# FOREIGN DIRECT INVESTMENT (FDI) IN INDIA


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# WHAT IS FDI

- FDI refers to capital inflows from abroad that invest in the production capacity of the economy.
- FDI facilitates international trade and transfer of knowledge, skills and technology.
- Foreign Direct Investments are commonly made in open economies that have skilled workforce and growth prospect. FDIs not only bring money with them but also skills, technology and knowledge.
- India is an open economy.

# WHAT IS FDI

- FDI is an important monetary source for India's economic development. Economic liberalisation started in India in 1991 and since then, FDI has steadily increased in the country. India, today is a part of top 100-club on Ease of Doing Business (EoDB) and globally ranks number 1 in the green field FDI ranking.
- Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India.

# WHAT IS FDI

- According to the Department for Promotion of Industry and Internal Trade (DPIIT), FDI equity inflows in India in 2019-20 (till October 19) stood at US$ 23.35 billion,

- 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).

# WHAT IS FDI

- For a country where capital is not readily available, Foreign Direct Investment (FDI) has been an important source of funds for companies.
- Under FDI, overseas money, either by an individual or entity, is invested in an Indian company.
- According to Organization for Economic Co-operation and Development (OECD), an investment of 10% or above from overseas is considered as FDI.

# GOVERNMENT INITIATIVES

- In August 2019, government permitted 100 per cent FDI under the automatic route in coal mining for open sale
- In Union Budget 2019-20, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.
- 100 per cent FDI is permitted for insurance intermediaries.
- In February 2019, the Government of India released the Draft National E-Commerce Policy which encourages FDI in the marketplace model of e-commerce.

# GOVERNMENT INITIATIVES

- In January 2018, Government of India allowed foreign airlines to invest in Air India up to 49 per cent with government approval.
- No government approval will be required for FDI up to an extent of 100 per cent in Real Estate Broking Services.
- The Government of India is 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.

# RECENT SIGNIFICANT FDI ANNOUNCEMENTS

- 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.

