POLITECNICO DI TORINO

Corso di Laurea Magistrale in Engineering and Management

DETERMINANTS OF FOREIGN DIRECT INVESTMENTS IN INDIA

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ABSTRACT

The main purpose of this reserach is study about the determinants of FDI in India. India is a developing country and huge investments are required in its various sectors to shape the economic growth. In the present era of globalisation, the role of FDI for any country's economic development is crucial and with this aim in mind, this study has focused on the determinants of foreign direct investment in India. The economy of India has opened up for FDI after 1991 and the reported growth rate before this period was very low ranging between 3 to 4 percent. The post liberalisation period has seen significant improvements in the growth rate to 7 percent by 2014 and the real question lies in the importance and role of FDI for this trend.

The first chapter will focus on the conceptual framework of FDI globally and gives a brief idea about its trends in india.The main focus of this study is to provide an insight into the India's approach towards FDI and its determinants. The second chapter will provide the information regarding top sector contributions; country break ups of FDI and explains the routes of FDI into India. An analysis of a particular sector has also being shown here.

A detailed study about the FDI in numbers associated with the top sectors and countries has paved the way for analysing the

major determinants for the investments in India. The next chapter is about the motivational factors and location decision variables for the foreign enterprises to start their business and do direct investments in the states of Republic of India. The research exhibited substantial differences across the states of India and found out that factors such as Market size, Infrastructure, industrial orientation and Agglomeration effects has positive impact for the foreign direct investment in India .Meanwhile regarding the labour conditions, there exists a negative correlation between the wages of the worker across the states and the decision of foreign companies for the green field investments.

The later sections of the study emphasis on the policy changes to attract FDI in India and explains how past decisions has affected the inflows of FDI.

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CHAPTER ONE: FDI –AN INTRODUCTION

1.1 INTRODUCTION

According to UNCTAD, FDI refers to an investment involving long term relationship and it reflects lasting interest and control by a resident in one economy to an enterprise in another.FDI implies that the foreign enterprise would have a significant influence on the management of the enterprise resident of the other economy. The main three components of FDI are equity capital, reinvested earnings and intra –company loans.

Multinational enterprises take part in foreign direct investments to create, acquire or expand their foreign subsidiary in another location which is outside their parent country. On an average, most of the foreign entities have the capability of creating values and to boost up the economy of a country more effectively and faster compared to the existing national firms and entities. Therefore the government and their policies across the globe have welcomed the inflow of foreign funds which would be good for their economic growth and to create a link between the two nations. However there exists always a mixed feelings about the foreign direct investment since some countries has seen them as a threat to national wealth and their identity.

India has opened its gates for the FDI in the 1990s after the reformation of economy and liberalisation of FDI policies.IMFs global financial stability report, April 2012 has shown that India has become as one of the major countries to attract foreign direct investments among the developing nations. The bulk of investments are directed towards the service sector which would be shown in the sectorial distribution section and destination wise, the top six economically attracted states identified are Maharashtra, Delhi, Karnataka, Tamil nadu, Gujarat and Andhra Pradesh accounted for about 70%of total FDI inflows between the years 2002 to 2018.

Particular attention has been paid to analyse the different location variables and policy interventions that attracts foreign companies to invest in the different states of Republic of India. In view of this, the paper examines what are the major determinants affecting regional distribution of FDI flows in India. The study has revealed that market size, agglomeration effects and size of manufacturing base in states has attracted more foreign investments while the impact of taxation and labour cost is negative.

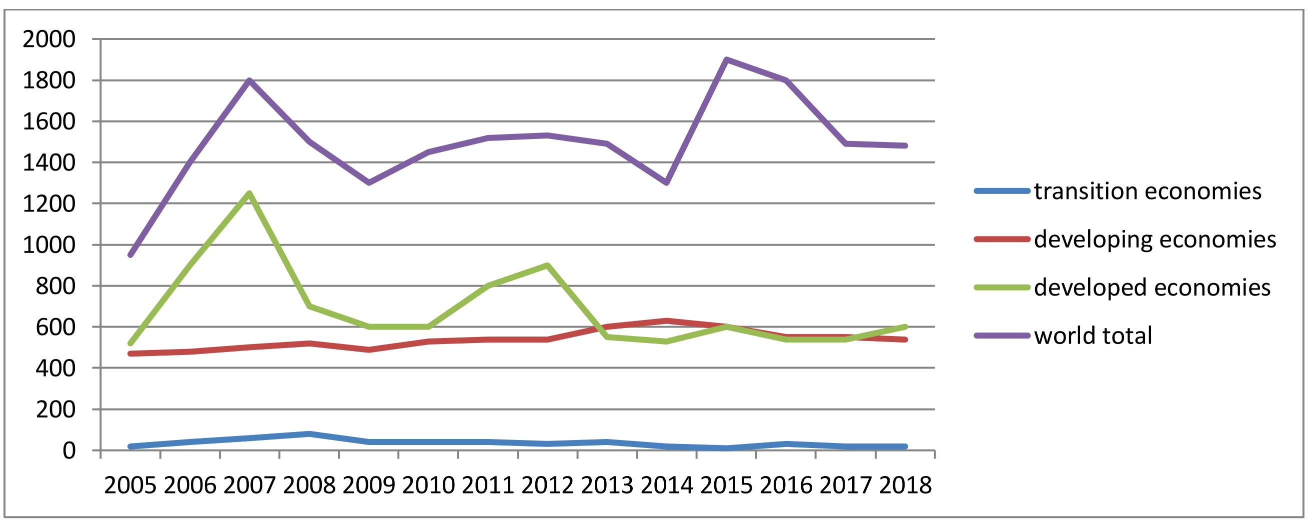
1.2 FDI GLOBALLY-AN OVERVIEW

Global trends

Global foreign direct investment tends to decline by 23 per cent in 2017-18 to $1.43 trillion from a range of $1.87 trillion in 2016-17.This decline is not associated with macroeconomic variables such as GDP and trade where both variables has shown growth in the following years. Researchers have found the value of net cross border mergers and acquisitions slows down from $887billion to $694 billion in 2016-17.The value of Greenfield investments has also declined by a 14 percent and the flow of FDI remained in a strategic trap. Developed economies and economies in transition has shown fewer improvements during this era and had less contribution for the overall FDI.while developing economies remained stable and has absorbed 47 per cent of the total share of FDI globally.

Several factors are responsible for this negative cycle. Asset light forms of oversees operation is one of the factor which has caused structural shift and another important factor is associated with the underlying variable rate of return of FDI.In 2017-18 ,the global rate of return of inward FDI shown negative slope of around 6.7 per cent. Developed economies has also shown a negative trend regarding the rate of return but stabilised. Transition economies and developing nations has shown steady and average pattern for the rate of return but they had taken several years to come out of this erosion. For instance, in Africa the investment return has dropped to 6.3 per cent in 2017-18 from 12.3 in 2012.

