TOM JACOB “IMPACT OF FOREIGN INVESTMENT FLOWS ON INDIAN ECONOMY IN THE POST LIBERALISATION ERA.” THESIS. RESEARCH DEPARTMENT OF COMMERCE ST THOMAS’ COLLEGE (AUTONOMOUS), UNIVERSITY OF CALICUT, 2019.

Chapter 3

Structure and Composition of the Foreign Investment in India

The 1990s were a dividing line and a turning point in the economic history of India as the 1940s in her political history. Just as in the second half of 1940s India woke up into political freedom, in the first half of the 1990s she liberated herself from her self - imposed economic restrictions through a series of economic reforms. The reforms which were in the nature of elimination of the market barriers, encouragement of private sector etc. were tailored to suit the growth rate of the economy and which in turn resulted in the free flow of foreign investment into India.

During the days of British rule Britain exported her capital to India but it was used as a means of exploitation. There were two major forms of British investment in India - direct private foreign investment made in coal, mining companies, jute mills, tea, coffee, rubber plantation and in sugar and sterling loans given to British government in India and public and semipublic organizations to undertake investment in railways, ports, electricity undertakings and other public utilities. These loans represented sterling debt. The British considered their investment in India as a favour done to India and claimed that the British capital was necessary because Indian capital was shy whereas British capital was adventurous. However Indian scholars criticize this view. Novorogi (1876)[142] in his classic paper on "Poverty and Unbritish Rule in India" argued

[142] Naorogi, D. (1901). Poverty and UnBritish Rule in India. Publication Division, Ministry of Information

that foreign investment and other exploitation by the British led to the drain of India's wealth. It is argued that free flow of foreign capital meant economic stagnation in India, while their absence (partial or total) provided an opportunity for Indian capital to open up avenues of industrial growth in areas choked off by imports.

Thus long years of foreign rule and foreign investment and their negative impact on her economy, India's commitment to socialistic pattern of society etc. influenced India to keep her economy a restriction ridden one and to maintain a tight regulatory economic regime not only related to domestic economic affairs but also in her foreign economic relations. Prior to 1991, capital flows to India predominantly consisted of aid flows, commercial borrowing and non-resident Indian deposits. Direct foreign investment was limited. Foreign companies wishing to invest in India were generally restricted to 40 percent equity participation subjected to requirements on technology transfer and limited to priority areas. Foreign portfolio investment was channeled almost exclusively into a limited number of public sector bond issues, while foreign equity holdings in Indian companies were not permitted. Emphasis was given for self-reliance and import-substitution. Debt flows and official development assistance were the major sources for meeting the current account deficits. In short there was a general dislike and distrust towards foreign investment.

By the end of 1980s, this policy began to receive shocking setbacks. The macroeconomic crisis that erupted in the first half of 1991 brought to a steep fall in foreign exchange reserves of India to about US $1 billion (equal to two week's imports), a sharp downgrading of India's credit rating, and a cut-off of foreign private lending. Its basic underlying features were high inflation (above 12 percent) large external debt and current account deficits (approximately 10 percent and 3 percent of GDP respectively) and a heavy and growing burden of domestic and foreign debt. These factors compelled India to depart drastically from her economic policies including the policy on capital market.

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and Broadcasting, Patiala.

3.1 Liberalization - India's Invitation of Foreign Investment

The origin of the above change of policy which came to be known as liberalization, can be traced back to the 1980s when India was compelled to borrow 5 billion US dollars from the IMF under Structural Adjustment Program, accepting the terms and conditions imposed by the latter and in the Report of the High Level Committee on Balance of Payments which gave importance to the need of non-debt flows instead of the debt flows, regulation of the external borrowing, control of the outflows in general and from Non-Resident Indians (NRIs) in particular, gradual shift towards capital account convertibility etc. The net result of all these are the birth of two major policies which paved the way for liberalization in India. They are the New Industrial Policy of 1991 and the New Economic Policy of 1992[143]. These policies substantially liberalized the terms and conditions of foreign investment in India and thus laid the foundation of modern foreign investment boom in India.

The main target of the new industrial policies of 1991 and 1992 was the lifting of restrictions imposed on foreign capital. This policy released huge concessions and relaxations of foreign capital instead of the then existed restrictions. It permitted foreign investment in minor industries, changed the policies and procedures related to FDI and FPI. As part of these policies Government has permitted FDI up to 100 percent under Automatic Route in most sectors. In short now the situation has been reversed i.e., if formerly the permitted areas of foreign investment were limited, now the prohibited or restricted areas of foreign investment became limited.

3.2 Foreign Direct Investment (FDI) in India

As mentioned above India's development strategy before the 1990s was dominated by a general dislike towards foreign investment, focused on self-reliance and import substitution, meeting of current account deficit through debt and

[143] Provisions of these two policies are given in Appendix B.1 and B.2

development assistance etc. But the 1990s witnessed a drastic change to this policy i.e., policy of pulling foreign investment.

However it does not mean that all the sectors of the Indian economy are equally liberalized for foreign direct investment. In other words even now there are some restricted sectors of foreign direct investment. These restrictions have been imposed in order to protect the interests of the country, as they either relate to national security or sensitive enough to keep apart the foreign companies, to keep the domestic companies from the competition from international firms etc. The few sectors of the Indian economy now restricted for foreign direct investment are: nidhi company, betting and gambling including casinos, chit fund business, real estate business, business in transferable development rights, lottery business, atomic energy, railways etc. It is true that governments have restricted foreign investment in certain sectors for the interest of the country as a whole but it is equally important that governments should take certain steps to encourage foreign direct investment in certain sectors preferably the underdeveloped sectors of the Indian economy.

3.2.1 Composition of the Foreign Direct Investment in India

Foreign direct investment in India has three components, viz., Equity Capital, Reinvested Earnings and Intra-Company Loans. Table 3.1 and Figure 3.1 show that foreign direct investors invested more through Equity Capital than Reinvested Earnings and Other Capital during the period 1991-2018. That is during this period their investment in Equity Capital, Reinvested Earnings and Other Capital was 68 percent, 27 percent and 5 percent respectively. It is observed that the foreign investors preferred to invest in Indian corporate through Equity Capital as compared to other forms of foreign direct investment. The preference given for Equity Capital in the liberalization policies is the major reason for the preference for Equity Capital in the foreign direct investment.

Table 3.1: Composition of Net FDI Inflows into India (US $ Million)

Year	Equity	Reinvested Earnings	Other Capital	Net FDI
1991-92	129	-	-	129
1992-93	315	-	-	315
1993-94	586	-	-	586
1994-95	1343	-	-	1343
1995-96	2143	-	-	2143
1996-97	2842	-	-	2842
1997-98	3562	-	-	3562
1998-99	2480	-	-	2480
1999-00	2167	-	-	2167
2000-01	2399	1352	280	4031
2001-02	4091	1644	390	6125
2002-03	2766	1832	438	5036
2003-04	2229	1460	633	4322
2004-05	3714	1904	369	5987
2005-06	5915	2760	226	8901
2006-07	16394	5828	517	22739
2007-08	26757	7679	292	34728
2008-09	31930	9030	777	41737
2009-10	22905	8669	1535	33109
2010-11	15737	13102	191	29029
2011-12	22833	8205	1914	39952
2012-13	16032	9880	1041	26953
2013-14	20489	8978	1296	30763
2014-15	22298	9988	2997	35283
2015-16	30587	10413	3907	44907
2016-17	27383	12343	2489	42215
2017-18	24196	12542	2492	39430
Total	**314222**	**127609**	**21984**	**463814**

Source: Compiled from Handbook of Statistics on Indian Economy

3.2.1.1 Foreign Direct Investment in India through the Equity Capital

Equity Capital that is foreign direct investors' purchase of shares of an enterprise in a country other than its own, is the dominant component of foreign

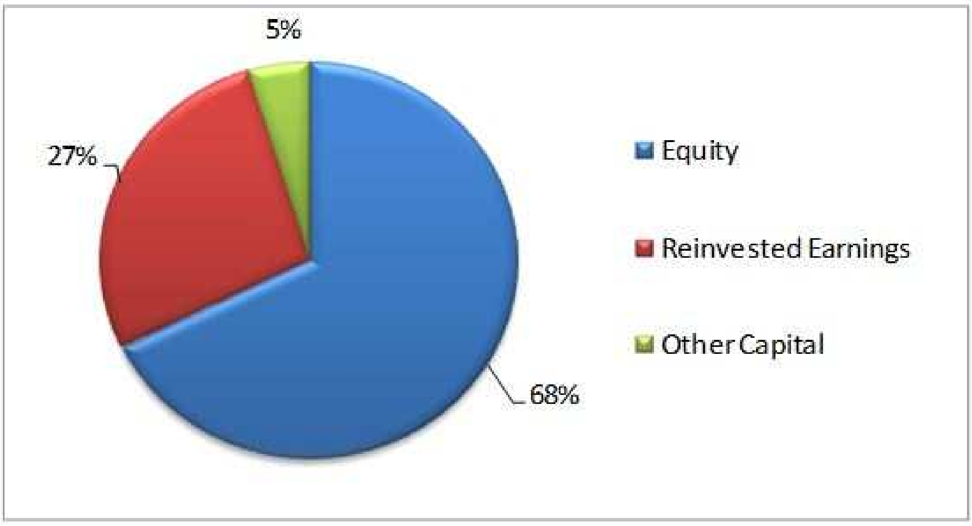

Figure 3.1: Composition of Net FDI Inflows into India (US $ Million)

direct investment in India. Table 3.2 and Figure 3.2 demonstrate the flow of foreign direct investment through the Equity Capital in India. Foreign direct investment in Equity Capital has been increased from $129 million in 1991-92 to $24196 million in 2017-18 and its compound annual growth rate is 22.30 percent.

