

TRENDS AND POLICIES OF FDI INFLOWS IN INDIAN STATES

K.V. Bhanu Murthy¹ & Manoj Kumar Sinha²

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.

Keywords: *Foreign Direct Investment, Gross Domestic Products, State Domestic Products, Growth Rate.*

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

¹ Head, Department of Commerce, Delhi School of Economics, University of Delhi, Delhi 110007, e-mail: bhanumurthykv@yahoo.com

² PGDAV(D) College, University of Delhi, Nehru Nagar, New Delhi- 110065, mkdsesinha@yahoo.co.in.

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 inflow 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

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 (<http://dipp.gov.in/>). Data on State Domestic Products (SDP) has been taken from reports/publications of Central Statistical Organisation (CSO). CSO is maintained by Ministry of Statistical and Programme Implementation, Government of India (http://mospi.nic.in/mospi_cso_rept_pubn.htm). SDP data has been maintained state-wise. For comparing to FDI, SDP data has been converted to centre-wise. 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. The correlation coefficient is estimated between FDI and GDP of India for period 1990-91 to 2008-09. The growth equation measures 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

$$\log(FDI) = a + bT + u_i; \text{ 'b' represents annual exponential growth rate.}$$

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. 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 have reached to Rs 161481 crore in 2008-09. There are three stages of FDI inflows in India since 1991:

1st 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.

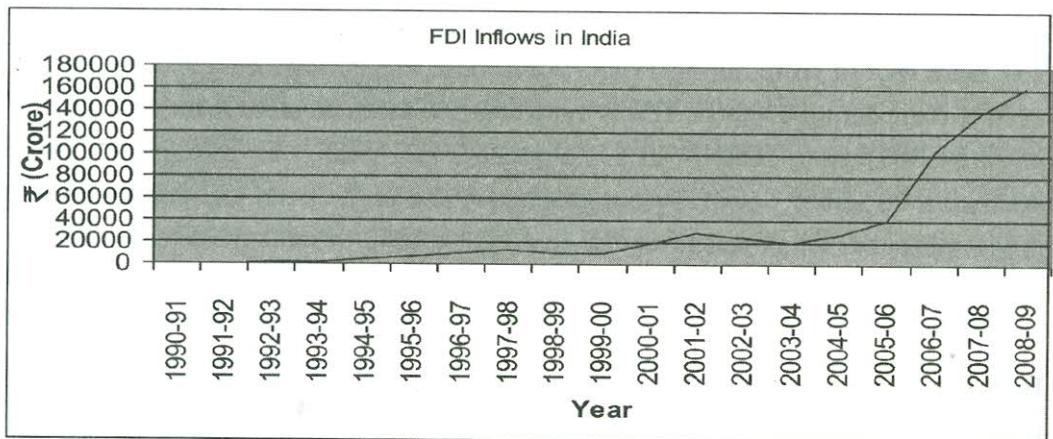
- WTO: TRIMs, GATS and TRIPS & Upward trend of global FDI flows.
- Cautious approaches towards opening of Indian economy.

Table 1: FDI as Percentage of GDP of India

Year	GDP (₹ Crore)	FDI (₹ 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

Figure 1: Trends of FDI inflows in India During 1990-91 to 2008-09



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 inflow 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 Gross GDP is 0.91 for above said periods. The result shows that FDI and GDP is positively and highly correlated (table 1).

Table 2: 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%

The regression result shows that r_{bar} is quite high. It means time factor influence FDI inflows in India to the extent of around 89 percentages. Rate of growth of FDI over time is 32 percentages and level of significance is less than one percentage (table 2).

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 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 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.

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 Economy: 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. The states provides following incentives: business-friendly environment, excellence in infrastructure, highly-skilled and trained workforce, single window clearance and special cell for FDI, Jawaharlal Nehru Port Trust (JNPT) provides effective communication network with markets of Southern, Northern & Western India. Sectors benefited from foreign investments include Engineering, Electronics Hardware, Automobiles and Auto Components, Consumer Durables, Chemicals, Petrochemicals, Pharmaceuticals, Information Technology and Biotechnology.

Delhi (NCR) Economy: 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 are investor friendly environment, skilled manpower, excellent infrastructure facilities, proximity to major industrial and tourist centers, services sector driven economy, highest per capita income preferred FDI destination in India, highest foreign tourist arrivals, Excellent connectivity to other international destinations. The largest investment attracting sectors in Delhi and NCR region 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, Electrical, Automobiles, Readymade garments, Light engineering. International companies having presence in Haryana are Siemens, Alcatel, Duracell, GE Capital, Silicon graphics, Motorola, Daewoo Telecom, Polaroid, Hughes Software systems etc.

Karnataka Economy: Karnataka ranks among the top five 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 are investor friendly and conducive environment, single window clearance for foreign investments, world class infrastructure facility, excellent logistic support and connectivity to the investors. 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 Economy: Impact of FDI has been quite strong. FDI has provided the state

with innovative technologies, new markets, and demands in input. Incentives for FDI are friendly climate for industrial developments, high literacy rate, private participation in Infrastructure building, single window clearance, investors friendly special economic zone (SEZ) policy to carry out the execution of industrial activities in a more systematized form, rebate on stamp duty etc. the new IT Policy 2002 and Information Technology Enabled Services (ITES) Policy 2005 provide an investor-friendly atmosphere to the IT sector in the state. FDI has brought in technological advancements through various foreign companies and has made products more export-oriented.

Gujarat Economy: 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 are excellent network of connectivity through road, railways and air, highly industrialized economy, strategic locational advantage and high skilled manpower. 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 Economy: 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. 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.

Punjab Economy: 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. The state provides excellent infrastructure facilities such as well developed roads, railways, industrial estates, technical institutes, commercial markets, and communication network. It provides time bound project approval. 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. The state has high per capita income and abundant skilled manpower. 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 Economy: Himachal Pradesh is a hilly and mountainous tract. Himachal Pradesh is rapidly emerging as an industrial hub. 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 Economy: 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. The state provides simplified labour laws, investors' supportive regulatory measure, single window clearance etc. 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.

Uttar Pradesh Economy: 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 conducive environment for FDI in Uttar Pradesh. The state has abundant land and water, financial institutions, single clearance system. 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.

Uttaranchal Economy: 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. Conducive environment, 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. 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 Economy: The state is highly well-developed in terms of literacy, education and health. Kerala has an abundance of natural resources which is conducive to Foreign Direct Investments in the state. Kerala has an abundance of natural resources, skilled manpower, well developed communication network, education and health. It has locational advantage. 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 Economy: 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. The state provides incentives for FDI like conducive investment climate, single window system, network of support organizations. Major industries identified in the State for FDI are Cement, Tourism, Mining and Metal.

Chhattisgarh and Jharkhand Economy: These states are richest in mineral resources. These provide 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 states have vast potential for attraction of resource-seeking FDI.

Orissa Economy: 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.

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.

Table 3: Statement on RBI's Office-wise FDI Flows: from 1991 to 2008

RBI Centre	States Covered	Amt.(₹ 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

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 (table 3).

Table 4: 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, UTTARANCHAL	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, CHHATTISGARH	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:

$$r=0.51 \text{ and } r^2=0.26$$

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 (table 4). 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.

Table 5: 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 (table 5). 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

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JAIPUR	RAJASTHAN	-0.05	-0.05	-0.56	0.59
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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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