Chapter- II

FOREIGN INVESTMENT IN INDIA – SOME FACTS AND FIGURES

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2.1 Foreign Investment: An Overview

Foreign investment is the fund flow between the countries in the form of inflow or outflow by which source countries can be able to gain some benefit from their investment whereas host countries can exploit their opportunity to enhance the productivity and trace out better position through performance. In the recent liberalized and globalized world, there is unprecedented growth of foreign investment in both developed and developing countries. Different states or countries compete with each other to attract foreign investment to promote local economic development. The foreign investment in emerging countries has grown rapidly through financial, institutional and political transformation, such as relaxation restrictions on foreign investment, privatization of state-owned enterprises, strengthening macro stability, domestic financial reforms, liberalization of Capital accounts, tax initiatives and subsidies and so on. In addition, capital market has been strengthened to intermediate funds towards investment projects (World Bank report-2007). The positive response of these structural changes attracts foreign investment which leads to economic development through acceleration of economic growth, employment generation, productivity augmentation, and professional and cultural upliftment.

To achieve economic growth and promote development, specifically to attract foreign investment India introduced wide scale economic changes under the finance ministry of Dr. Monmohan Singh in 1991 and is still continuing irrespective of political transformation. Very recently the government has framed and introduced

Consolidated FDI Policy-2017 with a major institutional change by replacing FIFP (Foreign Investment Facilitation Portal) in place of FIPB (Foreign Investment Promotion Board).

Before 1991, foreign investment in India in the name of foreign direct investment had in the picture only through major technological collaboration. After the liberalization of the economy with relaxing the term ‘technical collaboration’, there had been wider scope to import foreign capitals via FDI. Then in 1992 foreign institutional investors come into the scenery with the opportunity to plunge into the Indian capital market. An individual foreign investor could be able to invest in Indian Venture Capitals Fund (VCF) or Venture Capital Undertakings (VCU) in the year 2000 after amendment of Securities Exchange Board of India (SEBI) (Foreign Venture Capital Investors) Regulations, 2000. In consultation with SEBI and RBI, the government provides the opportunity to the high wealth foreign individuals to invest either equity or debt instrument of Indian capital market through Qualified Foreign Investors (QFI) Scheme, 2011. Where the QFIs should have a ‘demat’ account under any SEBI approved Qualified Depository Participant (QDP). In the year 2012, another amendment that took place in the name ‘Sub-Account’ Scheme mainly for foreign individuals; envisaged compulsory registration of SEBI (Foreign Institutional Investors) Regulation, 1995; and providing opportunity to enter into the Indian capital market. Therefore, in the last two decades, foreign investment finds its way to India in four broadly classified categories such as FDI, FII, VCF and Sub-Account. But, in the last two decades, foreign investment have found its way to India in major two ways, such as Foreign Direct Investments (FDI) and investment by Foreign Institutional Investors (FII).

In order to cope with the international practices prescribed by the IMF and to resolve the ambiguity that prevails on what FDI and FII are, Finance Minister of India, while presenting Union Budget 2013-2014, proposed to follow international practice and laid down a broad principle that where an investor has a stake of more than 10 percent having controlling interest will be treated as FDI and otherwise where an investor has a stake of 10% or less in a company having capital gain motive will be treated as FII. Subsequently a committee formed under the chairmanship of Dr. Arvind Mayaram including six eminent persons from different chair had recommended to subsume FII, QFI and Sub-Account under a broad category named Foreign Portfolio Investment (FPI).

Any investment by way of equity shares, compulsorily convertible preference shares or debentures less than 10 percent of the post issue paid-up capital of a company or less than 10% of the post issue paid-up value of each series of convertible debentures of a listed or to be listed Indian investee company by eligible foreign investors shall be treated as FPI. The SEBI's FPI Regulation 2014 (regulation 4 and chapter II) clarify FPI in detail. Provided that any FII and/or QFI investor who holds a valid certificate of registration shall be deemed to be an FPI till the expiry of the block of 3 years for which fees have been paid as per the SEBI (FII) regulation, 1995. FPIs are mainly induced by differences in equity prices, interest rates, bond yields, dividends, growth prospects or rate of return on capital in financial assets of India. After the new SEBI guidelines, the RBI stipulated that Foreign Portfolio Investors include Asset Management Companies, Banks, Pension Funds, Mutual Funds, and Investment Trusts as Nominee Companies, Incorporated / Institutional Portfolio Managers or their Power of Attorney holders, University Funds, Endowment Foundations, Charitable Trusts and Charitable Societies, etc. Sovereign Wealth Funds are also regulated as FIIs. A large volume of FII inflows positively contribute to the development of a domestic capital market and bring plenty of benefits to the host country. FII inflows lead to greater liquidity in the capital market, which provides an efficient, broader and deeper market (Levine and Zrvos, 1996). Greater liquidity in the capital market provides better access to financing at a cheap cost of capital which is crucial to expedite the economic activities (Bekaert and Harvey, 2003). Further, the multiplier effect propagates the impact of growth on the stock market through the wealth effect. The inflow of FII acts as a catalyst to economic growth as well as contributes towards wealth creation. Huge outflow of FII could have adverse effects on the host country.

FDI refers to the net inflows of investment to acquire a lasting management interest (more than 10 percent of voting stocks) in an enterprise operating in an economy other than that of the investor. It is the sum of the equity capital, long term capital and short term capital as shown in the balance of payments. It usually involves participation in management, joint venture, transfer of technology and expertise. The recent reforms measure undertaken by the Government of India and its continued efforts towards integration of the economy with the global market in the last decade has led to a resurgence of interest in FDI in the country. Between these binary flows of foreign investment, FDI believed as the most effective and beneficial for the developing countries like India as it brings various tangible (machinery) and intangible assets (technology, technical know-how, expertise management skills, etc.); it reduces current account deficit through export promotion or import substitution or both; it generates employment directly and indirectly via demand creation; it introduces new, sophisticated, diversified products for use, etc..

2.2 Savings Investment Gap and Need of Foreign Investment in India

The foreign private capital, whatever may be the form, majorly comes to narrow the domestic savings and investment gap in developing countries like India. Ever since India practiced its planned economic development it has been focusing on enhancing the savings-investment rate and obviously curtails this gap through managing external assistance from plenty of foreign sources. The inspiration or debatably says persuasion to source foreign resources for promoting economic development have been percolating through growth models. More often than not, investment rates of India have outstripped domestic savings rates as a percentage of GDP. The domestic savings mainly comprises mainly household sector, public sector and private corporate sector savings and the domestic investment mainly represented by domestic capital formation. The savings-investment gap in many of the emerging countries like India is wider due to high intention to achieve high growth and development resulting into high foreign capital needs. Since, most of the developing countries, including India, have been facing draughts of domestic investments. Therefore, the capacity to absorb foreign investment in India and other countries through catchy policy framework from different continents or specifically a large number of countries with huge investable fund is the need of hour. It is of course, mainly because of the fact that domestic resources are not abandon in carrying out gross development programs aiming at pushing the economy to the highest level as far as practicable. Also, India is suffering from drought of financial resources and low level of capital formation.

