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Trends and Policies of FDI Inflows in India

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Foreign Direct Investment (FDI) plays an important role in the long-term economic development of a country. The growth of FDI depends upon international economic conditions and policies along with the potential of an economy to absorb FDI. This paper has laid out the overall policy framework for facilitating FDI inflows in India and study the overall trend in FDI inflows over a period from 1990-91 to 2008-09. While, it is important to study the overall growth of FDI. It is also important to analyse the regional distribution of FDI amongst Indian States. The State level policies are responsible for encouraging FDI flows on a regional basis. Therefore, this paper also examines the State level policy for FDI.

The paper finds that for fifteen years period from 1990-91 to 2004-05, FDI remained below one percentage of GDP. Thereafter it has grown sharply. One anomalous finding is that during the phase of global recession overall FDI inflows grew substantially. The state level policies resulted in differential FDI inflows while some states are gainers other have been losers.

Introduction

Foreign Direct Investment (FDI) plays an important role in the long-term economic development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. FDI also has an important role in enhancing exports. India sees FDI as a developmental tool.

India made appropriate changes in its policy since 1991 for attraction of FDI. The sweeping changes in the policy introduced since 1991 mark a radical departure from the past and reflect a positive approach towards foreign capital. The changes provide freedom to foreign investors to enter into Indian industry. In terms of openness to FDI entry, the prevailing Indian policy is favourably placed in terms of competitiveness with other major FDI receiving countries in world. Since 1991, Indian states have been also making appropriate changes in their respective industrial policy in order to attract more and more foreign investment. So, States are now busy wooing foreign investors to invest and in this regard, provide investor companies with a vast range of incentives. For each state these incentives vary across industries, depending upon the scale of production, location of unit, export orientation and a host of other factors.

Objectives of the Study

1. To undertake a brief study of trends and policies of FDI in India.
2. To study policy of FDI in Indian states.
3. To study pattern of state-wise distribution of FDI in India.

Structure of the Study

This paper is laid out in six sections. Section I discusses the data and methodology of the study. Section II is about trend of FDI inflows in India. Section III is about FDI policy of India. Section IV explains about FDI policies of Indian States. Section V presents the trends of FDI distribution in Indian states. The final Section VI gives summary and conclusions.

Section I: Data and Methodology

Data

The required data for the analysis is collected from published sources. Data on centre-wise (or state-wise) FDI has been taken from SIA Newsletter-various monthly and annual issues. These data are maintained by Department of Industrial Policy and Promotion, Ministry of Industry and Commerce, Government of India. Data on State Domestic Products (SDP) has been taken from reports/

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publications of Central Statistical Organisation (CSO). CSO is maintained by Ministry of Statistical and Programme Implementation, Government of India. SDP data has been maintained state-wise. For comparing to FDI, SDP data has been converted to centre-wise._

Reporting of Data

Earlier FDI data had been reported in India on the basis of the political units, namely, in terms of the different States in India. Since 2000, FDI data has been reported by RBI's on a centre-wise basis. The focus, in this sense, has shifted to a regional basis rather than a political basis.

Treatment of Data

The availabilty of FDI data is State-wise from period 1991 to 2003 and RBI's centre-wise from period 2000 to 2008. In the RBI's centre-wise FDI data, New Delhi centre also included some part of Uttar Pradesh and Haryana (NCR) regions. SDP data has been available on state-wise basis. For comparing FDI to SDP, there shall be uniformity between FDI and SDP data set. In order to ensure uniformity of data set, the data has been adjusted in the following ways:

i) Firstly, RBI's New Delhi Centre data has been segregated into New Delhi, Uttar Pradesh and Haryana for period 2004 to 2008 by taking average of state-wise FDI data for period of three years 2001, 2002 and 2003 for New Delhi, Uttar Pradesh and Haryana respectively. From average of each of three states, ratio amongst these three states have been calculated and then the ratio is applied for segregating FDI data and then FDI data of NCR region of Uttar Pradesh and Haryana have been added back to their parent States respectively for period 2004 and 2008.

ii) The data of FDI and SDP have been made state-wise for period 1991 to 2008.

iii) Next, FDI and SDP data has been converted from state-wise to RBI's centre-wise, but New Delhi centre includes only Delhi state data, for period 1991 to 2008.

Methodology

The methodology involved a number of empirical exercises: employing line graph, mathematical, statistical and econometric tools for analyzing policy implications on the trends of distribution in Indian states.

A line graph shows overall trend of FDI inflows in India for periods 1990-91 to 2008-09. Overall FDI inflows and the GDP of India have been compared and calculated FDI as percentage of GDP during 1990-91 to 2008-09. Similarly, FDI as percentage of Gross State Domestic Product (SDP) of Indian states has been calculated at five points of time for year 1991, 1995, 1999, 2003 and 2007.The correlation coefficient is calculated between FDI and GDP of India for period 1990-91 to 2008-09.

FDI data and SDP data are converted to centre-wise from state-wise. The growth of centre-wise FDI has been calculated from a set of exponential growth (semi-log) equations to determine what extent only general factor (i.e. time alone) able to explain centre-wise FDI. Here, the growth equation measure extent to which time factor influences FDI inflows in India. Time factor represents general factors that influence FDI. This enables measurement of Rate of Growth (RoG), through time-series analysis during 1990-91 to 2008-09. Rate of growth is measured for India over time. R-bar square measures the influence of time on FDI and p-value represents the level of significance. The growth equation is $FDI = e^{a+bT}$

Taking log of both sides and adding error term

$\log(FDI) = a+bT + u_t$

Hence, 'b' represents annual exponential growth rate.

This growth equation is also used to measure rate of growth, Rbar Square, and p-value of FDI inflows in Indian states during 1991 to 2008.

