

FDI during Pre-reform and Post-reform Period: A Comparative Study

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Abstract

It is well recognized that the role of Foreign Investment (FI) in India's Industrialization vis-à-vis economic development has a historical inheritance. So far as FDI is concerned, one can easily find a sharp distinction between the nature of FDI during the pre-reform period and post-reform period. In the pre-reform period it was mainly in technical collaboration. Surprisingly, in the post-reform period the flow of FDI in India was in the nature of Merger & Acquisitions and Greenfield Investments (GI). At present about two-fifth of the total flow of FDI in India has been found to be in the form of M&A. Horizontal M&A occupies a dominant place relative to vertical M&A with a strategy of non-price modes of rivalry involving a contrived entry barrier. On the other hand, flow of FDI in the form of GI has still been found to enjoy a dominant position in the total flow of FDI and the liberalization has boosted this process of inflow such that there has been a radical change in its nature, pattern and composition. The paper tries to undertake a comparative study of FDI during the pre-reform and post-reform period. For the purpose of the study, secondary data were collected, of course, keeping in mind the convenience and time limitations. The secondary data were backed up by apt analyses and concluding observations at the end.

Key Words: *Foreign Direct Investment, Greenfield Investment, Industrialisation, Mergers and Acquisitions.*

1. Introduction

It is well recognized that the role of Foreign Investment (FI) in India's Industrialization vis-à-vis economic development has a historical inheritance. So far as its nature is concerned, it is found that the inflow of FI in India has taken the form of Foreign Direct Investment (FDI) and Foreign Institutional Investment (FII). Interestingly, the flow of FII in India has recently occupied a conspicuous place due to free cross-country mobility of capital as an outcome of the widespread deregulation in Trade, Investment and Finance due to globalization. In fact, a majority of this FII has been found to be invested for short term speculative gain. So far as FDI is concerned, one can easily find a sharp distinction between the nature of FDI during the pre-reform period and post-reform period. In the pre-reform period it was mainly in collaborative form which consisted of pure collaboration and technical collaboration such that technical collaboration has been found to be to the order of 60% of all FI. Surprisingly,

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in the post-reform period the flow of FDI in India was in the nature of Merger & Acquisitions (M&A) and Greenfield Investments (GI). Of these two forms, the former that is flow of FDI through M&A by multinational corporations has been of very recent origin and is gradually gaining larger importance since 1995. At present about two-fifth of the total flow of FDI in India has been found to be in the form of M&A such that the horizontal M&A occupies a dominant place relative to vertical M&A with a strategy of non-price modes of rivalry involving a contrived entry barrier. Now, since the M&A result into cross border buying and selling of assets (i.e., transfer of assets), one has to investigate whether M&A has led to a net addition to the industrial capital assets of our country.

On the other hand, flow of FDI in the form of GI has still been found to enjoy a dominant position in the total flow of FDI and the liberalisation has boosted this process of inflow such that, there has been a radical change in its nature, pattern and composition particularly after the liberalisation. The data on the magnitude of FDI clearly reveal so such that there is a tremendous fall in share of FDI in manufacturing sector from (84.9% to 37.18%) which is accompanied by a sharp increase in the flow of FDI in infrastructural sector such as energy and power from (0.1% to 28.91%) and telecommunication services (20.21%) over the period between 1990-1997. Now since we know that the Greenfield Investment actually implies the creation of assets or industrial capital, it is necessary to explore the impact of such investment on the industrial growth vis-à-vis the overall economic development of our economy. The data on FI along with its breakup however do not reveal a uniform trend and pattern of change. It seems that there has been break in trend particularly since inception of the process of globalization. In fact, the non-linear dynamics of the FI in India has been found to be linked with policies which have been pursued by the Government of India from time to time. So far as the evolution of Government policies towards FI is concerned, one can safely distinguish it into four phase's viz.: (a) Phase I (1951 to mid 1960s); (b) Phase II (mid 1960s to 1980); (c) Phase III (1980s); (d) Phase IV (1990s and onwards).

