
Foreign Direct Investment Trends in India in 21st Century**Mr. Ajay Garg* and Dr. Parul Khanna******Research Scholar**School of law and Management, Singhania University,
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Abstract: India's love with foreign equity funding got right direction with onset of liberalization era which started in early 1990's. Initially, the Indian leadership was hesitant and the policy was very selective. Erstwhile FERA (Foreign Exchange Regulation Act) used to be dreaded and very few dreaded to afford FERA violation. The year 2000 was another watershed year as this year saw FERA getting replaced with FEMA (Foreign Exchange Management Act), 2000. Foreign equity investor also tested the Indian market and realized the potential. The appetite for making investment in Indian economy by foreign equity holders was matched by frequent and timely liberalization in FDI policy by Government of India. The journey which started in early 1990's has matured and of late Indian economy has become favoured FDI destination worldwide. This paper analyses FDI trends in Indian economy in 21st Century on the basis of analysis of secondary data. An attempt has also been made to analyse the prime reasons for increasing volume of FDI in Indian economy.

Keywords: Foreign Direct Investment Trends; FDI Trends in 21st Century; Make In India; Opening of Various Sectors for Foreign Equity; Foreign Direct Investment (FDI) Policy.

1. Introduction

The world is shrinking. In commercial sense, this is absolutely true. Until, 20th century, there used to be great divide in terms of capital intensive economies and labour intensive economies. In 21st century trends have changed. Labour intensive economies are making killing through export of human capital and getting huge and regular remittances in the family accounts of residents working abroad. Similarly, capital intensive economies are also making killing through equity investments in capital starved economies and cornering larger market share with cheaper production cost and earning foreign exchange as dividend income, technology transfer fees, and technical know-how fees and so on. In global perspective, this is win-win model for both investor and investee countries. The capital rich countries provide less attractive investment opportunities in comparison to capital starved countries. This situation compels super rich to look for earning opportunities beyond the boundary of parent country. In 21st Century, all nations, yes all nations be it developed or developing nations are competing with each other to attract foreign investment. Geographically, India is 7th largest country in the world. Population wise, India is second largest country in the world. In terms of youth population, India's rank is first in the world. In terms of GDP, Indian economy is amongst first four economies of the world. Indian economy is fastest growing large economy of the world. Licensing era is over, Inspector raj is just at the fag end. Self certification and self assessment are two new trends. MAKE IN INDIA is new buzzword. Substantial Improvement in EoDB (Ease of Doing Business) ranking is new target for Indian government. Proactive approach to regularly review FDI policy and opening of hitherto closed sectors and increasing FDI limits in regulated sectors has been cheered by the global investors looking for solid investment opportunities.

2. FDI Defined

'FDI' means investment by non-resident entity/person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000. Foreign Direct Investment popularly known as FDI refers to direct investment by foreign entities in business entities of domestic economies. In layman's term, In reference to Indian economy, any investment made by non-Indian person is referred as FDI. However, one shall note that Investment is entirely different from loans internationally known as borrowings. In two critical aspects, investment is different from loans – one, irrespective of profits, loan attracts regular serving costs in the form of interest payments at regular intervals; two, loan has pre-fixed repayment date. Whereas equity needs to be served only in case of profits and doesn't carry pre-fixed repayment date. Recently in one of the speech, the Prime Minister of India gave altogether new meaning to FDI by way of defining it as 'First Develop India'. Literally, FDI works like that only – the investor get back profits in the form of dividend only when the project in which funds are invested is commercially successful. Global funds move from one economy to another economy in a number of ways: remittances for goods and / or services; in the form of foreign aid by one Government to another Government; as loan by one economy to another economy; as capital invested in business ventures by residents of one economy in another economy; by way of borrowings by entities on one economy to the entities of another economies; contribution for social cause known as charities and so on.

