

## FOREIGN DIRECT INVESTMENT IN INDIA: CURRENT SCENARIO

---

Dr. Purna Jain\*

### ABSTRACT

*FDI is an investment made by an individual or a firm resides outside the country where the investment is being made. FDI is a significant source of funding for firms that fail to collect capital that is readily available. Just after China and the United States, India has emerged as one of the most preferred destinations. Since 1991, efforts have been done to make the regulatory environment and the process of FDI investor – friendly. The Department of Industrial Policy & Promotion (DIPP) of GOI formulates the process of FDI on a yearly basis. Most recently, modifications were made for FDI policy in India in the year 2019. The paper reviews the current FDI policy regime in India for various sectors with an analysis of total inflow as well as Equity inflow in India. This paper also investigates the priority of overseas investors to make investment in various sectors.*

---

**Keywords:** FDI, Investment Routes, FDI Policy, DIPP, Sectors for FDI.

---

### Introduction

An investment made by an individual or a firm who resides outside the country where the investment is being made is known as FDI. This is a significant source of funding for firms that fail to collect capital that is readily available. Just after China and the United States, India has emerged as one of the most preferred destinations. One of the fastest growing economies of the world, India boasts of a stable annual growth rate, booming capital markets, and rising foreign exchange reserves. Since 1991, efforts have been done to make the regulatory environment and the process of FDI investor – friendly. The Department of Industrial Policy & Promotion (DIPP) of GOI formulates the process of FDI on a yearly basis. Most recently, modifications were made for FDI policy in India in the year 2019.

### Objectives

- To analysis the FDI inflows in India from the Financial Year 2000-01 to 2019-20
- To know the share of top 10 investing countries FDI Equity Inflows in India
- To find out the priority of overseas investors in equity in Top 10 sectors
- To analysis the sector specific policy of India for FDI

### FDI Investment Routes

FDI can be made through two routes:

- **Automatic Route:** In Automatic route, Indian companies who are engaged in various businesses can issue shares to overseas investors up to 100% of their paid up capital.
- **Government Approval Route:** Prior Government approval for FDI is required for certain activities that are not covered under the automatic route.

### Department of Industrial Policy and Promotion (DIPP)

Functioning under the Ministry of Commerce and Industry, Government of India, this department was established in 1995. In January 2019, it was renamed as Department for Promotion of Industry and Internal Trade (DPIIT). The DIPP is accountable for the formulation and execution of promotional and developmental measures to boost the industrial sector. This department is also responsible for overseeing and smoothing FDI inflows into the country and processing the applications.

---

\* Assistant Professor in ABST, SPC Government College, Ajmer, Rajasthan, India.

**Table 1: FDI Inflows in the Country from the Financial Year 2000-01 to 2019-20**

Amount in US\$ Million

S. No.	Financial Year (April-March)	FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity Capital of Unincorporated Bodies #	Re-invested Earnings +	Other Capital +	Total FDI Inflow	%age Growth over Previous Year
1	2000-01	2,339	61	1,350	279	4,029	-
2	2001-02	3,904	191	1,645	390	6,130	(+) 52 %
3	2002-03	2,574	190	1,833	438	5,035	(-) 18 %
4	2003-04	2,197	32	1,460	633	4,322	(-) 14 %
5	2004-05	3,250	528	1,904	369	6,051	(+) 40 %
6	2005-06	5,540	435	2,760	226	8,961	(+) 48 %
7	2006-07	15,585	896	5,828	517	22,826	(+) 155 %
8	2007-08	24,573	2,291	7,679	300	34,843	(+) 53 %
9	2008-09	31,364	702	9,030	777	41,873	(+) 20 %
10	2009-10	25,606	1,540	8,668	1,931	37,745	(-) 10 %
11	2010-11	21,376	874	11,939	658	34,847	(-) 08 %
12	2011-12	34,833	1,022	8,206	2,495	46,556	(+) 34 %
13	2012-13	21,825	1,059	9,880	1,534	34,298	(-) 26%
14	2013-14	24,299	975	8,978	1,794	36,046	(+) 5%
15	2014-15	30,933	978	9,988	3,249	45,148	(+) 25%
16	2015-16	40,001	1,111	10,413	4,034	55,559	(+) 23%
17	2016-17	43,478	1,223	12,343	3,176	60,220	(+) 8%
18	2017-18 (P)	44,857	664	12,542	2,911	60,974	(+) 1%
19	2018-19 (P)	44,366	689	13,672	3,274	62,001	(+) 2%
20	2019-20 (P)	49,977	1,226	14,052	8,200	73,455	(+) 18%
	CUMULATIVE TOTAL	472,877	16,687	154,170	37,185	680,919	-