The savings rate and investment rate in terms of GDP are displayed in Table 2.1, which primarily reports that savings rates in different year after liberalization of Indian economy are lower than its corresponding investment rates for that consider period except the year 2001-02, 2002-03 and 2003-04. The savings rate to GDP is presented in column two clearly shows a persistently increasing trend in savings rate from 21.3 percent in 1991-92 to 30 percent in 2016-17. Almost similar scenes have been observed in investment rate to GDP up to 2009-10.

Table 2.1: Savings – Investment Gap in terms of GDP in India

Year	**Savings Rate**	**Investment Rate**	**Gap**
1991-92	21.3	21.8	-0.5
1992-93	21.3	23	-1.8
1993-94	21.7	22.2	-0.5
1994-95	23.6	24.7	-1.1
1995-96	23.6	25.3	-1.7
1996-97	22.4	23.7	-1.2
1997-98	24.2	25.6	-1.4
1998-99	23.2	24.2	-1
1999-00	25.5	26.6	-1.1
2000-01	23.7	24.3	-0.6
2001-02	24.8	24.2	0.6
2002-03	25.9	24.8	1.1
2003-04	29	26.8	2.2
2004-05	32.4	32.8	-0.4
2005-06	33.4	34.7	-1.2
2006-07	34.6	35.7	-1.1
2007-08	36.8	38.1	-1.3
2008-09	32	34.3	-2.3
2009-10	33.7	36.5	-2.8
2010-11	33.7	36.5	-2.8
2011-12	31.3	35.5	-4.2
2012-13	30.1	34.8	-4.7
2013-14	32.1	33.8	-1.7
2014-15	32.2	33.5	-1.3
2015-16	31.3	32.3	-1
2016-17	30	30.6	-0.6

Source: MOSPI and Researcher's Calculation

Investment rate was 21.8 percent of GDP in 1991-92 which increased to 30.6 percent of GDP in 2016-17 even after a continuous declining trend in this rate since 2010-11.

On average, the savings rate and the investment rate significantly increased by 9.28 percent and 10.45 percent respectively in comparison with first decades after liberalization and last ten years average. The average growth rate of savings and investment in the decades just before liberalization were only 4.46 percent and 3.78 percent. Thus, there was an upward trend in both saving and investment rates to GDP in the era of liberalization. But it needs to be pointed out here that the savings-investment gap in the liberalization period has been quite prominent in comparison to the gap of pre-liberalization period. Therefore, foreign investment could not reduce the gap significantly. Even the gap is become alarmingly very high in the post-sub-prime mortgage crisis period (2.8, 4.2, and 4.7 percent in the year 2010-11, 2011-12 and 2012-13 respectively). This is mainly due to fall in both the rates under economic slowdown and severe crisis in the Balance of Payment (BOP). Therefore, it is imperative to allure more and more foreign capitals to reduce the gap between savings and investment and solve the BOP crisis.

2.3 Investment-Growth Scenario in India

Foreign investments have been playing a pivotal role in India to supplement the low level of gross capital formation, which basically represents the domestic investment of the country. The gross capital formation had increased almost 3 times from 1,053.31 (₹ in billion) in 1965-66 to 3,067.69 (₹ in billion) in 1991-92, a twenty five years span before major liberalization in the Indian economy. The same has increased on an average, the growth rate at 8 percent for the next twenty five years after liberalization. Table 2.2 shows that gross domestic capital formation (GDCF) has increased to 25,609.22 (₹ in billion) in the year 2015-16 from 3,167.69 (₹ in billion) in the year

1991-92. Notably, the GDCF gradually increased year after year but the rate is as not steady as developed economy.

Table 2.2: Investment-Growth Scenario in Post Liberalized India

Year	GDP At Constant Prices (₹ Billion)	Foreign Investment Inflow (₹ Billion)	Gross Domestic Capital Formation (₹ Billion)	GDCF as a % of GDP	Foreign Investment as a % of GDCF
1991-92	13671.71	3.255002	3167.69	23.16967	0.10
1992-93	14405.03	17.13268	3577.1	24.8323	0.48
1993-94	15223.43	130.2609	3659.48	24.03847	3.56
1994-95	16196.94	161.326	4372.24	26.99423	3.69
1995-96	17377.4	163.6364	4712.42	27.1181	3.47
1996-97	18763.19	217.7209	4755.26	25.34356	4.58
1997-98	19570.31	200.1324	5462.85	27.91397	3.66
1998-99	20878.27	101.0115	5669.3	27.15407	1.78
1999-00	22462.76	224.5067	6669.08	29.68949	3.37
2000-01	23427.74	310.1514	6300.56	26.89359	4.92
2001-02	24720.52	388.7367	6588.27	26.65102	5.90
2002-03	25706.9	286.8191	7086.37	27.56602	4.05
2003-04	27778.13	759.7578	8199.25	29.51693	9.27
2004-05	29714.64	584.2443	10640.41	35.80865	5.49
2005-06	32530.73	719.9314	12369.27	38.02334	5.82
2006-07	35643.64	662.4527	14023.69	39.34416	4.72
2007-08	38966.36	1744.295	16568.92	42.52109	10.53
2008-09	41586.76	382.2503	15703.33	37.76041	2.43
2009-10	45160.72	2389.292	18412.63	40.77134	12.98
2010-11	49185.31	1895.267	21004.97	42.70578	9.02
2011-12	52475.3	1870.523	21832.59	41.60546	8.57
2012-13	54821.11	2541.501	22978.07	41.91464	11.06
2013-14	57417.91	1596.366	21947.25	38.2237	7.27
2014-15	62274.54	4491.43	23812.12	38.23733	18.86
2015-16	67217.86	2087.868	25609.22	38.09883	8.15
2016-17	71670.59	2936.788	26388.49	36.80000	11.10

Source: MOSPI and Researcher's Calculation

The GDCF as a percentage of GDP in India, on an average, was 32 percent during the period, with 38 percent in the last year, is not sufficient in comparison with emerging Asian countries like Singapore (53 percent), UAE (53 percent), China (47), etc. as per report of World Economic Indicator. From table 2.2, it is also observed that foreign investment inflow into India has witnessed a phenomenal growth after liberalization of Indian economy in the year 1991. The foreign investment has increased from 3 (₹ in billion) in the year 1991 to almost thousand times more (₹ 2,936.79 billion) in the year 2017, even although in the year 2014-15 the country had received ₹ 4,491.43 billion, ever highest inflow of foreign investment.

It is noteworthy to mention that after the major economic reforms in the form of liberalization of foreign investment policies foreign investment inflows have fluctuated in size over time but have shown an upward trend in values. The table also depicts the absolute value of GDP at constant prices, which shows that it has followed gradually increasing trend from the year 1991 to 2017. Therefore, it could be assumed that either the foreign investment may have played a role in catalyzing the GDP growth and / or GDCF or the steady growth of GDP may have influenced the foreign investment inflows. Last column reports the weightage of foreign capital in the Indian economy by pointing out the proportion of foreign investment as a percentage of GDCF. The trends of foreign investment as a percentage of domestic investment displays in the last column of Table 2.2 indicate that the role of foreign investment in India has been increasing over time and a significant portion of total investment have held by overseas investment. In recent year, almost one-tenth of GDCF is shared by the foreign capital holders. Again, this table explores that in the last ten years the average growth rate of domestic investment in the form of GDCF is insignificant with a very low rate, while growth rate of overseas investment for this said period attains on an average five percent. Which implies that overseas investment play a pivotal role in the Indian economy. This trend also describes foreign investment took over a significant role in production process of our country.

