

Foreign Direct Investment in India

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Since 1991, the liberalization of the economy paved way for inflow of Foreign Direct Investment (FDI) in India. FDI inflows to India grew significantly over the years and assumed significant proportions by FY07. India has been ranked among the top 10 attractive destinations for inbound investments.

With an aim to encourage the foreign investors to invest in the country, various measures have been undertaken by the government. The procedures for foreign investment in the country have been simplified by the government over the years. In the past few years, the government has embarked upon opening up of various sectors and increased sectoral limits for foreign investment after realizing the potential of foreign investment in the contribution of overall economic growth of the country. The objective is to provide ease of doing business and accelerate the pace of foreign investment. In this report, we take an overview of the developments and trends of the FDI in India on the backdrop of various initiatives taken by the government.

Key highlights:

- FDI inflows saw an uptick over the years.
- India fetched mere 2% of the total World FDI inflows in 2016.
- Total FDI inflows stood at \$518.1 billion since April 2000 to September 2017.
- Since FY07 to FY17, the FDI inflows grew at 18% per annum.
- FY15 and FY16 earmarked more than 20% growth in FDI inflows
- In FY17, the total FDI inflows increased at the rate of 8% while In H1-FY18, FDI equity inflows jumped up by 17%
- Services sector has remained at the top spot followed by IT – computer hardware and software, telecommunication and trading.

FDI Policy

In the past few years, the government has taken proactive measures to attract foreign direct investment in India. Consolidated FDI policy was introduced in June 2016 as per which various sectors were opened for FDI investment in India (Table 1). Taking into consideration the importance of foreign investment in the country, the government undertook major FDI reforms such as opening up multi-brand retail up to 51% FDI, hiking FDI in single brand to 100% from then 51%, allowing foreign airlines to pick up 49% stake in domestic airlines, bringing

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clarity to FDI in power trading exchanges etc. The following table lists FDI limits in various sectors via automatic or government approved route. Under the government approval route, the investment below the lower limit of the range is allowed via automatic route.

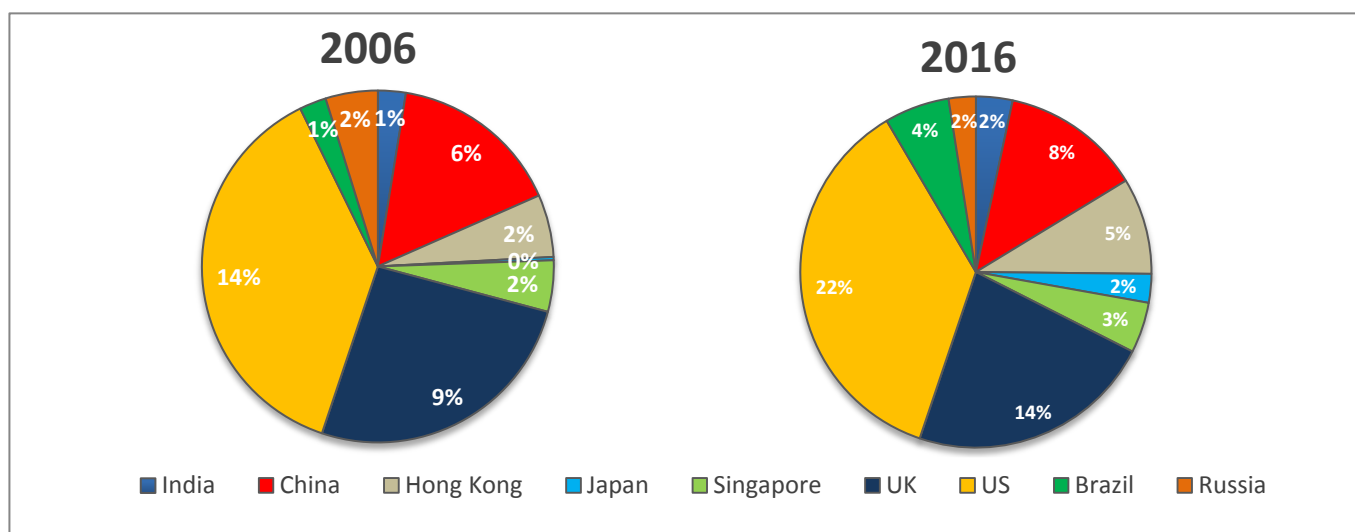
Table 1: Sector Wise FDI Limits

Sectors	Automatic Route	Sectors	Government approved route
Agriculture	100%	Air Transport - Scheduled	49-100%
Airports and Air Transport	100%	Banking – Private	49-74%
Asset Reconstruction Companies	100%	Banking – Public	20%
Broadcasting	100%	Broadcasting	49%
Commodity Exchange	49%	Defence	49-100%
Construction Development	100%	Media	26%
Duty free shops	100%	Pharmaceuticals Brownfield	74-100%
E-commerce	100%	Publishing	100%
Food Product retail trading	100%	Satellite	100%
Industrial Parks	100%	Telecom	49-100%
Infrastructure companies	49%	Trading- Single Brand retail	49-100%
Insurance & Pension	49%	Trading-Multi Brand Retail	51%
Mining	100%		
NBFCs	100%		
Petroleum and Natural Gas	100%		
Pharmaceutical Greenfield	100%		
Power Exchanges	49%		
Railway infrastructure	100%		
Wholesale Trading	100%		

