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RECENT IMAGE OF FOREIGN DIRECT INVESTMENT IN INDIA

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ABSTRACT

FDI, being a non-debt capital flow is a leading source of external financing, especially for the developing economics. It not only brings in capital and technical know-how but also increases the competitiveness of the economy. Overall it supplements domestic investment, much required for sustaining the high growth rate of the country. Since 2000, significant changes have been made in the FDI policy regime by the government to ensure that India becomes an increasingly attractive and investor-friendly destination.

Keyword: FDI, Export, Import, Foreign Policy

The current phase of FDI policy is characterized by negative listing, permitting FDI freely except in a few sectors indicated through a negative list. Under the current policy regime, there are three broad entry options for foreign direct investors. In a few sectors, FDI is not permitted (negative list); in another small category of sectors, foreign investment is permitted only till a specified level of foreign equity participation; and the third category , comprising all the other sectors is where foreign investment up to 100 percent of equity participation is allowed. The third category has two subsets one consisting of sectors where automatic approval is granted for FDI (often foreign equity participation less than 100 percent) and the other consisting of sectors where prior approval from the Foreign Investment Approval Board (FIPB) is required. FDI policy changes increasingly reflect the requirements of industry and are based on stakeholder's consultation. Upfront listing of negative sectors has helped focus on reform areas, which are reflected in buoyant FDI inflows.

The various reforms in the FDI sectors have led to a significant increase in FDI inflows into India. During April-December 2015, total FDI inflows were US$ 39.328 billion as compared to US $ 28.785 billion during April-December 2014, showing a 36.63 percent surge. FDI equity inflows also increased from US $ 21.045 billion during April-December 2014 to US $ 29.443 billion during April-December 2015, showing 40 percent growth. There were FDI inflows into sectors like computer software and hardware, services, trading, automobile industry, construction (infrastructure) activities, chemicals (other than fertilizers) and telecommunications. FDI statistics of the last fifteen years reveal that the services sector has accounted for the highest inflows (17.6 percent of total FDI inflow into India).

There are wide variations in the FDI inflows into India from different countries. However, Mauritius, Singapore, Netherlands and the USA account for the major share. Out of FDI equity inflows of US $ 29.443 billion during 2015-16 (April-December), more than 60 percent have come from two geographically small countries named Singapore and Mauritius.

FDI Scenario in India During 2014-15

Foreign Direct Investment (FDI) in India is the major monetary source for economic development in India. Foreign companies invest in India to take benefits of cheaper wages and changing business environment of India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. According to the Financial Times, in 2015 India overtook China and the US as the top destination for the Foreign Direct Investment. In first half of the 2015, India attracted investment of $ 31 billion compared to $ 28 billion and $ 27 billion of China and the US respectively.

There are two routes by which an India gets FDI:

- **Automatic route: -** By this route FDI is allowed without prior approval by Government or Reserve Bank of India.
- **Government route: -** Prior approval by government is neededvia this route. Foreign Investment Promotion Board is the responsible agency to oversee this route.

The Government of India has amended FDI policy to increase FDI inflow. In 2014, the government increased foreign investment upper limit from 26% to 49% in insurance sector. It also launched Make in India initiative in September 2014 under which FDI policy for 25 sectors was liberalized further. As of April 2015 (updated), FDI inflow in India increased by 48% since the launch of ' Make in India' initiative. India was ranking 15th in the world in 2013 in terms of FDI inflow, it rose up to 9th position in 2014 while in 2015 India became top destination for foreign direct investment.

During 2014-15, India received most of its FDI from Mauritius, Singapore, Netherlands, Japan and the US. On September 25, 2014, Government of India launched Make in India initiative in which policy statement on 25 sectors were released with relaxed norms on each sector. Following are some of major sectors for Foreign Direct Investment.

