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FOREIGN DIRECT INVESTMENT IN INDIA: PROSPECTS FOR USA

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ABSTRACT

Twenty-five years ago, India embarked on a journey of economic liberalization, opening its doors to globalization and market forces. According to a Financial Times report, India was the top global Foreign Direct Investment (FDI) destination in 2015, overtaking both United States and China. Data from the government's Department of Industrial Policy and Promotion (DIPP) reveals that FDI inflows into India increased by 29 per cent to a record $40 billion during in the financial year 2015-2016. This comes on the back of initiatives like 'Make in India', which aims at promoting India as an important investment destination and a global hub for manufacturing, design and innovation. The cumulative FDI inflows (including equity, re-invested earnings & other capital) in India from United States of America (USA) from April 2000 to March 2017 are US$ 20322.67 million which ranked Japan 6th largest investor in India. Further, it is found that sectors attracted maximum FDI equity inflows from USA from April 2000 to March2017 are services sector, construction activities, computer hardware and software, automobile and food-processing industry. This study aims to highlight US-specific investment opportunities in India against the backdrop of US investors concerns regarding FDI in India.

Keywords: MNEs, Services Sector, Automobile Industry, Infrastructure, Investment, Equity

INTRODUCTION

The contributions of FDI to the host country are numerous and varied. Direct effects are often measured in terms of inflows of foreign capital, which affect employment, R&D and forge export channels. The indirect (spillover) effects take place through the impact of multinational enterprises (MNEs) affiliates on operations of local firms (through channels such as skill and knowledge transfers). While there are many studies on the impact of FDI on host countries, there are very few studies pertaining to the impact of bilateral FDI flows.

Apart from being a critical driver of economic growth, 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. (IBEF, 2017)

Since the launch of reforms, US companies have invested in joint ventures or green-field projects in automobiles, services sectors, computer software & hardware, construction (infrastructure activities) and food processing industry. This study of US direct investment, set against an exploration of India's FDI experience from a US perspective, indicates that industrial clusters are playing an important role in economic activity. The key to promoting FDI inflows into India may lie in industries and products that are technology-intensive and have economies of scale and significant domestic content. The present paper is an attempt to study and examine the FDI inflows in India from the USA in aggregate and different sectors of the economy in the 21st century of digital and information age.

The paper is organized in the following manner: Section 1 presents an overview of FDI inflows in India with recent FDI policy environment. Section 2 presents review of literate on FDI, globally as well as for India briefly. Section 3 presents the analytical framework of the study, discusses the methodology of the study. Section 4 discusses the findings of the study, and Section 5 concludes, offering some prospects for investment in India for US companies.

Entry Route for Investment

Investments can be made by non-residents in the equity shares/fully, compulsorily and mandatorily convertible debentures/fully, compulsorily and mandatorily convertible preference shares of an Indian company, through the Automatic Route or the Government Route. Under the Automatic Route, the non-resident investor or the Indian company does not require any approval from Government of India for the investment. Under the Government Route, prior approval of the Government of India is required. Proposals for foreign investment under Government route are considered by respective Administrative Ministry/Department.

FDI Policy Environment in India

Prohibited Sectors: FDI is prohibited in: (a) Lottery Business including Government/private lottery, online lotteries, etc. (b) Gambling and Betting including casinos etc. (c) Chit funds (d) Nidhi company (e) Trading in Transferable Development Rights (TDRs) (f) Real Estate Business or Construction of Farm Houses 'Real estate business' shall not include development of townships, construction of residential /commercial premises, roads or bridges and Real Estate Investment Trusts (REITs) registered and regulated under the SEBI (REITs) Regulations 2014. (g) Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes (h) Activities/sectors not open to private sector investment e.g. (I) Atomic Energy and (II) Railway operations.

REVIEW OF LITERATURE

Gupta & Chaturvedi(2017) analyzed FDI inflows in India from 1991 to 2016, and to make predictions for next 5 years using least square method. Further inflows were studied on the basis of top countries investing in India, top sectors in which the investments are received. It was found that Mauritius alone contributed 33% of total FDI inflows to India. Mauritius and Singapore both collectively account for around 50% of the total inflows to India, subsequently the reasons for that were analyzed. The top sectors receiving FDI are Services, Construction development, Computer software, Telecommunications, Automobile, Drugs and Pharmaceuticals, Trading, Chemicals, Power and Hotel and Tourism.