2.4 Foreign Investment Pattern in India

As the account of captivating foreign investment situation in India is already explored, now it has been need of hour to study whether there is any segregated impact to the growth process from the different form of these investments. The FDI and FPI, two principal components of foreign capital, both theoretically associated with economic growth due to the influx of capital and accumulate tax revenues for the host countries.

Comparing the net inflows of both types of foreign investments for the periods 1991-92 to 2016-17, presented in table 2.3, it is observed that there is fluctuation in inflows for both the series of external investments but the volatility is more for FPIs than inward FDI. From the table, it is also observed that the volume of annual inflows of FDI has been larger than FPI almost every year. . It is also noticed from the table 2.3 that with the opening up of the Indian economy aftermath of 1991, there is continuial growth in FDI inflow except 1998-99 to 1999-00, 2003-04 to 2005-06 and 2009-10 to 2011-12 respectively with a historical high (in volume) in the year 2016-17. The sharp fall in FDI inflow is mainly due to the effect of global financial crisis and Asian financial crisis followed by US housing bubble brust out. Interestingly, it is observed that although service sector particularly banking, insurance and telecommunication industries as well as manufacturing sector specifically pharmaceuticals and chemicals and construction and development industries have been drastically fallen during this crisis period. It is noteworthy to mention here that the agriculture sector surprisingly absorbs remarkably high foreign capitals in the year of global meltdown.

Table 2.3: Foreign Investment Pattern in India (₹ in Billions)

Year	Net Inflow of Foreign Investment	Net Foreign Direct Investment	Net Portfolio Investment	FIIs
1991-92	3.255002	3.157107	0	0
1992-93	17.13268	9.654372	7	0
1993-94	130.2609	18.38018	112	52
1994-95	161.326	41.25776	120	47
1995-96	163.6364	71.71637	92	67
1996-97	217.7209	100.1452	118	68
1997-98	200.1324	132.1952	68	36
1998-99	101.0115	103.5778	-3	-16
1999-00	224.5067	93.38197	131	93
2000-01	310.1514	184.0624	126	84
2001-02	388.7367	292.3513	96	72
2002-03	286.8191	240.1287	47	18
2003-04	759.7578	209.1645	551	528
2004-05	584.2443	166.7857	417	390
2005-06	719.9314	166.8668	553	439
2006-07	662.4527	348.1044	314	146
2007-08	1744.295	639.7828	1,105	818
2008-09	382.2503	1027.628	-645	-691
2009-10	2389.292	852.3189	1,537	1,378
2010-11	1895.267	515.0852	1,380	1,341
2011-12	1870.523	1047.579	823	806
2012-13	2541.501	1078.345	1,463	1,501
2013-14	1596.366	1304.634	292	303
2014-15	4491.43	1910.879	2,581	2,502
2015-16	2087.868	2358.239	-270	-263
2016-17	2936.788	2406.126	531	519

Source: DBIE-RBI and Researcher's Calculation

However, FPI inflows in India is found to be highly volatile with a significant drop in the year 2008 -09 (Rs -645 bn) which is caused mainly by the effect of global meltdown. It is also observed that the highest record in FPI inflow in India is documented in 2014-15. Henceforth, it is noteworthy to highlight here that the Government of India has initiated various judicious policy measures in the right direction aftermath of post sub-prime mortgage crisis (2008-09). In addition to this, the Foreign Institutional Investors (FIIs) are also becoming more conservative in regard to FPI investment in India since the FPI inflows is highly concentrated in the debt section taking shift from highly risky equity segment, as documented in the Table 2.15.

2.5 Foreign Direct Investment and Growth Scenery in India

On the basis of the quantitative consideration, taking into account of binary flow of foreign investment, FDI have been vindicated as the most significant source of external capital flows to India since from liberalized period and have become an important part of capital formation in this country despite her share in global absorption of FDI continuing to remain small so far. With the magnetize policy transformation for vying the world, India has gained noticeably, as demonstrated by the positive growth rates in most of the years (Table 2.4). The Table 2.4 shows that the growth rate of inbound FDI inflows has achieved, on an average a positive growth rate at 42.95 percent. The growth rate is highest in 1992-93 (205.80 percent) and second highest (124.47 percent) in following the subsequent year of highest rate which are the very beginning of liberalization but in volume the top three (₹ 606.25, ₹ 532.58 and ₹ 447.36 billion) incremental inflows have occurred in the recent past years, i.e. during 2014-15, 2011-12 and 2015-16 respectively. Columns 2 and 3 of Table 2.4 present the mesmerizing GDP growth rate around seven percent and percentage of FDI to GDP which indicates that FDI has been gradually increasing its importance to GDP growth in India.

Table 2.4: Growth Rate of Inward FDI and GDP

Year	Growth Rate of FDI inflow	GDP Growth Rate	FDI inflow as a % of GDP
1991-92	81.4	1.4	0.02
1992-93	205.8	5.4	0.07
1993-94	90.38	5.7	0.12
1994-95	124.47	6.4	0.25
1995-96	73.83	7.3	0.41
1996-97	39.64	8	0.53
1997-98	32	4.3	0.68
1998-99	-21.65	6.7	0.5
1999-00	-9.84	8	0.42
2000-01	97.11	4.1	0.79
2001-02	58.83	5.4	1.18
2002-03	-17.86	3.9	0.93
2003-04	-12.89	8	0.75
2004-05	28.59	7.1	0.91
2005-06	58.62	9.5	1.31
2006-07	141.18	9.6	2.89
2007-08	35.88	9.3	3.59
2008-09	37.2	6.7	4.61
2009-10	-18.12	8.6	3.48
2010-11	-19.28	8.9	2.58
2011-12	24.57	6.7	3.01
2012-13	-7.15	5.4	2.68
2013-14	26.91	6.1	3.24
2014-15	15.91	7.2	3.46
2015-16	36.28	8.1	4.37
2016-17	-0.14	7.1	4.1

Source: Handbook of Statistics-RBI and Researcher's Calculation

2.6 India’s FDI Inflows within the Purview of World Inward FDI

As it is established the dependency of cross border direct investment into economic growth let the study concentrate on inflows of direct investment into India within the purview of the global scenario. At a glance, it is very difficult to make a conclusion with comparing the growth percentage of the world, developed, developing and India which is depicted in column 1 to 4 of table 2.5. But the average growth percentages are 11, 12, 14 and 35 percent for world, developed, developing and Indian perspective respectively which firmly advocates that India has been gradually becoming a nucleolus part of the world FDI. One another important fact is observed from these columns that there present a large fluctuation in the growth rates for all the concerned areas. However, the absolute volume of FDI inflows (in $ million) into India and world in the years 1991, 2001, 2011 and 2017 are 75 and 153973, 5478 and 772662, 36191 and 1567677, 39916 and 1429807 (Report of UNCTAD) respectively, which also establish that India’s fast paddling towards reaching on top position in global FDI inflow. The last three columns of Table 2.5 depict that the developed countries, developing countries and India’s percentage share of FDI inflows in global FDI wave.

