



# FDI in India: An analytical study of FDI opportunity, Growth and Challenges in India and ways to strengthen the FDI.

<sup>1</sup>Author: Dr. Shekhar Verma-Associate Professor at International Institute of Management Studies-Pune.

<sup>2</sup>Author: Anil Kumar-Assistant Professor. at International Institute of Management Studies-Pune.

## Abstract

Here in this articles, we shall study the FDI overall impact in Indian economy, with the help of authentic data across all parameters and the opportunity areas to lift up the economy with the deep study on the challenges or limitations of FDI's growth .

We shall try to understand the various issues faced by FDI's presently from GoI(rules, limitations and authorities) and analyse with the help of few examples from other nations also.

Overall this article is going to help us in concluding the positive aspects to support FDI's in maximum sectors to boost Indian Economy.

As we know so far that during 2010-11 FDI's were investing in mainly manufacturing sector but in recent years the scope has widen and the sectors IT, Insurance, Defence etc are now the most contributing sectors and currently are talk of the town across global market.

Keyword: FDI, Indian Economy, FDI challenges, FDI Opportunity

## 1. Introduction.

Any person resident outside India, generally, has three options to make investments in India, through, Foreign Direct Investment (FDI) Foreign Portfolio Investment (FPI) and Foreign Venture Capital Investment (FVCI).

### Foreign Direct Investment

As per FEMA Non-Debt Rules, FDI is defined as investments through equity instruments by a person/entity resident outside India in (a) an unlisted Indian company; or (b) 10% of more of the paid-up equity capital, on a fully diluted basis, of a listed Indian company.

There requires no special registration or any approval from specific authority to invest under this route, however, for investments in certain sectors, prior GoI (i.e. through the concerned administrative agency or department) approval may be required to be obtained.

Foreign Direct Investment (FDI) has been a major non-debt financial resource for the development of Indian economy. Foreign companies make investments in India to get the benefits of relatively the much lower wages, special investment privileges like tax exemptions, etc. For a nation where foreign investments are being made, it also means achieving technical knowhow and generating employment.

The Indian Government's favorable policy regime and a vigorous business environment has always ensured that foreign capital keeps flowing into the country. In recent years, the Indian Government has taken no. of initiatives

such as relaxing the FDI norms across sectors such as defense, PSU oil refineries, telecom sector, power exchanges, and stock exchanges, among others.

## 2. Review of Literature:

In the review of literature section, the researcher tries to examine the trends of FDI inflows in to Indian manufacturing sectors that enter into the Indian market. The relevant reviews on earlier empirical studies that focused on Make in India.

Sanghamitra Samal and D.Venkatrama Raju (2016) in their research paper “A study of Foreign Direct Investment (FDI) on Manufacturing Industry in India”, they put focus on the role and importance of FDI in specially manufacturing sector. They took in their analysis based study two variables to analyse the impact on the manufacturing sector of the country and how it affects the economic growth.

GDP. K. Narayanaswamy et.al (2016), The author observed that “Make in India” initiative will help India’s manufacturing sector. The campaign has been focusing on to fulfill the requirement of job creation, enforcement to secondary and tertiary sector, boosting the national economy, converting India to a self reliant country and to globally recognize the Indian economy.

Chee Y. L., Nair M. (2010), in their article, the authors have focused on the fact the development and strength of financial sector adds to the FDI contribution and finally they boost the country’s economy. “The Impact of FDI and Financial Sector Development on Economic Growth: Empirical Evidence from Asia and Oceania”.

Globalization is the channel which integrates national economies around the world (Velde, 2005).

It also progresses economic development (Iqbal et al., 2012). In addition, globalization has led to significant increases in both the flow and the stock of FDI (Hill & McKaig, 2015). Hill and McKaig (2015) defined FDI in a slight more strengthening way as “the acquisition or construction of physical capital by a firm from one (source) country in another (host) country” (p. 228). FDI brings many benefits to the economies of host countries (Büthe & Milner, 2008).

## 3. Objectives :

- 1: To understand the current FDI scenario in India
- 2: To Understand and analyse the recent FDI opportunity areas and well as challenges faced
- 3: Lastly to analyse and focus on the areas to improve the Indian Economy through a favorable FDI policy.

