An Overview on Foreign Direct Investment in India

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ABSTRACT

From the last 2 decades developing countries especially Asian countries have become the destination for foreign direct investment. Appreciable market potential and liberal policy of India attract foreign investors as favorable terminus. By comparing to other East Asian countries, India is the late arrival in the FDI picture. Foreign direct investment fills the gap between saving and investment. Capital from the foreign countries is invested in a country to raise its production capacity. Foreign direct investment may be in the form of subsidiary or joint venture or merger or acquisition. It plays a key role in the developing and underdeveloped countries for employment generation, infrastructural development and also rapid economic development. According to the Department of Industrial Policy and Promotion (DIPP), the total foreign direct investment inflows was US $ 44.9 billion in financial year 2015 i.e. rose by 24.5 percent as compared to foreign direct investment of US$ 36.0 billion in previous year. Services, telecommunication, construction activities, computer software and hardware & automobile are major sectors which attracted higher foreign direct investors in India.
Keywords: Developing countries, foreign direct investment, major sectors, economic development and Services.

Introduction

Favorable and prosperous foreign direct investment would be such that it would bring speedy economic development, removal of poverty and turning balance of payment of India into a favorable position. Foreign investment inflows help in filling the gap of scarce domestic investments in developing countries. Although foreign investors do not follow environment favorable technique, foreign direct investment has become a main non-debt source of finance for the economic growth of India. It is an investment made by a foreign company to a company of another country. Foreign direct investment differs from indirect investment to a great extent; indirect investment is about portfolio flows. Foreign capital has a great role in the early stages of industrialization of developed countries. Economic development of a nation relies on foreign capital.

Foreign direct investment not only promotes development of technology as well as skills of existing companies but also establishes new companies and brings in improvement in the economic conditions of India. It generates employment opportunities, revenues in the form of tax and incomes, brings stability in Government's financial position, improves infrastructure and also establishes forward and backward linkages. The quantum of need of FDI depends on saving and investment rate in any country. There are two ways for FDI inflow, namely

I. Automatic Route: FDI in sectors or activities permitted under the automatic route does not necessitate any prior approval to be taken either from the Government or the Reserve Bank of India.
II. Government Route: FDI in sectors or activities not covered under the automatic route necessitates taking prior approval from the Government

which are looking after by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs and Ministry of Finance.

Industrial sectors in which foreign direct investment is not permitted are as follows:

- Arms and ammunition.
- Atomic Energy
- Railway Transport
- Coal and lignite
- Mining of iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, zinc
- Lottery Business
- Gambling and Betting
- Business of Chit Fund
- Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions & services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
- Housing and Real Estate business
- Trading in Transferable Development Rights (TDRs)
- Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

Objectives

1. To exhibit the sector-wise foreign direct investment in India and also top investing countries
2. To study the development of India brought in by foreign direct investment
3. To highlight modification in the policy of India's foreign direct investment

Review of Literature

Bhavya Malhotra (2014)

World Bank and International Monetary Fund aid the Government of India in inaugurating macro-economic stabilization and structural adjustment program during the critical situation of Indian economy. With these reforms India adopted a more liberal foreign policy in order to gain and maintain the confidence of foreign investors. Later on Government of India constituted Foreign Investment Promotion Board to invite and facilitate foreign investment.

R. Anitha (2012)

FDI inflow entered in India during the year 1991-92. To attain a growth of around 7 % in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 % on the whole. The growth trend of FDI inflow into the country shows a decline of 3 % in 2011-12 as compared to the foreign investment in the year 2010-11. FDI inflow into India is estimated to be Rs.172800 crores in 2011-12 as against Rs.178110 crores in 2010-11. This fall in FDI inflow into the country is anticipated to further decline of 4 percent during 2012-13 as against the previous year. During 2013-14 and 2014-15, the fall in growth rate of FDI inflow is found to be reduced to 3 percent and one per cent by comparing with the previous years.

