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TRENDS AND ANALYSIS OF FOREIGN DIRECT INVESTMENTS IN INDIA

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Abstract

India's rise in Global FDI shows increasing Global Investors confidence in India. The Indian government's favourable policy regime in regard to opening up of economy and robust business environment leading to India's status of fastest growing economy have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years and has relaxed FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. Present study has covered FDI trends since FY 2001 and found that FDI inflows have gone up in India with Mauritius emerging as the Major Investor in India. Present study has also made sector wise, country wise and state wise analysis.

Keywords:ForeignDirect Investment(FDI);Department of Industrial Policy and Promotion(DIPP):Foreign Investment Promotion Board (FIPB);Cabinet Committee on Economic Affairs(CCEA);Department of Economic Affairs (DEA).

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Introduction

Today, India is acknowledged as the fastest growing economy among major Nations of the world. Ease of Doing Business report for the year 2016 published by the World Bank has improved India's ranking by 12 places.FDI in India due to favourite investment climate has increased by 40%. India has been projected as one of the leading destination for FDI in the World by several Global Institutions. IMF has branded India as the brightest spot in the Global Economy whereas the World Bank projects India's growth at 7.5% and even better. (Press Information Bureau,Government of India,Ministry of Commerce & Industry, 2015)

In the economic development of India Foreign Direct Investment (FDI) is playing a great role as the major source of finance. As India has emerged as the fastest growing economy many foreign companies are ready to invest directly in fast growing private Indian businesses to take benefits of cheaper wages due to overpopulation and changing business environment of India due to economic reforms. In 1991 major economic reforms were in the form of economic liberalisation, privatisation and globalisations which were initiated in wake of the 1991 economic crisis and since then FDI has steadily increased in India. It was economic reforms of 1991 that brought FDI in India, which subsequently generated employment for Indians. According to the *Financial Times*, in 2015 India overtook China and the US as the top destination for the Foreign Direct Investment.

Routes of FDI

In India the entry of Non Resident Indians for Foreign Direct Investment is regulated through two routes –automatic route and approval route. An Indian company may receive Foreign Direct Investment under the two routes as given under (RBI, 2015)

1. **Automatic Route**

FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

2. Government Route

FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance. Application can be made in Form FC-IL. The automatic route is meant for less restricted sectors. On the other hand approval route is regulated and scrutinised by government agencies which exercise stringent control while approving foreign investments.

Both these routes are designed to have monitoring over the investment activities and at the same time to avoid wasteful procedural delays. In most cases, FDI up to certain limits (in Rs crores) and with certain conditions can be made through the automatic route. In the same sectors, FDI beyond a limit (in terms of percentage of investment made in a business venture) and that generally have critical importance need approval from the relevant agencies.

Proposals for foreign investment under approval route as laid down in the FDI policy are considered by either Foreign Investment Promotion Board (FIPB) or Cabinet Committee on Economic Affairs or Cabinet Committee on Securities. In certain cases, the Department of Economic Affairs (DEA) or Department of Industrial Policy & Promotion are also assisting the above approving agencies. The FIPB considers those investments up to Rs 5000 crores for approval. Above this limit, approval will be made by CCEA.Which body or agency has to give the approval for a specific FDI proposal depends upon the sector and nature of investment specified under the consolidated policy on FDI. For example, as per the new FDI policy on defence sector, FDI more than 49% and also that involves more than Rs 2000 crores investment is to be approved by the Cabinet Committee on Securities.

Objectives:

1. To study major reforms initiated in the field of FDI by Government of India in the year 2015-16.
2. To comment on India’s achievements on FDI front.

Research Methodology:

Secondary data in form of published reports,articles and research papers has been used for the conduct of this study. Government annual reports from its regulatory bodies having power of scrutiny of FDI proposals like RBI, DIPP have been used for authenticity of results.

Recent Reforms in the FDI regime Nov, 2015 (Arun, 2015)

Construction sector: The struggling construction sector will be a major beneficiary as radical changes in FDI norms have been brought in to boost demand for steel, cement and spur economic activity, ultimately with an aim to help build 50 million affordable houses for the poor.Several conditions have been removed including the area restriction of floor area of 20,000 sq.m. In construction development projects and minimum capitalisation of $5 million which needed to be brought in within six months of the commencement of business. Also, foreign investors have been allowed to exit and repatriate their investment under automatic route before the completion of the project provided they complete a lock-in period of three years.