Source: RBI's Bulletin and <https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy>**Interpretation**

On Ease of Doing Business (EoDB), India is a part of top 100 club. India also stands globally on ranks 1st in the Greenfield FDI ranking. FDI inflow in India in the year 2000-01 was of 40.29 bn and increased to more than 5 times in the year 2006-07. FDI Inflow stood at \$45.15 bn in 2014-15, increased to \$55.56 bn in 2015-16, \$60.22 billion in 2016-17, \$60.97 bn in 2017-18. India registered its highest ever FDI inflow of \$62.00 bn (provisional figure) during Financial Year 2018-19. It is estimated that in 2019-20 India has received 18% more FDI than last year's inflow. Figures after June 2018 are provisional. Total FDI in the last 19.5 years (April 2000- September 2019) are \$642 bn whereas the total FDI received only in the last 5.5 years (April 2014- September 2019) are \$319 bn which shows that in last 19.5 years nearly 50% of the total FDI is received.

**Table 2: Share of Top 10 Investing Countries FDI Equity Inflows**

Amount in Rupees Crores (in US\$ Million)

Ranks	Country	Cumulative Inflows (April 2000 - March, 2020)	%age to total Inflows (in terms of US \$)
1.	Mauritius	795,941 (142,710)	30%
2.	Singapore	609,562 (97,670)	21%
3.	Netherlands	208,322 (33,852)	7%
4.	Japan	196,105 (33,499)	7%
5.	U.S.A.	176,222 (29,779)	6%
6.	U.K.	150,411 (28,211)	6%
7.	Germany	68,944 (12,196)	3%
8.	Cyprus	57,993 (10,748)	2%
9.	France	50,511 (8,539)	2%
10.	Cayman Islands	49,848 (7,536)	2%
	Total FDI Inflows from All Countries	2,732,444 (470,119)	-

Source: RBI's Bulletin and <https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy>

### Interpretation

As above table indicates India received \$ 142.7 bn FDI in Equity from Mauritius from the year 2000 to March 2020. Mauritius stood at first place with 30% of total Equity inflow in India followed by Singapore, Netherlands and Japan with 21%, 7%, and 7% of total inflows respectively. U.S.A. stood at 5<sup>th</sup> place by investing \$29.78 bn in India, whereas U.K.'s investment in FDI in the form of Equity is of \$ 28.21 bn. These 10 countries invested about 86% of total FDI from the year 2000 to March 2020. Figures after June 2018 are provisional. Inflows under NRI Schemes of RBI are included in Cumulative Equity inflows.

**Table 3: Sectors Attracting Highest FDI Equity Inflows(Top 10 Sectors)**

**Amount in Rs. Crores (in US\$ Million)**

Ranks	Sector	Cumulative Inflows (April, 00 - March, 20)	% age to total Inflows (In terms of US\$)
1.	Services Sector	471,730 (82,003)	17%
2.	Computer Software & Hardware	276,006 (44,911)	10%
3	Telecommunications	219,189 (37,271)	8%
4.	Trading	176,005 (27,595)	6%
5.	Construction Development: Townships, housing, built-up infrastructure and construction-development projects	129,964 (25,662)	5%
6.	Automobile Industry	143,742 (24,211)	5%
7.	Chemicals (Other than Fertilizers)	98,554 (17,639)	4%
8.	Construction (Infrastructure) Activities	108,383 (16,847)	4%
9.	Drugs & Pharmaceuticals	87,814 (16,501)	4%
10.	Hotel & Tourism	91,779 (15,289)	3%

Source: RBI's Bulletin and <https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy>

### Interpretation

The data of FDI equity inflows in top ten sectors is depicted in the above table. These sectors received 66% of total FDI equity inflow during the period under study. Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. Above table indicates that this service sector received highest FDI inflow in equity of \$82bn. 17% of total inflow invested in this sector. Computer software, telecommunications and trading sector received 10%, 8% and 6% of total FDI inflow during this period. Cumulative equity inflow in Construction development, automobile and chemicals sector are of \$ 25.66 bn, 24.21 bn, and 17.64 bn respectively. Figures after June 2018 are provisional.