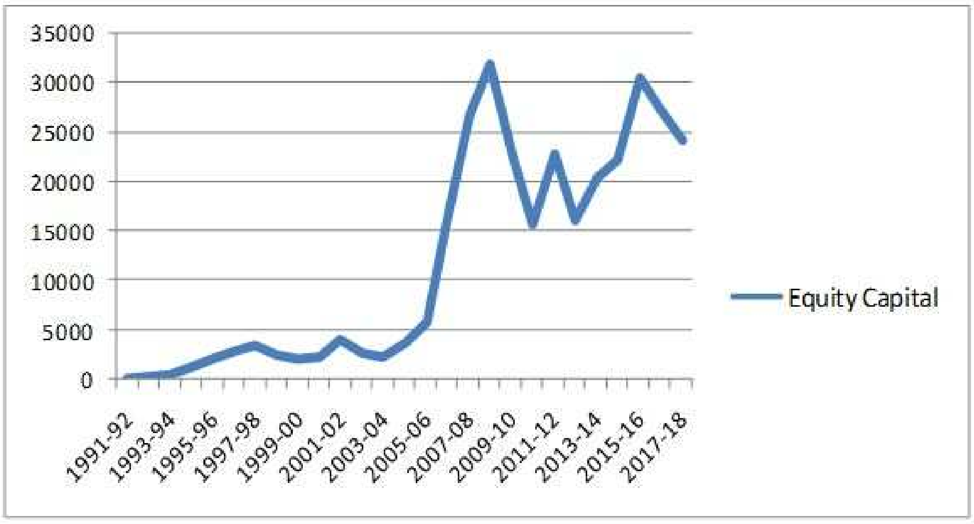

Figure 3.2: Flow of Foreign Direct Investment through Equity Capital

Table 3.2: Flow of FDI through Equity Capital (US $ Million)

Year	Equity Capital	FDI Flows	Percentage Contribution of Equity Capital to Total FDI	Annual Growth Rate of Equity Capital (%)
1991-92	129	129	100	-
1992-93	315	315	100	144.18
1993-94	586	586	100	86.03
1994-95	1343	1343	100	129.18
1995-96	2143	2143	100	59.56
1996-97	2842	2842	100	32.61
1997-98	3562	3562	100	25.33
1998-99	2480	2480	100	-30.37
1999-00	2167	2167	100	-12.62
2000-01	2399	4031	59.51	10.7
2001-02	4091	6125	66.79	70.52
2002-03	2766	5036	54.92	-32.38
2003-04	2229	4322	51.57	-19.41
2004-05	3714	5987	62.03	66.62
2005-06	5915	8901	66.45	59.26
2006-07	16394	22739	72.09	177.15
2007-08	26757	34728	77.04	63.21
2008-09	31930	41737	76.50	19.33
2009-10	22905	33109	69.18	-28.26
2010-11	15737	29029	54.21	-31.29
2011-12	22833	39952	57.15	45.09
2012-13	16032	26953	59.48	-29.78
2013-14	20489	30763	66.60	27.8
2014-15	22298	35283	63.19	8.82
2015-16	30587	44907	68.11	37.17
2016-17	27383	42215	64.86	-10.47
2017-18	24196	39430	61.36	-11.63
Total	**314222**	**463814**		

Source: Compiled from Handbook of Statistics on Indian Economy

Routes of Equity Capital Inflows

Foreign direct investment in Equity Capital are permitted through five areas or routes. They are: the Government Route (SIA/FIPB)[144], RBI (Automatic

[144] FDI in sectors not covered under the Automatic Route requires prior Government approval and are considered by the Foreign Investment Promotion Board (FIPB), Ministry of Finance.

Route)[145], Investment by NRIs, Acquisition of Shares, and Equity Shares of Unincorporated Bodies.

Table 3.3: Routes of Equity Capital Inflow (US $ Million)

Year	SIA/FIPB	RBI	NRI	Acquisition of Shares	Equity Shares of Unincorporated Bodies	Total
1991-92	66	-	63	-	-	129
1992-93	222	42	51	-	-	315
1993-94	280	89	217	-	-	586
1994-95	701	171	442	-	-	1314
1995-96	1249	169	715	11	-	2144
1996-97	1922	135	639	125	-	2821
1997-98	2754	202	241	360	-	3557
1998-99	1821	179	62	400	-	2462
1999-00	1410	171	84	490	-	2155
2000-01	1456	454	67	362	61	2400
2001-02	2221	767	35	881	191	4095
2002-03	919	739	-	916	190	2764
2003-04	928	534	-	735	32	2229
2004-05	1062	1258	-	930	528	3778
2005-06	1126	2233	-	2181	435	5975
2006-07	2156	7151	-	6278	896	16481
2007-08	2298	17127	-	5148	2291	26864
2008-09	5400	21332	-	4632	702	32066
2009-10	3471	18987	-	3148	1504	27146
2010-11	1945	12994	-	6437	874	22250
2011-12	3046	20427	-	11360	1021	35854
2012-13	2319	15967	-	3539	1059	22884
2013-14	1185	14869	-	8245	975	25274
2014-15	2219	22530	-	6185	978	45148
2015-16	3574	32494	-	3933	1111	41112
2016-17	5900	30417	-	7161	1223	44701
2017-18	7797	29569	-	7491	664	45521
Total	**59447**	**251007**	**2616**	**80948**	**14735**	**422025**

Source: Compiled from RBI Bulletin

Table 3.3 shows that in 1991-92 there was only two routes namely SIA/FIPB and NRI. The other three routes i.e., RBI route, Acquisition of Shares and

[145] FDI is allowed under the Automatic Route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the Consolidated FDI Policy, issued by the Government of India from time to time.

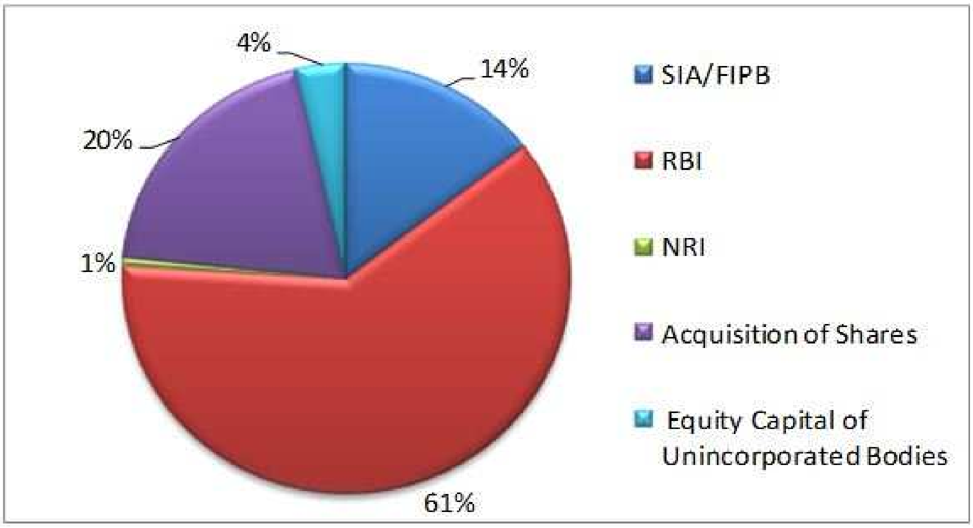

Figure 3.3: Route of Equity Capital Inflows (US $ Million)

Equity Capital of Unincorporated Bodies were began to contribute in 1992-93, 1995-96 and 2000-01 respectively. NRI routes has been stopped in 2001-02. All routes are highly fluctuating from its inception itself. Figure 3.3 shows that Automatic Route (RBI Route) has prominent role in FDI equity flows i.e., 61 percent of total FDI Equity Capital Flows came through Automatic Route. The percentage of contribution of other routes - Acquisition of Equity Shares, Government Route (SIA, FIPB), Equity Capital of Unincorporated Bodies, and NRI - to the total Equity Capital Flows is 20, 14, 4, and 1 respectively.

3.2.1.2 Reinvested Earnings

Reinvested Earnings comprises the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.

Table 3.4 shows that the flow of foreign direct investment through Reinvested Earnings opened its account only in the year 2000-01 and from its inception onwards it shows a fluctuating trend. It achieved a remarkable and highest growth rate of 111% in the year 2006-07. FDI in Reinvested Earnings has been increased from $1352 million in 2000-01 to $12542 million in 2017-18. It has recorded an impressive compound annual growth rate of 14 percent,

Table 3.4: Flow of FDI through Reinvested Earnings (US $ Million)

Year	Reinvested Earnings	Total FDI	Percentage of Contribution of Reinvested Earnings to Total FDI	Annual Growth Rate of Reinvested Earnings (%)
1991-92	-	129	0	0
1992-93	-	315	0	0
1993-94	-	586	0	0
1994-95	-	1343	0	0
1995-96	-	2143	0	0
1996-97	-	2842	0	0
1997-98	-	3562	0	0
1998-99	-	2480	0	0
1999-00	-	2167	0	0
2000-01	1352	4031	33.54	0
2001-02	1644	6125	26.84	21.6
2002-03	1832	5036	36.38	11.44
2003-04	1460	4322	33.78	-20.31
2004-05	1904	5987	31.8	30.41
2005-06	2760	8901	31.01	44.96
2006-07	5828	22739	25.63	111.16
2007-08	7679	34728	22.11	31.76
2008-09	9030	41737	21.64	17.59
2009-10	8669	33109	26.18	-4
2010-11	13102	29029	45.13	51.14
2011-12	8205	39952	20.54	-37.38
2012-13	9880	26953	36.66	20.41
2013-14	8978	30763	29.18	-9.13
2014-15	9988	35283	28.3	11.25
2015-16	10413	44907	23.18	4.26
2016-17	12343	42215	29.23	18.53
2017-18	12542	39430	31.8	1.61
Total	**127609**	**463814**		

Source: Compiled from Handbook of Statistics on Indian Economy

during the last eighteen years. (refer Figure 3.4).

