An Analysis of Upsurge in FDI Inflows to India

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Abstract

Developing economies like India need substantial foreign investments so as to fill in the gap between domestic savings and the investment opportunities, which in turn accelerates economic growth and development. But the global investment picture is troubling year by year underscoring the importance of a conductive global investment environment, characterized by open, transparent and non-discriminatory investment policies. Global foreign direct investment (FDI) flows fell by 23 per cent to $1.43 trillion in the year 2017. The Indian government's favorable business and policy environment along with special privileges given to foreign investors ensures the continuous flow of foreign capital in the country. FDI helps in getting not only the foreign capital but also advanced technical know-how. The paper aims at understanding the current business environment or the policies in force and the incentives that are given to attract foreign investment inflows in India. The current position of India in terms of its ranking and foreign investment inflows has been discussed with laying emphasis on the trend of inflows over past five years.

Keywords: *FDI, inflows, development, growth, trend, doing business*

Introduction

India is one of the fastest growing economies of the world. It has been ranked among the top 10 attractive destinations for inbound investments. Since 1991, efforts are being made to ease the regulatory environment in terms of foreign investment and to make it more investor-friendly. The main aim of the 'Make in India' programme is also to attract foreign investments into the country. The Indian government's favorable business and policy environment along with special privileges given to foreign investors ensures the continuous flow of foreign capital in the country. Foreign Direct Investment (FDI) is a major contributor to the economic growth and development of India. FDI helps in getting not only the foreign capital but also advanced technical know-how.

Many measures have been taken by the Government to make available new sectors for foreign direct investment, increasing the sectoral limit of existing sectors and simplifying the other conditions of the FDI policy. FDI policy reforms are meant to provide ease of doing business and accelerate the pace of foreign investment in the country.

Recent policy measures or reforms to encourage FDI

- 49% FDI has been permitted in Insurance and Pension sector under automatic route.
- Foreign investment up to 49% in defense sector has been permitted under automatic route. The foreign investment in access of 49% has been allowed on case to case basis with Government approval.
- FDI up to 100% has been permitted in Teleports, Direct to Home, Cable Networks, and Mobile TV under automatic route.
- FDI up to 100% has been permitted under automatic route in Up-linking of Non-'News & Current Affairs' TV Channels, Down-linking of TV Channels.
- In case of single brand retail trading of 'state-of-art' and 'cutting-edge technology' products, sourcing norms can be relaxed for up to three years and sourcing regime can be relaxed for another 5 years subject to Government approval.
- Foreign equity cap of activities of Non-Scheduled Air Transport Service, Ground Handling Services has been increased from 74% to 100% under the automatic route.
- 100% FDI under automatic route has been permitted in Brownfield Airport projects.
- FDI limit for Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and regional Air Transport Service raised to 100%, with FDI upto 49% permitted under automatic route and FDI beyond 49% through Government approval.
- Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and nonscheduled air transport services up to the limit of 49% of their paid up capital.
- 100% FDI under Government route has been permitted for retail trading, including through e-commerce, in respect of food products manufactured and/or produced in India.
- 100% FDI has been allowed in Asset Reconstruction Companies under the automatic route.
- 74% FDI has been permitted under automatic route in brownfield pharmaceuticals. FDI beyond 74% will be allowed through government approval route.
- FDI limit for Private Security Agencies has been raised to 74% (49% under automatic route, beyond 49% and upto 74% under government route).
- Requirement of 'controlled conditions' for FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture has been waived off.
- Certain plantation activities namely; coffee, rubber, cardamom, palm oil tree and olive oil tree plantations has opened for 100% foreign investment under automatic route.

Incentives given by government to encourage FDI in India

Incentives provided by Centre government:

- Investment allowance (additional depreciation) at the rate of 15 percent is given to manufacturing companies that invest more than INR 1 billion in plant and machinery available till to 31.3.2015.
- Incentives available to unit's set-up in Special Economic Zones (SEZ), National Investment & Manufacturing Zones (NIMZ) etc. and Export Oriented Units (EOUs).

- Exports incentives like duty drawback, duty exemption/remission schemes, focus products & market schemes etc. are given.
- Areas based incentives for unit set-up in north east region, Jammu & Kashmir, Himachal Pradesh, Uttarakhand are given.
- Sector specific incentives like Modified Special Incentive Package Scheme (M-SIPS) in electronics are given.

  Incentives provided by State government:

  Each state government has its own incentive policy, which offers various types of incentives based on the amount of investments, project location, employment generation, etc. The incentives differ from state to state and are generally laid down in each state's industrial policy. The broad categories of state incentives include: stamp duty exemption for land acquisition, refund or exemption of value added tax, exemption from payment of electricity duty etc.