Phase I was characterized by a soft attitude of the Government of India (GOI) towards FI because of the persuasion of the policy of import substitution as well as heavy industrialization. The implicit reason behind this was that at that time India was constrained by capital, technology and infrastructure. As an outcome there was large outflow of resources from India towards the payment of royalty, dividend and fees of technological expertise resulting into severe Balance of Payment (BOP) crisis. So Government was compelled to pursue restrictive attitude towards FI in Phase II particularly to those which were unaccompanied by technology transfer and which demanded more than 40% foreign ownership. Further Indian economy has been found to experience a prolonged industrial stagnation during mid 60s to 1978 which also produced a dampening impact on the inflow of FDI. As a complementary to this, Foreign Exchange Regulation Act (FERA) was also introduced in 1970s. However, as fallout of these Indian industries continued to suffer from technological backwardness. So for bringing about modernization in Indian industries, once again the GOI continued to follow a liberal policy toward FI in the 3rd phase i.e., during 1980s. Finally, with the adoption of the policy of economic reforms since 1991 which entail the objective of Liberalization, Privatization and Globalization (LPG) resulted into a gradual switchover from bureaucratic control over trade, investment and finance to the transcendental marketism. As its fall out, there has been a widespread deregulation in trade, investment and finance. Now if one compares the behaviour of FI then it can easily be found that there is a spurt in the inflow of FI in the 1st phase which has been followed by a modest decline in the 2nd phase and finally by an increasing trend since the 3rd phase.

2. Objectives and Methodology

There is a sharp distinction between the nature of FDI during the pre-reform period and post-reform period. For the purpose of systematic and comparative analysis of FDI, we have divided the discussion into two periods: pre-liberalization period and post-liberalization period. The research study is theoretical as well as empirical in nature. It is based on the secondary data which are mainly available from various reports of government and semi-government organizations in this field. The data collected from such various sources have been analysed by using some conventional statistical tools and concluding observations are made.

3. Trend and Progress of FDI during Pre-Liberalization Period (1948-1990)

Under this period, all dimensions and aspects of FDI are undertaken which covers the time period from independence till liberalization of the Indian economy. Table- 1 summarizes the foreign collaboration approvals during 1948-90. This table presents the average number of collaborations per year, the proportion of foreign collaboration with equity participation and the volume of foreign investment approved. It is discernible from the table that in the first decade after independence from 1948 to 1958, the average number of collaborations approved per year was 50 but due to the announcement of some major policy changes in the second half of 1950's resulted in an increase of almost five folds in the number of collaborations which rose to 297 during 1959-66.

During this period, the foreign exchange was badly needed and on account of this fact almost 36 per cent collaboration approvals were with financial participation. Then came the restrictive phase in which the government adopted strict measures. The FERA was introduced in this phase i.e. from 1967-79. It brought down the average number of approvals to 242. With FERA in use, the proportion of foreign financial collaboration fell substantially from 36 per cent during 1956-66 to 16.11 per cent 1967-79.

Table 1: Foreign Collaboration Approvals (1948-1990)

| Period | Average Number of collaborations approved per year | Those with foreign Equity | | Average Foreign Investment involved per year (Rs. Million) |
|----------------|--|---------------------------|---------------------|--|
| | | Average Number per year | Proportion in total | |
| 1948-58 | 50 | NA | NA | NA |
| 1959-66 | 297 | 108 | 36.36 | NA |
| 1967-79 | 242 | 39 | 16.11 | 53.62 |
| 1980-88 | 744 | 170 | 22.80 | 930.84 |
| 1989-90 | 635 | 194 | 30.55 | 2224.95 |

Source: Compiled by the Author from various issues of RBI Bulletins: (July 1978, December 1984, April 1985 and August 1993) – NA stands for 'Not Available'