Defence: Foreign investment up to 49% has been allowed under automatic route from the earlier government approved route. Proposals for foreign investment in excess of 49% will be considered by FIPB.Portfolio investment and foreign venture capital investment, which were restricted to 24%, have now been hiked to 49% and that too through the automatic route. To ensure that ownership and control remain in Indian hands, Government approval, of course, will be required in case of infusion of fresh foreign investment within the permitted automatic route level, resulting in change in the ownership pattern or transfer of stake by existing investor to new foreign investor.The latest FDI reforms are expected to result in more such jvs in defence.Foreign investment above 49% was permitted earlier too, subject to approval of Cabinet Committee on Security on case to case basis, of course only if the investment was to result in access to 'state-of-art' technology in the country.

Broadcasting: In terrestrial Broadcasting FM (FM Radio), and in up-linking of 'News & Government route Current Affairs' TV Channels FDI upto 49% is allowed through the FIPB route (from the earlier 26%), while 100% FDI is allowed through the automatic route in up-linking of Non-'News & Current Affairs' TV Channels. 100% FDI is also allowed (upto 49%

automatic route and beyond that through government route) in teleports, direct to home, cable networks, mobile TV, headend in the sky broadcasting service and cable networks.

Banking: In private sector banking, the government has brought in a composite cap by removing the sub-limits for FDI and FII, thereby allowing fiis/fpis/qfis to invest upto the sectoral limit of 74% provided there is no change of control and management of the investee company. The existing foreign portfolio limit of 49% was coming in the way of fund raising plans of private sector banks such as Yes Bank, Kotak Mahindra Bank and Axis Bank. The new rule will give the banks and investors considerable flexibility in raising funds and investing respectively.

Plantation: The government also decided to plantation activities namely; coffee, rubber, cardamom , palm oil tree and olive oil tree plantations also for 100% foreign investment under automatic route. As of now, only tea plantation was open to foreign investment.

NRIs: Investment by companies/trusts/partnerships owned & controlled by nris on non-repatriation basis will now be treated as domestic investment.

E-Commerce: Manufacturers have been allowed to sell their product through wholesale and/or retail, including through e-commerce without Government approval.

Retail: Though the BJP-led government stayed away from any mention of multi-brand retail so as to protect the interests of their key vote bank of small traders, it has announced easing of several conditionalities for single brand retail trade (SBRT) and e-commerce. It has now been decided that in case of state of art and cutting edge technology, sourcing norms (that 30% of value of goods will have to be purchased from India) can be relaxed subject to Government approval, a move that will benefit companies such as Ikea. The government also permitted entities who have been granted permission to undertake SBRT, to do e-commerce. The government has eased FDI policy conditionalities for Single Brand Retail Trading, besides permitting 100% FDI in duty free shops.Also, a single entity will be permitted to undertake both the activities of single brand retail trading (SBRT) and wholesale with the condition that conditions of FDI policy on wholesale/ cash & carry and SBRT have to be complied by both the business arms separately. Currently, wholesale/cash & carry trader cannot open retail shops to sell to the consumer directly.

LLP: 100% FDI in limited liability partnerships (llps) has been permitted under automatic route.
Aviation: Regional Air Transport Service will be eligible for foreign investment up to 49% under automatic route. Under the present FDI policy, foreign investment up to 49% is allowed only in Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline.

Foreign equity caps of certain sectors -- Non-Scheduled Air Transport Service, Ground Handling Services, Saellites-establishment and operation and Credit Information Companies have now been increased from 74% to 100%. Further, sectors other than Satellites- establishment and operation have been placed under the automatic route.

Other changes in rules: No government approval is required for investment in automatic route by way of swap of shares.

Results:

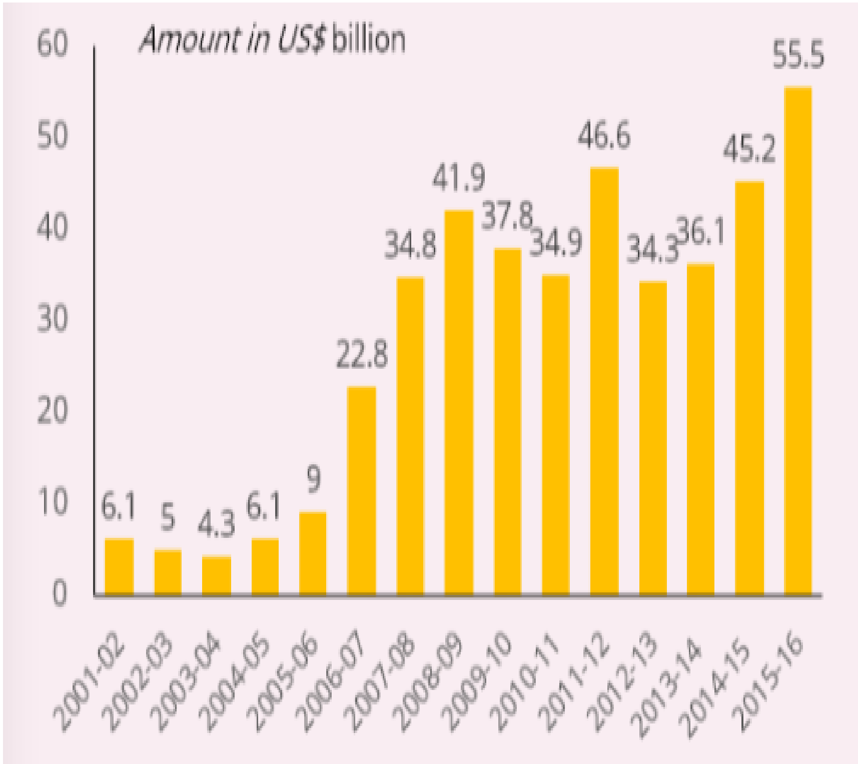
Table1: Financial Year Wise FDI Inflows Data

(Amount US$ million)

S. No.	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional Investors Fund (net)
		Equity		Re-invested earnings +	Other capital +	FDI FLOWS INTO INDIA		
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI Flows	%age growth over previous year (in US$ terms)	
FINANCIAL YEARS 2000-01 to 2015-16								
1.	2000-01	2,339	61	1,350	279	**4,029**	-	**1,847**
2.	2001-02	3,904	191	1,645	390	**6,130**	(+) 52 %	**1,505**
3.	2002-03	2,574	190	1,833	438	**5,035**	(-) 18 %	**377**
4.	2003-04	2,197	32	1,460	633	**4,322**	(-) 14 %	**10,918**
5.	2004-05	3,250	528	1,904	369	**6,051**	(+) 40 %	**8,686**
6.	2005-06	5,540	435	2,760	226	**8,961**	(+) 48 %	**9,926**
7.	2006-07	15,585	896	5,828	517	**22,826**	(+) 155 %	**3,225**
8.	2007-08	24,573	2,291	7,679	300	**34,843**	(+) 53 %	**20,328**
9.	2008-09	31,364	702	9,030	777	**41,873**	(+) 20 %	**(-) 15,017**
10.	2009-10	25,606	1,540	8,668	1,931	**37,745**	(-) 10 %	**29,048**
11.	2010-11	21,376	874	11,939	658	**34,847**	(-) 08 %	**29,422**
12.	2011-12	34,833	1,022	8,206	2,495	**46,556**	(+) 34 %	**16,812**
13.	2012-13	21,825	1,059	9,880	1,534	**34,298**	(-) 26%	**27,582**
14	2013-14 (P)	24,299	975	8,978	1,794	**36,046**	(+) 5%	**5,009**
15.	2014-15 (P)	30,933	978	9,988	3,249	**45,148**	(+) 25%	**40,923**
16.	2015-16 (P)	**40,001**	**1,042**	**10,049**	**4,365**	**55,457**	(+) 23%	**(-) 3,516**
CUMULATIVE TOTAL (from April, 2000 to March, 2016)		**290,199**	**12,816**	**101,197**	**19,955**	**424,167**	-	**187,075**

Source: (i) RBI's Bulletin May, 2016 dt.10.05.2016 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).
(ii) Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha).
(iii) RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006.
(iv) Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.
(v) Figures updated by RBI up to March, 2016.
(vi) Data in respect of 'Re-invested earnings' & 'Other capital' are estimated as average of previous two years.
'#' Figures for equity capital of unincorporated bodies are estimates. (P) All figures are provisional