# RECENT SIGNIFICANT FDI ANNOUNCEMENTS

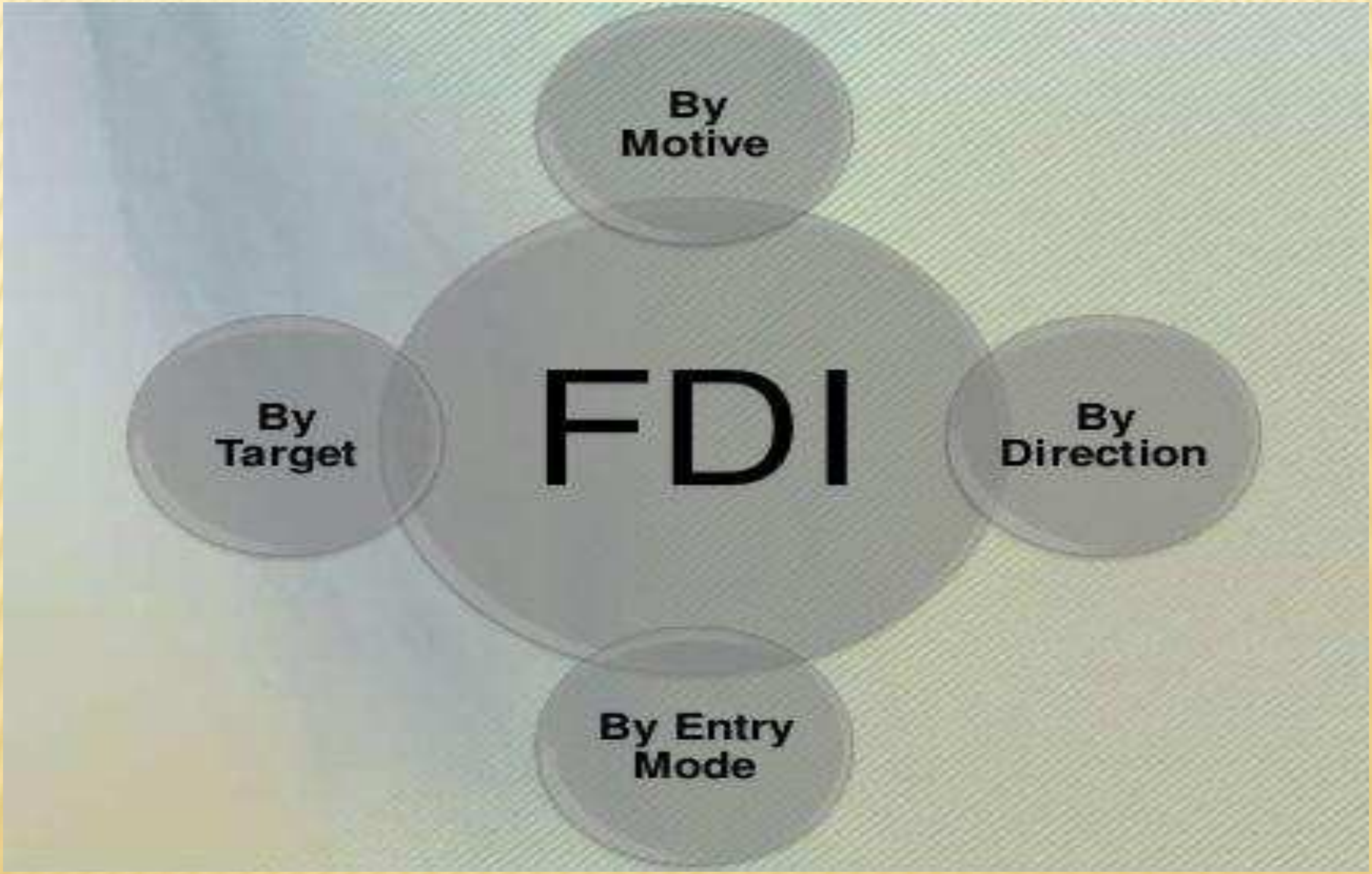
- In October 2019, French oil and gas giant Total S.A. have acquired a 37.4 per cent stake in Adani Gas Ltd for Rs 5,662 crore (US$ 810 million) making it the largest Foreign Direct Investment (FDI) in India's city gas distribution (CGD) sector.

