



# FDI Flow in Indian Economy

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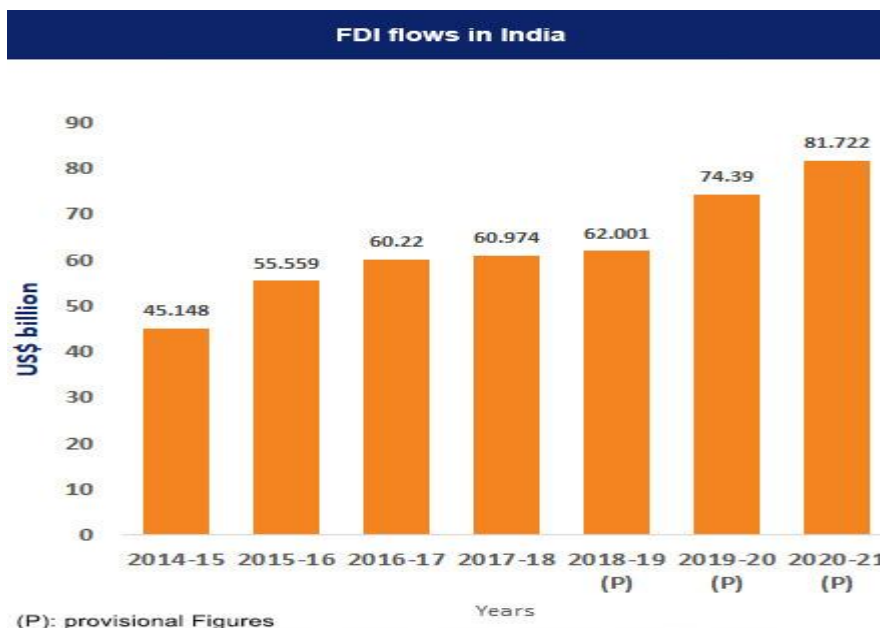
**ABSTRACT:** Foreign Direct Investment (FDI), in addition to being a key driver of economic growth, has been a significant non-debt financial resource for India's economic development. Foreign corporations invest in India to benefit from the country's particular investment privileges such as tax breaks and comparatively lower salaries. This helps India develop technological know-how and create jobs as well as other benefits. These investments have been coming into India because of the government's supportive policy framework, vibrant business climate, rising global competitiveness and economic influence.

The government has recently made numerous efforts, including easing FDI regulations in various industries, PSUs, oil refineries, telecom and defence. India's FDI inflows reached record levels during 2020-21. The total FDI inflows stood at US\$ 81,973 million, a 10% increase over the previous financial year. According to the World Investment Report 2020, India was ranked eighth among the world's major FDI recipients in 2020, up from ninth in 2019. Information and technology, telecommunication and automobile were the major receivers of FDI . With the help of significant transactions in the technology and health sectors, multinational companies (MNCs) have pursued strategic collaborations with top domestic business groupings, fuelling an increase in cross-border M&A of 83% to US\$ 27 billion.

**KEYWORDS:** FDI, Indian, Economy, Development, Government, Telecommunication, Domestic, Framework, Sectors

## I. INTRODUCTION

India's FDI inflows have increased 20 times from 2000-01 to 2020-22. According to the Department for Promotion of Industry and Internal Trade (DPIIT), India's cumulative FDI inflow stood at US\$ 871.01 billion between April 2000-June 2020; this was mainly due to the government's efforts to improve the ease of doing business and relax FDI norms.[1,2,3] The total FDI inflow into India from January to March 2020 stood at US\$ 22.03 billion, while the FDI equity inflow for the same period was US\$ 15.59 billion. From April 2020-March 2020, India's computer software and hardware industry attracted the highest FDI equity inflow amounting to US\$ 14.46 billion, followed by the automobile industry at US\$ 6.99 billion, trading at US\$ 4.53 billion and construction activities at US\$ 3.37 billion. India also had major FDI flows coming from Singapore at US\$ 15.87 billion, followed by the US (US\$ 10.54 billion), Mauritius (US\$ 9.39 billion) and the Netherlands (US\$ 4.62 billion). The state that received the highest FDI during this period was Karnataka at US\$ 22.07 billion, followed by Maharashtra (US\$ 15.43 billion), Delhi (US\$ 8.18 billion), Gujarat (US\$ 2.70 billion) and Haryana (US\$ 2.79 billion). In 2020 (until August 2020) India received 811 Industrial Investment Proposals which were valued at Rs. 352,697 crores (US\$ 42.78 billion).