Table 2: Foreign Collaboration Approvals Involving Foreign Capital Participation and Foreign Investment (1948-1990)

| Year | Total Number of Cases Approved | Cases involving Foreign Capital Participation | Foreign Investment involved (Rs. Millions) |
|---------|--------------------------------|---|--|
| 1948-55 | 284 | NA | NA |
| 1960 | 82 | NA | NA |
| 1970 | 183 | 32 | 24.52 |
| 1980 | 526 | 73 | 89.24 |
| 1990 | 666 | 194 | 1,283.2 |

Source: Compiled by the Author from the Annual Report: 1992, Department of Scientific and Industrial Research, Ministry of Industry, Government of India, Economic Survey of India: 1992-93, GOI and SIA Newsletter: March 1994.

Table: 2 shows statistical data regarding the foreign collaboration approvals from 1948 to 1990. It is discernible from the table that in the period from 1948 to 1955, the total number of approved cases was 284, which decreased to 82 in 1960. The total number of foreign collaboration approvals in the year 1970 was 183 which significantly increased when compared to the figure of 1960. Out of 183 cases, 32 have foreign capital participation with the total foreign investment involved amounted to Rs. 24.52 million. This may have happened due to the restrictive measure adopted by the government and the introduction of FERA in the previous year.

Table 3: Country wise Distribution of FDI (1964-1990)

(in Rs. Crore)

| Country | 1964 | | 1980 | | 1990 | |
|-------------|-------|----------|-------|----------|------|----------|
| | FDI | Per cent | FDI | Per cent | FDI | Per cent |
| U.K | 433.0 | 76.57 | 503.3 | 53.93 | 1321 | 48.8 |
| U.S.A | 82.3 | 14.53 | 196.4 | 21.04 | 518 | 19.1 |
| Germany | 6.4 | 1.13 | 65.0 | 6.96 | 167 | 9.9 |
| Japan | n.a | n.a | 4.3 | 0.46 | 132 | 4.9 |
| Sweden | 7.8 | 1.38 | 20.1 | 2.15 | 77 | 2.8 |
| Switzerland | 13.6 | 2.40 | 54.7 | 5.86 | 86 | 3.2 |
| Canada | 8.7 | 1.50 | 34.1 | 3.65 | 77 | 2.8 |
| Netherlands | n.a | n.a | n.a | n.a | 36 | 1.3 |

Source: Compiled by the Author from the Annual Report: 1992, Department of Scientific and Industrial Research, Ministry of Industry, Government of India, Economic Survey of India: 1992-93, GOI and SIA Newsletter: March 1994.

From the Table 3, it is evident that UK has topped as the main source of FDI inflows in India in pre-liberalization period. In 1964, UK's share was around 76.57 and in 1990 although it has decreased to 48.8 but it was top among other countries. The share of FDI from U.S.A registered an increasing trend from 14.5 per cent in 1964 to 19 per cent in 1990. The amounts of FDI from Germany, Japan, Sweden, Switzerland and Canada also recorded increasing trend in 1990 when compared with the period of 1964 in terms of FDI inflows.

Table 4: Sectoral Distribution of the Stock of FDI in India (1964-1990)*(in Rs. Crore)*