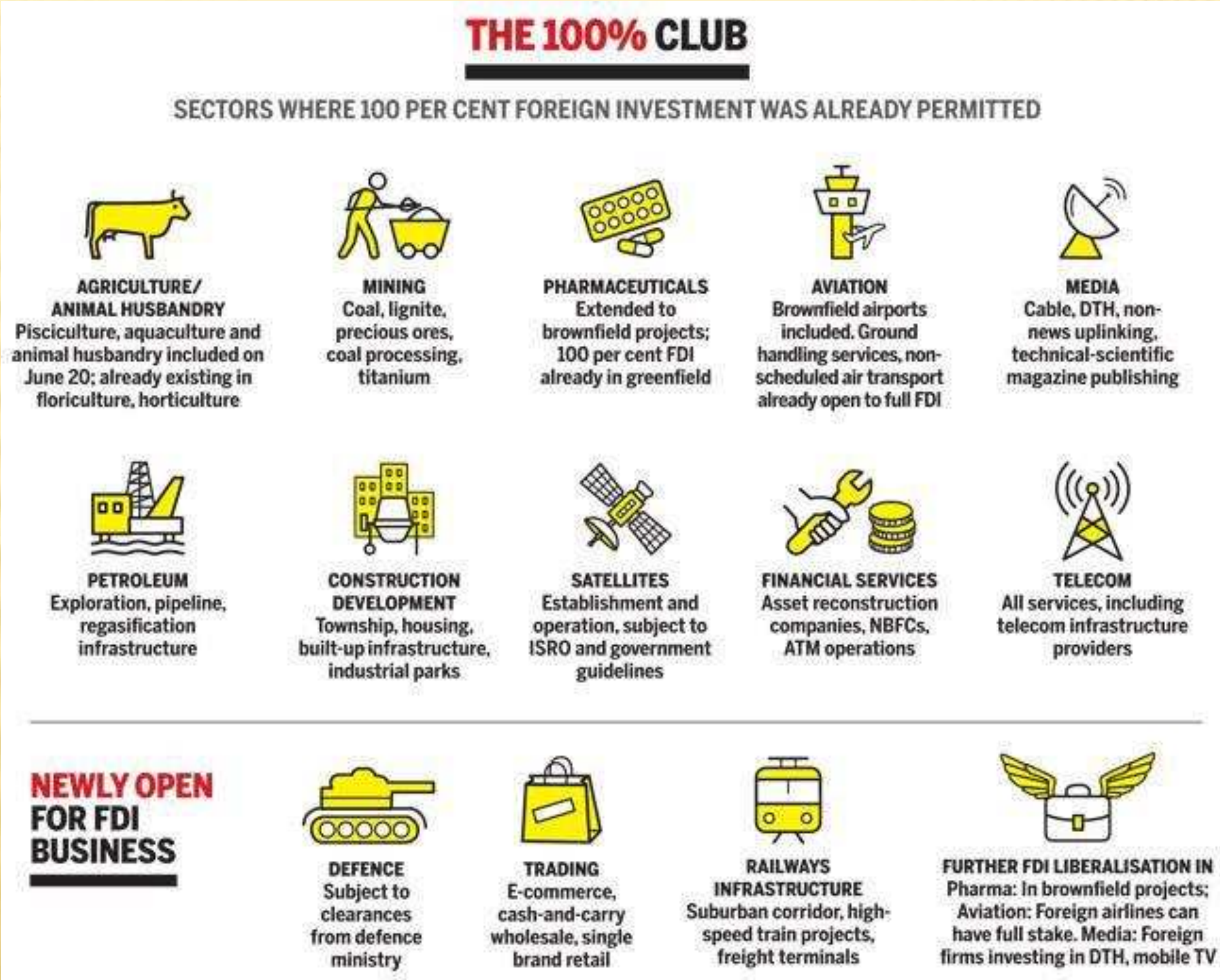
- In August 2019, Reliance Industries (RIL) announced one of India's biggest FDI deals, as Saudi Aramco will buy a 20 per cent stake in Reliance's oil-to-chemicals (OTC) business at an enterprise value of US$ 75 billion.

- 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.

# TYPES OF FDI




THE 100% CLUB
SECTORS WHERE 100 PER CENT FOREIGN INVESTMENT WAS ALREADY PERMITTED
AGRICULTURE/ ANIMAL HUSBANDRY
Pisciculture, aquaculture and animal husbandry included on June 20; already existing in floriculture, horticulture
MINING
Coal, lignite, precious ores, coal processing, titanium
PHARMACEUTICALS
Extended to brownfield projects; 100 per cent FDI already in greenfield
AVIATION
Brownfield airports included. Ground handling services, non-scheduled air transport already open to full FDI
MEDIA
Cable, DTH, non-news uplinking, technical-scientific magazine publishing
PETROLEUM
Exploration, pipeline, regasification infrastructure
CONSTRUCTION DEVELOPMENT
Township, housing, built-up infrastructure, industrial parks
SATELLITES
Establishment and operation, subject to ISRO and government guidelines
FINANCIAL SERVICES
Asset reconstruction companies, NBFCs, ATM operations
TELECOM
All services, including telecom infrastructure providers
NEWLY OPEN FOR FDI BUSINESS
DEFENCE
Subject to clearances from defence ministry
TRADING
E-commerce, cash-and-carry wholesale, single brand retail
RAILWAYS INFRASTRUCTURE
Suburban corridor, high-speed train projects, freight terminals
FURTHER FDI LIBERALISATION IN
Pharma: In brownfield projects; Aviation: Foreign airlines can have full stake. Media: Foreign firms investing in DTH, mobile TV

# TYPES OF FDI

Horizontal FDI:

- Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.

Platform FDI:

- Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.

Vertical FDI:

- Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value adding activities stage by stage in a vertical fashion in a host country.

# STRATEGIES OF IMPLEMENTATION

There are two strategies to implement FDI

- Greenfield investment
- Brownfield investment

The first strategy is the ‘Greenfield investment’ in which a company has to set up a new factory and related assets in another country and then start the operation. It is a all new set up.