## 4. Recent Trends in India:

4.1 Recent trends in India to be understood here with the help of the below table published in RBI website recently:

Sectors	2006-07	2007-08	2008-09	2009-10	2010-11
Sectoral shares (Percent)					
Manufactures	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction, Real estate and mining	15.5	22.4	18.6	26.6	17.6
Others	9.9	17.2	15.2	17.7	20.1
Total	100.0	100.0	100.0	100.0	100.0
Equity Inflows (US\$ billion)					
Manufactures	1.6	3.7	4.8	5.1	4.8
Services	5.3	8.0	10.2	7.4	4.5
Construction, Real estate and mining	1.4	4.3	4.2	6.0	2.6
Others	0.9	3.3	3.4	4.0	3.0
Total Equity FDI	9.3	19.4	22.7	22.5	14.9

Table 1

From a sectoral point of view, FDI in India mainly flowed into services sector (with an average share of 41% in the past five years) followed by manufacturing (around 23%) and mainly routed through Mauritius (with an average share of 43% in the past five years) followed by Singapore (around 11%).

However, there is a decline in the share of services over the years from almost 57% in 2006-07 to about 30% in 2010-11, while the shares of manufacturing, and largely comprising 'electricity and power generation' increased over the same period (Table 1). Regarding the recent trends in FDI, Sectoral information flows to India shows that the moderation in gross equity FDI flows during 2010-11 has been mainly driven by the core sectors such as 'construction, real estate and mining' and services such as 'business and financial services'. Manufacturing, which has been the largest recipient of FDI in India, has also witnessed some moderation (Table 1).

Sources: <https://www.rbi.org.in/>

4.2 Nation wise comparison: We would have an analytical study upon the various countries and their FDI policies to relatively better work on the Indian to suggest positive findings. I am taking the report published by RBI recently:

Table 4: FDI Policy and Institutional Framework in Select Countries

	Year of Liberalisation	Objective	Incentives	Priority Sectors	Unique features
China	1979	Transformation of traditional agriculture, promotion of industrialization, infrastructure and export promotion.	Foreign joint ventures were provided with preferential tax treatment. Additional tax benefits to export-oriented joint ventures and those employing advanced technology. Privileged access was provided to supplies of water, electricity and transportation (paying the same price as state-owned enterprises) and to interest-free RMB loans.	Agriculture, energy, transportation, telecommunications, basic raw materials and high-technology industries.	Setting up of Special Economic Zones
Chile	1974	Technology transfer, export promotion	Invariability of tax regime intended to provide a stable tax horizon.	All productive activities and sectors of the economy,	Does not use tax incentives to attract

		greater domestic competition.		except for a few foreign restrictions in areas investment that include coastal trade, air transport and the mass media.
Korea	1998	Promotion of absorptive capacity and indigenisation of foreign technology through reverse engineering at the outset of industrialisation while restricting both FDI and foreign licensing.	Businesses located in Foreign Investment Zone enjoy full exemption of corporate income tax for five years from the year in which the initial profit is made and 50 percent reduction for the subsequent two years. High-tech foreign investments in the Free Economic Zones are eligible for the full exemption three years and 50 percent for the following two years. Cash grants to high-tech green field investment and R&D investment subject to the government approval.	Manufacturing and services Loan-based borrowing to an FDI-based development strategy till late 1990s.
Malaysia	1980s	Export promotion	No specific tax incentives.	Manufacturing and services Malaysian Industrial Development Authority was recognised to be one of the effective agencies in the Asian region
Thailand	1977	Technology transfer and export promotion	No specific tax incentives. The Thai Board of Investment has carried out activities under the three broad categories to promote FDI. 1. Image building to demonstrate how the host country is an appropriate location for FDI. 2. Investment generation by targeting investors through various activities. 3. Servicing investors	Manufacturing and

Table 2

#### 4.3: Which countries were the top investor in India in FY21?

In Financial Year 2021, Singapore has emerged as India's top foreign investor, accountable for FDI equity amounting to US\$15.71 billion during April-December 2020. In total, Singapore contributed to 29% of India's FDI inflow.

US was ranked as the second highest investor in India, accounting for a 23 % share in the FDI received. This incoming FDI equity amount from the US was a 227 percent rise when compared to the preceding year.

India's third largest investor is now Mauritius in FY21, with a nine percent share. A look at growing FDI inflow figures from April 2000 to December 2020, however, shows that Mauritius has been the largest contributor of FDI equity inflow for the last two decades. In FY2021 other leading investor countries are: UAE, Cayman Islands, Netherlands, Japan, UK, and Germany.

As per increase in percentage FDI received in FY21, over the previous fiscal, Saudi Arabia became a top investor, with an investment of US\$2,816.08 million in FY21 as against US\$89.93 million in FY20. The UK has also increased its share of FDI equity into India by 44%, as compared to the previous fiscal.

