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TRENDS AND POLICY PERSPECTIVES OF FOREIGN DIRECT INVESTMENT IN INDIA SINCE 1991

KEY WORDS:

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INTRODUCTION

The financial difficulties in the early 1990s brought new economic policies on the agenda, especially in the area of foreign investment. First, Montek Singh Ahluwalia (Deputy Chairman, Planning Commission) confidentially submitted a policy paper titled "Towards Restructuring Industrial, Trade and Fiscal Policies" to the Prime Minister's Office (PMO) in 1990. The paper, in fact, became the original design for economic reforms that were implemented in 1991. It suggested the thorough deregulation of the industrial sector, including foreign investment. For example, it contained a scheme to increase the equity of foreign investors from 40% to 51% of the paid- up capital in domestic companies in many sectors. Through this scheme, foreign capital could actively participate in the process of industrialization in India. Second, the Union Budget 1991-92 also showed the need of foreign investment. In his budget speech, Manmohan Singh, who succeeded Yashwant Sinha as the finance minister, strongly supported FDI inflows (GOI 1991a:5). He believed that FDI inflows would provide access to capital and technology that could contribute to economic growth. In this context, the political Economy framework for Foreign Direct Investment in India has been discussed in this paper.

Political Dimension to FDI

In the economic literature on Foreign Direct Investment (FDI), enough evidence is available on the political dimension in deterring or encouraging / promoting FDI by the nation states. As far as India is concerned, the political parties are divided in to two groups, on the basis of their support to foreign capital. The parties that support FDI are in the two formations: Indian National Congress (INC) led United Progressive Alliance (UPA) and National Democratic Alliance (NDA) led by Bharathiya Janata Party (BJP). The parties that are against foreign capital (in any form) are in the left-of- the center formation like Communist Party of India (CPI) and Communist Party of India- Marxist (CPI-M). However, only the NDA and UPA ruled India and the left never captured power at the centre. At the same time, in the periods- when they supported Janata Party rule (1977-1979) and V.P Singh Government (1989-1990) – they had some influence on policy decisions taken by those governments with respect to foreign capital.

Political Economy of FDI: Theoretical Background

The politico economic theories concentrate on political risk. Political stability in the host countries leads to foreign investment there in. Similarly, political instability in the home country encourages investment in foreign countries. However, **Schneider** and **Frey** (1985) believed that the theory underlying the political determinants of FDI is less well developed than those involving economic determinants. The political factors are only additive influencing foreign investment.

Objectives Of The Paper

1)To understand the FDI policies of Government of India since 1991.
2)To analyse the growth in total FDI inflows and state wise distribution of FDI inflows to India.
3)To examine the Interstate competition of attracting FDI inflows to India.

DATA AND METHODOLOGY

This study is based on secondary data for the period of 1991 – 2019. The required data were collected from various issues of Economics Survey, Fact Sheet on Foreign Direct Investment in India published by Reserve Bank of India bulletin. The simple statistical tools like Percentage and Annual Growth Rate were analysed and interpreted.

FDI Policies of Government of India

FDI, being a non-debt capital flow, is a leading source of external financing, especially for the developing economies. It not only brings in capital and technical know-how but also increases the competitiveness of the economy. Overall it supplements domestic investment, much required for sustaining the high growth rate of the country. Since 1991, significant changes have been made in the FDI policy regime by the government to ensure that India becomes an increasingly attractive and investor-friendly destination. They are discussed one by one

In 1991 automatic approval of upto 51% of foreign ownership was introduced in 34 priority sectors, including mostly manufacturing industries and a few services sectors.

Indian mining sector was opened to foreign direct investment 1993-1994 Permission was granted to foreign investors and Non-Residents Indian (NRI) investors to repatriate their profits and capital.

Non-Resident Indians (NRI) and Overseas Corporate Bodies (OCB) were given automatic approval for equity in priority industries.

In **January 1997** FDI policy in mining was further liberalised. Automatic approval upto 50% was granted in foreign equity participation in mining projects while this limit was raised to 74% in services incidental to mining.

In **January, 1998** simplified procedures for automatic FDI approvals were announced by Reserve Bank of India. This in turn implied that there is no need for Indian companies to acquire prior clearance from the Reserve Bank of India for inward remittance of foreign exchange or for the issuance of shares to foreign investors.

FEMA replaced FERA revealing change in government attitude towards FDI in the year 1999.

Foreign Investment Implementation Authority (FIIA) was set up for providing a single point interface between foreign investors and the government machinery, including state authorities. This body was also empowered to give comprehensive approvals.

The dividend balancing condition on consumer goods was finally abolished, in 2005-2006 In **March 2005**, the government announced a revised FDI policy, an important element of which was the decision to allow FDI up to 100% foreign equity ownership under the automatic route in townships, housing, built up infrastructure and construction development projects. The year 2005 also witnessed the enactment of the Special Economic Zones Act, which entailed a lot of construction and township development that came into force in **February 2006.**

FDI norms in various sectors such as commodity exchanges, credit information, and aircraft maintenance were relaxed.