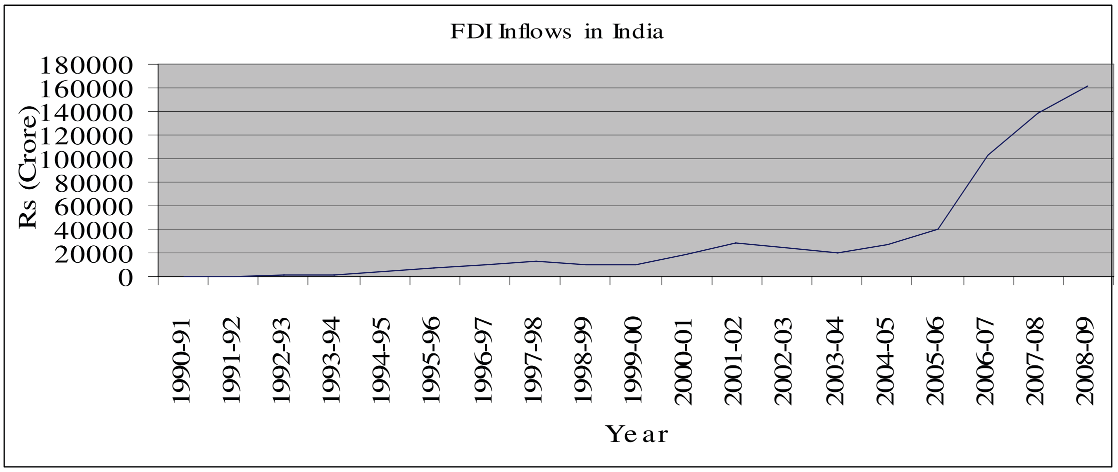
Section II: Trends of FDI in India

With the liberalization and structural reforms of Indian economy since 1991, there has been a marked shift in the magnitude of foreign capital flows to India during the 1990s and 2000s, reflecting the growing confidence among international investors. There has been a manifold increase of FDI inflow in India since 1991. The amount of FDI inflows was mere Rs.174 crore during 1990-91 and these FDI inflows have reached to Rs. 161481 crore during 2008-09. This is more than 500 times increase in the FDI inflows into from 1991-92 to 2008-09.

Table1: FDI as Percentage of GDP of India				
Year	GDP (Rs Crore)	FDI (Rs Crore)	FDI as % of GDP	Correlation Coefficient
1990-91	569624	174	0.03	0.91
1991-92	654729	316	0.05	
1992-93	752591	965	0.13	
1993-94	865805	1838	0.21	
1994-95	1015764	4126	0.41	
1995-96	1191813	7172	0.60	
1996-97	1378617	10015	0.73	
1997-98	1527158	13220	0.87	
1998-99	1751199	10358	0.59	
1999-00	1952036	9338	0.48	
2000-01	2102314	18406	0.88	
2001-02	2278952	29235	1.28	
2002-03	2454561	24367	0.99	
2003-04	2754620	19860	0.72	
2004-05	3149407	27188	0.86	
2005-06	3586743	39674	1.11	
2006-07	4129173	103367	2.50	
2007-08	4723400	138276	2.93	
2008-09	5321753	161481	3.03	

Source: RBI Handbook of Statistics, 2009

Figure1: Trends of FDI inflows in India During 1990-91 to 2008-09



The line graph of FDI inflows in India has also been drawn for the said periods. The line graph also shows the trend and pattern of FDI inflows in India. This line shows that how FDI inflows in India has reached to Rs 161481 crore in 2008-09 from mere Rs.174 crore in 1990-91. There are three stages of FDI inflows in India since 1991:

Ist Stage- Slow Growth Period (Period: 1991 to 1997): During these periods, FDI inflows continued upward but FDI growth rate was low. Reasons for this trend may be:

- New Industrial Policy, 1991 focuses on openness, structural reforms, and liberalisations for foreign investment.

- WTO: TRIMs, GATS and TRIPS.
- Upward trend of global FDI flows.
- Cautious approaches towards opening of Indian economy.

IInd Stage- Mixed Trend Period (Period: 1998 to 2003): During these periods, FDI inflows reflected mix trends. Reasons for this trend may be:

- Second generation reform broaden base for FDI and simplify policies and procedures governing foreign investment.
- East Asian Crisis.
- Rising trend of global FDI flows in 1998, 1999 and 2000.
- Weakening of global economy and declined trend of global FDI flows in 2001, 2002 and 2003.

IIIrd Stage- High Growth Period (2004 to 2009): During these periods, high growth rate of FDI inflows in India may be attributed to:

- Strong fundamental economic forces and high economic growth rate of India.
- Uninterrupted upward trend of global FDI flows during 2004-2007.
- Substitution Effect- Rate of return in India in comparison to other developing countries was high during global financial crisis and economic recession.
- Due to time-lag effect although global economic recession and financial crisis started in mid-2007, FDI flows in India continued to increase in 2007 and 2008. However, FDI inflows in India started to decline in 2009. This perhaps is due to a time-lag effect of global economic and financial crisis.

These three stages reflects overall trend of FDI inflows in India.

The correlation between FDI inflows and Gross GDP of India has been estimated. The power of correlation is to find out magnitude and direction of association between two variables. The estimated value of correlation coefficient between FDI and GDP is 0.91 for above said periods. The result shows that FDI and GDP are positively and highly correlated.

The regression result shows that rbar is quite high. It means time factor influence FDI inflows in India to the extent of around 89 per cen. Rate of growth of FDI over time is 32 per cent and level of significance is less than one per cent.

Section III: FDI Policies in India

India made appropriate changes in its policy since 1991 for attraction of FDI. The sweeping changes in the policy introduced since 1991 mark a radical departure from the past and reflect a positive approach towards foreign capital. The changes provide freedom to foreign investors to enter into Indian industry. As a part of new Industrial Policy announced in July 1991 (Economic Survey), the government established a more liberalized Foreign Investment Policy regime with the following announcements.

(1) The new policy allowed for automatic approval of Direct Foreign Investment up to 51%foreign equity holding in 34 specified high priorities. Capital intensive, hi-technology industries.

(2) Foreign technology agreements were allowed for 34 industries for hiring of foreign technicians and foreign testing of indigenously developed technologies without government approval.

(3) Foreign equity holding up to 51% in trading companies were permitted.

(4) A special board called Foreign Investment Promotion (FIPB) was set up to look into large foreign investment project where foreign equity limits of more than 51% may be permitted.