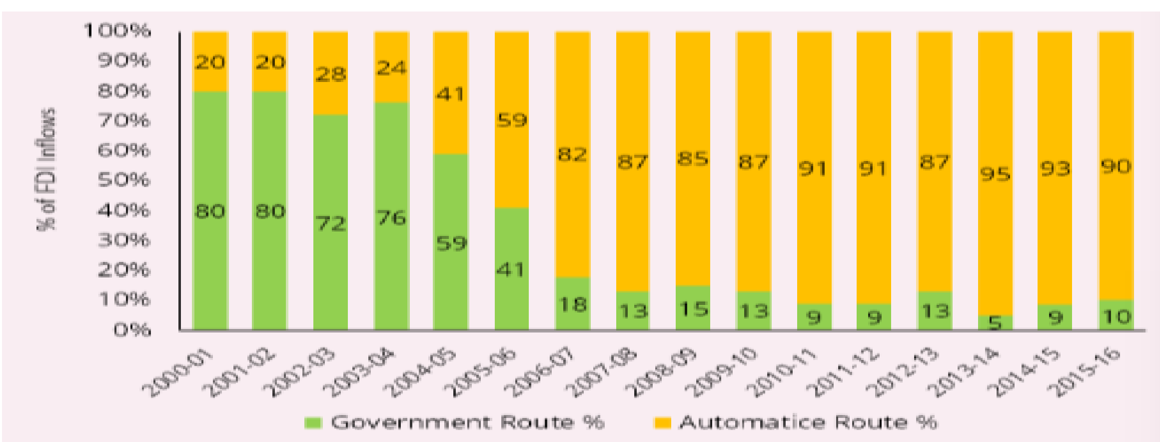
Figure 1: FDI Inflows Year Wise



Source:DIPP

- According to Department of Industrial Policy and Promotion (DIPP), FDI Inflows in India have increased from 6.1 US$ billion in 2001-02 to 55.5 US$ billion in 2015-16 indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.
- FDI in India witnessed an increase of 23 per cent during April 2015-March, 2016 as compared to same period during 2014-15.

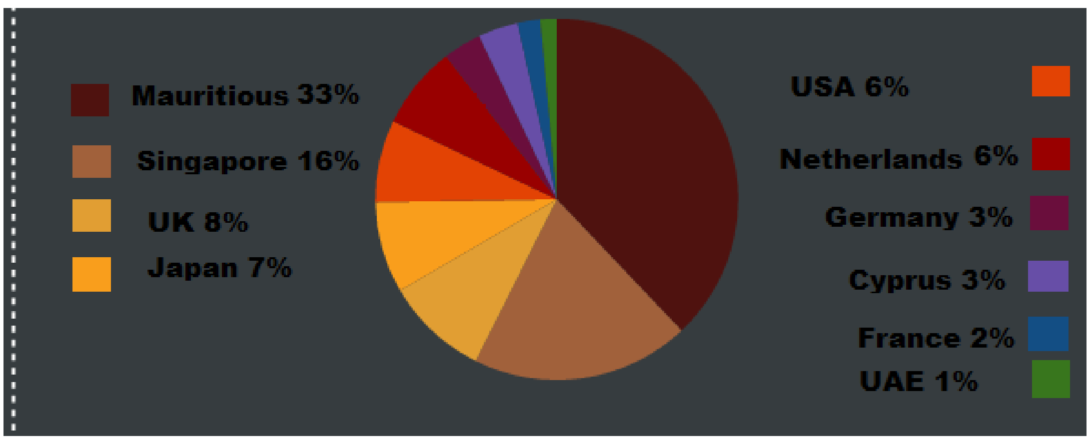
Figure 2: FDI inflows-Route wise



Source: DIPP

- In most of the sectors Government of India has allowed FDIs, up to100%, under the automatic route. Figure2 shows that around 90% of the FDI inflows in the country are through automatic route in the since 2009-10 with 95% FDIs through automatic route in 2013-14. Now most of the sectors have come under under automatic approval route. India is now the most open economy in the world for FDI.
- Even as India revised its tax treaty with Mauritius, looking to avoid double taxation, the small island nation over the past fifteen years have remained the country's biggest source of FDIs. Here is a look into India's major FDI providers from 2000m to 2015. (Business Standard, 2016)

Figure3: Cumulative Country wise Inflow from 2000-2005



- Mauritius makes up 33 per cent of FDI between April 2000 and March,2016. However, Singapore accounts for 16 per cent of the total FDI India received during the same period. During FY 2015-16, India received the maximum FDI equity inflows from Singapore at US$ 13.69 billion, followed by Mauritius (US$ 8.35 billion), USA (US$ 4.19 billion), Netherlands (US$ 2.64 billion) and Japan (US$ 2.61 billion). Healthy inflow of foreign investments into the country helped India’s balance of payments (bop) situation and stabilised the value of rupee. (Indian Brand Equity Foundation, 2016)