- **Infrastructure:-**10% of India's GDP is based on construction activity, India government has plans to invest $ 1 trillion on infrastructure from 2012-2017. 40% of this $ 1 trillion is to be funded by private sector. 100% FDI under automatic route is permitted in construction sector for cities and townships.
- **Automotive:-** FDI in automotive sector was increased by 89% between April 2014 to February 2015. India is 7th largest producer of vehicles in the world with 17.5 million vehicles annually. 100 FDI is permitted in this sector via automatic route. Automobiles shares 7% of the India's GDP.
- **Pharmaceuticals:-** Indian pharmaceutical market is 3rd largest in terms of volume and 13th largest in terms of value. Indian pharma industry is expected to grow at 20% compound annual growth rate from 2015 to 2020. 100% FDI permitted in this sector.
- **Services:-** FDI in service sector was increased by 46 % in 2014-15, Service sector includes, banking, insurance, outsourcing, research & development, courier and technology testing. FDI limit in insurance sector raised from 26% to 49% in 2014.
- **Railways:-** 100% FDI I allowed under automatic route in most of areas of railway like High speed train, railway electrification, passenger terminal, mass rapid transport systems etc.

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- **Chemicals:-**Chemical industry of India earned revenue of $ 155-160 billion in 2013. 100% FDI is allowed in Chemical sector under automatic route.
- **Textile:-**Textile is one major contributor to India's export. Nearly 11% of India's total export is textile. This sector has attracted about $ 1647 million from April 2000 to May 2015. 100% FDI is allowed under automatic route.

Pakistan 4th Largest Source of Remittances to India

Surprising as it may seem, but Indians who have migrated to Pakistan are expected to remit back home a staggering $ 4.9 billion in 2015. This would make Pakistan the fourth largest source of India's remittances in 2015, according to a new study by the World Bank. Another interesting statistic the study throws out is that the Bangladesh-India corridor ranks third in the list of top migration corridors behind the Mexico-USand the Russia-Ukraine corridors. Bangladeshi migrants residing in India are expected to remit $ 4.6 billion back home in the current year.

Total remittance flows to India are expected to touch a staggering $ 72.2 billion in 2015, making it the highest recipient worldwide, says the World Banks's Migration and Remittances Fact book 2016. China ranks second, with remittances flows expected to touch $ 63.9 billion, followed by the Philippines ($ 29.7 billion) Mexico ($ 25.7 billion) and France ($ 24.6 billion). Globally, remittances are estimated to exceed $ 600 billion in 2015. Of this, developing countries are expected to receive a lion's share estimated at $ 441 billion.

The top migrant destination is the US, followed by Saudi Arabia, Germany, Russian, UAE, the UK, France, Canada, Spain and Australia. India is the top emigration country with 13.9 million emigrants, followed closely by Mexico at 13.2 million and Russia at 10.9 million.

Worldwide, high-income countries are the main source of remittances. The US tops the list with an estimated $ 56.3 billion in outflows in 2014. Saudi Arabia ranks the second, followed by Russia, Switzerland, Germany, UAE and Kuwait.

Centre Opens Doors to Foreign Investment in Multi-Brand Retail

In a major turnaround the BJP-led government, so far opposed to foreign investments in multi-brand retail, has decided to allow FPI up to 49 percent or up to the sectoral cap (whichever is lower) through the automatic route. This means that foreign investors in multi-brand retail can bring in investments in the form of FPI up to 49 percent without government approval. However, foreign retailers will not be able to have direct management control of an Indian venture. FPI does not provide investors with the option of management participation. Mega retailers like Walmart and Carrefour will finally be able to invest in India's multi-brand retail through the foreign portfolio investment (FPI) route. The onlyexceptions to the composite cap rule are the defense and banking sectors. In the private banking sector, where the sectoral cap is 74 percent, FII/FPI/QFI investment limits will continue to be within 49 percent of the total paid-up capital of the company. In the defence sector, portfolio investments by FPIs/FIIs/NRIs/QFIs and investments by Foreign Venture Capital Investors (FVCIs) together cannot exceed 24 percent of the total equity of the investee/joint venture company, while the FDI cap is at 49 percent.

Foreign portfolio investment includes foreign institutional investments (FII), sub-accounts and qualified foreign investments (QFIs).

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Brownfield pharma projects will be allowed foreign investments through FPIs up to 49 percent through the automatic route. Foreign investments in brownfield projects have so fa been allowed only through the government approval route.