Kumar & Sharma(2017) examined the effect of FDI inflows on the Indian economy over the period of 2011 to 2014.This analysis has revealed that Foreign Direct Investment has positive and significant impact on GDP .The importance of the FDI was increased after the new economic policy 1990-1991. The results found that foreign direct investment had a good and positive impact on the GDP.

Talwar and Ali (2015) examined the foreign direct investment in insurance sector in India and found that firstly, India needs to pay more emphasis on infrastructure building, cut unwarranted trade restrictions, promote regional cooperation, improved governance and improve ease of doing business rankings to attract foreign investment in insurance and other areas of the economy.

Ray, Miglani, & Malik(2015) studied the direct and indirect impact of US FDI inflows in India and identify the challenges faced by US investors based on secondary data and information from primary firm level surveys. Analysis of the secondary data helped in identifying sectors where the overall impact of US FDI was high. A primary survey was then conducted in selected sectors comprising in-depth personal interviews and consultation meetings with relevant stakeholders. The findings of the paper include some examples of the direct impact of American FDI - the employment generated by American firms in India is considerable and significant exports from US firms.

Akthar(2013) studied and found that FDI increased at CAGR of 19.05% while during post liberalization period it has grown 24.28%. This indicates that liberalization has had a positive impact on FDI inflows in India. Since 1991 FDI inflows in India has increased approximately by more than 165 times.

Singhania & Gupta (2011) examine the determinants of foreign direct investment (FDI) in India. Using macroeconomic variables – GDP, inflation rate, interest rate, patents, money growth and foreign trade – the authors tried to find the best fit model (ARIMA) to explain variation in FDI inflows into India. The authors tested for various assumptions taken before applying autoregressive integrated moving average (ARIMA) such as heteroscedasticity, autocorrelations, etc. using standard tests and quantified FDI policy changes using dummy variables. It was found that of all macroeconomic variables taken, only GDP, inflation rate and scientific research are significant and that FDI Policy changes during years 1995-1997 have had a significant impact on FDI inflows into India. The authors' econometric model explains 63 percent variation in FDI inflows into India. Implicitly, the balance 37 percent variation in FDI inflows is still unexplained and so further study should be undertaken with even wider scope in terms of macroeconomic variables such as exchange rate, etc. As a recommendation for future FDI policy planning and implementation, the authors suggest the Government of India gives resources towards variables that have been classified as significant in this paper, namely GDP growth and inflation rate and should open the economy further. Sectors not yet open to FDI investments should be opened and although inflation rate should be controlled but some inflation is beneficial.

Maniam & Chatterjee (1998) studied traces the growth of US foreign direct investment (FDI) in India and the changing attitude of the Indian government towards it as part of its liberalization programme. Reviews previous research on the determinants of FDI and uses regression analysis on 1962-1994 data to identify the factors affecting US FDI in India, current trends and the impact on the Indian economy. Finds that only the relatively weak exchange rate appears to be a significant factor and that US FDI has been increasing in dollar amounts and relative percentage growth, especially since the economic reforms of the 1990s. The study calls for improvements in infrastructure and reductions in red tape and protectionism to encourage further growth.

Nandi & Sahu (2007) study noted that there is prevalent widespread opposition, especially by the left parties towards FDI in retail trade in India. May be in the early 1990s employing safeguards to protect domestic retailers was the need of the day. Almost more than one and a half decades down the line there is a need for Foreign Direct Investment in retail trade. It is a flawed argument that the Wal-Marts', Tescos' and Asdas' will lead to the winding up of the small scale domestic retailers. Instead it is going to provide a stiff competition to the Pantaloons' and the Westsides'. This study starts by stressing the need of FDI in India. It uses the argument that FDI is allowed in multiple sectors and the effects have been quite good without harming the domestic economy tries to stress on the fact that FDI in retail sector must be allowed.

RESEARCH METHODOLOGY

Research methodology is the conceptual structure within which research is conducted. It constitutes the blueprint for the collection, measurement and analysis of the data.