#### 4.4: Which were the top FDI recipient sectors in India in FY21?

Computer software and hardware emerged attracting the maximum share of FDI equity inflow, at 44 percent, in FY21. FDI equity inflow between April to December 2020, in this sector amounted to US\$24.4 billion, recording a four-fold jump from FY 2018-19 when the figure was approx US\$6.4 billion. In the financial year 2020, FDI into this sector was US\$7.7 billion.

There are other factors also like accelerated digitalization, augmented use of artificial intelligence (AI) to conquer barriers set by the pandemic, and increased policy focus on manufacturing in India have contributed to this impressive rise in foreign investment. The recently introduced production linked incentive (PLI) schemes, aimed to boost export-oriented investments, should accelerate this trend.

Other leading attractive sectors to investors in FY21 were construction (infrastructure) activities, which received 13 percent share of FDI equity inflow, and the services sector with an eight percent share. Eventually, potential sectors recording more than a 100% jump in equity in FY2021 were rubber goods, retail trading, drugs and pharmaceuticals, automobile, and electrical equipment.

The steepest decline recorded in sectors in incoming FDI inflow compared to the previous fiscal are telecommunications (-94%) and hotel and tourism (-84%). While FDI into the telecommunications sector amounted to US\$4.44 billion in FY2020, it dropped to a mere US\$357 million in the first nine months of FY2021.

As per The World Investment Report 2021, which says that India's struggle to contain the COVID-19 outbreak and in the midst of it the healthy investment through acquisitions in ICT (software and hardware) and construction bolstered FDI. Cross-border M&As surged 83% to \$27 billion, with major deals involving ICT, health, infrastructure and energy. Large transactions included the acquisition of Jio Platforms by Jaadhu (a subsidiary of Facebook (United States)) for \$5.7 billion, the acquisition of Tower Infrastructure Trust by Brookfield (Canada) and GIC (Singapore) for \$3.7 billion and the sale of the electrical and automation division of Larsen & Toubro India for \$2.1 billion. Another megadeal, Unilever India's merger with GlaxoSmithKline Consumer Healthcare India (a subsidiary of GSK United Kingdom) for \$4.6 billion – also contributed.”

Source: [https://www.rbi.org.in/scripts/bs\\_viewcontent.aspx?Id=2513](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2513)

#### 4.5: What were the leading Indian states attracting FDI in FY21?

The top states receiving FDI equity in India were 1. Gujarat (37%), 2. Maharashtra (27 %), and 3. Karnataka (13%), followed by 4. Delhi and 5. Tamil Nadu.

These states have collectively accounted 92% share of total equity inflow in FY21 (April-December). In Financial Year 2020, this value had stood at 81%. Gujarat remained the top investment destination in India for the fourth consecutive year, receiving US\$30.23 billion in financial year 2021, despite the pandemic. The computer software and hardware being the major recipient of the FDI equity (94%) and construction activities (2%).

Notably, the fact is, 78% of the total FDI equity received by India was directed to Gujarat, and this is attributed to the state's re-engineered strategy for industrial growth.

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Opportunity Areas.

## 5: Opportunities

### 5.1: Growth drivers shaping India's increasing investment appeal

In Financial Year 2021, India recorded its highest ever FDI inflow at this time when the global outbound investment momentum has significantly slowed down. The only other country is neighboring China which has shown growth in foreign investment. In India, the growth has been detained mainly by the digital, energy and infrastructure sectors. For India, the goals of securing manufacturing autonomy and self reliance, participating in global value chains, and reducing trade dependencies requires greater foreign capital. It is now very clear that state governments and federal policies are pushing to facilitate foreign investors through various incentives and encouraging policies.

### 5.2: Ease of doing business

Investor friendly policies and focused reforms undertaken by both federal authorities and regional governments have improved India's overall investment scene, reflected in its World Bank's Doing Business ranking of 63 in 2020.

### 5.3: Digital economy

India has made a noticeable commitment to digitize its economy with a extensive push for the adoption of newer competitive technologies in various sectors, including money and banking, finance, taxation, e-commerce, agriculture, rural development, and governance. The main contributing factors such as knowledge, technology, and future readiness in exploring more digital technologies contribute towards India's ranking assessment. India has seen a constant rise in telecommunications investment in the past few years, with 2020 being the anomaly.

### 5.4: Start-up hub

Notably a larger investment in technology infrastructure in India together with its wide spread young talent base has made India one of the most favorable start-up ecosystems in the world.

