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## **Internship Report**

on

**‘Role of Fiscal Policy in attracting FDI inflows into India and  
Karnataka’**

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## Certificate

This internship report titled "*Role of Fiscal Policy in attracting FDI inflows into India and Karnataka*" is a report on the study taken up at the Fiscal Policy Institute (FPI) in 2019-20.

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All opinion and conclusions expressed in the internship report are of the Intern and usual disclaimer applies.

  
Sujit Kumar Chowdhury  
Director, FPI



Institute's Seal

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## TABLE OF CONTENTS

<b>SL.NO</b>	<b>TITLE</b>	<b>PAGE.NO</b>
1.	Acknowledgement-----	iii
2.	Table of Contents-----	iv
3.	Abbreviations-----	v
4.	List of Tables-----	vi
5.	Abstract-----	vii
1.	Introduction-----	1-2
2.	Policy framework for attracting of FDI: India and Karnataka-----	3-13
3.	Trends and patterns in FDI inflows into India and Karnataka-----	13-20
4.	Results and Conclusion-----	21
5.	References-----	22

## ABBREVIATIONS

<b>SL.NO</b>	<b>ABBREVIATION</b>	<b>EXPANSION</b>
1.	<b>CMIE</b>	Center for Monitoring Indian Economy
2.	<b>FDI</b>	Foreign Direct Investment
3.	<b>FIPB</b>	Foreign Investment Promotion Board
4.	<b>GDP</b>	Gross Domestic Product
5.	<b>GOI</b>	Government of India
6.	<b>GOK</b>	Government of Karnataka
7.	<b>GP</b>	Grama Panchayath
8.	<b>GSDP</b>	Gross State Domestic Product
9.	<b>GST</b>	Goods and Services Tax
10.	<b>IIP</b>	Investment Promotion Policies
11.	<b>KIADB</b>	Karnataka Industrial Area Development Board
12.	<b>KUM</b>	Karnataka Udyoga Mitra
13.	<b>LPG</b>	Liberalisation Globalisation Privatisation
14.	<b>MTFP</b>	Medium-Term Fiscal Plan
15.	<b>OECD</b>	Organisation for Economic Co-operation and Development
16.	<b>PPP</b>	Public-Private Partnership
17.	<b>RBI</b>	Reserve Bank of India
18.	<b>TP</b>	Taluk Panchayath
19.	<b>VAT</b>	Value-Added Tax
20.	<b>ZP</b>	Zilla Panchayath

## LIST OF TABLES

<b>TABLE.NO</b>	<b>TITLE</b>	<b>PAGE.NO</b>
1.	Focused Sector Industries to attract FDI to Karnataka	12
2.	Foreign Direct Investment Inflow, India and Karnataka 2007-08 to 2016-17	13
3.	Simple annual growth rate of total FDI inflows, India and Karnataka 2012-17	14
4.	Compound Annual Growth Rate of FDI inflows, India and Karnataka 2012-17	15
5.	Share of Karnataka's FDI inflows in India, 2012-13 to 2016-17	15
6.	FDI as a percentage of GDP and GSDP, India and Karnataka 2012-13 to 2016-17	16
7.	Current market price of GDP and GSDP, India and Karnataka 2012-13 to 2016-17	17
8.	FDI inflows by county-wise and sector-wise to India 2012- 13 to 2016-17	17-18
9.	FDI inflows in percentage by country-wise to India 2012- 13 to 2016-17	19
10.	FDI inflows in percentage by Sector-wise to India 2012-13 to 2016-17	20

## **ABSTRACT**

*This report aims at an exploratory analysis of the role of fiscal policy to attract FDI, directly or indirectly, and to create a competitive environment. In a federal economy like India, FDI inflows are influenced by fiscal policy at national and sub-national levels. This study differentiates the implicit and explicit provisions for attracting FDI inflows into India and Karnataka State through the fiscal policies as published in the budget papers of the Government of India and Karnataka. In addition, recent major trends in inflow of FDI into India and Karnataka are described. Overall, this study identifies a research need to forge a relationship between fiscal policies and FDI inflows into India and Karnataka.*