OBJECTIVES OF THE STUDY

The present study is concerned with the following objectives:

(1) To study the trends and patterns of FDI equity inflows from USA and

(2) To analyze the FDI equity inflows sector-wise from USA.

PERIOD OF THE STUDY: The present study covers a period of 17 years from the year April 2000 to March 2017.

DATA COLLECTION

India is widely regarded as an `under performer' when it comes to attracting foreign direct investment (FDI), particularly in comparison with China and the rest of East Asia. However, there are major differences in the definition of FDI and the interpretation of FDI data. Comparison of the methods of measurement of FDI inflows to India with those prescribed by the International Monetary Fund and suggestions for improving the coverage of Indian FDI data. The study is carried out on the basis of secondary data collected from Reserve Bank of India (RBI), Department of Industrial Policy and Promotion (DIPP) and Secretariat of Industrial Assistance newsletter (SIA). The secondary data has been used as input to attain the objectives of the study.

TOOLS OF ANALYSIS

To analyze the data the study employs annual growth rate estimates and compound annual growth rate of FDI inflows during study period using MS-Excel 2010 software. MS-Excel is a comprehensive and flexible statistical analysis and data management solution. It can take data from almost any type of file and uses them to generate tabulated reports, charts, descriptive statistics and statistical analysis.

RESULTS AND DISCUSSIONS

Table 1 depicts that cumulative FDI inflow (including equity, re-invested earnings & other capital): from April 2000 to March 2017, are US$ 484.25 billion. However, data on country & sector specific details of re-invested earnings and other capital are not centrally maintained by the RBI (data on re-invested earnings and other capital is available only from April 2000, and is estimated by RBI, on an average basis, based upon data for the previous two years). Further, the cumulative FDI equity inflows (remittance-wise) received during April 2000-17 (up to March 2017) were US$ 331.99 billion excluding amount remitted on RBI's-NRI Schemes. Out of this, FDI inflows from USA (which ranks 6th) are US$ 20.32 billion which represents 6.12% of the cumulative inflows received (this amount does not include inflows received prior to April 2000, as such data prior to that date was not centrally maintained by the RBI). Further, project, country & sector specific FDI equity inflows data, in respect of USA, is available only from April 2000 onwards. Noting that the US is one of the largest sources of investment into India since 2000, the US invested over $20 billion in India, more than six per cent of India's total inflow of investment. The share of USA in FDI equity inflows from April 2016 to March 2017 was 5.47% (US$ 2.38 billion, ranked 5th in top invested country in India). Therefore it is concluded that the share of USA in FDI equity inflows from April 2000 to March 2017 are US$ 20.32 billion (6.12% share of total FDI inflows with 6th rank in the top investing countries in India).

Table: 1 FDI Equity Inflows in India from USA (US$ million)

Year (April 2000 – March 2017)	Total FDI Equity Inflows from USA	Total FDI Equity Inflows in India	Share of USA in Total FDI Equity Inflows	Total FDI Inflows (Including equity, re-invested earnings & other capital) (Annual Growth Rate)*
2000-01	355.59	2463	14.44	4029 (87%)
2001-02	382.28	4065	9.40	6130 (52%)
2002-03	318.61	2705	11.78	5035 (-18%)

2003-04	360.51	2188	16.48	4322 (-14%)
2004-05	668.82	3219	20.78	6051 (40%)
2005-06	502.22	5540	9.07	8961 (48%)
2006-07	855.78	12492	6.85	22826 (155%)
2007-08	1089.10	24575	4.43	34843 (53%)
2008-09	1801.98	31396	5.74	41873 (20%)
2009-10	1943.46	25834	7.52	37745 (-10%)
2010-11	1170.27	21383	5.47	34847 (-8%)
2011-12	1115.27	35121	3.18	46556 (34%)
2012-13	557.23	22423	2.49	34298 (-26%)
2013-14	806.35	24299	3.32	36046 (6%)
2014-15	1823.60	30931	5.90	45148 (25%)
2015-16	4192.29	40001	10.48	55457 (23%)
2016-17	2379.31	43478	5.47	60082 (8%)
Cumulative Total	20322.67	332113	6.12	484249

