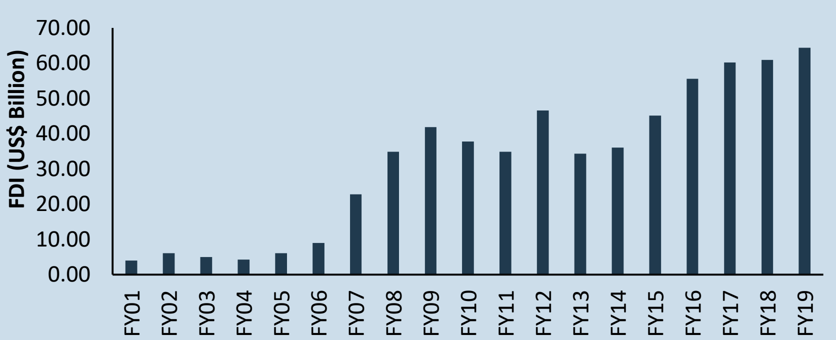
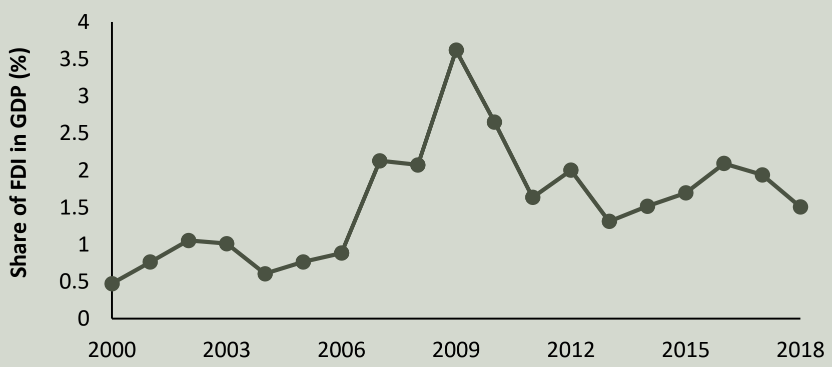
Status of Foreign Direct Investment in India

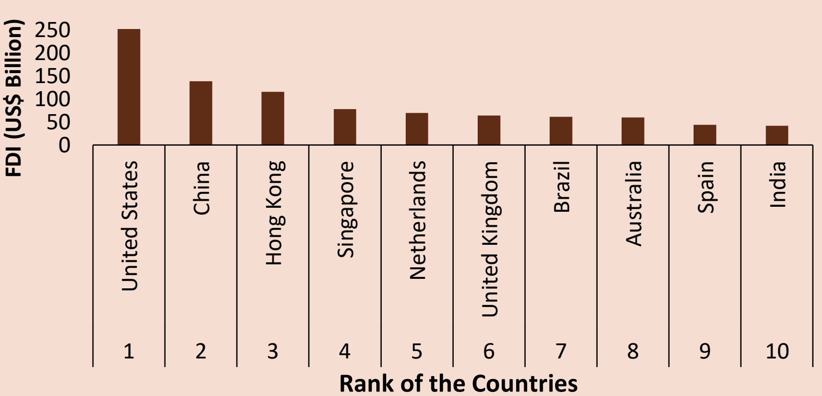
- **FDI or Foreign Direct Investment** is defined as an investment made by a party (Firm / Individual) from one country into the business of another country with an agenda of business expansion.
- Establishment of East India Company in the 17th century can loosely be regarded as a type of FDI in the British colonial era. Development of Railways, Roadways, Construction of bridges are the example of the utilization of that FDI.
- After 1947, the things related to the FDI took time to get liberalised in the newly independent country. In 1973, **Foreign Exchange Regulation Act (FERA)** was introduced for ensuring the use of foreign exchange in India. However, implementation of this act was quite confusing and difficult, so government replaced it by **Foreign Exchange Management Act (FEMA)** in 1999.
- FEMA came to force in 2000. The regulations of it related to FDI, foreign exchange and payment, trade agreements with other countries were much simple and modified.



