Journal of Management & Public Policy
Vol. 10, No. 2, June 2019, Pp. 5-19
ISSN 0976-0148 (Online) 0976-013X (Print)
DOI: 10.5958/0976-0148.2019.00001.5

FDI in India: An Overview of Trends and Policies

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ABSTRACT

Backed by progressive economic reforms, India's performance in terms of attracting FDI has been very strong. However, FDI flow to India is extremely skewed in nature, starting from the source right upto the destination, not only in terms of the States receiving FDI flows but also the sectors. On one hand, where only two countries account for more than half of the cumulative equity investments, on the other, only two States cumulatively account for more than half of the FDI equity inflows. At the same time, FDI equity inflow is skewed across major sectors of the economy with the services sector accounting for close to half of the inflow in recent years. This paper tracks FDI inflow in India historically from 2000-01 and highlights the recent policy initiatives of the Government of India.

Keywords: Foreign Direct Investment; Services Sector; Manufacturing Sector; Economic Growth; Employment

FDI FLOW INTO INDIA

Foreign direct investment (FDI) flows to India started picking up in the globalised era post 1991, which saw the beginning of economic reforms characterised by industrial decontrol, liberalisation of foreign trade, market determined exchange rates, beginning of privatisation of public sector entities, and progressive FDI policies.

According to estimates based on international best practices, as provided by the Department of Industrial Policy and Promotion (DIPP), FDI inflows into India reached a record US$61.96 billion in 2017-18 (DIPP, 2018). As far as trend of FDI inflow is concerned, the period 2000-01 to 2008-09 saw an increasing trend of FDI flows to India, but thereafter declined for a couple of years in the aftermath of the global economic crisis of 2008-09 (Figure 1). The inflows once again started to follow an upward trend from 2012-13 onwards, growing rapidly in 2014-15 and 2015-16. Backed by a slew of reforms, the year-on-year growth rate of FDI inflows after reaching a peak of 25 per cent in 2014-15 and followed by 23 per cent in 2015-16, tapered to a mere 8 per cent in 2016-17 and 3 per cent in 2017-18 (Figure 2).

However, according to the *World Investment Report 2018* brought out by the United Nations Conference on Trade and Development (UNCTAD), FDI flows to India decreased to US$39.92 billion in 2017 after touching a high of US$44.48 billion in 2016, i.e., a decline of over 10 per cent (UNCTAD, 2018). During the same time, with global FDI inflows declining by over 23 per cent, share of India in global FDI inflows increased from 2.4 per cent in 2016 to 2.8 per cent in 2017 (Figure 3).

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Much of the FDI inflow into India is in the form of fresh equity infusion which adds to the quality of FDI inflow (Varma, 2016). Between 2000-01 and 2017-18, FDI equity inflow into India has accounted for more than two-thirds of the total FDI inflows with the proportion touching 72 per cent or above from 2015-16 onwards (Figure 4).

As per the DIPP's FDI database based on equity capital components only, the flow of FDI equity to India has been following an increasing trend from 2000-01 onwards barring the years affected by global economic crisis (Figure 5), and touching a record US$44.86 billion in 2017-18 (DIPP, 2018).

On the other hand, the FDI equity inflow to GDP ratio has been on an increasing trend from 2000-01 onwards and touching a peak value of 2.6 per cent in 2008-09. Thereafter, barring a couple of years of fluctuation, the FDI equity inflow to GDP ratio has been on an increasing trend from 2012-13 onwards till 2016-17 and dipping slightly in 2017-18 (Figure 5). As far as growth rate of FDI equity inflows is concerned, in recent years, the year-on-year growth rate started to increase from 2013-14 onwards. After reaching a peak of 29 per cent in 2015-16, the growth rate of FDI equity inflow into India declined to 9 per cent in 2016-17 and 3 per cent in 2017-18 (Figure 6).

COUNTRY-WISE FDI EQUITY INVESTMENTS IN INDIA

In terms of sources of FDI inflows, Mauritius and Singapore account for about 52 per cent of cumulative equity investments in India between 2000-01 and 2017-18 (Figure 7). Historically, the other major sources of such investments are Japan, United Kingdom (UK), Netherlands, and United States of America (USA).

In recent years between 2013-14 and 2017-18, the combined share of Mauritius and Singapore in FDI equity investments in India has been increasing systematically. Their share in FDI equity investments increased from about 56 per cent in 2016-17 to 63 per cent in 2017-18 (Figure 8) inspite of the implementation of an amended double taxation avoidance agreement by India with these countries in a phased manner effective from April 2017 to thwart tax evasion on incomes and capital gains (RBI, 2018b).

STATE-WISE SHARES IN FDI EQUITY INFLOWS

It is observed that Maharashtra, Delhi, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh (the States mentioned include other peripheral States / regions)[1] account for about three-fourth of the FDI equity inflows cumulatively for the period 2000-01 to 2017-18 (Figure 9).

Maharashtra has historically been the highest recipient of FDI equity followed by Delhi. But from 2013-14 till 2015-16, Delhi outpaced all other States in terms of share of FDI equity received, followed by Maharashtra (Figure 10). In 2016-17, the trend got reversed again with Maharashtra accounting for about 45 per cent of total FDI equity inflows followed by Delhi at just over 14 per cent. In 2017-18, Maharashtra held on to the position of the topmost recipient of FDI equity at 30 per cent, followed by Karnataka at 19 per cent and Delhi at 17 per cent.

FDI inflows into Maharashtra and Delhi are mostly for development of infrastructure (transportation, electrical equipment, and telecommunications) or for services sectors (Chatterjee, Mishra & Chatterjee, 2013). FDI equity inflows into Karnataka have witnessed a massive increase in FDI equity inflows by 302 per cent in 2017-18 (DIPP, 2018). This is owing to FDI flows mainly to the information technology (IT) and start-up companies (Kumar, 2018).