In Indian economy, the FDI is allowed through two routes as per the following details:

- **Automatic Route:** Under this route, FDI inflow is possible without prior approval. Master Circular on FDI policy is issued every year by Department of Industrial Policy and Promotion (DIPP). Under automatic route, the FDI is required to be reported in time bound manner to Reserve Bank of India through Authorised Dealer mechanism. This is an important route of FDI.
- **Approval Route:** Under this route, FDI inflow is possible with prior approval. Indian Government has established Foreign Investment Promotion Board (FIPB) who looks into FDI proposals which are beyond the prescribed sectoral limits or for the sectors which are still not open for FDI. This is prime route of substantial FDI. Here also, the recipient is required to intimate RBI through Authorised Dealer mechanism.

For the ease of understanding Foreign Direct Investment can also be termed as foreign ownership in Indian business entities. For the purpose of analysis, this inflow can be sub-divided into the followings:

- i. **FIPB Route:** This is approval route. Each project is separately vetted by the FIPB Committee. FIPB issues approval letter. This route is required wherever, FDI is either not allowed or foreign investor seeks to invest beyond sectoral limits.
- ii. **Automatic Route:** Investment under this route is in compliance of sectoral limits fixed in FDI Policy issued by DIPP. Pre-approval is not required but time based intimation is required at various stages of investment.
- iii. **Acquisition Route:** Refers to acquiring stake in already running business through transfer of shares by resident in favour of non-resident.
- iv. **Investment in Unincorporated Entities:** India's FDI policy has evolved with passage of time. Now, unincorporated bodies (like partnership firm, etc.) are also allowed to have FDI in their business.
- v. **Re-invested Earnings:** Earnings can be either distributed amongst shareholders/owners or can be re-invested in business. Re-invested earnings are also considered in the aggregate quantum of FDI
- vi. **Other Capital:** The foreign investment which cannot be bracketed in any of the above categories is considered here.

In India, FDI is required to be reported at various stages. At the time of receipt of inward remittance – within one month of receipt; at the time of allotment of shares – within one month of allotment; through annual return – every year within six months of closure of accounts or by 30th June.

In India, FDI reporting process is robust. The process is

- a) the recipient of FDI (both approval route as well as automatic route recipients) are required to inform Authorised Dealer(s) in time bound manner at various stages: (i) at the time of receipt of FDI; (ii) at the time of issuance of Shares / transfer of shares; and (iii) annually through Annual

Information Return. Recipient has to submit duly filled and authenticated forms along with necessary annexure to Authorised Dealers.

- b) Authorized Dealer need to intimate to Regional Offices of RBI.
- c) Regional offices of RBI reports to their central offices after approving the same.
- d) On regular basis, RBI sends consolidated data to DIPP.
- e) DIPP releases the FDI data in public domain.

3. Objectives of the Study

The objective of the study is to (i) To analyse the trend of FDI in 21st Century; (ii) To assess the quantum of FDI; (iii) To Identify the factors impacting FDI trends; (iv) To Identify factors to maintain global leadership in attracting FDI; (v) To Assess quantum under various routes and its relevance.

4. Research Methodology

This research paper is entirely based on analysis of secondary data. While collecting the secondary data, the abundant pre-caution has been taken to use only authentic source. The periodicals; annual reports; tables, charts, etc. published / available in public domain has been relied upon while collecting secondary data. Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India is responsible for maintenance and management of data on inward FDI into India. DIPP maintains and releases FDI data on the basis of remittances reported by RBI. Central Office of RBI collates information received from Regional Offices of RBI who receives information from Authorized Dealers. The recipients are duty bound to forward FDI related information to Authorised Dealers in time bound manner. The collected data has been used selectively depending upon the relevance to the topic of research. Statistical tools have been applied to develop charts for showing FDI trends.

5. Results and Discussion : Analysis of the Trend

FDI volume

Total FDI Inflow was pegged at 4029 million USD in 2000-01. This became more than two four-fold in next five years and reached the level of 8961 million USD by the year 2005-06. Next year saw quantum jump in FDI Inflow. During the year 2006-07, FDI inflow increased to 22,826 million USD registering an increase of more than 150%. The year 2007-08 was also very good year where FDI Inflow registered another increase of more than 50% on YoY basis. In current times, FDI inflows have increased to more than 40 billion USD on yearly basis. This signals faith of global investors in the growth story of India. Amongst large economies, India's GDP growth rate also continues to be highest.

