

## Foreign Investment

6.65 Foreign investment flows in the BOP comprise FDI flows and portfolio flows consisting of FII flows and resources mobilized by Indian companies through ADRs and GDRs. Since 1995-96, overall foreign investment flows were the lowest in 1998-99 and 2002-03 (Figure 6.2). However, FII flows reflected the confidence of the international financial community in Indian capital markets, and foreign investment flows rose rapidly in 2003-04 (Figure 6.3 and Table 6.2). The traditional dominance of FDI over portfolio flows observed since 1996-97 (except in 1999-2000) ended — at least for the time being — in 2003-04.

### *Foreign Direct Investment (FDI)*

6.66 After exhibiting a downward trend for two years since 2001-02, FDI (net) flows grew by 36 per cent in 2004-05 (Table 6.2 and Figure 6.3). The increased flows were mainly to the electrical equipment (including computer software and electronics) and services sectors. The overall FDI numbers reflected in the BOP are inward FDI, netted for outward FDI. During the year 2004-05, inward FDI flows into India, at US\$5.6 billion, were more than US\$1 billion higher than such inflows worth US\$4.3 billion in 2003-04. Higher inflows of equity investment valued at US\$3.7 billion in 2004-05, as compared with US\$2.2 billion in 2003-04, were responsible for

enhancing overall inward FDI flows. Outward FDI from India during 2004-05 was also somewhat higher at US\$2.4 billion, as against US\$1.9 billion in 2003-04, reflecting the growing reach of Indian corporates in foreign markets. However, overall FDI was around US\$850 million higher in 2004-05 compared with the previous year, on account of the rate of growth of inward FDI flows being much higher than that of outward FDI.

6.67. The scenario during April-September 2005 regarding FDI flows is not much different from what it was in April-September 2004. While FDI flows into India have been marginally higher at US\$3.2 billion in April-September 2005, compared with US\$3.0 billion in April-September 2004, outward flows at around US\$0.9 billion, have been somewhat lower than similar flows worth US\$1.1 billion in the corresponding previous period. As a result, overall FDI flows have been around US\$325 million higher during April-September 2005 vis-à-vis April-September 2004. While it is encouraging to note that by the middle of the current year, FDI (net) flows have amounted to 71 per cent of such flows during the whole of 2004-05, and are likely to be finally higher than their previous year level, it is essential to maintain such growth for not only strengthening the capital account, but also for imparting it a more stable dimension in terms of larger proportion of longer duration non-debt flows.

Fig. 6.3

Total Foreign Investment, FDI and FII flows (net): 1995-96 to 2004-05