The second strategy is ‘Brownfield investment’ in which the investing company acquires a foreign company and start operation.  It is an existing set up.

# METHODS OF FDI

- By incorporating a wholly owned subsidiary company
- By acquiring shares in an associated Company
- By merger or an acquisition of Companies
- By investment in an equity joint venture with another Company

# FDI APPROVAL ROUTES IN INDIA

- Automatic approval by Reserve Bank of India.
  - FDI in sectors/activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI.
  - The investors are only required to notify the Regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors

# FDI APPROVAL ROUTES IN INDIA

- **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.

# CHALLENGES AND IMPROVEMENT AREAS

Political risk

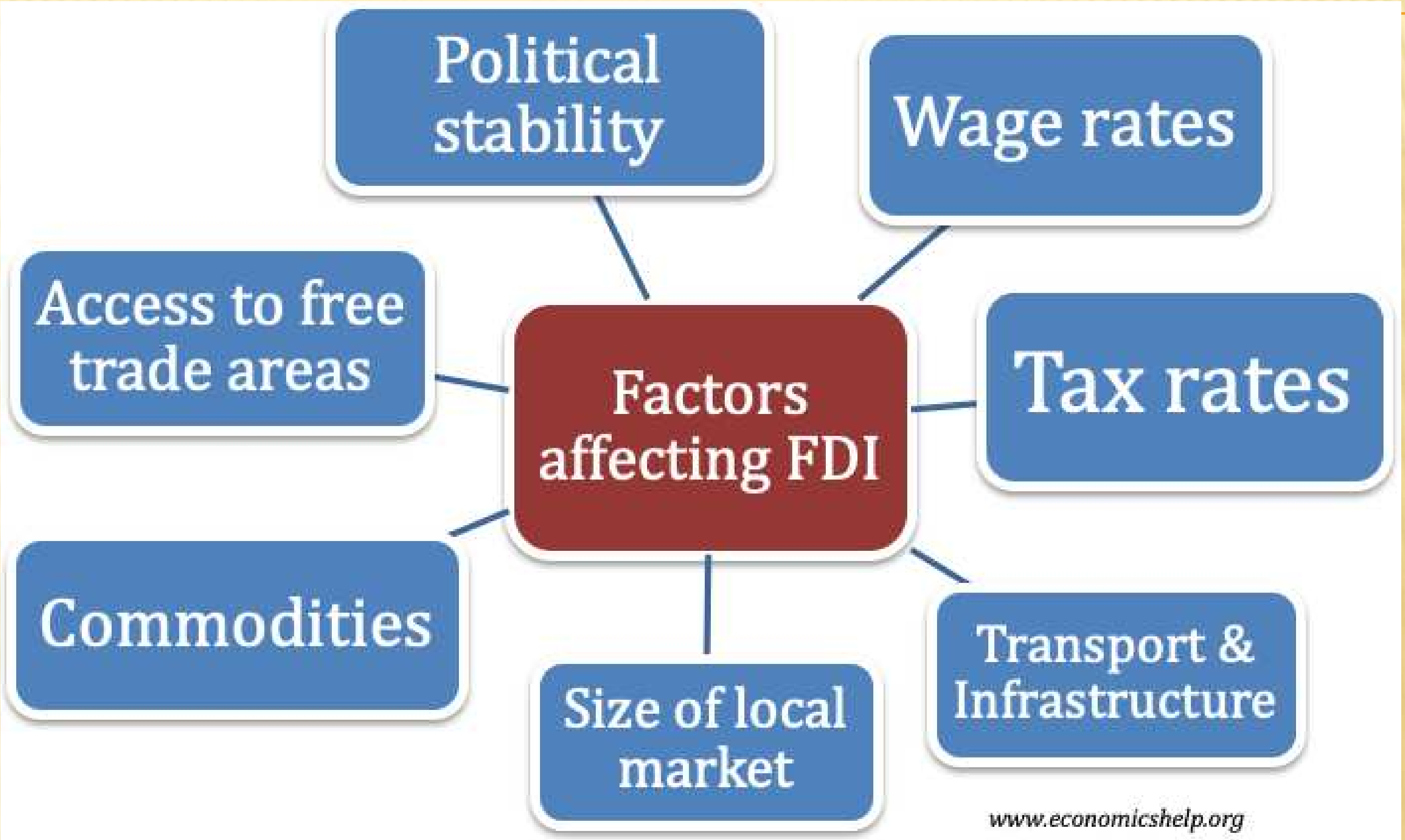
Change in government will lead to changes in policy and increased uncertainty.

