization incentives for potential foreign investors in the country. As a result, FDI inflows into India did not gain significantly. The total FDI inflow into India accounted for only Rs.933.2 crores in 1980 as compared to Rs.916 crores in 1974. The share of manufacturing sector continued to rise during the period, which accounted for nearly 87 per cent of the total FDI inflows of the country. The liberalization of industrial, trade and foreign collaboration policies in 1980s improved the investment climate and helped the country attract more inflows of FDI (RBI 1985). The liberalization also eased the near total restriction of FDI flows to technology intensive manufacturing sector, which resulted in a three-time increase of total FDI inflows in 1990.

To sum up: there was an absolute increase in the FDI stock during the pre-liberalization period. The sector-wise distribution of FDI stock shows that manufacturing sector gained more attention by foreign investors as compared to other sectors (such as plantation, mining, petroleum and service). This might be due to an import substitutingpolicy of the government during this period, as much of the imports were manufacturing products. Thus, the liberalization in the manufacturing sector helped to attract more FDI into it. However, the overall picture of FDI flows into India was not encouraging before 1991 with the exception of manufacturing sector.

POLICY MEASURES FOR FDI IN THE POST LIBERALIZATION PERIOD

Broadly speaking, the new policy was initiated to increase the stake of foreign investors in Indian companies, provided a bigger room for their entry, axed the procedural formalities provided additive incentive for the import of technology and to the NRIs. Thus, the main objective of the new FDI policy was to create a congenial environment for FDI inflows in India. Diluting the provisions of the Foreign Exchange Regulation Act (FERA), the new policy removes the 40 per cent ceiling for foreign equity participation that existed during the pre-reform period. Moreover, it provided for automatic approval of foreign collaborations in many cases. In case of nine categories of industries, viz, mining services, basic metal and alloys, electric generation and transmission, non-conventional energy generation and distribution, construction, land and water transport, storage and warehousing services and some manufactures like industrial and scientific instruments, the RBI granted automatic approval of foreign collaboration even if foreign participation in equity goes up to 74 per cent. In case of infrastructural projects of this group, automatic approval would be availed even with 100 per cent foreign equity participation. In case of three categories of industries, such as mining of iron ore, metal ore and non-metallic minerals, foreign equity participation was not to exceed 50 per cent if automatic approval was expected. In addition to this, in 1999-2000, the list of automatic approvals was widened covering important industrial and services sectors (Secretariat of Industrial Assistance, SIA Newsletter 2001).

However, if a foreign investor wished to have greater participation in equity than that mentioned above, documents had to be routed through the Foreign Investment Promotion Board (FIPB), which was under the Industry Ministry of the Government of India. The FIPB sanctions even 100 per cent equity participation in cases where Indian companies were unable to raise funds or in cases where at least one-half of output is meant for export. It wasalso done in cases where foreign investors were to bring in proprietary technology (Indian Investment Centre 1997).

The new policy extended FDI to trading, hotels and tourism-related companies. Units of export-processing zones, banking and non-banking financial services, of course, with varying degree of foreign equity participation. The non-banking financial services now included credit card and money-changing businesses. The multilateral financial institutions were allowed to contribute equity to the extent of shortfall in the holdings of NRls within the overall permissible limit of 40 per cent in the public sector banks. FDI was also allowed in those areas where the big industrial houses were not previously allowed to invest. The new policy permits for opening of branch/liaison offices of foreign companies, revoking the prohibition of 1973. The branch office could be set up for conducting research and development, undertake export import activities and for making available desired technology. An offshore venture capital company might contribute to an entire equity base of a domestic venture capital fund and might also set up a domestic asset management company (Indian Investment Centre 1997).

FDI does not always involve investment in cash. A purely technical collaboration involves permission to use patents or trademark and transfer of technology for which the Indian Company pays royalty, technical service fees. In case of technology import, the new policy also provides for automatic approval if the collaboration agreement involves royalty payment up to $ 2 million (net of taxes) to be made in a lump-sum amount or up to 5 per cent of domestic sale and 8 per cent of export over a ten-year period from the date of agreement or seven years from the date of commencement of business. In hiring of foreign technicians, there is no bar if the RBI guidelines are followed. There is also no bar on the use of foreign brand name.