- The FDI inflow has increased at a CAGR of **16.64%** between FY01 to FY19.
- Till now, the FDI inflow was the highest in FY19 amounting **US$ 64.38 Billion**.
- The year on year growth was highest in FY07 with **154.73%** and lowest in FY13 with **-26.33%.**

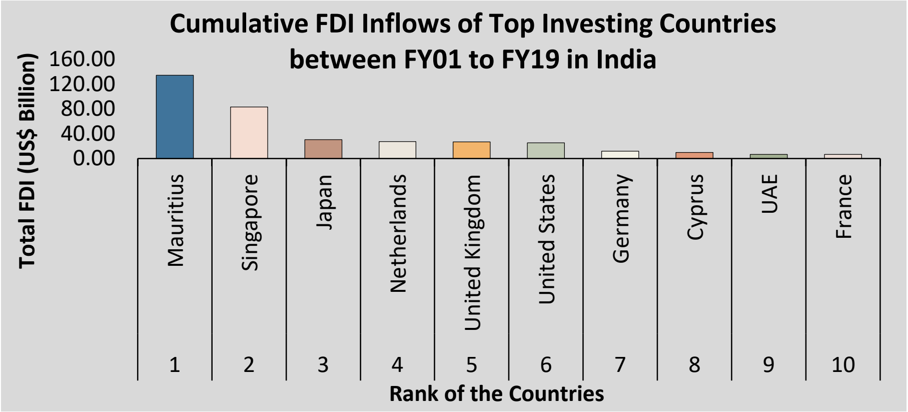


- FDI inflows boost the development process of any country since significant amount get invested for expansion of businesses.
- It increases the productivity resulting greater generation of goods and services leading to higher profit.
- Till now, the share of FDI in GDP was highest in 2009 with the share of **3.62%.**



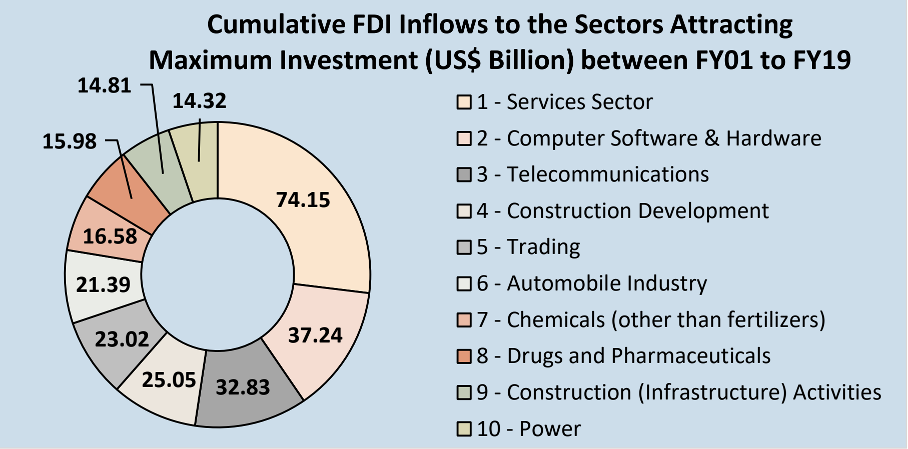
- In 2018, the total FDI inflows in the world was **US$ 1.3 Trillion** approx.
- United States was the highest recipient of FDI with a share of **19.38%** in the global FDI inflow.
- India was in the 10^{th} position with the amount of **US$ 42 Billion.**
- The share of India in the global FDI inflow was **3.23%.**

