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AN OVERVIEW OF THE FDI POLICY FRAMEWORK OF INDIA

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Abstract

Foreign Direct Investment has a significant positive impact on the nation's Development (FDI). The quantity of capital that is occasionally easily accessible domestically is insufficient for the entire development of a country. Using foreign capital is one way to bridge the gaps between domestic savings and investment. In contrast to earlier times, India can today attract substantially more foreign investments. The focus of the current study is on India's FDI policies and its regulatory authority. The study discusses the procedure of FDI approval by different routes and sector-wise limits mentioned by the authority. The study also highlights the need for FDI, current trends in FDI, and available opportunities in the Indian environment. The Department of Industrial Promotion and Policy, the Ministry of Commerce and Industry, The World Investment Report, press releases and circulars from the Indian government, the Reserve Bank of India, and other sources provided the secondary data used in the study. According to the study's findings, 80% of respondents from around the world intended to make investments in India, making it a major global hub for FDI. It has become a more appealing market for foreign investment after cutting corporation taxes and simplifying labor regulations.

Keywords: FDI, FIPB, Liberalisation, Globalisation, Government route.

Introduction

According to the Dictionary of Economics, foreign direct investment, or FDI, is an investment made in a foreign nation through the purchase of a local business or the launch of a new operation on a greenfield site. To put it simply, foreign direct investment (FDI) is the infusion of capital into a country to improve its economic output capability.

FDI is essential to both emerging and developed countries development in the age of globalization. India has made a substantial financial contribution to the expansion of the national economy. To take advantage of India's changing economic climate and reduced salaries, direct foreign investments are made in the country's quickly growing private enterprises. India started the process of liberalizing its economy after the 1991 financial crisis. Since then, foreign direct investment (FDI) has progressively increased in India, resulting in the creation of over one crore (10 million) employment. According to the Financial Times, India emerged as the leading destination for foreign direct investment in 2015, surpassing both China and the United States. In the first half of 2015, India received $31 billion in investment, while China and the US received $28 billion and $27 billion, respectively.

Since the start of its liberalization agenda in 1991, India has embraced a more investor-friendly stance. The administration carried out several structural economic reforms as required by the International Monetary Fund (IMF), including deregulation, the beginning of privatization, opening up trade and investment with other countries, tax reforms, and steps to manage inflation. Since then, whatever party has been in office has not changed the general course of liberalization; nevertheless, no party has yet attempted to take on strongholds like the trade unions and farmers, or divisive subjects like changing labourg laws and lowering agricultural subsidies. FDI inflows increased during this time more quickly than practically all other global economic activity measures.

According to UNCTAD's 2012 World Investment Report, India is regarded as the third most popular country for big international corporations to invest in after China and the US. Long-term investment opportunities are also conceivable due to India's resilience during the global financial crisis. According to the research, foreign investments in India could rise by more than 20% between 2012 and 2013. The most remarkable change in the previous 20 years in the global economic environment has been the growth of FDI. Due to the remarkable expansion of Foreign Investment in 1990, both developed and developing countries have made FDI a key part of their development strategies and policies have been created to encourage inward flows. The host country and the home country both benefit from FDI. The countries that welcome foreign direct investment (FDI) hope to gain from the large markets that industrial expansion has created. Additionally, the host nations seek to expand their domestic financial resources and foreign exchange while gaining management and technological expertise. Additionally, this tremendous expansion of FDI around the world is made possible by the integration of global financial markets.

Literature Review

According to **Anurag Jain (2023),** who serves as the Secretary of the Department for Promotion of Industry and Internal Trade (DPIIT), India is considered a Favored destination because of a range of initiatives, including the liberalization of Foreign Direct Investment (FDI) Policy**.**

The Economic Times (2022), "PHDCCI urges govt to issue clarification on FDI policy in e-commerce sector", The chamber said in a letter to DPIIT secretary Anurag Jain that online merchants are taking advantage of policy gaps to conduct inventory E-commerce and multi-brand retail trade under the guise of operating marketplace platforms. The coal Minister in the current government **Pralhad Joshi (2022),** announced that the government has reassessed the Foreign Direct Investment policy in coal and mining. The new permit 100 percent FDI through the automatic route for the sale of coal and coal mining activities, including associated processing infrastructure. This is contingent upon adherence to the provision outlined in the Coal Mines (Special Provision) Act 2015, and the Mine and Minerals (Development and Regulation) Act 1957.