The policy cut the procedural delays significantly. Abolition of industrial licensing almost in all cases (except public sector units and those units producing hazardous items) is another example. The Foreign Investment Promotion Council was set up in 1996 to identify projects within the country that required foreign investment and to target specific countries from where FDI could be brought in (Indian Investment Centre 1997). To foster speedy approvals, the FIPB had been asked to give its decision within a period of 30 days. For speedy implementation of the approved investment, the government set up the foreigninvestment Implementation Authority that convened its first meeting in the last week of September 1999 (SIA Newsletter 2000).

The NRIs making FDI got special treatment. They made direct investments either on repatriable terms or on non-repatriable terms. In case of repatriable investments, their share can go up to 100 per cent of the equity if the project concerns high-priority industry, housing and real-estate development, air taxi operations, sick unit. 100 per cent export-oriented units or a unit in export-processing zone and a trading house. On non-repatriable terms, NRIs participation could go up to 100 per cent of bonus issues in an Indian company if the company is not engaged in agriculture or plantation and real estate. Non-repatriable investment could also flow into proprietary/partnership concerns engaged in industrial, trading and commercial activities (SIA Newsletter 2001).

The Indian government became quite liberal regarding dividend repatriation abroad. There was no bar if taxes were paid. However, in a limited number of consumer goods, such outflow had to be balanced with export earnings for a period of seven years. Disinvestments 100 could be made subject to a few RBI formalities. Foreign Direct Investment proposals under the policy are approved under two routes, viz., automatic route and foreign investment promotion board (FIPB) route, Apart from this the foreign investment implementation authority (FIIA), Foreign Investment promotion council (FIPC) and the secretariat of Industrial assistance (SIA) also helped to facilitate the promotion of FDI in India.

AUTOMATIC ROUTE

The Reserve Bank of India approves proposals under this route. A ceiling of equity participation up to 50 per cent in three sectors (i.e., private sector banking, telecommunication and coal and lignite), up to 5 I per cent in twenty-one sectors (i.e., petroleum, housing and real estate, trading, cable network, hotel and tourism etc.) and up to 74 per cent in nine sectors (i.e., atomic energy, mining, establishment and operation of satellite, advertisement and film, drugs and pharmaceuticals, power, broadcasting, township development and postal services) has been imposed. Existing companies can also enhanceequity up to these prescribed limits. However, non-resident Indians (NRls) and the overseas corporate bodies predominantly owned by them are allowed 100 per cent equity. Foreign technology agreements are also approved by the RBI subject to the condition that the lump sum payment of fee does not exceed Rs10 million and the royalty payment is not more than 8 per cent on exports. The ceiling on lump-sum fee has recently been raised from Rs 10 million to US$ 2 million and a provision for payment of royalty of 5 per cent on domestic sales has also been made.

FIPB ROUTE

Foreign investment promotion board (FIPB) acts as the nodal single-window agency in matters relating to FDI approvals. All proposals, which do not fulfil the parameters prescribed for automatic approval, are considered by FIPB. The board is supposed to ensure the expeditious clearance of proposals for foreign investment, review implementation of sectoral policy regimes, undertake promotional activities and interact with industry associations and organizations. The Industry Minister approves proposals involving investment of up to Rs6,000 million. Other proposals are subject to approval by the Cabinet Committee on Foreign Investment. Proposals are examined on the basis of investment projections, technology, export potential or opportunity for import-substitution, foreign exchange balance sheet and employment potential Guidelines for scrutiny on FDI proposals have been notified recently.

ROLE OF FIIA

The Government has set up the Foreign Investment Implementation Authority (FIIA) in the Ministry of Commerce & Industry. The FIIA will facilitate quick translation of Foreign Director Investment (FDI) approvals into implementations, provide a pro-active one stop after care service to foreign investors by helping them to obtain necessary approvals, sort out operational problems and meet with various Government Agencies to find solutions to problems and maximizing opportunities through a partnership approach.