### Sector Specific Analysis for FDI

#### • Agriculture

A significant sector in the Indian economy which employs over 50% of the country's workforce. Around 18% to India's Gross Domestic Product (GDP) is contributed by this sector in financial year 2018. India aims at doubling farm income by 2022. As per the Department for Promotion of Industry and Internal Trade (DPIIT), between April 2000 and March 2019, the Indian food processing industry has cumulatively attracted FDI (FDI) equity inflow of about US\$ 9.08 billion. FDI in India's food processing sector stood at US\$ 628.24 million in 2018-19.

**FDI Facts: Route** – Automatic

**Percentage of FDI allowed:** 100% in marketing of food products and e-commerce in food products.

#### • Capital Goods Sector

This sector facilitates engagement across sectors such as engineering, construction, infrastructure etc. Notable growth is seen in the capital goods sector of India due to increasing demand. In FY 2018 -19, the capital goods industry had an overall production figure amounting to \$13.6 bn. This industry provides approximately 5 million direct employments.

**FDI Facts: Route** – Automatic

**Percentage of FDI allowed** - 100%

#### • Chemical Industry

The chemical industry in India constitutes around 6% of the country's GDP. Chemicals industry in India is broadly classified into three categories (i) Basic chemicals, (ii) Agrochemicals and (iii) Specialty chemicals, covering more than 80,000 commercial products.

**FDI Facts: Route** – Automatic

**Percentage of FDI allowed:** 100% (except in the case of certain hazardous chemicals)

- **Civil Aviation**

India is currently considered the third largest domestic civil aviation market in the world. The Aviation sector in India currently contributes \$72 bn to GDP.

**FDI Facts: Route –Automatic**

**Percentage of FDI allowed:**

- Greenfield and brown field projects for Airports: 100%.
- Ground handling and maintenance and repair organizations: 49%.
- Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and Regional Air Transport Service :<49%

**Route - Government Route**

**Percentage of FDI allowed:** Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline and Regional Air Transport Service >1.8%

- **Construction Industry**

The Construction industry in India is the second largest recipient of FDI in India, consists two segments:

- Real estate : covers office, residential, hotels, retail, and leisure parks among others,
- Urban development segment: broadly consists of sub-segments such as Schools, Healthcare, Urban transport, Water supply and Sanitation. This sector is the

**FDI Facts: Route – Automatic**

**Percentage of FDI allowed - 100%**

- **Education**

Since the time of Nalanda, India has placed great importance on education. According to the Department for Promotion of Industry and Internal Trade (DPIIT), from April 2000 to March 2019 the total amount of FDI inflow into the education sector in India stood at USD 2.47 billion.

**FDI Facts: Route – Automatic**

**Percentage of FDI allowed - 100%**

- **Electronic Systems**

Due to rapid urbanization and increased incomes electronics market in India is fast growing. Digitization has led to increased demand for high-end technology devices, escalating the consumption of electronic devices.

**FDI Facts: Route – Automatic**

**Percentage of FDI allowed - 100%**

**Exception:** Electronics items for defense- up to 49% are allowed under automatic route and beyond 49% through the government approval.

- **Food Processing**

India is World's largest producer, consumer & exporter of spices. Similarly we are world's largest processor, producer and consumer of cashew nuts. We stood at 2<sup>nd</sup> place in world in the production of food grains, fruits, and vegetables.

**FDI Facts: Route – (A) Automatic**

**Percentage of FDI allowed - 100%** (Food processing sector)

**Route – (B) Government approval**

**Percentage of FDI allowed:** 100% (For trading, including through e-commerce in respect of food products manufactured or produced in India)

- **Gems and Jewellery Sector**

7% of the country's GDP and 15% to India's total merchandise exports are of Gem and jewellery. It also employs over 4.5 million workers. 29% to global Gem and jewellery consumption belongs to India.

