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Policy Initiatives of FDIs in India: Trend Analysis.

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ABSTRACT

FDIs (Foreign Direct Investment) have gained lot of importance in Indian economy. They provide mutual benefit to both origin as well as host countries. India has been an attractive market for FDI inflows and in specific, for the last two years, there has been an unnerving upsurge in the economic development of country. FDIs in India are allowed in most of the sectors and in this direction a major policy initiative called 'Make in India' campaign has been launched in 2014 to promote India as a major investment destination as well as a global hub for manufacturing, design and innovation. Further, the reforms in Indian FDI have aimed at easing, rationalising and simplifying the process of foreign investments and accept the proposals in automatic route. Therefore, this paper initiates to discuss some of the policies and recent trends in Indian FDI sector.

Key terms: *foreign institutional investors, liberalization, policy regime, macro-economic indicators, bureaucratic sloth.*

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I. INTRODUCTION

India has marked its presence as one of the fastest growing economies and placed in the top three attractive destinations for FDI inflows. Regulatory environment for foreign investments has been eased after liberalization of economy in 1991 to make the country investor-friendly destination. As major source of non-debt financial resource, FDIs always encourage foreign companies to invest in India with an advantage of relatively lower wages and special investment privileges and tax exemptions. Countries in which foreign investments are encouraged generally represent the enhanced scope of technical know-how and also generating employment.

The recent policy initiatives of Indian government and robust business environment created through 'Make in India', a campaign that has ensured a definite impact in the growth of foreign capital flows into the country. Reserve Bank of India (RBI) reported that the average FDIs are \$1094.45 million for the last twenty years (1995–2015) and touching an all-time high of \$5670 million in February 2008. However, the cumulative FDI flows since April 2000 until September 2015 accumulated to \$392,262 million that includes equity inflows, re-invested earnings and other capital. Table 1 shows accumulated FDI flows in the sectors attracting highest equity inflows and the share of top investing countries during the period of fifteen years.

Elaborating performance of FDIs, inflows in India has been increased primarily because of investments in infrastructure and services sector. As Department of Industrial Policy and Promotion (DIPP) stated, total inflows soared by 24.5 percent and reached to \$44.9 billion at the end of FY2015 as compared to \$36.0 billion in the previous year. However, inflows through

Foreign Investment Promotion Board (FIPB) have rose up by 26 percent and stagnated at $31.9 billion in 2015 as against $25.3 billion in the previous year. This is an indication of government's efforts to ease the policies favorable to promote business and relaxation of norms in FDI sector. For the same year, India has also received maximum FDI equity inflows from Mauritius, Singapore, Netherlands, Japan and the US. Obviously, this trend has been helped India's balance of payments (BoP) situation and stabilized the value of rupee in the foreign currency market. To boost the FDI inflows, India requires $1 trillion in its' 12th Five-Year Plan (2012–17) for funding of infrastructure such as highways, ports and airways.

With this introduction, this paper will discuss some key initiatives of attracting foreign investments as well as enhancing the economic growth of India to compete in the global business investment scenarios. Section II discusses the policy initiatives at global level, Section III specifies some policy initiatives in Indian FDIs and foreign investment trend and Section IV has conclusion.

Sector	***Equity inflows***		***Top investing countries***		***%age to total***
	Cumulative inflows	***%age to total***	***FDIs** source country***	***Cumulative inflows***	
*Services sector**	*206,893 (42,930)*	*17 %*	*Mauritius*	*431,347 (88,462)*	*35 %*
Construction development: townships, housing, built-up infrastructure	*113,142 (24,064)*	*10 %*	*Singapore*	*174,293 (33,325)*	*13 %*
Telecommunications (Radio paging, cellular mobile, basic telephone services)	*84,119 (17,062)*	*7 %*	*U.K.*	*109,871 (22,245)*	*9 %*
Computer software & hardware	*77,681 (15,726)*	*6 %*	*Japan*	*94,113 (18,467)*	*7 %*
Drugs & pharmaceuticals	*65,403 (13,140)*	*5 %*	*Netherlands*	*79,606 (15,045)*	*6 %*
Automobile industry	*68,098 (13,037)*	*5 %*	*U.S.A.*	*69,340 (14,143)*	*6 %*
Chemicals (Other than fertilizers)	*49,630 (10,388)*	*4 %*	*Cyprus*	*39,478 (8,062)*	*3 %*
Power	*47,324 (9,666)*	*4 %*	*Germany*	*40,701 (7,993)*	*3 %*
Metallurgical industries	*41,379 (8,584)*	*3 %*	*France*	*22,927 (4,567)*	*2 %*
Trading	*46,569 (8,502)*	*3 %*	*UAE*	*15,242 (3,064)*	*1 %*
Total of all sectors	*800,238 (163,099)*	*64%*	*Total*	*1,256,158 (252,238)*	*85%*

Table 1 – Top ten sectors of equity inflows and investing countries of FDI in India: 2000 – 2015.