| Industry | March 1964 | March 1974 | March 1980 | March 1990 |
|--|------------------|------------------|------------------|-----------------|
| A. Plantations | 105.6 (18.7) | 107.2 (11.7) | 38.5 (4.1) | 256 (9.5) |
| B. Mining | 4.7 (0.9) | 6.4 (0.8) | 7.8 (0.8) | 8.0 (0.3) |
| C. Petroleum | 143.3 (25.3) | 137.9 (14.7) | 36.8 (3.9) | 3.0 (0.1) |
| D. Manufacturing | 229.3 (40.5) | 625.6 (68.4) | 811.6 (86.9) | 2298 (84.9) |
| i. Food and Beverages | 30.2 (13.2) | 52.1 (8.3) | 39.1 (4.8) | 162 (7.0) |
| ii. Textile Products | 16.6 (7.2) | 35.6 (5.7) | 32.0 (3.9) | 92 (4.0) |
| iii. Machinery and Machine Tools | 15.7 (6.8) | 42.1 (6.7) | 71.0 (8.8) | 354 (15.4) |
| iv. Transport Equipment | 15.0 (6.5) | 32.1 (5.1) | 51.5 (6.3) | 282 (12.3) |
| v. Metal and Metal Product | 33.1 (14.4) | 86.7 (13.9) | 118.7 (14.7) | 141 (6.1) |
| vi. Electrical Goods | 18.2 (7.9) | 68.1 (10.9) | 97.5 (12.0) | 295 (12.8) |
| vii. Chemical and Allied Products | 60.1 (26.2) | 203.7 (32.6) | 30.8 (37.2) | 769 (33.4) |
| viii. Miscellaneous | 40.4 (17.6) | 105.0 (16.7) | 100.0 (12.3) | 203 (8.8) |
| E. Service | 82.3 (14.6) | 39.8 (4.4) | 38.5 (4.1) | 140 (5.2) |
| Total | 565.5 (100.0) | 916.9 (100.0) | 933.2 (100.0) | 2705 (100.0) |

Source: Compiled by the Author from various issues of RBI Bulletins.

Note: Figures in parenthesis show percentage from the total.

Table: 4 gives a detailed account as regards the distribution of FDI at the end of financial years 1964, 1974, 1980, and 1990 in some important industries like plantation, mining, petroleum, manufacturing and services. It is evident from the table that the FDI inflow in plantation has decreased from 18.7 per cent in 1964 to 9.5 per cent in 1990. During 1964,

manufacturing got highest share of 40.5 per cent followed by petroleum 25.3 per cent, plantations 18.7 per cent, services 14.8 per cent and mining 0.9 per cent. Mining and petroleum sectors recorded declining trend and their share was almost negligible.

Manufacturing appears the only one sector showing an exponential rise from its share of 40.5 per cent in 1964 to 84.9 per cent in 1990. The share of services sector showed decreasing trend during the period under reference. It share was 14.6 per cent in 1964 which further decreased to a low of 4.1 per cent in 1980. But its share has shown an increasing trend of 5.2 per cent from 4.2 per cent in 1990s and 1980s respectively.

4. Trend and Progress of FDI since Liberalization (after 1991)

Since inception of liberalization in 1990 and 1991, Government has been trying to increase size of FDI for economic development and social development. Time to time when Government realized amendment and changes are required in policies and procedures, changes are done which also affect the quantum of FDI.

Table 5: Foreign Direct Investment (FDI) Approved and Inflows of FDI received during the Year 1991-2007

| Year (January to December) | No. of FDI Approvals | Amount of FDI Approved (in Rs. crore) | Amount of FDI Inflows (in Rs. crore) | % age of realization rate-inflow with approval |
|----------------------------|----------------------|---------------------------------------|--------------------------------------|--|
| 1991 (Aug-Dec) | 203 | 504.90 | 353.48 | 70.01 |
| 1992 | 693 | 3817.89 | 691.20 | 18.10 |
| 1993 | 785 | 8861.80 | 1861.96 | 21.01 |
| 1994 | 1039 | 8955.22 | 3112.23 | 34.75 |
| 1995 | 1350 | 30882.11 | 6485.36 | 21.00 |
| 1996 | 1545 | 30886.05 | 8752.19 | 28.34 |
| 1997 | 1656 | 50388.86 | 12989.76 | 25.78 |
| 1998 | 1184 | 27589.57 | 13269.23 | 48.10 |
| 1999 | 1720 | 25140.28 | 10166.71 | 40.44 |
| 2000 | 1702 | 17236.97 | 12353.73 | 71.67 |
| 2001 | 1976 | 20939.68 | 16777.75 | 80.12 |
| 2002 | 1963 | 11058.10 | 18195.56 | 164.55 |
| 2003 | 1550 | 5416.59 | 11617.17 | 214.47 |
| 2004 | 1436 | 8741.25 | 17266.52 | 197.53 |
| 2005 | 445 | 7899.53 | 19299.09 | 244.31 |
| 2006 | 266 | 23003.61 | 50357.21 | 218.91 |
| 2007 | 257 | 19911.14 | 79735.66 | |
| Total | 19770 | 301233.52 | 283284.73 | 94.04 |