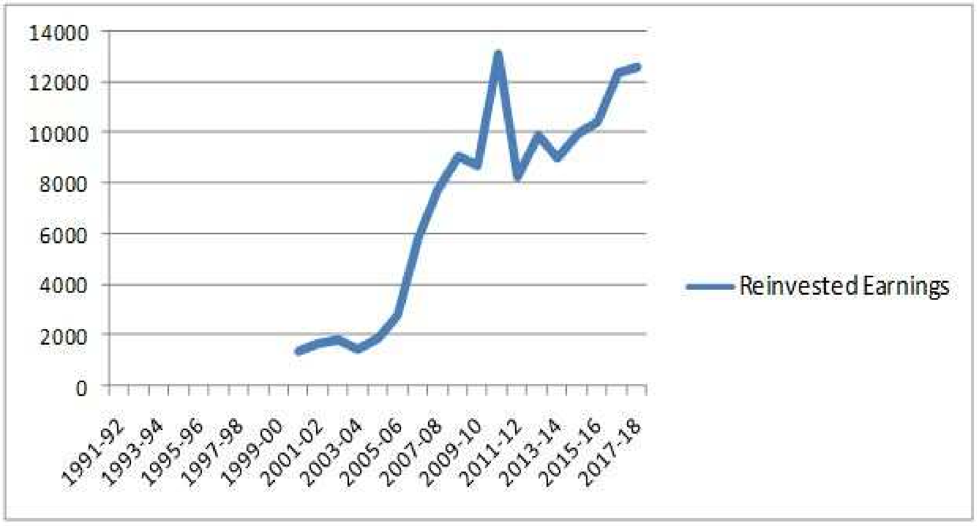

Figure 3.4: Flow of Foreign Direct Investment through Reinvested Earnings

3.2.1.3 Other Capital

Other Capital or Intra-Company Loans / Intra-Company Debt Transactions refers to short or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

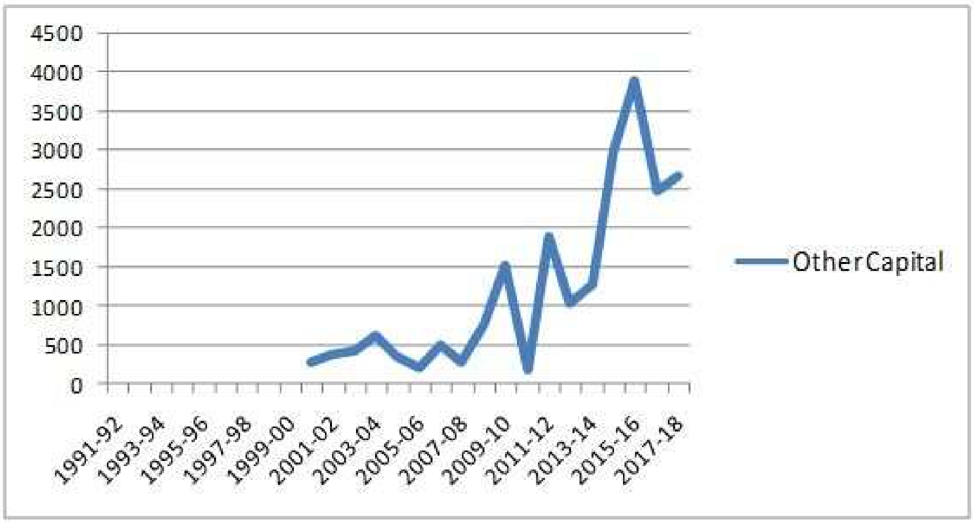

Figure 3.5: Flow of Foreign Direct Investment through Other Capital

Table 3.5 and Figure 3.5 present the flow of foreign direct investment through Other Capital, which was started in the year 2000-01. It increased from $280 million in 2000-01 to $2692 million in 2017-18. Though percentage of contribution of Other Capital to total FDI was above 6% in 2000-01, that is in the

Table 3.5: Flow of FDI through Other Capital (US $ Million)

Year	Other Capital	Total FDI	Percentage of Contribution of Other Capital to Total FDI	Annual Growth Rate of Other Capital (%)
1991-92	-	129	0	0
1992-93	-	315	0	0
1993-94	-	586	0	0
1994-95	-	1343	0	0
1995-96	-	2143	0	0
1996-97	-	2842	0	0
1997-98	-	3562	0	0
1998-99	-	2480	0	0
1999-00	-	2167	0	0
2000-01	280	4031	6.94	0
2001-02	390	6125	6.36	39.29
2002-03	438	5036	8.69	12.31
2003-04	633	4322	14.64	44.52
2004-05	369	5987	6.16	-41.71
2005-06	226	8901	2.53	-38.75
2006-07	517	22739	2.27	128.76
2007-08	292	34728	0.84	-43.52
2008-09	777	41737	1.86	166.1
2009-10	1535	33109	4.63	97.55
2010-11	191	29029	0.65	-87.56
2011-12	1914	39952	4.79	902.09
2012-13	1041	26953	3.86	-45.61
2013-14	1296	30763	4.21	24.5
2014-15	2997	35283	8.49	131.25
2015-16	3906	44907	8.69	30.33
2016-17	2489	42215	5.89	-36.28
2017-18	2692	39430	6.82	8.15
Total	**21983**	**463814**		

Source: Compiled from Handbook of Statistics on Indian Economy

starting year, it reduced to 2.27% in 2006-07 and 0.84% in 2007-08. From this major blow it could not recover yet, now in 2017-18 its contribution to FDI has become 6.82%. It has recorded only compound annual growth rate of 13 percent during the last eighteen years.

3.2.2 Foreign Direct Investment Trends in India

The 1990s witnessed an unprecedented growth of global foreign direct investment. It made foreign direct investment an important and vital component of development strategy in developed as well as developing countries. Ever since policies began to be designed around the world in order to stimulate foreign direct investment flows. In fact, foreign direct investment provides a win-win situation to both the host and home countries. Since India being a developing and capital scarce country she is in need of capital to meet her requirements related to the eradication of poverty, development of health, employment opportunities, education, technology etc. Hence India also participated in the race for foreign direct investment and had taken several steps to attract foreign direct investment inflows and thereby to boost the economy. As a result foreign direct investment began to flow into India. This evident from the Table 3.6.

Table 3.6 shows the growth of foreign investment in India through foreign direct investment from 1991 to 2018. It shows that foreign direct investment which was $129 million in the year 1991-92, increased to $39430 million in 2017-18. However, there has been inconsistency in the growth rate of foreign direct inflows. Its growth rate was positive till the end of 1997-98, but there after it was negative in 1998-99, 1999-00, 2002-03 and 2003-04. In 2004-05 and 2005-06 the foreign direct investment witnessed further increases with a growth rate of 38 and 48 percent respectively and the invested amount increased from $5987 million to $8901 million (refer Figure 3.6).

In the year 2006-07, FDI registered the highest growth rate i.e., 155 percent. The same year witnessed the highest growth rate in Indian economy too i.e., 9.6 GDP growth rate. In the year 2007-08 this trend of growth of foreign direct investment continued with an investment amounting to $34728 million indicating a growth rate of 52 percent. But 2008-09 that is in the year of global financial recession the growth rate declined to the level of 20 percent along with the decline of the growth rate of the economy indicating a strong correlation between foreign direct investment and growth of the Indian economy. The growth rate of foreign direct investment became negative again during 2009-10 and 2010-11 and it touched a low the growth rate 20 percent with an amount of $33109 million and 12 percent with an amount of $29029 million respectively. Stable

Table 3.6: Net FDI Inflows into India

Year	Net FDI Inflow (US $ Million)	Annual Growth Rate of FDI (US $ Million)	Net FDI Inflow (Rs. Billion)	Annual Growth Rate of FDI (Rs. Billion)
1991-92	129	-	3.29	-
1992-93	315	144.18	9.59	191.48
1993-94	586	86.03	18.37	91.55
1994-95	1343	129.18	42.16	129.5
1995-96	2143	59.56	72.16	71.15
1996-97	2842	32.61	100.93	39.86
1997-98	3562	25.33	131.93	30.71
1998-99	2480	-30.37	103.88	-21.26
1999-00	2167	-12.62	93.96	-9.54
2000-01	4031	86.01	184.04	95.87
2001-02	6125	51.94	292.45	58.9
2002-03	5036	-17.77	243.97	-16.57
2003-04	4322	-14.17	198.3	-18.71
2004-05	5987	38.52	269.47	35.89
2005-06	8901	48.67	394.57	46.42
2006-07	22739	155.46	1026.52	160.16
2007-08	34728	52.72	1374.34	33.88
2008-09	41737	20.18	1907	38.75
2009-10	33109	-20.67	1578.19	-17.24
2010-11	29029	-12.32	1323.58	-16.13
2011-12	32952	13.51	1549.61	17.07
2012-13	26953	-32.53	1469.54	-5.16
2013-14	30763	14.13	1868.3	27.13
2014-15	35283	14.69	2158.93	15.55
2015-16	44907	27.27	2942.58	36.29
2016-17	42215	-5.99	2832.92	-3.72
2017-18	39430	-6.5	2539.77	-10.34
Total	**463814**	**847.05**	**24730.35**	**1001.49**

Source: Compiled from Handbook of Statistics on Indian Economy

political environment and responsive administrative setup, well established judiciary to enforce the rule of law, the world's largest democracy with 1.3 billion people, land of abundant natural resources, diverse climatic conditions, investor friendly policies and incentive based schemes, cost competitiveness, low labor cost, total labor force of nearly 530 million, large pool of skilled manpower, huge untapped market potential, full current account convertibility, reduction in import tariffs, robust banking and financial institutions and macroeconomic stability conditions etc. are generally believed to be the reasons for the massive