The FIIA takes steps to:

- understand and address concerns of investors;
- understand and address concerns of approving authorities;
- initiate multi agency consultations; and
- Refer matters not resolved at the FIlA level to high levels on a quarterly basis, including cases of projects slippage on account of implementation bottleneck

ROLE OF FIPC

Apart from making the policy framework investor-friendly and transparent, promotional measures are also taken to attract Foreign Direct Investment into the country. The Government has constituted a Foreign Investment Promotion Council (FIPC) in the Ministry of Industry. This comprises professionals from Industry and Commerce. It has been set up to ha\'e a more target-oriented approach toward Foreign Direct Investment promotion. The basic function of the Council is to identify specific sectors/projects within the country that require Foreign Direct investment and target specific regions/countries of the world for its mobilization.

ROLE OF SIA

The SIA has been set up by the Government of India in the Department of Industrial Policy and Promotion in the Ministry of Commerce & Industry to provide a single window for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require Government approval, conveying Government decisions on applications filed, assisting entrepreneurs and investors in setting up projects, (including liaison with other organizations and State Governments) and in monitoring implementation of projects. It also notifies all Government Policy relating to investment and technology and collects and publishes monthly production data for 213 select industry groups. As an investor friendly agency, it provides information and assistance to Indian and foreign companies in setting up industry and making investments. It guides prospective entrepreneurs and disseminates information and data on a regular basis through its two monthly newsletters the "SIA Newsletter" and the "SIA Statistics" as also through its Website address. It also assists potential investors in finding joint venture partners and provides complete information onrelevant policies and procedures, including those, which are specific to sectors and the State Governments.

INCENTIVES FOR FDI

The package of incentives offered to foreign investors includes sector specific tax rebates and concessional Import duties. Export earnings are tax free in India and infrastructure sectors have been accorded high priority. A five-year tax holiday is admissible for investment in the power sector. It is proposed to raise it to ten years in any block or fifteen years for mega projects of 1000 MW and above. Concessional import duty of 20 per cent on equipment and 16 per cent return on equity are also guaranteed. Further, import duty on capital equipment for mega projects have been waived. In 1995, a five-year tax holiday was given for investment in highways, bridges, airports and rapid transportation system under Build, Operate and Transfer (BOT) schemes. The road sector is exempted from payment of customs duty on equipment for load construction. Some incentives have also been offered by state governments. Which include land, water and power at concessional rates and sales tax concessions and cash subsidies.

To sum up, it can be said that there have been a gradual, sincere and sustained efforts on the part of the policy makers to give a boost to the FDI inflows into India in the post-Liberalization period. However, the effects of these efforts need to be analyzed before making any conclusive remark. Thus, the study tries to analyze the impacts of these FDI policies, by looking into some stylized facts of FDI inflows into India in the post liberalization period.

TRENDS IN FOREIGN DIRECT INVESTMENT IN INDIA

The economic reforms in general and liberalization of FDI policy in particular have affected the magnitude and pattern of FDI inflows received by India. The trend in foreign direct investment in India is presented in Table 4.1

TABLE 1

TRENDS IN FDI INFLOWS

(2000-01 to 2018-19)