SECTOR-WISE SHARES IN FDI EQUITY INFLOWS

FDI equity inflow into India for several years has been extremely skewed across the major sectors of the economy. Notably, the share of services sector[2] in FDI equity inflows increased significantly from about 29 per cent in 2013-14 to 52 per cent in 2015-16, but dropping to 43 per cent in 2016-17, and then recovering to 47 per cent in 2017-18 (Figure 11). On the other hand, the manufacturing sector lost its share from about 51 per cent in 2013-14 to 25 per cent in 2015-16, but recovering to more than 32 per cent in 2016-17, and again dropping to 21 per cent in 2017-18. The share of infrastructure sector (including energy) in total FDI equity inflows increased from about 19 per cent in 2013-14 to 31 per cent in 2017-18. The primary sector (including agriculture and mining) never really picked up in terms of FDI equity inflows and languishes at less than 0.5 per cent after having reached a peak of almost 3 per cent in 2014-15.

Further, FDI inflow in India has historically been skewed towards a few sectors only. Cumulatively, between 2000-01 and 2017-18, the top 10 FDI destination sectors accounted for about 65 per cent of the total FDI equity inflows (Table 1). The services sector (as per DIPP classification) along with computer software and hardware, and trading featured in the list of top 10 recipients of FDI equity flows accounting for about 31 per cent of the total FDI equity inflow. The manufacturing sector represented by automobile, drugs and pharmaceuticals, and chemicals (other than fertilisers) industries in the top 10 sectors accounted for 13 per cent of the total FDI equity inflow. The infrastructure (including energy) sector represented by telecommunications, construction development, power, and construction (infrastructure) activities in the top 10 sectors accounted for over 21 per cent of the total FDI equity inflow.

Based on DIPP data, in 2017-18, the skewness in FDI inflow reached epic proportions with the top 10 FDI equity receiving sectors accounting for about 75 per cent of the total FDI equity inflow (Table 2). The services sector (as per DIPP classification) along with computer software and hardware, trading, and hotels and tourism accounted for about 41 per cent of the total FDI equity inflow. The manufacturing sector represented by automobile and chemicals (other than fertilisers) industries in the list of top 10 sectors accounted for about 8 per cent of the FDI equity inflow. The infrastructure (including energy) sector represented by telecommunications, construction (infrastructure) activities, power, and non-conventional energy in the list of top 10 sectors accounted for over 26 per cent of the FDI equity inflow in 2017-18 (Table 2).

RECENT CHANGES IN FDI POLICY

The announcements made by the Government of India (GoI) on reforms to the existing FDI policy on June 20, 2016 were meant to liberalise and simplify the FDI policy so as to provide ease of doing business in India leading to larger FDI inflows contributing to growth of investment, income and employment (GoI 2016). The amendments have resulted in India becoming the most open economy for FDI with majority of the sectors coming under the automatic approval route. The amendments, later incorporated in Consolidated FDI Policy effective from August 28, 2017 (DIPP, 2017b), are presented in Table 3.

FDI policy has been further liberalised in key sectors according to the amendments announced by the GoI on January 10, 2018. These include: (a) 100 per cent FDI under automatic route for single brand retail trading; (b) 100 per cent FDI under automatic route in construction development; (c) Foreign airlines allowed to invest up to 49 per cent under approval route in Air India; (d) Foreign institutional and portfolio investors allowed to invest in power exchanges through primary market; and (e) Amendment of the definition of medical devices as contained in the FDI policy (GoI, 2018).

CONCLUSION AND WAY FORWARD

The government has amended the FDI policy to facilitate ease of doing business, attract investment, and promote growth in income and employment. These amendments, with a focus on boosting the Make in India programme, have resulted in India becoming the most open economy for FDI with majority of the sectors coming under the automatic approval route. The Make in India programme is showing some early positive signs of attracting FDI towards establishing manufacturing facilities in India (Singh & Sasi, 2016). To illustrate, Samsung has launched the world's biggest mobile factory in Noida near Delhi in July 2018. With this, Samsung's smartphone manufacturing capacity in India is expected to increase from 68 million to 120 million per year (Kotoky & Rai, 2018). Xiaomi after its foray into India in July 2014, started manufacturing smartphones from August 2015 onwards in partnership with Taiwanese contract manufacturer Foxconn (TNN, 2017). In a bid to ramp up its manufacturing capacity in the country, the company has announced the opening of three new plants (Bhatia, 2018).

A lot of expectation has been placed on the Make in India manufacturing sector to attract foreign investment and generate employment. But with so much technological innovation / advancement and use of capital-intensive (and labour displacing) mode of production, it remains to be seen how far the manufacturing sector succeeds in generating employment along with economic growth, in line with the well-intentioned goals of the Make in India programme. Therefore, the government should not lose sight of the traditionally labour-intensive sectors and should ensure an enabling environment for FDI flow to such sectors (e.g., light machine tools, textiles and readymade garments, leather and leather products, and food processing), with plants set up in small towns close to rural and suburban areas (NCAER, 2009). The government should also focus on simplifying the existing labour laws and make them more flexible as this would not only help in attracting FDI, but also generate employment opportunities particularly in the manufacturing sector (PTI, 2014; ET, 2016) which is increasingly adopting capital-intensive mode of production (Sen & Das, 2015; Kapoor, 2016).

Another area of concern is regional concentration of FDI flows in India (Mukherjee, 2011) with a handful of States accounting for a major part of the total inflow. In this age of co-operative federalism, to avoid regional inequality from getting escalated by such skewed FDI inflows, it is necessary that FDI-related policies, rules and regulations are framed and adapted keeping regional and State-level issues in consideration (Malhotra, 2014). This however, would require political will, both at the Centre and State level.

Given the nature and trend of flow of FDI experienced so far in India, the challenge lies in attracting FDI flows into sectors having the potential for generating growth and employment, in the context of a rapidly evolving economic and technological landscape (Basu & Ghosh, 2017). To over-emphasise the role of FDI or even belittle the role it has played in creating jobs as well as contributing to growth would be inappropriate. At best, FDI flow can play the role of supplementary investment in relation to domestic investment required for growth and development of the economy.

ENDNOTES

[1] Maharashtra includes Maharashtra, Dadra & Nagar Haveli, and Daman & Diu; Delhi includes New Delhi and parts of Uttar Pradesh and Haryana; Tamil Nadu includes Tamil Nadu and Puducherry; Andhra Pradesh includes Andhra Pradesh and Telangana.