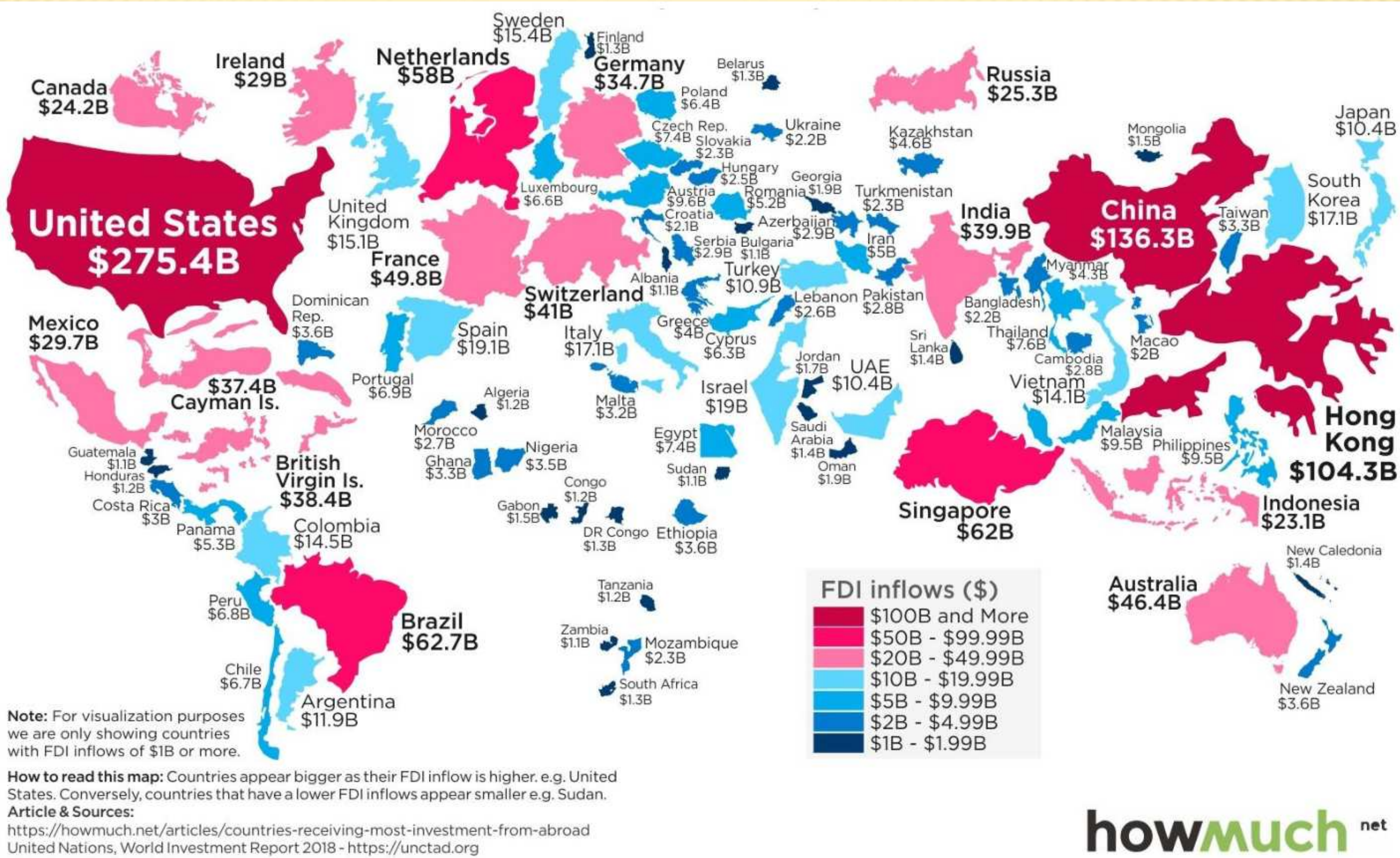
Bureaucracy risk:

Another very important factor that affects India's competitiveness on the world standing is the Bureaucracy.