Sectoral Liberalization

After stupendous success of initial experiment with FDI, the Government of India has successively liberalised the sectoral limits. There are apprehensions about safety, security and commercial interest of the nation. This has been noticed that initially, FDI in prohibited sector (at that time) are allowed under Approval Route; thereafter under Automatic Route, 26% FDI is allowed followed by raising this sectoral

limit to 49% further allowing majority stake and finally allowing 100% FDI through automatic route. This trend has been noticed in almost all sectors of economy.

During recent past, the liberalization process has continued.

- Press Note 5 of 2016: 100% FDI under Automatic route is allowed for airports as green filed projects as well as existing projects.
- Press Note 4 of 2016: 100% FDI under automatic route is allowed in Asset Reconstruction Companies.
- Press Note 1 of 2016: 49% FDI under automatic route allowed in Insurance Companies as well as other intermediaries in insurance sector.
- Press Note 2 of 2015: 100% FDI has been allowed under automatic route for manufacture of medical devices
- Press Note 3 of 2015: In insurance sector, now FDI up to 26% is allowed under automatic route and up to 49% under approval route.
- Press Note 7 of 2014: The Government has allowed 24% FDI in defence under automatic route and up to 49% under approval route;
- Press Note 8 of 2014: the Government has allowed 100% FDI under automatic route in railway infrastructure subject to certain conditions
- Press Note 10 of 2014: The conditions for FDI in construction development sector have been relaxed in terms of area restrictions, minimum capitalization limit, exit conditions
- Press Note 1 of 2012: In Single Brand retailing 100% FDI was allowed under Approval Route
- Press Note 3 of 2012: Pakistani citizen and/or entities registered in Pakistan were allowed to make investment in India under approval route as per FDI policy except in defence, aerospace and atomic energy.
- Press Note 5 of 2012: Upto 51% FDI was allowed in Multi-Brand Retailing under Government Route.
- Press Note 6 of 2012: Allowed foreign airlines to acquire stake up to 49% in civil aviation sector.
- Press Note 8 of 2012: Allowed 49% FDI in Power exchanges registered under the Central electricity Regulatory Commission (Power Market) Regulations, 2010

FDI Inflow in Unincorporated Bodies: The FDI in unincorporated entities has hovered between 1% in 2000-01 to 2.1% in 2014-15. In % age terms, this was highest in the year 2007-08 clocking around 6.5%. In absolute terms, there is robust growth in FDI in Unincorporated entities till 2007-08. During this period, FDI in unincorporated entities which was mere 61 million USD in 2000-01 increased to 2291 million USD million. Thereafter, this has decelerated and in the year 2014-15, it touched low of 952 million USD.

Investment by FII's Foreign Institutional Investors Funds*: During the period of 15 years, Indian economy has seen flight of capital in the year 2008-09 when net inflow of FDI by FII turned negative to the tune of 15017 million USD otherwise it was positive for all other 14 years. FII investment has

registered quantum leap. In the year 2000-01, it was 1847 million USD whereas in the year 2010-11 this reached to the crescendo level of 27,562 million USD.

6. Conclusions : Findings

This is heart warming to note that India has reached very near to No. 1 position in terms of FDI. India is likely to reach No. 1 position and retain it for fairly long time subject to absence of very big natural disaster and/or war with its neighbour either China and/or Pakistan. Today India's FDI policy carries small list of prohibited sectors. Prohibited sector comprises: (i) Lottery Business including Government/private lottery, online lotteries, etc. (ii) Gambling and Betting including casinos, etc. (iii) Business of Chit Fund (iv) Nidhi Company (v) Trading in Transferable Development Rights (TDR) (vi) Real estate Business or construction of farm houses (vii) Manufacture of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes (viii) Activities/sectors not opened up to private sector investment including atomic energy and railway transport. All other sector stand either fully opened or partially opened for receipt of FDI.

Sectoral Liberalization: The Government of India is proactive on the matters of FDI. FDI policy is issued every year by DIPP with sunset clause (means validity period is over on completion of one year). Of late, the FDI Policy has become Master Circular, i.e. that this comprises all earlier circular at one place. Even during this short period of one year, FDI policy is reviewed from time to time and liberalization continues and is reflected in public domain by way of Press Note and is issued by DIPP.