The sweeping changes introduced since 1991 mark a radical departure from the past and reflect a positive approach towards foreign capital. The changes provide freedom to foreign investors to enter into Indian industry. Under the ongoing policy phase the thrust is on providing access to capital, technology and market in order to induce greater industrial efficiency and integration of the domestic economy with the global economy. FDI is now permitted in almost all sectors except a few lists of strategic concern reserved for the state. The enlarged spheres

Table2: Regression Statistics of FDI over Time during 1990-91 to 2008-09

	RBarSq	***RoG***	***t Stat***	***P-value***
India	0.89	0.32	11.90	Less than 1%

for FDI entry now include print media, Defence, mining, oil exploration, refining and marketing, power generation and telecommunication, which were earlier reserved for the state sector.

The policy of the Government of India is to strive to maximize the developmental impact and Spin-offs of FDI. While the Government encourages, and indeed, welcomes FDI in all the sectors where it is permitted, India is especially looking for large FDI inflows in the development of infrastructure, technological upgradation of Indian industry through 'greenfield' investments in manufacturing, and in projects having the potential for creating employment opportunities on a large scale, and also invites investments in setting up Special Economic Zones and establishing manufacturing units therein.

Recent Policy on Foreign Direct Investment (FDI)
1. Sectors prohibited for FDI:

i. Retail trading (except Single Brand Product retailing)

ii. Atomic energy

iii. Lottery business

iv. Gambling and Betting

v. Business of Chit Fund

vi. Nidhi Companies

vii. Trading in Transferable Development Rights (TDRs)

viii. Activity/Sector not opened to private sector investment.

2. All Activities/ Sectors would require prior Government approval for FDI in the following circumstances:

i. Where provisions of Press Note 1(2005 Series) are attracted;

ii. Where more than 24% foreign equity is proposed to be inducted for manufacture of items reserved for the Small Scale sector.

III. In Sectors/Activities not listed below, FDI is permitted up to 100% on the automatic route subject to sectoral rules / regulations applicable.

IV. Sector-specific policy for FDI: In the following sectors/activities, FDI up to the limit indicated is allowed subject to other conditions (Annexure-1)

Recent policy of FDI shows the degree of openness has increased for foreign investors. Due to policy change, FDI inflows in India has increased more than 500 times from 1991-92 to 2008-09. However there may still be a considerable potential for even more foreign direct investment into the country provided the positive stance towards foreign Direct Investment Countries.

Section IV: FDI Policies of Indian States

Since 1991, states in India have enjoyed more freedom in forming their respective industrial policy and are using this new opportunity most vigorously to attract private investment. States are now busy wooing private investors to invest and in this regard, provide investor companies with a vast range of incentives. For each state these incentives vary across industries, depending upon the scale of production, location of unit, export orientation and a host of other factors. Recent industrial policy reforms and incentives provided for investment by states governments are as follow:

Maharashtra

Maharashtra is one the largest state economies and has the third largest per capita income in the country. Mumbai is regarded as the country's financial and business capital. Government of Maharashtra is keen to facilitate the entry of overseas companies, especially in the infrastructure sector.

Incentives for FDI:

- Maharashtra offers a business-friendly environment, excellence in infrastructure, highly-skilled and trained workforce, and effective policies in the industrial units.
- The Jawaharlal Nehru Port Trust (JNPT) provides effective communication network with markets of Southern, Northern & Western India.
- During 2002-2008, economy was growing above 8%
- The industrial and service sectors have contributed largely in the robust growth of the state's economy.
- Mumbai executes around 70 percent of India's stock transactions and is claimed to be the commercial capital of India.

- Single window Clearance & Common Application Form for Investment / Expansion
- The Special Cell will serve as single point contact for FDI
- Maharashtra got overwhelming 71 approvals for Special Economy Zones

Sectors benefited from foreign investments include Engineering, Electronics Hardware, Automobiles and Auto Components, Consumer Durables, Chemicals, Petrochemicals, Pharmaceuticals, Information Technology and Biotechnology.

Delhi

Delhi is the national capital of India. Delhi has ranked second only to Maharashtra, among the Indian cities in terms of FDI inflows during 1991 to 2008.

Incentives for FDI:

- Proximity to major industrial and tourist centers
- Services sector driven economy
- State with one of the highest per capita income
- One of the most Preferred FDI destination in India
- Principal business and commercial centre of North India
- State with highest foreign tourist arrivals
- Delhi airport, one of the busiest airport in the country in handling cargo as well as passengers
- Excellent connectivity to other international destinations
- High concentration of rich households of around 25% of the country
- Highest literacy rate with huge English speaking population
- The call centre capital of India (in and around)

The largest investment attracting sectors in Delhi have been electrical equipment, the services sector, Information Technology and ITES, Real estate, and transportation industry followed by chemicals, food processing industries, drugs & pharmaceuticals, metallurgical industries, cement and gypsum products, tourism etc.

Karnataka

Karnataka ranks among the top 5 industrially developed states in India. The economy of Karnataka has developed significantly in recent years with large volumes of Foreign Direct Investments flowing into the state.

Incentives for FDI

- The state government is investor friendly for it provides the facility of single window clearance to ensure fast track approvals for foreign investments.
- The infrastructure facility that is available in the state is of world class standard
- Good law and order situation prevails in Karnataka which is conductive to foreign direct investments.
- The state provides excellent logistic support and connectivity to the investors
- The state ranks among the top 5 industrially developed states of India.
- The state provides to the investors one of the biggest and fastest expanding markets in the country
- Highly skilled manpower is abundantly available in Karnataka.

There are more than 500 multinational companies in the Karnataka and also over 100 international R&D centres in the state. Industries attracting foreign direct investment are IT, Cement, Food processing industries, Automobiles, Pharmaceuticals Electronics & communications, Apparel etc. International companies that have invested in Karnataka are Hewlett Packard, Compaq, Accenture, GE, Toyota, Coca- Cola, Warner Lambert, Italicement, Van Heusen etc.

Tamil Nadu

Impact of FDI on Tamil Nadu Economy has been quite strong. FDI has provided the state with innovative technologies, new markets, and demands in input.