Dr. G. Raja Rajeswari & K. Akilandeswari (2015)

The leading Indian service sector companies which received foreign direct investment are Cairn (I) Ltd, DSP Merrill Lynch Ltd, AAA Global Ventures Pvt. Ltd, Kappa Industries Ltd, Citi Financial Consumer Finance (I) Ltd, Blue Dart Express Ltd, Vyasa Bank Ltd, CRISIL Ltd,

Associates India Holding Co. Pvt. Ltd and Housing Development Finance Corp. Ltd. The power sector in India has attracted significant amount of FDI which accounted for US $ 1093.32 million in total FDI inflows during the period 1991-99.

K. R. Kaushik Dr. Kapil Kumar Bansal (2012)

The government has also not clearly defined the term Multi Brand. Maharashtra, Haryana, Andhra Pradesh, Rajasthan, Jammu and Kashmir, Uttarakhand, Manipur, Assam and Delhi are the states favoring foreign direct investment in multi brand retail. Uttarakhand, Manipur and Assam have no cities having population of one milllion but capital cities of these states can be considered for opening multi brand retail stores. Gujarat, Uttar Pradesh, West Bengal, Bihar, Tamilnadu, Kerla, Chatishgarh and Odisha are the states which opposed FDI in multi brand retail. Although Foreign Direct Investment Policy in Multi Brand Retail approved by the Cabinet, yet the final authority for granting the trade licence depend on the states under the irrespective Shops and Establishment Acts. Foreign retailers will only be permitted to set up shop in cities having population of more than one million.

Abhishek Vijaykumar Vyas (2015)

India followed a fastidious pattern for formulating Foreign Direct Investment Policy by considering the governance of 'Import-Substitution Strategy' of industrialization. Foreign equity holding in a joint venture was allowed only up to 40 percent under the enactment of Foreign Exchange Regulation Act (FERA), 1973.

Shalini Aggarwal, Ankush Singla & Ritu Aggarwal (2012)

Foreign technology induction can be promoted through FDI and through foreign technology collaboration agreements. The sectors which have resources but do not have the required technology possess foreign technology collaboration through the approvals of Reserve Bank of India or Government. The total number of approvals recorded from the year 2000 to 2010 by the Reserve Bank of India, Secretarial for Industrial Assistance and Foreign Investment Promotion Board is 8080. The Reserve Bank of India has approved 4580 proposals while Secretarial for Industrial Assistance and Foreign Investment Promotion Board have approved 3500.

Bring Forth Development/Investment of India

According to the Department of Industrial Policy and Promotion (DIPP), the total foreign direct investment inflows was US $ 44.9 billion in financial year 2015 i.e. rose by 24.5 percent as compared to foreign direct investment of US$ 36.0 billion in financial year 2014. Foreign direct investment in India through the Foreign Investment Promotion Board (FIPB) route moved upward by 26 percent i.e. foreign direct investment of US$ 31.9 billion in the financial year 2015 as against US$ 25.3 billion in the former year. The government's efforts for bringing in the conducts of business without complications and relaxation in the norms of foreign direct investment is yielding results. According to the data released by Grant Thornton India, the total merger and acquisitions (M&A) and private equity (PE) deals in the month of August 2015 were151 deals amounting to US$ 2.6 billion. The value was 62 percent higher than the volume of August 2014.

In 2013, the government of India relaxed foreign direct investment norms in several sectors such as telecom, defence, Public Sector Undertaking oil refineries, power exchanges and stock exchanges. In retail, UK based Tesco applied for initial investment of US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia based Air Asia and Singapore Airlines formed a team with Tata Group to launch two new airline services. Further, stake accounting of 24 percent of Jet Airways worth over Rs 2, 000 crore (US$ 319.39 million) sold to Abu Dhabi based Etihad during the financial year 2012–13, India attracted FDI worth US$ 22.42 billion. Sectors such as tourism, pharmaceuticals, services, chemicals and construction were among the biggest FDI attractive sectors.