### 5.5: Robust infrastructural and manufacturing base with improved connectivity

India has a diversified and competent base manufacturing of all kinds of goods to meet requirements across all sectors, including heavy electrical equipment, power generation and transmission, etc. Initiatives like Housing for All, Smart Cities Mission, Sagarmala Project, AMRUT etc. have been aimed at facilitating a vision of 'New India' and to attract more a more FDIs in manufacturing sectors. For example, through public-private partnerships (PPP) for the delivery of high-priority public utilities and infrastructure.

## 6. FDI policy reforms across sectors

The federal government has announced various policy initiatives and FDI relaxations in multiple sectors, such as defense, public sector undertakings like oil refineries, telecom, power exchanges, insurance, and stock exchanges, among others.

The government has also introduced PLI schemes in 13 flagship sectors in India, to make these sectors globally competitive in terms of production capabilities and export viability. The incentives are provided on incremental sale of goods in target segments and they are set to attract significant foreign investment. Leading foreign companies like Samsung (electronics); contract manufacturers Foxconn Hon Hai, Wistron, and Pegatron (mobile manufacturing); Visicon, Vitesco, and AT&S (electronic components); and Siemens and Wipro GE (medical devices) have gotten approvals for manufacturing under respective PLI schemes.

Source:

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I am taking a taking a extract of a report published in Times of India on 26th Jan-2021 about the prominent growth of Indian economy in comparison to China which can depict the real growth and the sector where it boosted most and its IT sector.

India has seen rise of 13% in foreign direct investment (FDI) amounting to \$57 billion in 2020 compared to the last year. The rise in the domestic figure was due to the investments in the digital economy, while China overtook the US as the largest recipient of FDI globally, according to an UNCTAD report.

Globally, India and China were the only two countries which saw FDI rising in 2020, while the rest of the world, including developed economies such as the UK and the US, saw sharp declines. This was revealed by the UNCTAD's investment trends monitor's findings. India's FDI inflows were rose up by acquisitions in the digital economy. The report said cross-border M&A sales grew 83% to \$27 billion, a notable deal being the acquisition of nearly 10% of Jio Platforms by Jaadhu(owned by Facebook ) for \$5.7 billion. It also said that infrastructure and energy propped up M&A deal values in the country.