Source: DIPP

FDI: Overview and Trends

Chart 1: Shares of net foreign direct investment inflows (%)

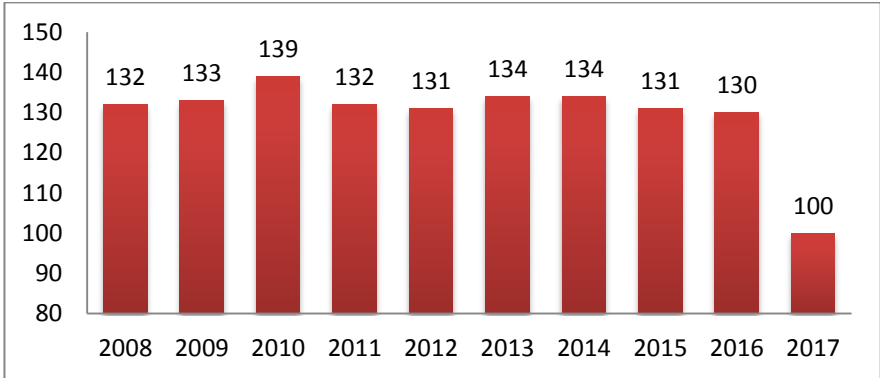


Source: World Bank

- Chart 1 depicts percentage share of major countries in the net FDI inflows in the total net FDI inflows of World in 2006 and 2016. These countries account for more than 60% of the total net FDI inflows of the World in 2016.
- United States receives highest net FDI inflows in the world followed by United Kingdom and China. The shares of inflows of these countries have increased from 2006 to 2016.
- Hong Kong had the share of 5% in 2016 while Brazil witnessed inflows of 4% of the World’s net FDI inflows.
- India received 1% of the total net FDI inflows of world in 2006. In 2016, however, the share increased to 2% in the total net FDI inflows, indicating investor’s increased preference for India as investment destination. However, the share is very low compared with the other peers.

Ease of Doing Business

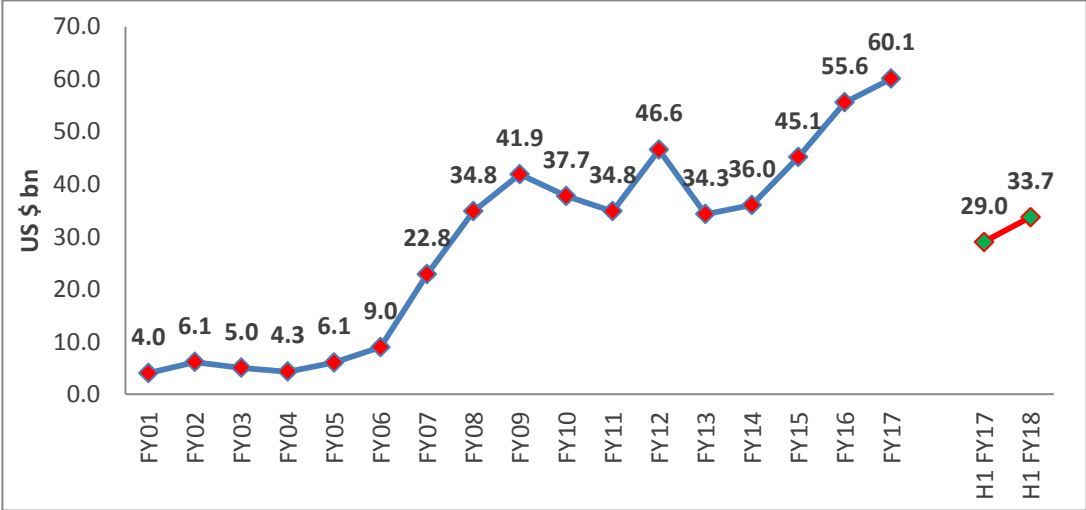
Chart 2: Ease of Doing Business Ranking of India



