Introduction

Foreign capital is flow of capital from one country to another by a foreign government institution, private individual, and international organization in a country. Foreign capital includes foreign aid, commercial borrowings and foreign investment in the forms of foreign collaboration, loan in the form of foreign currency, investments in equity capital etc.

Foreign investment refers to investment by foreign investors in shares, debentures, and bonds of Indian companies. Foreign direct investments and foreign portfolio investments are the two important forms of foreign investments.

Why invest in India

There are several good reasons for investing in India.

- One of the largest economies in the world.
- Strategic location access to vast domestic and South Asian market.
- A large and rapidly growing consumer market up to 300 million people constitute the market for branded consumer goods- estimated to be growing 8% per annum demand for several consumer products is growing at over 12% per annum.
- Foreign investment is welcomed; approval is required but is automatic in sixty categories of industries.
- Skilled manpower and professional managers are available at competitive cost.
• One of the largest manufacturing sectors in world spanning all most all areas of manufacturing activities.
• One of the largest pools of scientists, engineers, technicians and managers in world.
• Rich base of mineral and agricultural resources.
• Long history of market economy infrastructure
• Sophisticated financial sector.
• Vibrant capital market with over 9,000 listed companies.
• Well developed research and development infrastructures and technical and marketing services.
• Policy environment that provides freedom of entry, investment location, choice of technology, production, import and export.
• Well-balanced package of fiscal incentives.
• A sophisticated legal and accounting system.
• English is widely spoken and understood.
• Rupee is convertible on current account at market-determined rate.
• Free and full repatriation of capital, technical fee, royalty & and dividends.
• Foreign brands names are freely used.
• No income tax on profits derived from exports of goods.
• Complete exemption from custom duty on industrial inputs and corporate tax holiday for five years for 100% export oriented units and units in export processing zones
• Corporate tax applicable to foreign companies of a country with which agreement for avoidance of double taxation exists can be one, which is lower between the rates prevailing in any one of the two countries and the treaty rate.
• A long history of stable parliamentary democracy.

Government policy towards foreign capital/foreign investment in India

The first foreign capital policy was declared by Late Prime Minister Jawahar Lal Nehru on 6th April 1949 for economic assistance and technical cooperation from any corner of the world. The main elements of this policy were as follows.
• No discriminatory policy will be exercised against foreign capital and Indian capital.
• In case of nationalization of industries, permission for fair compensation would be made.
• Permission for fair compensation would be made in case of nationalization of industries.
• Once foreign capital is allowed entry into India, it will enjoy all those facilities which are available to indigenous capital.
• Foreign capital may be subjected to control, if the national interests so warrant.
• Maximum limit of foreign capital in any enterprise would be 40%.
• Period of foreign collaboration would vary from 5 to 8 years.
• No foreign company could either borrow or receive deposits without the prior approval of reserve bank of India.
• In order to control foreign capital, foreign exchange regulation act, (FERA) was enforced in 1973. [ which has been replaced by FEMA in 1999 ]

Foreign investment policy 1991/ new foreign investment policy

Foreign investment policy of 1991 was very liberal and it lifted the ceilings on inflow of foreign investment. Earlier, foreign equity participation was restricted up to 40 per cent, but now 100 per cent equity participation is allowed. Earlier all foreign investment and technological agreements needed prior permission, but now the new policy has allowed the foreign capital with automatic approval in many industries. Earlier, foreign capital was used only for capital goods and high priority industries, but now it is extended to all types of industries. Moreover, huge incentives and concessions are granted for the flow of foreign capital in the country. Following are the main features of new foreign investment policy.

1. High technology and high priority industries: For promoting high technology and high priority industries Govt. allowed automatic permission to foreign direct investment.

2. Benefits of repatriation: Foreign investors are permitted to repatriate profits, dividends; interest earned, royalty, free for technical services, capitalist. This is a big incentive given to foreign investors in India

3. Foreign institutional investors (FIIS): These investors can invest under the portfolio investment. Earlier these FIIs were not permitted to invest beyond 24 percent of paid-up capital of Indian company but under the new policy, with the approval of shareholders of the company by a special resolution, they can invest up to sectoral cap/statutory limit on foreign investment in the respective area. It will lead to considerable increase in foreign investment.

4. Foreign investment in small industries: Under new small industrial policy, foreign entrepreneurs can have 24 percent share capital in small industries without any prior approval.