Sources: Hand Book of Industrial Policy and Statistics 2007-08 Office of the Economic Adviser, Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, p.106

Note: above given information excludes GDRs/ADRs

5. Route-wise Foreign Direct Investment

FDI is allowed under different schemes and different routes. Policies and procedures have been changed time to time as notified by the Government Foreign Direct Investment in India is allowed through following channels:

- (i) Government Approval Route [Approval by Foreign Investment Promotion Board (FIPB), Secretariat for Industrial Assistance (SIA), Department of Industrial Policy & Promotion (DIPP)]
- (ii) RBI's Automatic Route.
- (iii) Inflows through Acquisition of Existing Shares.
- (iv) Reserve Bank of India's various NRI's Schemes.
- (v) Advances.

Data of route wise foreign direct investment (year to year) has been taken. There are two main channels for the entry of FDI into India: the SIA/FIPB Route and the RBI Automatic Approval Route. From the inception of economic reforms in India in 1991 until the year 2000, most of the FDI came through the government route as there was strict monitoring of the approvals, therefore, FDI coming through the SIA/FIPB route was greater than the FDI coming through the RBI route (Table 6). However, there has been a dilution of this trend in the past five years. With the investment boom in India and different states competing for FDI, the government has eased foreign investment regulations leading to a spurt in FDI coming through the RBI route, which is a positive sign.

Table 6: Route-wise FDI Inflows in India (Aug 1991 to March 2009)

| Route-wise FDI Inflows (in US \$ million) | | | | | |
|---|------------------|-----------------------|--|----------------------------|-------|
| Year (Jan-dec) | FIPB & SIA route | RBI's Automatic Route | Inflows through acquisition of existing shares # | RBI's Various NRI schemes* | Total |
| 1991 (Aug-Dec) | 78 | - | - | 66 | 144 |
| 1992 | 188 | 19 | - | 59 | 264 |
| 1993 | 340 | 79 | - | 189 | 608 |
| 1994 | 511 | 116 | - | 365 | 992 |
| 1995 | 1264 | 169 | - | 633 | 2065 |
| 1996 | 1677 | 180 | 88 | 600 | 2545 |
| 1997 | 2824 | 242 | 266 | 290 | 3621 |
| 1998 | 2086 | 155 | 1028 | 91 | 3359 |
| 1999 | 1474 | 181 | 467 | 83 | 2205 |
| 2000 | 1474 | 395 | 479 | 81 | 2428 |
| 2001 | 2142 | 720 | 658 | 51 | 3571 |
| 2002 | 1450 | 813 | 1096 | 2 | 3361 |
| 2003 | 934 | 509 | 637 | - | 2079 |
| 2004 | 1055 | 1179 | 980 | - | 3213 |
| 2005 | 1136 | 1558 | 1661 | - | 4355 |
| 2006 | 1534 | 7121 | 2465 | - | 11120 |
| 2007 | 2586 | 8889 | 4447 | - | 15921 |
| 2008 | 3209 | 23651 | 6169 | - | 33029 |
| 2009(Jan-Mar) | 1992 | 3528 | 635 | - | 6155 |
| Total (as on March 31, | 27867 | 48343 | 21012 | 2509 | 99732 |

| | | | | | |
|---|--|--|--|--|--|
| 2009) | | | | | |
| Note: 1. Inflows through ADRs/GDRs/FCCBs against FDI approvals have not been included 2. # Data prior to 1996 not provided by the RBI. 3. From 2003, RBI's various NRI schemes inflows included under the heading RBI's Automatic Route. | | | | | |