Source: World Bank

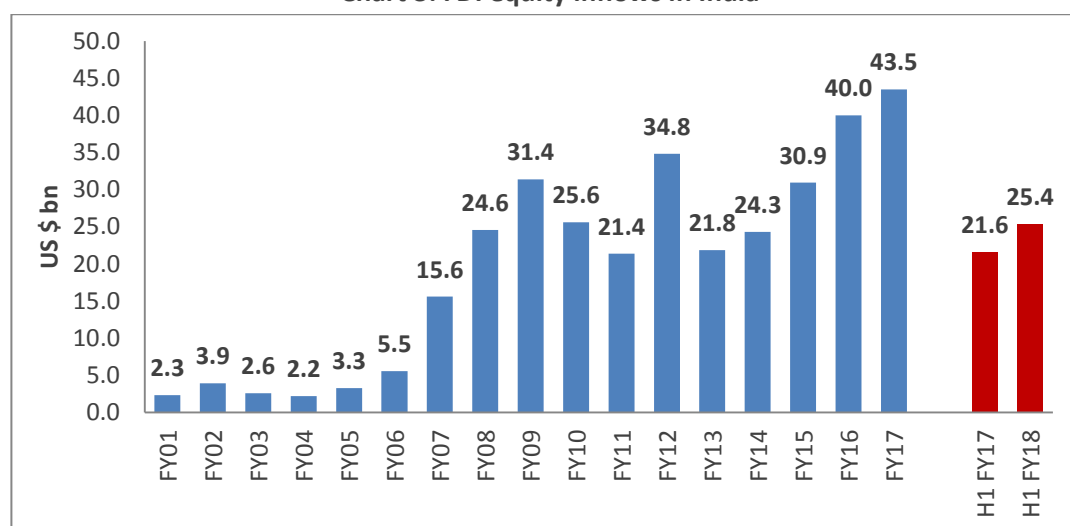
The chart above shows the World Bank’s ease of doing business ranking of India among chosen 189 countries by the World Bank since 2008. India slipped to 139th rank by 7 positions in 2010 that indicated doing business was not as attractive as other countries. Immediately in the next year the ranking again improved and till 2016 the rank of India remained between 130 and 134. In 2017 however due to various reform measures undertaken by the government such as insolvency and bankruptcy code, GST and NPA resolution of banking sector along with recapitalization of banks, India’s rank improved by 30 positions from 130th to 100th for the first time. (these ranks must be viewed with some caution as the number of countries in each year’s ranking is different).

Chart 3: Total FDI inflows in India



Source: DIPP

- Total FDI inflows comprise FDI in equity, reinvested earnings and other capital inflows into the country either via automatic or approved route (Chart 2). 'Other capital' pertains to debt transactions between parent and subsidiaries/branches of FDI enterprises.
- From FY01 to FY06, the inflows in the economy grew at a gradual pace, thereafter, grew substantially over the years. During FY01 to FY17, the total FDI inflows have grown at a CAGR of 18.4% per annum.
- From April 2000 to September 2017, India has received total FDI inflow of \$ 518.1 billion.
- After registering sustained growth since FY04, the FDI inflows declined by 9.9% and 7.7% respectively in FY10 and FY11 following the subprime crisis that led to financial tightening in the global markets.
- FDI inflows surged in FY12 by 34% to \$46.6 billion owing to big ticket deals in the chemical and oil & gas sectors following improved rank in ease of doing business to 131. Nevertheless, the flows again declined by 26% in FY13. Thereafter, it increased gradually and reached to the highest level to \$60.1 billion in the last decade.
- In the first half of FY18 (Apr-Sept), the total FDI inflows were \$33.75 billion, 16.3% higher than \$29.02 billion in FY17 (Apr-Sept).
- The increased FDI inflows in the recent years can be ascribed partly to government's efforts to improve ease of doing business and relaxation in FDI norms in various sectors.

Chart 3: FDI equity inflows in India


Source: DIPP

- FDI equity inflows consist of more than 70% of the total FDI inflows in the country. During Apr'00-Sept'17, the cumulative FDI equity inflows amounted to \$357.3 billion, which was nearly 69% of the total FDI inflows worth \$518.1 billion.
- In line with total FDI inflows, FDI inflows in equities have also increased at gradual pace over the years. From FY01-FY17, FDI equity inflows grew at a CAGR of 20% per annum.
- In FY07, the FDI equity inflows grew substantially from \$5.5 billion to \$15.6 billion (181% growth) owing to increased investments in real estate, construction activities, services sector, telecommunications and electrical equipment. The upward trend of FDI inflows continued and in FY09 inflows grew by 27%
- After remaining subdued following global financial crisis in 2009, FDI equity inflows surged by 63% in FY12 because of increased investments in oil & gas, chemical industries along with improvement in the ease of doing business ranking to 131 in 2012.