**FDI Facts: Route – Automatic**

**Percentage of FDI allowed - 100%**

- **Health Care**

Healthcare comprises hospitals, clinical trials, medical devices, medical tourism, health outsourcing, telemedicine, medical equipment. India is the World's second largest exporter of Ayurvedic & Alternative Medicine. Both in terms of revenue and employment, healthcare has become one of India's largest sectors.

**FDI Facts: Route** –(A) Automatic

**Percentage of FDI allowed:** 100% for green-field projects, AYUSH sector and for construction of hospitals.

**Route** – (B) Government approval

**Percentage of FDI allowed:** 100% in medical devices for investments in brown-field projects

- **Pharmaceuticals**

**FDI Facts: Route**-Automatic

**Percentage of FDI allowed:** 100% for green-field pharma

100% in Drugs and Pharmaceuticals (brown field pharma)

**Exception:** 74% FDI other than mentioned above is allowed under the automatic route and thereafter through government approval route.

- **Petroleum and Natural Gas**

The petroleum and natural gas sector is among the eight core industries in India. This sector plays a major role in impelling decision making for all the other significant sections of the economy. India's position: (a)largest exporter of petroleum products in Asia(b)2nd largest refiner in Asia(c)3rd largest consumer of crude oil and petroleum products in the world.

**FDI Facts: Route**- Automatic

**Percentage of FDI allowed**

- 49% (Petroleum refining by PSU, without disinvestment or dilution of domestic equity in existing PSUs)
- 100% (Exploration activities of oil and natural gas fields as well as infrastructure related to the marketing of petroleum products & natural gas)

- **Railways Infrastructure**

The Indian Railways is among the world's 4th largest rail networks, behind only US, Russia and China. Under single management, India's railway network is recognised as one of the largest railway systems in the world.

**FDI Facts: Route**- Automatic

**Percentage of FDI allowed**

- 100 % (Operation and maintenance of suburban corridor projects through PPP)
- 100% - Railways infrastructure.

- **Retail Sector**

Second largest population in the world with a middle class of 600 million people, increasing urbanisation, rising household incomes, increasing consumer spending are the factors that make India to grab the top spot in A.T. Kearney's 2017 Global Retail Development Index.

**FDI Facts: Route** – Automatic

**Percentage of FDI allowed**

- 100 % ( Single Brand Product Retail (Online Presence Allowed)
- 100% {e-commerce (B2B & Marketplace for B2C), Cash & Carry Wholesale Trading, Duty-Free Shops, e-commerce in Food Product Retail}

**Route** – (B) Government approval

**Percentage of FDI allowed:** 51% {Multi-Brand Product Retail (Online Presence not Allowed)}

- **Tourism and Hospitality Industry**

Among the services sector in India, this sector has emerged as one of the key drivers of growth. Due to rich historical and cultural heritage, variety in ecology, terrains and places of natural beauty spread across the country, tourism in India has significant potential.

**FDI Facts: Route** – Automatic

**Percentage of FDI allowed:** 100 % (including tourism construction projects like the development of resorts, hotels, and recreational facilities)

- **Auto Mobiles:** India's position in the world
  - Largest tractor manufacturer,
  - Second-largest bus manufacturer
  - Third largest heavy trucks manufacturer
  - Fourth largest auto market in 2018 with sales increasing 8.3 per cent year-on-year to 3.99 million units.

From 2018 to 2019, this sector saw a 25.5 per cent jump in FDI. Share of this sector in Total FDI inflows is 8.95% i.e. \$5.1 bn Investments in the Automobile Industry from April 2000 to March 2019.

**FDI Facts: Route:** Automatic

**Percentage of FDI allowed:** 100%

- **Auto Components**

This sector employs as many as 1.5 million people, both directly and indirectly and is 2.3 per cent of India's Gross Domestic Product (GDP). By 2025, the Indian auto-components industry is set to become the third largest in the world. This sector contributes 5.23% Share of total FDI inflows. A Jump of 82% has been seen in this sector from 2014-2016. Total FDI inflow from April 2014 to March 2019 is of \$11.57 bn.