Government Relaxes FDI Norms Across 15 Sectors

The union government on the eve of Diwali went on reforms overdrive and announced Foreign Direct Investment (FDI)and liberalization in 15 sectors. "To further boost this entire investment environment and to bring in foreign investments in the country, the government has brought in FDI related reforms and liberalization touching upon 15 major sectors of the economy, "the government said in a press release.

The sector included in this reforms exercise include:-

- Limited liability partnerships, downstream investment and approval conditions.
- Investment by companies owned and controlled by Non-Resident Indians (NRIs)
- Established and transfer of ownership and control of Indian companies.
- Agriculture and animal husbandry.
- Plantation 100% FDI under automatic route in plantation sector coffee, rubber, cardamom, palm oil tree and olive tree.
- Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities.
- Defence 49% FDI through automatic route and beyond that through FIPB nod.
- Broadcasting sector 100% FDI in DTH, Cable Network, uplink-ing of news and current affairs TV channels, 49% from 26% for terrestrial broadcasting FM radio.
- Civil aviation 100% from 74% in non-scheduled air transport services, ground handling services and credit information companies. FDI in regional air transport services under automatic route.
- Increase of sectoral cap
- Construction development sector 100% FDI under automatic route in completed projects for operation and management of township, malls/shopping complexes and business sectors; minimum capitalization norms and floor area restrictions have been removed; eased exit norms for foreign investors in this sectors.
- Cash and carry wholesale trading/ wholesale trading (including sourcing from MSEs)
- Single brand retail trading and duty free shops relaxed conditions for FDI in single brand retail 100%. FDI under automatic route in duty-free shops.
- Banking-private sector FIIs/FPIs/QFIs following due procedure, can now invest up to sectoral limit of 74% provided there is no change of control and management of invitee company, and
- Manufacturing sector for the purpose of the FDI, Indian manufactures would be the investee company which is the owner of the Indian brand and manufactures in India in terms of value at least 70% of its products in house and sources at most 30% from Indian manufacturer.

For facilitating faster approvals on most of the proposals, the government also raised the threshold limit of approval by Foreign Investment Promotion Board from the earlier Rs. 3,000 crore to Rs. 5,000 crore. As per the extant policy, FIPB considers foreign investment proposals of inflow up to Rs. 3000 crore and those above that limit are placed for consideration of the Cabinet Committee on Economic Affairs.

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'Invest India' Constituted to Promote FDI

A joint company of public and private sectors named '**Invest India'** has been constituted for promoting foreign direct investment in the country. This company will provide investment information to foreign investors. This company will work on '**go profit-no loss'** basis. In its capital of Rs. 1000 crore the government and FICCI have the share of 49:51.

This company will work on three principles:-

- To promote FDI in the country.
- To provide processing facilities to foreign investors and act as coordinator among various ministries.
- To provide feedback to government on industrial policy.

100% FDI Policy in Pharmaceutical Sector Released

An interministerial group presided over by the Prime Minister has decided to maintain the 100 percent foreign direct investment regime in the pharmaceuticals sectors over-ruling concerns raised by the health and industry ministries about rising medicine costs due to acquisitions of Indian drug companies by multinationals. The panel advocated that the FDI cap for brownfield pharmaceutical projects, which would include expansion and M&As, be cut to 49 percent, while the ceiling for greenfield ventures be retained at 100 percent.

India Allows FDI from Pakistan

For the first time in the history of Indo-Pak relations, India allowed Foreign Direct Investment (FDI) from Pakistan through government route, strengthening the bilateral relations even further. Till now any investment from people residing in Pakistan or from a company based in Pakistan was not allowed. The decision has been implemented with immediate effect and accordingly the consolidated FDI policy effective from April 10, 2012 has also been amended.

As per official announcement government has allowed all sorts of investments from Pakistan without any limit on the quantum to be invested. However, FDI from Pakistan will not be allowed in certain specific sectors such as defence, space and atomic energy.