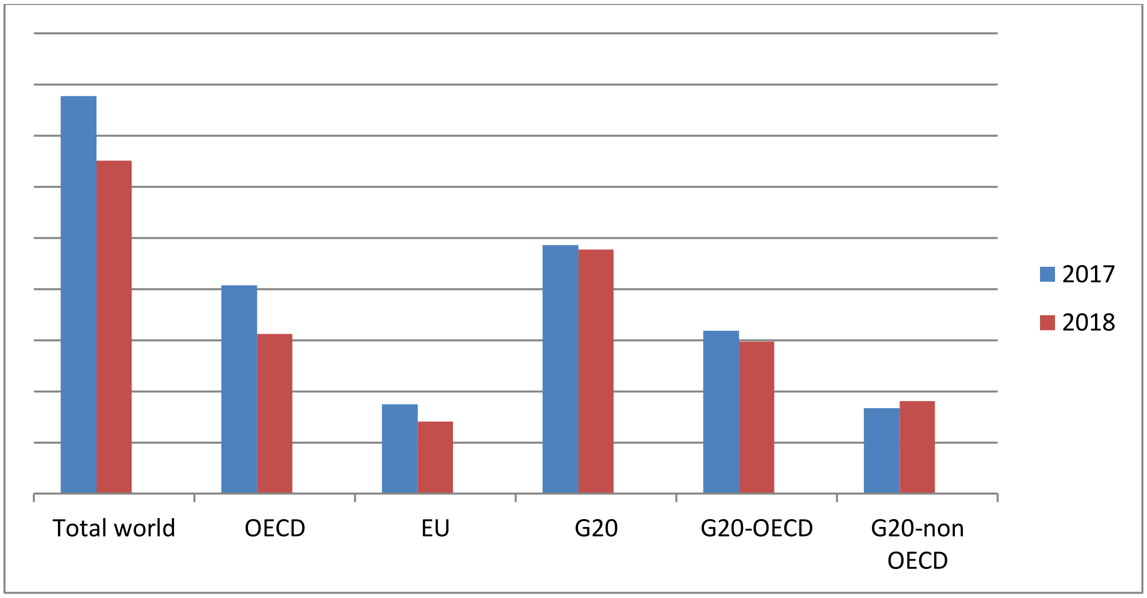
Figure 1: FDI inflows, Global and group of economies



Source: UNCTAD, FDI/MNE DATABASE

FDI- Inflows and Outflows

Figure 2: FDI inflows of selected areas for 2017&2018



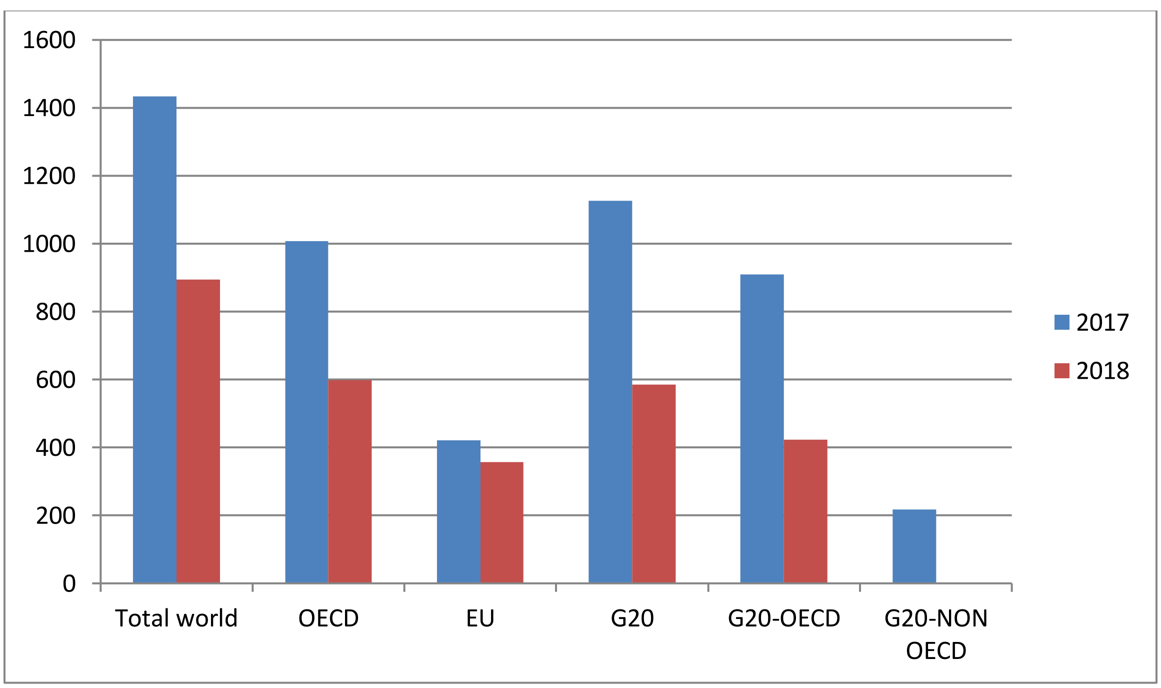
Source: OECD international direct investment statistics database

By region, the inflow of FDI to OECD countries has decreased by 23%in 2018 to USD 625 billion shown in figure 2.This decline is mainly due to the major disinvestments happened in Ireland and Switzerland and an average of less investment opportunities in united kingdom, united states and Germany. The FDI flows into European union has also decreased by 20 per cent due to wrong investment criteria and over optimized decisions.2 per cent decrease of inflows into G20 countries and 7 per cent decrease for G20-OECD areas were also reported.

The outflow of FDI from OECD area has declined by 41 per cent in 2018. Compared to an average of 73% in 2015-17, the outflow from OECD area has reported only 67% of global FDI outflows in 2018. Volatility in the oil prices and the internal conflicts between USA and china contracts has made the year 2018 as turbulence for the global economy. The new report from the organisation for economic co-operation and development (OECD) says the reformation of tax in USA has forced many companies to take their money back and wait for the better time of re-investment. Therefore one of the main reasons for this decline was driven by United States where negative outflows are recorded for a first time since 2005.

EU relationship with the US market has caused a decline of 15% of FDI outflows from markets. The changes in tax policies have tempted the companies from US to withdraw nearly $177 billion from the EU market causing a downward trend of FDI outflows.

Fig 3: FDI outflows for selected areas for 2017&2018

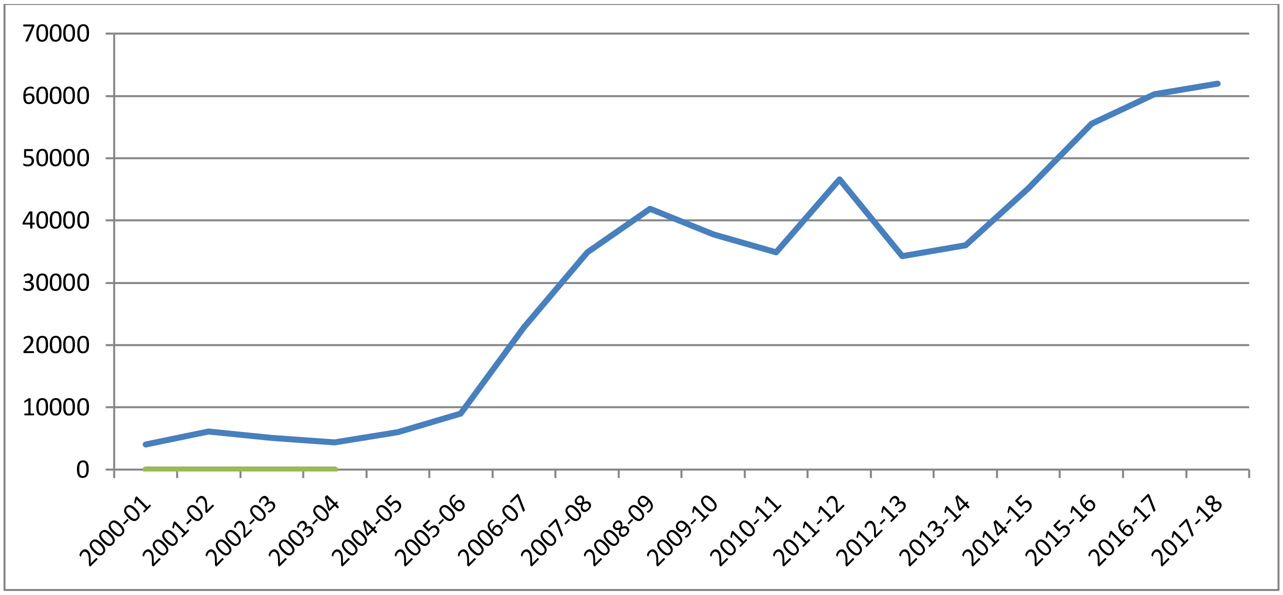


Source: OECD international direct investment statistics database

1.3 NATURE OF FDI IN INDIA

The investment climate of India has changed a lot after when the economy has opened in 1991 and the country experienced drastic changes under it from 2014 onwards.FDI norms are eased and it has played a pivotal role to increase the cash inflows across various sectors of the country. In 2016-17, India has reported record FDI of $60.1bn.The current framework of FDI in India allows multinational companies to enter through two routes-the government route and the automatic route. Permission from the respective administrative is required for an investment through government route and foreign companies could make easily an investment without any regulations through the latter one. The reformation has changed the country a lot in an economic perspective and FDI has become the biggest external sourcing of the nation. Figure 2 shows the inflow of FDI into India from 2000-2018.