During 1991, as much as 54.1 percent of total FDI was channeled through the SIA/FIPB route in contrast to 45.9 percent through the RBI route. No inflows on account of acquisition of existing shares were recorded for this year. The route-wise FDI inflows fluctuated till 1998. During 1998, the FDI inflows through the SIA/FIPB route accounted for 62.1 percent of the total FDI inflows, while those through the RBI's automatic route touched an all-time low of only 7.3 percent. However, by this year, inflows through acquisition had gained a significant share of 3.06 percent in total FDI inflows. The following period until 2007, for which the latest figures are available, recorded an increase in share of inflows through the RBI's automatic route, a decrease in the shares of inflows through the SIA/FIPB, while the share of inflows through acquisitions remain banded between 20 to 30 percent.

6. Sector-wise analysis of FDI inflows

Over the recent past, the sector-wise inflows of FDI have undergone a change. This is clear from the variation in the sector ranks based on their share in total FDI inflows. For comparison, we divide the period from August 1991 to March 2009 into two sub-periods of approximately the same length: the initial period of August 1991 to December 1999 and the second sub-period of 2000 to the latest available.

Table: 7 presents the ranks, names and shares of FDI inflows for the top 20 sectors and miscellaneous industries (therefore 21 industries in total), as reported in SIA publications. The figures are reported for the two cumulative periods and the year 2008 for which the latest information is available. The FDI inflows appear to be concentrated among the 21 industries. During the initial sub period, namely, August 1991 to December 1999, the 21 sectors constituted 69.3 percent of total FDI inflows, whereas during the second sub period, namely, January 2000 to March 2009, these sectors constitute 84.3 percent of the total FDI inflows. The emergence of the service sector is clear from a comparison of the shares over the two sub periods. Other new sector entrants in the list of top five recipient sectors include computer software & hardware, construction activities and housing & real estate.

Table 7: Sector-wise Break-up of FDI Inflows in India (August 1991 to October 2008)

| Sector-wise Break-up of FDI Inflows | | | |
|-------------------------------------|---|------------------------------------|---|
| Rank | Sector [Shares as % of total investment] | | |
| | Aug 1991 – Dec 1999 | Jan 2000 – March 2009 | 2008 |
| 1 | Transportation industry (8.9) | Service sector (21.2) | Service sector (24.3) |
| 2 | Electrical Equipment (including S/W & Elec) (8.0) | Computer Software & Hardware (9.9) | Telecommunications (8.3) |
| 3 | Service sector (7.0) | Telecommunications (7.1) | Housing & Real Estate (including Cineplex, Multiplex, Integrated Townships & Commercial |

| | | | |
|----|---|--|--|
| | | | Complexes) (8.1) |
| 4 | Telecommunications (6.9) | Housing & Real Estate (including Cineplex, Multiplex, Integrated Townships & Commercial Complexes, etc.) (6.1) | Construction Activities (7.4) |
| 5 | Chemicals (other than fertilizers) (6.9) | Construction Activities (5.7) | Computer Software & Hardware (5.6) |
| 6 | Fuels (Power & Oil Refinery) (6.3) | Automobile industry (3.9) | Metallurgical industries (4.5) |
| 7 | Food-Processing industries (4.1) | Power (3.6) | Ports (4.0) |
| 8 | Paper and Pulp (including Paper Products) (1.5) | Metallurgical industries (3.0) | Petroleum & Nature Gas (4.0) |
| 9 | Miscellaneous Mechanical & Engineering (1.4) | Petroleum & Nature Gas (2.6) | Power (3.9) |
| 10 | Textiles (including Dyed, Printed) (1.4) | Chemicals (other than fertilizers) (2.4) | Automobile industry (3.4) |
| 11 | Drugs & Pharmaceutical (1.4) | Cement and Gypsum Products (1.9) | Cement and Gypsum Products (2.1) |
| 12 | Trading (1.1) | Ports (1.7) | Trading (2.0) |
| 13 | Metallurgical industries (1) | Trading (1.7) | Chemicals (other than fertilizers) (1.9) |
| 14 | Glass (0.9) | Drugs & Pharmaceuticals (1.7) | Information & Broadcasting (including Print Media) (1.6) |
| 15 | Commercial, Office & Household Equipment (0.9) | Electrical Equipment (1.6) | Hotel & tourism (1.6) |
| 16 | Industrial Machinery (0.6) | Information & Broadcasting (including Print Media) (1.5) | Fermentation industries (1.1) |
| 17 | Rubber Goods (0.5) | Hotel & tourism (1.4) | Consultancy Services (1.1) |
| 18 | Hotel & Tourism (0.5) | Consultancy Services (1.4) | Hospital & Diagnostic Centres (1.0) |
| 19 | Agricultural Machinery (0.3) | Food-Processing industries (0.9) | Electrical Equipment (0.8) |
| 20 | Ceramics (0.2) | Electronics (0.8) | Drugs & Pharmaceuticals (0.8) |
| 21 | Miscellaneous industries (9.5) | Miscellaneous industries (5.0) | Miscellaneous industries (4.9) |