Note: Items shows in ascending order of rankings based on the amounts in rupees crores (US$ in million).
*Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Technology Testing and Analysis.
**Includes inflows under NRI Schemes of RBI.*
Source: Department of Industrial Policy and Promotion, Government of India, Ministry of Commerce and Industry, Quarterly Fact Sheet. Accessed 8.12.2015 URL: http://dipp.nic.in/English/Publications/FDI_Statistics/2015/india_FDI_April2015.pdf

II. POLICY INITIATIVES AT GLOBAL LEVEL

The regime of systematic reforms of the global International Investment Agreement (IIA) has begun and heated up the discussions on the necessity to welcome the foreign investors and easing of regulations and policies across the world. All are shared their views and identified the need for reforms and to ensure IIA regime and the mutual advantages for stakeholders in FDI sector. Therefore, the policy measures are geared up towards promotion and facilitation to liberalize the investment environment. In due course of time, at the end of 2014 almost 80 per cent of policy measures for foreign investments in the world countries are targeted to simplify the procedures and eased the entry routes for foreign investments.

As shown in Table 2, total projected FDI inflows in the world are reaching $1.4 trillion in 2015 with a 11 per cent increase from previous year and it is also expecting that they reach up to $1.5trillion and $1.7trillion by 2016 and 2017 respectively. Even though these estimations are based on various macroeconomic indicators, the growth rate of FDIs would probably upended due to some observable factors include government instability because of coalition politics, spillovers and tensions due to weak relationships with other countries, and major consequences and vulnerabilities at international economic policies. Let us discuss some of these global trends and their link up with the status of FDI inflows to India.

Table 2 – Growth projections in FDIs by group of world economies ($billion)

Global FDI flows and group of economies	*Recent years (Growth rate)*		*Projections (Growth rate)*		
	2013	*2014*	*2015*	*2016*	*2017*
Global FDI flows	*1467 (4.6)*	*1228 (-16.3)*	*1368 (11.4)*	*1484 (8.4)*	*1724 (16.2)*
Developed economies	*697 (2.7)*	*499 (-28.4)*	*634 (23.8)*	*722 (13.9)*	*843 (16.7)*
Developing economies	*671 (5.0)*	*681 (1.6)*	*707 (3.3)*	*734 (3.9)*	*850 (15.8)*
Transition economies	*100 (17.0)*	*48 (-51.7)*	*45 (-2.3)*	*47 (5.3)*	*53 (12.3)*

Note: Excludes Caribbean offshore financial centres.
Source: UNCTAD. Accessed: http://unctad.org/en/PublicationsLibrary/wir2015_en.pdf

Following the trend of FDIs in United States, China and other European countries, investors are more optimistic about India because of its' dynamic demographics and large market spaces. United

Nations Conference on Trade and Development (UNCTAD) reported that India jumped to the ninth rank in 2014 on top ten FDI recipients in the world with a 22 per cent rise in FDI inflows to cross $34 billion. Chine is the largest recipient with $129 billion followed by USA with $92 billion. However, India is the only BRIC (Brazil, Russia, India and China) country that hasn't yet crossed the $50 billion-a-year. Among the top ten FDI recipients in the world, half are developing economies such as Brazil, China, Hong Kong (China), India and Singapore.

Despite the geopolitical risks and global corporate views, China and the United States are identified worldwide as the best investment locations together attracting almost 55 per cent of total investments followed by India, Brazil and Singapore contributed the remaining portion to occupy in top 5 destinations favorable to FDIs.

III. POLICY INITIATIVES AND FOREIGN INVESTMENT TREND IN INDIA

Expecting a good economic recovery gains in India, FDI inflows are likely to maintain an upward trend in 2015. In terms of sectorial composition, manufacturing sector has strengthened by major policy initiatives to revitalize the sector especially by launching 'Make in India' campaign in mid-2014. By this initiative, Indian government has identified 25 industries with a proven potential to become a world leader in manufacturing sector including automotive, chemicals, pharmaceuticals and textiles industries.