Interestingly, a crystal clear trend is observed from these columns which show that the developing economies have been turned back the focus of global FDI wave from developed economies. The monopolistic power of catching FDI inflows has been continuously decreasing and it falls down to 49 percent share of global FDI wave in the year 2017 from 74 percent in 1991. India, as part of developing economies, also have been increased the percentage share and it holds almost 3 percent global share in 2017 in comparing only 0.05 percent in 1991.

Table 2.5: Figures about World Inbound FDI

Year	%Growth Of World Inbound FDI	Developed Economies Inbound FDI Growth%	Developing Economies Inbound FDI Growth%	India's Inbound FDI Growth%	%Share of Developed Economies FDI Inflows In World Inbound FDI	%Share of Developing Economies FDI Inflows In World Inbound FDI	%Share of India's FDI Inflows In World Inbound FDI
1991	-24.86	-32.71	13.45	-68.31	74.38	25.53	0.05
1992	5.81	-5.86	35.99	236.00	66.18	32.81	0.15
1993	35.10	31.15	41.59	111.11	64.24	34.39	0.24
1994	15.81	6.51	35.27	83.08	59.08	40.16	0.38
1995	33.97	45.93	15.01	120.84	64.35	34.48	0.63
1996	13.85	7.54	24.95	17.39	60.79	37.84	0.65
1997	23.84	21.13	26.00	43.33	59.46	38.50	0.75
1998	43.45	77.63	-5.61	-27.25	73.63	25.34	0.38
1999	55.83	67.73	23.57	-17.66	79.25	20.09	0.20
2000	26.23	31.44	7.09	65.50	82.52	17.05	0.26
2001	-43.13	-51.08	-6.75	52.67	70.98	27.95	0.71
2002	-23.66	-24.59	-23.05	2.78	70.12	28.17	0.95
2003	-6.65	-18.30	17.26	-23.24	61.37	35.39	0.78
2004	25.78	18.89	34.37	33.71	58.01	37.80	0.83
2005	37.01	46.05	26.60	31.91	61.84	34.93	0.80
2006	47.91	60.43	21.67	166.71	67.07	28.73	1.45
2007	34.93	36.41	29.53	24.71	67.81	27.59	1.34
2008	-21.58	-38.50	10.58	85.81	53.18	38.90	3.17
2009	-20.61	-16.90	-20.20	-24.35	55.66	39.10	3.02
2010	16.36	3.58	36.33	-23.06	49.55	45.81	2.00
2011	14.27	21.28	5.63	32.00	52.59	42.35	2.31
2012	0.45	4.11	-1.86	-33.14	54.50	41.37	1.54
2013	-9.48	-19.24	-0.45	16.55	48.63	45.50	1.98
2014	-6.09	-13.92	5.67	22.63	44.58	51.20	2.58
2015	43.54	91.26	8.57	27.42	59.40	38.73	2.29
2016	-2.80	-0.70	-9.93	0.95	60.68	35.88	2.38
2017	-23.44	-37.14	0.07	-10.26	49.82	46.91	2.79

Source: UNCTAD and Researcher's Calculation

2.7 Concentration of World FDI Inflows

The process of worldwide economic liberalization, particularly since the late 1980s, spread and swept across countries, have been remarkably changed the environment for cross border private capital flows. Besides this, the surging international financial flows in return better global economic integration and gradually impacting in favor of the international business environment. In India, there has been a sea of change in approach towards attracting cross border investment since the early 1990s. Pre-liberalisation investments to India, especially in the form of cross border direct investment through foreign collaborations were only permitted to specific segments related to high technology. A major shift was initiated with post-1991 reforms, whereby, restrictions had been progressively removed in sectors irrespective of choice in strength of technology that considered strictly earlier. This period also depicts momentum growth in the cross border capital flows worldwide. Indian performance in isolation might appear impressive but as compare to the other emerged and emerging markets, India managed to attract only a paltry share in the total worldwide FDI.

In Table 2.6, the above mentioned postulate as emphasized by India to tempt FDI flows is quite visible. A cursory look at the Table 2.6 makes it clear that India has made an entry in the top ten FDI receiving countries and captured 3.15 percent global FDI wave. No doubt, about that this portion of received FDI is a significant part of global FDI flows where almost 150 countries are engaged in the tag of war to allure FDI inflows. (It is due to faith on liberalization and policy upgradation). But the numerical facts presented in this table also point out to a disheartening situation if its performance is compared with those of the Asian countries like China, Hong-kong and Singapore. Apart from developed countries, even if some developing countries have beaten India in absorbing cross border direct investment due to early entrant into the FDI regime with lucrative policy frame. It is desirable that India will gradually achieve the top rank in competition with Asian giants to absorb the global capital with proper policy treatment, infrastructural development, political-stability, maintain cultural peace and strengthening relations with neighboring countries.

Table 2.6: World top-10 FDI Receiving Countries

SL.NO.	Countries	FDI Inflows ($ Billion)	World % Share
1	USA	311	21.75
2	China	144	10.07
3	Hong Kong, China	85	5.94
4	Netherlands	68	4.76
5	Ireland	66	4.62
6	Australia	60	4.20
7	Brazil	60	4.20
8	Singapore	58	4.06
9	France	50	3.50
10	India	45	3.15
	Global FDI Inflows	1430	

Source: UNCTAD, 2017,FDI/MNE Database and Researcher's Calculation

2.8 Continental Concentration on India's FDI Inflows

The scenery of global FDI inflows into India is reported in the context of the continental share in Table 2.7. Surprisingly, FDI inflows from underdeveloped Africa have the largest share, almost 35 percent, following Asia (30 percent), Europe (27 percent) and then North America (7 percent) is significant. It is imperative to mention that out of the African investment towards India, Mauritius has accounted for 99.56 percent i.e. Mauritius has almost a proper subset of Africa in this context. Again, Australia holds 93 percent and the USA holds 90 percent share of Oceania and North

America's Investment respectively into India. It signifies there are very few countries on the globe which have concentrated to invest into India.