Security risk:

Another important factor that needs to be handled with care and worked upon is the ever present security risk. This risk includes the geopolitical risk with neighboring countries


Political stability
Wage rates
Access to free trade areas
Factors affecting FDI
Tax rates
Commodities
Size of local market
Transport & Infrastructure
www.economicshelp.org


Canada $24.2B
Ireland $29B
Netherlands $58B
Sweden $15.4B
Finland $1.3B
Germany $34.7B
Belarus $1.3B
Poland $6.4B
Russia $25.3B
Japan $10.4B
United States $275.4B
United Kingdom $15.1B
France $49.8B
Luxembourg $6.6B
Czech Rep. $7.4B
Slovakia $2.3B
Ukraine $2.2B
Kazakhstan $4.6B
Mongolia $1.5B
Hungary $2.5B
Georgia $1.9B
Austria $9.6B
Romania $5.2B
Turkmenistan $2.3B
Croatia $2.1B
Azerbaijan $2.9B
Serbia $2.9B
Bulgaria $1.1B
Iran $5B
India $39.9B
China $136.3B
Taiwan $3.3B
South Korea $17.1B
Switzerland $41B
Albania $1.1B
Turkey $10.9B
Lebanon $2.6B
Pakistan $2.8B
Myanmar $4.3B
Bangladesh $2.2B
Dominican Rep. $3.6B
Mexico $29.7B
Spain $19.1B
Italy $17.1B
Greece $4B
Cyprus $6.3B
Sri Lanka $1.4B
Thailand $7.6B
Macao $2B
Cambodia $2.8B
Jordan $1.7B
UAE $10.4B
Portugal $6.9B
Algeria $1.2B
Malta $3.2B
Israel $19B
Vietnam $14.1B
$37.4B Cayman Is.
Morocco $2.7B
Egypt $7.4B
Saudi Arabia $1.4B
Malaysia $9.5B
Philippines $9.5B
Hong Kong $104.3B
Guatemala $1.1B
Honduras $1.2B
Nigeria $3.5B
Ghana $3.3B
Oman $1.9B
Sudan $1.1B
British Virgin Is. $38.4B
Congo $1.2B
Costa Rica $3B
Gabon $1.5B
Singapore $62B
Indonesia $23.1B
Panama $5.3B
Colombia $14.5B
DR Congo $1.3B
Ethiopia $3.6B
New Caledonia $1.4B
Tanzania $1.2B
Australia $46.4B
Peru $6.8B
Brazil $62.7B
Zambia $1.1B
Mozambique $2.3B
Chile $6.7B
South Africa $1.3B
New Zealand $3.6B
Argentina $11.9B
FDI inflows ($)
$100B and More
$50B - $99.99B
$20B - $49.99B
$10B - $19.99B
$5B - $9.99B
$2B - $4.99B
$1B - $1.99B
Note: For visualization purposes we are only showing countries with FDI inflows of $1B or more.
How to read this map: Countries appear bigger as their FDI inflow is higher. e.g. United States. Conversely, countries that have a lower FDI inflows appear smaller e.g. Sudan.
Article & Sources:
https://howmuch.net/articles/countries-receiving-most-investment-from-abroad
United Nations, World Investment Report 2018 - https://unctad.org
howmuch net

# CHALLENGES AND IMPROVEMENT AREAS

Cost advantage

One of the attractions of India is the lower cost advantage as compared to most western economies. Threat from low cost based countries.

Privatization and deregulation

Increased privatization of various sectors would definitely enhance the attractiveness of India as an FDI destination.