Flow of FDI in Different Spheres



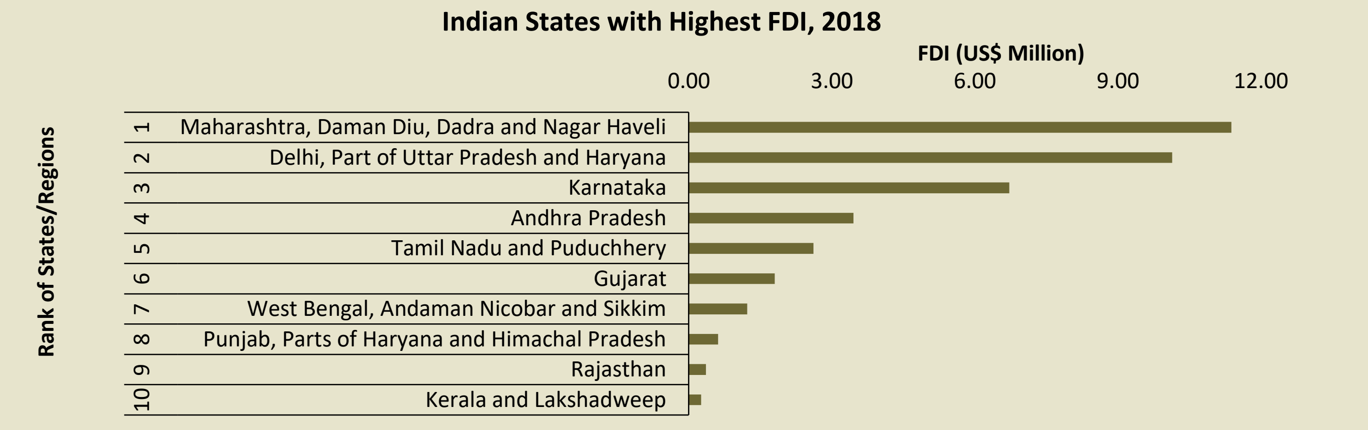
- Relatively lower wages, abundant supply of labour, skilled youth, tenacity of hard work, urge to be technically developed & digitally advanced, availability of raw materials and various capitals at cheaper cost, special investment privileges such as tax exemptions are the reasons behind attracting FDI from developed economies.

- Between FY10 to FY19, the FDI inflows from the developed economies like Singapore, Netherlands, Japan, United States and United Kingdom have increased at a CAGR of **23.78%, 17.61%, 10.75%, 8.34%** and **5.47%** respectively.



- Between FY10 to FY19, the FDI inflows have increased in the sectors like Computer Software & Hardware, Chemicals (other than fertilizers), Services Sector, Automobile industry at CAGR of **24.82%, 20.64%, 9.12%,** and **8.72%** respectively.
- The Services sector accounts around **18%** of the total FDI India received between FY01 to FY19.

- This Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis.
- The huge share of services sector in the overall FDI is caused by India's requirement of FDI from the developed countries in the form of capital, finance, technical know-how for influencing its infrastructural growth in the current and coming years.



- The region of Maharashtra and Delhi have always been top most destinations for FDI in India. Having the multiple numbers of tier 1 and tier 2 cities, greater population, skilled manpower, operating business environment are a few of the many reasons to attract FDI.
- Apart from this, between FY10 to FY19, the FDI inflows have risen in the states/regions of Rajasthan, West Bengal and Karnataka at the CAGR of **31.44%, 30.11%** and **23.18%** respectively.

Entry Routes of FDI in India

FDI Entry Routes

Automatic Route

- In this case, The foreign investors do not need to take any permission or approval from Government of India or Reserve Bank of India before making any kind of investment.
- Here, FDI are usually made in the sectors which are less restricted and have more liberalized regulations.

Government Route

- In this case, The foreign investors have to take approval from the Government of India or Reserve Bank of India before making any kind of investment.
- Based on the nature and amount of investment, the FDI is approved by several departments. e.g. **Foreign Investment Promotion Board (FIPB)** considers investments up to Rs 5000 crores. Above this limit, the approval is made by **Cabinet Committee on Economic Affairs (CCEA)**.

