An Analysis of FDI in India

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Abstract

Developing countries, increasingly see Foreign Direct Investment (FDI) as a source of economic development, modernization and employment generation, and have liberalized their FDI regimes to attract investment. Given the appropriate host country policies and a basic level of development, FDI triggers technology spillovers, assists human capital formation, contributes to international trade integration, helps create a more competitive business environment and enhances enterprise development. All these contribute to economic growth. Existence of real business opportunities is one of the key factors in attracting FDI. The present paper is an attempt to analyse the current position of FDI in India with specific reference to the route through which it is coming and the sectors in which it is coming.

Introduction

FDI has a great significance for any country because it does not only bring capital but it also brings new technology, employment and increase in growth. Ever since process of liberalization began in India, Indian economy has taken enormous strides in the direction of economic development. This increase in economic activity helped GOI to focus on such areas which it was not able to focus due to lack of funds. For almost all these years successive governments have kept on following the same economic policies irrespective of the political parties to which they belong. During all these years India has remained a favourable destination for FDI due to reasons like well developed network of banking and financial institutions, vast population of youth (16-65 years), strong macro-economic fundamentals, vast opportunities of infrastructure development, cheap labour and natural resources etc.

ROUTE WISE FDI INFLOWS

When one talks about the route wise FDI it means that medium or the way through which FDI is coming into India. Rout wise FDI inflows can be divided into four parts namely;

(i) RBI/Foreign Investment Promotion Board (FIPB);

(ii) Equity Capital of Unincorporated Bodies;

(iii) Reinvested Earnings, and;

(iv) Other Capital etc.

The automatic route is available for proposals in the IT sector, even when the applicant company has a previous JV or technology-transfer agreement in the same field. An FDI's limit under the automatic route in the advertising sector has been raised from the existing 74 percent to 100 percent. FDI up to 100 percent in the Film sector, which is already on the automatic route, now will not be subject to conditions. FDI up to 100 percent in the Tea sector, including plantation, has been allowed with a prior approval of the government, and would be subject to the following conditions: (i) Compulsory divestment of 26 percent equity of the company in favour of an Indian partner/ Indian public within a period of 5 years; (ii) Prior approval of the state government concerned in case of any future land-use change; and (iii) Automatic route of FDI up to 100 percent is allowed in all the manufacturing activities in SEZs, except for the activities that are related to natioanl security, strategy, or environmental concerns. An FDI up to 100% is allowed with some conditions for the following activities in the Telecom sector: (i) ISPs (Internet Service Providers) not providing gateways (both for satellite and sub marine cables); (ii) Infrastructure Providers Supplying dark fibre (IP category I); (iii) Electronic Mail; and (iv) Voice Mail. FDI up to 74 percent is permitted for the following Telecom Services that are subject to licensing and security requirements (proposals with FDI beyond 49 percent shall require prior government approval): (i) ISP with gateways; (ii) Radio paging; and (iii) end-to-end bandwidth.

The following table gives a clear picture of total FDI inflows in India depending upon their route

Table No.1

Route wise FDI inflows in India

(In 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 Auto--matic Route/ Acqui--sition Route	Equity Capital of Unincorporated bodies #			Total FDI Flows	%age growth over previous year (in US$ terms)	
FINANCIAL YEAR 2000-2010								
1.	2000-01	2339	61	1350	279	4029	-	1847
2.	2001-02	3904	191	1645	390	6130	(+) 52%	1505
3.	2002-03	2574	190	1833	438	5035	(-) 18%	377
4.	2003-04	2197	32	1460	633	4322	(-) 14%	10918
5.	2004-05	3250	528	1904	369	6051	(+) 40%	8686
6.	2005-06	5540	435	2760	226	8961	(+) 48%	9926
7.	2006-07	15585	896	5828	517	22826	(+) 146%	3225

8.	2007-08	24573	2291	7679	292	34835	(+) 53%	20328
9.	2008-09	27329	666	6428	757	35180	(+) 01%	15017
10.	2009-10	25609	1540	8080	1953	37182	(+) 06%	29047
11.	2010-11	21376	874	11939	658	34847	(-) 08%	29422
12.	2011-12	34833	1022	8206	2495	46856	(+) 34%	16812
13.	2012-13	21825	1059	9880	1534	34298	(-) 26%	27852
14.	2013-14(P)	24299	975	8978	1794	36046	(+) 5%	5009
15.	2014-15(P)	30933	978	9988	3249	45148	(+) 25%	40923
16.	2015-16(P)	40001	1042	10049	4365	55457	(+) 23%	3516
CUMULATIVE TOTAL (from April 2000 to March 2016)		**290199**	**12816**	**101197**	**19955**	**424167**	-	**187075**

Source: ***RBI's Bulletin May, 2016 dt.10.05.2016 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).***