FDI Inflow in Unincorporated Entities: During the period under study, FDI in unincorporated bodies is in single digit. This shows that non-corporate entities have failed to evoke interest of foreign investors. Foreign investor is more comfortable in putting equity capital in business entities which are incorporated. It seems that less credibility; shakiness in decision making mechanism; unlimited liability; lack of sustainable management; relatively small sizes of business; lack of exit options are main reasons for this response.

Investment by FII's Foreign Institutional Investors Funds: This is floating investment. The inflow and outflow both continues during the year. Primarily, FIIs put money in listed business entities and move out of the market at very short interval. On YoY basis, this is possible to have negative inflow of FDI by the FII. India has also felt wild fluctuation in flow of FDI by FIIs. Net flow of FIIs directly impacts share prices of listed entities in stock market.

7. Suggestions and Recommendations

Government of India seems to be on right path. To attain numero uno position in the world and subsequently to maintain that position, in terms of attracting FDI, India has to move fast on next generation reforms and remove impediment in growth of various sectors of economy and in particular of manufacturing sector. Aspects critical to sustaining the momentum of FDI inflows are as under:

Removal of Complexities in FDI Policy: With each passing year, India's FDI policy is becoming complex document. As on date this is possible to have more than one interpretation about eligibility, caps, approval requirement, SSI sector and so on. Retail sector itself has become complex due to large number of press notes followed by powers assigned to State Governments deciding either in favour of Retail FDI or against it. Same is the story of Construction activities. Confusion due to complexities is leading to litigation, penalties and prosecution for violation of policy document. The need of the hour is that FDI Policy document should be made as simple as possible.

Relook at Sectoral Caps: Though the successive governments are proactive on FDI and increasingly relaxed sectoral limits and have brought mire sectors under Automatic route. But this is time to have fresh look and relax the policy guidelines further by way of shifting activities form Approval route to Automatic Route; increasing sectoral caps and developing alternative instruments. But there is a caveat that safety, security and commercial interest of the Indian economy need to be protected while going for any relaxation move.

Further Opening Up of Economy: India is capital shy economy. Government makes investment in sectors where private sector is either unwilling or do not see money making opportunity. Whereas specific sector need push either in terms of technology or in terms of capital, there Government relaxes FDI policy so that capital inflow riding on technology wave can enter the doors of Indian economy. In recent years, Government of India has opened up Atomic Energy, Defence manufacturing, Aerospace, Medical device manufacturing. There is need to have relook about opening up of education sector (to upscale standard of education); R&D and Innovation Sector (as private sector of India is not interested in pursuing these); Mining sector including coal mining; insurance sector; pension fund sector and many more.

Labour Laws Reforms: The present Government of India has started two important initiatives. One of these initiatives is 'Make in India'. Success of Make In India campaign is dependent upon labour law reforms which can are aptly be named as Next Generation Reforms. There are too many restrictions (ad-hoc labour, induction, minimum wages, bonus, social security schemes, exit and termination of services, inspector raj); unachievable compliances; multiplicity and complex structure of labour laws; cumbersome records and absence of labour law professionals; impractical laws detached from ground realities. The need of the hour is : flexible laws; ease of compliances; self certifications; Single enactment for social security; Improved Online services for submission of challan and periodic returns (resulting in breaking shackles of corruptions); flexi working hours; relaxations about women employees and so on. Politically, this would be difficult task.

Ease of Doing Business: Initiatives under (EoDB) Ease of Doing Business shall not end with Ease of Starting Business. But these initiatives shall move forward. Procedural difficulties in relation to periodic compliances; maintenance of records; inspection, survey and investigation procedures; synchronisation of various dates shall also be addressed so that business environment improves many notches.