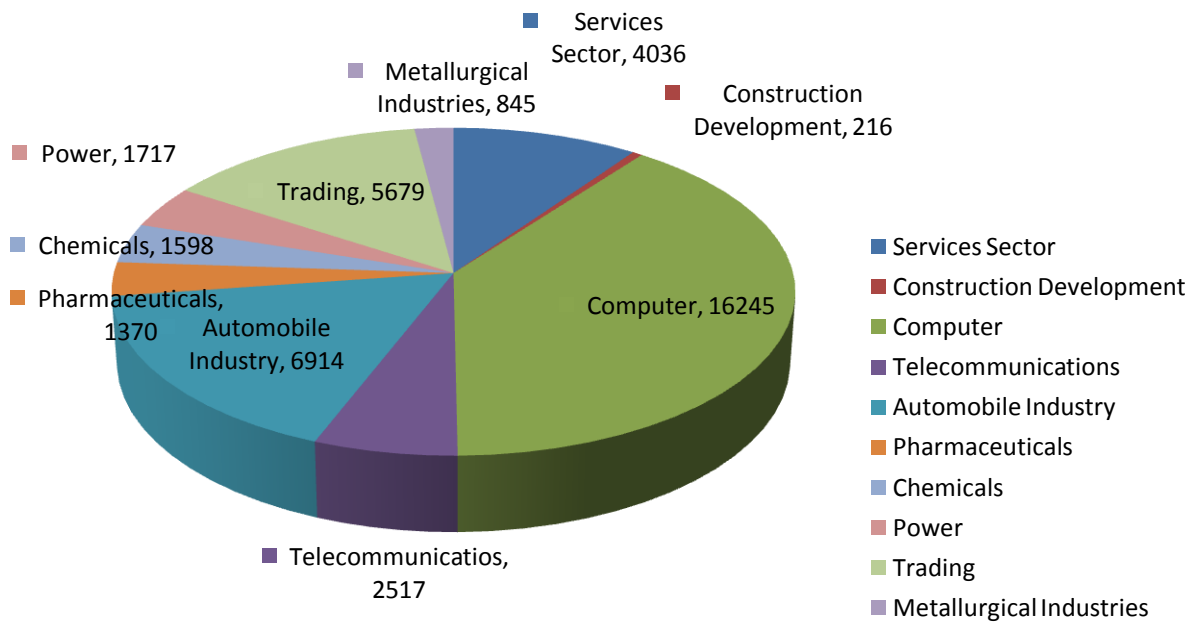

Figure 1: Sectors attracting highest foreign direct investment equity inflows
2015-16 (April, 2015-June, 2015)
Amount rupees in crores

The above pie chart indicates the sectors which have been committed by the foreign investors during April, 2015 to June, 2015. Among the top priority sectors, computer software and hardware got the highest foreign direct investment equity inflows amounting to rupees 16,245 crores in the stated period. The service sector in figure 1 includes financial, banking, insurance, non-financial/business, outsourcing, research and development, courier, tech. testing & analysis. The service sector of India acquired foreign direct investment equity inflows of rupees 4,036 crores.

As per the fact sheet on foreign direct investment dated October, 2010, Mauritius is the highest foreign direct investor in equity inflows with 42 percent of the total inflows followed by Singapore 9 percent, USA 7 percent, UK 5 percent and Netherlands 4 percent. Service sector is the highest foreign direct investment attracting sectors with 21 percent of the total inflows, followed by computer software and hardware, telecommunication and housing & real estate with 9 percent, 8 percent, 7 percent and 7 percent inflows respectively. A recent survey conducted by UNCTAD (United Nations Conference on Trade and Development) during the period 2010-2015 projected India as the second most important FDI destination after China for transnational corporations. Services, telecommunication, construction activities, computer software and hardware & automobile are major sectors which attracted higher foreign direct investment inflows in India. Countries like Mauritius, Singapore, US & UK were among the top foreign investors of India.

Sl. No.	Country	2015-16 (April,2015- June, 2015)
1	Mauritius	13,236 (2,089)
2	Singapore	23,320 (3,673)
3	U.K.	755 (119)
4	Japan	2,916 (459)
5	Netherlands	4,123 (652)
6	U.S.A.	3,959 (627)
7	Germany	608 (96)
8	Cyprus	877 (138)
9	France	877 (138)
10	Switzerland	598 (94)

Table 1: List of top investing countries for foreign direct investment equity inflows
Amount rupees in crores (US$ in million)

Table 1 highlights the top foreign direct investors with investment amount for the period April, 2015- June, 2015. The country received foreign direct investment equity inflows of rupees 23,320 crores (US $ 3,673 million) from Singapore and rupees 755 crores (US $119) from U.K.