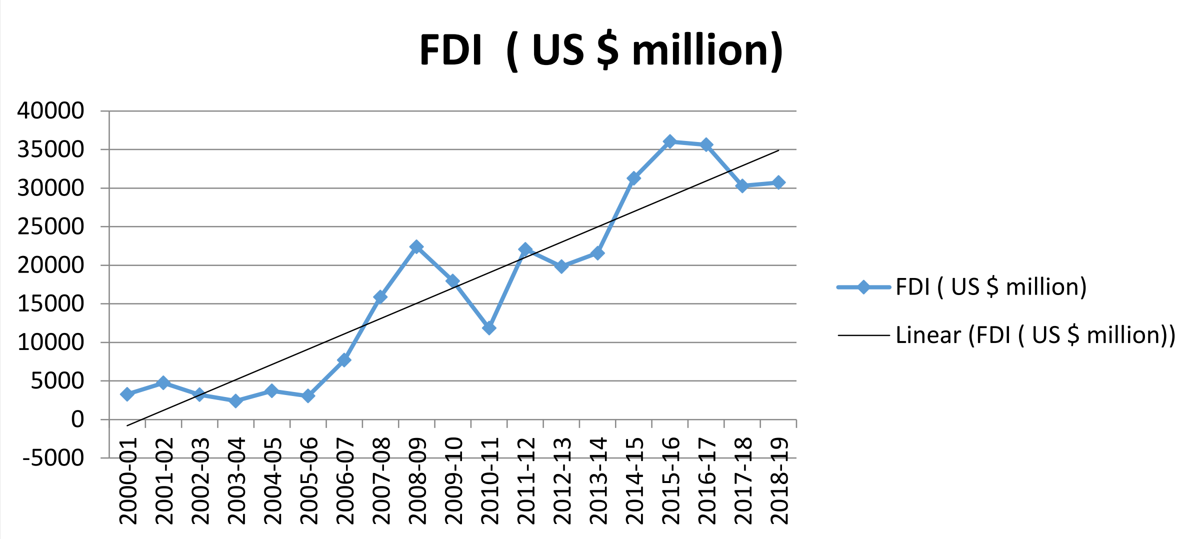
Year	Amount (Rs. Billions)	Amount (US $ Million)
2000-01	14924	3272
2001-02	22630	4734
2002-03	15594	3217
2003-04	10944	2388
2004-05	16745	3713
2005-06	13425	3034
2006-07	34910	7693
2007-08	63776	15893
2008-09	100106	22372
2009-10	85983	17966
2010-11	54101	11834
2011-12	103167	22061
2012-13	108186	19819
2013-14	129969	21564
2014-15	191219	31251
2015-16	235782	36021
2016-17	238913	35612
2017-18	195052	30286
2018-19	214036	30712
Cumulative	**1849462**	**323442**

Source: Handbook of Statistics on the Indian Economy, 2018-19

From Table 4.1, it is evident that foreign direct investment inflows showed a consistent rise from 2000-01. Foreign direct investment reached its peak in 2015-16. Inflows began to slow down in the subsequent years. This is attributed to sluggish domestic investment demand. During 2018-19, India registered FDI inflows of $30712 million and total cumulative inflows from 2000-01 to 2018-19 have been to the tune of $292 billion. The magnitude of FDI inflows received by India would appear too small, especially if compared with inflows received by other countries in the region such as China.

Figure 1

TREND ANALYSIS OF FOREIGN DIRECT INVESTMENT



Source: Handbook of Statistics on the Indian Economy, 2018-19

4SHARE OF INDIA IN GLOBAL FDI INFLOWS

Among the developing countries, India has now emerged as the second most preferred FDI destination after China. India's share in global FDI flows is presented in Table 4.2

TABLE 2

SHARE OF INDIA IN GLOBAL FDI INFLOWS

Years	Global FDI (US $ Million)	FDI Flows to India (US $ Million)	Share (Per Cent)
2000	1392957	2319	0.16
2001	823825	3403	0.41
2002	651188	3449	0.52
2003	557869	4585	0.82
2004	710755	5474	0.77
2005	916277	7606	0.83
2006	1463351	19662	1.34
2007	1975537	22950	1.16
2008	1790706	43406	2.42
2009	1197824	35596	2.97
2010	1309001	24159	1.84
2011	1524422	31554	2.06
2012	1574712	24196	1.53
2013	1425377	28199	1.97
2014	1338532	34582	2.58
2015	1921306	44064	2.29
2016	1867533	44481	2.38
2017	1429807	39916	2.79
2018	1297153	42286	3.25
Cumulative Total	**25168132**	**461887**	**1.83**

Source: World Investment Report (Various Issues)

From Table 4.2, it is evident that India's share in global FDI flows showed a consistent rise from 2000 to 2009. India's share in global FDI flows crossed the 1 per cent mark for the first time in 2006. The share of India was at its peak in 2009 which was to the tune of 2.97 per cent. India's share in global FDI flows increased from 0.16 per cent in 2000 to 3.25 per cent in 2018

SOURCES AND DIRECTION OF FDI INFLOWS

Sources of FDI inflows into India are the companies registered in foreign nations. This can be analyzed by examining the country-wise inflows. The direction of FDI inflows reflects the sectors to which foreign direct investment is channelled. This can be analyzed by examining the industry-wise inflows. Country-wise and industry-wise inflows exclude FDI flows under the NRI direct investment route through the Reserve Bank of India and inflows due to acquisition of shares under section 5 of FEMA 1999.

