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PRESENT TREND ANALYSIS OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

Foreign Direct Investment (FDI) in India is the major monetary source for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment of India. India allows FDI in most sectors through the Automatic route, but in certain segments that are considered sensitive for the economy and security; the proposals have to be first cleared by Foreign Investment Promotion Board (FIPB).

In India, FDI inflows have raised rapidly, from $24 billion in 2012 to $44.2 billion in 2015 — a seven-year high. This increase is also fairly broad-based. It is not just the e-commerce (trading) sector that has received more inflows; but other sectors such as computer software and hardware, construction, services, autos and the telecom sectors also account for a large share of the increase.

Key-Words: FIPB, FDI, GIIN, M&A.

INTRODUCTION

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments in India during April-September 2017 stood at US$ 33.75 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for April-September 2017 indicates that the telecommunications sector attracted the highest FDI equity inflow of US$ 6.08 billion, followed by computer software and hardware – US$ 3.05 billion and services – US$ 2.92 billion. Most recently, the total FDI equity inflows for the month of September 2017 touched US$ 2.12 billion.

During April-September 2017, India received the maximum FDI equity inflows from Mauritius (US$ 11.47 billion), followed by Singapore (US$ 5.29 billion), Netherlands (US$ 1.95 billion), USA (US$ 1.33 billion), and Germany (US$ 934 million).

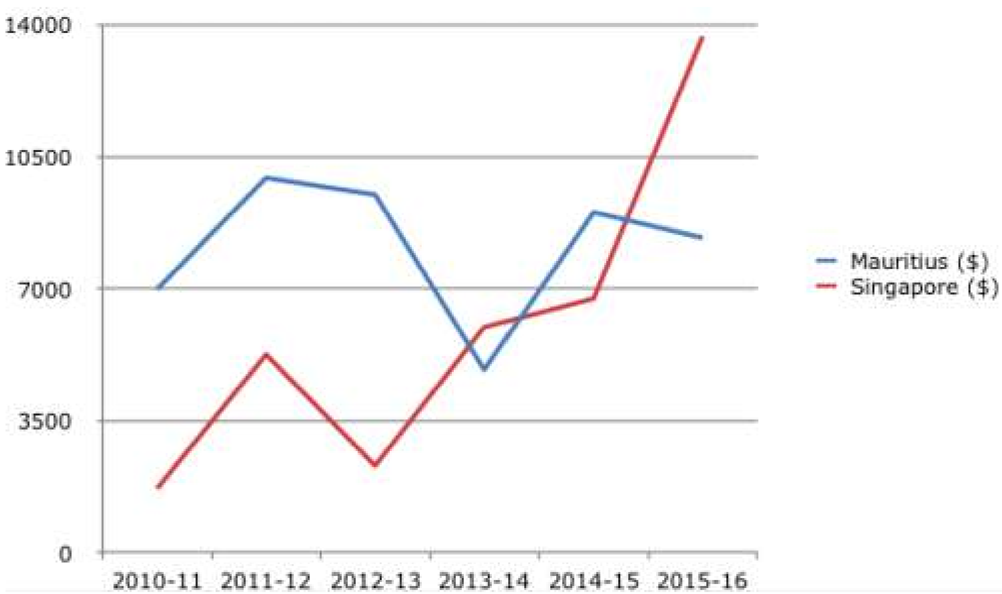
Indian impact investments may grow 25 per cent annually to US$ 40 billion from US$ 4 billion by 2025, as per Mr Anil Sinha, Global Impact Investing Network's (GIIN's) advisor for South Asia.

Sources of foreign direct investment in India

By catching the attention of the economies worldwide, India has been able to gain a huge sum by the way of equity inflows. Singapore has become the largest investor with total investment of $13.69 billion during the financial year 2015-16. Followed by Singapore are the economies including Mauritius and USA investing $8.35 and $4.19 billion respectively. The aggregate Merger and Acquisition (M&A) deals as well as the private equity deals, which are the methods of foreign direct investment inflow, have grown up 2 times from last year of 2015 (IBEF, 2016a).