Incentives for FDI

- The state government is quite friendly and open to the investors and the climatic condition of the state is also apt for industrial developments

- The literacy rate in Tamil Nadu accounts for 73.5 percent which ensures great number of workforce in the state
- Private Participation in Infrastructure building is ensured by the government of Tamil Nadu
- Single window clearance is availed to the investment
- The state government has assured about introducing a new Special Economic Zone (SEZ) policy to carry out the execution of industrial activities in a more systematized form
- A fresh new IT Policy 2002 and Information Technology Enabled Services (ITES) Policy 2005 have been formulated with the aim to provide an investor-friendly atmosphere to the IT sector in the state
- The government of Tamil Nadu has reduced the stamp duty by 50 percent

FDI has brought in technological advancements through various foreign companies and has made products more export-oriented.

Gujarat

Impact of FDI on Gujarat Economy has proved to be beneficial for the various industries in the state have grown, developed and also expanded.

Incentives for FDI:

- The state provides extensive network of railways.
- Gujarat has the highest number of airports in the country.
- The state provides excellent network of roads.
- Professional services to the investors are provided in Gujarat.
- The state is highly industrialized.
- Location wise, Gujarat has a strategic location providing easy access to the African, western, and Middle East markets.
- Skilled manpower is abundantly available in Gujarat.

Industries attracting FDI are Oil and gas, Infrastructure, Food processing industries, Information technology, Gems and jewelry, Biotechnology, Chemicals, Textiles, etc Foreign direct investment in Gujarat has led to the growth in trade and exports in the state. With increasing volumes of FDI, Gujarat has emerged as one of the most rapidly developing states in India.

Andhra Pradesh

The state of Andhra Pradesh is situated in the southern part of India. It has a long coastline and is one of the largest states in India. The state is one of the favoured destinations among foreign investors. Vishakhapatnam is an important port city in Andhra Pradesh, and also an important commercial centre.

Incentives for FDI:

- The laissez-faire policies and the availability of good infrastructure have helped in attracting investments in the twin city of Hyderabad and Secunderabad are famous for the information technology and IT enabled services sector.
- Hyderabad is also globally famed for its splendid Ramoji Film City, the artificially created set of a city for shooting films.
- Phasing out subsidies, except SSI and tiny units
- Tirupati, the world's richest temple attracts tourist for all over the world.

Impact of FDI on Andhra Pradesh Economy has been phenomenal. The state has been going through a developmental spree in the past few years. Hyderabad is a favourite investment destination among foreign investors. Industries attracting foreign direct investment in agro-food processing, IT, infrastructure and engineering based industries from abroad. International big players such as Intel and Volkswagen have set up their production units in the state of Andhra Pradesh.

Chandigarh

Chandigarh, also known as **'City Beautiful'** is a Union Territory and capital of two states- Punjab and Haryana.

Incentives for FDI:

- Being located centrally vis-à-vis the agriculturally rich states of Punjab and Haryana there is enormous potential for Food processing & beverages industry at the food park of the city.

- Chandigarh Administration is focusing on promotion of Information Technology (IT) industry through the Software Technology Parks of India (STPI).
- Govt. policies regarding SEZs have come as an opportunity to Information Technology as well as ITSS/BPO, and other industries.
- Integration of IT services with medical services at one place, Pharmacy industry has an opportunity to grow in this city.
- Setting up of Rajiv Gandhi Chandigarh Technology Park (RGCTP) creates huge amount of employment opportunities as well as business

Important sectors which have potential for attracting FDI are Manufacturing and Engineering, Tourism and Hospitality, Banking Industry, Information Technology and ITeS, Bio Technology, Education, Food processing & beverages etc.

Haryana

Haryana has emerged as one of the most important states in the country for foreign direct investment and this has given a major boost to the economy of the state. Haryana has become the largest manufacturer of the number of tractors, passenger cars, scientific instruments, and motorcycles in the country.

Incentives for FDI:

- The state provides excellent infrastructure facilities such as well developed roads, railways, industrial estates, technical institutes, commercial markets, and communication network.
- The state provides a well developed system of banking with more than 4500 branches of banks
- The state has adopted policies that are investor friendly
- The state has a very efficient administrative system which tries to make it easy for the investors to make investments in the state
- The state provides abundant supply of skilled manpower
- The state provides residential and corporate estates that are of world class standards

Impact of FDI on Haryana Economy has proved to be beneficial for the state's economy has grown at a very impressive rate. Employment, tax collections and exports from Haryana have increased significantly due to Foreign Direct Investments in the state. Industries in Haryana attracting foreign direct investment are Information technology, Electrical goods, Food processing industries, Automobiles, Readymade garments, Light engineering. International companies having presence in Haryana are Siemens, Alcatel, Duracell, GE Capital, Silicon graphics, Motorola, Daewoo Telecom Ltd, Polaroid, Hughes Software systems etc.

Punjab

Punjab is one of the most fertile regions in the country. Punjab has contributed significantly towards strengthening India's self sufficiency by contributing a major share in the Central pool overtime.

Incentives for FDI:

- The state provides excellent infrastructure facilities such as well developed roads, railways, industrial estates, technical institutes, commercial markets, and communication network
- Government of Punjab has streamlined the system of approval and monitoring of mega projects in a time bound period
- The state has enormous potential in agriculture, food processing, manufacture of scientific instruments, electrical goods, machine tools, textiles, tourism, sewing machines, sports goods, starch, fertilisers, bicycles, processing of pine oil and sugar.
- Punjab is the second-largest producer of cotton and blended-yarn and the third-largest producer of mill-made fabrics in India.
- The state provides abundant supply of skilled manpower
- High per capita income of the state

Major Sectors in which FDI has been flowing are Textiles, Manufacturing, Food Processing and Agro-Based, Chemical and Fertiliser, Hosiery, Energy, IT/ITeS, Tourism Education etc.

Himachal Pradesh

Himachal Pradesh is a hilly and mountainous tract. Himachal Pradesh, a predominantly agrarian economy, is rapidly emerging as an industrial hub thanks to the incentives and initiative provided by the State and the Central governments towards industrialisation of the state.

