

Foreign direct investment

6.57 Aggregate FDI inflows into India were somewhat lower during 2003-04 as compared to that during 2002-03 (Table 6.2). The reduction is attributable to a small decline (US\$379 million) in fresh equity capital inflows in 2003-04. Reinvested earnings during 2003-04 at US\$1.8 billion were more or less the same as in 2002-03. FDI flows into India, on BOP basis, after rising sharply from 1999-2000, have been showing a decline since 2001-02 (Table 6.2 and Figure 6.3). FDI (net) undertaken by Indian enterprises overseas, was also lower at US\$1.3 billion during 2003-04, compared to US\$1.8 billion in 2002-03.

6.58 The declining trend of FDI flows into India appears to have reversed during the current year, with such flows during the first half of 2004-05 almost US\$1 billion higher than

that during April-September 2003-04 (Table 6.2). On a quarterly basis, FDI (net) flows into India improved from US\$1.3 billion during April-June 2004-05 to US\$1.8 billion during July-September 2004. FDI (net) abroad has been broadly at the same level in the two quarters.

6.59 Aggregate FDI flows (net) into India during April-September 2004-05 are estimated at almost 70 per cent of such flows during the whole of 2003-04, thereby indicating a turnaround in the current year. Notwithstanding the upturn, India's capital account in recent years has gained far more strength from short-term portfolio flows than from long-term FDI flows. This probably necessitates revisiting the FDI policy and identifying constraints impeding higher FDI inflows. Procedural simplifications (e.g. removal of anomalies from Press Note 18) are likely to encourage much greater FDI flows.