Table 4: Share of Top Investing Countries FDI Equity Inflows(Financial Years)

Amount Rupees in crores (US$ in million)

Ranks	Country	2013-14 (April - March)	2014-15 (April – March)	2015-16 (April,15 – March, 16)	Cumulative Inflows (April '00 - March '16)	%age to total Inflows (in terms of US $)
1.	MAURITIUS	29,360 (4,859)	55,172 (9,030)	54,706 (8,355)	480,363 (95,910)	33 %
2.	SINGAPORE	35,625 (5,985)	41,350 (6,742)	89,510 (13,692)	256,667 (45,880)	16 %
3.	U.K.	20,426 (3,215)	8,769 (1,447)	5,938 (898)	115,592 (23,108)	8 %
4.	JAPAN	10,550 (1,718)	12,752 (2,084)	17,275 (2,614)	110,671 (20,966)	7 %
5.	U.S.A.	4,807 (806)	11,150 (1,824)	27,695 (4,192)	94,575 (17,943)	6 %
6.	NETHERLANDS	13,920 (2,270)	20,960 (3,436)	17,275 (2,643)	94,533 (17,314)	6 %
7.	GERMANY	6,093 (1,038)	6,904 (1,125)	6,361 (986)	44,870 (8,629)	3 %
8.	CYPRUS	3,401 (557)	3,634 (598)	3,317 (508)	42,681 (8,552)	3 %
9	FRANCE	1,842 (305)	3,881 (635)	3,937 (598)	26,525 (5,111)	2 %
10.	UAE	1,562 (255)	2,251 (367)	6,528 (985)	21,648 (4,030)	1 %
TOTAL FDI INFLOWS FROM ALL COUNTRIES *		147,518 (24,299)	189,107 (30,931)	262,322 (40,001)	1,495,859 (288,634)	-

**Includes inflows under NRI Schemes of RBI.*

Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to March, 2016) are at – Annex-'A'.
(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Source: DIPP

- Despite the government's efforts to increase investments in the manufacturing sector to boost its growth, services sector continues to attract most foreign direct investment (FDI).Services sector has attracted highest foreign direct investment, despite Make in India push Out of the total FDI inflows received during April,2000 to March,2016, the services sector accounted for almost 18% of the cumulative inflows. consists of financial, banking, insurance, non-financial/business, outsourcing, R&D, courier, technology testing and analysis.

- Sectors such as construction development computer software and telecommunications industry received FDI worth of $ 24,188 million, $ 21018 million and $18,382 million respectively.

- The services sector was followed by construction development, computer software and hardware, telecommunications, Automobiles,drugs and pharmaceuticals, Chemicals, Trading,Power and Hotel&Tourism. The ranking is done in terms of the share of these sectors in the country's total FDI.

Table5: Sector Wise FDI Inflows

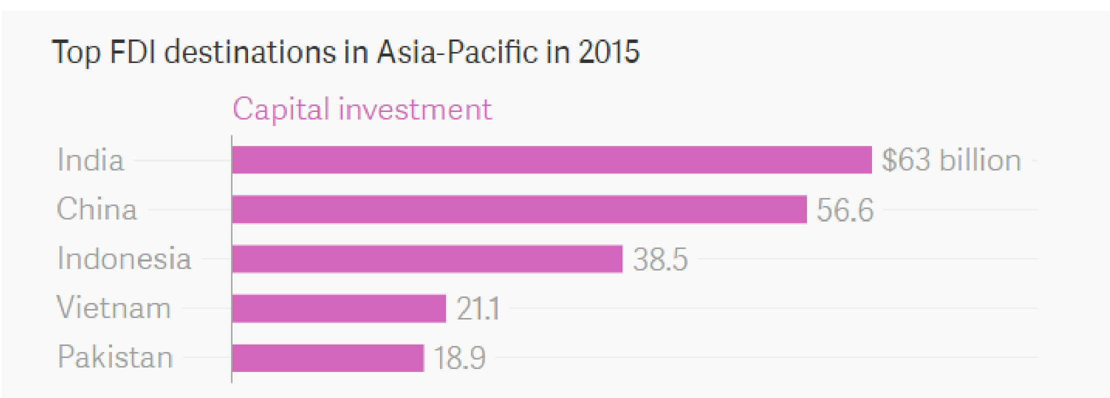
Amount in Rs. crores (US$ in million)