World Bank's doing Business Report 2019

Doing Business 2019 measures the processes for business incorporation, getting a building permit, obtaining an electricity connection, transferring property, getting access to credit, protecting minority investors, paying taxes, engaging in international trade, enforcing contracts and resolving insolvency.

Improvement over last two years in Ease of Doing Business

As per the World Bank's Doing Business 2019 Report, India once again made significant strides, with a jump of 23 places to reach Rank 77 out of 190 economies. This jump is even more significant than India's 30 place jump last year, which had bought it to Rank 100. India is now the best ranked country in the South Asian region.

Massive jump over last four years in Rank indicating the improvement of the nation

World Bank once again recognized India as one of the top 10 improvers, for the second year in a row. India has improved by 53 positions in the last two years, and 65 positions in the last four years. India is the first South Asian and BRICS nation to have achieved this.

Key indicators where India improved its Rank in 2018

India improved its rank in 6 of the 10 indicators measured by World Bank. The 2 most significant improvements were those in the indicators for Construction Permits (Jump of 129 spots to rank 52), and for Trading Across Borders (Jump of 80 spots to rank 66). The indicators where India gained ground are Starting a Business, Getting Credit, Getting Electricity and Enforcing Contracts.

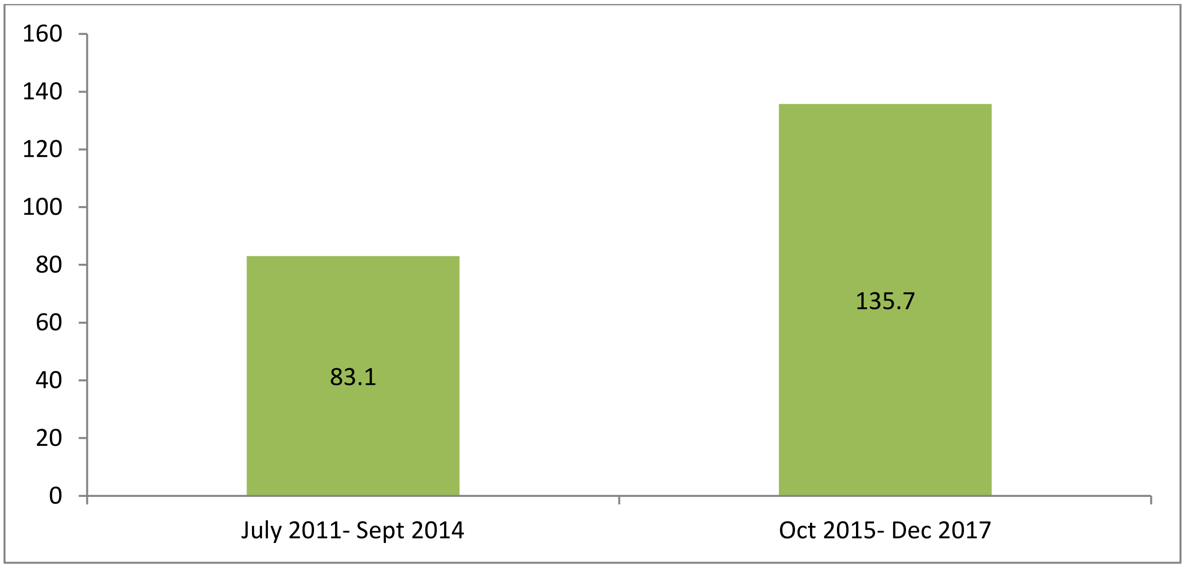
- India streamlined the process of obtaining a building permit and made it faster and less expensive to obtain a construction permit. India also reduced the time and cost to export and import through various initiatives, including the implementation of electronic sealing of containers, the upgrading of port infrastructure and allowing electronic submission of supporting documents with digital signatures.
- The continued relentless drive by the Government to push hard regulations and reforms in order to improve the business climate of the country is validated by India's consistent improvement

over the last few years. India's Distance to Frontier (DTF) score, a measure to how close a country is to global best practices, has been improving consistently since the last few years.

Growth in FDI Inflows

Since the initiation of the Make in India Campaign, the FDI equity inflows to India have seen a sharp rise.