[2] Services sector includes sub-sectors as per DIPP classification (financial, banking, insurance, non-financial / business, outsourcing, R&D, courier, and technical testing and analysis) plus computer software and hardware, trading, hospitals and diagnostic centres, consultancy services, hotel and tourism, information and broadcasting, and printing of books.

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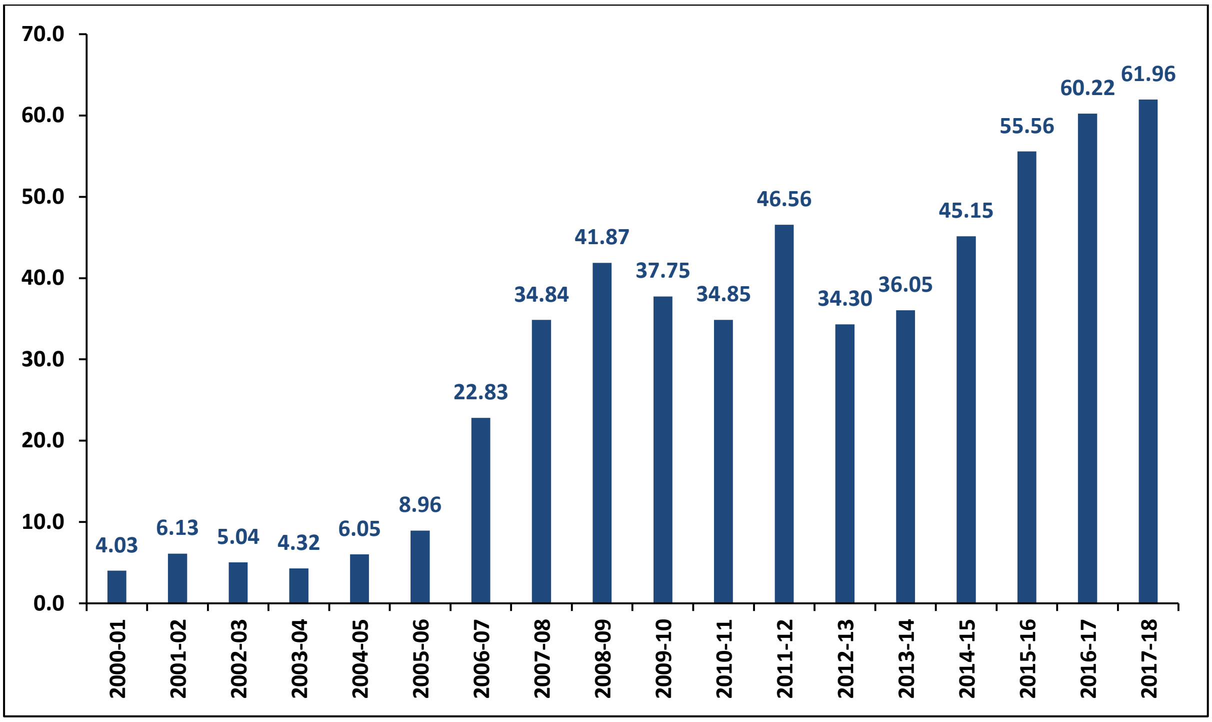
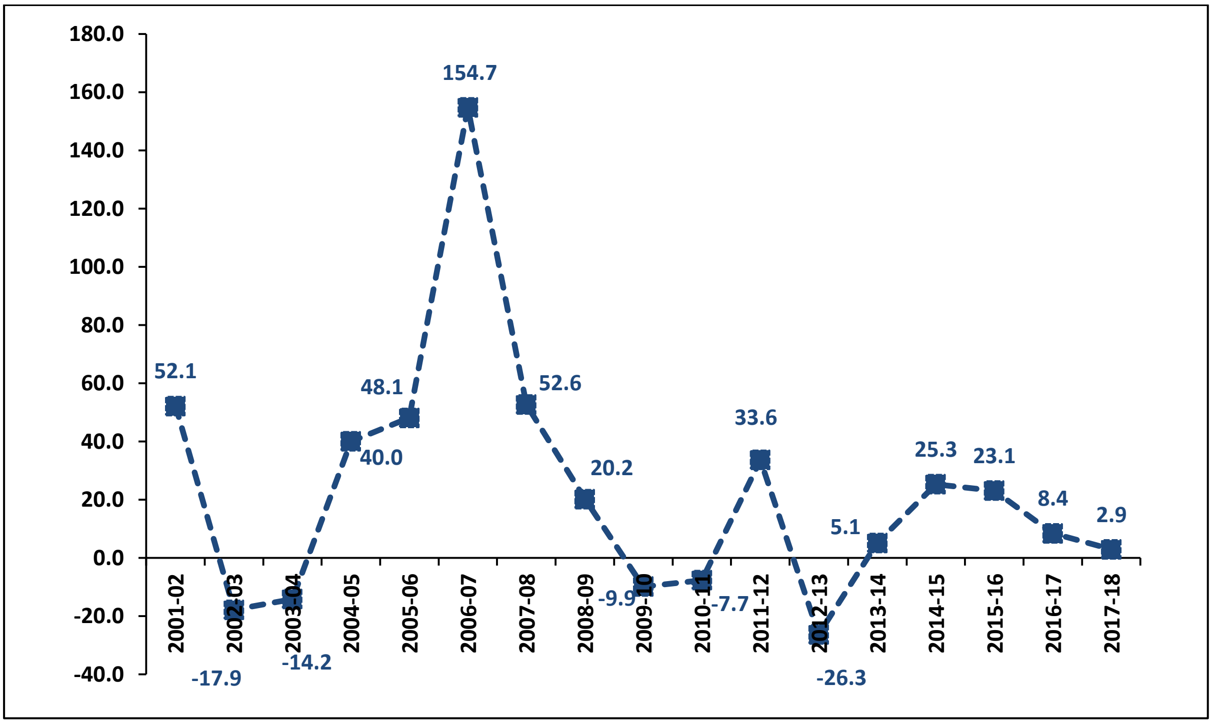
Figure 1: FDI Inflow into India (2000-01 to 2017-18) (US$ Billion)