Table no. 1 shows route wise FDI inflows in India. One can see that throughout the period under study (2000-2016) FIPB/RBI's Automatic approval route has been the most favoured route. Almost 80% of the FDI is coming into India through this route. Apart from this FDI has also come in form of equity capital and reinvested earnings also, but in smaller number. Apart from years 2002-03 and 2003-04, 2009-10 and 2010-11, and 2012-13 there has been a positive change in the position of FDI over their respective previous years. The significant increase in FDI inflows to India reflected the impact of liberalisation of the economy since the early 1990s as well as gradual opening up of the capital account. As part of the capital account liberalisation, FDI was gradually allowed in almost all sectors, except a few on grounds of strategic importance, subject to compliance of sector specific rules and regulations. The large and stable FDI flows also increasingly financed the current account deficit over the period. During the recent global crisis, when there was a significant deceleration in global FDI flows during 2009-10, the decline in FDI flows to India was relatively moderate reflecting robust equity flows on the back of strong rebound in domestic growth ahead of global recovery and steady reinvested earnings (with a share of almost 25 per cent) reflecting better profitability of foreign companies in India. However, when there had been some recovery in global FDI flows, during 2010-11, gross FDI equity inflows to India witnessed significant moderation. If one looks at the position of foreign capital through FII during this period, it is evident that FII's investment has not shown enough consistency. Rather it is showing fluctuating trend. The reason for this may be constantly changing global conditions, eagerness to make money and interest rate differentials in various global quarters etc.

DIIP's – FINANCIAL YEAR-WISE FDI EQUITY INFLOWS

Table No. 2

Financial Year wise FDI Equity inflows in India

S.Nos	Financial Year (April – March)	Amount of FDI inflows (including advance)		%age growth over previous year (in terms of US $)
FINANCIAL YEAR 2000-2010		In Crores	In US$ million	
1.	2000-01	10733	2463	-
2.	2001-02	18654	4065	(+) 65%
3.	2002-03	12871	2705	(-) 50%
4.	2003-04	10064	2188	(-) 19%
5.	2004-05	14653	3219	(+) 47%
6.	2005-06	24584	5540	(+) 72%
7.	2006-07	56390	12492	(+) 125%
8.	2007-08	98642	24575	(+) 97%
9.	2008-09	123025	27330	(+) 11%
10.	2009-10	123120	25834	(-) 05%
11.	2010-11	97320	21383	(-) 17%

12.	2011-12	165146	35121	(+) 64%
13.	2012-13	121907	22423	(-) 36%
14.	2013-14	147518	24219	(+) 8%
15.	2014-15	189107	30931	(+) 27%
16.	2015-16	262322	40001	(+) 29%
CUMULATIVE TOTAL (from April 2000 to March 2016)		**1495860**	**288635**	-

Source: ***DIPP's FDI Data base from website of Ministry of Commerce***

The above table shows total FDI inflows through equity route from 2000-01 to 2015-16. Right from beginning it is clear that throughout all these years except five years namely 2002-03, 2003-04, 2009-10, 2010-11 and 2012-13 inflow of FDI through this route have always shown positive growth. The highest growth rate was in three years namely 2006-07, 2007-08 and 2011-12 when percentage increase was 125%, 97% and 64% respectively. The table also throws light over the performance of Indian economy as one of the most favoured destination for FDI. Right from the year 2004-05 to 2008-09 one can see increasing trend in inward flow of FDI in India. Though there were some weak years as earlier described, but the performance of Indian economy has remained above par during all the years under study. Further last three years show consistent increase in FDI inflows. According to the World Investment Report 2016 released by UNCTAD India continues to be amongst the top ten attractive destinations for FDI and is on 10^{th} place in the list where USA is on top, Hongkong 2^{nd} and China is on 3^{rd} place. India's FDI inflows increased from $35 billion in 2014 to $44 billion in 2015.

Table No. 3

Country wise FDI Inflows (2000-2016)

Sr. No.	Name of Country	Amount of Foreign Direct Investment Inflows (in Rs. Crore)	Amount of Foreign Direct Investment Inflows (in US $)	% with Inflows
1	Mauritius	480,363.08	95,909.73	33.24
2	Singapore	256,666.81	45,879.60	15.90
3	United Kingdom	115,591.93	23,108.35	8.01
4	Japan	110,671.35	20,965.96	7.27
5	USA	94,574.89	17,943.35	6.22
6	Netherlands	94,533.14	17,314.46	6.00
7	Germany	44,870.10	8,629.27	2.99
8	Cyprus	42,680.76	8,552.40	2.96
9	France	26,525.03	5,111.48	1.77
10	UAE	21,648.17	4,029.89	1.40
11	Total FDI by All Countries	14,95,859	2,88,634	

Source: ***DIPP's FDI Data base from website of Ministry of Commerce***

Table no. 3 throws light over top ten countries making investments in India. This table shows that Mauritius has been top investing country in India with investing 33.24% of the total investment by all countries. Singapore stands at no. 2 while UK, Japan and USA are the other three nations in top five. In this regard it is to be remembered that Mauritius is a very small country which is investing such a huge amount of total FDI into India which should be carefully looked at particularly from the view point of black money being converted into white.