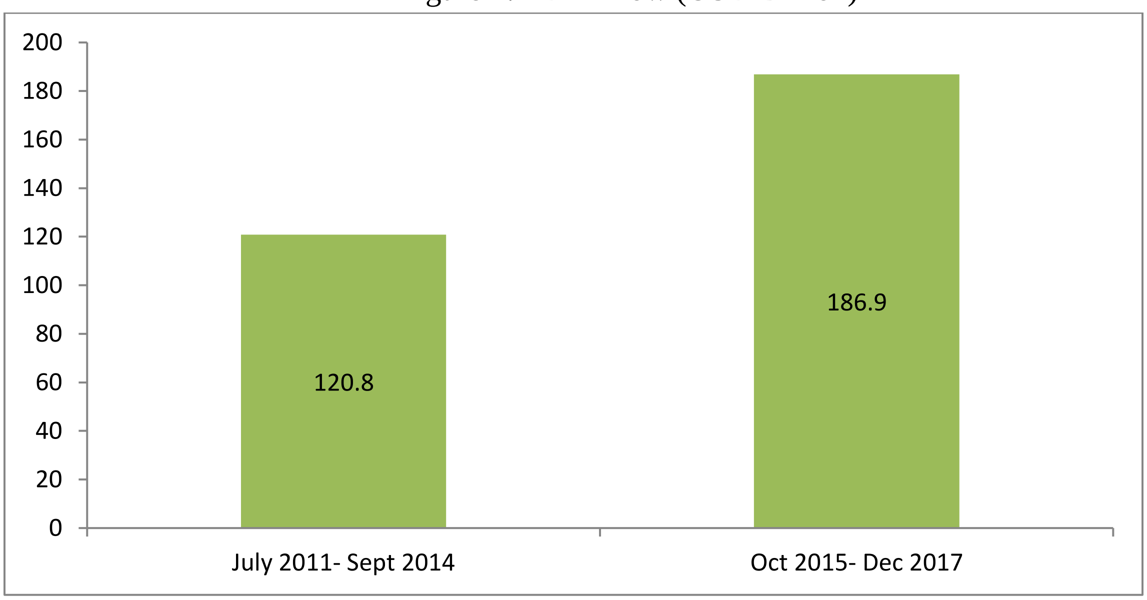
Figure 1: FDI Equity Inflow (IN USD Billion)



(Source: Make in India Website)

The status of overall FDI Inflow has also improved. This is primarily because of the investment intensive policies adopted by the government.

Figure 2: FDI Inflow (USD Billion)



(Source: Make in India Website)

Since the launch of Make in India, FDI in India has followed an extremely positive trend. FDI inflow from April 2014 to December 2017 (USD 208.99 billion) is 39.24% of the overall FDI received in the country since April 2000 (USD 532.552 billion). For the first time, India crossed the USD 50 Billion mark in FY 2015 - 16 with USD 55.45 Billion in FDI, due to the investment friendly policies and opening up of FDI allowance in various sectors. The highest FDI inflow of USD 60.8 Billion in 2016 - 17, was also witnessed during this period. (Source: Make in India website)

Country Wise and Industry Wise Foreign Direct Investment Flows to India

The Foreign Direct Investment Flows to India have been consistently on rise from the year 2013-14. There has been a 132.75% rise in the Foreign Direct Investment Flows to India in the year 2017-18 as compared to the year 2013-14. It can also be observed from the table that over the past 5 years, India has received the maximum FDI from Mauritius and Singapore. The combined share of FDI by these two countries has been more than 50% of the total FDI over the past 5 years.

Table 1: Country-wise Foreign Direct Investment Flows to India (In US$ million)

Source	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (Provisional)**
Total FDI	16,054	24,748	36,068	36,317	37,366
Country-Wise Inflows					
Mauritius	3,695	5,878	7,452	13,383	13,415
Singapore	4,415	5,137	12,479	6,529	9,273
Netherlands	1,157	2,154	2,330	3,234	2,677
USA	617	1,981	4,124	2,138	1,973
Japan	1,795	2,019	1,818	4,237	1,313
Cayman Islands	25	72	440	49	1,140
Germany	650	942	927	845	1,095
Hong Kong	85	325	344	134	1,044
United Kingdom	111	1,891	842	1,301	716
Switzerland	356	292	195	502	506
UAE	239	327	961	645	408
France	229	347	392	487	403
China	121	505	461	198	350
Italy	185	167	279	364	308
South Korea	189	138	241	466	293
Cyprus	546	737	488	282	290
Canada	11	153	52	32	274
Others	1,626	1,682	2,243	1,490	1,889
Note: Includes FDI through SIA/FIPB and RBI routes only.					

(Source: RBI Annual Report)

If we look at the FDI inflows according to the sector they invest in, Communication services sector and the manufacturing sector have been the achievers of getting the maximum FDI. This is a reason for concern too as the inflows in the service sector do not contribute towards the inflow of some new technology or doesn't lead to enhancement of manufacturing production.