Table 2.7: Continental FDI Scenario : Inflows into India

₹ in million

		2000-12	2013	2014	2015	2016	Total
Africa	Gross Investment	72,127.6	5,830.2	7,081.8	9,312.9	15,205.9	109,558.4
	Mauritius	71,808.9	5,722.4	7,073.1	9,242.8	15,069.5	108,916.7
	Continental Share (%)	40.79	26.46	24.60	23.68	32.78	34.96
Asia	Gross Investment	40,078.1	6,307.5	10,909.6	17,720.4	18,226.3	93,241.9
	Singapore	18,792.6	3,874.1	7,092.4	13,414.3	9,822.2	52,995.6
	Continental Share (%)	22.67	28.63	37.90	45.06	39.30	29.76
Europe	Gross Investment	50,661.2	9,006.7	8,827.0	7904.5	9,254.2	85,653.7
	UK	17,103.7	3,606.5	1,096.3	920.5	1,660.9	24387.9
	Continental Share (%)	28.65	40.88	30.67	20.10	19.95	27.33
North America	Gross Investment	12,342.2	789.8	1,767.1	3,984.9	3,289.7	22,173.7
	USA	11,111.9	771.90	1,663.45	3,855.07	2,621.22	20,023.5
	Continental Share (%)	6.98	3.584	6.13894	10.13	7.09	7.08
South America	Gross Investment	1046.40	36.79	129.52	241.30	331.00	1,785.01
	Cayman Island	868.47	31.70	121.68	237.96	328.01	1,587.81
	Continental Share (%)	0.59	0.17	0.45	0.61	0.71	0.57
Oceania	Gross Investment	568.32	62.73	69.53	164.01	79.78	944.36
	Australia	529.69	53.96	65.91	136.42	69.72	855.68
	Continental Share (%)	0.32	0.28	0.24	0.42	0.17	0.30

Source: UNCTAD and Researcher's Calculation

In this context, it is relevant to mention that India has Double Taxation Avoidance Agreement (DTAA), 1983, with Mauritius, Singapore and Cayman Island. That is why these countries come into picture of respective continents. Especially in Mauritius, there has no capital gain tax, so investors, those are interested to invest in India and black money holders of different countries along with Indian make the Mauritius as investment heaven just establishing a Post-Box company and taking the opportunity of round-tripping.

2.9 Major Investing Countries into India

However, time to time policies restructuring, i.e., more opportunity to invest through the automatic route, since economic liberalization, has broadened the sources of inbound FDI into India. There were 153 investing countries in 2017 as compared to 86 and 29 countries in 2000 and 1991 respectively, whose FDI were approved by the Government of India. Thus, during the liberalized period the number of investing countries is spread throughout continents. Nevertheless, only a few countries provide a lion share of FDI inflows into India. It is noteworthy to mention that still 90 percent of inbound FDI inflows come from only 10 countries. Table 2.8 exhibits the actual direct investment flows of the top 10 countries with its percentage share according to the cumulative FDI inflow from 2000 to 2016 and the countries percentage share to the respective continents. The table shows Mauritius, an emerging economy, exists in the poorest continent accounted for well over one- third of the FDI inflows during the mentioned period and, surprisingly, exhibits 99.41 percent share of FDI from African continents has come only from Mauritius. Singapore and Japan, two Asian developed countries, occupy the second and third ranks in this respect. United Kingdom (UK) is the fourth largest country in investing in India, which was the highest investing country up to 1980.

Table 2.8: Top 10 Investing countries into India

₹ in million

Sl. No	Country	2000-2012 (Jan-Dec)	2013 (Jan-Dec)	2014 Jan-Dec	2015 Jan-Dec	2016 Jan-Dec	Cumulative FDI Inflows From 2000-2016	%Share of FDI Inflows into India	%Share of respective continents Inbound FDI
1.	Mauritius	71809	5722	7073	9243	15069	108917	35	99
2.	Singapore	18793	3874	7092	13414	9822	52996	17	57
3.	Japan	14019	1421	2335	1739	5781	25296	8	27
4.	U.K.	17104	3606	1096	920	1661	24388	8	28
5.	U.S.A	11112	772	1663	3855	2621	20024	6	90
6.	Nether lands	8468	2113	3254	3003	2996	19834	6	23
7.	Germany	5133	1015	1152	1144	1103	9547	3	11
8.	Cyprus	6800	470	657	518	667	9112	3	11
9.	France	3407	441	612	429	650	5540	2	6
10.	U.A.E.	2362	284	279	522	1197	4644	1	5

Source: SIA and Researcher's Calculation

The United States of America (USA) is responsible for only 6.33 percent share of such inflows but the inflows for the last three years are 1663.45, 3855.07 and 2621.22 million($) that are more than investment from the UK. Notably, still 1991 USA was the largest investors in Indian FDI scenario. There are five countries of the European Union till in top ten position and three countries of Asian continents could enroll in the list of top ten countries.

2.10 Contemporary FDI Policy Framework in India

After independence, a remarkable policy stance towards foreign technology in the name of foreign investment had adopted by implementing the Industrial policy of 1965, which allowed multinational corporations (MNCs) to venture through technology base collaboration in India. But in order to resolved the then economic crisis regarding significance outflow of foreign reserves by payments of dividends, royalties abroad and repatriation of capitals, the Government of India had introduced a selective and stringent foreign policy in the name of Foreign Exchange Regulation Act (FERA), 1973, as far as ownership of foreign companies, types of foreign investment was concerned. A sea of change had made in the Industrial Policy statement of July 24, 1991, which observes that while freeing the Indian economy from official controls, opportunity for promoting foreign investment in India should also be fully exploited, had liberalized the Indian policy towards foreign investment and technology by setting up Foreign Investment Promotion Board (FIPB) and replacing the restrictive FERA, 1973, by munificent FEMA (Foreign Exchange Management Act), 1991. Keeping in mind the multiplier and spillover effect of foreign capitals the policymakers have been changing in the foreign investment policy too with time and as per economic and political regimes. Very recently, on August 28th, 2017, the Government of India has again revised and updated the foreign direct Investment Policy where a major institutional reform has taken place by abolishing the FIPB, the former government body authorized to approve proposals for FDI, and framing another administrative body in the name of Foreign Investment Facilitation Portal (FIFP) to facilitate FDI proposals. The FDI policy 2017 introduces ‘competent authorities’ also defines and provides lists of ‘competent authorities’ having lists of sector-specific departments or administrative ministry empowered to license government approval for FDI. In line with the ease of doing business promotion, the government has attached ‘Standard Operating Procedure’ (SOP) in this new FDI policy framework which includes elaborated procedures and timeline for government approvals for FDI in India. However, such barometric movement of investment mentioned above through different routes is not a phenomenal (natural) outcomes rather it is the aftermath of time to time structural policy transformation which are mentioned below:

Sectors where FDI is Banned
1. Retail Trading (except single brand product retailing); sourcing norms have relaxed where MNCs have the undertaking of having cutting-edge technology and/or state-of-art and where local sourcing is not possible.)
2. Atomic Energy; Railway operations
3. Lottery Business including Government / private lottery, online lotteries, etc;
4. Gambling and Betting including casinos etc.;
5. Business of chit fund;
6. Nidhi Company;
7. Trading in Transferable Development Rights (TDRs);
8. Activities/sector not opened to private sector investment;
10. Construction of farmhouses;
11. Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of

Table 2.9: Sector Specific Limits of Foreign Investment in India

Sector	FDI Cap/Equity	Entry Route	Other Conditions
A. Agriculture			
1. Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, Aquaculture, Cultivation of vegetables & mushrooms and services related to agro and allied sectors.	100%	Automatic	
2. Tea sector, including plantation	100%	FIPB	
3. Food Products (Processing)	100%	Automatic	