Incentives for FDI:

The state provides special packages of fiscal and non-fiscal incentives to the investors and ranks highest on the incentives index. The new industrial policy of the State aims to woo the indigenous and foreign investors to the State. The natural endowments like abundant raw material, a clean environment, peaceful atmosphere, uninterrupted power supply, simplified procedures with efficient administration and entrepreneur-friendly approach have helped to boost the flow of investments to the State, accelerating the industrial growth in the State. The state further gives thrust on early clearance of new proposals, and providing better and improved infrastructure to make the industries in the State more competitive. Major Sectors for foreign investors are Tourism, Agro-based industries, Pharmaceuticals, Electronics, Minerals, Textiles, Bio Technology, Manufacturing etc.

West Bengal

West Bengal has been one of the fore-runners among Indian states in attracting FDI in recent years. FDI in West Bengal has led to development of infrastructure in this state.

Incentives for FDI:

- The labour laws of the state have been simplified so that foreign companies can function smoothly in the state.
- The IT companies in the state have been given special status so that they can improve the infrastructure.
- Regulatory measures that are conductive to foreign investments have been undertaken in the state.
- Facility of single window clearance has been provided in the state.

Industries in West Bengal attracting FDI are Information technology, Chemicals, Iron and steel, Plastic, Biotechnology etc. The state of West Bengal has become an important destination for investment in the whole of India for large amounts of foreign direct investment are coming in the state. The places in West Bengal that have attracted foreign direct investment are Kolkata, Asansol, Howrah, Siliguri, Durgapur, Haldia, and Jalpaiguri. Special Information Technology zones have been set up in Salt Lake and Rajarhat - two developing townships adjoining Kolkata.

Sikkim

This Himalayan State is bordered by West Bengal on the South, China on the North, Nepal on the West and Bhutan on the East. It has tremendous natural resources and well developed infrastructure and the Government is committed to enhance them further.

Incentives for FDI:

- The environment is unpolluted and the State is committed to industrialization without hampering its ecological balance.
- The state has offer a tremendous hydel power base with easy access to national grid. It has hydroelectric potential at 8000 MW
- It has highest rural literacy rate provides talented work force to the industries
- The state has major natural resources at its disposal are timber, herbs and medicinal plants and rich mineral deposits of copper, zinc, lead, coal, dolomite, quartzite, graphite and talc.

Industries in Sikkim have potential for attracting FDI are hydro-power, herbs and medicinal plants, timber, mineral and horticultural industries.

Uttar Pradesh

The state government has decided to improve the environmental conditions of the state in order to attract more NRI and FDI investment for industrial developments. With regard to this, policies and systems are being reviewed in order to create a conductive environment for FDI in Uttar Pradesh.

Incentives for FDI:

- Uttar Pradesh has an abundance of land and water

- Adequate power supply is available in this state.
- Land is available at competitive rates.
- Special facilities are available for both foreign investors as well as NRI investors.
- Various state financial institutions are being set up to provide institutional finance.
- Single table clearance system through Udyog Bandhu.
- Uttar Pradesh has special industrial areas for setting up of software technology parks, electronic city, toy city, plastic city,
- Integrated agro park, leather parks, chemical complex and textile city.
- The state also has a large number of foreign banks.

Uttaranchal

Economy of Uttaranchal continues to be predominantly agricultural. Agriculture and allied activities contribute around two-third of the net domestic output from the commodity producing sectors.

Incentives of FDI:

- Encouraging and providing conducive environment for setting up industries.
- With its beautiful landscape, religious places, trekking trails, national parks, mountain peaks and historical and archaeological sites, the state of Uttaranchal has tremendous potential for developing tourism industry.
- The state has immense potential for the development of horticultural crops. Apples, oranges, pear, grapes peach, plum apricot, litchi, mangoes and guava are widely produced fruits. It has tremendous potential for developing agro-based and food processing industries.
- The region also holds promise for herbal plant based products and also forest based industry.

The major industrial sectors of Uttaranchal with potential of attracting FDI are automobiles, agro-based and food processing, Herbal and medicinal plants, electronic goods, biotechnology, Manufacturing, IT/ITeS, handloom, tourism, hydro power generation, and floriculture.

Kerala

The state is highly well-developed in terms of literacy, education and health. Kerala has an abundance of natural resources which is conductive to Foreign Direct Investments in the state.

Incentives for FDI:

- Kerala has an abundance of natural resources.
- The state is highly well-developed in terms of literacy, education and health.
- Advantage of location is an important factor as Kerala is located on the trans- national trade corridor.
- It is well connected to other important states of India.
- Kerala provides considerable advantage in terms of cost structure to foreign investors.
- Communication networks are quite well-developed in the state.
- The state government policies are proactive and provide incentives to various enterprises.
- The investment patterns are quite simplistic and limpid.
- The service sector in Kerala has occupied almost two-thirds of the state's economy.

Impact of FDI on Kerala Economy has been quite strong in the recent years. Kerala has gained from FDI inflows in terms of technological advancements, increased competitiveness, growth in export etc. Sectors with high Foreign Direct Investment Inflows in Kerala are Mineral and Clay based products, Traditional Industries, Tourism, Auto Components, and Agro Processing etc.

Rajasthan

The Government of Rajasthan has been laying great emphasis on the growth of industries in the State. The proximity of the State to the Northern and Western markets of India, the near strife free labour environment, vast mineral resources and the investor-friendly attitude of the State Government, makes the region a prime choice for limitless business opportunities and flow of investments to the State.

Incentives for FDI:

- The State has systematically developed a conducive and responsive investment climate for smooth entry of potential investors.
- The single window clearance system.
- The state has a network of support organizations like RSIDIC, the Bureau of Investment Promotion etc. Rajasthan investment incentives include subsidies, power concessions, land and building tax exemption, and special land package for IT industries.
- The state has also announced a 100% rebate on luxury tax which is an encouragement for the hospitality and tourism sector, and 50% on stamp duty and conversion charges on new industrial units.

Major industries identified in the State for FDI are Cement, Tourism, Mining and Metal.

Chhattisgarh

Chhattisgarh is the richest State in mineral resources. There are mega industries in Steel, Aluminium and Cement. Chhattisgarh has cement plants, iron casting units, engineering and fabrication units, agro-based food processing, chemical and plastic industries Chhattisgarh is rich in mineral resources. Twenty per cent of the country's steel and cement is produced in the State. Iron-ore, limestone, dolomite, coal, bauxite are found in abundance. It is the only tin-ore producing state in the country. Other minerals such as korandum, garnet, quartz, marble, diamond are also found in Chhattisgarh. The state has vast potential for attraction of resource-seeking FDI.