Figure 4: Total FDI inflows in USD million



Source: Reserve Bank of India and DIPP Bulletins

Since the year 2000, the country has seen many policy reformations and the FDI have started to flow into various sectors. There was a 52% increase in the total FDI from the year 2001-02.FDI flows were inconsistent and reduced to 18% and 14% from 2002-03 and 2003-04.Gujarat earthquake on January 2001,terrorist attacks on December 2001 and the attack on world trade centre on September 2001 are some of the major reasons behind this downward slope of FDI. On the contrary, a significant escalation has reported from 2004-04 to 2006-07.Rationalised approach from the government on 2006 towards the policies of FDI has initiated many Greenfield investments and this has affected positively the economic growth of India. Simplified procedures, 100 % raise in equity capital and removal of restrictions were done. Investments hiked towards the civil aviation sector of the country and India has witnessed large flow of foreign funds. However the United States subprime crisis in

2008 and Euro crisis in 2012-13 has affected the FDI in India from 2009-13.The government has removed several levels of bureaucracy and reformed foreign alliances helped to boost up the FDI Inflows from 2014.

CHAPTER 2: TRENDS OF FDI INFLOWS (INDIA)

2.1 INRODUCTION

In this chapter, an effort has been made to analyse the trends of FDI inflows from a period of 2000-2019.After liberalisation and globalisation, the government has made several efforts to motivate the foreign enterprises and to increase the flow of FDI into India. In order to measure the FDI in numbers ,research has been done to collect data's regarding the inflow of FDI route wise,countrywise and sector wise .The process of liberalisation has increased the investors' confidence and the facilities in states has attracted more foreign funds .

However the decentralised nature of regulatory environment has had a negative effect on the FDI inflows and some years have seen less equity flows into the nation. While these problems affected the confidence of investors, the government began to focus on project specific problems and the state governments began to support the economic reform policy, engaged in investment promotion missions etc.Sector wise focus of the government has change the face of FDI inflows and initiated the process of infrastructure development feasible for the multinational companies. For example: Make in India mission has the objective of industrial infrastructure development which has attracted huge volume of foreign direct investments.

2.2 COMPARATIVE TRENDS OF FDI

The flow of foreign direct investments into the Indian economy could be categorised into two forms: Foreign direct investments and portfolio investments. A strong economy can be made from these two forms with the help of right policies. Foreign direct investment involves the establishment of business in a foreign country for value creation and it involves buying or establishing a business in a sector, warehouse installation, buying buildings etc.Creation of long term interest in the economy of a foreign country is the underlying process happening in a foreign direct investment. Since FDI’s involves high investments, they are usually supported by multinational firms, venture capitalists or large institutions. The main purpose of these investments is to do transfer of funds, creating strategies, technical knowhow etc.

Some of the significant FDI announcements in India are discussed below:

- In may 2008,77% stake has been acquired by Wal-Mart in India’s biggest online retailer where flip kart is FDI investment
- In October 2018, VMware announced investment of USD 2 billion in the software sector.

- In June 2018, the leading telecom operator IDEA of India has merged with Vodafone making it as the largest telecom operator in India.

On the other hand, foreign portfolio investment refers to investing in the financial assets of a foreign company in exchange of available stocks or bonds. The purchase of securities which could be further brought or sold is the main underlying idea here. The main intention of FPI is to invest money in the foreign stock markets with a hope of generating quick returns. Investment groups of foreign institutional investors (FIIs), qualified foreign investors and subaccounts etc constituted the FPI investors in India.

As there exists many loopholes in the policy structure of Indian government, it would be difficult to do the actual math of FDI.The estimated figures of FDI and FPI after liberalisation has been illustrated below for a period from 1989 to 2015

Table 1: Foreign direct investment and portfolio investment after liberalisation

(Amount in $ Millions)

YEAR	FORIGN DIRECT INVESTMENT	PORTFOLIO INVESTMENT(PI)	TOTAL INVESTMENT (100)
1989-90	97	6	103
1990-91	129	4	133
1991-92	315	244	559
1992-93	586	3567	4153
1993-94	1314	3824	5138
1994-95	2144	2748	4982
1995-96	2821	3312	6133
1996-97	3557	1828	5385
1997-98	2462	-61	2401
1998-99	2155	3026	5181
1999-00	2339	2760	5099
2000-01	4031	2590	6621
2001-02	6125	1952	8077
2002-03	5036	944	5980
2003-04	4322	11356	15678
2004-05	5987	9287	15274
2005-06	8901	12494	21395
2006-07	22739	7060	29799
2007-08	34729	27433	62162
2008-09	41738	-14030	27708
2009-10	33109	32396	65505
2010-11	29029	30293	59322
2011-12	32029	17170	50122
2012-13	26953	26891	53844

2013-14	30763	4822	35585
2014-15	34426	40934	75360
Total	**338759**	**232850**	**571609**

Source: RBI, Handbook of statistics on Indian economy 2001&2015

*includes acquisition of shares of Indian companies by non-residents under section 5 of FEMA, 1999

The foreign direct investments has shown a positive trend during this period from 1989-90 to 2014-15 .Positive flow of $97 million to $34426 million has been reported during this period of study. On the other hand the portfolio investment has shown high variation and even gone negative at the time of global crisis. Investors are interested in capital gains and dividends in the case of FPI.