***Figure in parenthesis shows annual growth rate year-on-year basis.**
Source: DIPP, FDI Fact Sheet, Various Issues.

Table 2: Share of Top Sectors Attracting FDI Equity Inflows from USA

Rank	Sector	Amount of FDI Equity Inflows (US $ million)	% age of FDI Equity Inflows from USA
1	Services Sector*	4235.71	20.84
2	Construction (Infrastructure Activities)	2725.49	13.41
3	Computer Software & Hardware	2521.76	12.41
4	Automobile Industry	2036.13	10.02
5	Food Processing Industry	614.60	3.02
Total of Above		12133.69	59.7

***Includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, Courier, Technology Testing and Analysis, etc.**

Source: DIPP

Services Sector

FDI Inflows to service sector has been phenomenal in the past few years. Since the onset of the liberalization of the Indian economy in 1991, the country has experienced a huge increase in the inflow of foreign investments. The service sector in India has tremendous growth potential and as such it has attracted huge FDI. The amount of FDI in services sector from US was highest US$ 4235.71 million in 2000-2017. The share of FDI in services sector in total FDI in India from US was 20.84 % in 2000-2017.

Construction (Infrastructure Activities)

The construction business is again a major sector attracting foreign direct investment in the country from the past 15 years. Various initiatives introduced by Indian government such as Make in India helps to attract large amount of foreign direct investment in this sector. The rise of foreign direct investment in such sector owes it to the rising opportunities in power sector including power generation, distribution, transmission and equipment. Besides, infrastructure sector has also gained momentum on an average from the year 2000. Foreign direct investment in construction sector contributes 9% to the total foreign direct investment inflows in the country (IBEF, 2016).FDI Inflows to construction activities has led to a phenomenal growth in the economic life of the country. India has become one of the most prime destinations in terms of construction activities as well as real estate investments. FDI received in construction development sector (townships, housing, built up infrastructure and construction development projects) from April 2000 to March 2017 stood at US$ 2725.49 million i.e. 13.41 per cent (Table 2).

Computer Software & Hardware Industry

Table 2 shows that FDI Inflows to computer software and hardware industry in the observation period from April 1st 2000 to March 31st, 2017 has been USD 2521.76 million i.e. 12.41 percentage of FDI equity inflows. Software Technology Parks, regulatory reforms by the Indian government, the growing Indian market and availability of skilled workforce have been important factors in boosting FDI inflows to computer software and hardware in India.

Automobile Sector

Indian automobile sector has seen huge investments from both domestic and foreign manufacturers. FDI inflows to the sector were US$ 2036.13 million i.e.10.02 per cent between April 2000 and March 2017. The Automotive Mission Plan: (2016-26) shows clear vision of government to develop India as a global manufacturing centre. Reforms like GST to help boost the sector’s growth.

Food Processing Industry

Pitching for foreign direct investment in the food-processing sector, India has asked the

US companies to take advantage of its liberalized foreign investment rules, ready-made infrastructure and improving business environment. The GOI has significantly liberalized FDI regulations, and has allowed 100 per cent FDI in manufacturing of food products and 100 per cent FDI in trading including e-commerce in food products manufactured and produced in India.

India has undertaken several national and state-level programmes to improve the nation's standing in the World Bank's annual Ease of Doing Business Index. India's food processing industry is experiencing significant growth and boasts existing infrastructure in new Mega Food Parks around the country as well as state-of-the-art Cold Chain facilities. From November 3 to 5, New Delhi hosted the World Food India 2017, a first-of-its-kind mega-scale event showcasing the large agricultural or horticultural produce base of India and its huge young population, providing a ready market providing immense investment opportunities for the entire food processing and food retail sector. Leading U.S. companies are invited to learn about India's proactive policies and profitable opportunities available across the entire food-processing and food retail value chain. Table 2 exhibits that FDI Inflows to food processing industry in the observation period from April 1st 2000 to March 31st, 2017 has been USD 614.60 million i.e. 3.02 percentage of FDI equity inflows.