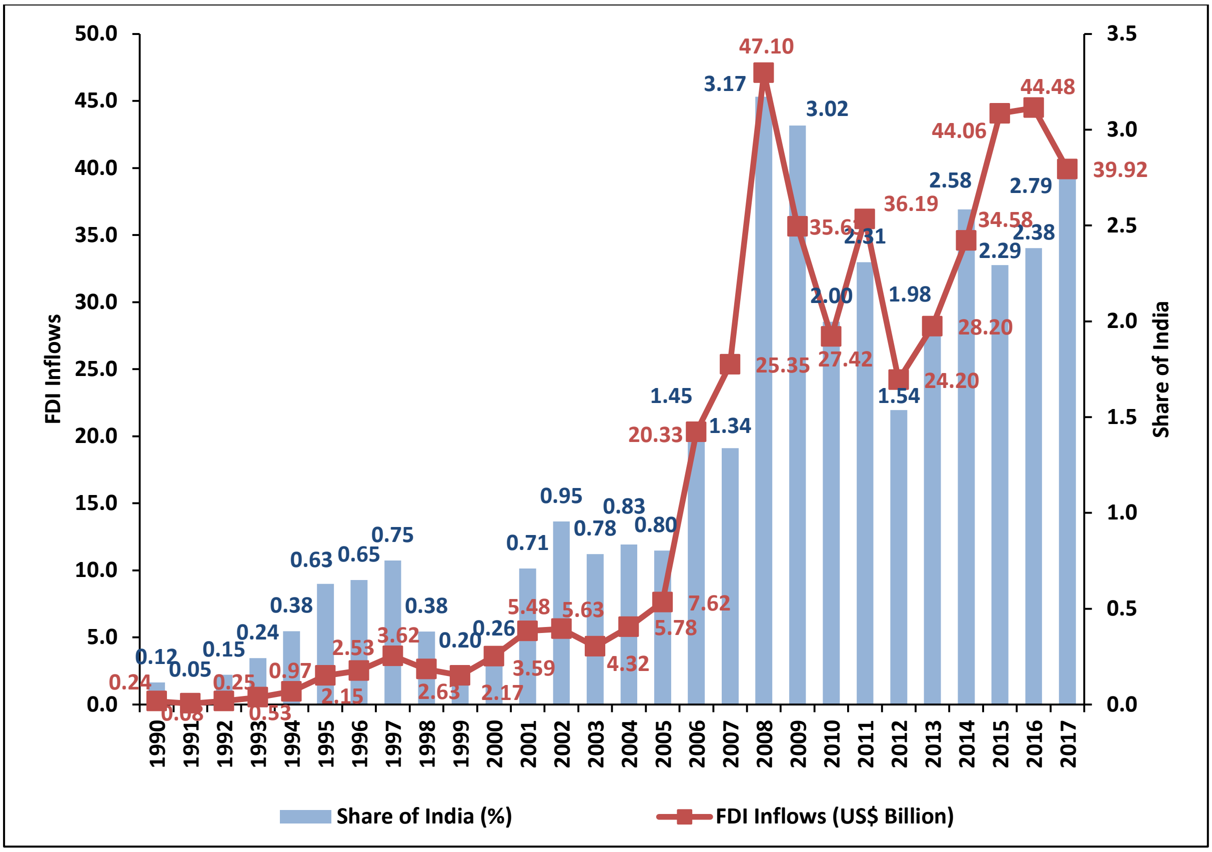
Source: DIPP (2018).

Figure 2: Growth Rate of FDI Inflow into India (per cent)



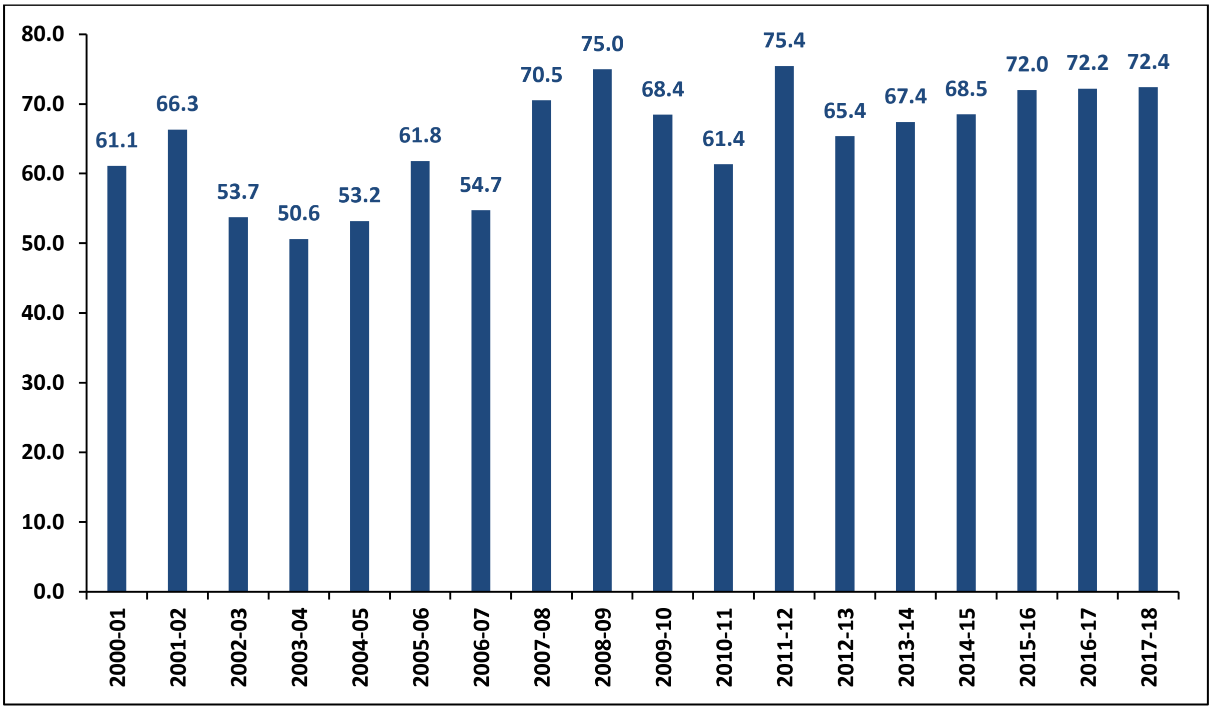
Source: DIPP (2018).