**Keywords:** *Foreign Direct Investment, Fiscal Policy, Budget, India, Karnataka*

# **ROLE OF FISCAL POLICY IN ATTRACTING FDI INFLOWS INTO INDIA AND KARNATAKA**

## **1. Introduction**

The role of fiscal policy is one of the major factors that attracts FDI to India at the national level and to Karnataka at the state level. Fiscal policy is a set of policies framed to use the revenue and expenditure of the government to influence the economy of the country. Fiscal Policies are framed and implemented for various purposes by the Government in the annual Budget. India rank's 11<sup>th</sup> place in attracting FDI at the national level and Karnataka ranks 4<sup>th</sup> in attracting FDI at the state-level. This research report aims at describing the role of fiscal policies in attracting FDI into India.

### **1.1 Motivation**

There are several significant determining factors that can attract FDI. Some of them are: methods of production, the economy of production, skills and productivity of labourers, technology, process, capability, management skills, generation of employment and higher productivity which helps in transfer of technology and improvement of skill sets. In general, FDI's can be attracted more from the host country by designing fiscal policies and procedures uniquely that give mutual benefit to both the host and home country. There are several benefits, apart from this by the exchange of investment flows, such as employment generation and economic globalisation through financial globalisation. In addition, the attraction of FDI is important because of technology transfer and resource exchanges involved that aims to improve access to international markets and improvement of the economic condition of the country (home country).

The FDI in each developing country may vary due to the different policies, patterns and procedures. The factors that influence FDI are economic and non-economic, tax and non-tax, market and technological, etc. Another important motive for FDI is the tax concessions, low-tax statutory rate and the fiscal incentives and concession policies and procedures. These factors are essential elements of a fiscal policy. Thus, it is important to explore the role of fiscal policies in attracting FDI at the national and state level in India.



## **1.2 Objectives**

1. To explain the importance of fiscal policy in attracting FDI to India at the national level and to Karnataka at the state level.
2. To explore the fiscal policies and programmes for attracting the FDI into India and Karnataka.
3. To describe the trend in inflow of FDI into India and Karnataka.
4. To analyse the link between fiscal policy and FDI.

## **1.3 Methodology**

This study is exploratory and descriptive based on the secondary data available in the public domain. Simple techniques (e.g. table, graph, percentage, growth rate and ratio) are used for descriptive purposes. The time period of this study is from 2012 to 2017. All fiscal policies are explored for the current year, 2018-2019. The major databases explored for this study are as follows.

- Union Budget 2018-19, Government of India (GOI)
- State Budget 2018-19, Government of Karnataka (GOK)
- Office of economic advisor, ministry of commerce and industry
- Karnataka Vision Document 2025 (GOK)
- Economic Survey of Government of Karnataka 2018
- Economic Survey Government of India 2018
- Karnataka Udyoga Mitra (KUM)
- OECD (Organisation for the Economic Co-operation and Development)
- Reserve Bank of India (RBI)
- Consulate General of India
- Business Environment Survey of World Bank
- Center for Monitoring Indian Economy

## 2. Policy framework for attracting of FDI in 2018-19: India and Karnataka

### 2.1 Government of India

Government of India has taken many effective steps to simplify FDI policy. The Foreign Direct Investment Policy (FDI Policy) of the Government of India tells about the foreign investment cap in specified industrial sectors. But nowadays, many activities have been transferred to unrestricted sectors in which 100% FDI is permitted. The industrial sectors are classified into:

1. Restricted
2. Prohibited
3. Unrestricted Sectors (Up to 100% foreign ownership)

All the sectors, other than those mentioned below, are subject to terms and conditions in the FDI policy and come under unrestricted sectors. For example:

- Mining (except Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities)
- Manufacturing related commercial activities
- Information Technology-related activities
- E-commerce (permitted in marketplace-model and not the inventory-based model. Also, it applies only to Business-to-Business e-commerce and not business-to-consumer e-commerce)

#### 2.1.1. Restricted Sectors:

Sector	Entry Route
<b>Up to 20% foreign ownership</b>	
Banking- Public Sector (Subject to Banking Companies (Acquisition & Transfer of Undertakings) Acts 1970/80)	Government permission necessary