Table 3: Top 25 FDI Inflows Received from USA (Remittance-Wise through Indian Companies) (From April 2000 to March 2017)

Sr. No.	Name of the Indian Company	FDI Route	Name of the Foreign Collaborator	RBI Regional Office	Amount of FDI Inflows	
					Rs. Crore	(US$ million)
1	Serene Senior Living (Covai Sr Care Cons	RBI	Signature India LLC	Chennai	14,999.81	2,252.38
2	Indusind Bank Ltd.	FIPB	Various	Mumbai	2,733.10	408.29
3	Ford India Limited	RBI	Ford Motor Company	Chennai	2,666.54	438.11
4	Essar Steel Ltd	RBI	Essar Logistics Holdings Ltd	Ahmedabad	1,903.93	451.97
5	Ford India Limited	RBI	Ford International Services Ltd	Chennai	1,443.46	237.16

6	Cairn India Ltd	RBI	Petronas Intl Corpn Ltd	Mumbai	1,419.82	297.21
7	Amazon Data Services India Private Limit	RBI	A 100 Row, Inc	New Delhi	1,384.61	206.43
8	GMR Infrastructure Ltd	RBI	26 Various FIIs	Bangalore	1,200.34	256.28
9	Ford India Private Limited	RBI	Ford Motor Company	Chennai	1,163.35	185.39
10	Cairn India Ltd	RBI	Orient Global Tamarind Fund Pvt Ltd	Mumbai	1,114.77	233.36
11	Anant Raj Industries Ltd.	RBI	Deutsche Bank Trust Co.	New Delhi	608.07	132.30
12	Adani Power Limited	RBI	Various Investors	Ahmedabad	579.16	86.41
13	Ford India Ltd	RBI	Ford Motor Company	Chennai	546.77	111.96
14	FedEx Express Transportation And Supply	RBI	Federal Express Europe Inc	Mumbai	536.19	105.43
15	E-Serve International Ltd	FIPB	Citibank Overseas Investment Corp.	Region Not Indicated	518.91	112.81
16	PTC India Ltd.	RBI	As Per Annexure	New Delhi	499.99	103.22
17	Reebok India Company	RBI	Reebok International Ltd	New Delhi	470.00	69.89
18	Kotak Mahindra Bank Ltd.	RBI	Bk of New York	Mumbai	450.00	102.21
19	Veritas Software Technologies India Pvt	RBI	Veritas Operating Corporation	Mumbai	432.45	64.30
20	JSW Energy Ltd	RBI	Various Investors	Mumbai	431.39	97.14
21	Vardhman Yarns And Threads Limited	RBI	American & Efird Global Llc	Region Not Indicated	413.00	61.88
22	Religare Enterprises Ltd	RBI	Industrial Finance Corporation	New Delhi	404.84	67.41
23	Citicorp Finance (I) Ltd	FIPB	Not Found	Mumbai	400.88	87.15
24	GMR Infrastructure Ltd.	RBI	FII	Bangalore	397.31	88.48
25	W.S.Electric Ltd	RBI	Schroder Credit Renaissance Fund Ltd	Chennai	386.68	86.22
Grand Total					37,105.36	6,343.37

Source: DIPP

Table 3 depicts that top 25 FDI inflows received from USA (remittance-wise through Indian companies) from April 2000 to March 2017 and concluded that automatic route is the most favourable route for attracting foreign investment in various sectors of the economy in different regions. The table shows that the FIPB route was used in get permission for investment in some sectors but currently the GOI has abolished the FIPB and directly involved ministries will consider the investment proposal of foreign investors to create a simple and hassle-free investment environment. The foreign company in alliance with the Indian company made a total investment of US$ 6343.37 million from April 2000 to March 2017.

CONCLUSION

Clear national vision, strong political will and focus on execution have made India one of the world's most attractive investment destinations. The country is reforming which has led to the transformation of India becoming the world's most open economy. A human capital of 1.5 billion with more than 65% under the age of 35, India is moving towards becoming a global power house of the future. With the highest ever jump in the World Bank's Ease of Doing Business rank, India presents a multitude of opportunities spanning across sectors. India today is the top Greenfield FDI investment destination. The youngest nation in the world, with an average age of 29 years, offers unprecedented opportunities for higher returns on foreign investments. According to the Government of India, the United States is one of the top five destinations for investment from India. The U.S. Bureau of Economic Analysis reports that Indian companies have invested over $11 billion in the United States economy, creating and sustaining more than 52,000 jobs. Industry sources indicate these investments are spread across 35 states.

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