- After FY12, the inflows fell in FY13 by 37% due to crisis in Euro zone, subdued investors sentiments and India's decision to relook at Mauritius as a biggest source of FDI. Despite, the inflows picked up gradually and reached to \$43.5 billion in FY17.
- FDI equity inflows in FY18 (Apr-Sept) amounted to \$25.4 billion. These inflows were 17% higher than FDI inflows of \$21.6 billion in Apr-Sept'16.

Sectoral and Regional Assessment of FDI

Sector-Wise

- Table 2 below provides top 20 sectors that have received highest FDI inflows during April 2000 to September 2017.
- The top 10 sectors account for nearly 65% of the total FDI equity inflows in the country.
- Services sector has the highest share of 17.5% in the total FDI inflows of India during April 2000 – September 2017.
- During FY07-FY17, the inflows in services sector grew at a CAGR of 6.4%. In FY17, the FDI inflows in the services sector grew by 26%.
- The services sector has been followed by telecom that received 8.4% and computer software fetched 7.8%.
- Among other sectors, construction development sector received nearly 7% whereas automobile, trading, drugs and pharmaceuticals and chemical industry had the share of 4-5% in the total FDI equity inflows.

Table 2: Sector-wise FDI inflows

Sectors	FDI Inflow (US \$ mn)	% share
Services sector	62,393	17.5
Telecommunications	30,030	8.4
Computer software	27,715	7.8
Construction development: infrastructure and construction	24,656	6.9
Automobile industry	17,908	5.0
Trading	15,664	4.4
Drugs & pharmaceuticals	15,570	4.4
Chemicals (other)	14,190	4.0
Power	12,301	3.4
Construction (infrastructure)	10,701	3.0
Hotel & tourism	10,613	3.0
Metallurgical industries	10,419	2.9
Food processing	8,003	2.2
Electrical equipment	6,907	1.9
Petroleum & natural	6,862	1.9
Information & broadcasting	6,857	1.9
Non-conventional	6,007	1.7
Cement and gypsum	5,246	1.5
Hospital & diagnostic	4,837	1.4
Industrial machinery	4,680	1.3
Total FDI equity inflows	357,345	

Source: DIPP

Region-wise

- Table 3 gives state wise FDI inflows that have been reported by the regional offices of the RBI during April 2000 to September 2017.
- The top 2 states i.e., Maharashtra and Delhi received more than 50% of the total FDI equity inflows during this period.
- Maharashtra has been the highest recipient of the FDI inflows during the period of April 2000 to September 2017. During April 2000 – September 2017, the state has received \$ 112 billion of the FDI inflows accounting for nearly 31% of the total FDI equity inflows in the country.
- It is followed by Delhi (inclusive of some part of Haryana) that received \$ 71 billion or 20% of the total FDI equity inflows.
- There has been remarkable gap between Delhi and Karnataka, which stands at the third position, in terms of FDI inflows. Karnataka has received around 8% of the total FDI equity inflows during April 2000 – September 2017.
- While Tamil Nadu fetches nearly 7% share that of Gujarat and Andhra Pradesh stands at approximately 4% share in the total FDI inflows.
- Some of the major states in India such as West Bengal, Rajasthan, Madhya Pradesh and Uttar Pradesh have received comparatively lower FDI inflows.

Table 3: State-wise FDI inflows

State	FDI Inflow (US \$ mn)	% share
Maharashtra, Dadra & Nagar Haveli, Daman & Diu	1,12,265	31.42
Delhi, part up and Haryana	71,543	20.02
Karnataka	27,095	7.58
Tamil Nadu, Puducherry	25,921	7.25
Gujarat	17,133	4.79
Andhra Pradesh	14,331	4.01
West Bengal, Sikkim, Andaman & Nicobar islands	4,072	1.14
Kerala, Lakshadweep	1,900	0.53
Rajasthan	1,552	0.43
Chandigarh, Punjab, Haryana, Himachal Pradesh	1,472	0.41
Madhya Pradesh, Chhattisgarh	1,391	0.39
Goa	964	0.27
Uttar Pradesh, Uttarakhand	652	0.18
Odisha	416	0.12
Bihar, Jharkhand	113	0.03
North eastern states	100	0.03
Jammu & Kashmir	6	0.00
Total FDI equity inflows	3,57,345	100

Source: DIPP

Concluding Remarks

To summarize, owing to the proactive measures undertaken by the government to attract foreign investment in the country, the foreign investment in the form of FDI has been increasing in the country. Many sectors were opened up for FDI that has resulted into the increased investment. The rating upgrade by the Moody's has also improved the investors' sentiments regarding the Indian economy. India's rank in the ease of doing business jumped up to 100 from 130 earlier, indicative of better business opportunities. Better macroeconomic performance is likely to further propel the FDI inflows in the country.

We are expecting FDI inflows of \$53-55 billion for FY18.

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