<b>Up to 26% foreign ownership</b>	
Broadcasting Content Service (Terrestrial Broadcasting FM (FM Radio) and Up-linking of 'News & Current Affairs' TV	Government permission necessary
Channels (Other conditions specified by Ministry of Information and Broadcasting, Government of India )	Government permission necessary
Print Media (Publishing of newspaper and periodicals dealing with news and current affairs and Publication of Indian editions of foreign magazines dealing with news and current affairs)	Government permission necessary
<b>Up to 49% foreign ownership</b>	
Defence Industry (subject to Industrial License under the Industries (Development & Regulation) Act, 1951) and other regulations	Automatic up to 49% and above 49% under Government route with approval of Cabinet Committee on Security for state-of-the-art technology
Cable Networks (Other Multi-System Operators not undertaking upgradation of networks towards digitalisation and addressability and Local Cable Operators)	Automatic

Petroleum and Natural Gas (Petroleum refining by the Public Cabinet Committee Sector Undertakings (PSU), without any disinvestment or dilution of domestic equity in the existing PSUs.)	Automatic route
<b>Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline</b>	Automatic route
<b>Insurance</b>	Automatic route
<b>Private Security Agencies</b>	Automatic route
Telecom & related Services (including Telecom Infrastructure Providers Category-I) All telecom services including Telecom Infrastructure Providers Category-I, viz. Basic, Cellular, United Access Services, Unified License (Access Services), Unified License, National/International Long Distance, Commercial V-Sat, Public Mobile Radio Trunked Services	Automatic up to 49% and Government route beyond 49% and up to 100%.
Commodity Exchange	Automatic route
Single-Brand product retail trading	Automatic up to 49% and Government route beyond 49%

Asset Reconstruction Company	Automatic up to 49% and Government route beyond 49%
Pension Sector	Automatic route
Power Exchanges (Power Exchanges registered under the Central Electricity Regulatory Commission (Power Market Regulations, 2010.))	Automatic route
Infrastructure Company in the Securities Market (namely, stock exchanges, depositories and clearing corporations, in compliance with SEBI Regulations)	Automatic route
<b>Up to 51% foreign ownership</b>	
Multi-Brand Retail Trading	Government
<b>Up to 74% foreign ownership</b>	
Credit Information Companies	Automatic route
Civil Aviation (Ground Handling Services subject to sectorial regulations and security clearance)	Automatic up to 49% and Government route beyond 49% and up to 74%
Airports (Existing projects)	Automatic up to 74% and Government route beyond 74%

Satellites (Establishment and operation, subject to the sectorial guidelines of Department of Space/ISRO)	Government
Banking & Finance - Private Sector	Automatic up to 49% and Government route beyond 49% and up to 74%.

### 2.1.2. Prohibited Sectors

- Lottery Business, including Government/private lottery, online lotteries, etc.
- Gambling and Betting, including casinos, etc.
- Chit funds
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business or Construction of Farm Houses
- Manufacturing of cigars, cheroots, cigarillos and cigarettes of tobacco or of tobacco substitutes.

### 2.1.3. Unrestricted Sectors

<b>Up to 100% foreign ownership</b>	
<b>Agriculture &amp; Animal Husbandry</b> <ol style="list-style-type: none"> <li>Floriculture, Horticulture, and Cultivation of Vegetables &amp; Mushrooms under controlled conditions;</li> <li>Development and Production of seeds and planting material;</li> <li>Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, Apiculture and</li> <li>Services related to agro and allied sectors.</li> </ol>	Automatic route