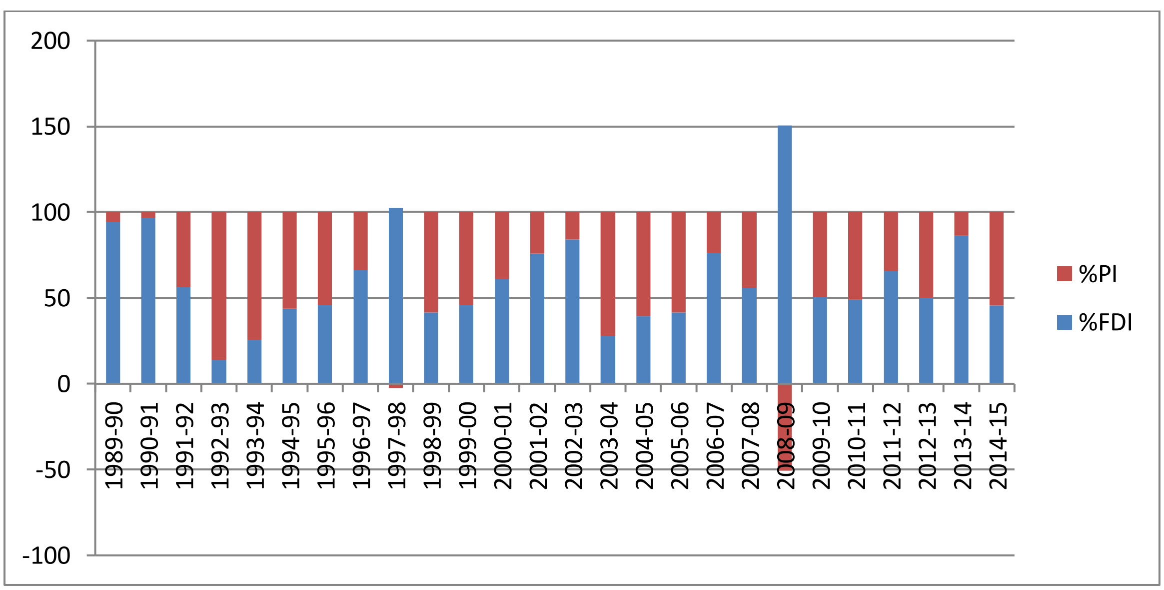


Fig 5: Composition of FDI and Portfolio Investment in Total Investment

As we have discussed earlier, the sectoral infrastructural developments in India has attracted foreign companies to start business in India .Compared to FPI, the RFDI has acquired more percentage and showed positive trends in several sectors of Indian industry. A pie chart is shown below which depicts the percentage of RFDI in the manufacturing sector of the country dated from October 2014 to march 2016.

Figure 6

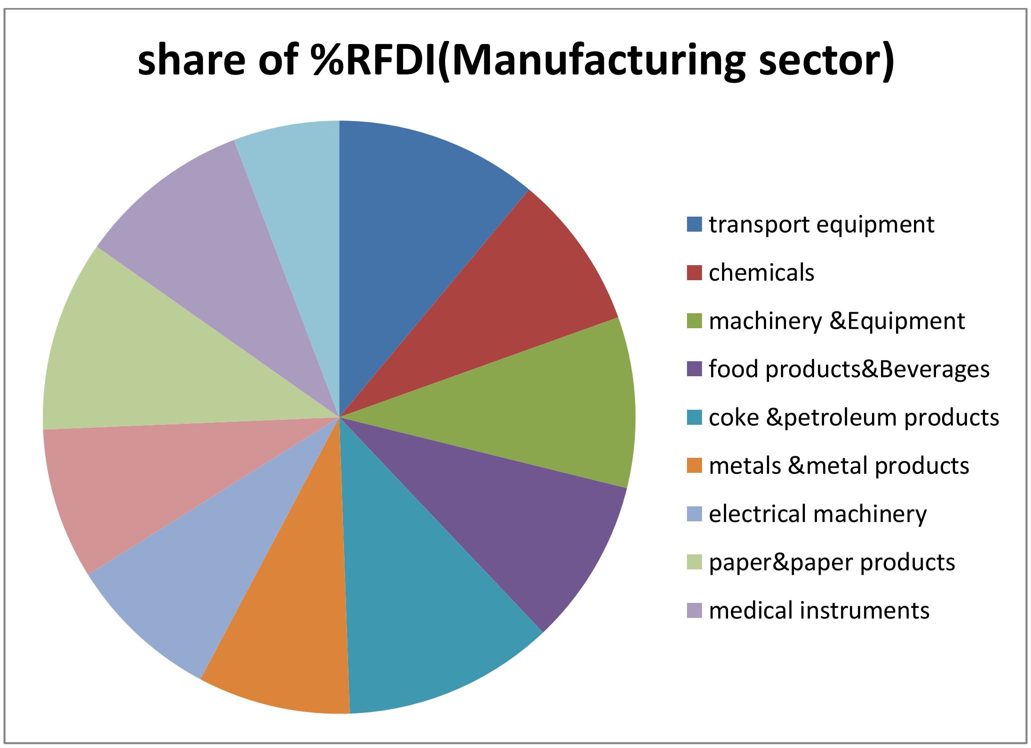
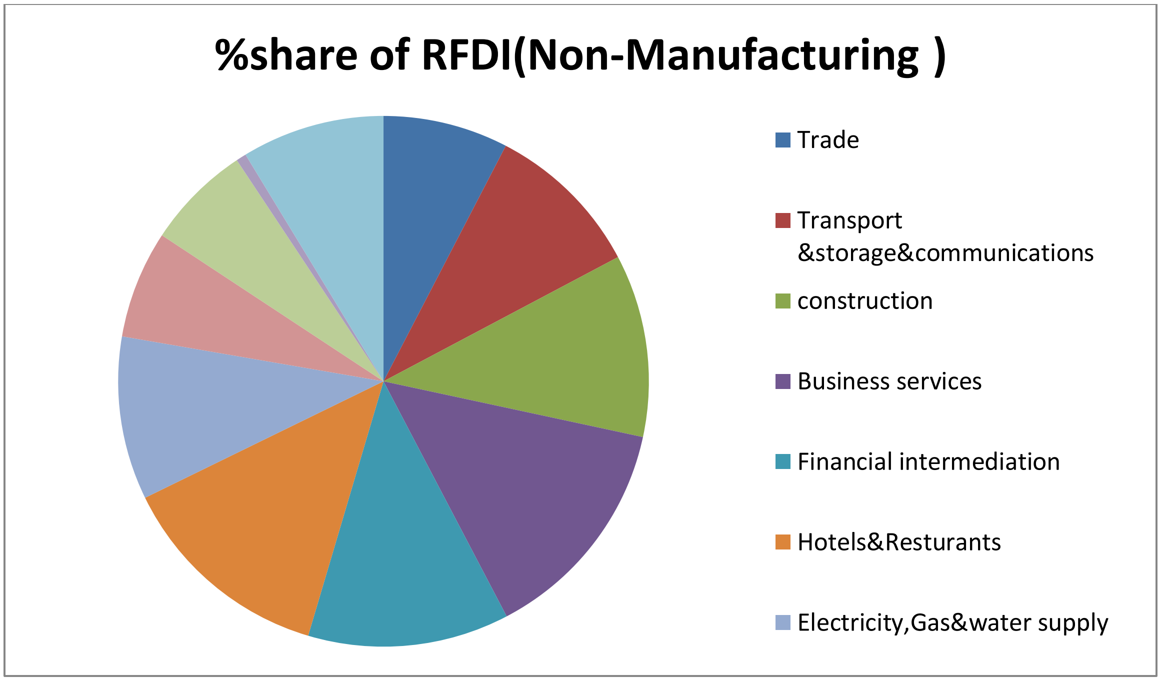


Figure 7



Source: (1) based on the data provided by DIPP from April 2008 to May 2017 (2) By RBI on its website

(dipp, 2021)

2.3 ROUTE WISE FDI

The Equity in branches,subsidires and associates shares and other contributions in capital are considered as the Equity capital of FDI .Re-invested earnings are recorded as direct investors share of earnings which is not given as dividends. Other capitals funds cover the borrowing and lending of funds between the direct investors and the associates and branches.

The Route wise break of FDI is shown in the table below and found out that the major route of FDI in India comes through foreign investment promotion board, automatic route and acquisition route.Re-invested earnings and other capitals are considered as other forms of route for FDI. It is clear from the table that most of the FDI inflows came through FIPB route, RBIs automatic route and acquisition routes. Minimum flow of FDI inflow could be seen in the year 2003-04 and maximum value is recorded for 2017-18. Regarding the Re-invested earning, the flow has been ranged from 2000-01 and 2018-19.