SOURCES OF FDI INFLOWS

Sources of FDI inflows into India are the companies registered in other nations. The study period is from January 2000 to September 2018. Table 4.3 shows the share of the top ten investing countries in India's FDI.

TABLE 3

COUNTRY-WISE FDI INFLOWS FROM APRIL 2000 TO SEPTEMBER 2019

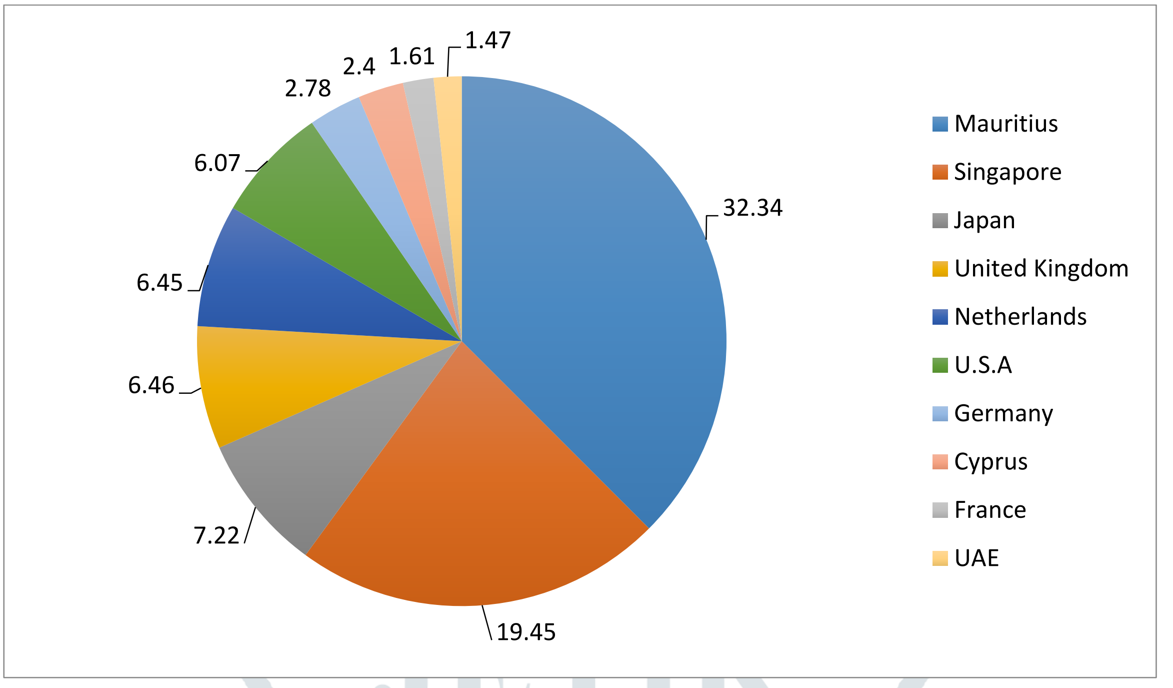
Rank	**Country** (January 2000 to December 2018)	Cumulative Total (US $ Million)	Share as % of Inflows
1	Mauritius	132,595.82	32.34
2	Singapore	79747.77	19.45
3	Japan	29599.24	7.22
4	United Kingdom	26507.44	6.46
5	Netherlands	26452.78	6.45
6	U.S.A	24899.28	6.07
7	Germany	11430.44	2.78
8	Cyprus	9861.27	2.40
9	France	6601.48	1.61
10	UAE	6054.43	1.47

Source: SIA Newsletters December 2019.

Among the countries heading the list of FDI inflows into India is Mauritius. This could be attributed to the Double Taxation Avoidance Agreement that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. The Double Taxation Avoidance Agreement signed between Mauritius and India during the 1990s enables foreign investors to minimize their tax liability given the tax haven status of Mauritius. Singapore, United Kingdom and Japan were the other leading source nations of FDI inflows into India.