Jharkhand

Jharkhand is confidently moving into a safe and increasingly investor-friendly destination- with a stable environment, abundant electric power for new industry, plenty of natural as well as human resources, good communication facilities, well-connected roadways and other infrastructural facilities. The state has a wide industrial base and ambitious plans for massive investment in various industries like Metal & Engineering Industry, Energy Production & non conventional Energy, Telecommunication & Electronics, Drugs & Pharmaceuticals, Food Processing and Mineral-based Industries with all efforts to minimize pollution for a balanced ecology.

The state has immense potential in mining sector. Jharkhand has 40% of India's mineral reserves. The state is the sole producer of coking coal, uranium and Pyrite. It ranks first in the production of coal, mica, kyanite and copper in India. Thus mining has a major role to play in the state's economic development. The geological exploration and exploitation of gold, silver, base metals, precious stones etc are the potential areas of future. The state has vast potential for attraction of resource-seeking FDI. But due to political instability, the state is not able to attract as much FDI as she deserve.

Bihar

Bihar has a very old and rich history. Agriculture is the biggest industry in the state today, but the government has recently embarked on a large industrialization and inward investment program. Bihar has significant food and dairy producing industries, a strong rail & developing road network, two international airports (Patna, Gaya), and is the centre of the dynamic Bhojpuri language film industry. Patna remains the richest city in Bihar, with per capita income greater than the Indian average. The fast changing macro-environment has made the state one of the fastest growing economies since 2006.

The state government has created business friendly environment for investment opportunities and leverage the resources there for all big and small industrial houses.

Orissa

Agriculture dominates the state's economy. Orissa has abundant natural resources and a large coastline. It receives unprecedented investments in steel, aluminium, power, refineries, IT and ports. MNCs presence in the state is Mind Tree Consulting, Hexaware Technologies, PricewaterhouseCoopers, IBM, Syntel, Bosch, Posco, Arcelor-Mittal, The state is attracting an unprecedented amount of investment in aluminium, coal-based power plants, petrochemicals, and information technology as well. Vedanta Resources' 1.4 million tonne alumina project in Kalahandi district is the largest investment in aluminium. Vedanta has also announced a $3.2 billion dollar huge private University project on the lines of the Ivy League Universities, which is unprecedented in the history of education in India.

Pondicherry

Pondicherry is located in India (South). Government of Pondicherry also provides very good infrastructural facilities of roads, electricity and water supply. Pondicherry provides a peaceful and quality work force with no hassles of trade unions. And all this has made Pondicherry a heaven for existing and new industrial units.

Jammu and Kashmir

- As per the new Industrial Policy 1998 to 2003, the new industrial units are entitled to avail of any benefit under the old package of incentives, applicable prior to the new policy.
- An open door policy for the investors from within the State, other parts of the country as also from abroad will be followed.
- In order to achieve the goal of rapid industrialization, more emphasis will be given for development of infrastructure, growth centers and industrial estates.
- The state has vast potential for attraction of FDI in tourism sector.

North-East States

North-East states include Arunachal Pradesh, Meghalaya, Assam, Manipur, Mizoram, Nagaland, and Tripura.

Arunachal Pradesh

The aim and objective of the Department of Industries in the State is to promote the industrial activities.

Meghalaya

A Growth Centre aims to promote industrialisation of backward areas with the concomitant infrastructure facilities like power, water, communication, banking and other related services, thereby bringing about a balanced growth of the State. The state is also export oriented units (EOUs)

Assam

The State of Assam is the largest producer of timber and tea in the country and has the oldest oil refinery in India. The State has a unique locational advantage by being the gateway to the North East. Guwahati the capital of Assam is the hub of all commercial activities in North Eastern India and is a potential trade link with the South East Asian countries. Assam is an agrarian State and provides tremendous opportunities. The growth of agro and rural industries, handlooms and handicrafts

Manipur

The State has rich natural and agro resources with tremendous potential for development and exploitation.

Mizoram

Mizoram has tremendous natural beauty with its endless variety of landscape, hilly terrains, meandering streams deep gorges, rich wealth of flora and fauna. Mizoram has an abundant reserve of bamboo forest. All agro-horticulture output of Mizoram are organic products of a very high-value in the national and international market.

Nagaland

Nagaland has tremendous natural and agro resources, which provide opportunities for exploitation and development. The State also has great scenic beauty which holds tremendous potential for tourism development.

Tripura

Tourism has been declared as an Industry in the State since 1987. Handicrafts and handloom is emerging as a potential industry in Tripura.

Recent industrial policy reforms and incentives provided for foreign investment by states governments are reflecting policy competitions amongst states to attract more and more foreign direct investment for their development.

Section V: Trends of FDI inflows in Indian States

Investment inflow influences the economic development of the region in particular and the country in general. Higher FDI inflow brings in new technology, enhances the quality of human capital and creates a strong competitive base for its overall development. FDI in different states in India have increased steadily since the early 1990s when the Indian economy was opened up to foreign investments. Maharashtra, Delhi, Karnataka, Tamil Nadu and Gujarat are among the leading states that have attracted maximum FDI.

The status of FDI in different states of India, during the period beginning from the year 1991 to 2008 corroborates the growth of Indian states in sync with the Indian economy. Some of the states in India which have witnessed a massive upsurge in FDI Inflows include Maharashtra, Delhi, Karnataka, Tamil Nadu and Gujarat.