Foreign direct investments in India have shot up 318.2 times starting from the year 1991 to 2005, from $129 million in 1991-92 to $41050 million (Dutta & Sarma, 2008). Before the year 2015-16, Mauritius was the top most investor in the country as succeeded by Singapore. Still, the country is the major investor with its cumulative percentage share to total inflows being 34% more than double the percentage of Singapore.

The report of department of industrial policy and promotion has shown that India has been able to gain value in various sectors including the service sector, information technology (IT) sector, automobile industry, pharmaceutical sector, power industry and construction business from the period of 2000 untill 2015.

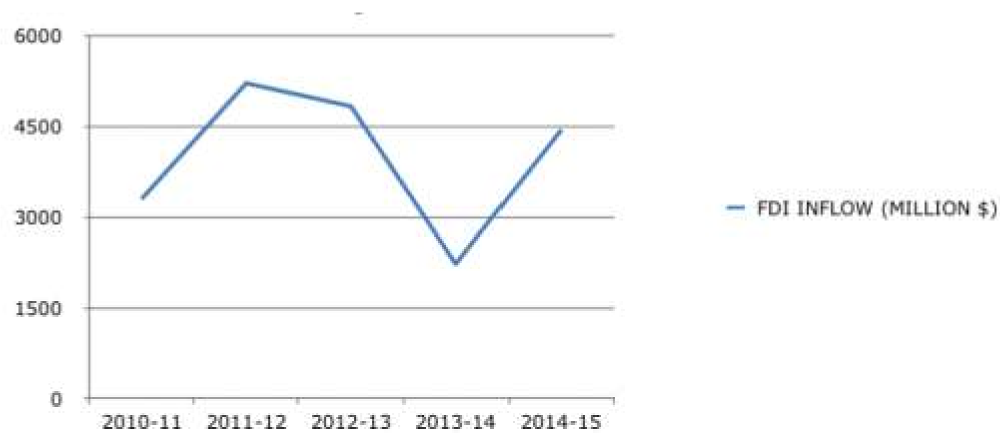


Major sources of foreign direct investment in India

Trends of foreign direct investment in the service sector

The service sector has been able to draw the highest amount of foreign direct investment equity in the country, totaling up to $240.57 billion during 2000-2015. In 2015 the total amount of foreign direct investment in this sector amounted to $27.63 billion (DIPP, 2015). From 1991-2000, the share of service sector in the foreign direct investment in India was 15.2% as compared to the share in 2000-2011 being 19.9%.

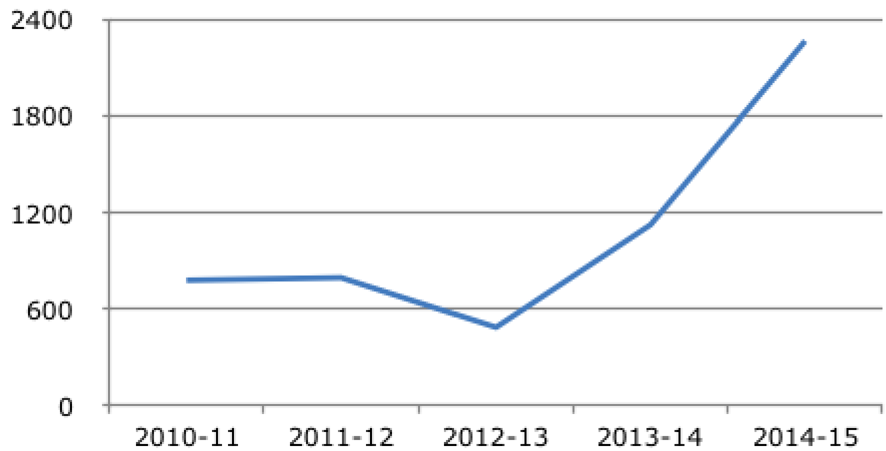
The notable increase in the foreign investments in service sector from the year 2014 was due to the current government coming in power and introducing more investor friendly climate. The major reason of such rise in foreign direct investment in this respective sector includes the various initiatives taken by the government. The investment cap has rose in various sectors including the insurance sector from 26% to 49% and others including defence and railways. Changes in the timelines of the approval of foreign direct investment projects have also contributed to such growth of investment in this sector (IBEF, 2016).