India has become an attractive destination for FDI in recent years, influenced by various factors which have boosted FDI. India ranked 68th in the Global Competitive Index; the economy showed significant resilience during the pandemic. India was also named as the 48th most innovative country among the top 50 countries. These factors have boosted FDI investments in India. Some of the recent investments are as follows:

- From April-June 2020, India's Computer Software & Hardware industry received and FDI investments of US\$ 3,427 million.[5,7,8]
- In May 2020, India received FDI investments of Rs. 494 crore (US\$ 61.91 million) in the defence manufacturing sector.
- In May 2020, Italian financial services major Generali completed the acquisition of a 25% stake in Future Generali India Insurance from Future Enterprises for Rs. 1,252.96 crore (US\$ 161.92 million).
- In May 2020, GenWorks Health secured a second round of funding worth Rs. 135 crore (US\$ 17.44 million) from a consortium of investors, including Somerset Indus Capital Partners, Morgan Stanley, through its funding arm Grand Vista, Evolve and Wipro GE.
- In May 2020, Topyne, a Software-as-a-Service (SaaS) start-up, raised US\$ 15 million in a funding round led by Tiger Global and Sequoia Capital India.
- In May 2020, Kiranakart Technologies Pvt. Ltd, which runs the 10-minute grocery delivery platform Zepto, raised US\$ 200 million in a Series D funding round led by Y Combinator's Continuity Fund, which valued it at US\$ 900 million.
- In May 2020, KoinBasket, a thematic crypto investment start-up, raised US\$ 2 million in a pre-seed funding round.
- In May 2020, Invictus Insurance Broking Services Pvt. Ltd, which runs insurtech platform Turtlemint Insurance Services Pvt. Ltd, raised US\$ 120 million in a Series E funding round led by Amansa Capital, Jungle Ventures and Nexus Venture Partners.
- In May 2020, Jaipur-based online furniture and home decor platform Woodenstreet.com raised around US\$ 30 million in a Series B funding round led by WestBridge Capital.
- In May 2020, B2B cross-border tech platform Geniemode received US\$ 28 million in a Series B funding round led by Tiger Global and Info Edge Ventures.
- In January 2020, Google announced a US\$ 1 billion investment in Indian telecom Bharti Airtel, which includes an equity investment of US\$ 700 million for a 1.28% stake in the company, and US\$ 300 million for a potential future investment in areas such as smartphone access, networks and the cloud.
- In 2020, India received R&D investments of Rs. 343.64 million (US\$ 4.35 million); this was 516% higher compared to the previous calendar year.
- Canada's pension fund investment board invested Rs. 1,200 crore (US\$ 160.49 million) as an anchor investor in the IPO of multiple[9,10,11] Indian companies: One97 Communications (Paytm), Zomato, FSN E-Commerce Ventures (Nykaa) and PB Fintech.
- The FDI in India's renewable energy sector stood at US\$ 1.03 billion

## **II. DISCUSSION**

In recent years, India has become an attractive destination for FDI because of favourable government policies. India has developed various schemes and policies that have helped boost India's FDI. These schemes have prompted India's FDI investment, especially in upcoming sectors such as defence manufacturing, real estate, and research and development. Some of the major government initiatives are:



- The Government of India increased FDI in the defence sector by increasing it to 74% through the automatic route and 100% through the government route.
- The government has amended rules of the Foreign Exchange Management Act (FEMA), allowing up to 20% FDI in insurance company LIC through the automatic route.
- The government is considering easing scrutiny on certain FDI's from countries that share a border with India.
- The implementation of measures such as PM Gati Shakti, single window clearance and GIS-mapped land bank are expected to push FDI inflows in 2020.[12,13,15]
- The government is likely to introduce at least three policies as part of the Space Activity Bill in 2020. This bill is expected to clearly define the scope of FDI in the Indian space sector.
- In September 2020, India and the UK agreed for an investment boost to strengthen bilateral ties for an 'enhanced trade partnership'.
- In September 2020, the Union Cabinet announced that to boost the telecom sector, it will allow 100% FDI via the automatic route, up from the previous 49%.
- In August 2020, the government amended the Foreign Exchange Management (non-debt instruments) Rules, 2019, to allow the 74% increase in FDI limit in the insurance sector.