Minimum Governance: Global investors usually complain about too much interference by Government machinery in day to day activities of business entity. This is one of the reasons which discourage number of potential investors from entering Indian economy. For attaining the goal of minimum governance, the Government has to look towards reforms in terms of multiplicity of department specific registrations; separate audits by each departments; multiplicity of indirect taxes; complex laws coupled with not only exceptions but also with exceptions of exceptions; too many procedural restrictions in terms of physical movement, movement from one business to another business, technology adoption and so on. In terms of business environment, minimum governance means maximum compliances with minimum interference by the Government agencies.

FINANCIAL YEAR- WISE FDI INFLOW DATA*:

(Amount US\$ million)

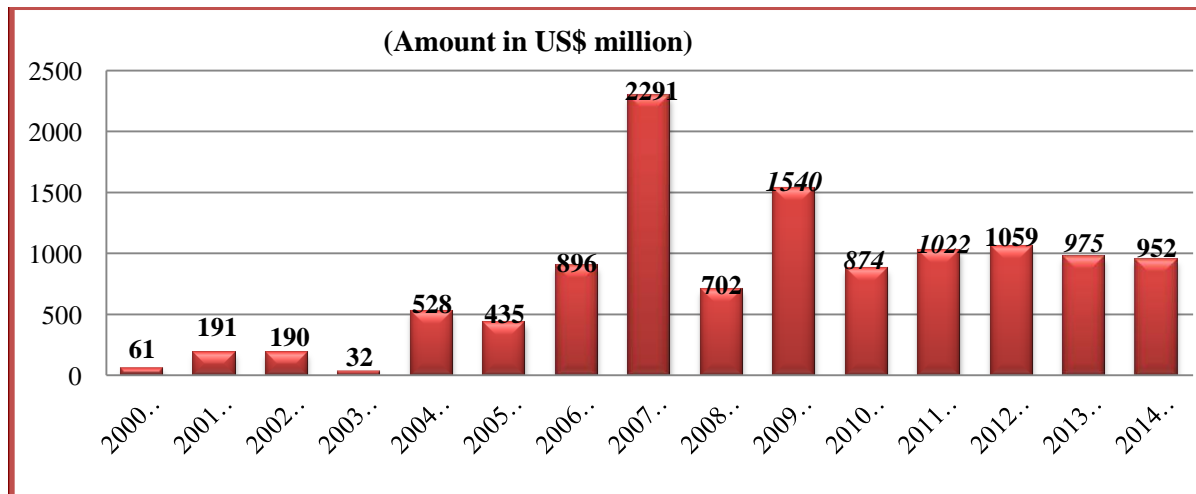
S. No.	Financial Year (April – March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional Investors' Fund (net)
		Equity		Re-invested earnings +	Other capital +	FDI FLOWS INTO INDIA		
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI Inflows	%age growth over previous year	
FINANCIAL YEARS FROM 2000-01 TO 2015-16 (UPTO MARCH 2016)								
1.	2000-01	2,339	61	1,350	279	4,029	-	1847
2.	2001-02	3,904	191	1,645	390	6,130	(+) 52 %	1505
3.	2002-03	2,574	190	1,833	438	5,035	(-) 18 %	377
4.	2003-04	2,197	32	1,460	633	4,322	(-) 14 %	10918
5.	2004-05	3,250	528	1,904	369	6,051	(+) 40 %	8686
6.	2005-06	5,540	435	2,760	226	8,961	(+) 48 %	9926
7.	2006-07	15,585	896	5,828	517	22,826	(+) 155 %	3225
8.	2007-08	24,573	2,291	7,679	300	34,843	(+) 53 %	20328
9.	2008-09	31,364	702	9,030	777	41,873	(+) 20 %	-15017
10.	2009-10	25,606	1,540	8,668	1,931	37,745	(-) 10 %	29048
11.	2010-11	21,376	874	11,939	658	34,847	(-) 08 %	29422
12.	2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34 %	16812
13.	2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26%	27582
14.	2013-14 (P)	24,299	975	8,978	1,794	36,046	(+) 5%	5009
15.	2014-15 (P)	30,933	978	9,988	3,249	45,148	(+) 25%	40923
16.	2015-16(P)	40,001	1,042	10,049	4,365	55,457	(+)23%	(-)3,516
CUMULATIVE TOTAL (from April, 2000 to March, 2016)		290,199	12,816	101,197	19,955	424,167	-	187,075

Source: - (i) RBI's Bulletin February, 2016 DT. 10.02.2016 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).