<p><b>Note: Besides the above, FDI is not allowed in any other agricultural sector/activity.</b></p>	
<p><b>Plantation Sector</b></p> <ul style="list-style-type: none"> <li>a. Tea sector, including tea plantations</li> <li>b. Coffee plantations</li> <li>c. Rubber plantations</li> <li>d. Cardamom plantations</li> <li>e. Palm oil tree plantations</li> <li>f. Olive oil tree plantations</li> </ul> <p><b>Note: Besides the above, FDI is not allowed in any other plantation sector/activity.</b></p>	<p>Automatic route</p>
<p><b>Construction Development: Townships, Housing, Built-up Infrastructure</b></p> <p>Construction-development projects (which would include the development of townships, construction of residential/commercial premises, roads or bridges, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional-level infrastructure, townships)</p>	<p>Automatic route</p>
<p><b>Railway Infrastructure</b></p> <p>Construction, operation and maintenance of the following:</p> <ul style="list-style-type: none"> <li>a. Suburban corridor projects through PPP,</li> <li>b. High-speed train projects,</li> <li>c. Dedicated freight lines,</li> <li>d. Rolling stock, including train sets and locomotives/coaches manufacturing and maintenance facilities,</li> <li>e. Railway Electrification,</li> </ul>	<p>Automatic route</p>

<ul style="list-style-type: none"> <li>f. Signaling systems,</li> <li>g. Freight terminals,</li> <li>h. Passenger terminals,</li> <li>i. Infrastructure in industrial park pertaining to railway line/sidings, including electrified railway lines, and connectivity to main railway line and</li> <li>j. Mass Rapid Transport Systems</li> </ul>	
<p><b>Non-Banking Finance Companies (NBFC)</b></p> <p>Foreign investment in NBFC is allowed under the automatic route in only the following activities:</p> <ul style="list-style-type: none"> <li>a. Merchant Banking</li> <li>b. Under Writing</li> <li>c. Portfolio Management Services</li> <li>d. Investment Advisory Services</li> <li>e. Financial Consultancy</li> <li>f. Stock Broking</li> <li>g. Asset Management</li> <li>h. Venture Capital</li> <li>i. Custodian Services</li> <li>j. Factoring</li> <li>k. Credit Rating Agencies</li> <li>l. Leasing &amp; Finance</li> <li>m. Housing Finance</li> <li>n. Forex Broking</li> <li>o. Credit Card Business</li> <li>p. Money Changing Business</li> <li>q. Micro Credit</li> </ul>	<p>Automatic route</p>



r. Rural Credit	
<b>Manufacturing</b>	Automatic route
<b>E-commerce</b> (Permitted in marketplace model and not the inventory-based model. Also, it applies only to Business-to-Business e-commerce and not Business-to-Consumer e-commerce)	Automatic route
<b>Asset Reconstruction Company</b>	Automatic route
<b>Credit Information Companies</b>	Automatic route
<b>Civil Aviation</b> (Ground Handling Services subject to sectoral regulations and security clearance)	Automatic route
<b>Civil Aviation</b> (Maintenance and Repair organisations; flying training institutes; and technical training institutions)	Automatic route
<b>Air Transport Services</b> (Non-Scheduled and Helicopter services/seaplane services requiring DGCA approval)	Automatic route
<b>Airports</b> (Greenfield and Brownfield)	Automatic route
<b>Pharmaceuticals</b> ( Greenfield)	Automatic route

<b>White Label ATM Operations</b>	Automatic route
<b>Trading</b> (Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs))	Automatic route
<b>Industrial Parks</b> (Greenfield and Brownfield)	Automatic route
<b>Broadcasting Carriage Services</b>	Automatic route
<b>Mining</b> (Except mining and mineral separation of titanium bearing minerals and ores, its value-addition and integrated activities)	Automatic route
<b>Mining</b> (Mining and mineral separation of titanium bearing minerals and ores, its value-addition and integrated activities)	Government route
<b>Satellites</b> (Establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO)	Government route

## 2.2 Government of Karnataka

Karnataka is one of the industrially-developed states in the country. It is a pioneer in introducing many reform initiatives and has been highly-proactive in attracting private investment. Lucrative policies incentivising private domestic and foreign investments are framed from time to time. In order to make the State more attractive and investor-friendly, investment promotion policies have offered attractive incentives and concessions and made attempts to strengthen the required infrastructure. The national policy framework is aimed at maximising the inflow of private foreign investment into India.