Ranks	Sector	2013-14 (April - March)	2014-15 (April- March)	2015-16 (April,15 – March, 16)	Cumulative Inflows (April '00 - March '16)	% age to total Inflows (In terms of US$)
1.	SERVICES SECTOR **	13,294 (2,225)	27,369 (4,443)	45,415 (6,889)	258,354 (50,792)	18 %
2.	CONSTRUCTION DEVELOPMENT: TOWNSHIPS, HOUSING, BUILT-UP INFRASTRUCTURE	7,508 (1,226)	4,652 (769)	727 (113)	113,936 (24,188)	8 %
3.	COMPUTER SOFTWARE & HARDWARE	6,896 (1,126)	14,162 (2,296)	38,351 (5,904)	112,184 (21,018)	7 %
4.	TELECOMMUNICATIONS (radio paging, cellular mobile, basic telephone services)	7,987 (1,307)	17,372 (2,895)	8,637 (1,324)	92,729 (18,382)	6 %
5.	AUTOMOBILE INDUSTRY	9,027 (1,517)	16,760 (2,726)	16,437 (2,527)	81,394 (15,065)	5 %
6.	DRUGS & PHARMACEUTICALS	7,191 (1,279)	9,052 (1,498)	4,975 (754)	70,097 (13,849)	5 %
7.	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,658 (763)	9,664 (1,470)	59,555 (11,900)	4 %
8.	TRADING	8,191 (1,343)	16,755 (2,728)	25,244 (3,845)	68,837 (11,872)	4 %
9.	POWER	6,519 (1,066)	4,296 (707)	5,662 (869)	52,613 (10,476)	4 %
10	HOTEL & TOURISM	2,949 (486)	4,740 (777)	8,761 (1,333)	49,710 (9,227)	3 %

Note: *(i)** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis*
(ii) Cumulative Sector- wise FDI equity inflows (from April, 2000 to March, 2016) are at - Annex-'B'.
(iii) FDI Sectoral data has been revalidated / reconciled in line with the RBI, which reflects minor changes in the FDI figures (increase/decrease) as compared to the earlier published sectoral data.

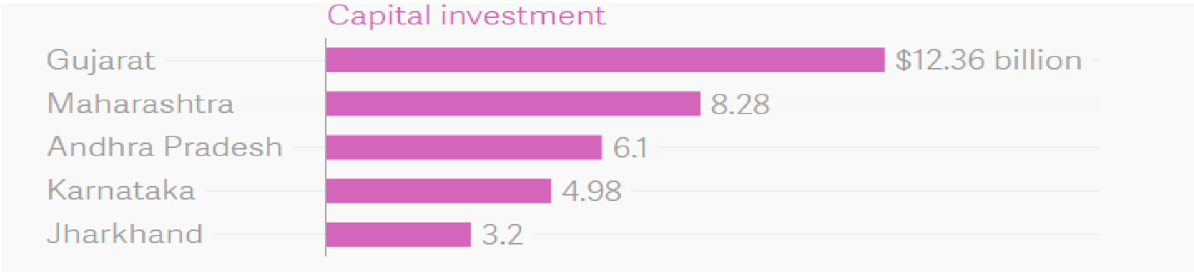
- According to FDI Intelligence, a unit of Financial Times Group, India has overtaken China and has become the top destination for foreign direct investment (FDI) in 2015 in Asia with $63 billion worth of foreign investment against $56.6 billion of China.
- India has also overtaken China as world's top foreign direct investment (FDI) destination with US$ 63 billion of FDI announced in 2015 including high-value project announcements across the coal, oil and natural gas, and renewable energy sectors.

Figure4: Top FDI Destinations in Asia-Pacific in 2015



Source FDI Intelligence

Figure5: Top Indian States with FDI



Source: FDI Intelligence

- As per figure,Gujarat has received the highest FDI in the country with inflow of $ 12.36 billion against 8.28 by Maharashtra followed by$ 6.1 billion of Andhra Pradesh,$4.98 billion of Karnatka and $ 3.2 billion of Jharkhand.

Conclusion:

The FDI scenario has improved since FY 2001 to FY 2015.ManyFDI reforms in 2015 has given a boost to the economy. Many of the FDIs have been approved through Automatic route with very less left under Approval route. It shows Indian economy has been opened up liberally for foreign investments to come in. Automatic route means removing unnecessary process bottlenecks; thereby making it easy for investors to invest in India. The automatic route has encouraged investments to move swiftly into India. Mauritious has remained major investor on an average in India for last fifteen yearsIndia has also crossed China and has reached at the top in South East region of Asia.

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