(Rao, 2018)

Table 2: Foreign direct investment inflow including Route wise, Re-invested earnings and other capital

Financial Year(April-March)	EQUITY		Re-Invested Earnings+	Other capitals+	Inflow (FDI) into India	
	FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity Capital of unincorporated Bodies			Total FDI Flows	% Growth - previous year
2000-01	2,339	61	1,350	279	**4,029**	**-**
2001-02	3,904	191	1,645	390	**6,130**	**+52%**
2002-03	2,574	190	1,833	438	**5,035**	**-18%**
2003-04	2,197	32	1,460	633	**4,322**	**-14%**
2004-05	3,250	528	1,904	369	**6,051**	**+40%**
2005-06	5,540	435	2,760	226	**8,961**	**+48%**
2006-07	15,585	896	5,828	517	**22,826**	**+155%**
2007-08	24,573	2,291	7,679	300	**34,843**	**+53%**
2008-09	31,364	702	9,030	777	**41,873**	**+20%**
2009-10	25,606	1,540	8,668	1,931	**37,745**	**-10%**
2010-11	21,376	874	11,939	658	**34,847**	**-08%**
2011-12	34,833	1,022	8,206	2,495	**46,556**	**+34%**
2012-13	21,825	1,059	9,880	1,534	**34,298**	**-26%**
2013-14	24,299	975	8,978	1,794	**36,046**	**+5%**
2014-15	30,933	978	9,988	3,249	**45,148**	**+25%**
2015-16	40,001	1,111	10,413	4,034	**55,559**	**+23%**
2016-17	43,478	1,223	12,343	3,176	**60,220**	**+8%**
2017-18	44,857	664	12,542	2,911	**60,794**	**+1%**
2018-19	44,366	689	13,672	3,274	**62,001**	**+2%**
2019-20(till June 19)	16,329	163	3,228	1,590	**21,310**	**-**
Total	**439,229**	**15,624**	**143,346**	**30,575**	**628,774**	**-**

Source: RBI's bulletin august, 2019 dt 14.08.2019 (Table no: 34 Foreign Investment Inflows), Inflows under acquisition of shares June 2011, august 2011&October 2011

(singh, 2019)

2.4 SECTOR WISE INFLOW OF FDI

After the economic liberalisation process in 1991, different sectors like service sector, telecommunication, manufacturing etc has contributed considerable amount of foreign direct investments into india.As the industry is becoming highly competitive, India is offering opportunity virtually in almost all sectors of the economy. The sector wise inflows of FDI in top 10 sectors are shown in table from Jan 2000 to December 2019.

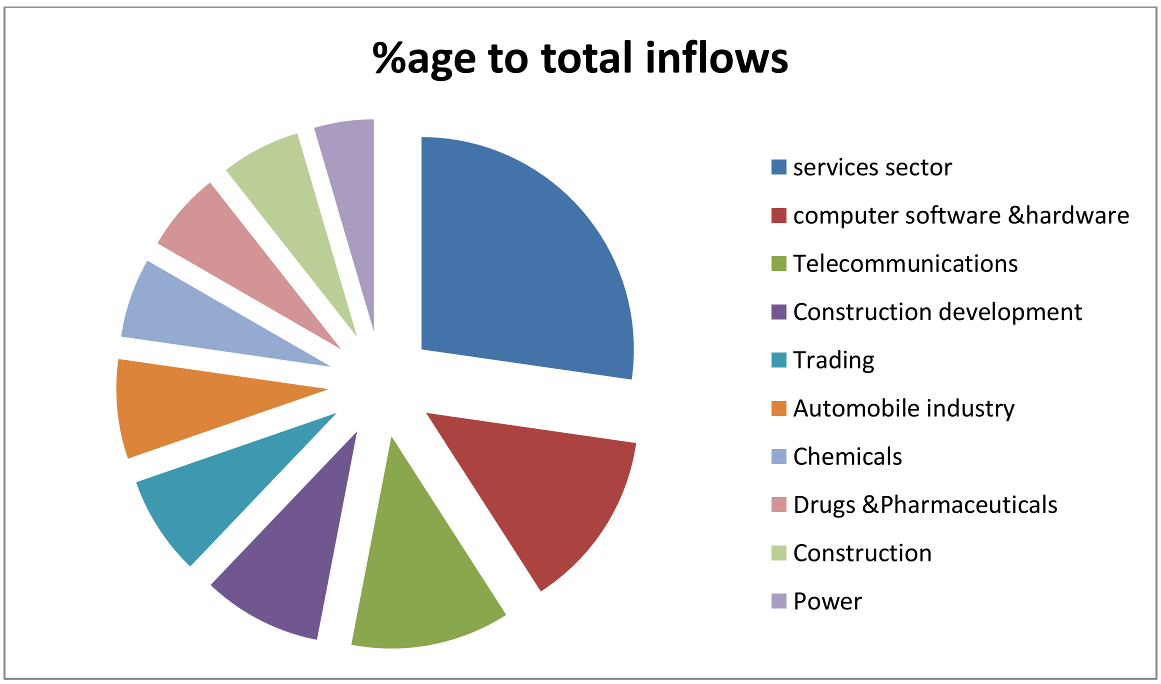
Table 3: statement on sector wise/year wise FDI equity inflows from January 2000 to December 2019

Ranks	Sector	Total 2000-2016 (Jan-Dec)	2017 (Jan-Dec)	2018 (Jan-Dec)	2019 (Jan-Dec)	Cumulative Total (in$ million)
1	SERVICES SECTOR	57,173.03	5,751.50	8,675.76	9,091.65	4,622,050.29
2	COMPUTER SOFTWARE&HARDWARE	22,855.98	6,993.81	5,993.74	7,767.82	2,664,901.57
3	TELECOMMUNICATIONS	23,923.79	6,160.52	2,368.46	4,666.01	2,180,577.37
4	TRADING	13,896.56	2,611.98	5,109.69	4,947.34	1,685,292.70
5	CONSTRUCTION DEVELOPMENT	24,286.56	387.39	236.11	461.41	1,218,886.32
6	AUTOMOBILE INDUSTRY	16,675.05	1,895.08	2,432.96	3,046.68	1,421,119.06
7	CHEMICALS	12,694.28	1,746.40	1,988.12	1,024.19	971,824.60
8	DRUGS	14,577.8	1,048.7	349.14	462.15	872,441.67

	&PHARMACEUTICALS	7	0			
9	CONSTRUCTION ACTIVITIES	9,357.70	2,999.4 7	2,015.5 3	1,783.5 1	1,033,889.6 3
10	POWER	11,480.2 4	1,529.7 1	1,250.9 8	434.92	804,418.46

Source: Department for promotion of industry and internal trade (FDI annual issue 2019)

Figure 8: composition of FDI inflows in sectors.



Source: tables from Department for promotion of industry and internal trade

As we can see from the chart, Service sector has contributed more cash flows in India through FDI from the year 2000 to 2019.The main services sector in India which attracts FDI includes Telecommunications, constructions, hotels and restaurants.Emphirical studies has shown that growth of per capita GNP is a main factor for the growth of service sector in the Indian economy. Support from domestic investment and openness of government policies are also relevant for this sector. Detailed study for the flow of FDI in the service sector has been done in the following sections.