5. Export promotion: For the purpose of export promotion, government allowed 100 percent foreign equity participation in the export oriented sector. It includes – export oriented units, export houses, trading houses, super trading houses

6. Liberal approach: Present approach towards foreign capital is to welcome its inflow. The entry of foreign capital has been permitted in consumer goods and capital goods industries including high priority industries.
7. **Foreign capital for infrastructural development:** The government is providing many concessions and facilities to invite foreign investment for the development of infrastructure like roads, power, telecommunication, ports etc.

8. **Clearance for foreign investment:** Foreign investment in any project involving investment up to Rs. 1200 Crore requires clearance from foreign investment promotion board working under ministry of finance.

9. **Investment commission:** Investment commission has been set up in December, 2004 to facilitate greater FDI inflow in India. This commission motivates the foreign investors to invest in India and provides them necessary support.

10. **Various forms of foreign capital:** Earlier foreign capital was raised mainly through foreign aid and commercial borrowings. But now it is raised in various forms, such as:

    a. **Foreign collaboration:** It means setting up an enterprise jointly by the foreigner entrepreneur and Indian entrepreneur in India.

    b. **Foreign equity participation:** It is in the form of foreign diverting investment and portfolio investment.

    c. **Investment by foreign institutional investors, non resident indians and other foreign investors:** Overseas corporate bodies, NRIs, foreign individual investors are allowed to invest through purchasing shares, debentures bonds from Indian capital markets.

    d. **Raising of funds by indian corporate sector in foreign markets:** Indian corporate sector is allowed to raise funds from the foreign capital markets by issuing global depository receipts (GDRs), American depository receipts (ADRs), foreign currency convertible bonds (FCCBs).

11. **Issue of global depository receipts (GDRS), american depository receipts (ADRS) and foreign currency convertible bonds (FCCBS) by indian companies:** Since 1992, Indian companies which satisfy certain conditions have been allowed to access foreign capital markets. These companies can raise funds from the from capital markets by issuing GDRs, ADRs and FCCBs. The issue of GDRs, ADRs and FCCBs are known as euro issues.

12. **Tax concessions to nris:** To attract foreign capital from non-resident Indians, government in recent years, announced a number of tax concessions, tax holiday for a certain period on profits of new industrial undertakings, lowering tax rates on short-term and long-term capital gains for NRIs etc.

13. **Fair treatment to foreign investment:** The government made it clear that it will not place any restriction or impose any conditions on foreign enterprises.

14. **Joint ventures:** The conditions of establishing joint ventures have been made
simpler and liberal form January, 1997. The foreign investors can own even more than 51 percent share capital in joint ventures.

15. Organisation of boards: The new policy provides for the organization of boards for direct foreign capital investment in selected areas. These boards will negotiate with multinational companies for setting up their enterprises in India.

16. Foreign investment implementation authority (FIIA): It was established in 1999 within the ministry of industry. It ensures that approvals for foreign investments are quickly translated into actual inflows. It also sorts out operational problems of foreign investors.

17. Technological collaborations: For promoting the inflow of modern technology, the new foreign investment policy granted various concessions to technical collaboration agreements.

18. Wholly owned foreign enterprises: According to new foreign capital policy, the multinationals have been given freedom to establish their wholly owned subsidiaries in India.

19. Disinvestment by foreign investors: Earlier disinvestment of equity (sale of controlling shares) held by foreign investors in India could be done at price fixed by RBI.

20. Setting up of e-biz project: For promoting inflow of foreign investment, government has announced e-biz project. It aims at providing online single window to prospective overseas investors.

In short, the new foreign investment policy is more liberal and encouraging for foreign investors. It aims at encouraging more and more foreign investment in India. India's share in global foreign direct investment in the year 2011 was 1.95 percent. In order to increase it, the procedure for making foreign investment should be simplified and efforts should be made to win the confidence of foreign investors.

Consolidated FDI policy, 2013 :-

Department of industrial policy and promotion has issued a consolidated foreign direct investment policy. This policy came into effect from April 5, 2013. This consolidated policy consolidated all prior policies / regulations/ press notes/ circulars which were issued by the government from time-to-time. The present policy is a consolidation/compilation of all earlier government notifications related to FDI which were in force and were effective as April 4, 2013. The objective of new FDI policy is to promote foreign direct investment through a consolidated policy which is transparent, predictable, simple, and clear and reduces regularly burden. Government aims to raise India's share in global FDI to 5 per cent by 2017. The present FDI policy is investor-friendly, as investor has to study only one policy.
### Trends of Foreign Capital and Foreign Investment in India