Hundred percent foreign direct investments in Maintenance, Repair and Overhauling, (MRO) were allowed.

Hundred percent FDI permitted in mining of titanium bearing minerals and Hike in the ceilings on public sector oil refineries.

Foreign investors were exempted from minimum capitalization and a three year lock-in period.

During 2010-2011 FDI, up to 100%, under the automatic route, would continue to be permitted for Greenfield investments in the pharmaceuticals sector.

FDI, up to 100%, would be permitted for Brownfield investments (i.e. investments in existing companies), in the pharmaceuticals sector, under the Government approval route.

During 2011-2012 FDI is permitted in Floriculture, Horticulture, Apiculture and Cultivation of Vegetables & Mushrooms under controlled conditions

Development and production of Seeds and planting material and animal Husbandry (including breeding of dogs), Aquaculture, under controlled conditions and services related to agro and allied sectors

Mining and Exploration of metal and non-metal ores including diamond, gold, silver and precious ores but excluding titanium bearing minerals and its ores; subject to the Mines and Minerals (Development & Regulation) Act, 1957

Foreign Investment in Multi Brand Retail Trading: After prolonged discussions and debate, foreign investment in multi brand retail trading, was permitted by DIPP vide issuance of the Press Note No. 5 (2012 Series) dated **20th September 2012.** Accordingly, the list of 'Prohibited Sectors' under Para 6.1 of the FDI Policy 2013 has been modified to omit the words "Retail Trading (except single brand product retailing)". Further, para 6.2.16.5 of the **FDI Policy 2013** has been amended to give include detailed framework dealing with foreign investments in multi brand retail trading.

Real estate private equity FDI is set to double after the Indian government ended the three-year lock-in and has introduced 100 per cent FDI for completed assets, according to JLL India. With India now (2013-14) allowing 100 per cent FDI in the construction sector, real estate private equity investment could double– and boost demand from overseas property buyers, according to sector experts.

The government has notified easier FDI rules for construction sector, where 100 per cent overseas investment is permitted, which will allow overseas investors to exit a project even before its completion (2014-2015). It also said that 100 per cent FDI will be permitted under automatic route in completed projects for operation and management of townships, malls and business centers.

During the 2015-16 to further boost the entire investment environment and to bring in foreign investments in the country, the Government has brought in FDI related Reforms and liberalisation touching upon 15 major Sectors of the Economy.

Radical Changes for promoting Food Products manufactured/produced in India are made during 2016-17. It has now been provided that 100% FDI under government route for trading, including through e-commerce, is permitted in respect of food products manufactured and/or produced in India.

Government has undertaken a number of reforms in the year 2017-18 to ensure that India remains an increasingly attractive investments destination, which includes announcement of National Intellectual Property Rights (IPR) policy, implementation of GST, reforms for ease of doing business. The survey points out that the scale of reforms can be gauged from the fact the during this period, 25 sectors also including services activities and undergone reforms.

In **December 2018,** the Government of India revised FDI rules related to e-commerce. As per the rules 100 per cent FDI is allowed in the marketplace-based model of e-commerce. Also, sales of any vendor through an e-commerce marketplace entity or its group companies have been limited to 25 per cent of the total sales of such vendor.

In **August 2019,** government permitted 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries).

The government has relaxed FDI norms in several sectors like single-brand retail trading, contract manufacturing, coal mining, and digital media. Further, the DPIIT is working on two major policies - new industrial policy and national e-commerce policy - which are expected to be announced by **March 2020**.

Trends In Fdi Inflow To India

FDI inflows to India have increased from US$ 167 million in 1991-1992 to US$ 44,366 million in 2018-2018. However, the growth rates of FDI inflows have declined from 135.92% in 1992-1993 to -1.09 % in 2018-2019. The calculated annual growth rates revealed fluctuations in the flows during a few years. It was presented in table 1.

Table 1 Annual Growth Rate of FDI Inflows to India

Year	FDI inflows to India (US $ million)	AGR
1991-1992	167	
1992-1993	394	135.92
1993-1994	656	66.49
1994-1995	1,373	109.29
1995-1996	2,037	48.36
1996-1997	2,751	35.05
1997-1998	3,739	35.91
1998-1999	3,066	-17.99
1999-2000	2,409	-21.42
2000-2001	2,463	2.24
2001-2002	4,065	65.04
2002-2003	2,705	-33.45
2003-2004	2,188	-19.11
2004-2005	3,219	47.12
2005-2006	5,540	72.10
2006-2007	12,492	125.48
2007-2008	24,575	96.72
2008-2009	31,396	27.75
2009-2010	25,834	-17.71
2010-2011	21,383	-17.22

2011-2012	35,121	64.24
2012-2013	22, 423	-56.62
2013-2014	24,299	7.72
2014-2015	29,737	22.37
2015-2016	40,001	34.51
2016-2017	43,478	8.69
2017-2018	44,857	3.17
2018-2019	44,366	-1.09

Source: Fact Sheet on Foreign Direct Investment (FDI), Reserve Bank of India Bulletin April 2019.