100% FDI in Medical Devices Sector

The government has allowed 100 percent Foreign Direct Investment (FDI) under automatic route in medical devices sector to encourage manufacturing of equipment, including diagnostic kits and other devices. It is expected that the easing of norms for medical devices industry by creating special carve out in the extant FDI policy on pahrma sector will encourage FDI inflows in this area.

FDI Norms Eased for Small Scale Sector

For helping cash-strapped Micro & Small Enterprises (MSEs) in attracting higher overseas investments, the government has liberalized the foreign direct investment norms for the MSE sector replacing the current 24% ceiling on foreign holding. Micro and small enterprises will now be guided like other large enterprises as far as FDI is concerned.

The present policy on FDI in MSE permits FDI subject only to the sectoral equity caps, entry routes and other relevant regulations. If the non-medium and small enterprises manufacture any of the 21 items, including pickle, aluminum utensils, reserved for MSEs, any FDI above 24% was required to be approved by Foreign Investment Promotion Board (FIPB).

Government Relaxes FDI Norms for NRIs, PIOs, OCIs

The Union Cabinet on May 21, 2015 approved a relaxation of policy on investment proposal from Persons of Indian Origin (PIOs) and Overseas Citizens of India (OCIs), treating them at par with Non-Resident Indians(NRIs) in this regard.

NRIs are Indian citizens; the other two are not. The decision that NRI includes OCI cardholders as well as PIO cardholders is meant to align the Foreign Direct Investment (FDI) policy with the government's stated policy to provide PIOs and OCIs parity with NRIs in (the) economic, financial and educational fields, was the official statement after the meeting, chaired by Prime Minister Narendra Modi.

The government also approved an amendment to Schedule 4 of the Foreign Exchange Management Act (FEMA) Regulations, that NRI investments would be' deemed to be domestic investment made by residents'.

The government has tried to liberalize the FDI regime. In its year in power, the FDI limit in the defence sector has been raised to 49 percent up to 100 percent has been permitted in railways and norms pertaining to FDI in construction development were liberalized. That in medical devices were exempted from the sectoral restrictions for pharmaceuticals. And, FDI in the insurance and pensions sectors have been permitted up to 49 percent.

New Norma Regarding Investments by PIOs and OCIs

- Now, NRI investments would be deemed to be domestic investment made by resident.
- This will increase investments across sectors and lead to greater inflow of forex remittance.
- Currently, investments by NRIs are made on a non-repatriation basis it has not been provided that these are domestic investments.
- The proposal to tap NRIs for investments came from the Department of Industrial Policy and Promotion.
- Last year, govt. had set up a panel to consider treating non-repatri-able NRI funds as domestic investment.

India's 10 Biggest Foreign Portfolio Investors

Euro pacific Growth Fund, the largest Foreign portfolio investor (FPI) in India holds $ 31 billion in assets under managements; 6.4 percent of that is invested in Indian equities. The biggest FPI in terms of disclosed shareholding (above one percent) is the Euro pacific Growth Fund. Among others on the list of the 10 biggest are sovereign and pension funds from Singapore and Norway, some familiar names like Franklin Templeton Investment Funds, and Morgan Stanley Asia (Singapore), besides Dodge & Cox International Stock Fund, First State Asia-Pacific Leaders Fund, Aberdeen Global Indian Equity, the Oppenheimer Developing Markets Fund and copthall Mauritius Investments. These FPIs together hold shares equivalent to half the equity assets of the entire Indian mutual fund sector.

Europacific's holding in Indian equities at Rs. 42,530 crore. An analysis of the fund's own documents shows this could be around Rs. 54,000 crore.

Europacific Growth Fund belongs to the US based Capital Research and Management Company. For Euro-pacific, India is the biggest emerging market destination and fourth largest overall-after Japan, the UK and the France- according to its disclosures at the end of June. As much as 87.5 percent of its investments are outside the US. HDFC Bank, ICICI Bank and HDFC among the popular investment names in these funds.

Amongst sectors, the maximum exposure as on 30th June, 2015 was in Banks (Rs. 3.44 lakh crore) followed by IT Soft-ware (Rs. 2.59 lakh crore). The sector which has seen the maximum increase in FII holdings in the last one year was also the Banking sector (from Rs. 2.83 lakh crore to Rs. 3.44 lakh crore). The third largest fund is the government of Singapore which invests about Rs. 24,192 crore as of June 2015.