#### Amount of foreign aid received by India

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CONCESSIONAL LOAN</th>
<th>GRANTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>7,601</td>
<td>522</td>
</tr>
<tr>
<td>2000-01</td>
<td>17,184</td>
<td>941</td>
</tr>
<tr>
<td>2008-09</td>
<td>28,283</td>
<td>1,243</td>
</tr>
<tr>
<td>2009-10</td>
<td>48,969</td>
<td>958</td>
</tr>
<tr>
<td>2010-11</td>
<td>35,895</td>
<td>1,537</td>
</tr>
<tr>
<td>2011-12</td>
<td>48,063</td>
<td>1,096</td>
</tr>
<tr>
<td>2012-13</td>
<td>45,518</td>
<td>1,242</td>
</tr>
<tr>
<td>2013-14</td>
<td>46,453</td>
<td>1,431</td>
</tr>
</tbody>
</table>

*(SOURCE: ECONOMIC SURVEY, 2013-14)*

#### India’s Outstanding Commercial Borrowings

<table>
<thead>
<tr>
<th>YEAR</th>
<th>LOANS FROM FOREIGN BANKS</th>
<th>NON-RESIDENT INDIANS’ DEPOSITS</th>
<th>TOTAL COMMERCIAL BORROWINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>51,454</td>
<td>39,527</td>
<td>90,981</td>
</tr>
<tr>
<td>2007</td>
<td>1,80,669</td>
<td>1,79,788</td>
<td>3,60,457</td>
</tr>
<tr>
<td>2009</td>
<td>3,18,209</td>
<td>2,10,118</td>
<td>5,28,327</td>
</tr>
<tr>
<td>2010</td>
<td>3,19,221</td>
<td>2,17,062</td>
<td>5,36,283</td>
</tr>
<tr>
<td>2011</td>
<td>4,48,448</td>
<td>2,30,812</td>
<td>6,79,259</td>
</tr>
<tr>
<td>2012</td>
<td>6,14,623</td>
<td>2,99,840</td>
<td>9,14,463</td>
</tr>
<tr>
<td>2013</td>
<td>7,62,438</td>
<td>3,85,202</td>
<td>11,47,640</td>
</tr>
<tr>
<td>2014</td>
<td>8,80,740</td>
<td>6,24,101</td>
<td>15,04,841</td>
</tr>
</tbody>
</table>

*(SOURCE: ECONOMIC SURVEY, 2013-14)*

#### Foreign Investment Inflows In India

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FDI</th>
<th>PORTFOLIO INVESTMENT</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>97</td>
<td>6</td>
<td>103</td>
</tr>
<tr>
<td>2000-01</td>
<td>4,031</td>
<td>2,760</td>
<td>6,791</td>
</tr>
<tr>
<td>2008-09</td>
<td>37,838</td>
<td>(-) 13,855</td>
<td>23,983</td>
</tr>
<tr>
<td>2009-10</td>
<td>37,763</td>
<td>32,376</td>
<td>70,139</td>
</tr>
<tr>
<td>2010-11</td>
<td>32,901</td>
<td>31,471</td>
<td>64,372</td>
</tr>
<tr>
<td>2011-12</td>
<td>32,955</td>
<td>17,171</td>
<td>50,126</td>
</tr>
<tr>
<td>2012-13 (APR. TO JAN.)</td>
<td>24,625</td>
<td>22,047</td>
<td>46,672</td>
</tr>
</tbody>
</table>

*(SOURCE: HANDBOOK OF STATISTIC ON INDIAN ECONOMY, 2011-12; RBI BULLETIN, APRIL 2013)*

#### Share Of Top Seven Sectors Attracting FDI In India (April 2000 To March 2014)

<table>
<thead>
<tr>
<th>SN</th>
<th>SECTOR</th>
<th>% SHARE IN TOTAL FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SERVICE SECTOR (FINANCIAL AND NON-FINANCIAL)</td>
<td>18</td>
</tr>
<tr>
<td>2</td>
<td>CONSTRUCTION ACTIVITIES</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>TELE COMMUNICATION</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>COMPUTER SOFTWARE AND HARDWARE</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>DRUGS &amp; PHARMACEUTICALS</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>CHEMICALS</td>
<td>4</td>
</tr>
<tr>
<td>7</td>
<td>POWER</td>
<td>4</td>
</tr>
<tr>
<td>8</td>
<td>ALL OTHER AREAS</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td>100</td>
</tr>
</tbody>
</table>

*(SOURCE: DEPARTMENT OF INDUSTRY AND PROMOTION, FACT SHEET, MARCH 2014)*

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**Note:** The data and tables are presented as they appear in the document, with slight adjustments for clarity and formatting consistency.
Contribution of foreign capital in the economic development of India/ Advantage of foreign capital/ Foreign investment:

1. **Reduction in inflation**: Foreign capital has also made import of essential goods on a large scale possible. It increases total availability of goods and reduces the rate of inflation. With the inflow of foreign capital, production in the country has increased and increased production ensures stable prices, even if demand increases. Thus, foreign capital helps in checking rise in prices.