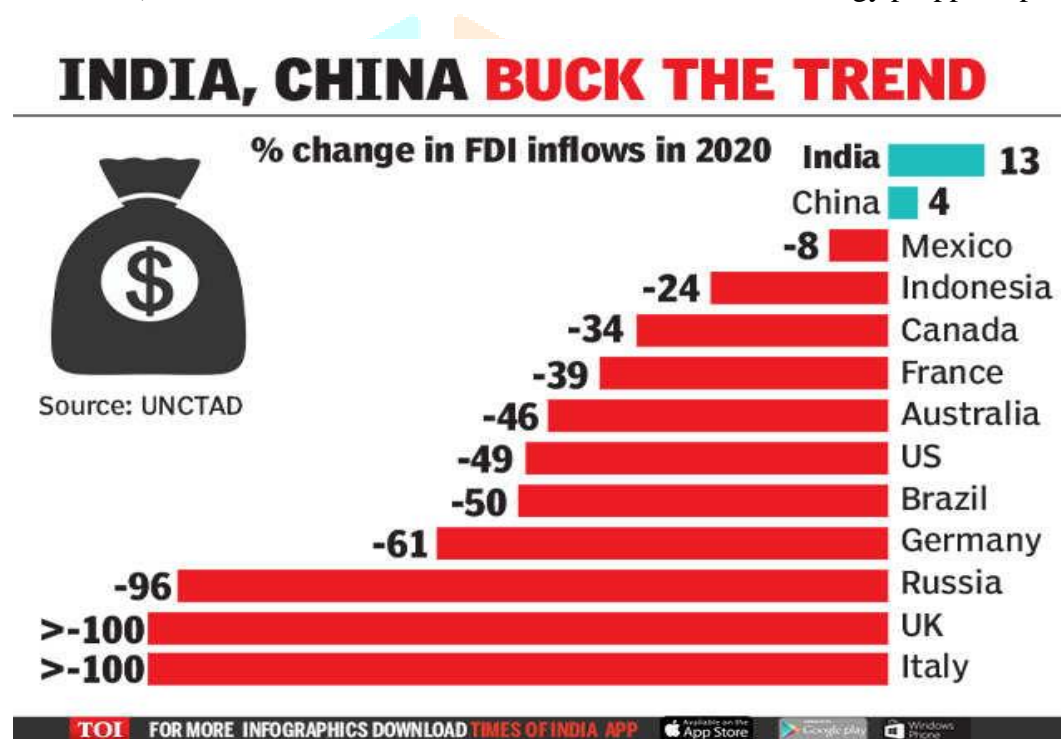


Figure 1

## 7. Challenges for India in the near term:

Sectors where FDI is Banned

1. Retail Trading sector(except single brand product retailing);
2. Atomic Energy;
3. Lottery Business including Government / private lottery, online lotteries etc;
4. Gambling and Betting including casinos etc.;
5. Business of chit fund;
6. Nidhi Company;
7. Trading in Transferable Development Rights (TDRs);
8. Activities/sector not opened to private sector investment;
9. Agriculture (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisci culture and cultivation of vegetables, mushrooms etc. under controlled conditions and services related to agro and allied sectors) and Plantations (Other than Tea Plantations);

10. Real estate business, or construction of farm houses,  
Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco or of tobacco substitutes.

Sources: <https://www.rbi.org.in/>

India remains an important and a prominent international investment destination due to its inherent advantages, a market with a relatively huge younger population, democratic setup, investor friendly reforms, increased rate of urbanization, steady rise in rural consumption levels, and a sustained increase in disposable per capita incomes. However, the country has been hit hard by the pandemic, which has slowed down growth on some indices. Global investors will be watching to see how India stabilizes its economy following a brutal pandemic wave and how it shall ensure the vaccination programs and restore normalcy. These are areas where investors will need maximum reassurance from government authorities and clear results in the near term.

### 7.1 Findings:

After the launch of program of Make in India, the trends of FDI has shown positive influence over the foreign investors due to investor friendly signals received from India. India has jumped from 15th position in 2014 to 10th position in 2015 in the most trusted nations for FDI. India has managed to receive \$40 billion foreign investment during 2015-16 which is more than 30% from the previous year. (UNCTAD, 2016). Singapore has the highest FDI in India during the year 2015-16. Financial crises results in the withdrawal of FDI for that specific time period. India has the largest FDI in service sectors by 19.51% of total FDI. Recent Trends of Foreign Direct Investment in India and Its Impact on Economic Growth National Conference On Recent Trends In Commerce And Technology (NCRTCT'19) 11 | Page FDI are attracted towards Construction Development by 11.56%. The FDI is significantly contributing in the economic development of India as it has the positive correlation coefficient of 0.6 with Indian GDP. Service sector of India is the second fastest growing services sector with CAGR at 9%, just below China's 10.9%, during the last 11-year period from 2001 to 2012 and it's the reason why the Indian service sector shares maximum share of the total FDI In India

## 8. Conclusions

After analyzing the past and recent FDI flows trends at par with global levels, the study suggests that India has generally attracted higher FDI flows in line with its robust domestic economic performance and steady liberalisation of the FDI policy as part of the cautious capital account liberalisation process. Even during the recent pandemic crisis, FDI inflows to India did not show as much moderation as was the case at the global level as well as in other EMEs. However, when the global FDI flows to EMEs recovered during 2010-11, FDI flows to India remained slow despite relatively better domestic economic performance ahead of global recovery. This has raised questions especially in the backdrop of the widening of the current account deficit beyond the sustainable level of about 3%..

The uncertainties often create legal and commercial hurdles in an overseas investor's decision of considering India as a lucrative investment jurisdiction. Whereas we have seen that Indian govt. RBI and SEBI collectively time to time have made their efforts to make India as the better choice for investors by relaxing rules to lower taxes. It is about time that such fears are also paid attention to and resolved in a timely and efficient manner.

1 The FDI Policy governing foreign investments in India is currently laid down in the Consolidated FDI Policy Circular of 2020 bearing F.No. 5(2)/2020 effective from October 15, 2020.

2 Fully diluted basis means the total number of shares that would be outstanding if all possible sources of conversion are exercised.

According to CII and EY report, India is expected to attract foreign direct investments (FDI) of US\$ 120-160 billion per year by 2025. Over the past 10 years, the country witnessed a 6.8% rise in GDP with FDI increasing to GDP at 1.8%.



Further, as per a Deloitte report published in September 2021, India remains an attractive market for international investors both in terms of short-term and long-term prospects.

India ranked 43rd on the Institute for Management Development (IMD)'s annual World Competitiveness Index 2021. According to the IMD, India's developments in government efficiency are primarily due to relatively stable public finances (despite COVID-19-induced challenges) and optimistic sentiments among Indian business stakeholders with respect to the funding and subsidies offered by the government to private firms.

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