SECTOR WISE FDI INFLOWS

The Sector wise Analysis of FDI Inflow in India reveals that maximum FDI has taken place in the service sector (including financial, banking, insurance, outsourcing, R&D, Courier, Testing, Analysis etc.) followed by the Construction and Development, Computer Software and hardware, Telecommunications, Automobiles, Drugs & Pharmaceuticals, Chemicals, Trading, Power, Hotel & Tourism, Cement, Metallurgical and other manufacturing industries etc. The following table gives a detailed account of position of sector wise inflow of FDI in India:

Table No. 4

Sector wise Inflow of FDI

S No.	Sector	Amount of FDI Inflows (2000-2016)		% to Total Inflows
		In Rs Crore	In US $ Million	
1	Services	258354.22	50792.42	17.60
2	Construction Development- Township, housing built up, upgrade and construction development projects	113936.35	24187.94	8.38
3	Computer Software & Hardware	112183.92	21017.77	7.28
4	Telecommunications	92728.71	18382.35	6.32
5	Automobile	81394.21	15064.59	5.22
6	Drugs & Pharmaceuticals	70097.36	13849.50	4.80
7	Chemicals (other than fertilizers)	59555.37	11900.29	4.12
8	Trading	68836.54	11872.47	4.12
9	Power	52613.34	10476.15	3.63
10	Hotel & Tourism	49709.68	9227.33	3.20

Source: ***DIPP's FDI Data base from website of Ministry of Commerce***

It is evident from above table that Services sector is the most happening sector for FDI and is contributing approx. 18% of the total FDI inflows into India. Next to it is Construction and construction development sector with approx. 8% of the total FDI inflows. The Computer Software industry has been one of the booming sectors in India and India is the leading country pertaining to the IT industry in the Asia -Pacific region. With more international companies entering the industry, the Foreign Direct Investments (FDI) has been phenomenon over the years. The rapid development of the telecommunication sector was due to the FDI inflows in form of international players entering the market and transfer of advanced technologies. The telecom industry is another industry which is one of the fastest growing industries in India. With a growth rate of 45%, Indian telecom industry has the highest growth rate in the world.

The FDI in Automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with introduction of quality products from foreign manufacturers in India. The introduction of tailor made finance schemes, easy repayment schemes has also helped the growth of the automobile sector. For the past few years the Indian Pharmaceutical Industry is also performing very well. The varied functions such as contract research and manufacturing, clinical research, research and development pertaining to vaccines are the strengths of the Pharmaceutical Industry in India. Multinational pharmaceutical corporations outsource these activities to Indian concerns and help in the growth of the sector. Thus Indian Pharmaceutical Industry has experienced vast inflows of FDI.

The FDI inflow in the Cement Industry in India has increased with some of the Indian cement giants merging with major cement manufacturers in the world such Holcim, Heidelberg, Italcementi, Lafarge, etc. With the govt. initiating programmes like Make in India, the scenario of increased inflow of FDI will definitely improve. Programmes like development of Smart Cities in India will further boost the chances of more FDI inflows in construction sector and the position of all related industries will also improve.

Latest Policy Announcements

The latest policy announcements made by the GOI on 20th June 2016 in which India has opened up its market in such sectors also which were earlier prohibited for foreign activity. Defense production is one such area where the govt. has given permission to foreign industrialists to come in India and make products in India. Though this permission is for those agreements where technology transfer can take place and further can boost the production of small arms in the country which can India export later and earn huge foreign currency. Earlier also this govt. has been foreign collaborations in such a way that the product which India is acquiring form foreign countries, is later manufactured in India. Apart from defense production, the government has also opened other areas such as Single Brand Retail, Pharmaceuticals Industry- 100% in Brownfield Pharma and 74% in Brownfield Pharmaceuticals, 100% in

Civil Aviation through Automatic Route, Private Security Agency- 49% through automatic route and up to 74% with govt. approval, Cable and Mobile TV and Animal Husbandry etc. With the announcement of all these measures, India has declared itself as one of the most open economies of the world. As India is improving its ranking in ease of doing business, there are further chances that more and more foreign investors will look towards India.

Conclusion:

FDI is the buzzword of the day. It is highlighted that FDI can be the solution of all the problems of this country whether shortage of capital or unemployment. But whether this will happen it is yet to be seen. Being agriculture based economy; India is still to realize its full potential. No government of our country has still been able to find out the solution of the problem of farmers suicide. With another decision of giving permission for FDI in retail, this might not go against the unorganized retail sector of India which cannot even think of competing with big brands.

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