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FDI Flows into India Nearly Doubled in 2015: UNCTAD

UNCTAD , a UN's trade agency has released a statement that the foreign direct Investment flows into India nearly doubled in 2015 while the US emerged as the top host country for FDI last year. Global FDI flows 'unexpectedly' increased significantly by 36%, according to the annual report of the United Nations Conference on Trade and Development released. India's FDI investment increased from $ 33.9 billion to $ 59.4 billion which marks a 75% increase while green field investments have increased from $ 25.4 billion to $ 64 billion recording an increase of 152% the report said.

"Global FDI unexpectedly increased significantly to $ 1.7 trillion and this is closer to the précises level and it is the highest since the global financial and economic crisis, "said James Zhan, UNCTAD's Director of the Division on Investment and Enterprise.

Developing economics, as a whole, saw their FDI reaching a new high of $ 741 billion -5% higher than 2014 the report said. Asia remained the largest FDI recipient region in the world, surpassing half a trillion US dollars and accounting for one-third of the global FDI flows, it said.

The US bounced back as the top host country for FDI in 2015 with FDI worth $ 384 billion. The US is followed by Hong Kong ($ 163 billion), China ($ 136 billion), Netherlands ($90 billion) , the UK ($ 68 billion), Singapore ($65 billion), India ($ 59 billion), Brazil ($56 billion), Canada ($ 45 billion) and France ($ 44 billion) as the top 10 FDI host economic of the world.

FDI flows to the developed countries bounced back sharply reaching their second highest level ever at $ 936 billion. In Africa, Latin America as well as transition economies there was a decline in FDI last year partly because of stumbling commodity prices and regional instability. FDI flows are expected to decline in 2016, UNCTAD said.

FDI upto 100% Allowed for White Label ATMs under Automatic Route

Government has approved 100% Foreign Direct Investment (FDI) under the automatic route for non-bank entities that operate cash machines subject to certain conditions in a bid to boost financial inclusion in the country. A non-bank entity that aims to set up the so-called white label automated teller machine (WLA) should have a net worth (the latest audited balance sheet) of at least Rs. 100 crore and the should keep that amount at all time. In case the entity is also engaged in non-banking financial activity, then the FDI in the company which is setting up the WLA should comply with the minimum capitalization norms for foreign investment in such activities.

WLA operates in the country include Tata Communications Payment Solutions a unit of Tata Communications Ltd, Prizm Payment Services and Muthoot Finance.

These entities have a mandate to deploy 67% of ATMs in rural locations (tier III-VI) and 33% in urban locations (tier I and II cities).

The Reserve Bank of India recently doubled the limit for cash withdrawal at point-of-sale in tier III to VI cities from Rs. 1,000 to Rs.2,000 a day. The facility will be available for debit cards and open system prepaid cards issued only by banks. The limit remains unchanged at Rs. 1,000 per day for tier I and II cities.

Govt. Created 'Japan Plus' to Fast Track Japanese Investment

To fast-track investments from Japan into India, the Centre on October 9, 2014 announced the establishment of 'Japan Plus', a team to facilitate investments from Japan.

- Japan Plus, operationalized on October 8, 2014 and managed by four Indian and two Japanese officials.
- It will work as a special management team comprising members from the Department of Industrial Policy & Promotion (DIPP) under the Commerce and Industry Ministry and Japan's Ministry of Economy, Trade and Industry.
- An outcome of the recently concluded visit of the Prime Minister of India to Japan, mandate of the 'Japan Plus' team runs through the entire spectrum of investment promotion-research, outreach, promotion, facilitation and aftercare.
- The team will support the Indian government in initiating, attracting, facilitating, fast-tracking and 'handholding' Japanese investments across sectors.
- The team will also be responsible for providing updated information on investment opportunities across sectors, in specific projects and in industrial corridors in particular.
- The team will identity prospective Japanese companies, including small and medium enterprise, and facilitate their investments in India.

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