Table3: Statement on RBI's Office-wise (with states covered) FDI Flows: from 1991 to 2008

RBI' Centre	States Covered	Amt.(Rs in millions)	%age Share
MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	1538019.77	34.93
NEW DELHI	DELHI	587793.09	13.35
BANGALORE	KARNATAKA	441036.21	10.02
CHENNAI	TAMIL NADU, PONDICHERRY	440646.57	10.01
AHMEDABAD	GUJARAT	402945.44	9.15
HYDERABAD	ANDHRA PRADESH	268890.17	6.11
CHANDIGARH`	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	160112.41	3.64
KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	141977.22	3.22
KANPUR	UTTAR PRADESH, UTTRANCHAL	129710.16	2.95
BHOPAL	MADHYA PRADESH, CHATTISGARH	104216.80	2.37
BHUBANESHWAR	ORISSA	86248.31	1.96
JAIPUR	RAJASTHAN	50025.56	1.14
KOCHI	KERALA, LAKSHADWEEP	21709.90	0.49
PANAJI	GOA	17879.77	0.41
PATNA	BIHAR, JHARKHAND	8848.26	0.20
GUWAHATI	ASSAM, ARUNACHAL PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA	2829.36	0.06

Source: SIA, Newsletter, various issue

Table4: FDI as Percentage of Gross State Domestic Product

RBI's CENTRE	STATES	1991	1995	1999	2003	2007
NEW DELHI	DELHI	0.142	41.688	9.460	1.409	6.364
MUMBAI	MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU	0.017	1.569	2.546	0.367	3.189
BANGALORE	KARNATAKA	0.006	2.370	2.583	0.302	2.305
HYDERABAD	ANDHRA PRADESH	0.005	0.544	0.604	0.124	1.019
CHENNAI	TAMIL NADU, PONDICHERRY	0.008	2.024	2.272	0.675	0.969
CHANDIGARH`	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH	0.003	0.623	0.563	0.355	0.844
KANPUR	UTTAR PRADESH, UTTRANCHAL	0.048	0.560	0.358	0.046	0.714
KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS	0.083	1.557	0.225	0.169	0.514
AHMEDABAD	GUJARAT	0.031	0.593	1.015	0.189	0.409
PANAJI	GOA	0.111	0.662	0.535	0.204	0.232
BHOPAL	MADHYA PRADESH, CHATTISGARH	0.021	0.103	1.724	0.000	0.096
KOCHI	KERALA, LAKSHADWEEP	0.016	0.030	0.304	0.017	0.063
JAIPUR	RAJASTHAN	0.035	0.274	0.236	0.002	0.047

Correlation between FDI and SDP during 1991-2008:

$r = 0.51$ and $r^2 = 0.26$

The FDI inflow across the states as a percentage of gross SDP reflects the pattern of FDI distribution in different states at different points of time. The results are showing uneven distribution of FDI amongst states. It means FDI inflows in India are not equally distributed amongst all states. Some states are receiving more than their due share and other states are receiving below their due share of FDI inflows with respect to gross SDP of respective states.

Table5: Regression Statistics of States FDI over Time during 1991-2007

RBI's Centre	States	RBarSq	*RoG*	*t Stat*	*P-value*
KANPUR	**UTTAR PRADESH, UTTRANCHAL**	0.42	0.17	3.52	0.00
BANGALORE	**KARNATAKA**	0.37	0.27	3.24	0.01
MUMBAI	**MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU**	0.33	0.22	2.96	0.01
HYDERABAD	**ANDHRA PRADESH**	0.31	0.22	2.84	0.01
CHANDIGARH`	**CHANDIGARH, PUNJAB, HARYANA, HIMACHAL PRADESH**	0.29	0.20	2.75	0.01
PANAJI	**GOA**	0.24	0.12	2.46	0.03
NEW DELHI	**DELHI**	0.23	0.16	2.41	0.03
CHENNAI	**TAMIL NADU, PONDICHERRY**	0.20	0.18	2.23	0.04
KOCHI	**KERALA, LAKSHADWEEP**	0.10	0.11	1.64	0.12
AHMEDABAD	**GUJARAT**	0.07	0.11	1.50	0.15
KOLKATA	**WEST BENGAL, SIKKIM, ANDAMAN & NICOBAR ISLANDS**	0.06	0.09	1.44	0.17
JAIPUR	**RAJASTHAN**	-0.05	-0.05	-0.56	0.59
BHOPAL	**MADHYA PRADESH, CHATTISGARH**	-0.05	-0.06	-0.55	0.59

Regression results of all states except Rajasthan and Madhya Pradesh are significant. The result shows that the Rbar Square is not enough high of any state. Therefore, it may be concluded that time factor (i.e. FDI policy) alone is not able to explain overall FDI inflows across the states during 1991 to 2007. There are other factors also which are explaining FDI inflows across the states over said periods. Thus, it may be concluded that the policy framework is necessary condition for attraction of FDI but not a sufficient condition.

Section VI: Summary and Conclusion:

With the liberalization of the Indian economy, FDI inflow in India increased significantly since 1991, and crossed more than three percent of gross GDP in 2008-09. But it is modest compared to many Asian countries.

This study is about FDI in India with particular emphasis on the policies and trends in Indian states. FDI policies and procedures have been liberalised and simplified on continuous basis through first and second generation reforms. The impact of liberalised FDI policy has been reflected in the magnitude of FDI inflow in India at aggregate level. FDI inflow in 2008-09 is more than 500 times of 1991-92. Initially FDI has grown at slow rate but later period, FDI is growing at faster rate after declined trend during middle periods of the study. The growth of FDI inflow has crossed three percent of gross GDP of India. The correlation analysis at aggregate level reflects high and positive association between FDI and gross GDP during 1990-01 and 2008-09. The analysis of broad trend of FDI inflow at aggregate level represents growth rate over time.

Indian states are also vigorously reforming their industrial policies in order to attract foreign investment in their respective states. FDI in different states in India have increased steadily since the early 1990s when the Indian economy was opened up to foreign investments. However, FDI inflow is highly concentrated in a few states namely Maharashtra, Delhi, Karnataka, Tamil Nadu and Gujarat. At regional level across states however, there is no correlation between gross SDP growth and FDI growth. This is an anomaly between the overall pattern of growth of FDI and its regional distribution. Regression results of FDI in Indian states over time are also not very encouraging.

From above analysis, it may be concluded that time factor (i.e. FDI policy) alone is not able to explain overall FDI inflows across the states during 1991 to 2007. There are other factors also which are explaining FDI inflows across the states over said periods. Thus, the policy framework is necessary condition for attraction of FDI but not a sufficient condition.