Figure 2

COUNTRY-WISE FDI INFLOWS (JANUARY 2000 TO DECEMBER 2018)



STATE-WISE DISTRIBUTION OF FDI INFLOWS

The state-wise trends in FDI (Table 4.4) shows that the RBI's regional offices at Maharashtra, New Delhi, Karnataka, Gujarat and Tamil Nadu have been the largest recipients of FDI in terms of cumulative FDI inflows from January 2000 to December 2018. These states are either known for their strong industrial base (like Gujarat) or as software hubs (like Karnataka and New Delhi). This could also be attributed to their better resources, infrastructure like roads and power, investor friendly policies like single-window clearances and investment promotion schemes like special economic zones. However, the competition among the states to promote their own state in attracting FDI has led to an increasing trend in FDI in other states.

TABLE 4
RBI'S REGION-WISE BREAK-UP OF FDI INFLOWS
(APRIL 2000 TO SEPTEMBER 2019)

Sl No.	Regional Office of RBI	States Covered	FDI inflows ($ Million)	Share in FDI Inflows
1	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	130706	29%
2	New Delhi	Delhi part of UP & Haryana	91812	21%
3	Bangalore	Karnataka	42320	9%
4	Chennai	Tamil Nadu, Pondicherry	31196	7%
5	Ahmadabad	Gujarat	24006	5%
6	Hyderabad	Andhra Pradesh	18981	4%
7	Kolkata	West Bengal, Sikkim, Andaman & Nicobar Islands	5850	1%
8	Kochi	Kerala, Lakshadweep	2393	0.5%
9	Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	2373	0.5%
10	Jaipur	Rajasthan	2048	0.5%

11	Bhopal	Madhya Pradesh, Chhattisgarh	1437	0.3%
		Goa		
12	Panaji	Uttar Pradesh, Uttaranchal	989	0.2%
13	Kanpur	Orissa	699	0.2%
14	Bhubaneswar	Assam, Arunachal Pradesh,	592	0.1%
15	Guwahati	Manipur, Meghalaya, Mizoram, Nagaland and Tripura	122	0.03%
		Bihar, Jharkhand		
16	Patna	Jammu & Kashmir	113	0.03%
17	Jammu		6	0.00%
18	RBI's Region not indicated		90473	20%

Source: SIA Newsletter, September 2019

DIRECTION OF FDI INFLOWS

The direction of FDI inflows shows the major sectors into which foreign direct investment is channelled.

SECTORAL DISTRIBUTION OF FDI INFLOWS

The change in the sector-wise inflows of FDI is analyzed on the basis of the variation in the sector ranks based on their share in total FDI inflows. The study period is from January 2000 to December 2018. The sectoral distribution of FDI in this period is presented in Table 4.5.