Inflow of foreign direct investment in service sector

Trends of foreign direct investment in the information technology sector

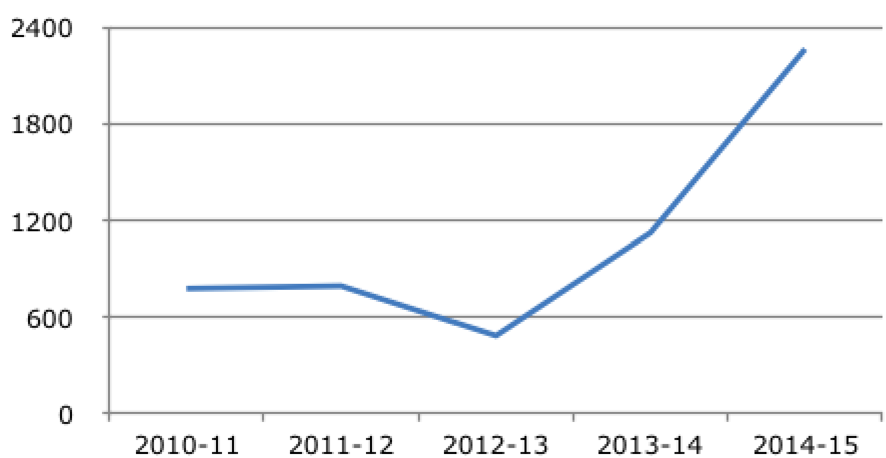
The information technology sector is the second most attractive industry for foreign investments in India. The total inflows in this sector have reached the mark of $108.13 billion in 2015 since 2000 and in the year 2015 it amounted to $34.3 billion (DIPP, 2015). Some notable motivation in this regard is that the IT industry in the country is rapidly growing and availability of cheap labour that is highly attracting the companies from the overseas market. Again the turning year in this regard is the year 2014.



Inflow of foreign direct investment (in million $) in hardware and software industry

Trends of foreign direct investment in construction industry

The construction business is again a major sector attracting foreign direct investment in the country from the past 15 years. The industries draw $113.8 billion foreign direct investment starting from the year 2000 till 2015. Various initiatives introduced by Indian government such as Make in India helps to attract large amount of foreign direct investment in this sector. However the influx of foreign direct investment in the year 2015 dipped to $0.67 billion (DIPP, 2015). It is observed that even though the amount of investment is decreasing from the year 2011 itself, but its cumulative inflows from the year 2000 have been the second highest, only after service sector. The rise of foreign direct investment in such sector owes it to the rising opportunities in power sector including power generation, distribution, transmission and equipment. Besides, infrastructure sector has also gained momentum on an average from the year 2000. Foreign direct investment in construction sector contributes 9% to the total foreign direct investment inflows in the country (IBEF, 2016b).



Inflow of foreign direct investment (in million $) in construction sector.

COMPARITIVE ANALYSIS WITH FDI INFLOW IN CHINA

Even though China continues to attract larger FDI inflows than India in absolute terms, India has started to close the gap, when FDI is measured as a share of GDP. FDI inflows into China have moderated to 2.3 per cent of GDP in 2015, from 2.6 per cent in 2014. During the same period, FDI inflows into India rose to 2.1 per cent from 1.7 per cent.

Additionally, one could also argue that the quality of FDI inflow into India is much better. Over the last decade or more, China has accumulated a large stock of FDI. As a result, almost half of the FDI inflow into China includes retained earnings. In contrast, almost three-quarters of FDI inflows into India are fresh equity infusions.

Roots of foreign direct investment

Foreign Direct Investment has been able to expand its roots in the country and is still the prospects of investment is higher. The business environment in India has become investor friendly because of the various policies formed by the government that are promising in this regard. Some notable policies have been made in the sectors mentioned above that can prove to be advantageous in the coming period of time for the economy of the country.