B. Industry 1. Mining and exploration of metal and non-metal, like diamonds & precious stones; gold, silver and minerals. 2. Coal and lignite mining for captive consumption by power projects, and iron & steel, cement production. 3. Mining and mineral separation of titanium bearing ores and minerals with integrated activities. 4. Thermal Power 5. Exploration activities of oil and natural gas and related infrastructure for marketing products. 6. Petroleum refining by the PSU, without any disinvestment of domestic equity in the existing PSU. 7. Renewable Energy	 100% 100% 100% 100% 100% 49% 100%	 Automatic Automatic Govt. Approval Automatic Automatic Automatic	
C. Manufacturing 1. Alcohol- Distillation & Brewing 2. Coffee & Rubber processing & Warehousing.	 100% 100%	 Automatic Automatic	
3. Defense Industry.	49%,FPI shouldn't exceed 24%	Automatic	Government Route beyond 49%
4. Capital goods	100%	Automatic	
5. Gems and jewellery	100%	Automatic	

6. Hazardous chemicals and isocyanates and Leather 7. Industrial explosives –Manufacture 8. Automobiles and auto components 9. a. Drugs and Pharmaceuticals (Greenfield) b. Pharmaceuticals (Brownfield) 10. Power including generation (except Atomic energy); transmission, distribution and power trading.	100% 100% 100% 100% 74%	Automatic Automatic Automatic Automatic	 Above 74% Govt. Approval
D. Services 1. a. Civil aviation (Greenfield Projects and Existing Projects) N.B. In Greenfield ranking India have gotten first in the year 2016-17 b. Railway Infrastructure c. Road and highways	 100% 100% 100%	 Automatic Automatic Automatic	
2. Asset Reconstruction companies	100%	Automatic	
3. Banking (private) sector	74% (FDI+FII).	Automatic	
4. Air transport Services (both scheduled and regional air transport services)	Up to 49% Above 49 % to 100%	Automatic Govt. approval route	
5. NBFCs: venture capital,financial consultancy, portfolio management services, investment advisory services, stock broking, underwriting, asset management, custodian, factoring housing finance, forex broking, leasing and finance, etc.	100%	Automatic	applicability of sectoral laws

6. Broadcasting a. FM Radio b. Cable network; c. Direct to home; d. Hardware facilities such as up-linking, HUB. e. Up-linking a news and current affairs TV Channel	 20% 49% (FDI+FII) 100%	FIPB	
7. a. Commodity Exchanges b. Power exchange	49% (FDI 26% & FII 23%)	Automatic	
8. a. Insurance b. Infrastructure Company in the Security Market c. Private Securities Agencies	49% 49% 49%	Automatic Above 49% (Govt. approval)	Clearance from IRDA
9. Cash and Carry wholesale trading (sourcing from medium and small enterprises)	100%	Automatic	
10. Construction development (Housing, Township, Built-up infrastructure, etc.),	100%	Automatic	
11. Core Investment Companies	100%	Govt. approval	
12. Defense	Up to 49% Above 49%	Automatic Govt.	
13. IT and BPM	100%	Automatic	
14. Tourism and Hospitality White Lebel ATM operation	100% 100%	Automatic Automatic	
15. Multi-Brand Retail Trading	51%	Govt.	
16. Pension	49%	Automatic	
17. Bio-technology (merger and Acquisition) Healthcare (merger and Acquisition)	Up to 74% Above that	Automatic Govt.	

18. Petroleum and natural gas : a. Refining (by PSU) b. Private	49% (PSUs).		Govt. Approval (for PSUs).
19. Print Media a. Publishing of newspaper and periodicals dealing with news and current affairs b. Publishing of scientific magazines/specialty journals/periodicals	26% 100%	Govt. approval Govt. approval	guidelines by Ministry of Information & Broadcastin
20. Telecommunications a. Broadcast content services (Down-linking /Up-linking of Non- News and Current Affairs TV channels, carriage services) b. Broadcasting content service c. Satellites-establishment and operation d. Telecom Services e. Basic and cellular, unified access services, national/international long-distance, V-SAT, public mobile radio trunked services (PMRTS), global mobile personal communication services (GMPCS) and others.	100% 49% 100% Up to 49% Above 49%	Automatic Govt. approval Automatic Automatic Govt. approval	 Govt. approval
11.a. e-commerce (food products manufactured and/or produced in India) b. Duty-Free Shop c. Electronic System	100% 100% 100%	Govt. approval Automatic Automatic	

Source: Consolidated FDI Policy, 2017 and Amendment in January 2018

In accordance with the divergent role of FDI inflows, a policy perspective towards elasticity of inflows channelizing different gateways is considered (Table 2.9). There is mainly dual route of approval of FDI into India, automatic route and government approval route (FIPB/SIA) where SIA stands for Secretariat of Industrial Approvals. FDI proposals falling under the automatic route does not require any prior approval either by the Reserve Bank of India or Government but foreign affiliates are only required to notify the regional office of the RBI within a 30 days' time span of receipt of inbound inward inflows and file the necessary documents with the office within same time lag of issuance of shares to foreign affiliates. The proposals falling under the approval route are considered in a time-bound and transparent manner by the Government through FIPB, SIA and FIIA (Foreign Investment Implementation Authority).

The percentage share of FDI inflows through FIPB/SIA route, RBI automatic route and acquisition of shares as presented by the RBI are presented in table 2.10 shows the continuous increasing interest of investors for investing via automatic route. In contrast, column two of Table 2.10 clearly shows that since the major liberalization in the economic policies in 1991 investment through approval route has gradually curtailed the portion of inflow in comparison with the automatic route. The average inflows portion through approval route for the first ten years since 1991 is almost 81 percent which has been reduced to only 10 percent for the last ten years ending 2017. In the year 2000, the FDI inflows through automatic route had only ₹ 1,698 core which has unprecedentedly channelized ₹ 2,20,521 core, almost 130 times more, in 2016. Conversely, the average inflows' share through automatic route for the same period mention above has increased from 12 percent to 69 percent. Notably, the investment portion via acquisition of shares is on an average, 22 percent since its inauguration.

Table 2.10: Major Route-wise FDI Equity Inflows into India

As a Percentage of FDI Inflows

Year	FIPB/SIA Route	RBI Automatic Route	Acquisition of Shares
1991-92	100	0	0
1992-93	84.09	15.91	0
1993-94	75.88	24.12	0
1994-95	80.39	19.61	0
1995-96	87.4	11.83	0.77
1996-97	88.08	6.19	5.73
1997-98	83.05	6.09	10.86
1998-99	75.88	7.46	16.67
1999-00	68.08	8.26	23.66
2000-01	64.08	19.98	15.93
2001-02	57.41	19.82	22.77
2002-03	35.7	28.71	35.59
2003-04	42.24	24.31	33.45
2004-05	32.68	38.71	28.62
2005-06	29.67	35.58	34.75
2006-07	13.83	45.88	40.28
2007-08	9.35	69.7	20.95
2008-09	17.22	68.01	14.77
2009-10	13.56	74.15	12.29
2010-11	9.1	60.79	30.11
2011-12	8.74	58.64	32.61
2012-13	10.63	73.16	16.22
2013-14	4.88	61.19	33.93
2014-15	7.17	72.83	19.99
2015-16	8.93	81.23	9.83
2016-17	13.57	69.96	16.47

Source: DBIE – RBI and Researcher's Calculation

2.11 India's FDI Inflows in the Sectoral Context

So far the study re-explores the trend and size of FDI inflow through different routes and different countries concentration and contribution towards inflows of FDI into India. Although both the quantity and quality of foreign investments are important for the growth and development process, it is more important to know where the ballooning volume of FDI is invested. If the comparatively substantial investments