Figure 3: FDI Inflow into India and India's Share in Global FDI Inflows – The UNCTAD Estimates (1990 to 2017)



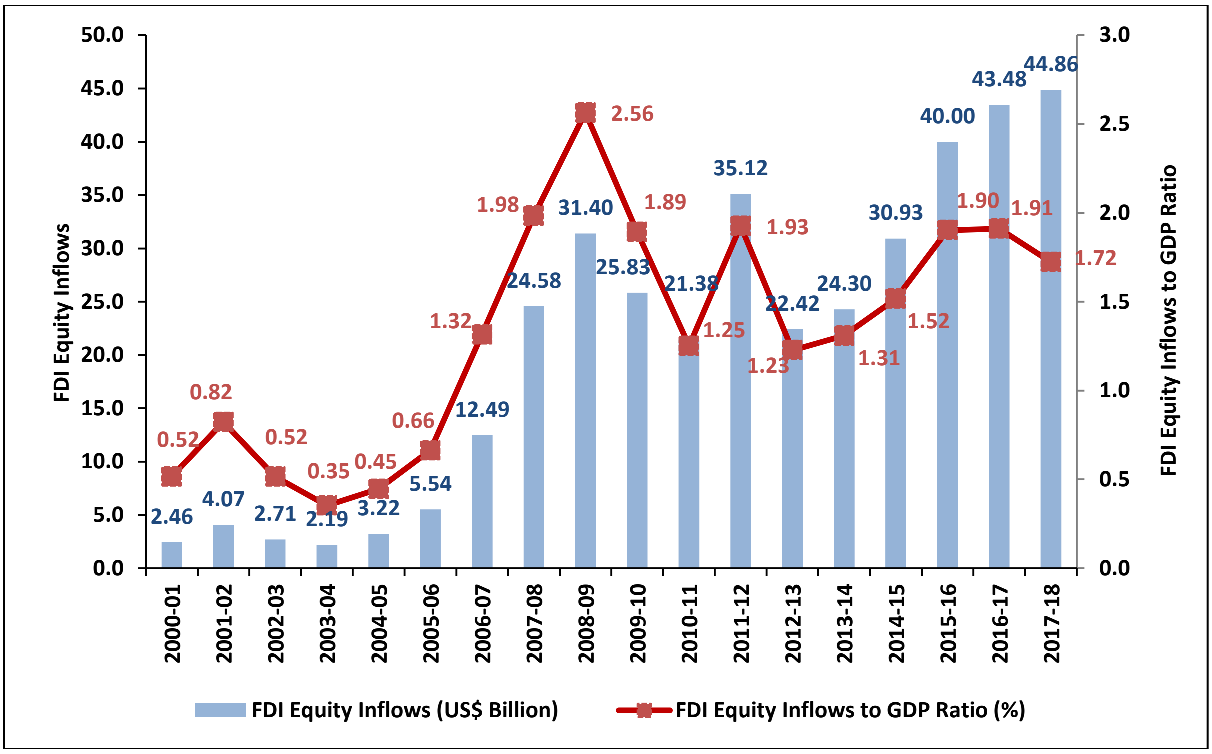
Source: UNCTAD (2018).

Figure 4: Share of FDI Equity Inflow in Total FDI Inflow into India (2000-01 to 2017-18) (per cent)



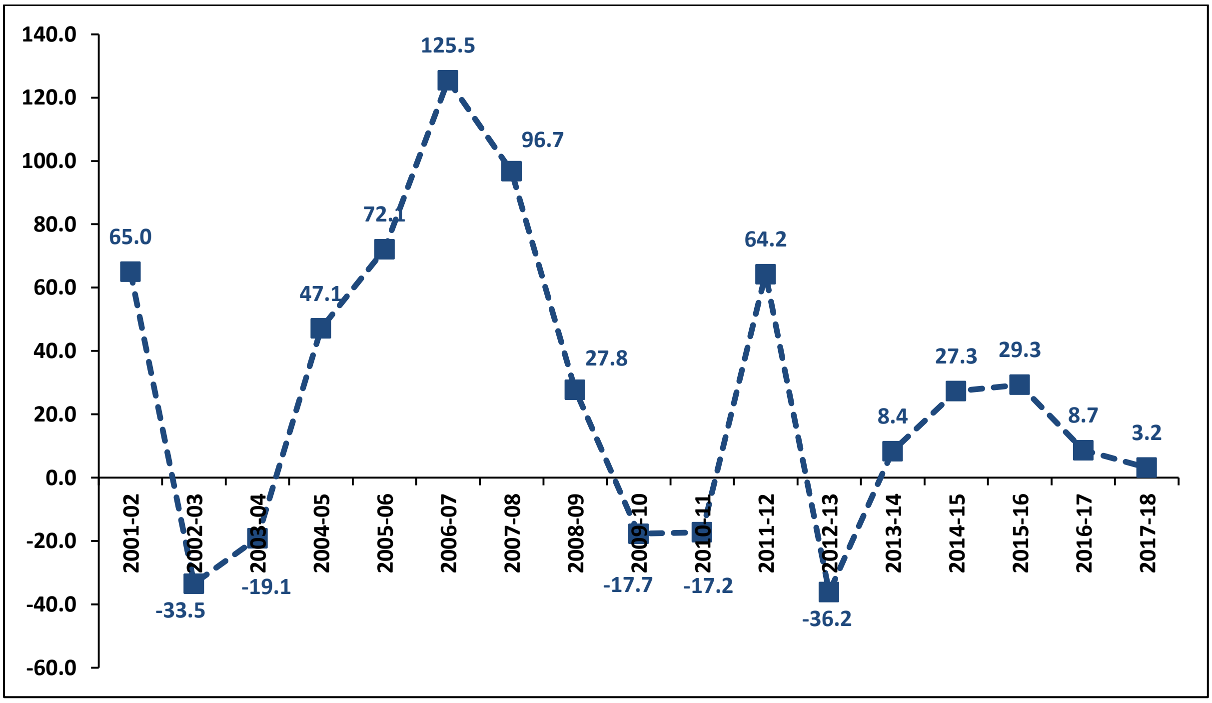
Source: DIPP (2018).