Karnataka was the first to enact the Industrial Facilitation Act to help investors. Karnataka has a single-window system that acts as a one-stop-shop for investments. The positive factors that help Karnataka attract FDI are:

1. Good law and order situation.
2. Abundant availability of highly-skilled manpower.

Karnataka Udyoga Mitra (KUM) is a single contact point for all investors who are looking at setting up enterprises/business in Karnataka. It acts as a secretariat for State-Level Single-Window Clearance Committee (SLSWCC) for projects above Rs. 15 Cr up to Rs. 500 Cr and State High-Level Clearance Committee for projects above Rs. 500 Cr.

### **2.2.1 Promotion of Investment and Trade (Karnataka Industrial Policy 2014-19)**

- Investors Meets and roadshows to be organised regularly at State, National, and International-level to attract investments into the State.
- Similarly, Business Meets: Buyers-Sellers Meets to be organised regularly at State, National, and International-levels to promote trade from the State.
- Industrial Adalats will be organised regularly at District, Regional, and State-levels with a view to understand problems of industries and to settle pending cases.

**Table 1: Focused Sector Industries to attract FDI to Karnataka**

<b>Focused Sector Industries</b>	<b>Policies</b>
Aerospace Sector	Karnataka Aerospace Policy 2013-23 with separate policy measures and enhanced incentives and concessions. It is expected to attract Rs 24,000 crore investments in the first five years.
Automotive Sector	Reduction in road tax, registration tax as indirect incentives and setting up industry group to study and recommend measures for growth of the auto component sector in the State.
Machine Tool Sector	KIADB, PPP module/mode

Steel and Cement sector	Projects proposed to come out with a policy decision for allotment of mining leases for captive consumption keeping in view the guidelines issued by the Supreme Court and MMRD Act
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Additional Package of Incentives & Concessions to Focused Manufacturing Sectors i.e. Automotive, Machine Tool (excluding Steel & Cement) Ultra Mega and Super Mega projects to attract FDI to Karnataka.

### 2.2.2 Other Special incentives to attract FDI to Karnataka

Special package of incentives /concessions and relaxation in the conditions mentioned in the policy to be considered for deserving cases giving due weightage to investment, location of the project, direct and indirect employment to be generated and potential for attracting further investment through vendors and ancillaries, as per Karnataka Industrial Policy 2014-19.

## 3. Trends and Patterns in FDI Inflows into India and Karnataka

### 3.1 Total size of FDI inflows

Trends in total FDI inflows from 2007-08 to 2016-17 are described at the national and the state level.

**Table 2: Foreign Direct Investment Inflow, India and Karnataka 2007-08 to 2016-17**

Year	FDI inflows (US \$ Million)	
	India	Karnataka
2007-08	23,901	1,581
2008-09	27,331	2,026
2009-10	25,834	1,029
2010-11	19,427	1,332
2011-12	35,121	1,533
<b>Total (2007-12)</b>	<b>1,31,614</b>	<b>7,501</b>

2012-13	22,424	1,023
2013-14	24,299	1,892
2014-15	30,931	3,444
2015-16	40,001	4,121
2016-17	43,478	2,132
<b>Total(20012-17)</b>	<b>1,61,133</b>	<b>12,612</b>

Source: Department Of Industrial Policy & Promotion, GoI & TECKSOK, GoK

Table 2 shows the trends in total FDI inflows at the national and state level over the period from 2007-17.

The inflow of FDI at the national level and state level has varied over the year.

<b>FDI Inflows(US \$ Million)</b>		
	<b>India</b>	<b>Karnataka</b>
<b>Variance:</b>	62985523.3	1038834.2
<b>Standard Deviation:</b>	7936.3	1019.2

Variance/Standard deviation has been calculated during these periods to find out the larger variations between India and Karnataka.

### **3.2 Growth rate of FDI inflows**

Growth rate is calculated to analyse the annual change in the FDIs inflows. The growth rate can be calculated in two types. They are: Simple annual growth rate and Compound Annual Growth Rate (CAGR).