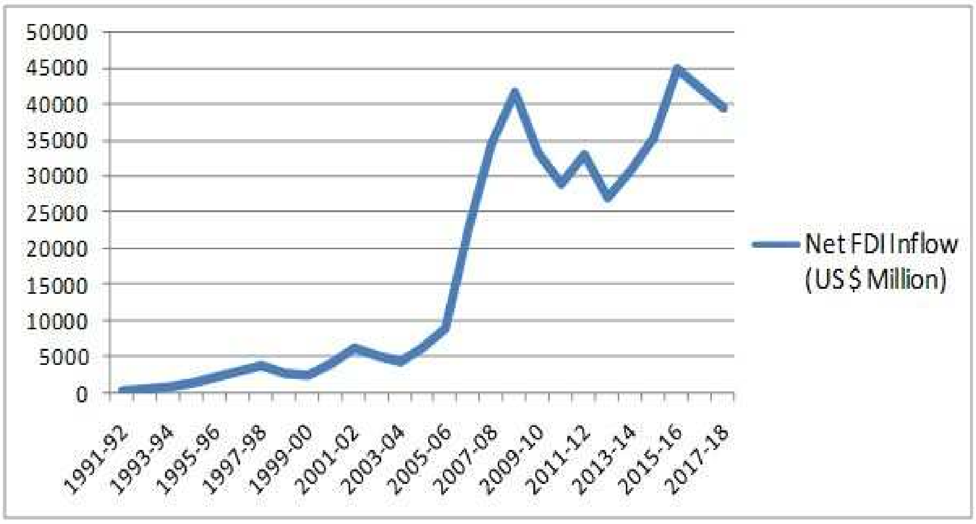

Figure 3.6: Net FDI Inflows into India

flow of foreign direct investment into India.

3.2.3 Major Foreign Direct Investors in India

The quantity of foreign direct investment in India is reflected in the number of countries making direct investment in India. Their number has risen from 15 countries in 1991 to 135 countries in 2018[146]. However, among them six countries i.e., Mauritius, Singapore, United Kingdom, Japan, Netherlands and USA enjoy the top position with Mauritius at the apex as can be seen in Figure 3.7. Since the increase in the number of FDI investors occurred after the liberalization the reason for this increase can be attributed to the liberalization. Figure 3.7 shows that the contribution of Mauritius is the highest i.e., 33 percent of total FDI in India and the reason for this is because of the double taxation avoidance agreement between Mauritius and India[147]. Singapore comes next to Mauritius with 19 percent of total FDI in India. Thus Mauritius and Singapore stand high above in their total investment in India when compared to other countries. The combined contribution of USA and UK in FDI investment in India is below 15 percent indicating an insignificant role of the great economic

[146] FDI Statistics, DIPP

[147] As a result of the a Double Taxation Avoidance Agreement between India and Mauritius, Mauritian companies investing need not pay tax in India. Therefore large number of firms (even some dummy companies) invested in India via Mauritius where there is only low rate of taxation.

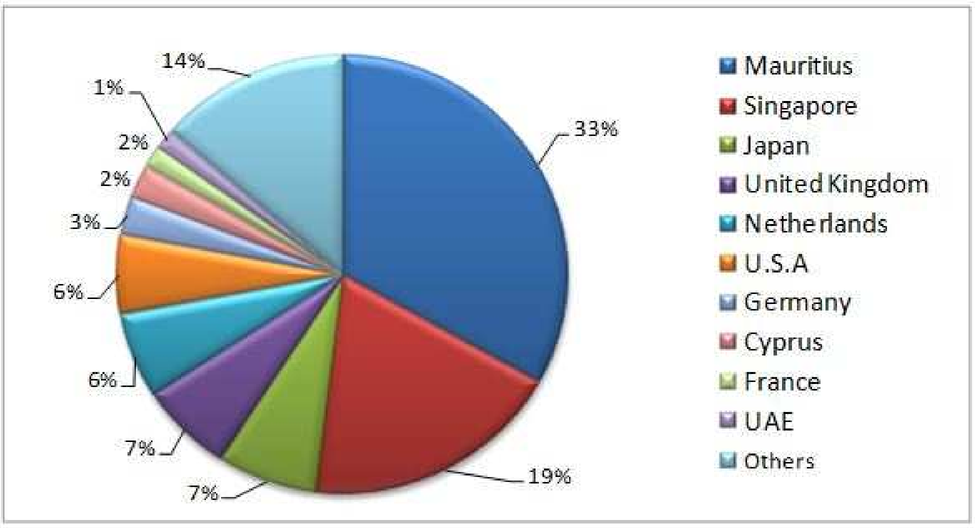

Figure 3.7: Country-Wise FDI Flows during the Period 2000-2018

powers in the foreign direct investment in India.

3.2.4 FDI Favored Sectors of the Indian Economy

India emerged as one of the most favored destination for foreign direct investment. However all the sectors of the economy did not receive equal patronage by the foreign direct investors. Certain sectors like service sector, telecommunication sector, computer hardware and software, construction development, automobile industry, drugs and pharmaceuticals etc. are the most favored sectors of Indian economy by the foreign direct investors. According to the FDI Statistics Report of the DIPP, the most desired sector with highest FDI inflow is the service sector which mainly consists finance, banking, insurance etc. The foreign direct investment inflow to different sectors during the period 2000 to 2018 is shown in the Figure 3.8. It shows that service sector ranks the top with 18% of total FDI inflows, computer software and hardware and telecommunication sector follows with 8% each, and then comes by construction and development, trading and automobile sector. Foreign investment, like all other forms of investment is also driven by profit motive. Hence the basic reason for this sectoral preferences, is related to profit making factors like low wages, wide demand supply gap etc. Of course the restrictions imposed by the government for foreign direct investment in certain sectors also keep these

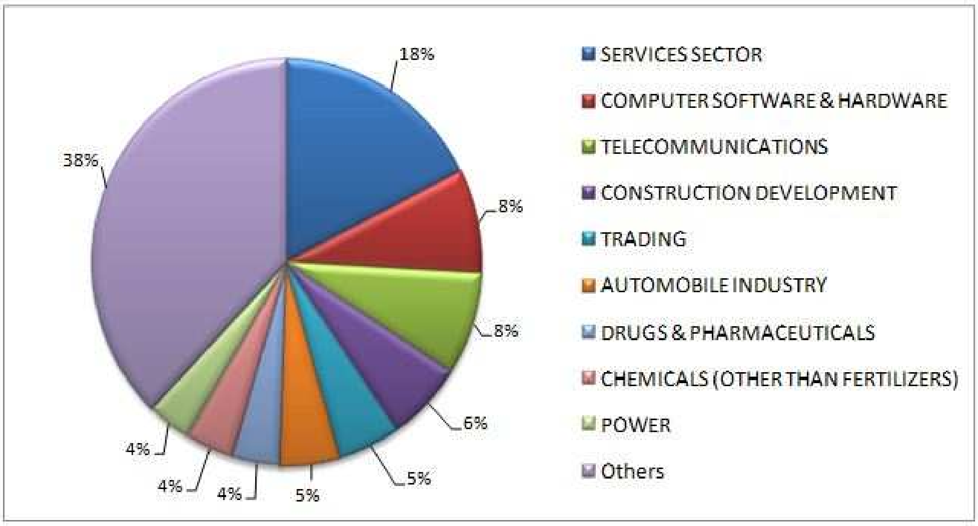

Figure 3.8: Sector-Wise FDI Inflows During the Period 2000-2018

sectors unattractive for foreign direct investment. The sectoral preference for foreign direct investors causes not only the uneven economic growth but also the marginalization of certain sectors like small scale and cottage industries and even agriculture to a very great extent.

3.2.5 FDI Favored Regions and States in India

As in the case of different sectors of the Indian economy, different regions and states of the Indian union do not receive equal attraction from the foreign direct investors. Certain regions like Mumbai, New Delhi[148] occupy the center of attraction for foreign direct investors. Similarly certain states like Delhi, Maharashtra, Karnataka and Tamil Nadu have attracted maximum FDI. Table 3.7 and Figure 3.9 will further substantiate this. It can also be seen that more than 45 percentage of total FDI flows are concentrated in the Mumbai and New Delhi regions.

Other share of the FDI inflows are scattered all over India with single digit percentage of contribution - Chennai region with 7 percent, Bangalore 6%, Ahmedabad 4%, Hyderabad 4% and Kolkata 1%. The FDI inflow in Kochi, Jaipur, Bhopal, Patna and Guwahati are very insignificant and the combined contribution to the total FDI inflow is less than 2 percent. Thus it is very

[148] Regional division is based on RBI's division of the regions.

clear that the most FDI favored Indian region is Mumbai region (Maharashtra Economy) approximately with Rs.339592 Crores or $70953 million and this region witnessed tangible FDI impacts especially in technological development.

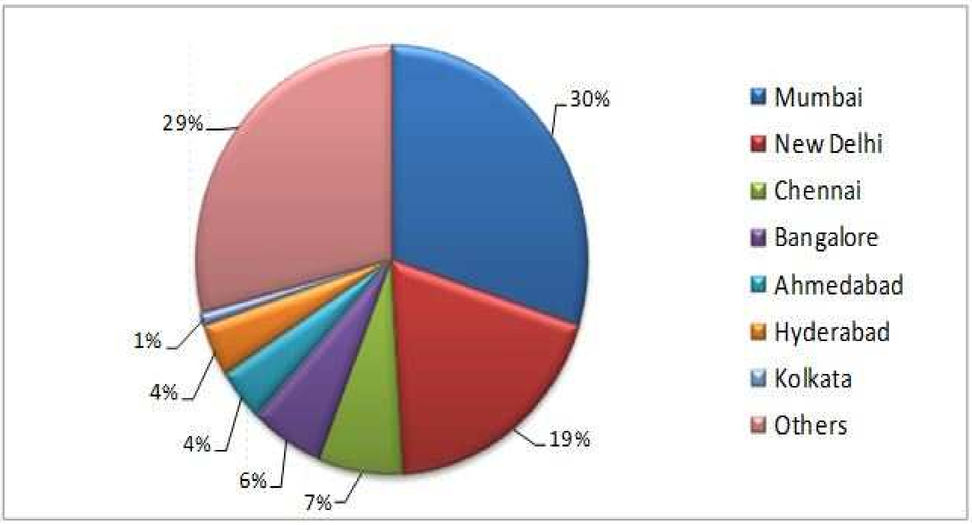

Figure 3.9: Region-Wise Distribution of FDI Inflows during the Period 2000-2018

The universal reasons for the emergence of industrial centers such as business-friendly environment, excellence in infrastructure, highly-skilled and trained workforce, effective policies in the industrial units, easy access to transport and communications, availability of natural resources etc. are the major motivating factors for the concentration of FDI investment in certain regions in India also. Besides these it should be noted that FDI friendly policies of certain regional governments also play a major role in this aspect.