Figure 5: FDI Equity Inflows and FDI Equity Inflows to GDP Ratio for India (2000-01 to 2017-18)



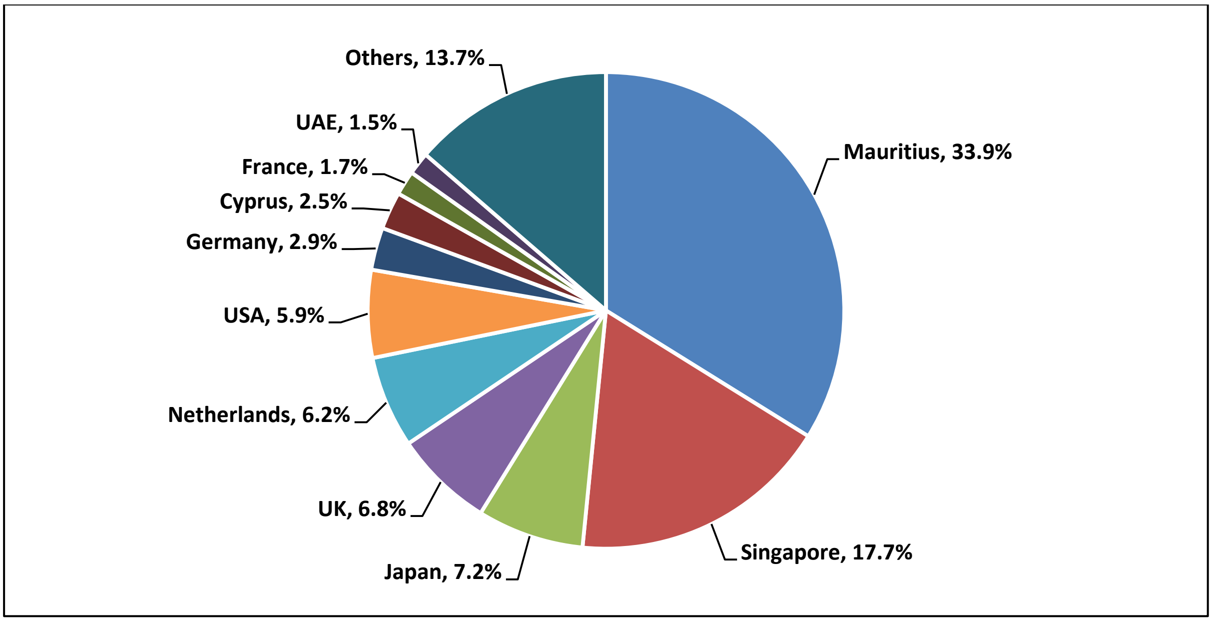
Sources: DIPP (2018); RBI (2017, 2018a).

Figure 6: Growth Rate of FDI Equity Inflow into India (per cent)



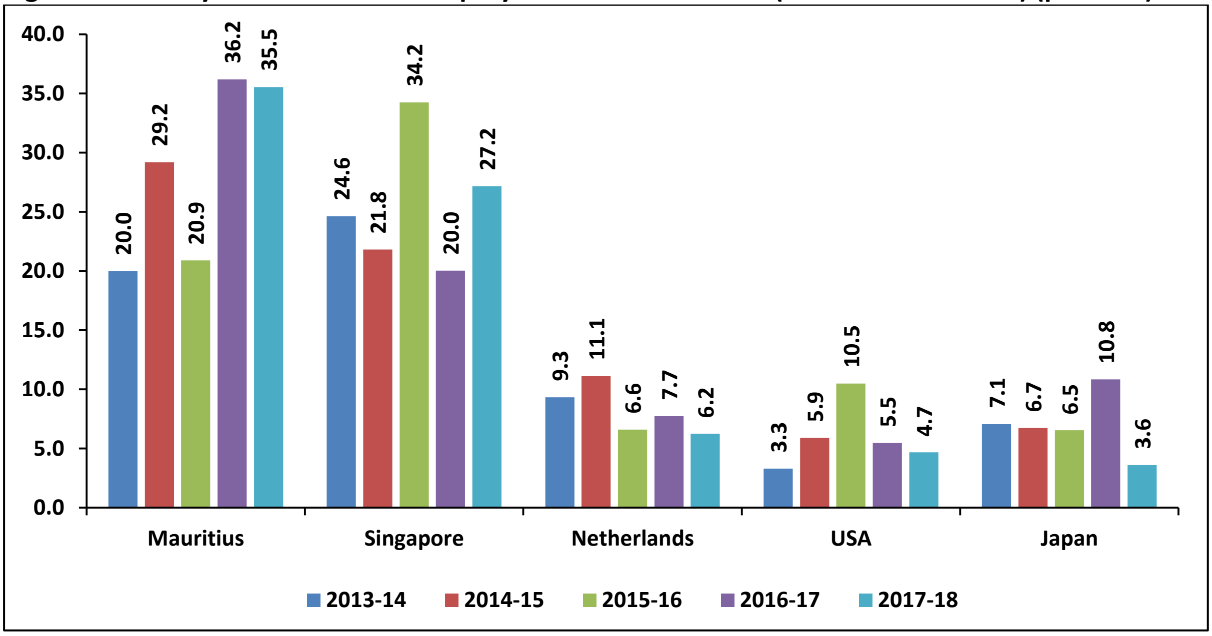
Source: DIPP (2018).