2. **Availability of economic and social overheads**: Inadequate availability of economic and social overheads, viz. Railways, roads, canals, power resources, communication system, etc., was another problem of Indian economy. Foreign capital has proved helpful in the development of these projects. It has favorably affected the growth of agriculture and industry in the country. As a result, rapid growth of the economy could become possible.

3. **Helpful in export promotion**: Value of Indian exports is less than its imports. Increase in exports therefore becomes necessary. Foreign capital can make significant contribution in this respect. Many foreign companies are allowed to install their units in India, on the condition that they would export certain percentage of their production. Foreign capital has therefore been instrumental in promoting exports.

4. **Availability of capital**: Indian economy suffers from lack of capital. Lack of capital has hindered the rate of economic growth. Since savings do not increase in the same ratio as the income does, this gap is filled by foreign capital. Thus, to increase the availability of capital to the desired extent, role of foreign capital has been significant.

5. **Supply of food grains**: Most of the foreign aid received by India is in the form of food grains, especially the one under pl-480. Import of food grain has increased the ability of the country to meet shortage of food grains.

6. **Increase in employment**: Many industrial units have been set up with foreign capital and by foreign collaboration. Many MNCs have also set up branches in India. All this has created employment opportunities in India.

7. **Availability of capital goods**: In order to extend its programme of industrialization, it becomes necessary for Indian economy to import capital goods like machines, equipments, etc. But it becomes difficult to import these essential goods due shortage of foreign exchange. Foreign capital, by solving this difficulty, proves helpful in making available imported capital goods.

8. **Availability of modern technology**: Modern technology is of paramount significance to the development of Indian economy. But the available technique in India is old and inefficient. The use of modern technology could become possible with foreign capital and aid. Foreign capital is accompanied with technical know-how, and trade experience. Modern
technology enhances the productivity of economy.

9. **Availability of capital goods:** There was disequilibrium in the balance of payments positions of India. Imports were increasing at a faster rate than the exports. It gave rise to the problem of shortage of foreign exchange. On account of foreign capital, availability of foreign exchange has increased. Consequently, foreign capital has helped very much in solving the problem of balance of payments.

10. **Availability of risk capital:** Indian capital is shy by nature. Private entrepreneurs do not like to invest capital in basic industries and new ventures where the element of risk is great. Foreign direct investment serves as venture capital and thus makes up this deficiency. As a result of foreign capital development has taken place in basic industries and risky ventures like iron and steel, coal, oil exploration, energy-generation etc. The foreign capital has borne the pioneering risk.

11. **Exploitation of natural resources:** Natural resources like minerals, water resources, etc. Are found in plenty in India. But due to lack of capital and technical know-how, the same have not been properly exploited. Foreign capital will help to make proper exploitation of natural resources.

**Conclusion**

The Indian government is committed to the concept of globalization and liberalization. Its package is being enlarged every year; hopefully, it may be able to attract more and more foreign investment including NRIs investment in the years to come. For this, a better investment climate could be created and the bottlenecks in the path may be removed. Today, china is the largest recipient of inflows among all developing countries in Asia. It’s main reason being better investment climate which includes large domestic market, rising per capita income, development of sufficient industrial infrastructure and above all, perfect industrial relations. The following points need through examination which may help create better investment climate in India and lure the foreign investors to come forward:

- The existing policy of the government is not clear. The most important task before the government is to come out with a clear and bolder policy regarding foreign investment and safeguard of interests of foreign investors. Foreign companies find the policy and procedural environment in India confusing and complex. For example – Motorola even shifted some of the projects originally earmarked for India to china, where the government attitude is much friendlier.

- One of the major handicaps in attracting foreign investors to India is the poor and inadequate industrial infrastructure, which should be taken care of. Many foreign investors have turned their faces for lack of adequate infrastructure.
• Poor industrial relations create obstacle in the path of inflow of foreign investment in India. So efforts should be made to develop healthy industrial relations to attract foreign investment.

• Another important area which needs immediate attention of the government is to guard against the inefficiency and indiscipline in capital markets of the economy and strengthen the financial system as a whole. It should ensure that events like the stock exchange scam are not repeated.

• Any foreign investor is found obviously interested in a stable political government, where he wants to invest. Political stability has a far reaching implication for the industrial development of a nation and simultaneously it creates a sense of safety and security in the mind of the investor. India needs to feel concern about it, if it is really interested in economic development through foreign investment.

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