**Table 3: Simple annual growth rate of total FDI inflows, India and Karnataka 2012-17**

Year	Simple annual growth rate	
	India	Karnataka
2012-13		
2013-14	21%	106%
2014-15	29%	84%
2015-16	45%	34%
2016-17	10%	-48%

Source: Author's calculations

Comparatively, FDI inflow is more at state-level than the national level.

The compound annual growth rate (CAGR) is a useful measure to assess growth during a period of time.

**Table 4: Compound Annual Growth Rate of FDI inflows, India and Karnataka 2012-17**

Year	FDI (Rs. Crore)	
	India	Karnataka
2012-13	1,21,986.56	5,565.12
2013-14	1,47,008.25	11,446.6
2014-15	1,89,123.26	21,057.85
2015-16	2,73,310.83	28,157.14
2016-17	2,99,485.15	14,685.21
CAGR	<b>19.68%</b>	<b>21.42%</b>

We can see that the CAGR is more at the state level. Karnataka is attracting more FDI at the state level and it has increased every year.

### 3.3 Share in national FDI inflows

**Table 5: Share of Karnataka's FDI inflows in India, 2012-13 to 2016-17**

(US \$ Million)

FDI	
Year	Percentage
2012-13	4.56
2013-14	7.78
2014-15	11.13
2015-16	10.3
2016-17	4.9

During the year 2014-15, there was more FDI attracted by Karnataka at 11.13% . It has, however, reduced by 6.23 percent compared to the year 2016-17. There has been a constant increase of FDI inflow from 2012-13 to 2014-15 and there is a gradual decrease in the percentage of FDI inflow from 2015-16 to 2016-17.

### 3.4 FDI inflow and economic globalisation.

**Table 6: FDI as a percentage of GDP and GSDP, India and Karnataka 2012-13 to 2016-17**

FDI (Rs. Crore)		
Year	FDI as a % GSDP	FDI as a % GDP
2012-13	1%	1.23%
2013-14	1%	1.31%
2014-15	2%	1.52%
2015-16	3%	1.99%
2016-17	1%	1.96%

**Source:** Economic Survey of Karnataka 2017-18 (GoK)

The above table describes the percentage of GDP and SDP over the period that is from 2012-17.

**Table 7: Current market price of GDP and GSDP, India and Karnataka 2012-13 to 2016-17**

Year	GSDP at current market Price (Rs. Crore)	GDP at current market Price (Rs. Crore)
2012-13	6,95,413	99,44,013
2013-14	8,16,666	1,12,33,522
2014-15	9,12,647	1,24,67,959
2015-16	10,12,804	1,37,64,037
2016-17	11,32,393	1,52,53,714

Source: Economic Survey of Karnataka 2017-18 (GoK)

### 3.4 Sources of FDI inflows into India – Country-wise and Sector-wise

**Table 8: FDI inflows by county-wise and sector-wise to India 2012-13 to 2016-17**

(US \$ Million)

Source/Industry	2012- 13	2013-14	2014- 15	2015- 16	2016- 17
1	2	3	4	5	6
<b>Total FDI</b>	<b>18,286</b>	<b>16,054</b>	<b>24,748</b>	<b>36068</b>	<b>36317</b>
<b>Country-wise Inflows</b>					
<b>Mauritius</b>	8,059	3,695	5,878	7,452	13,383
<b>Singapore</b>	1,605	4,415	5,137	12,479	6,529
<b>Japan</b>	1,340	1,795	2,019	1,818	4,237
<b>Netherlands</b>	1,700	1,157	2,154	2,330	1,234
<b>U.S.A.</b>	478	617	1,981	4,124	2,138
<b>U.K</b>	1022	111	1891	842	1301
<b>Germany</b>	467	650	942	927	845
<b>U.A.E</b>	173	239	327	961	645