# COMPLIANCE UNDER RBI/FEMA

- In India, foreign direct investment policy is regulated under the Foreign Exchange Management Act, 2000 governed by the Reserve Bank of India.
- One can invest in India - either under Automatic Route or under Government Route, which requires prior approval from the concerned Ministries/Departments via a single window - Foreign Investment Facilitation Portal (FIFB) administered by the Department of Industrial Policy & Promotion (DIPP), Ministry of Commerce and Industry, Government of India.

# FDI IN 2019

- India attracted $49 billion FDI in 2019, among top 10 recipients of overseas investment: UNCTAD

- United Nations Conference on Trade and Development (UNCTAD), in its Global Investment Trend Monitor report said that the global foreign direct investment remained flat in 2019 at $1.39 trillion, a 1% decline from a revised $1.41 trillion in 2018.

- South Asia recorded a 10% increase in FDI to $60 billion.

- The growth was driven by India, with a 16% increase in inflows to an estimated $49 billion. The majority went into services industries, including information technology.

# FDI IN DEFENCE

- India's defence industry received foreign direct investment (FDI) of a meagre USD 2.18 million during 2018-19.

- As per the current policy, foreign investment beyond 49 per cent is permitted through approval route in defence sector.

  The FDI limit for defence sector has also been made applicable to manufacturing of small arms and ammunitions covered under Arms Act, 1959.

- India has the 5$^{th}$ largest defence budget in the world

# FDI IN DEFENCE

- India plans to spend $130 bn on military modernization in the next 5 years, as achieving self- reliance in defence production is a key target for the Government of India.
- The Government has opened up the Defence industry for private sector participation to provide impetus to indigenous manufacturing.
- The opening up of the industry also paves the way for foreign original equipment manufacturers to enter into strategic partnerships with Indian companies.
- Annual Turnover by Private sector in Defence and Aerospace sector in 2018-19 is $2.4 bn.
- A Defence export strategy has been formulated with a view of facilitating Defence Public Sector Enterprises (DPSUs) and private defence players in exploring business opportunities abroad. The total value of production is estimated to be around $8.0 bn.
- *100% FDI is allowed in Defence industry; wherein 49% is allowed under automatic route and beyond 49% through Government route.*

# INDIAN DEFENCE BUDGET AT A GLANCE

- **2.3%** - GDP spent on defence
- **15%** - Share in global arms import
- **$62.8 bn** - Union budget 2018-19
- **$1.5 bn** - Exports (2018-19)

# FORBIDDEN SECTORS:

- FDI is not permitted in
  - Arms & Ammunition
  - Atomic Energy
  - Railway transport
  - Mining of Iron, Manganese, Chrome, Gypsum, Sulphur, Gold, Diamond, Copper and Zinc.

# PARTNERSHIP FIRM/SOLE PROPRIETARY

- :NRIs or Person of Indian Origin (PIO) resident outside India are allowed to contribute to the capital of a partnership firm or sole proprietary concern without prior approval, provided:
- The contribution is on non-repatriation basis
- Investment is done as an inward remittance, or out of NRE/FCNR (B)/NRO account maintained with AD Category-1 Bank.
- The Indian firm or proprietary concern should not be engaged in agricultural, print media or real estate business.

# HOW FDI WILL BENEFIT THE INDIAN DEFENCE SECTOR

- It will bring in real **investments** to our defence industry.
- **FDI** allows foreign original equipment manufacturers (FOEM) in the defence sector to acquire up to a 49% stake in Indian joint ventures (JV) under the automatic route and up to 100% is likely to result in access to modern technology.
- It would build a credible **military-industrial zone** in the country where the country can emerge as an **exporter** of military hardware.
- Technology can be sold to other nations resulting in foreign exchange!

# HOW FDI WILL BENEFIT THE INDIAN DEFENCE SECTOR

- Defence OEMs (Original Equipment Manufacturers) of India can now focus on actual research, design and manufacturing.
- 100% FDI will **boost foreign manufacturer** to set up a plant here in India as well as **facilitate the transfer of critical technology** to India.
- It will **create millions of job** which will boost the economy of India.
- India could become a **global aerospace and defence hub** instead of just being a supplier of parts and assembler of imported kits, provided the government eases defence procurement policies.


SERVICE SECTOR
FDI
MAKE IN INDIA

# THANK YOU