TABLE 5

SECTOR-WISE FDI INFLOWS FROM JANUARY 2000 TO DECEMBER 2019

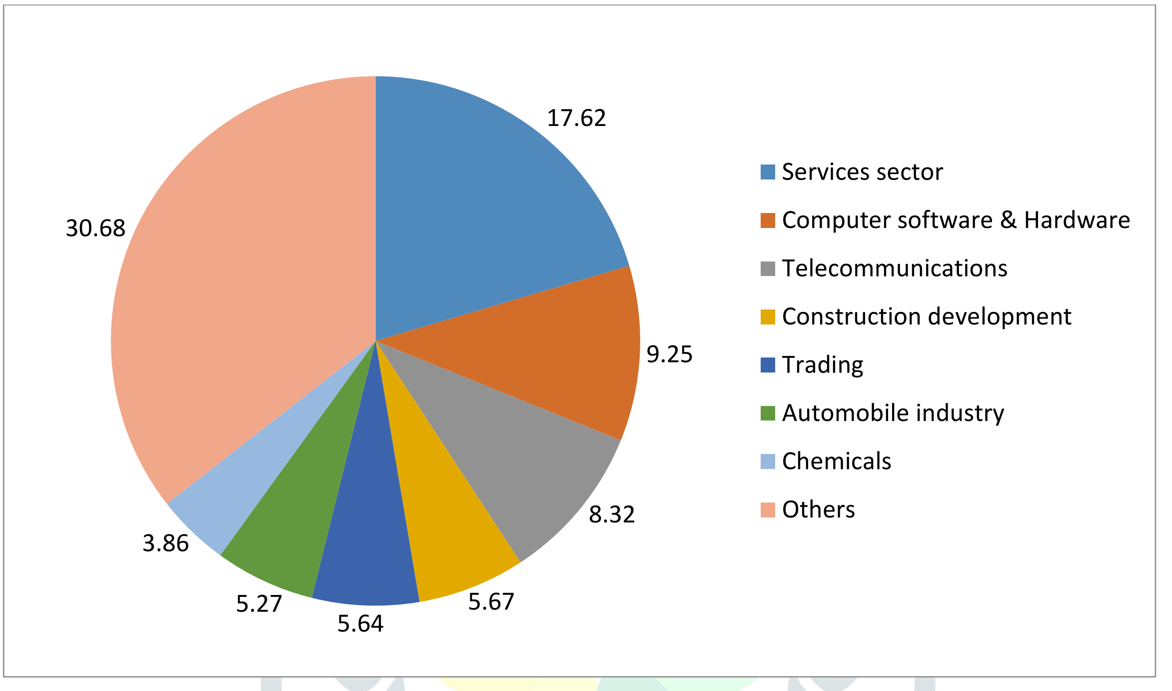
Rank	Sector (January 2000 to December 2018)	Cumulative Total (US $ Million)	Share as % of Inflows
1	Services sector	78604.50	17.62
2	Computer software & Hardware	41262.56	9.25
3	Telecommunications	37105.93	8.32
4	Construction development	25309.89	5.67
5	Trading	25164.56	5.64
6	Automobile industry	23517.54	5.27
7	Chemicals	17229.30	3.86
8	Drugs & Pharmaceuticals	16279.10	3.65
9	Power	15776.12	3.54
10	Construction (Infrastructure) activities	14584.41	3.27
11	Hotel & Tourism	13210.09	2.96
12	Metallurgical industries	11527.48	2.58
13	Miscellaneous industries	11401.60	2.56
14	Food processing industries	9539.49	2.14
15	Electrical equipments	8693.06	1.95
16	Information & Broadcasting	8580.52	1.92
17	Non- conventional energy	8350.98	1.87
18	Petroleum & Natural gas	7029.64	1.58
19	Hospital & diagnostic centre	6468.36	1.45
20	Cement & Gypsum products	5390.72	1.21

Source: SIA Newsletters September 2019

Table 4.5 shows that the FDI inflows appear to be concentrated among the 20 industries. During this period, the 20 sectors constituted 86.31 per cent of total FDI inflows. Among the sectors heading the list of sector wise FDI inflows into India is Service sector. Service sector is the leading sector which is accounted to 17.62 per cent of the total FDI inflows into India. Computer software & Hardware, Telecommunications and Construction development were the other leading sectors of FDI inflows into India.

Figure 3

SECTOR-WISE FDI INFLOWS (APRIL 2000 TO SEPTEMBER 2019)



The economic measures and efforts of over three decades failed to pull the developing countries like India out of stagnation. In the mean time, the developing countries were made to believe that liberalization and globalization of their economies could help to come out of this stagnation. Thus, many developing national economies were opened for international business. The liberalization in the manufacturing sector helped to attract more FDI into it. However, the overall picture of FDI flows into India was not encouraging before 1991 with the exception of manufacturing sector. The magnitude of FDI inflows received by India during the period would appear too small, especially if compared with inflows received by other countries in the region such as China. India's share in global FDI flows increased from 0.16 per cent in 2000 to 3.25 per cent in 2018. The Double Taxation Avoidance Agreement signed between Mauritius and India during the 1990s enables foreign investors to minimize their tax liability given the tax haven status of Mauritius. Singapore, United Kingdom and Japan were the other leading source nations of FDI inflows into India.

CONCLUSION

FDI has helped the Indian economy grow and the government continues to encourage more investment of this sort. Attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI has been a booming factor that has bolstered the economic life of India. Over the yeas FDI inflow is increasing. However India has tremendous potential for absorbing greater flow of FDI in the coming years.

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