The construction industry is going to have a higher reach in the country as the Government has proposed to work under the Public Private Partnership projects in the infrastructure projects. Along with it, the government has also proposed some major reforms in the IT sector by making the fund raising norms easier and simplifying the taxation rules. Investment in financing, insurance, business sector and the real estate sector attracted towards the tax haven countries as the rules for foreign investors were complex. Besides, allowing 100% foreign direct investment in Asset Reconstruction Companies will surely help in extending the roots of foreign investments in the country.

As far as the growth of service sector is concerned, more value to the service sectors including the health, transport, tourism, communication and education has only lead to such sector becoming the top most sectors for investments in the country. It is because the government is taking steps towards digitization of the nation.

FDI IN DIFFERENT SECTORS IN INDIA & GOVERNMENT MEASURS - AT A GLANCE

The Government eased FDI norms in November, 2015 in 15 major sectors, raising the Foreign Investment Promotion Board (FIPB) approval limit from Rs 3,000 crore to Rs 5,000 crore. In defence, the government has allowed foreign investment up to 49 per cent under the automatic route, earlier under the government approval route. Investments over 49 per cent will now be cleared by the FIPB instead of the Cabinet Committee on Security. Portfolio investors and foreign venture capital firms can also invest up to 49 per cent as against 24 per cent earlier. In banking, the government has introduced full fungibility, meaning FIIs/ FPIs/ QFIs can now invest up to the sectoral limit of 74 per cent subject to the condition that there is no change in control and management of the private bank. Manufacturers have been allowed to sell their products through e-commerce without government approval. Recently, 100% Foreign Direct Investment (FDI) is permissible in online retails through automatic Route in India.

Apart from this, the government is currently working on a proposal to completely ban foreign direct investment (FDI) in the tobacco sector. At present, FDI is permitted in technology collaboration in any form, including licensing for franchise, trademark, brand name and management contract in the tobacco sector. The Commerce and Industry Ministry is proposing to even ban FDI in licensing for franchise, trademark, brand name and management contract in the sector which would eventually mean that FDI would be totally banned in tobacco segment in any form. India in Early May, 2016 signed the protocol amending the Double Taxation Avoidance Agreement (DTAA) with Mauritius. The DTAA was a major reason for a large number of foreign portfolio investors (FPI) and foreign entities to route their investments in India through Mauritius. FIPB will also take up **12 FDI proposals on May 20th 2016**. NRI investments in real estate have also been simplified to encourage the inflow of funds. The Government of India has put in place a liberal and transparent policy for investment from overseas Indians. Most of the sectors are open to Foreign Direct Investment (FDI) under the automatic route. Indian holding Indian passports and PIOs to buy residential and commercial properties in India.

SECTORS WHERE FDI IS NOT ALLOWED IN INDIA UNDER THE AUTOMATIC ROUTE AS WELL AS THE GOVERNMENT ROUTE

FDI is prohibited under Government as well as Automatic Route for the following sectors:

- Retail Trading
- Atomic Energy
- Lottery Business
- Gambling and Betting
- Housing and Real Estate business
- Agriculture (excluding Floriculture, Horticulture, Development of Seeds, Animal Husbandry, Pisciculture and Cultivation of Vegetables, Mushrooms etc. under controlled conditions and services related to agro and allied sectors).
- Plantations (Other than Tea plantations).

Recent developments in FDI Sector:

India has become the fastest growing investment region for foreign investors in 2016, led by an increase in investments in real estate and infrastructure sectors from Canada, according to a report by KPMG.