FDI Inflow- state wise

An analysis of state wise FDI inflows during 2008-2019 revealed that New Delhi ranked first (72.53%) followed by Maharashtra. Karnataka stood third (33.74%) Tamil Nadu ranked fourth (24.42%) closely followed by Gujarat (18.93%) in attracting FDI investments in India.

Table 2 State Wise FDI Inflows

Rank	States	2008-2019 US $Million	Percentage in the total inflow of FDI to India
1	Delhi	246946	72.53
2	Maharashtra	223291	65.5
3	Karnataka	114895	33.74
4	Tamil Nadu	83146	24.42
5	Kerala	64455.87	18.93
6	Andhra Pradesh	59111	17.36
7	Gujarat	52665	15.46
8	West Bengal	17557.8	5.15
9	Chandigarh	5551.59	1.63
10	Madhya Pradesh	5254.76	1.54

Source: Fact Sheet on Foreign Direct Investment (FDI) Reserve Bank of India Bulletin, April 2019.

Interstate competition- A Comment more than the number and figures (quantum of FDI and number of FDI proposals) and the sectors that are attracting FDI, what is more important is the interstate competition in bringing in FDI inflows. This issue becomes important in the context of weak- centre and strong –states framework in the Indian Federation. What is significant is the fact that more opposition to FDI has been the order of the day in the states where the FDI flows are higher. Examples are anti-Special Economic Zones (SEZs) movements in Tamil Nadu and Maharastra and anti- Pohang Iron and Steel Company (PoSco) movement in Jagatsinghpur. The point to be remembered here is that the issues raised against foreign capital and FDI projects are not uniform rather are more complicated. These issues are articulated by taking into consideration the following

- Livelihood security
- Environmental safety/ protection
- Swadeshi – promotion and protection to indigenous items / companies
- Workers / Labor welfare

Sometimes they are region/ state specific and the extent or reach of opposition depend on the party ruling the state and its economic resource base (Coal/ oil reserves, minerals).

Though the office of Prime Minister is superior in the Indian Federation, the pro-FDI inflows period saw the decreased role of the PM in the process of FDI approval. Instead, there is a greater discretion exercised by the Chief Ministers (CM) of the states concerned. In the process, the significance of states in FDI approval becomes all the more important. This is because the responsibility of provision of land, water, electricity and other such infrastructure for the setting –up of a plant through MNC / FDI/ Collaboration /JV falls on the state government

Further, the question to be considered here is what made the states to get prominence in the process of FDI inflows? The answer is that it is because of the two different domains of FDI process, decision and implementation. The words of V S Chauhan, (then) Director of Foreign Investment Promotion Board (FIPB) are opt to be quoted here "when there is no policy, then the decision is taken at the highest level. When you clearly demarcate a policy, then you do not need to involve the PM. You take the PMs approval only for the change of policy…. It should be seen as the steering role of PMO when there was no clearly articulated policy. When the policy has been articulated, its implementation has to be left to the administrative ministries".

The proposition of FDI proposals that embark upon the automatic route accounts for around 80% to 90 % of all the proposals. The proposals then have to be guided by each state where the FDI project is planned. In cases of FDI proposals that need to build plants for production (this is called as the green field type of FDI), each state consults the foreign investors in order to provide them the necessities, including land, electricity, water, and some other infrastructural facilities for the establishment of the plants within the provincial state.

In order to demonstrate better performance than other states in approving more FDI projects, competition among all states has intensified (FICCI 2012).Many chief ministers who accelerated industrialization in their states. Chandrababu Naidu in Andhara, Narendra Modi in Gujarat, Jayalalithaa in Tamil Nadu, and many others in Karnataka, Odisha, Bihar, and recently in West Bengal have attempted to promote FDI inflows. As a driving force of deepening competition among states, not only liberalized ideas from political leaders but also learning from neighbouring states strongly works.

The positive side of the deepening of interstate competition in attracting FDI inflows can be summarized as:

- The first level states such as Gujarat, Haryana (bordering Delhi), Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu trying hard to show and maintain the image that they are "investment –friendly" / "investor- friendly".
- The states that fall in the secondary level like Bihar, Madhya Pradesh, Uttar Pradesh, Rajasthan and Odisha taken pro –active stepes to catch-up the trend
- The states like Kerala and West Bengal taken up measures to reduce the level of damage done on their image that these states are having enough potential to spoil the foreign investments with their pro - labour policies (read as anti-big business, anti- monopolies or anti- MNCs)

1.On the whole, a progressive outlook has been found in the form of
a)Investment conferences / conclaves /meets
b)Creation and maintenance of infrastructure facilities
c)Showing good performance in maintaing capacity utilisation (to show invest- friendly attitude).

CONCLUSION

This paper can be concluded with the words of Sojin Shin (2014) that "The political economy of FDI inflows across states (in India) is dynamic as it is deeply related to the complicated issues of coalition politics between the centre and the states".

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