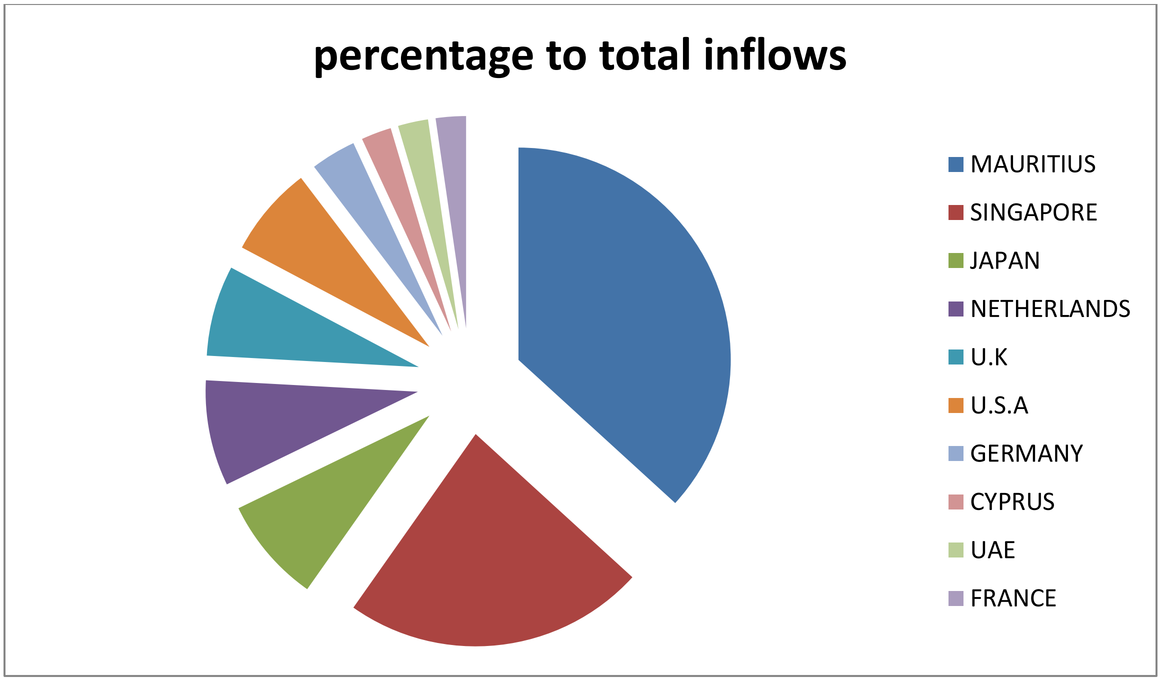
2.5 COUNTRY WISE BREAK-UP OF FDI

Table 4: share of top investing countries FDI equity inflows

RANK	COUNTRY	TOTAL 2000-2016 (jan-dec)	2017 (Jan-Dec)	2018 (Jan-Dec)	2019 (Jan-Dec)	CUMULATIVE TOTAL FDI IN $MILLION
1	Mauritius	107,723.48	16,256.73	8,615.61	9,516.61	142,112.44
2	Singapore	52,995.59	10,808.82	15,943.36	14,904.18	94,651.95
3	Japan	25,295.55	1,745.43	2,558.26	3,561.42	33,160.66
4	Netherland	19,834.14	3,250.52	3,368.11	4,451.03	30,903.81
5	U.S.A	20,023.54	2,183.16	2,692.58	3,589.88	28,489.16
6	United kingdom	24,387.77	936.74	1,182.94	1,442.96	27,950.40
7	Germany	9,547.13	1,151.15	732.16	653.87	12,084.30
8	Cyprus	9,111.67	377.02	372.58	246.19	532,312.75
9	France	5,539.61	651.74	410.12	509.85	400,765.06
10	UAE	4,643.96	689.02	721.45	862.36	411,714.48

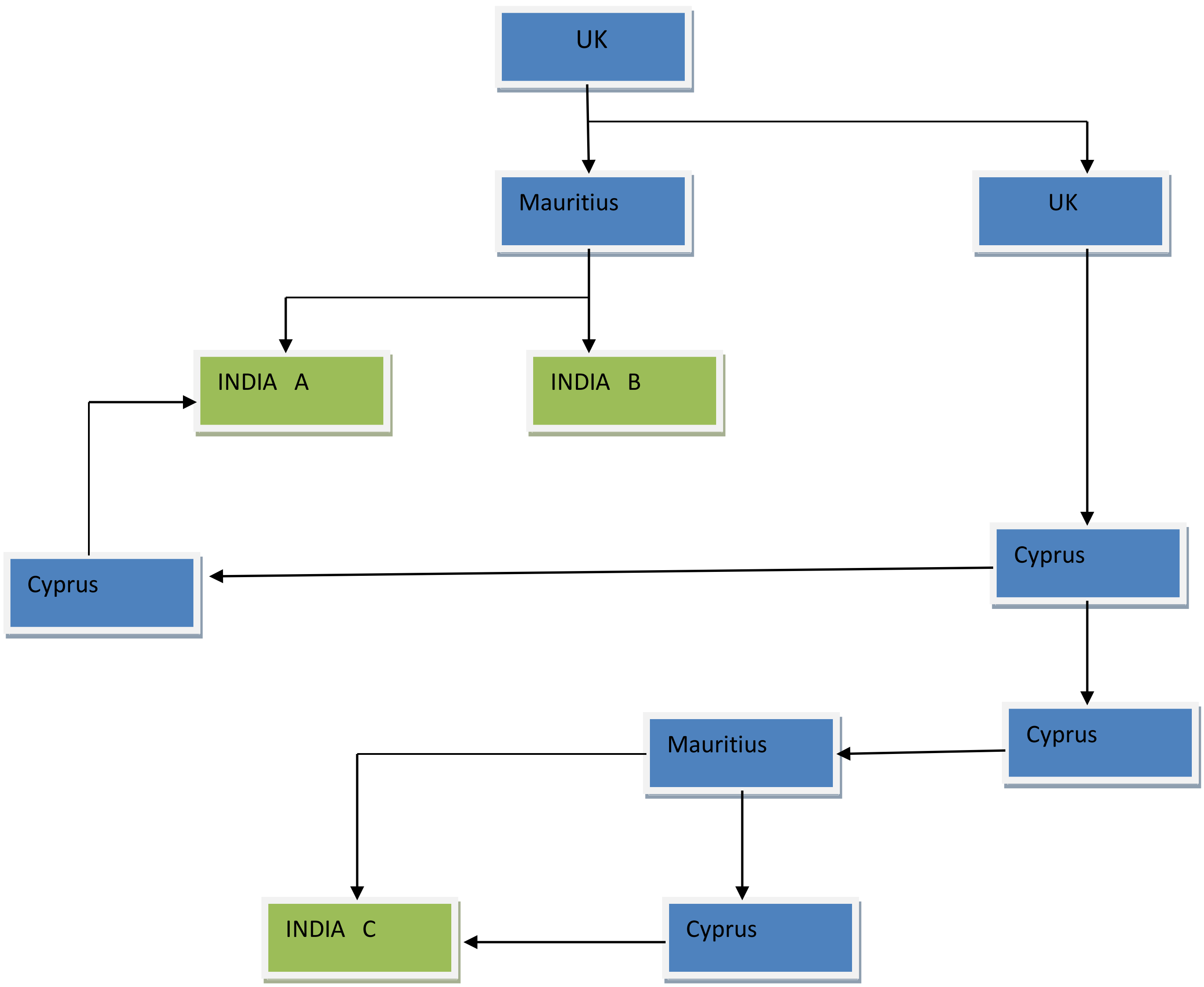
Source: Table from Department for promotion of industry and internal trade

Figure 9: Percentage of total FDI inflows-Country wise



It is clear from the table that Mauritius has been identified as the largest contributor of FDI in India. Foreign investors are using Mauritius route as a channel for FDI in India. The Double taxation avoidance agreements (DTAA) between India and other 88 countries has implemented agreed rate of tax and jurisdiction for the specified income arriving in the country. Thanks to the low 3% capital gain tax, framework for quality regulations, better infrastructure and other location decision variables, the tie of India with Mauritius has been strengthened and it has become the top investor of the country.