India has recently become a major global hub for FDI's. According to a survey, India was among the top three global FDI destinations; about 80% of the global respondents had plans to invest in India. Furthermore, in recent years, India has provided huge corporate tax cuts and simplified labour laws. The country has also reduced its restrictions on FDI; overall FDI restrictions have reduced from 0.42 to 0.21 in the last 16 years. India has remained an attractive market for international investors in terms of short- and long-term prospects. India's low-skill manufacturing is one of the most promising industries for FDI. India has also developed excellent government efficiency. Its developments in government efficiency are primarily due to relatively stable public finances (despite COVID-induced challenges) and optimistic sentiment among Indian business stakeholders concerning the funding and subsidies offered by the government to private firms. All these factors together may help India attract FDI worth US\$ 120-160 billion per year by future.

### III. RESULTS

Foreign direct investment (FDI) is an investment made by a company or an individual in one country into business interests located in another country. FDI is an important driver of economic growth.

Any investment from an individual or firm that is located in a foreign country into a country is called Foreign Direct Investment.

- Generally, FDI is when a foreign entity acquires ownership or controlling stake in the shares of a company in one country, or establishes businesses there.
- It is different from foreign portfolio investment where the foreign entity merely buys equity shares of a company.
- In FDI, the foreign entity has a say in the day-to-day operations of the company.[17,18,19]
- FDI is not just the inflow of money, but also the inflow of technology, knowledge, skills and expertise/know-how.
- It is a major source of non-debt financial resources for the economic development of a country.
- FDI generally takes place in an economy which has the prospect of growth and also a skilled workforce.
- FDI has developed radically as a major form of international capital transfer since the last many years.
- The advantages of FDI are not evenly distributed. It depends on the host country's systems and infrastructure.
- The determinants of FDI in host countries are:
- Policy framework
- Rules with respect to entry and operations/functioning (mergers/acquisitions and competition)



- Political, economic and social stability
- Treatment standards of foreign affiliates
- International agreements
- Trade policy (tariff and non-tariff barriers)
- Privatisation policy[20,21,22]

Foreign Direct Investment (FDI) in India – Latest update

1. From April to August 2020, total Foreign Direct Investment inflow of USD 35.73 billion was received. It is the highest ever for the first 5 months of a financial year. FDI inflow has increased despite Gross Domestic Product (GDP) growth contracted 23.9% in the first quarter (April-June 2020).
2. FDI received in the first 5 months of 2020-21 (USD 35.73 billion) is 13% higher as compared to the first five months of 2019-20 (USD 31.60 billion).

FDI in India

The investment climate in India has improved tremendously since 1991 when the government opened up the economy and initiated the LPG strategies.

- The improvement in this regard is commonly attributed to the easing of FDI norms.
- Many sectors have opened up for foreign investment partially or wholly since the economic liberalization of the country.
- Currently, India ranks in the list of the top 100 countries in ease of doing business.
- In 2019, India was among the top ten receivers of FDI, totalling \$49 billion inflows, as per a UN report. This is a 16% increase from 2018.
- In February 2020, the DPIIT notifies policy to allow 100% FDI in insurance intermediaries.
- In April 2020, the DPIIT came out with a new rule, which stated that the entity of any company that shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of such a country can invest only under the Government route. In other words, such entities can only invest following the approval of the Government of India[8,9,10]

FDI Routes in India

There are three routes through which FDI flows into India. They are described in the following table:

Category 1	Category 2	Category 3
100% FDI permitted through Automatic Route	Up to 100% FDI permitted through Government Route	Up to 100% FDI permitted through Automatic + Government Route

Automatic Route FDI

In the automatic route, the foreign entity does not require the prior approval of the government or the RBI.

Examples:

- Medical devices: up to 100%



- Thermal power: up to 100%
- Services under Civil Aviation Services such as Maintenance & Repair Organizations
- Insurance: up to 49%
- Infrastructure company in the securities market: up to 49%
- Ports and shipping
- Railway infrastructure
- Pension: up to 49%
- Power exchanges: up to 49%
- Petroleum Refining (By PSUs): up to 49%
- Government Route FDI

Under the government route, the foreign entity should compulsorily take the approval of the government. It should file an application through the Foreign Investment Facilitation Portal, which facilitates single-window clearance. This application is then forwarded to the respective ministry or department, which then approves or rejects the application

#### **IV. CONCLUSIONS**

Examples:

- Broadcasting Content Services: 49%
- Banking & Public sector: 20%
- Food Products Retail Trading: 100%
- Core Investment Company: 100%
- Multi-Brand Retail Trading: 51% [13,15,17]
- Mining & Minerals separations of titanium bearing minerals and ores: 100%
- Print Media (publications/printing of scientific and technical magazines/speciality journals/periodicals and a facsimile edition of foreign newspapers): 100%
- Satellite (Establishment and operations): 100%
- Print Media (publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news & current affairs): 26%

Sectors where FDI is prohibited

There are some sectors where any FDI is completely prohibited. They are:

- Agricultural or Plantation Activities (although there are many exceptions like horticulture, fisheries, tea plantations, Pisciculture, animal husbandry, etc.)
- Atomic Energy Generation
- Nidhi Company
- Lotteries (online, private, government, etc.)
- Investment in Chit Funds
- Trading in TDR's
- Any Gambling or Betting businesses
- Cigars, Cigarettes, or any related tobacco industry
- Housing and Real Estate (except townships, commercial projects, etc.)



According to the new FDI policy, an entity of a country, which shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest only under the Government route.

A transfer of ownership in an FDI deal that benefits any country that shares a border with India will also need government approval.

Investors from countries not covered by the new policy only have to inform the RBI after a transaction rather than asking for prior permission from the relevant government department.

The earlier FDI policy was limited to allowing only Bangladesh and Pakistan via the government route in all sectors. The revised rule has now brought companies from China under the government route filter.

#### Benefits of FDI

FDI brings in many advantages to the country. Some of them are discussed below.

1. Brings in financial resources for economic development.
2. Brings in new technologies, skills, knowledge, etc.
3. Generates more employment opportunities for the people.
4. Brings in a more competitive business environment in the country.
5. Improves the quality of products and services in sectors.[18,19]

#### Disadvantages of FDI

However, there are also some disadvantages associated with foreign direct investment. Some of them are:

1. It can affect domestic investment, and domestic companies adversely.
2. Small companies in a country may not be able to withstand the onslaught of MNCs in their sector. There is the risk of many domestic firms shutting shop as a result of increased FDI.
3. FDI may also adversely affect the exchange rates of a country.

#### Government Measures to increase FDI in India

- Government schemes like production-linked incentive (PLI) scheme in 2020 for electronics manufacturing, have been notified to attract foreign investments.
- In 2019, the amendment of FDI Policy 2017 by the government, to permit 100% FDI under automatic route in coal mining activities enhanced FDI inflow.
- FDI in manufacturing was already under the 100% automatic route, however, in 2019, the government clarified that investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic route provided it is undertaken through a legitimate contract.
- Further, the government permitted 26% FDI in digital sectors. The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along technology uptake provides great market opportunity for a foreign investor.
- Foreign Investment Facilitation Portal (FIFP) is the online single point interface of the Government of India with investors to facilitate FDI. It is administered by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.
- FDI inflow is further expected to increase –



- as foreign investors have shown interest in the government's moves to allow private train operations and bid out airports.
- Valuable sectors such as defence manufacturing where the government enhanced the FDI limit under the automatic route from 49% to 74% in May 2020, is also expected to attract large investments going forward.[15,17]

#### Regulatory Framework for FDI in India

In India, there are several laws regulating FDI inflows. They are:

- Companies Act
- Securities and Exchange Board of India Act, 1992 and SEBI Regulations
- Foreign Exchange Management Act (FEMA)
- Foreign Trade (Development and Regulation) Act, 1992
- Civil Procedure Code, 1908
- Indian Contract Act, 1872
- Arbitration and Conciliation Act, 1996
- Competition Act, 2002
- Income Tax Act, 1961
- Foreign Direct Investment Policy (FDI Policy)

#### Important Government Authorities in India concerning FDI

- Foreign Investment Promotion Board (FIPB)
- Department for Promotion of Industry and Internal Trade (DPIIT)
- Reserve Bank of India (RBI)
- Directorate General of Foreign Trade (DGFT)
- Ministry of Corporate Affairs, Government of India
- Securities and Exchange Board of India (SEBI)
- Income Tax Department
- Several Ministries of the GOI such as Power, Information & Communication, Energy, etc.[21]

#### Way Forward with FDI

1. FDI is a major driver of economic growth and an important source of non-debt finance for the economic development of India. A robust and easily accessible FDI regime, thus, should be ensured.
2. Economic growth in the post-pandemic period and India's large market shall continue to attract market-seeking investments to the country.[22]

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