Korean South-East Power Company (KOSEP), part of South Korean state-owned power generator Korea Electric Power Corporation has signed an agreement with Jinbhuvish Group of Mumbai in order to sanction technical support worth Rupees 3, 450 crore (US$ 549.31 million) project in Maharashtra. The 600 megawatt power plant planned to be set up in Yavatmal district is expected to be commissioned in 2016.

India collaborated with United Arab Emirates in renewable energy, emphasizing in the arena of wind power and solar energy. A Memorandum of Understanding (MoU) was signed by Dr Farooq Abdullah, Minister of New and Renewable Energy of India & Dr Sultan Ahmed Al Jaber, Minister of State of UAE in Abu Dhabi on 18th January, 2014. Based on the recommendations of Foreign Investment Promotion Board (FIPB) of December 30, 2013, the government of India has agreed in to five foreign direct investment proposals amounting to Rupees 1133.41 crore (US$ 180.16 million) approximately. On November 13, 2013, Foreign Investment Promotion Board had approved 12 proposals of foreign direct investment amounting to Rupees 821.63 crore (US$ 130.73 million) approximately. The Foreign Investment Promotion Board has also approved proposal of Swedish clothing major Hennes & Mauritz (H&M) AB for opening 50 stores across the country amounting to around Rupees 720 crore (US$ 114.61 million).

S. No	RBI's-Regional office	State covered	2013-2014 (April-March)	2014-2015 (April-March)	2015-2016 (April,15-June,15)
1	Mumbai	Maharashtra, Dadra& Nagar Haveli, Daman & DIU	20,595 (3,420)	38,933 (6,361)	12,538 (1,979)
2	New Delhi	Delhi, Part of Up & Haryana	38,190 (6,242)	42,252 (6875)	19,892 (52,539)
3	Chennai	Tamil Nadu, Pondicherry	12,595 (2116)	23361 (3818)	5828 (924)
4	Bangalore	Karnataka	11,422 (1,892)	21,255 (3444)	8,447 (1336)
5	Ahmedabad	Gujarat	5,282 (860)	9,416 (1,531)	4.732 (745)
6	Hyderabad	Andhra Pradesh	4,024 (678)	8,447 (1,336)	90,595 (17,038)
7	Kolkata	West Bengal, Sikkim, Andaman &Nicobar Islands	2,659 (436)	1,464 (239)	689 (108)
8	Chandigarh	Chandigarh, Punjab, Haryana, Chattisgarh	562 (91)	234 (39)	91 (14)
9	Jaipur	Rajasthan	233 (38)	3,237 (541)	109 (17)
10	Bhopal	Madhya Pradesh, Chattisgarh	708 (119)	601 (100)	9 (2)

Table 2: Statement on Reserve Bank of India's regional offices (along with state covered) received foreign direct investment equity inflows (from April, 2013 to June, 2015)

Amount rupees in crores (US$ in million)

The table displays foreign direct investment equity inflows in regional offices of Reserve Bank of India. Only ten regional offices have been highlighted during April, 2013 to June, 2015. Ahmedabad regional office of Reserve Bank of India acquired foreign direct investment equity inflows of US $ 860 on the period April, 2013 to 14 and US $ 1,531.