Vyas (2015), studied the economic progression and expansion of India are substantially shaped by foreign direct investment. By generating employment opportunities and expanding the existing manufacturing sector, FDI in India has the potential to foster substantial economic growth and development. The research further indicates that FDI consistency contributes to job creation within the country, supports the growth of small-scale industries, and enables the nation to establish a global presence through liberalization and globalization.

Kumari (2013), studied "The Impact of FDI on Equity Inflow on Trends and Patterns of FDI Inflow" by the results of the analysis show that the liberalization of FDI policy has been extremely beneficial to the Indian economy. Knowledge, infrastructure, and quality of life are just a few of the areas where development has benefited from the introduction of FDI.

Renuka et al. (2013) investigated that to maintain volatility and unpredictability during that time, India brought in FDI alongside considerable changes in economic policy that hailed the liberalization phase and brought structural breakdown in FDI inflows into the economy.

Sharma and Khurana (2013), used data from 1991–1992 to 2011–2012 in their analysis on the sectorwise allocation of FDI inflow to determine which has concerned the lion's share (post-liberalization period).

Kumar (2019), emphasized China's and India's policy facets in the context of reaching an agreement on bilateral commerce, which forms the basis of the two nations' diplomatic and political relations. To achieve this, a multivariate Autoregressive distributed lag (ARDL) model is employed, along with two extra explanatory variables: foreign direct investment (FDI) and gross capital formation (GCF).

Kumari (2013), Examines how foreign policy and populism are related **x** to demonstrate how populism can be included in IR theory and how IR scholarship may contribute to discussions on populism. It uses a case study of India's foreign policy discourse under Hindu nationalist Narendra Modi, who has pledged to rid India of a corrupt elite and implement an "India first" strategy, to demonstrate its points.

Ndzendze (2020), examines how security perceptions affect FDI (foreign direct investment) coming into the BRICS nations.

Stock et al., (2020), want to address the following query: what impact do compelling and perplexing methods have on the development and execution of climate change adaptation policies in Bangladesh and India? Even if FDI regulations and screening procedures operate differently among nations, they all have one thing in common: when it comes to national security, most countries' FDI policies now prioritize ambiguity and obscurity.

Lai (2021), contends that for politicians and other business and political actors to participate in the securitization of FDI to further their own political and economic goals, uncertainty is a crucial requirement.

Objectives

- To understand the FDI policy framework of India.
- To comprehend India's need for FDI.
- To understand India's FDI flow trends.
- To analyze sector-wise inflow of FDI cap and entry route.

Regulatory Body of FDI in India

In India, the regulation and facilitation of Foreign Direct Investment (FDI) are overseen by various authorities and regulatory bodies. Here is a list of key entities involved in regulating and promoting FDI in India:

Organization	**Role**
Department for Promotion of Industry and Internal Trade (DPIIT)	Formulates and implements the FDI policy of India.
Reserve Bank of India (RBI)	Regulates and monitors foreign exchange transactions, including FDI.
Securities and Exchange Board of India (SEBI)	Regulates the securities market and oversees FDI-related aspects in sectors under its purview.
Foreign Investment Promotion Board (FIPB) (Disbanded)	Historically responsible for processing and approving FDI proposals. Note: FIPB has been disbanded, and FDI approvals are now generally routed through the automatic route or government departments.
Ministry of Finance	Formulates fiscal policies related to FDI and collaborates with other ministries on FDI-related matters.
Ministry of Commerce and Industry	Works in coordination with DPIIT to formulate trade and investment policies.
Registrar of Companies (RoC)	Handles the registration of foreign companies and monitors compliance with the Companies Act.
The Competition Commission of India (CCI)	Ensures fair competition in the market and reviews competition-related aspects of FDI transactions.
National Investment and Infrastructure Fund (NIIF)	Facilitates infrastructure investment, including FDI, in the country.
State-Level Investment Promotion Agencies	Various states in India have investment promotion agencies that facilitate and promote FDI at the state level.
Customs Authorities	Responsible for regulating the import and export of goods, including those related to FDI.
Technology Development Board (TDB)	Supports technology-intensive and R&D-driven projects and may have relevance for FDI in certain sectors.

Route of FDI in India

An Indian company may receive foreign direct investment under the two routes as given below:

- **Automatic Route:** Indian Businesses operating in a range of sectors are permitted to issue shares to foreign investors equal to 100 percent of their paid-up capital.
- **Government Route:** FDIs must first receive government approval for certain operations that are not covered by the automated route.