So far the government has no say in this uneven distribution of FDI in India. That is the above mentioned uneven distribution of FDI is not the result of the discriminatory policies of the government. This is the major defect of FDI policy and it points to the urgency of a FDI policy targeting the promotion of industrially backward regions. This regional preference of FDI not only causes the uneven development of the regions and states of the Indian union but also widens the existing gap between them leading to regionalism and national disintegration.

Table 3.7: Region-Wise and State-Wise FDI Inflows during the Period 2000-2018

No.	RBI's Regional Division	States Covered	Cumulative FDI Inflows (in terms of US$ Million)	Percentage to Total FDI Inflows
1	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	339,552 (70,953)	30
2	New Delhi	Delhi, Part Of UP and Haryana	229,013 (46,195)	19
3	Chennai	Tamil Nadu, Pondicherry	82,387 (15,990)	7
4	Bangalore	Karnataka	73,052 (14,661)	6
5	Ahmedabad	Gujarat	48,698 (10,221)	4
6	Hyderabad	Andhra Pradesh	48,079 (9,828)	4
7	Kolkata	West Bengal, Sikkim, Andaman & Nicobar Islands	14,361 (2,938)	1
8	Chandigarh‘	Chandigarh, Punjab, Haryana, Himachal Pradesh	6,357 (1,330)	0.6
9	Jaipur	Rajasthan	6,785 (1,263)	0.5
10	Bhopal	Madhya Pradesh, Chattisgarh	6,095 (1,215)	0.5
11	Kochi	Kerala, Lakshadweep	5,369 (1,085)	0.5
12	Panaji	Goa	3,863 (822)	0.3
13	Kanpur	Uttar Pradesh, Uttranchal	2,177 (440)	0.2
14	Bhubaneshwar	Orissa	1,957 (397)	0.2
15	Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	361 (80)	0
16	Patna	Bihar, Jharkhand	252 (48)	0
17	Jammu	Jammu & Kashmir	26 (4)	0
18	REGION NOT INDICATED			26.2
SUB. TOTAL			**121,907 (22,424)**	**100**

Source: Compiled from FDI Statistics, DIPP

3.3 Foreign Portfolio Investment (FPI) in India

Besides direct investment by foreign countries in India, the non-residents of the country too are making huge investments in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. Such investments are known as foreign portfolio investments and the class of investors who make investment in these securities, as foreign portfolio investors. Securities and Exchange Board of India (SEBI) is mainly in charge of such investments and it makes necessary regulations related to foreign portfolio investment from time to time. As per the regulations of SEBI a nonresident investor is not allowed to invest not more than ten percent of the paid up capital of an Indian company. Similarly the total amount of such investments should not exceed 24 percent of the paid up capital of the company and they are not allowed to invest in unlisted shares. SEBI gives registration for Foreign Institutional Investors (FIIs) for five years for the first time subject to their subsequent renewal.

Foreign portfolio investment in India has three components. That is FPI comes to India through three channels namely, (a) Foreign Institutional Investment (FII) (b) Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) and (c) Offshore Funds.

3.3.1 Foreign Institutional Investors (FIIs) in India

The star of the foreign portfolio investment show is the foreign institutional investment[149]. After the initial years of shyness FIIs began to play a spectacular show not only in the FPI and the Indian capital market but also in the economy of the country as a whole. In tune with the patronising and blessing attitude of the government by way of favourable policy changes year after year, more and more FIIs are appearing in the Indian economy. Consequently flooding of

[149]Foreign Institutional Investment (FII) means investment by financial institutions of one country in another country for the primary purpose of making capital gains and foreign Institutional Investors (FIIs) are investors or investment funds that is from or registered in a country outside of the one in which it is currently investing.

capital flow to the capital market which had a humble beginning of $1 million in 1992, reached a zenith $22165 million in 2018. Similarly one can also see an almost consistent increase in the number of FIIs registered in India. The most vibrant foreign investors in India are HSBC, CLSA, City Group and Merrill Lynch. Other FIIs which have significant exposure to Indian equities are Crown Capital, Fidelity, Goldman Sachs, Morgan Stanley, UBS, Trowe Price International, Capital International and ABN AMRO.

Table 3.8: SEBI Registered FIIs in India

Year	No. of FIIs Registered	Net Additions in FIIs During the Year
1992-93	0	0
1993-94	3	3
1994-95	156	153
1995-96	353	197
1996-97	439	86
1997-98	496	57
1998-99	450	-46
99-2000	506	56
2000-01	527	21
2001-02	490	-37
2002-03	502	12
2003-04	540	38
2004-05	685	145
2005-06	882	197
2006-07	997	115
2007-08	1319	322
2008-09	1635	316
2009-10	1713	78
2010-11	1722	9
2011-12	1765	43
2012-13	1757	-8
2013-14	1710	-47
2014-15	1730	20
2015-16	1750	20
2016-17	1767	17
2017-18	1775	8

Source: Compiled from Indian Securities Market: A Review, NSE

Table 3.8 and Figure 3.10 give the number of the FIIs registered in India from 1992 to 2018. It shows that though FIIs were permitted in India in 1992-93 none of them registered in that year under the SEBI. Three FIIs were registered

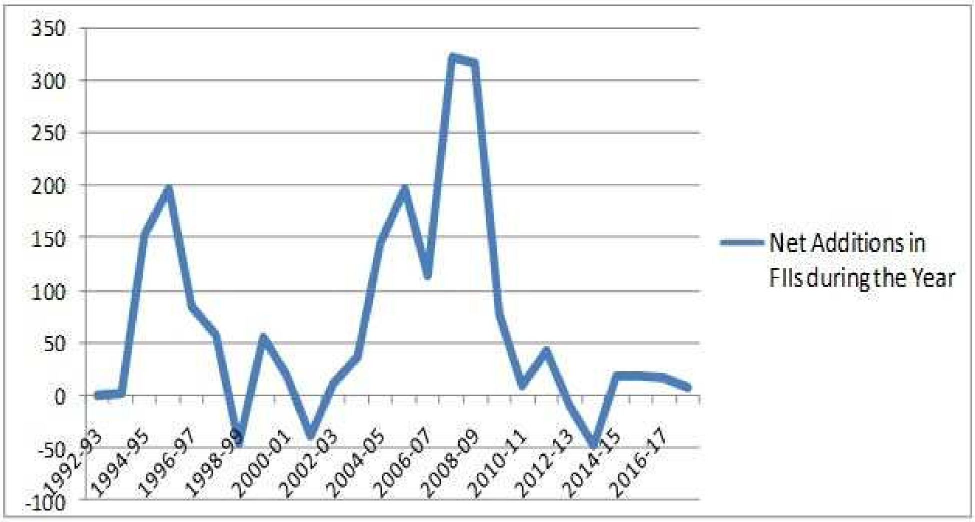

Figure 3.10: Annual Net Additions in FIIs during the Period 1991-2018

in 1993-94 and by 1994-95 their number increased to 156, in 1995-96 to 353, in 1996-97 to 439 and in 1997-98 to 496. Though their number decreased from 496 to 450 in 1998-99, in the next two years their number again increased to 506 and 527 respectively. In 2001-02 also their number once again showed a decline and fell to 490. However from 2002-03 onwards their number witnessed a consistent growth and by 2017-18 the total number of FIIs registered in India came to 1775.

Besides the introduction of several measures by SEBI and RBI - allowing overseas pension funds, mutual funds, investment trusts, asset management companies, institutional portfolio managers, universal funds, endowments, easing the norms for registration of FIIs, reducing procedural delays, lowering the fees of registration, mandating strict disclosure norms, improved regulatory mechanisms etc. the fundamental strength of the economy also made India as one of the attractive destinations for FIIs. The decrease for the number of FIIs in India was due to the fact that FIIs registration was then restricted to 5 years and it had to be renewed.

3.3.2 Foreign Institutional Investment (FII) in India

Foreign institutional investors have been playing a significant role in the Indian capital market. They are investing huge amounts in equities and have become the main source of foreign portfolio investment in India as shown in Table 3.9 and Figure 3.11.