Some of the recent significant FDI announcements are as follows:

- In September 2017, 15 Japanese companies including Moresco, Toyoda Gosei, Topre and Murakami, signed memorandums of understanding (MoUs) with an intention to invest in the state of Gujarat.
- Singapore's Temasek will acquire a 16 per cent stake worth Rs 1,000 crore (US$ 156.16 million) in Bengaluru based private healthcare network Manipal Hospitals which runs a hospital chain of around 5,000 beds.
- France-based energy firm, Engie SA and Dubai-based private equity (PE) firm Abraaj Group have entered into a partnership for setting up a wind power platform in India.
- US-based footwear company, Skechers, is planning to add 400-500 more exclusive outlets in India over the next five years and also to launch its apparel and accessories collection in India.
- The government has approved five Foreign Direct Investment (FDI) proposals from Oppo Mobiles India, Louis Vuitton Malletier, Chumbak Design, Daniel Wellington AB and Actoserba Active Wholesale Pvt Ltd, according to Department of Industrial Policy and Promotion (DIPP).
- Cumulative equity foreign direct investment (FDI) inflows in India increased 40 per cent to reach US$ 114.4 billion between FY 2015-16 and FY 2016-17, as against US$ 81.8 billion between FY 2011-12 and FY 2013-14.
- Walmart India Pvt Ltd, the Indian arm of the largest global retailer, is planning to set up 30 new stores in India over the coming three years.
- US-based ecommerce giant, Amazon, has invested about US$ 1 billion in its Indian arm so far in 2017, taking its total investment in its business in India to US$ 2.7 billion.
- Kathmandu based conglomerate, CG Group is looking to invest Rs 1,000 crore (US$ 155.97 million) in India by 2020 in its food and beverage business, stated Mr Varun Choudhary, Executive Director, CG Corp Global.
- 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.
- Warburg Pincus, a Private Equity firm based in New York, has invested US$ 100 million in CleanMax Solar, a rooftop solar development firm, which will be utilised to fund growth opportunities outside India and to improve product offerings.

- Morganfield Group, a Malaysian restaurant and bar chain, is planning to enter India by launching three of its brands, Morganfield’s, Mocktail Bar and Snackz It, by the end of 2017. The company expects to open 250 outlets in India over the next five years.
- SAIC Motor Corporation is planning to enter India’s automobile market and begin operations in 2019 by setting up a fully-owned car manufacturing facility in India.
- Toronto-based Canada Pension Plan Investment Board (CPPIB) made investments worth Rs 9,120 crore (US$ 1.41 billion) in India during FY 2016-17, taking their total investment in India to Rs 22,560 crore (US$ 3.50 billion).
- SoftBank is planning to invest its new US$ 100 billion technology fund in market leaders in each market segment in India as it is seeks to begin its third round of investments.
- The Government's Make in India campaign has attracted investment across sectors from various Chinese companies, as is evident from cumulative Foreign Direct Investment (FDI) inflows of Rs 9,933.87 crore (US$ 1.54 billion) between 2014 and December 2016.

Government role in the context of FDI:

The Department of Industrial Policy and Promotion (DIPP) approved nine Foreign Direct Investments (FDIs) worth Rs 5,000 crore (US$ 780.43 million), including Amazon India's Rs 3,500 crore (US$ 546.3 million) proposed investment.

In September 2017, the Government of India asked the states to focus on strengthening single window clearance system for fast-tracking approval processes, in order to increase Japanese investments in India.

The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.

The Department of Economic Affairs, Government of India, closed three foreign direct investment (FDI) proposals leading to a total foreign investment worth Rs 24.56 crore (US$ 3.80 million) in October 2017.

India and Japan have joined hands for infrastructure development in India's north-eastern states and are also setting up an India-Japan Coordination Forum for Development of North East to undertake strategic infrastructure projects in the northeast.

The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment.

The Central Board of Direct Taxes (CBDT) has exempted employee stock options (ESOPs), foreign direct investment (FDI) and court-approved transactions from the long term capital gains (LTCG) tax, under the Finance Act 2017.

The Union Cabinet has approved raising of bonds worth Rs 2,360 crore (US$ 365.63 million) by the Indian Renewable Energy Development Agency (IREDA), which will be used in various renewable energy projects in FY 2017-18.

The Government of India is likely to allow 100 per cent foreign direct investment (FDI) in cash and ATM management companies, since they are not required to comply with the Private Securities Agencies Regulations Act (PSARA).

The Government of India plans to scrap the Foreign Investment Promotion Board (FIPB), which would enable the foreign investment proposals requiring government approval to be cleared by the ministries concerned, and thereby improve the ease of doing business in the country.

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