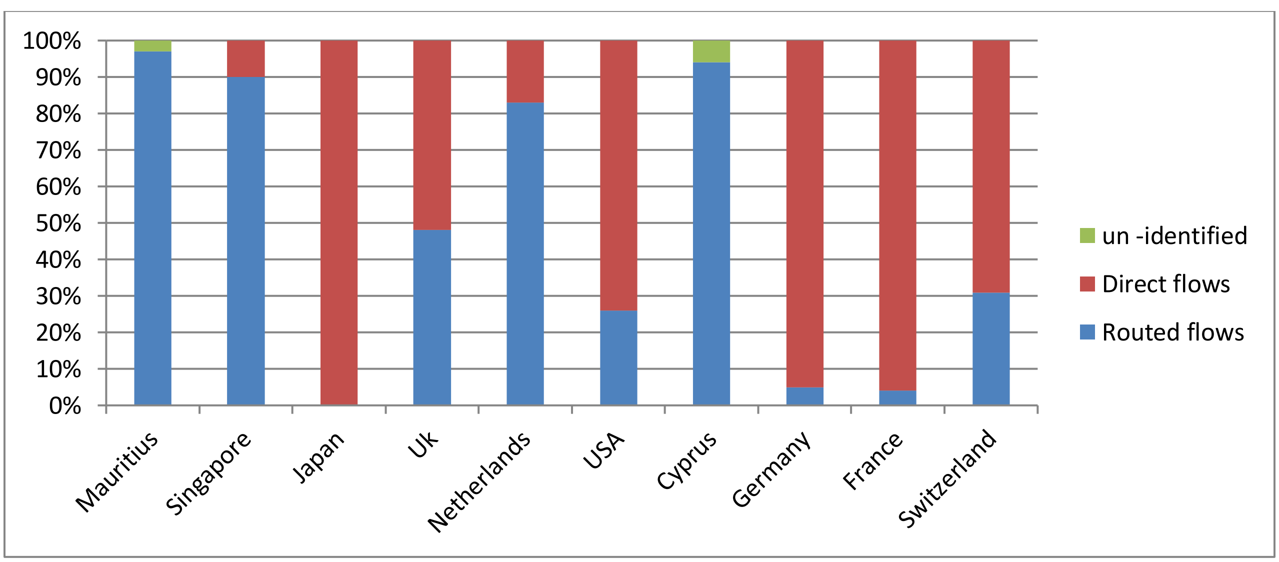
However if one looks at the comparisons between different foreign investors in India, the real question is that "How Mauritius with a GDP of 12 billion USD becomes the largest investor of a country with 2 trillion USD?" .This could be better explained with a chart below:



The table is the replication of a multinational corporation. The boxes represent the companies and the name of the country is the parent company where this entity is registered. The investment direction could be identified from the arrows. In this example, India is the place where actual business takes place and other countries are used for the routing of investment. Here UK makes investment in three Indian companies and the countries like Mauritius and Cyprus were used for subsidiaries. Therefore it is evident that the actual investor being UK and Mauritius is reported as the source of investment.

Tax havens is the underlying factor for this particular trend and countries which are regarded as tax havens would have high percentage of routed funds .About 90% of investments reported from this country are from other regions and used as a routing platforms.

Figure 10



Source: Tax justice network

Table shows the informing regarding top 10 investors in India.Illustrated the percentage of FDI actually coming from the country and how much is being routed from there.

2.6 SERVICE SECTOR- A DETAILED STUDY (Jan 2000 – Dec 2017)

According to the IMF report of 2010, India is regarded as the 10th largest economy in terms of GDP .The growing demand and inflow of FDI into the service sector combined with the manufacturing sector has supported this growth of country. As we have seen already, service sector has been regarded as the top sector for receiving FDI inflows from the fiscal year 2000 to 2017.

Indian service sector has a quasi federal governance structure (under the jurisdiction of central government, state and joint administration) and comprised of activities such as

- Trade and Transport
- storage and communication,
- hotels and restaurants
- Financing, business services, social and personal services etc.

(IBEF)

According to the Reserve bank of India, all these activities are further categorised under subsectors such as financial, non - financial, banking services, insurance, research and development etc.FDI inflows into the service sector could be better illustrated using these subsectors and is depicted below from year 2000 to 2017. The first major service subsector received FDI inflows found to be financial (5.93% with total FDI inflows) followed by banking services and insurance and commodity exchange attracted minimum FDI inflows (0.12%)

Table 5: FDI equity inflows for subsectors in service sector (2000 to 2017)

Sub Sectors	**Amount of FDI equity inflows (US million)**	**%age with total FDI inflows**
Financial	21,851.72	5.93
Banking Services	5,131.65	1.39
Insurance	9,521.86	2.58
Non-Financial services	18,411.13	4.99
Outsourcing	1,862.49	0.51
Research and Development	909.30	0.25
Courier	952.15	0.26
Technical Testing and analysis	312.29	0.08
Commodity Exchange	451.79	0.12
Other services	4,713.37	1.28

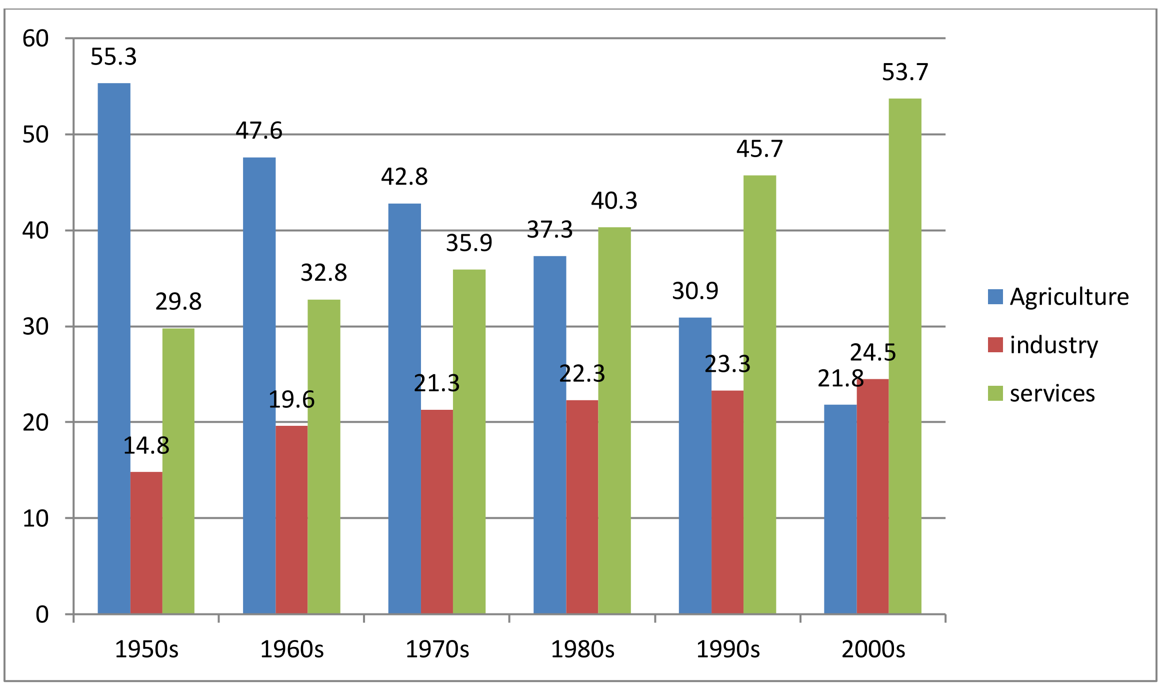
Total	**64,117.76**	**17.40**

Source: data from Reserve bank of India

(DIPP, 2008)

Talking about the IMF report of 2010, let's discuss about the trend of GDP with the growth in service sector. Policy interventions by the government have attracted FDI into the service sector and it has overcome the share of agricultural sector to the country's GDP.Below chart shows that the share of services in GDP has surpassed the other sectors making it as one of the major contributor to country's output.