Table 3.9: Foreign Institutional Investment in India (US $ Million)

Year	FII	Total FPI	Percentage of Contribution of FII to Total FPI	Annual Growth Rate of FII	Cumulative Growth of FII
1991-92	-	4	-	0	0
1992-93	1	244	0.41	25	1
1993-94	1665	3567	46.68	681.96	1666
1994-95	1503	3824	39.3	-4.54	3169
1995-96	2009	2748	73.11	13.23	5178
1996-97	1926	3312	58.15	-3.02	7104
1997-98	979	1828	53.56	-28.59	8083
1998-99	-390	-61	-	-74.89	7693
99-2000	2135	3026	70.56	647.43	9828
2000-01	1847	2760	69.92	-9.51	11675
2001-02	1505	2021	74.47	-12.39	13180
2002-03	377	979	38.51	-55.81	13557
2003-04	10918	11377	95.97	1076.71	24475
2004-05	8686	9315	93.25	-19.61	33161
2005-06	9926	13492	79.46	13.31	43087
2006-07	3225	7003	46.05	-49.66	46312
2007-08	20328	27271	74.54	244.22	66640
2008-09	-15017	-13855	-	-129.6	51623
2009-10	29048	32376	89.72	-318.04	80671
2010-11	29422	31471	93.48	1.155	110093
2011-12	16813	17410	96.57	-42	126906
2012-13	27582	27769	99.3	64.05	154488
2013-14	5009	5029	99.6	-81.61	159497
2014-15	40923	42193	96.99	716.98	200420
2015-16	-4016	-3643	110.23	-109.81	196404
2016-17	7766	7766	100	-293.37	204170
2017-18	22165	22165	100	185.41	226335
Total	**226335**	**261391**			

Source: Compiled from Handbook of Statistics on Indian Economy

It shows almost consistent growth in foreign institutional investment and its contribution to the total portfolio flows which was only 0.41 percent in 1992-93 increased to 100 percent in 2017-18. However foreign institutional investment became negative in 1998-99, 2008-09 and 2015-16. The East Asian Crisis, Global Financial Crisis and Brexit are believed to be the factors responsible for this decline of foreign institutional investment in India. The compound

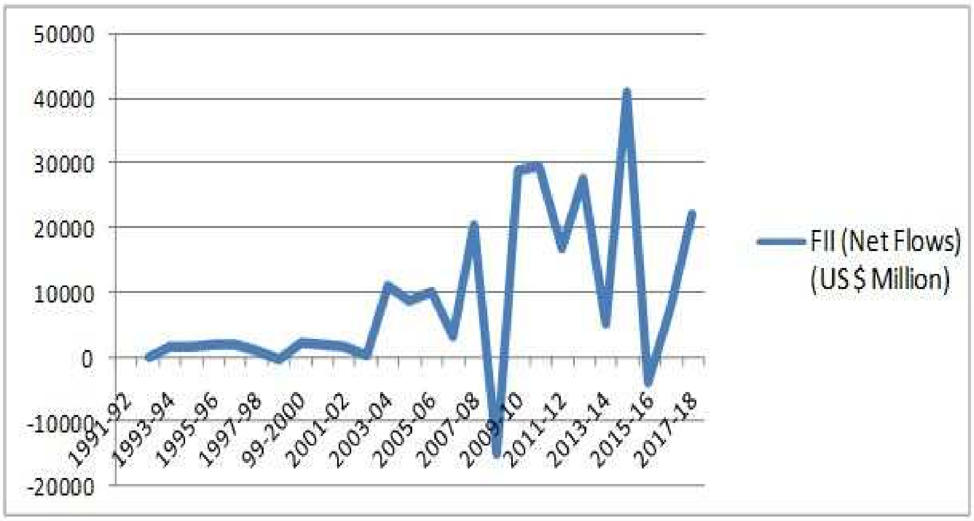

Figure 3.11: Trend of Foreign Institutional Investment in India

annual growth rate of foreign institutional investment in India is 49.21 percent.

3.3.3 Domains of Foreign Institutional Investment - Equity and Debt

Though FIIs were allowed to invest in the Indian capital market from September 1992 onwards they are allowed to invest only in two areas or domains of the capital market i.e., Equity and Debt. Though the FIIs were allowed to invest in debt market in 1998, they began to invest only in 1999. Their investment pattern since 1999 in Equity and Debt is presented in Table 3.10.

The Figure 3.12 shows that major portion of FII flows are into the equity market. It is seen that FII flows to debt market have only increased in recent years. In other words out of the total cumulative foreign institutional investment, 74 percent of investment is in equity and only 26 percent in the debt market. It was in 2014-15 the FIIs made their highest investment in equity and debt that year they invested Rs.111333 Crores in equity and Rs.166127 Crores in debt. The year 2008-09 witnessed the lowest FIIs investment in equity and 2013-14 witnessed their lowest amount of investment in debt. The explicit reason for the former is the financial crisis of 2008-09. Foreign institutional investment in the debt market is witnessing a gradual increase in recent years.

Table 3.10: Net FII in Equity and Debt (Rs. in Crores)

Year	Net FII in Equity	Net FII in Debt	Total FII
1999-00	9669	452	10121
2000-01	10207	-274	9933
2001-02	8072	690	8762
2002-03	2527	162	2689
2003-04	39960	5805	45765
2004-05	44123	1759	45882
2005-06	48801	-7334	41467
2006-07	25236	5605	30841
2007-08	53404	12775	66179
2008-09	-47706	1895	-45811
2009-10	110220	32438	142658
2010-11	110121	36317	146438
2011-12	43738	49988	93726
2012-13	140033	28334	168367
2013-14	79708	-28061	51647
2014-15	111333	166127	277460
2015-16	-14172	-4004	-18076
2016-17	55703	-7292	48411
Total	**830977**	**295382**	**1126459**

Source: Compiled from Indian Securities Market: A Review, NSE

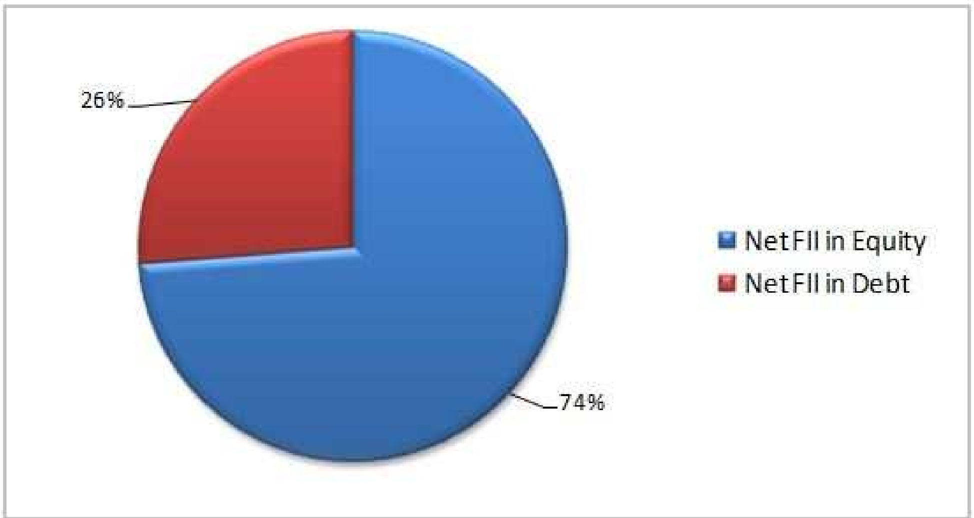

Figure 3.12: Net Foreign Institutional Investment in Equity and Debt

3.3.4 Global Depository Receipts (GDRs) and American Depository Receipts (ADRs)

The second component or channel of FPI is American Depositary Receipt (ADR)[150] and Global Depositary Receipt (GDR)[151] which are usually listed

[150]An American Depositary Receipt (ADR) is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock traded on a U.S. exchange.

at NYSE, AMEX or Nasdaq and Luxembourg Stock Exchange respectively. The positive responses given by the FIIs to the Indian capital market are reflected in their response to the GDR/ADR issued by Indian companies also. The first GDR listing was in 1992 by Reliance Industries Ltd. In course of time several companies followed their example and by 2018 their total number became 72. The flow of ADRs/GDRs investment in the Indian capital market is presented in the Table 3.11 and Figure 3.13.

Table 3.11: Flow of GDRs/ADRs Investment into India during the period 1991-2018

Year	GDRs/ADRs (US $ Million)	Total FPI (US $ Million)	Percentage of Contribution of GDRS/ADRs to Total FPI	Annual Growth Rate of GDRs/ADRs	Cumulative Growth of GDRs/ADRs
1991-92	0	4	-	0	0
1992-93	240	244	98.36	0	240
1993-94	1520	3567	42.61	533.33	1760
1994-95	2082	3824	54.44	36.97	3842
1995-96	683	2748	24.85	-67.19	4525
1996-97	1366	3312	41.24	100	5891
1997-98	645	1828	35.28	-52.78	6536
1998-99	270	-61	-	-58.13	6806
99-2000	768	3026	25.38	184.44	7574
2000-01	831	2760	30.1	8.2	8405
2001-02	477	2021	23.6	-42.59	8882
2002-03	600	979	61.28	25.78	9482
2003-04	459	11377	4.03	-23.5	9941
2004-05	613	9315	6.58	33.55	10554
2005-06	2552	13492	20.42	316.31	13106
2006-07	3776	7003	53.91	47.962	16882
2007-08	6645	27271	24.36	75.97	23527
2008-09	1162	-13855	-	-82.51	24689
2009-10	3328	32376	10.2	186.4	28017
2010-11	2049	31471	6.5	-38.43	30066
2011-12	597	17410	3.4	-70.86	30663
2012-13	187	27769	0.6	-68.67	30850
2013-14	20	5029	0.3	-89.3	30870
2014-15	1271	42193	3.01	6255	32141
2015-16	373	-3643	-	-70.65	32514
2016-17	0	7766	-	-	32514
2017-18	0	22165	-	-	32514
Total	**32514**	**261391**			

Source: Compiled from Handbook of Statistics on Indian Economy

[151]Global Depository Receipt (GDR) is used to offer Indian shares in any other country other than the US