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Annexure - 1

S.No.	Sector/Activity	FDI Cap/Equity	Entry Route
I	AGRICULTURE		
1.	Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture, aqua-culture, cultivation of vegetables, mushrooms, under controlled conditions and services related to agro and allied sectors	100%	Automatic
2.	Tea Sector, including tea plantation	100%	FIPB
II	INDUSTRY		
II A	MINING		
3.	Mining covering exploration and mining of diamonds & precious stones; gold, silver and minerals.	100%	Automatic
4.	Coal & Lignite mining for captive consumption by power projects, and iron & steel, cement production and other eligible activities permitted under the Coal Mines (Nationalisation Act, 1973.)	100%	Automatic
	Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities.	100%	FIPB
II B	MANUFACTURING		
6.	Alcohol-Distillation & Brewing	100%	Automatic
7.	Cigar & Cigarettes- Manufacture	100%	FIPB
8.	Coffee & Rubber processing & warehousing	100%	Automatic
9.	Defence Production	26%	FIPB
10.	Hazardous chemicals, viz., hydrocyanic acid and its derivatives; phosgene and its derivatives; and isocyanates of hydrocarbon.	100%	Automatic
11.	Industrial Explosives- Manufacture	100%	Automatic
12.	Drugs & Pharmaceuticals including those involving use of recombinant DNA technology	100%	Automatic
III C	POWER		
13.	Power including generation (except Atomic energy); transmission, distribution and Power Trading.	100%	Automatic
IV	SERVICES		
14.	CIVIL AVIATION SECTOR		
(i)	Airports-		
a.	Greenfield Projects	100%	Automatic
b.	Existing Projects	100%	FIPB beyond 74%

(ii)	Air Transport Services including Domestic Scheduled Passenger Airlines; Non-Schedules Airlines; Chartered Airlines; Cargo Airlines; Helicopter and Seaplane Services		
c.	Scheduled Air Transport Services/Domestic Scheduled Passenger Airline	49%-FDI; 100%-for NRI Investment	Automatic
d.	Non-Scheduled Air Transport Services/Non-Scheduled Airlines, Chartered airlines, and Cargo Airlines	74%-FDI; 100%-for NRI Investment	Automatic
e.	Helicopter Services/Seaplane services requiring DGCA approval	100%	Automatic
(iii)	Other services under Civil Aviation Sector		
f.	Ground Handling Services	74%-FDI; 100%-for NRI Investment	Automatic
g.	Maintenance and Repair organisations; flying training institutes; and technical training institutes		
15.	Asset Reconstruction Companies	49% (only FDI)	FIPB
16.	Banking- Private Sector	74%(FDI + FII)	Automatic
17.	Broadcasting		
a.	FM Radio	FDI + FII investment up to 20%	FIPB
b.	Cable Network	49% (FDI + FII)	FIPB
c.	Direct-To-Home	49% (FDI + FII). Subject to maximum 20% FDI	FIPB
d.	Setting up hardware facilities such as up-linking, HUB, etc	49% (FDI + FII)	FIPB
e.	Up-linking a News & Current Affairs TV Channel	26%	FIPB
f.	Up-linking a Non-news & Current Affairs TV Channel	100%	FIPB
18.	Commodity Exchanges	49%(FDI + FII) Investment by registered FII under PIS will be limited to 23% and Investment under FDI Scheme limited to 26%	FIPB
19.	Construction Development Projects, including housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure, townships. Note: FDI is not allowed in Real Estate Business.	100%	Automatic
20.	Courier services for carrying packages, parcels and other items which do not come within the ambit	100%	FIPB

	of the Indian Post Office Act, 1898		
21.	Credit information Companies	49% (FDI+FII) Investment by Registered FII under PIS will be limited to 24% only in the CICs listed at the Stock Exchanges within the overall limit of 49% foreign Investment.	FIPB
22.	Industrial Parks both setting up and in established Industrial Parks	100%	Automatic
23.	Insurance	26%	Automatic
24.	Investing companies in infrastructure/services sector (except telecom sector)	100%	FIPB
25.	Non-Banking Finance Companies- approved activities		
	Merchant Banking, Underwriting Portfolio Management Services, Investment Advisory Services, Financial Consultancy, Stock Broking, Asset Management, Venture Capital, Custodial Services, Factoring, Credit Rating Agencies, Leasing & Finance, Housing Finance, Forex Broking, Credit card business, Money Changing business, Micro Credit, & Rural Credit	100%	Automatic
26.	Petroleum & Natural Gas Sector		
a.	Refining	49% in case of PSUs, 100% in case of Private companies	FIPB(in case of PSUs); Automatic(in case of Pvt companies)
b.	Other than Refining and including market study and formulation; investment/financing; setting up infrastructure for marketing in Petroleum & Natural Gas Sector.	100%	Automatic
27.	Print Media		
a.	Publishing of Newspaper and Periodicals dealing with news and current affairs	26%	FIPB
b.	Publishing of scientific magazines/specialty journals/periodicals	100%	FIPB
28.	Telecommunications		
a.	Basic and cellular, Unified Access Services, National/International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS),	74% (Including FDI, FII, NRI, FCCBs, ADRs, GDRs, Convertible Preferance Shares, and	Automatic up to 49%. FIPB beyond 49%.

	Global Mobile Personal Communications Services (GMPCS) and other value added telecom services	Proportionate Foreign Equity in Indian Promoters/Investing Company)	
b.	ISP with gateways, radio-paging, end-to-end bandwidth.	74%	Automatic up to 49%. FIPB beyond 49%.
c.	ISP without gateway, infrastructure provider providing dark fibre, electronic mail and voice mail	100%	Automatic up to 49%. FIPB beyond 49%.
d.	Manufacture of telecom equipments	100%	Automatic
29.	Trading		
a.	Wholesale/cash & carry trading	100%	Automatic
b.	Trading for exports	100%	Automatic
c.	Trading of items sourced from small scale sector	100%	FIPB
d.	Test marketing of such items for which a company has approved for manufacture	100%	FIPB
e.	Single Brand product retailing	51%	FIPB
30.	Satellites- Establishment and operation	74%	FIPB
31.	Special Economic Zones and Free Trade Warehousing Zones covering setting up of these Zones and setting up units in the Zones	100%	Automatic

Source: foreign direct investment policy, June 2008; DIPP, SIA, Ministry of Commerce and Industries, Government of India.