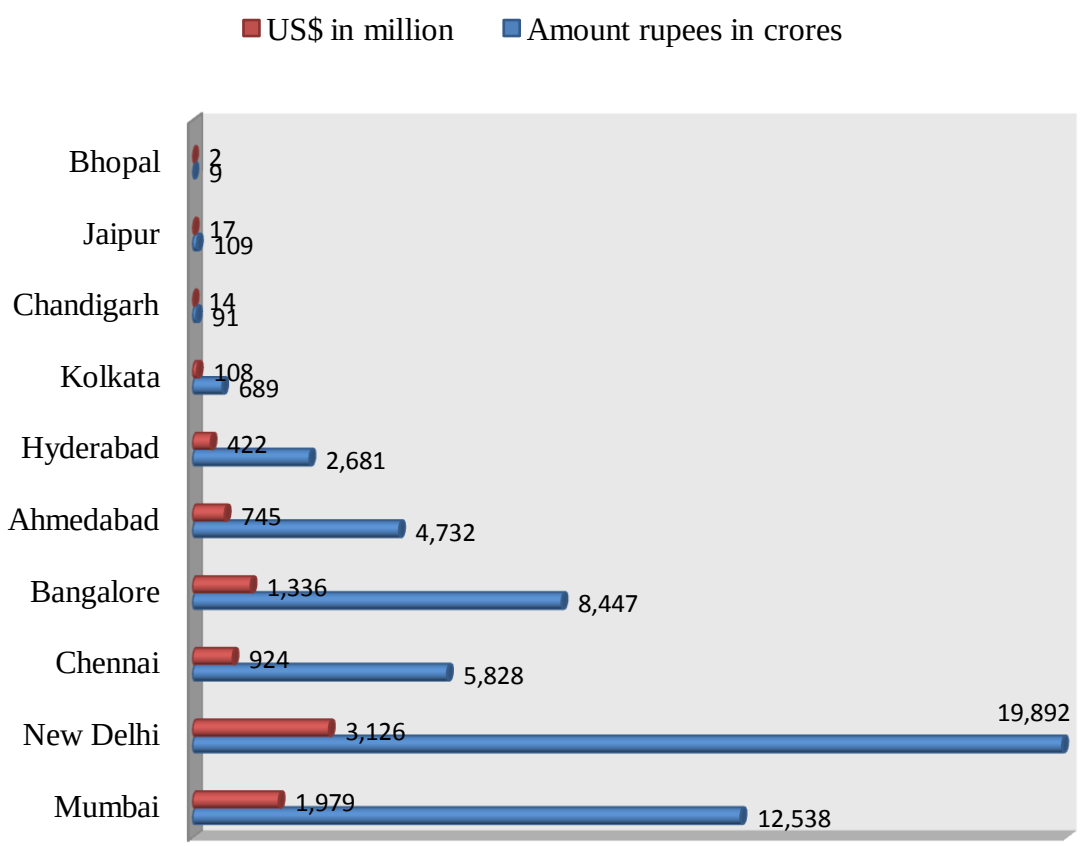

Figure 2: Reserve Bank of India's regional offices received foreign direct investment equity inflows during April, 2015-June, 2015

The above figure denotes Reserve Bank of India's regional offices receiving foreign direct investment equity inflows during April, 2015 to June, 2015. New Delhi regional office of Reserve Bank of India had received foreign direct investment equity inflows of rupees 19,892 crores (US $3,128) and rupees 5,828 crores (US $924) in Chennai regional office.

As per the recommendations of a meeting held on September 29, 2015, the Foreign Investment Promotion Board (FIPB), the Government of India approved 18 proposals of Foreign Direct Investment amounting to approximately Rupees 5,000 crore (US$ 770 million).

Some of the recent significant Foreign Direct Investment announcements may be listed as below:

- Japan has won the right to construct the first bullet train of India by offering a loan of US$ 8.11 billion.
- Chinese mobile handset maker, Coolpad Group Limited has invested US$ 300 million for setting up a Research & Development centre and its own assembly line in India by 2017.
- Amazon India flourished its logistics footprint three times to more than 2,100 cities and towns in 2015. Amazon.com invested more than US$ 700 million in its India operations since July 2014.
- Indian Railways has issued a Letter of Award (LoA) to US-based General Electric (GE) for Rupees 14,656 crore (US$ 2.2 billion) diesel locomotive factory project at Marhowra, and to French transport major Alstom for

Rupees 20,000 crore (US$ 3 billion) electric locomotive project in Madhepura, Bihar.