<b>Switzerland</b>	268	356	292	195	502
<b>France</b>	547	229	347	392	487
<b>South Korea</b>	224	189	138	241	466
<b>Italy</b>	63	185	167	279	364
<b>Cyprus</b>	415	546	737	488	282
<b>Spain</b>	348	181	401	141	213
<b>British Virgin Islands</b>	3	0	30	203	212
<b>China</b>	148	121	505	461	198
<b>Belgium</b>	33	66	47	57	172
<b>Others</b>	1394	1501	1754	2677	1109
<b>Sector-wise Inflows</b>					
<b>Manufacturing</b>	6,528	6,381	9,613	8,439	11,972
<b>Communication Services</b>	92	1,256	1,075	2,638	5,876
<b>Financial Services</b>	2,760	1,026	3,075	3,547	3,732
<b>Retail and Wholesale Trade</b>	551	1,139	2,551	3,998	2,771
<b>Business Services</b>	643	521	680	3,031	2,684
<b>Computer Services</b>	247	934	2,154	4,319	1,937
<b>Miscellaneous Services</b>	552	941	586	1,022	1,816
<b>Electricity and other Energy Generation, Distribution &amp; Transmission</b>	1,653	1,284	1,284	1,364	1,722
<b>Construction</b>	1,319	1,276	1,640	4,141	1,564
<b>Transportation</b>	213	311	482	1,363	891
<b>Restaurants and Hotels</b>	3,129	361	686	889	430
<b>Education, Research &amp; Development</b>	150	107	131	394	205
<b>Mining</b>	69	24	129	596	141
<b>Real Estate Activities</b>	197	201	202	112	105
<b>Trading</b>	140	0	228	0	0
<b>Others</b>	43	292	232	215	470
<b>Source: RBI Annual Report</b>					

### 3.4.1 FDI inflows by source countries

**Table 9: FDI inflows in percentage by county-wise to India 2012-13 to 2016-17**

Source/Industry	2012-13	FDI	2013-14	FDI	2014-15	FDI	2015-16	FDI	2016-17	FDI
1	2	inflows	3	inflows	4	inflows	5	inflows	6	inflows
Total FDI	18,286	in %	16,054	in %	24,748	in %	36068	in %	36317	in %
<b>Country-wise Inflows</b>										
Mauritius	8059	44.07	3695	23.02	5878	23.75	7452	20.66	13383	39.00
Singapore	1605	8.78	4415	27.50	5137	20.76	12479	34.60	6529	19.03
Japan	1340	7.33	1795	11.18	2019	8.16	1818	5.04	4237	12.35
Netherlands	1700	9.30	1157	7.21	2154	8.70	2330	6.46	1234	3.60
U.S.A.	478	2.61	617	3.84	1981	8.01	4124	11.43	2138	6.23
U.K	1022	5.59	111	0.69	1891	7.64	842	2.33	1301	3.79
Germany	467	2.55	650	4.05	942	3.81	927	2.57	845	2.46
U.A.E	173	0.95	239	1.49	327	1.32	961	2.66	645	1.88
Switzerland	268	1.47	356	2.22	292	1.18	195	0.54	502	1.46
France	547	2.99	229	1.43	347	1.40	392	1.09	487	1.42
South Korea	224	1.22	189	1.18	138	0.56	241	0.67	466	1.36
Italy	63	0.34	185	1.15	167	0.67	279	0.77	364	1.06
Cyprus	415	2.27	546	3.40	737	2.98	488	1.35	282	0.82
Spain	348	1.90	181	1.13	401	1.62	141	0.39	213	0.62
British Virgin Islands	3	0.02	0	0.00	30	0.12	203	0.56	212	0.62
China	148	0.81	121	0.75	505	2.04	461	1.28	198	0.58
Belgium	33	0.18	66	0.41	47	0.19	57	0.16	172	0.50
Others	1394	7.62	1501	9.35	1754	7.09	2677	7.42	1109	3.23
	<b>18287</b>	<b>100.0</b>	<b>16053</b>	<b>100.0</b>	<b>24747</b>	<b>100.0</b>	<b>36067</b>	<b>100.0</b>	<b>34317</b>	<b>100.0</b>

Source: Author's calculations

We can see that there is more inflow of FDI into Mauritius (US \$ 8,059 million) that is 44.07%. Mauritius has attracted more FDI in all the years but comparatively the attracting of FDI has been decreased year-to-year.