Figure 7: Country-wise Share in Cumulative FDI Equity Investments in India (2000-01 to 2017-18) (per cent)



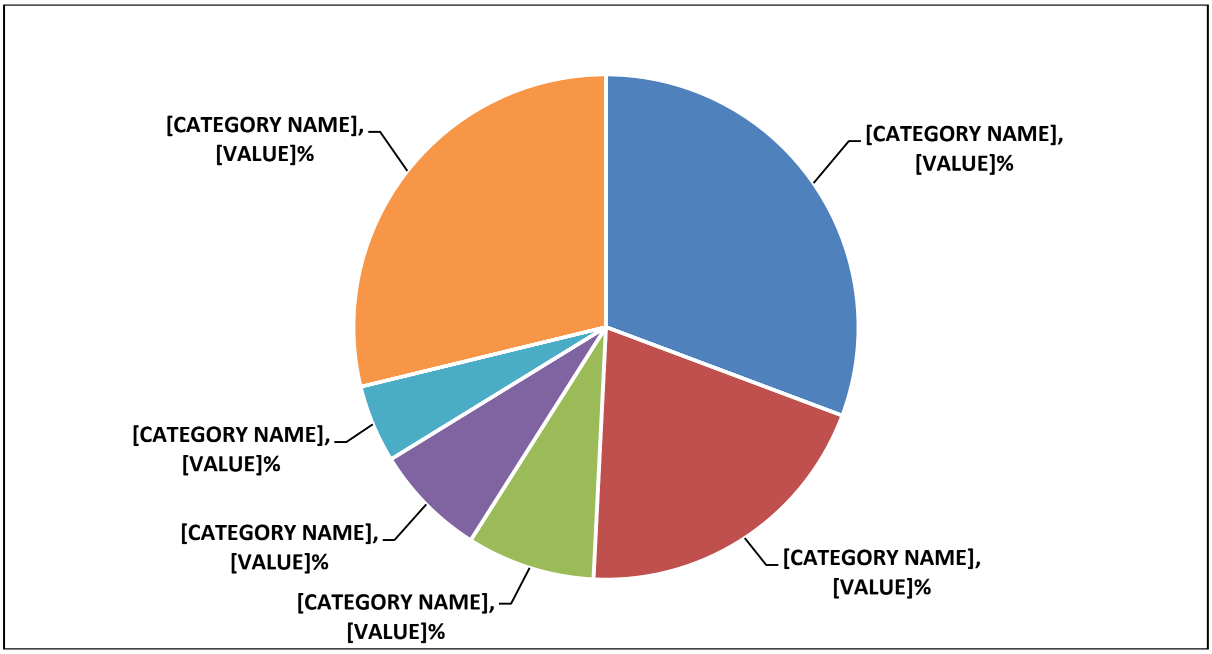
Source: DIPP (2018).

Figure 8: Country-wise Share in FDI Equity Investments in India (2013-14 to 2017-18) (per cent)



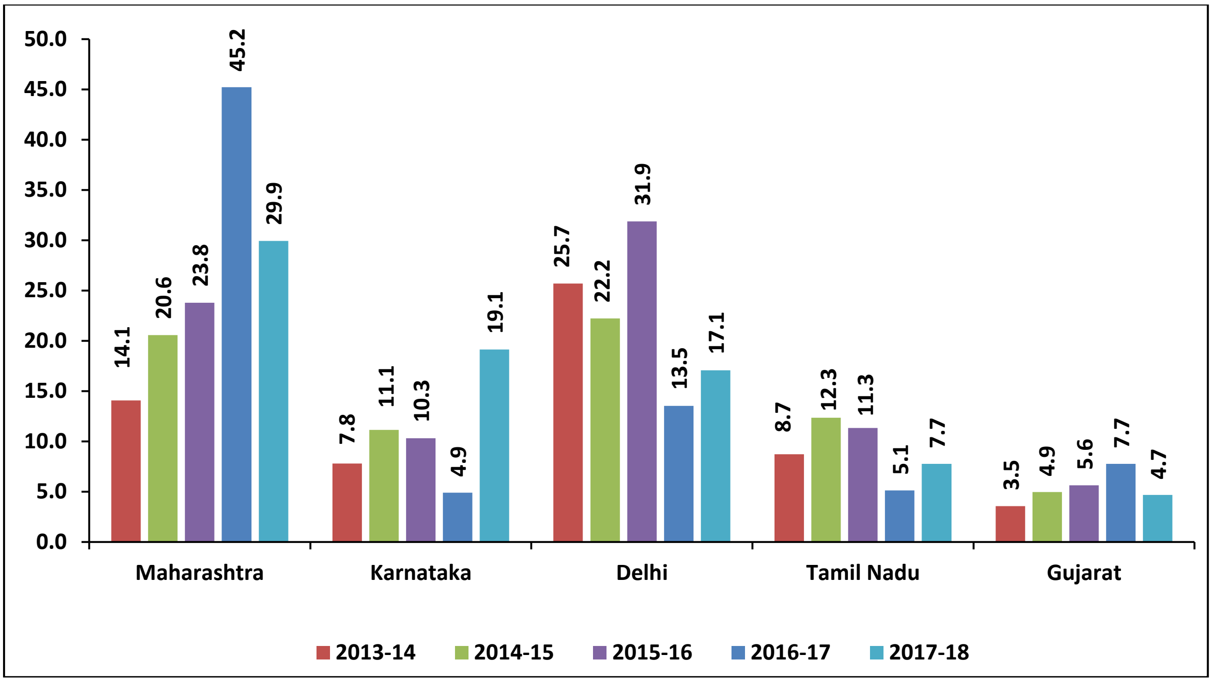
Sources: DIPP (2016a, 2017a, 2018).

Figure 9: State-wise Share in Cumulative FDI Equity Inflows (2000-01 to 2017-18) (per cent)



