

FOREIGN DIRECT INVESTMENT IN INDIA – RECENT DEVELOPMENTS

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Introduction

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. 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, among others.

Market size

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments India received during April - September 2016 rose 30 per cent year-on-year to US\$ 21.6 billion, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for April - September 2016 indicates that the services sector attracted the highest FDI equity inflow of US\$ 5.29 billion, followed by telecommunications – US\$ 2.79 billion, and trading – US\$ 1.48 billion. Most recently, the total FDI equity inflows for the month of September 2016 touched US\$ 5.15 billion.

During April - September 2016, India received the maximum FDI equity inflows from Mauritius (US\$ 5.85 billion), followed by Singapore (US\$ 4.68 billion), Japan (US\$ 2.79 billion), (US\$ 1.62 billion), and USA (US\$ 1.44 billion).

Investments & Recent Developments

Some of the recent significant FDI announcements are as follows

- BSH Home Appliances Group, one of the leading home appliances manufacturers worldwide, opened its first technology centre in India at Adugodi, Bengaluru, which will enable the company to further develop localised technologies for the Indian market.
- Ford Motor Co. plans to invest Rs 1,300 crore (US\$ 189.2 million) to build a global technology and business centre in Chennai, which will be designed as a hub for product development, mobility solutions and business services for India and other markets.

- JW Marriott plans to have 175-200 hotels in India over the next four years.
- China based LCD and touchscreen panel manufacturer, Holitech Technology, plans to invest up to US\$ 1 billion in India next year, as per the company's CEO Mr Bingshuang Chen.
- Mr Abdul Lahir Hassan, Chairman of UAE-based Gamma Group, outlined plans of investing around Rs 3,000 crore (US\$ 436.5 million) in the infrastructure, health and education sectors of Kerala, which is expected to generate around 2,000 indirect and direct jobs in the state.
- Mr Stephane Descarpentries, Director of operations FM Logistic Asia, outlined plans of investing around EUR 50 million (US\$ 52.9 million) in India in the next four years, to contribute to a better efficiency of logistics market in the country.
- The first Incredible India Tourism Investment Summit 2016, which was organised from September 21-23, 2016, witnessed signing of 86 Memoranda of Understanding (MoUs) worth around Rs 15,000 crore (US\$ 2.18 billion), for the development of tourism and hospitality projects.
- Apple Inc has started its first development centre outside the US in Hyderabad, which will employ over 4,000 people and focus on Apple Maps, the company's digital maps and navigation service.
- Panasonic Corporation plans to set up a new manufacturing plant for refrigerators in India with an investment of Rs 250 crore (US\$ 36.4 million), and also invest around Rs 20 crore (US\$ 3 million) on an assembly unit for lithium ion batteries at its existing facility in Jhajjar in the next 8-10 months.
- Vistra Group Ltd, a Hong Kong-based professional services provider, has acquired IL&FS Trust Company Ltd, India's largest independent corporate trust services provider, which will enable Vistra to expand the platform to provide a broader suite of corporate and fiduciary services and thereby gain a foothold in the Indian corporate services market.

Government Initiatives

The Government of India has approved 100 per cent FDI in other financial services carried out by non-banking finance companies (NBFCs), which is expected to attract more foreign capital into the country.

The National Highways Authority of India (NHAI) plans to offer a risk cover to foreign investors who are willing to invest in government owned operational national highways, which would cover risk associated with the possibility of structural design fault, sub-standard quality of construction, and loss of traffic.

The Union Cabinet has approved a scheme allowing the grant of Permanent Residency Status (PRS) to foreign investors based on a minimum investment of Rs 10 crore (US\$ 1.5 million) within 18 months or Rs 25 crore (US\$ 3.6 million) within 36 months, which is expected to encourage foreign investment and facilitate [Make in India](#) programme.

The Department of Industrial Policy and Promotion (DIPP) has allowed 100 per cent foreign direct investment (FDI) in asset reconstruction companies (ARC) under automatic route, which will help to tackle the issue of declining asset quality of banks.

The Government of India has amended the FDI policy regarding Construction Development

Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

The Government of Karnataka has approved three investment proposals worth Rs 2,211 crore (US\$ 321.7 million), which includes that of PepsiCo and Biocon for setting up their new production facilities in the state, and one expansion project proposal of Manyata Promoters Private Limited.

The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment, and non-resident investment..

Road ahead

According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2016, India acquired 10th slot in the top 10 countries attracting highest FDI inflows globally in 2015. The report also mentioned that among the investment promotion agencies, India has moved up by one rank to become the sixth most preferred investment destination.

India will require around US\$ 1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This would require support from FDI flows. India's growth rate, along with competitive location in terms of wages and policies like Stand Up India, is expected to boost FDI in the coming future.

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