### 3.4.2 FDI inflows by sectors

**Table 10: FDI inflows in percentage by Sector-wise to India 2012-13 to 2016-17**

Source/Industry	2012-13		2013-14		2014-15		2015-16		2016-17	
1	2	% of	3	% of	4	% of	5	% of	6	% of
Total FDI	18,286	FDI	16,054	FDI	24,748	FDI	36068	FDI	36317	FDI
<b>Sector-wise Inflows</b>										
<b>Manufacturing</b>	6528	35.70	6381	39.75	9613	38.84	8439	23.40	8439	23.40
<b>Communication Services</b>	92	0.50	1256	7.82	1075	4.34	2638	7.31	2638	7.31
<b>Financial Services</b>	2760	15.09	1026	6.39	3075	12.43	3547	9.83	3547	9.83
<b>Retail and Wholesale Trade</b>	551	3.01	1139	7.09	2551	10.31	3998	11.08	3998	11.08
<b>Business Services</b>	643	3.52	521	3.25	680	2.75	3031	8.40	3031	8.40
<b>Computer Services</b>	247	1.35	934	5.82	2154	8.70	4319	11.97	4319	11.97
<b>Miscellaneous Services</b>	552	3.02	941	5.86	586	2.37	1022	2.83	1022	2.83
<b>Electricity and other Energy Generation, Distribution &amp; Transmission</b>	1653	9.04	1284	8.00	1284	5.19	1364	3.78	1364	3.78
<b>Construction</b>	1319	7.21	1276	7.95	1640	6.63	4141	11.48	4141	11.48
<b>Transportation</b>	213	1.16	311	1.94	482	1.95	1363	3.78	1363	3.78
<b>Restaurants and Hotels</b>	3129	17.11	361	2.25	686	2.77	889	2.46	889	2.46
<b>Education, Research &amp; Development</b>	150	0.82	107	0.67	131	0.53	394	1.09	394	1.09
<b>Mining</b>	69	0.38	24	0.15	129	0.52	596	1.65	596	1.65
<b>Real Estate Activities</b>	197	1.08	201	1.25	202	0.82	112	0.31	112	0.31
<b>Trading</b>	140	0.77	0	0.00	228	0.92	0	0.00	0	0.00
<b>Others</b>	43	0.24	292	1.82	232	0.94	215	0.60	215	0.60
	<b>18,286</b>	<b>100.00</b>	<b>16054</b>	<b>100.00</b>	<b>24748</b>	<b>100.00</b>	<b>36,068</b>	<b>100.00</b>	<b>36,068</b>	<b>100.00</b>

**Source:** Author's calculation

Manufacturing sector has attracted more FDI to India. By investing more FDI, it facilitates the economic development as well as increase in the growth of the Gross Domestic Product (GDP) of

the country It also has a positive impact in every sector of industrial life and Human life in order to maintain a sustainable & moderate life style.

#### **4. Results and Conclusions**

It can be summed up by saying that to attract FDI, India should use its advantages such as large domestic market, abundant supply of trained and low-wage labour, a vast pool of technical professional, second-largest nation, etc. FDI is not a panacea for the economic ills of any country. Economic development strongly depends on FDI. Mauritius, US, Netherlands, Japan, UK, Germany, France, Singapore and Switzerland are the top foreign investors in India. At present, Maharashtra ranks first by attracting 17.5 percent of FDI inflows, Delhi stands second with 12.1 percent. After Delhi, Karnataka and Gujarat occupy next position respectively. India attracted US\$25 billion in 2007 and in 2008 FDI inflow in India was US\$43.4 billion. FDI in India has contributed effectively to the overall growth of the economy in recent times. FDI Policy permits investment up to 100 percent from foreign/NRI investors without prior approval in most of the sectors, including the services sector, under automatic route. FDI in sectors/activities under the automatic route does not require any prior approval either by the Government or the RBI. Market-oriented policies are boosting economic activity, all-round development and economic growth rate. As the Indian economy gears up for competition in the international market, overseas investors clearly see the potential for attractive returns from investment in India, which is also evident from the already achieved FDI success stories.

To establish a strong empirical linkage between FDI inflows and fiscal policy, a detailed study is needed. This is an area of extension of this study in the future.

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