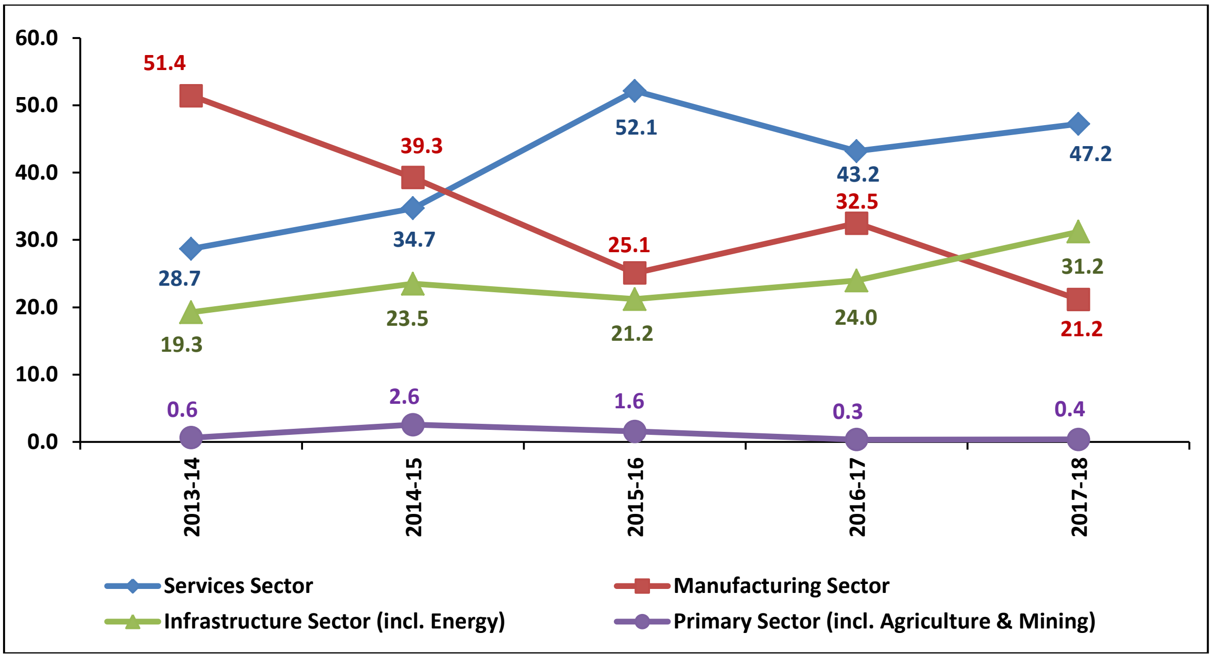
Source: DIPP (2018).

Figure 10: State-wise Share in FDI Equity Inflows (2013-14 to 2017-18) (per cent)



Sources: DIPP (2016a; 2017a; 2018).

Figure 11: Shares of FDI Equity Inflows in Major Sectors in India (2011-12 to 2017-18) (per cent)



Sources: Secretariat of Industrial Assistance (SIA) Newsletter, DIPP (various years); DIPP (2018).

Table 1: Sector-wise Cumulative FDI Equity Inflows in India (2000-01 to 2017-18)

Sector	Amount (US$ Billion)	Share (%)
Services (as per DIPP classification)	66.19	17.56
Computer Software & Hardware	30.82	8.18
Telecommunications	30.16	8.00
Construction Development: Townships, housing, built-up infrastructure and construction development projects	24.83	6.59
Automobile Industry	18.76	4.98
Trading	18.56	4.92
Drugs & Pharmaceuticals	15.72	4.17
Chemicals (other than Fertilisers)	14.60	3.87
Power	13.21	3.51
Construction (Infrastructure) Activities	12.55	3.33
Total of Top 10	**245.40**	**65.12**
Grand Total	**376.85**	**100.00**

Source: DIPP (2018).

Table 2: Sector-wise FDI Equity Inflows (2017-18)

Sector	Amount (US$ Billion)	Share (%)
Services (as per DIPP classification)	6.71	14.96
Telecommunications	6.21	13.85
Computer Software & Hardware	6.15	13.72

Trading	4.35	9.69
Construction (Infrastructure) Activities	2.73	6.09
Automobile Industry	2.09	4.66
Power	1.62	3.61
Chemicals (other than Fertilisers)	1.31	2.92
Non-Conventional Energy	1.20	2.69
Hotel & Tourism	1.13	2.52
Total of Top 10	**33.51**	**74.70**
Grand Total	**44.86**	**100.00**

Sources: DIPP (2017a, 2018).

Table 3: Major Amendments to FDI Policy

Sector / Activity	**% of Equity / FDI Cap and Route**	
	Consolidated FDI Policy effective from June 7, 2016	**Amendments announced on June 20, 2016 later incorporated in the Consolidated FDI Policy effective from August 28, 2017**
Defence		
Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act, 1951	49% Automatic route Above 49%, government approval on case to case basis, wherever it is likely to result in access to modern and 'state-of-art' technology.	100% Government route beyond 49% in cases resulting in access to modern technology in the country or for other reasons to be recorded. The condition of access to 'state-of-art' technology in the country has been done away with. FDI limit for defence sector has also been made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959.
Broadcasting Carriage Services		
(1) Teleports (2) Direct to Home (DTH) (3) Cable Networks [Multi-System operators (MSOs) operating at National or State or District level and undertaking upgradation of networks towards digitalization and addressability] (4) Mobile TV (5) Headend-in-the Sky Broadcasting Service (HITS)	100% Government route beyond 49%	100% Automatic route Infusion of fresh foreign investment, beyond 49% in a company not seeking license / permission from sectoral Ministry, resulting in change in the ownership pattern or transfer of stake by existing

Cable Networks [Other MSOs not undertaking upgradation of networks towards digitalisation and addressability and Local Cable Operators (LCOs)]	100% Government route beyond 49%	investor to new foreign investor, will require Government approval.
Pharmaceuticals		
Greenfield Pharma	100% Automatic route	100% Automatic route
Brownfield Pharma	100% Government route	100% Government route beyond 74%
Civil Aviation		
(A) Airports		
Greenfield Projects	100% Automatic route	100% Automatic route
Brownfield Projects	100% Government route beyond 74%	100% Automatic route
(B) Air Transport Services		
(1) Scheduled Air Transport Service / Domestic Scheduled Passenger Airline (2) Regional Air Transport Service	49% (100% for NRIs) Automatic route	100% Automatic route upto 49% (100% for NRIs) Government route beyond 49% Foreign airlines would continue to be allowed to invest in capital of Indian companies operating scheduled and non-scheduled air transport services upto the limit of 49% of their paid-up capital and subject to the laid down conditions in the existing policy.
Private Security Agencies		
Private Security Agencies	49% Government	74% Government route beyond 49%
Animal Husbandry		
Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture	100% Automatic route under 'controlled conditions'	100% Automatic route Requirement of 'controlled conditions' has been done away with.
Single Brand Product Retail Trading		

Single Brand product retail trading	100% Government route beyond 49%	Sourcing norms will not be applicable upto three years from commencement of the business for entities undertaking single brand retail trading of products having 'state-of-art' and 'cutting-edge' technology and where local sourcing is not possible.
Food Products Manufactured / Produced in India		
Food Products manufactured / produced in India	No regulation	100% Government route (for trading, including through e-commerce, in respect of food products manufactured or produced in India)

Sources: DIPP (2016b, 2017b); GoI (2016).