Table 2.11: Sectoral Share of FDI Inflows in India

Year	Inflow of FDI into Agriculture Sector	Inflow of FDI into Industry Sector	Inflow of FDI into Service Sector	% of FDI inflows into Agriculture Sector	% of FDI inflows into Industry Sector	% of FDI inflows into Service Sector	Total FDI inflows (amount in $ million)
2000-01	87.14	1676.93	614.64	3.66	70.50	25.84	2378.68
2001-02	234.63	2072.37	1720.69	5.83	51.45	42.72	4027.69
2002-03	77.75	1589.37	1037.2	2.88	58.77	38.35	2704.34
2003-04	180.94	927.04	1079.87	8.27	42.37	49.36	2187.85
2004-05	70.37	1487.37	1660.95	2.19	46.21	51.60	3218.69
2005-06	161.51	2295.29	3082.95	2.92	41.43	55.65	5539.72
2006-07	167.15	2322.71	10001.9	1.34	18.59	80.07	12491.77
2007-08	157.44	7985.64	16432.32	0.64	32.49	66.86	24575.43
2008-09	327.34	12786.7	18281.92	1.04	40.73	58.23	31395.97
2009-10	1589.08	7924.8	16320.5	6.15	30.68	63.17	25834.41
2010-11	312.43	10660.2	10410.44	1.46	49.85	48.69	21383.05
2011-12	324.94	19918.35	14877.49	0.93	56.71	42.36	35120.8
2012-13	809.55	9289.91	12324.13	3.61	41.43	54.96	22423.58
2013-14	4170.74	9953.05	10175.53	17.16	40.96	41.88	24299.33
2014-15	1023.25	13060.69	16846.53	3.31	42.23	54.47	30930.5
2015-16	663.24	11791.54	27546.21	1.66	29.48	68.86	40000.98
2016-17	929.78	15386.32	27162.16	2.14	35.39	62.47	43478.27

Source: INDIASTAT and Researcher's Calculation come into secondary sectors, mainly into the manufacturing sector and the primary sector, then certainly, it would sustainably promote the output and growth of Indian economy. If FDI is coming into highly profit oriented and consumption based industries, it would than deeply hamper capital formation and erode through repatriation of fund. Now the study has to exhibit whether the spread volume of foreign capital vary across primary, secondary and service sectors, i.e., whether FDI has heterogeneity in choosing sectors. Table 2.11 provides insight into decomposed FDI inflows volume and its percentage share into basic three economic sectors. The table figures depict that all these sectors have captured the FDI but the magnitude is different in each sector. From the year 2003-04 the volume of FDI is highest into the service sector except 2010-11 and 2011-12, when the volume of FDI into the secondary sector had overtaken by 249.76 and 5040.86 million dollars comparing service sector. Notably, FDI into the secondary sector is the highest ever in 2011-12 with 19918.18 million dollar investment but the service sector has caught 27546.21 million dollars in 2015-16 which was remarkably the highest since ever. However, the percentage share of different sector in considered time horizon established a clear trend of switching over of FDI inflows from secondary sector to tertiary sector, while remaining persistently low in the case of agricultural FDI inflows.

It is established just before, that the wave of cross border direct investments is prominently skewed towards service sector in comparison with the other two sectors. Besides this, it is imperative to know the pattern and magnitude of the growth rates of investment inflows into these sectors. In this chapter, we try to show that the growth rates of inward FDI into different sectors as well as the percentage growth of sectoral contribution to GDP. As this study has the hypothesis to measure the sectoral impact of FDI inflows on the development of the respective sector so this apparent analysis is relevant. The first three columns of percentage figures in table 2.12 depict the percentage growth of agriculture, industry and service sector respectively in perspective of their previous year inflows.

Table 2.12: Sectoral Growth of FDI and vis-a-vis GDP

Year	Growth % of Agricultural FDI inflows	Growth % of Industrial FDI inflows	Growth % of Services FDI inflows	% Growth in Agricultural GDP	% Growth in Industrial GDP	% Growth in Service GDP
2001-02	169.26	23.58	179.95	6.01	2.17	6.54
2002-03	-66.86	-23.31	-39.72	-6.60	6.86	7.12
2003-04	132.72	-41.67	4.11	9.05	5.63	8.56
2004-05	-61.11	60.44	53.81	0.18	7.52	9.10
2005-06	129.52	54.32	85.61	5.14	8.55	11.15
2006-07	3.49	-1.19	224.43	4.16	12.90	10.09
2007-08	-5.81	243.81	64.29	5.80	9.25	10.34
2008-09	107.91	60.12	11.26	0.09	4.09	9.38
2009-10	385.45	-38.02	-10.73	0.81	10.16	10.02
2010-11	-80.34	34.52	-36.21	8.60	8.25	9.19
2011-12	4.00	86.85	42.91	5.02	6.69	7.06
2012-13	149.14	-53.36	-17.16	1.49	4.49	7.03
2013-14	415.19	7.14	-17.43	5.57	4.24	6.89
2014-15	-75.47	31.22	65.56	-0.19	8.58	8.93
2015-16	-35.18	-9.72	63.51	0.69	10.21	9.06
2016-17	40.19	30.49	-1.39	4.88	7.01	6.92

Source: INDIASTAT and researcher's calculation

The last three columns report the percentage growth in contributing to GDP by the agriculture, industry and service sectors respectively. FDI growth of these basic sectors interestingly indicates that each sector have six negative growth figures out of the only sixteen years reported periods. In the year 2002-03, all the three sectors had generated negative flows of FDI. It also may be pointed out that most of the years when FDI inflows attract the agriculture sector more than the other two economic sectors either generate negative impact or captures a very small amount of FDI. We could not find any trend or pattern apparently from these sectoral growth figures but observe extensive fluctuations. International ripples and the opportunist mentality of foreign capital holders may be the reason for this investment fluctuations. Conversely, the growth of decomposed GDP into three basic sectors depict positive growths across the study periods and sectors except in the year 2002-03 and 2014-15 show negative growths in FDI inflows to the agriculture sector. The average growth of service sector output is highest (almost 9 percent) following the industrial sector (around 7 percent) and agriculture sector (nearly 3 percent).

To know the sectoral impact of decomposed FDI on economic development of India it is also obvious to consider sector wise output figures. Table 2.13 points out the percentage contribution of different sectors, namely, agriculture, industry and service sectors to Indian economy in terms of real GDP. Since the inception of liberalization to till the period the proportion of agricultural sector's contribution is more or less persistence at around 20 percent level. We clearly observe the percentage share of industrial output contribution to GDP has gradually been declined across the study periods. As the agriculture sector's portion is almost constant and industrial sector having prominent retrograde trend, so obviously service sector makes an inclining trend to exert a significant contribution towards GDP over the liberalized periods. Statistically, service sector's contribution was 51 percent in the year 1991-92, which move out to almost 70 percent in recent years, whereas industrial sector's contribution has been fallen down from around 29 percent in 1991-92 to nearly 12 percent in 2016-17.