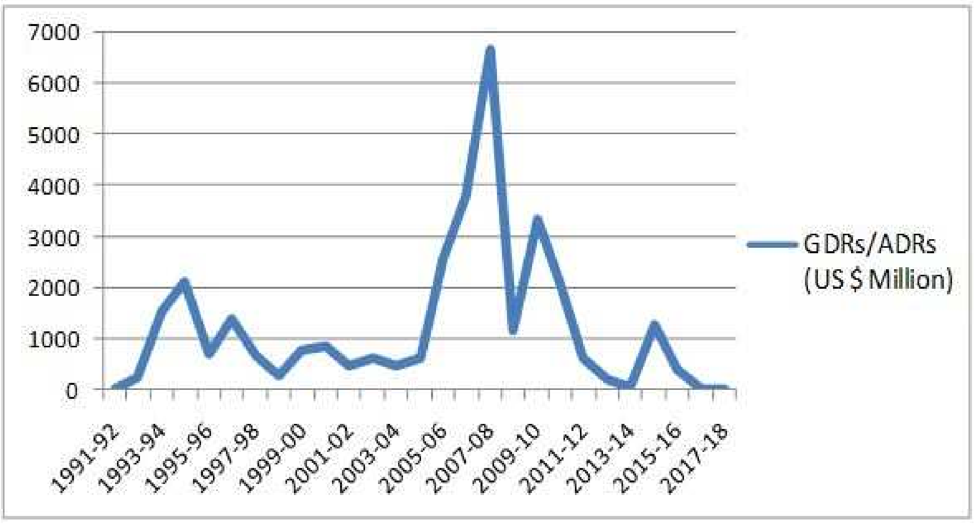

Figure 3.13: Trend of GDRs/ADRs Flows to India

GDRs/ADRs issuance, which is an excellent way to buy shares in a foreign company by realizing dividends and capital gains in U.S. dollars, reached a peak in 2007 when global markets scaled new height. However they began to decline gradually, mainly because of the currency and economic risks for the underlying shares in another country, especially since the global economic slowdown of 2008-09. Gradually it witnessed a revival along with the global economic and financial rebound and more GDR listed companies emerged. However the initial interest especially during 1992 to 1995 given to GDR was not sustained. Their contribution to the cumulative portfolio investment of $261391 million was only 12 percent of total foreign portfolio investment. The compound annual growth rate of GDR/ADR is 1.93 percent.

3.3.5 Offshore Funds

When compared to other two channels/components of foreign portfolio investment Offshore Funds is an insignificant player as can be seen from Table 3.12 and Figure 3.14. After an initial flow of Offshore Funds, they began to decline steadily and finally reached negative. If the total flow of Offshore Funds in the year 1991 was $4 million, next year i.e., in 1992-93 it declined to $3 million. Nevertheless it witnessed a considerable increase in 1993-94 and 1994-95 to $382 million and $239 million respectively. Since then it began to decline except during two years i.e., in 1997-98 with a flow of $204 million and 2007-08 with a flow of $298 million, and finally came to an end.

Table 3.12: Flow of Offshore Funds to India during the period 1991-2018 (US $ Million)

Year	Offshore Funds	Total FPI	Percentage of Contribution of Offshore Funds to Total FPI	Annual Growth Rate of Offshore Funds	Cumulative Growth of Offshore Funds
1991-92	4	4	100	0	4
1992-93	3	244	1.2	-25	7
1993-94	382	3567	10.7	12633.33	389
1994-95	239	3824	6.25	-37.43	628
1995-96	56	2748	2.03	-76.56	684
1996-97	20	3312	0.6	-64.28	704
1997-98	204	1828	11.15	920	908
1998-99	59	-61	-	-71.07	967
99-2000	123	3026	4.06	108.47	1090
2000-01	82	2760	2.9	-33.33	1172
2001-02	39	2021	1.9	-52.43	1211
2002-03	2	979	0.2	-94.87	1213
2003-04	-	11377	-	-100	1213
2004-05	16	9315	0.17	0	1229
2005-06	14	13492	0.11	-12.5	1243
2006-07	2	7003	0.02	-85.714	1245
2007-08	298	27271	0.01	14800	1543
2008-09	-	-13855	-	-100	1543
2009-10	-	32376	-	0	1543
2010-11	-	31471	-	0	1543
2011-12	-	17410	-	0	1543
2012-13	-	27769	-	0	1543
2013-14	-	5029	-	0	1543
2014-15	-	42193	-	0	1543
2015-16	-	-3643	-	0	1543
2016-17	-	7766	-	0	1543
2017-18	-	22165	-	0	1543
Total	**1543**	**261391**			

Source: Compiled from Handbook of Statistics on Indian Economy

The total Offshore Funds so far reached in India is $1543 million i.e., only one percent of the total FPI inflows. Thus it can be seen that the portfolio investment through the Offshore Funds route has been negligible when compared to other two forms of foreign portfolio investment. The highest investment through this route was in 1997-98 and at that time it was 11.15% of the total

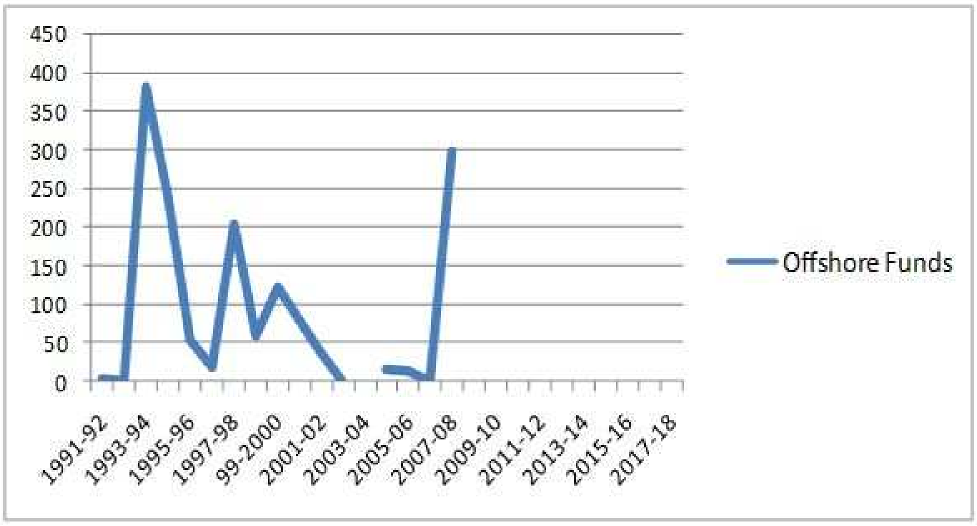

Figure 3.14: Trend of Offshore Funds in India

foreign portfolio investment. But after 2008-09 it ceased to play any significant role in portfolio investment. Out of the cumulative portfolio investment, the contribution of Offshore Funds was only one percent and its compound annual growth rate is 30.92 percent.

As in the case of GDRs/ADRs the main reason for the decline of Offshore Funds in India are the global economic recessions and continuances of the regulations related to Offshore Funds contrary to the case in the foreign institutional investment. The limited number of Offshore Funds available for subscription by the general public also contributed its decline in India.

3.3.6 Components of Foreign Portfolio Investment Contribution in India

As already seen foreign portfolio investment flows to the Indian capital market are through three components or channels i.e., through FIIs, Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs) and Offshore Funds. FPI in India began with Offshore Funds. Portfolio investment by FIIs and Global Depository Receipts (GDRs), American Depository Receipts (ADRs) has begun only in 1992-93, two years after the liberalization of capital flows. In course of time FIIs eclipsed the other two channels or components of FPI.

Table 3.13: Components of FPI Contribution in India (US $ Million)

Year	GDRs/ ADRs	FII	Offshore Funds	Total FPI
1991-92	-	-	4	4
1992-93	240	1	3	244
1993-94	1520	1665	382	3567
1994-95	2082	1503	239	3824
1995-96	683	2009	56	2748
1996-97	1366	1926	20	3312
1997-98	645	979	204	1828
1998-99	270	-390	59	-61
99-2000	768	2135	123	3026
2000-01	831	1847	82	2760
2001-02	477	1505	39	2021
2002-03	600	377	2	979
2003-04	459	10918	-	11377
2004-05	613	8686	16	9315
2005-06	2552	9926	14	12492
2006-07	3776	3225	2	7003
2007-08	6645	20328	298	27271
2008-09	1162	-15017	-	-13855
2009-10	3328	29048	-	32376
2010-11	2049	29422	-	31471
2011-12	597	16813	-	17410
2012-13	187	27582	-	27769
2013-14	20	5009	-	5029
2014-15	1271	40923	-	42193
2015-16	373	-4016	-	-3643
2016-17	0	7766	-	7766
2017-18	0	22165	-	22165
Total	**32514**	**226335**	**1543**	**261391**

Source: Compiled from Handbook of Statistics on Indian Economy

Table 3.13 shows the beginning of foreign portfolio investment in India with the Offshore Funds and by 1992-93 the other two i.e., FII and GDRs/ARDs appeared in the seen and the combined contribution of these three components became $244 million in that year. After 1993-94 portfolio flows began to pick up consistently and reached its peak in 2014-15 i.e., $42193 million. But unlike the other years in 1998-99-the year of East Asian Currency Crisis - portfolio investment became negative i.e., in that year instead of inflows, $61 million was withdrawn from the capital market. During two other occasions also FPI inflows exhibited decline i.e., in 2002-03. In that year it witnessed a drastic decline to an

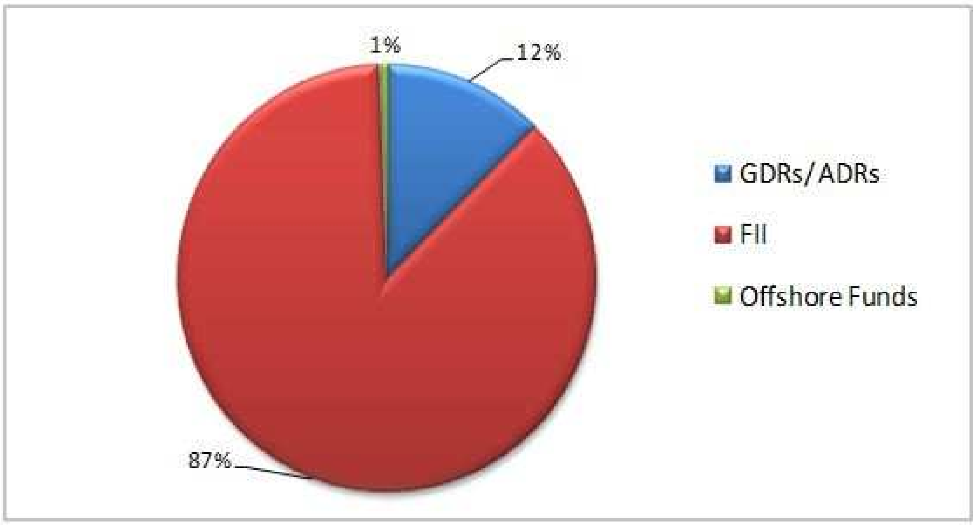

Figure 3.15: Contribution of the Components of FPI to the Total FPI Flows

amount of $979 million and during 2008-09 - the year of global financial crisis - it once again became negative i.e., $13855 million was withdrawn from the capital market. In the year 2015-16, foreign portfolio investment became negative to the amount $3643 million. As shown in Figure 3.15 the cumulative portfolio investment in India reached $261391 million out of which FII contribution was 87 percent, GDRs/ADRs contribution 12 percent and the rest 1 percent through Offshore Funds.