7. Country-wise analysis of FDI inflows

Among the countries heading the list of FDI inflows into India is Mauritius (Table 8). This could be attributed to the double taxation treaty that India has signed with Mauritius and also to the fact that most US investment into India is being routed through Mauritius. However, Singapore is the second largest investor in India followed by the US and other developed countries like the UK and the Netherlands, which are India's major trading partners. Table 4

shows the share of the top investing countries in India’s FDI for the two sub periods mentioned earlier. While the significance of Germany and Japan has declined in terms of their share in FDI inflows into India. Cyprus and the UAE have entered the list of top 10 investing countries during the recent cumulative period.

Table 8: Share of Top Investing Countries in FDI Inflows in India

| Shares of Top Investing countries (in US \$ million) | | | |
|--|--|-----------------------|-------------------|
| Rank | Country (share as % of total investment) | | |
| | Aug 1991 – Dec 1999 | Jan 2000 – March 2009 | 2008 |
| 1 | Mauritius (21.6) | Mauritius (42.8) | Mauritius (40.9) |
| 2 | U.S.A. (14.4) | Singapore (11.3) | Singapore (8.6) |
| 3 | Japan (5.1) | U.S.A. (5.4) | U.S.A. (7.2) |
| 4 | Germany (4) | U.K. (5.0) | U.K. (5.8) |
| 5 | U.K. (3.8) | Cyprus (4.2) | Netherlands (4.0) |
| 6 | Netherlands (3.7) | Netherlands (3.1) | Japan (2.9) |
| 7 | Korea (South) (3.6) | Germany (2.4) | Cyprus (2.5) |
| 8 | Singapore (2.1) | France (1.5) | Germany (2.4) |
| 9 | Hong Kong (1.6) | Japan (1.2) | France (1.4) |
| 10 | France (1.6) | Russia (1.1) | U.A.E. (1.0) |

8. Conclusion

From the above overall discussion, it came to light that FDI climate in India has improved a lot in the post-liberalization period of Indian economy. It was observed that in the pre liberalization era (i.e. 1948-1990), policy towards FDI was not liberalized and rationalized. A number of sectors like civil aviation, defense, retailing, telecommunications etc. were not open to foreign investors. Moreover, the overall policy and attitude towards foreign investors was very restrictive and protective. However, whole of the FDI policy took a different turn when LPG process started in India and hence open door policy was promoted. This has made Indian economy to open all sectors except few ones like atomic energy, lottery business and gambling and betting (FDI policy, 2006).

It can be concluded that since the economic liberalization of the Indian economy, foreign investment particularly FDI has tremendously increased. The pattern of FDI in terms of country-wise and sector-wise has undergone a significant change since economic liberalization in India and has shown an increasing trend which has benefited the whole economy in its growth and development. Thus it can be said that the analysis of the data of FDI inflow and growth of the Indian economy in general shows that FDI has a positive impact on the economy.

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