Table 2.13: Proportion of Contribution of Sectoral GDP to Total Real GDP

Year	%Contribution of Agricultural GDP	%Contribution of Industrial GDP	%Contribution of Service GDP
1991-92	20.27	28.60	51.13
1992-93	19.85	28.97	51.18
1993-94	20.14	28.32	51.54
1994-95	20.90	27.87	51.23
1995-96	21.97	25.76	52.26
1996-97	21.96	26.27	51.78
1997-98	21.47	24.49	54.05
1998-99	20.83	24.41	54.75
1999-00	20.36	23.27	56.37
2000-01	20.69	22.31	57.00
2001-02	20.03	22.42	57.55
2002-03	20.58	20.13	59.28
2003-04	20.12	20.32	59.56
2004-05	20.22	19.03	60.75
2005-06	20.05	18.27	61.67
2006-07	20.66	17.37	61.97
2007-08	20.65	16.81	62.54
2008-09	20.14	15.77	64.10
2009-10	20.43	14.64	64.94
2010-11	20.30	14.59	65.10
2011-12	20.30	14.37	65.33
2012-13	20.13	13.83	66.33
2013-14	19.78	13.77	66.85
2014-15	20.03	12.81	67.91
2015-16	20.45	11.95	68.62
2016-17	20.53	11.76	68.80

Source: MOSPI and Researcher's Calculation

2.12 Portfolio Investment in India

Although the inflow of net FPI is more fluctuating and of lower volumes, its abandon flows in Indian context are indispensable for strengthening the capital market by providing much more liquidity.

Table 2.14: FII and its share in FPI

YEAR	Net Portfolio Investment (FPI) (₹ in billion)	FIIs (₹ in billion)	Other Investments (₹ in billion)	% of FII on FPI
1991-92	0	0	0	98
1992-93	7	0	7	0
1993-94	112	52	60	46
1994-95	120	47	73	39
1995-96	92	67	25	73
1996-97	118	68	50	58
1997-98	68	36	32	53
1998-99	-3	-16	13	533
1999-00	131	93	38	71
2000-01	126	84	42	67
2001-02	96	72	24	75
2002-03	47	18	29	38
2003-04	551	528	23	96
2004-05	417	390	27	94
2005-06	553	439	114	79
2006-07	314	146	168	46
2007-08	1,105	818	287	74
2008-09	-645	-691	46	107
2009-10	1,537	1,378	159	90
2010-11	1,380	1,341	39	97
2011-12	823	806	17	98
2012-13	1,463	1,501	-38	103
2013-14	292	303	-11	104
2014-15	2,581	2,502	79	97
2015-16	-270	-263	-7	97
2016-17	531	519	12	98

Source: DBIE – RBI and Researcher's Calculation

2.13 Debt-Equity Investment: Dichotomy of FII

Therefore, providing emphasis on FIIs, the investors have binary options; either invest in equity or debt, for the way of entering into the Indian capital market. Table 2.15 depicts the investment by FIIs in the form of equity and debt for 17 years ranging from 2000-01 to 2016-17. From the numerical figures of investment by FIIs under both types, it is clear about the skewness towards investment in equities with an average of ₹ 47,760 crores per financial year rather debts with almost averagely ₹ 19,000 cores per year.

Table 2.15: Debt-Equity proportion in FII Investment

Year	**FIIs Investment in Equity ₹ in crore**	**FII Investment in Debt ₹ in crore**
2000-01	10206.7	-391.4
2001-02	8293	659.9
2002-03	2534.27	338.85
2003-04	43483.5	5709.84
2004-05	39346	1878.9
2005-06	48069.9	-6765.6
2006-07	21518.93	5367.11
2007-08	51595.3	11771
2008-09	-46700.7	1860.8
2009-10	111442.8	32046.6
2010-11	110529.7	42145.1
2011-12	46493.1	50997.3
2012-13	138586.1	39951.7
2013-14	81728.9	-27892.2
2014-15	108672.8	162821.9
2015-16	-17579.2	14382.41
2016-17	53696.06	-11059.2

Source: INDIASTAT and Researcher's Calculation

Meanwhile, table 2.15 exhibits since 2003-04 FIIs investment in both equities and debt have been sharply geared up and increase the volume of investments. But in 2008-09 huge outflow of FIIs, i.e.,₹ 46,700.7 crore, landmarks the historical high outflows, have made an adverse impact in the Indian capital market due to the fact of world subprime mortgage crisis. This is noteworthy to mention that the FIIs net flows in the debt is even positive for the severe crisis period signifies the faith and strength of the debt market, although the economic ripples make investors more conservative.

However in the following year conversely enormous inflow of FII in equity-stock make a historical high net volume. The 2014-15 may consider golden year for Indian capital market with respect to FII investment, as the concurrent volume is sky-high in the history of FII investment into India. So, in line with the FIIs, both of its components have sharp fluctuation in investment in the presented years which coincide with the volatility postulation.

2.14 Summary of Foreign Investment in India

In this chapter we try to provide an overview of foreign investment scenario of India in the era of liberalization since 1991. To investigate we have considered and analyzed various macroeconomic and sector level variables of Indian economy and attempted to make an empirical verification of the theoretical proposition that there is positive relationship between foreign investments and its different forms on the economic development process of Indian economy. To sum up, although the foreign investment had been invited to reduce balance of payment crisis or specifically manage the savings-investment gap, none of the objectives could be fulfilled before the inception of liberalization to till the periods. One remarkable point should be mentioned in this context is that significant increases in savings rate and investment rate as percentage of gross domestic product have been registered during the period of our study. This indicates the better income generation and consumption habits of the people of the economy and greater spending of the government towards development activities.

Considering the world wide wave of foreign capital flows it is observed that developing countries have overstepped the developed countries in these areas and have almost reached the levels of foreign investment in their cointries since liberalization. In line with developing countries, in India, since liberalization to yill date there has been almost fourfold increase in foreign investment through its major two hands, FDI and FII, though the average inflow of FDI has been much higher than the average net inflow of FII during this period. Besides this, this period has witnessed almost a double digit phenomenal GDP growth. Therefore, we can make the following statements with confidence that i) the economic development of the country has allured foreign investors to invest in India ii) foreign investments have exerted significant positive impact on the economic development iii) however, either way the economic development and foreign investment have been found to be highly correlated.

Another important point in this is that, due to policy strategies only a few countries have major shares, accounting for more than 50 percent of the total cross border direct investment, in the total FDI in India. Recently, the government has announced that the Double Taxation Avoidance Agreement 1983 will be completely defunct within 2020. Conversely, the government has been continuously relaxing the policy restrictions for foreign capitals and consequently, most of the sectors have allowed 100 percent foreign capitals through Reserve Bank of India’s automatic route.

Sector level fact- figures investigation provides a clear evidence in this regard that both service sectors contribution to GDP and absorption of cross boarder inbound investment inflows to service sector is very high in comparison to other two sectors. Whereas, manufacturing sector gradually declines with respect to its contribution in GDP. But, agriculture sector has been remained persistently low at a constant level. Therefore, development of manufacturing sector through FDI seems to be reasonable hijacked by service sector’s development is hijacked by service sectors development. Finaly, in India we found imbalance in sectoral development.