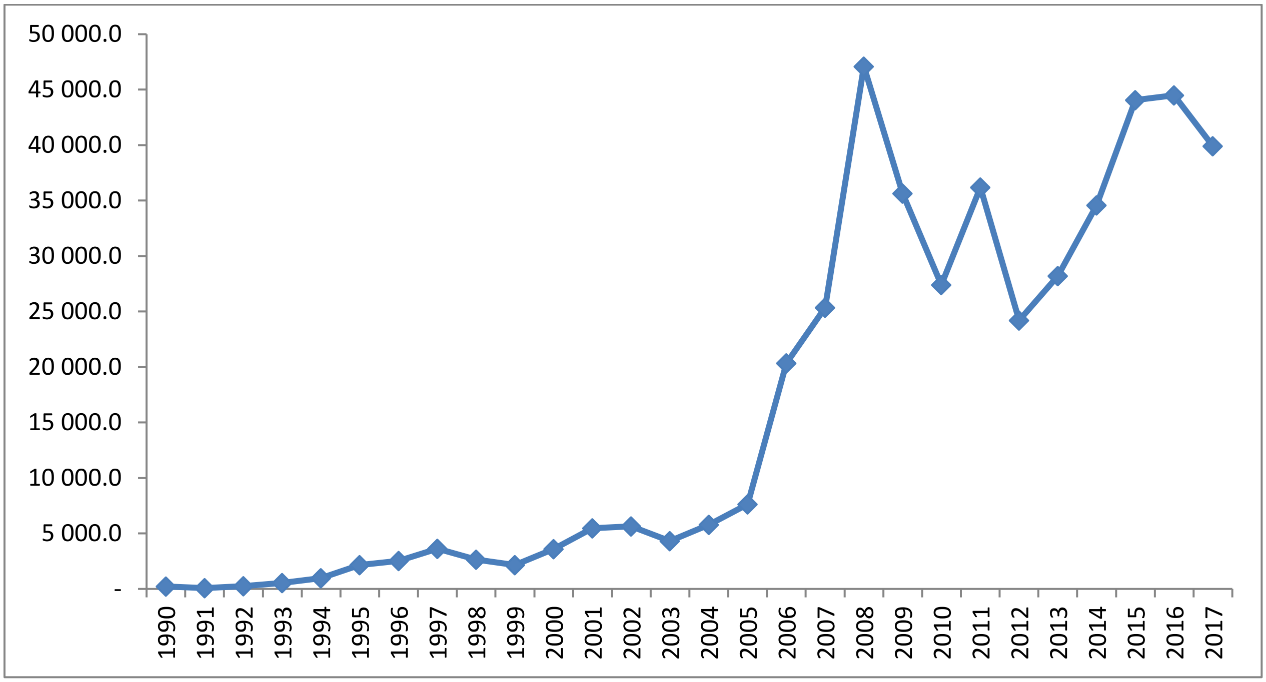
Table 2: Industry-wise Foreign Direct Investment Flows to India (In US$ million)

Source	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18 (Provisional)**
Total FDI	16,054	24,748	36,068	36,317	37,366
Sector-wise Inflows					
Communication Services	1,256	1,075	2,638	5,876	8,809
Manufacturing	6,381	9,613	8,439	11,972	7,066
Retail & Wholesale Trade	1,139	2,551	3,998	2,771	4,478
Financial Services	1,026	3,075	3,547	3,732	4,070
Computer Services	934	2,154	4,319	1,937	3,173
Business services	521	680	3,031	2,684	3,005
Electricity and other energy Generation, Distribution & Transmission	1,284	1,284	1,364	1,722	1,870
Construction	1,276	1,640	4,141	1,564	1,281
Transport	311	482	1,363	891	1,267
Miscellaneous Services	941	586	1,022	1,816	835
Restaurants and Hotels	361	686	889	430	452
Real Estate Activities	201	202	112	105	405
Education, Research & Development	107	131	394	205	347
Mining	24	129	596	141	82
Trading	0	228	0	0	0
Others	293	232	215	470	226
Note: Includes FDI through SIA/FIPB and RBI routes only.					

(Source: RBI Annual Report)

Foreign Direct Investment (FDI) is a major contributor to the economic growth and development of India. The Indian government's favorable business and policy environment along with special privileges given to foreign investors ensures the continuous flow of foreign capital in the country. FDI helps in getting not only the foreign capital but also advanced technical know-how.

FDI Inflows in India (In Million Dollars)



(Source: UNCTAD World Investment Report 2018)

As per the UNCTAD World Investment Report 2018, the FDI inflows to India have seen a steep rise in the past decade. However, huge fluctuation can also be observed in these past 10 years which depends on the business policies in India as well as those all over the world.

Conclusion

India ranks third in terms of preferred investment destination after China and the United States. It has emerged as one of the most attractive destination not only for investment but also for doing business in the recent years. Businesses around the world do not like to miss the growth opportunities offered by one of the fastest growing economies in the world and hence some of them are already stepping up their investments and rest eying India for investments in coming years. For the first time in two decades, India has been getting more foreign investment than China. In 2018, India saw more than $38 billion of inbound deals compared with China's $32 billion. Global investors typically focus on India despite short-term uncertainty over the political climate. Inbound interest will remain strong as India continues to be a critical growth market with its billion plus demographic advantage for investors from the US as well as China.

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