FOREIGN DIRECT INVESTMENT : INFLOW & ITS IMPACT ON INDIAN ECONOMY

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Introduction

Foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. India has become the most attractive emerging market for global partners (GP) investment for the coming 12 months, as per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA). Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generating employment.The Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges.

Norms for FDI Investment

Investment climate in India has improved considerably since the opening up of the economy in 1991.

This is largely attributed to ease in FDI norms across sectors of the economy. India, today is a part of top 100 club on Ease of Doing Business (EoDB) and globally ranks 1st in the greenfield FDI ranking.

Automatic Route

Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment.

Government Route

Under the Government Route, prior to investment, approval from the Government of India is required. Proposals for foreign investment under Government route, are considered by respective Administrative Ministry/ Department.

Sector specific condition for FDI :-

Agriculture & Animal Husbandry	100%	–
Air Transport Services (non-scheduled and other services under civil aviation sector)	100%	–
Air Transport Services (Scheduled air transport services, regional air transport services)	UPTO 49%	ABOVE 49%
Airports (Greenfield & Brownfield)	100%	–
Asset Reconstruction Companies	100%	–
Autocomponents	100%	–
Automobiles	100%	–
Banking- Private Sector	UPTO 49%	ABOVE 49%
Bankng - Public Sector	–	20%

Biotechnology (Brownfield)	UPTO 74%	ABOVE 74%
Biotechnology (Greenfield)	100%	–
Broadcast Content Services (Up-linking of Non-'News & Current Affairs' TV Channels/ Down-linking of TV Channels)	100%	–
Broadcasting Carriage Services	100%	–
Broadcasting Content Services	–	49%
Capital Goods	100%	–
Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs)	100%	–
Chemicals	100%	–
Coal & Lignite	100%	–
Construction Development: Townships, Housing, Built-up Infrastructure	100%	–

Prohibited Sectors in FDI contribution

Lottery Business including Government/private lottery, online lotteries, etc. *	**Gambling and Betting including casinos***
Chit Funds	**Nidhi Company**
Trading in Transferable Development Rights (TDR)	**Real Estate Business or Construction of farm houses****
Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes	**Sectors not open to private sector investment- atomic energy, railway operations (other than permitted activities mentioned under the Consolidated FDI policy)**

Recent significant trends and developments in FDI Inflows:

India emerged as the top recipient of Greenfield FDI Inflows from the Commonwealth, as per a trade review released by The Commonwealth in 2018.

- According to Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India in 2018-19 stood at US$ 44.37 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

- In 2018-19 indicates that the services sector attracted the highest FDI equity inflow of US$ 9.16 billion, followed by computer software and hardware – US$ 6.42 billion, trading – US$ 4.46 billion and telecommunications – US$ 2.67 billion. Most recently, the total FDI equity inflows for the month of March 2019 touched US$ 3.60 billion.

- During 2018-19, India received the maximum FDI equity inflows from Singapore (US$ 16.23 billion), followed by Mauritius (US$ 8.08 billion), Netherlands (US$ 3.87 billion), USA (US$ 3.14 billion), and Japan (US$ 2.97 billion).

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

- In August 2018, Bharti Airtel received approval of the Government of India for sale of 20 per cent stake in its DTH arm to an America based private equity firm, Warburg Pincus, for around $350 million.

- In June 2018, Idea's appeal for 100 per cent FDI was approved by Department of Telecommunication (DoT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India

- In May 2018, Walmart acquired a 77 per cent stake in Flipkart for a consideration of US$ 16 billion. .

- In February 2018, Ikea announced its plans to invest up to Rs 4,000 crore (US$ 612 million) in the state of Maharashtra to set up multi-format stores and experience centres.

- 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

Government Initiatives

As of February 2019, the Government of India is working on a road map to achieve its goal of US$ 100 billion worth of FDI inflows.

- Government of India is planning to consider 100 per cent FDI in Insurance intermediaries in India to give a boost to the sector and attracting more funds.
- In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval. The investment cannot exceed 49 per cent directly or indirectly.
- No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.
- 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 Government of India is i 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 initiative and to generate employment.
- In January 2018, Government of India allowed 100 per cent FDI in single brand retail through automatic route.

The Government of India is aiming to achieve US$ 100 billion worth of FDI inflows in the next two year

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Conclusion

India has become the most attractive emerging market for global partners (GP) investment for the coming 12 months, as per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA).
India opened its doors further to foreign direct investment (FDI), diluting the stringent condition of local sourcing for single-brand retail, in continuation of measures aimed at reviving growth.It also allowed 100% FDI in commercial coal mining and allowed as much in contract manufacturing through the automaticThe changes in FDI policy will result in making India a more attractive FDI destination.. These will help global companies looking for alternative manufacturing hubs and help create a large number of jobs The government also allowed up to 26% FDI in digital news and current affairs media on a prior approval basis.

Sourcing of goods from India for global operations can be done directly by the entity undertaking single-brand retail or group companies — resident or nonresident — or indirectly through a third party under a legally tenable agreement.The liberalisation in singlebrand retail will help generate more FDI. "The flexibility in devising the India sourcing strategy should attract more brands into the country, resulting in more local manufacturing and exports, which has been the original intent of the policy,

On the other hand, howsoever economically beneficial it may seem in the short period, it has long term adverse consequences for the economy.

1. Rational investors constantly move across countries in search of higher profits. This highly volatile nature makes it unreliable in long run.

2. International competition to solicit foreign capital leads to offering of a variety of economic concessions- tax holidays, land at less-than-market rate etc. This exacerbates income inequalities.

3. There is uncertainty regarding technology diffusion by the foreign investor. Moreover, in countries like India with inadequate physical and human capital, diffusion of technology is even more difficult,

4. Large portion of FDI equity inflow is in the service sector such as banking, insurance, etc. which employs skilled workers, while labour intensive sectors that employs unskilled and semi-skilled workers like construction sector remain devoid of much capital.

5. FDI is mainly concentrated in urban settlements worsening existing regional inequalities. Like in India, Mumbai, Karnataka, Delhi attracts most of the investment while Semi-urban and rural settlements like Odisha receiving negligible proportion of it.

Thus, it can be outlined that relying on Foreign Investment must only be seen as a short term measure in the event of domestic investment crunch as not as a substitute to domestic private and public investment.

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