Through the automatic route or the government route, non-residents may invest in equity shares, fully, compulsorily, and mandatorily convertible debentures, or fully compulsorily, and mandatorily convertible preference shares of an Indian firm. A non-resident investor or an Indian corporation can invest using the automatic route without needing any permission from the Indian government. The Indian government's previous clearance is necessary to go via the government route. Under the government method, proposals for foreign investment are reviewed by the relevant administrative Ministry or department.

Current FDI policy in terms of sector-specific limits has been summarised in Table

Sector-Specific Limits of Foreign Investment in India		
Sector	**FDI Cap/Equity**	**Entry Route**
A. Agriculture		
1. Floriculture, Horticulture, etc.	100%	Automatic
2. Tea sector	100%	FIB
B. Industry		
1. Mining (diamonds, precious stones)	100%	Automatic
2. Coal and lignite mining	100%	Automatic
3. Mining of titanium-bearing minerals	100%	FIB
C. Manufacturing		
1. Alcohol- Distillation & Brewing	100%	Automatic
2. Coffee & Rubber processing	100%	Automatic
3. Defence Industry	100%	Automatic up to 74%, Government route beyond 74% (for access to modern technology or other reasons)
4. Hazardous chemicals and isocyanates	100%	Automatic

5. Industrial explosives -Manufacture	100%	Automatic
6. Drugs and Pharmaceuticals	100%	Automatic
D. Services		
1. Civil aviation	100%	Automatic
2. Asset Reconstruction companies	49%	FIPB
3. Banking (private) sector	74% (FDI+FII)	Automatic
4. NBFCs	100%	Automatic
5. Broadcasting		
FM Radio	20%	FIPB
b. Cable network; c. Direct to home; d. Hardware facilities; e. Up-linking a news and current affairs TV Channel	49% (FDI+FII) 100%	FIPB Automatic
6. Commodity Exchanges	49% (FDI+FII)	FIPB
7. Insurance	26%	Automatic
8. Petroleum and natural gas		
9. Print Media		
a. Publishing of newspapers and periodicals dealing with news and current affairs	26% 100%	FIPB Automatic
b. Publishing of scientific magazines/specialty journals/periodicals	100%	FIPB
10. Telecommunications	74% (including FDI, FII, NRI, FCCBs, ADRs/GDRs, convertible preference shares, etc.)	Automatic up to 49% and FIPB beyond 49%

Source: *Department for Promotion of Industry and Internal Trade Ministry of Commerce and Industry (Consolidated FDI Policy Circular of 2020)*

Procedure for Government Approval

The process for foreign investment proposals involves submitting documents online through the Foreign Investment Facilitation Portal (www.fifp.gov.in). The Department for Promotion of Industry and Internal Trade (DPIIT) will promptly identify the relevant Ministry/Department and circulate the proposal within 2 days. Simultaneously, the proposal will be shared online with the Reserve Bank of

India (RBI) for comments related to FEMA within 2 days. Investments from Pakistan and Bangladesh necessitate clearance from the Ministry of Home Affairs.

DPIIT is required to provide its comments within 4 weeks of receiving the online application, and the Ministry of Home Affairs, if applicable, should offer comments within 6 weeks. Following this, additional information or clarifications may be requested from the applicant, to be provided within 1 week. Proposals involving Foreign Direct Investment (FDI) exceeding INR 50 billion (approximately $775 million) will be presented to the Cabinet Committee of Economic Affairs. Upon completion of all requirements, the approval process is expected to take 8-10 weeks.

Need for FDI in India

Foreign Direct Investment (FDI) can play a crucial role in the economic development of a country like India. Here are some reasons why FDI is considered important:

- **Capital Inflow: -**FDI brings in foreign capital, which can be used for various development projects, infrastructure improvement, and overall economic growth.
- **Technology Transfer: -**FDI often involves the transfer of technology, skills, and know-how from foreign investors to the domestic workforce. This helps in upgrading the technological capabilities of local industries.
- **Job Creation: -**Foreign investments can lead to the establishment and expansion of businesses, which in turn creates job opportunities for the local population. This is essential for addressing unemployment and poverty-related issues.
- **Balancing Trade Deficits: -**FDI can contribute to a more favorable balance of trade by boosting exports and reducing trade deficits. Foreign investors may establish production facilities that export goods and services, helping to improve the overall trade balance.
- **Infrastructure Development:** Road, ports, and telecommunication infrastructure are frequently developed with the help of foreign investors. This improves the host nation’s general business climate in addition to helping the investing corporations.
- **Global Competitiveness: -**FDI can enhance the competitiveness of local industries by exposing them to global best practices, management techniques, and quality standards. This can result in increased efficiency and productivity.
- **Economic Diversification: -**Foreign investment can lead to the diversification of the economy by introducing new industries and sectors. As a result, the economy becomes less dependent on a small number of industries, increasing its resilience.
- **Stimulating Domestic Investment: -**The presence of foreign investors can stimulate domestic companies to improve their efficiency and competitiveness to attract investments themselves. This can create a positive cycle of economic development.

- **Government Revenue: -**FDI can contribute to government revenue through taxes and fees imposed on foreign companies. This revenue can be used for public services, welfare programs, and other essential expenditures.
- **Market Access: -**Foreign investors often bring with them established market networks, which can provide local businesses with improved access to international markets.

However, it's crucial for the host country to carefully manage and regulate FDI to ensure that it aligns with national interests and does not result in negative consequences such as exploitation, environmental degradation, or excessive dependence on foreign capital. Striking a balance between attracting foreign investments and safeguarding domestic interests is essential for maximizing the benefits of FDI.

India's Investment environment has significantly improved since the country's economy opened in 1991

- FDI inflows to India totaled $45.15 billion in 2014-15 and have been rising steadily ever since. Additionally, FDI equity climbed by 68.6% from $185.03 billion in 2007-14 to $312.05 billion in 2014-21, representing a 65.3 increase in overall FDI inflow from $266.21 billion in 2007-14 to $440.01 billion in 2014-2021.
- During the first four months of FY 2021–22, India received $27.37 billion in foreign direct investment (FDI), a 62% increase over the same time in FY 2020–21 ($16.92 billion).
- In FY 21–22, India saw the largest yearly inflows of foreign direct investment (FDI), surpassing $2.87 billion from the previous year. Moreover, the FDI equity inflow was $59,825 million in FY 2021–2022.
- The amount of FDI equity inflow into the manufacturing sectors increased by 76% in FY 2021–22 ($ 21.34 billion) over FY 2020–21 ($ 12.09 billion).
- Foreign direct investment (FDI) inflows into the nation over the last 22 years (April 2000 - March 2022) totaled $847 billion, whereas FDI inflows over the last 8 years (April 2014 - March 2022) totaled $523 billion, or almost 40% of the total FDI inflow over the previous 22 years.
- The amount of foreign direct investment (FDI) inflow into India was a meager $ 45.15 billion in FY 2014–15. This figure rose to $60.22 billion in FY 2016–17 and, in FY 2021–22, reached an all-time high of $ 83.57 billion.
- The top 5 nations for foreign direct investment (FDI) equity inflows into India during FY 2021–22 are Singapore (27.01%), the United States (17.94%), Mauritius (15.98%), the Netherlands (7.86%), and Switzerland (7.31%).

- Computer software & Hardware (24.60%), Service Sector (Fin., Banking, Insurance, Non-Fin/Business, Outsourcing, R&D, Courier, tech. Testing and Analysis, Other) (12.13%), Automobile Industry (11.89%), Trading (7.72%), and construction Activities (5.52%) are the top sector receiving the highest FDI Equity Inflow during FY 2021-2022.

Conclusion

Foreign Direct Investment (FDI) is vital for India's economic development due to its capital inflow, technology transfer, job creation, trade balance, infrastructure development, global competitiveness, economic diversification, domestic investment stimulation, government revenue, and market access. It boosts local industries' efficiency, reduces dependence on a limited range, stimulates domestic companies, and contributes to government revenue.

India's economy has proven to be one of the fastest-growing in the world thus far. Lately, India has become a major global destination for foreign direct investment. Almost 80% of the global respondents intended to make investments in India, one of the top three international FDI destinations. It is thought to be among the top ten most desirable places in the world for foreign investment. India recently simplified its labor laws and drastically reduced corporation taxes. To make it more inviting to investors, the legal framework for foreign investment has gradually been relaxed since 1991. The government has taken action to increase the sectoral cap on already-existing industries, ease other FDI policy criteria, and allow FDI into new industries. The study concluded that changes to the FDI policy are meant to facilitate business dealings and accelerate the inflow of foreign capital into the country. India is still a sought-after market for international capital.

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