In the recent times, relaxation of FDI norms are to be resulted in enhanced inflows to attract investments in real estate and encourage development of layouts and plots for serviced housing in the light of shortage and high cost of land in urban agglomerations. This would definitely expect to encourage development of low cost affordable housing in the country. In addition, the cabinet of state also cleared for allowing 100 percent FDI in infrastructure for Indian railways.

Further, Cabinet Committee on Economic Affairs (CCEA) of India has raised the threshold of its approval for FDIs up to Rs.3000 crore ($ 469 million) from the present Rs.1200 crore ($ 187 million). This decision would result in increased foreign investment inflow. However, RBI supportive move for economic growth also needs to be reciprocated in this direction.

Recently, Indian government eases FDI norms in 15 major sectors including banking, construction, shopping centres, duty free stores, medical devices, white label ATM operations, coffee and palm oil plantations, insurance, and pension sector etc. Even, India's defence sector is struggling in attracting FDIs since the economy was liberalized; now they are allowing foreign investments up to 49 percent from the earlier 26 percent in military and security services. However, all these investments are allowed through government approval route and others are allowed through automatic route where no central government permission is required. It is also planning to increase the limit in more sectors in the automatic approval route to attract more investments.

Table 3 provides FDI inflows to India through automatic route and the proportion of net Foreign Institutional Investors funds (FIIs) reaches up to $1.81 million by September 2015. These investments have been increased during 2004 – 05 until 2008 – 09. Net investments by FIIs in 2008 – 09 declined to $15 million due to the increase in net outflows from the equity segment. Moreover, majority of these foreign funds are coming to India through government approval routes and this trend has been changed to get the approval through automatic route since 2008.

This was benefited to maximize the inflows in specific sectors such as telecommunications, energy, electrical equipment, transportation, chemicals, and the services sector.

Table 3 – FDI inflows to India: 2000 – 2015. *(US$ million)*

No.	Year (from April 2000 to September 2015)	Total FDI flow	%age growth over previous year (US$)	Investment by FII's	Equity inflows through automatic route
1	2000-01	4,029	--	1,847	2,339
2	2001-02	6,130	52 %	1,505	3,904
3	2002-03	5,035	- 18 %	377	2,574
4	2003-04	4,322	- 14 %	10,918	2,197
5	2004-05	6,051	40 %	8,686	3,250
6	2005-06	8,961	48 %	9,926	5,540
7	2006-07	22,826	155 %	3,225	15,585
8	2007-08	34,843	53 %	20,328	24,573
9	2008-09	41,873	20 %	(-) 15,017	31,364
10	2009-10	37,745	- 10 %	29,048	25,606
11	2010-11 (P)	34,847	- 8 %	29,422	21,376
12	2011-12 (P)	46,556	34 %	16,812	34,833
13	2012-13 (P)	34,298	- 26%	27,582	21,825
14	2013-14 (P)	36,046	5%	5,009	24,299
15	2014-15 (P)	44,291	23%	40,923	30,933
16	2015-16 (P)	24,409	- 44%	(-) 9,391	16,631
Cumulative total		392,262	--	181,200	266,829

Sources:(i)RBI's Bulletin November, 2015 dt.10.11.2015. Accessed URL: http://dipp.nic.in/English/Publications/FDI_Statistics/2015/FDI_FactSheet_JulyAugustSeptember2015.pdf

(ii)(P) all figures are provisional

(iii)Total FDI Flow = FIPB Route/ RBI's Automatic Route/ Acquisition Route + Equity capital of unincorporated bodies + Reinvested earnings + Other capital.

IV. CONCLUSION

India is ahead of attracting FDIs. Major policy initiatives of government encouraging investors and in this process many global companies are willing to invest in India while they are searching for an alternative to other major favourable destinations for FDIs in the world. In recent times, India has been identified as one of the fastest growing economies ahead of China. To seize the market opportunities as well as to make the country more investor-friendly, Indian government started 'Make in India' campaign promising to remove bureaucratic sloth for investment approvals. Even the major manufacturing powerhouse including Japan and China are responded positively to the campaign and has committed to invest $35 billion and $20 billion respectively in over a five year period. The overall trend in investments inflows in India is also more positive with a 155% rise over the previous year in FDIs. To conclude, the climate of investments indicates the faith that has reposed in the country's economy with a witness of recent reforms in the FDI sector initiated by the government towards ease of doing business.

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