**FDI Facts: Route:** Automatic

**Percentage of FDI allowed:** 100%

**Other Sectors: FDI Facts**

- **Biotechnology (Brownfield):** Up to 74% automatic, above this under Government route.
- **Biotechnology (Greenfield):** Route: automatic. Percentage of FDI allowed – 100%
- **Defense:** Up to 49 % automatic, above this under Government route.
- **IT and BPM:** Route: automatic. Percentage of FDI allowed – 100%
- **Broadcast Content Services (Up-linking of Non-'News & Current Affairs' TV Channels/ Down-linking of TV Channels) and Broadcasting Carriage Services:** Route: automatic. Percentage of FDI allowed – 100%, for digital and print media under Government Route.
- **Leather:** Route: automatic. Percentage of FDI allowed – 100%
- **Medical Devices:** Route: automatic. Percentage of FDI allowed – 100%.
- **Metals and Mining:** For Coal and lignite and Mining and exploration of metal and non-metal ores: 100% FDI allowed in this sector under automatic route, other than this under government Route.
- **Petroleum and Natural Gas:** Route: automatic. Percentage of FDI allowed – 100%(49% for Petroleum refining by PSUs )
- **Ports and Shipping:** Route: automatic. Percentage of FDI allowed – 100%
- **Telecom:** Up to 49 % automatic, above this under Government route.
- **Thermal power sector, Textile and Garments Sector, Renewable energy sector, Roads and highways Sector:** Route: automatic. Percentage of FDI allowed – 100%

**Prohibited Sectors**

FDI in India for the sectors like, Lottery Business including Government/private lottery, online lotteries, etc., Betting and Gambling including casinos, Chit Funds, Nidhi Company, Trading in TDR , Real Estate Business or Construction of farm houses, Manufacturing of cigarillos and cigarettes (tobacco or of tobacco substitutes)cigars, cheroots. Railway operations (other than permitted activities mentioned under the Consolidated FDI policy) and atomic energy are also not opened up for overseas investors.

**Conclusion**

To sum up, multiple layers of bottlenecks faced by foreign stakeholders have been eliminated with the latest changes in FDI policy regime of 2019. The process of investment has been rationalized and accelerated. The changes in the FDI policy regime displays the Government will continue to bring about liberalization of the FDI regime in India in the years to come. All in all, the efforts should be directed to maintain India's path towards remaining the world's most attractive destinations for overseas investment.

**References**

1. Dierk Herzer (2010), 'Outward FDI and economic growth', Journal of Economic Studies, Vol. 37, Issue: 5, pp. 476-494
2. Johnson, A. (2006), The Effects of FDI Inflows on Host Country Economic Growth. CESIS Electronic Working Paper Series, No. 58.
3. Foster (2011). 'Distribution of FDI across China – Common policies but differing impacts by region', Journal of Chinese Economic and Foreign Trade Studies, Vol. 4 Issue: 2, pp. 125-138
4. Pant M. & Srivastava D. (2018), FD in India: History, Policy and the Asian Perspective, Reserve Bank of India Occasional Papers, Vol. 39, No. 1 & 2, 2018.
5. Singh, Shikha, Chauhan, A. Kumar & Pandey, Nikhil (2012), FDI (FDI) in Bric Countries: A Panel Data Analysis of the Trends and Determinants of FDI, European Journal of Economics, Finance and Administrative Sciences, Issue 53, pp. 48-58.
6. Sharma R. & Khurana N. (2013), Role of FDI (FDI) in Different Sectors, International Journal of Advances in Management and Economics, Jan.-Feb., Vol. 2, Issue 1, 14-19.
7. [www.fdi.finance › sectors](http://www.fdi.finance › sectors)
8. [www.investindia.gov.in › foreign-direct-investment](http://www.investindia.gov.in › foreign-direct-investment)
9. <https://dipp.gov.in/foreign-direct-investment/foreign-direct-investment-policy>
10. <https://www.fdi.finance/guidelines/fdi-policy>.