3.3.7 Trends in Foreign Portfolio Investment in India

The Table 3.14 and Figure 3.16 show the trend of FPI in India during the post liberalization period. It shows that the FPI flows into India were almost stagnant from 1991 to 2003. But since 2003 FPI flows began to withness consistent and sharp increases except during two occasions i.e., in 2008-09 and 2015-16 because of the global financial crisis and brexit respectively. By 2018 the total FPI flows reached a gigantic amount i.e., $261391 million and the out of the total foreign investment of $725205 million the share of the FPI became 36 percent. In short now the FPI has become a competing partner of foreign investment in India with annual compound growth rate of 39.31 percent.

Table 3.14: Net Foreign Portfolio Investment Flows

Year	FPI (Rs. in Billion)	Annual Growth Rate of FPI	FPI (US $ Million)	Annual Growth Rate of FPI
1991-92	0.1	-	4	-
1992-93	7.4	7300	244	6000.00
1993-94	114.45	1446.62	3567	1361.89
1994-95	112.34	-1.8436	3824	7.20
1995-96	90.96	-19.032	2748	-28.14
1996-97	117.35	29.0128	3312	20.52
1997-98	67.68	-42.326	1828	-44.81
1998-99	-21.9	-132.36	-61	-103.34
99-2000	131.05	-698.4	3026	-5060.66
2000-01	126.12	-3.7619	2760	-8.79
2001-02	96.16	-23.755	2021	-26.78
2002-03	46.75	-51.383	979	-51.56
2003-04	518.98	1010.12	11377	1062.10
2004-05	414.19	-20.192	9315	-18.12
2005-06	553.57	33.6512	13492	44.84
2006-07	316.3	-42.862	7003	-48.10
2007-08	1183.48	274.164	27271	289.42
2008-09	-642.06	-154.25	-13855	-150.80
2009-10	1538.85	-339.67	32376	-333.68
2010-11	1446.8	-5.9817	31471	-2.80
2011-12	897.45	-37.97	17410	-44.68
2012-13	1512.51	68.5342	27769	59.50
2013-14	311.03	-79.436	5029	-81.89
2014-15	2577.62	728.73	42193	738.99
2015-16	-238.22	-109.24	-3643	-108.63
2016-17	515.22	-316.27	7766	-313.18
2017-18	1424	177.35	22165	185.41
Total	**13218.18**		**261391**	

Source: Compiled from Handbook of Statistics of Indian Economy

3.4 Position of FDI and FPI in the Foreign Investment Arena of India

The analysis made so far reveals that both FDI and FPI are making competing contributions and almost equal roles in the foreign investment arena of India. In fact these two channels of foreign investment act as two arms of foreign investment in India, making it difficult to distinguish each other's role in the context of their contribution. Both FDI and FPI enjoy equal importance because they are making almost equal contribution to the foreign investment in India as can

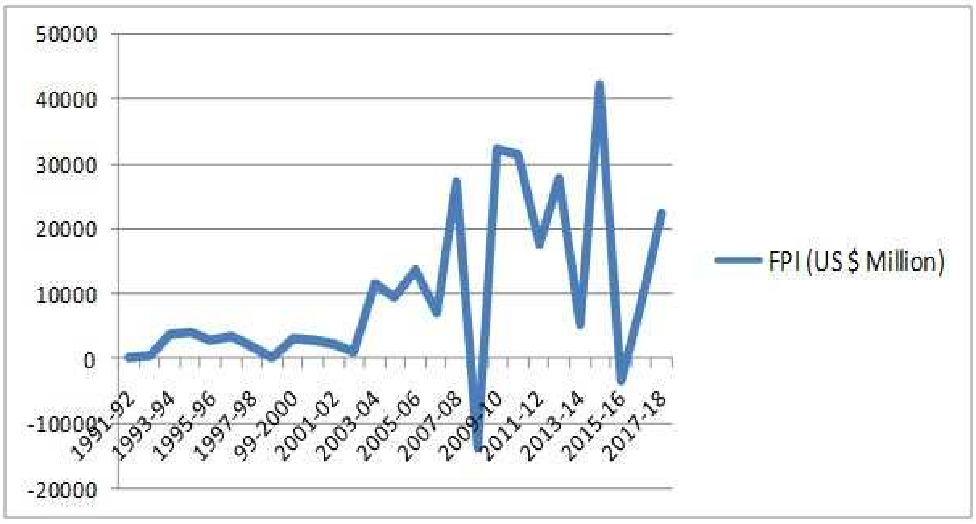

Figure 3.16: Net Flows of Foreign Portfolio Investment

be seen in the coming chapters. Here an account of their comparative flows to the total foreign investment in India is given in Table 3.15.

Figure 3.17 will further visualize this comparative contribution of the two channels of foreign investment - FDI and FPI - to the total foreign investment in India. That is 64 percent of the total foreign investment comes from FDI and only 36 percent comes from FPI. In other words out of the total $725205

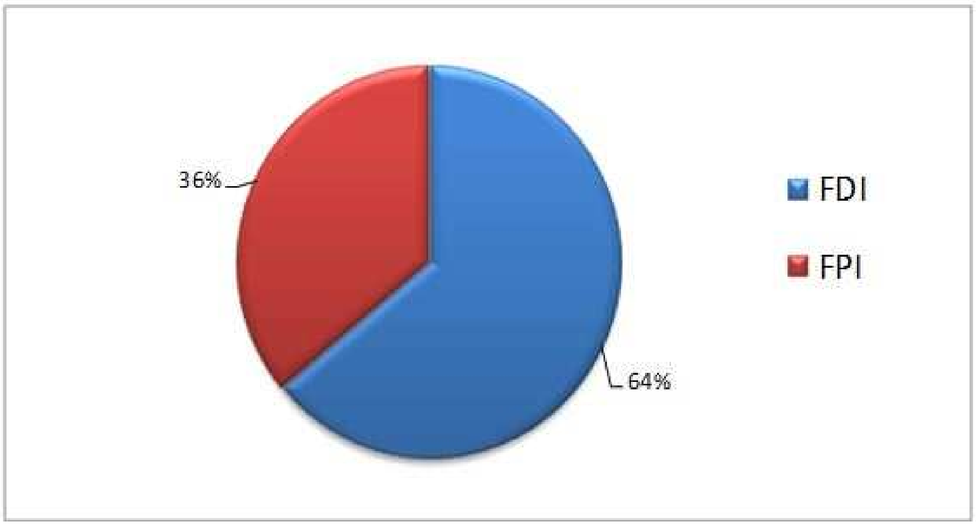

Figure 3.17: Contribution of FDI and FPI to the Total Foreign Investment in India

million foreign investment flows $463814 is by FDI and the rest i.e., $261391 million by the FPI. The difference in the total amount contributed by FDI and

Table 3.15: Position of FDI and FPI Flows in the Total Investment Flows to India (US $ Million)

Year	FDI	FPI	TOTAL
1991-92	129	4	133
1992-93	315	244	559
1993-94	586	3567	4153
1994-95	1343	3824	5167
1995-96	2143	2748	4891
1996-97	2842	3312	6154
1997-98	3562	1828	5390
1998-99	2480	-61	2419
99-2000	2167	3026	5193
2000-01	4031	2760	6791
2001-02	6125	2021	8146
2002-03	5036	979	6015
2003-04	4322	11377	15699
2004-05	5987	9315	15302
2005-06	8901	13492	22393
2006-07	22739	7003	29742
2007-08	34728	27271	61999
2008-09	41737	-13855	27882
2009-10	33109	32376	65485
2010-11	29029	31471	60500
2011-12	32952	17410	50362
2012-13	26953	27769	54722
2013-14	30763	5029	35792
2014-15	35283	42193	77476
2015-16	44907	-3643	41264
2016-17	42215	7766	49981
2017-18	39430	22165	61595
Total	**463814**	**261391**	**725205**

FPI is not as wide as it appears because the contribution made by the latter, though comparatively small, is more ‘liquid capital’ than by the contribution made by the former.

The discussion made in this chapter so far shows that India has become one of the major investment destinations of the world. Since this large scale of foreign investment occurred after liberalization, the prima facie reason for this appears to be liberalization. As liberalization process continues as an ongoing process without any major policy reversal so far, it can be assumed that government is satisfied with the foreign investment flows and its operation in the economy. It is true that there is disparity between the share of FDI and FPI in the total foreign investment as it is 64% and 36% respectively. The dominance of FDI in the foreign investment arena of India is a consoling fact as FDI is considered less harmful and more beneficial to the economy when compared to the FPI, which has been always associated with volatility and instability. But this difference in the share of contribution does not minimize the role of FPI as it has the potential to involve and impact directly and powerfully in the capital market and thereby the economy as a whole. However these aspects deserve to be scrutinized further. But prior to that it is necessary to probe what prompted the foreign investors to divert their investment flows into India in such a massive way. The coming chapter is devoted for this.