- The Government of Karnataka has signed an agreement with the Taiwan Electrical & Electronic Manufacturers Association for creating a Taiwanese electronic manufacturing cluster near Bengaluru airport with an expected investment of Rupees 3,200 crore (US$ 500 million).
- A multinational Korean steel company, Posco Korea has signed an agreement with Shree Uttam Steel and Power –a part of Uttam Galva Group to set up a steel plant at Satarda, Maharashtra.

Modification in the Policy of India's Foreign Direct Investment

Foreign Investment in India is governed by the Foreign Direct Investment Policy announced by the Government of India and the provisions of the Foreign Exchange Management Act (FEMA), 1999. The Reserve Bank of India had issued a notification, which contains the Foreign Exchange Management Regulations, 2000 regarding transfer or issue of security by a person resident outside India. This notification has been amended from time to time. Department of Industrial Policy & Promotion (DIPP) under the Ministry of Commerce and Industry, Government of India is the nodal agency for supervising and reviewing the FDI policy on continued basis. The FDI policy is notified through Press Notes/ Policy Circulars by the Secretariat for Industrial Assistance (SIA) and Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry. FDI is allowed under Direct Route and Government.

Foreign Exchange Management Act (FEMA), 1999 replaced the Foreign Exchange Regulation Act (FERA), 1973. In 1997, Indian Government allowed 100% FDI in cash and carry wholesale and FDI in single brand retailing was allowed 51% in June, 2006. After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing. The government of India is in the process of liberalizing norms of foreign direct investment in construction activities and railways such as roads, airports and ports to fulfill the target of fund requirement of around US$ 1 trillion during the 12th Five-Year Plan period i.e. 2012–17. The announcements of Industrial Policy, 1980 and 1982 & Technology Policy, 1983 provided a liberal attitude towards changes to be made in the policies of foreign investments. The policy was described by de-licensing of some of the industrial rules & promotion of Indian manufacturing exports as well as emphasizing on modernization of industries through liberalized imports of capital goods & technology. It was supported by trade liberalization measures such as tariff reduction and transferring huge number of items from import licensing to Open General Licensing.

Foreign Direct Investment in Real Estate

Due to weak economy and regulatory concerns of India, foreign direct investment inflows in construction (townships, housing and construction development) have been worsening since the financial year 2012. Foreign direct investment in construction development was US$1,332 million in financial year 2012 and declined to US$1,226 million in financial year 2014. The Union Cabinet has approved the proposal of the Department of Industrial Policy and Promotion to relax existing performance-linked conditions. It might comprise of:

- Built-up area to be reduced from existing 50,000 sq.m. to 20,000 sq.m.
- Minimum capitalization reduced from US$10 million to US$5 million with a three-year post- completion lock-in period.

Post-Liberalization Period

A major shift occurred when India entered into economic liberalization and reforms program in 1991 focusing on increasing growth potential and also integrating with the world economy. Industrial policy reformed and removed restrictions on investment projects and allowed increased access to foreign technology & funding.

A series of measures taken up towards liberalizing foreign investment included:

- Introduction of dual route of approval for foreign direct investment– Reserve Bank of India's automatic route and Government's approval (SIA, Secretariat for Industrial Assistance / FIPB, Foreign Investment Promotion Board) route.
- Not only automatic permission of technology agreements in case of high priority industries and removal of restriction of foreign direct investment in low technology areas but also liberalization of technology imports.
- Allowed Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 percent in high priorities sectors.
- Rose in the foreign equity participation limits to 51 percent for existing companies and liberalization of the use of foreign 'brands name'.
- Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign Investors.

Conclusion

India's Foreign Direct Investment (FDI) policy has been slowly liberalized in order to make friendly market for foreign investors. In view of this, Foreign Exchange Management Act (FEMA), 1999 replaced the Foreign Exchange Regulation Act (FERA), 1973. The approved proposals of the Government of India have been yielding. As per the report of United Nations, the country is consistently ranked among the top three foreign investment destinations by entire international bodies including the World Bank. Countries like Mauritius, Singapore, US & UK are one of the top foreign investors in India.

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