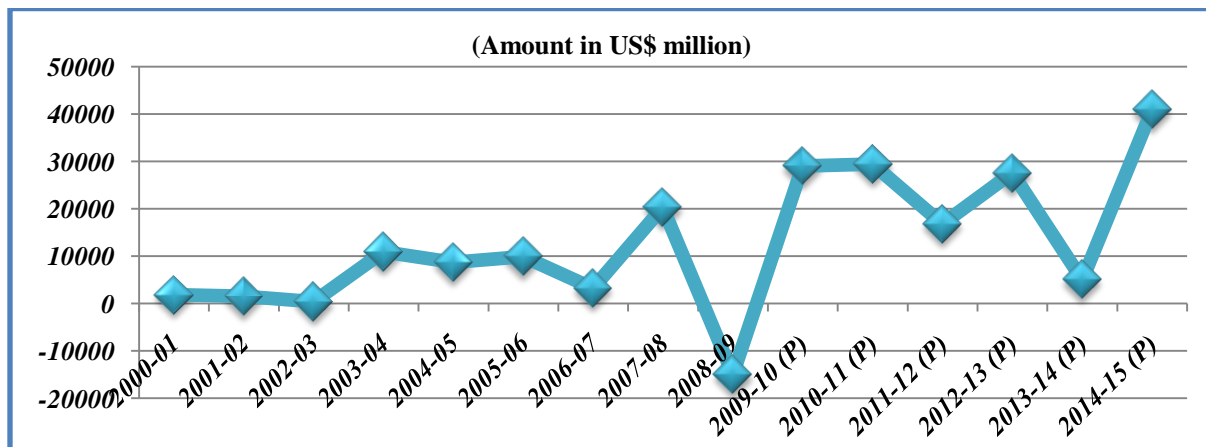
http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_JanuaryFebruaryMarch2016.pdf

Figures for equity capital of unincorporated bodies for 2010-11 are estimated. (P) All figures are provisional.

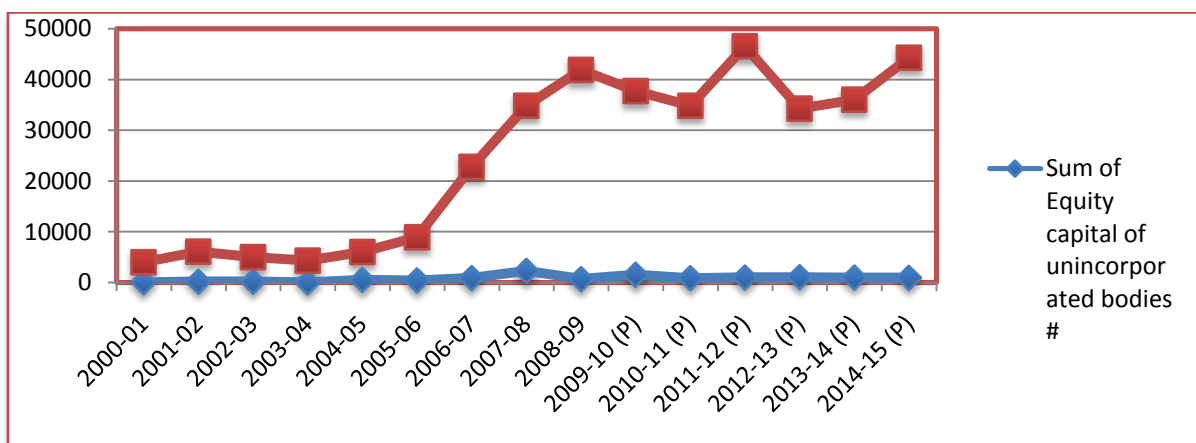
❖ **Chart showing FDI Inflow in Unincorporated Bodies**



❖ **Graph showing Investment by Foreign Institutional Investors**



❖ **Graph showing Investment in unincorporated bodies as compared to total FDI inflow.**



Note: Figures pertaining to financial year 2015-16 (P) are not considered while preparing the Charts.

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