Different Ranges of FDI Permitted under Automatic and Government Routes-

Some of the Sectors are as follows:

Type of Entry Route	Range of FDI Permitted	Sectors
Automatic	**100%**	i) Agriculture & Animal Husbandry, ii) Airports (Greenfield* & Brownfield**), iii) Automobiles, iv) Chemicals, v) Food Processing, vi) IT and BPM, vii) Petroleum & Natural Gas, viii) Pharmaceuticals (Greenfield), ix) Railway Infrastructure, x) Renewable Energy, xi) Roads & Highways, xii) Textiles & Garments, xiii) Thermal Power, xiv) Tourism & Hospitality
	Up to 100%	i) Medical Devices
	49%	i) Petroleum Refining (by PSUs), ii) Power Exchanges
	Up to 49%	i) Insurance
Government	**100%**	i) Core Investment Company, ii) Food Products Retail Trading, iii) Satellites-establishment and operation
	51%	i) Multi Brand Retail Trading
	49%	i) Broadcasting Content Services
	26%	i) Print Media (Publishing of newspaper, periodicals and Indian editions of foreign magazines dealing with news and current affairs)
	20%	i) Banking - Public Sector
Automatic + Government	**Up to 49% for both the routes**	i) Transport Services (Scheduled air transport services, regional air transport services), ii) Banking- Private Sector, iii) Defence, iv) Private Security Agencies, v) Telecom Services
	Up to 74% for both the routes	i) Biotechnology (Brownfield), ii) Healthcare (Brownfield), iii) Pharmaceuticals (Brownfield)

Some of the Prohibited Sectors for Foreign Direct Investment-

- Gambling and Betting
- Lottery business (including government/ private lottery, online lotteries etc)
- Manufacturing of tobacco, cigars, cheroots, cigarillos, cigarettes and other tobacco substitutes
- Business of chit fund
- Atomic Energy etc.

FDI Initiatives and Announcements in India

India is currently one of the most promising emerging markets in the world. The innumerable potentials of its sectors, labour force and natural resources are capable enough to attract the business giants across the globe. An effect of that can be visible from its rising FDI figures over the years and the multiple trade agreements and initiatives with other countries in the last few years.

Major Announcements

It has been announced by the Indian government in 2018 that the country currently aims to achieve **US$100 billion** by 2020. Along with the investment, special industrial clusters are being created for countries like Japan, South Korea, China and Russia where their companies can invest and operate.

In October 2018, VMware, a leading software innovating enterprise of US has announced investment of **US$ 2 billion** in India between by 2023.

In May 2018, Walmart acquired a **77%** stake in Flipkart. The **US$16 billion** Walmart-Flipkart deal marks a milestone in the world's largest e-commerce deal ever.

Ikea, the world's largest furniture retailer announced its long-term ambitious plan with India with an agenda of establishing 25 stores (in cities like Hyderabad, Bengaluru, Mumbai and many more) at a cost of **US$1.53 billion**.

International Finance Corporation (IFC), the investment arm of the World Bank Group, is planning to invest about **US$ 6 billion** through 2022 in several sustainable and renewable energy programmes in India.

A Draft National e-commerce policy has been released by the Indian Government in the first half of 2019 for specifying the rules and regulations for encouraging FDI in the marketplace model of e-commerce.

In 2018, the National Digital Communications Policy was released by government of India for increasing FDI inflows in the telecommunications sector to **US$ 100 billion** by 2022.

Government of India is also working on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.

Note:
*__Greenfield Investment__ – When the foreign investor invests in other countries for some new venture/business with some updated operational facilities

** **Brownfield investment** - This type of investment happens when a company purchases an already built production facility in other country.

Source: Department of Industrial Policy and Promotion, World Bank, Invest India, World Investment Report 2019, India Brand Equity Foundation, LSI Research