Figure 11: Average of the share of sectors in GDP (by decade)(percentage)



Source: calculations from national income accounts

(mukherjee, 2013)

Increase in FDI inflows and change in government policies are the major factors behind this drastic changes in the share of service sector. Government has liberalised the FDI policies and has approved more than 70% FDI through automatic route and FIPB route. Some of the policies related to service sector since 2006 is shown below:

Table 6

Services	Route	% allowed	Year
Civil Aviation	Automatic FIPB	100% Beyond 74%	Since 2006
Banking	Automatic	74%	Since 2006
Construction & Development	Automatic	100%	Since 2006
Courier services	FIPB	100%	Since 2006
Insurance	Automatic	26%	Since 2006
services	Automatic	49% Beyond that is FIPB	Since 2011
Trading	Automatic	100%	Since 2006

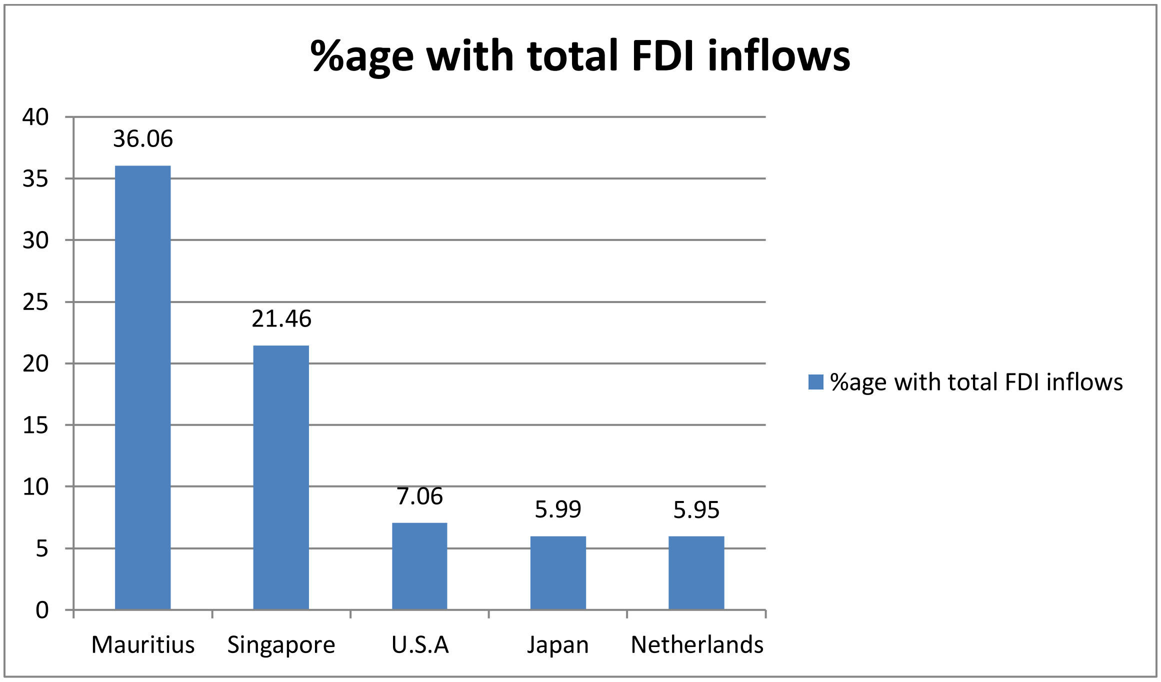
(Jayender, 2015)

Top five countries who invest in service sector from 2000-2017 are Mauritius, Singapore, U.S.A, Japan and Netherlands. The total share of these five countries in percentage is calculated as

76.52.Mauirtitius being the first at 36.06 percent followed by Singapore at 21.46 percent

(SEN, 2011)

Figure 12: Share of top five countries attracting FDI equity inflows (2000-2017)



Source: Department of industrial policy and promotion

Inflows received through FIPB/SIA route, Acquisition of existing shares and RBIs automatic route only

Determinants like infrastructure, market size, agglomeration economies has attracted considerable amount of FDI inflows in service sector and the top location which attracts investments is reported as Mumbai with 42.89 Percent of total FDI followed by

New Delhi, Bangalore etc.Share of Top RBI's Region-wise in FDI equity inflows is shown below;

Table 7: Share of top RBI's Region-wise in FDI Equity inflows (2000-2017)

RBI's Regional office	States Covered	Amount of FDI's equity inflows in U.S million	% with total FDI inflows
Mumbai	Maharashtra,Dadra and Nagar Haveli,Daman and Diu	27,497.21	42.89
New Delhi	Delhi, Part of UP and Haryana	12,534.54	19.55
Bangalore	Karnataka	3,802.34	5.93
Chennai	Tamil Nadu,Pondicherry	3,123.25	4.87
Hyderabad	Andhra Pradesh	1,623.57	2.53

Source: Department of industrial policy and promotion (DIPP)

If we observe the company wise FDI inflow made in service sector, it is evident that major companies around the world has seen Indian service sector attractive and forecasted huge return for their investments.

Let's consider the top 10 FDI inflows in Service sector from January 2000 to December 2017

Table 8: Details of top FDI Equity inflows received in service sector (2000-2017)

NAME OF INDIAN COMPANY	COUNTRY	NAME OF FOREIGN COLLABORO R	RBI REGIONAL OFFICE	ITEM OF MANUFACTUR E	AMOUN T OF FDI INFLO WS (US MILLIO N)
KEYMAN FINANCIAL SERVICES PRIVATE LIMITED	MAURITIUS	B.K MEDIA MAURITIUS PVT.LTD	NEW DELHI	FINANCIAL LEASING	1205.29
CAIRN LTD	UNITED KINGDOM	CAIRAN UK HOLDING	MUMBAI	BUSINESS SERVICES NOT ELSEWHERE CLASSIFIED	1492.82
TRIGUNA HOSPITALIT Y VENTURES PVT	SINGAPORE	APHV INDIA INVESTCO.P VT LTD	NEW DELHI	ACTIVITIES OF HOLDING COMPANIES	871.56
TRIGUNA HOSPITALIT Y VENTURES PVT	SINGAPORE	AAPC SINGAPORE PTE LTD	NEW DELHI	ACTIVITIES OF HOLDING COMPANIES	774.78
EMPOWER RESEARCH KNOWLEDG E	SINGAPORE	HEADSTRON G CONSULTIN G P	HYDERAB AD	MARKET RESEARCH AND PUBLIC OPINION POLLING	663.60
INDIA DEBT MANAGEME NT LTD	MAUIRITIUS	MAURITIUS DEBT MANAGAME NT LTD	MUMBAI	COMMERCIAL LOAN COMPANIES ACTIVITIES	956.39
RECKITT BENCKISER INVESTMEN TS INDIA PVT	SINGAPORE	RECKITT BENCKISER PTE LTD	NEW DELHI	OTHER FINANCIAL SERVICES NEC	730.13

ABB LTD	SWITZERLAND	ABB ASEA BROWN BOVERI LTD	REGION NOT INDICATED	PROVIDES AUTOMATION TECHNOLOGIES	664.92
RELIANCE LIFE INSURANCE COMPANY LTD	JAPAN	NIPPON LIFE INSURANCE COMAPNY	REGION NOT INDICATED	LIFE INSURANCE HEALTH INSURANCE & ANNUITY BUSINESS	543.02
INDUSIND BANK	U.S.A	VARIOUS	MUMBAI	MONETARY INTERMEDIATION OF COMMERCIAL	408.29

Source: Reserve Bank of India

CHAPTER 3: DETERMINANTS OF FDI –LOCATION DECISON VARIABLES

3.1 INTRODUCTION

Traditionally, the inflow of FDI has shown positive trends from developed to developing nations and this could be the result of increasing investments from multinational enterprises and their location decision choices. As regards to the motivational factors, the MNEs would like to set up their plants in those developing nations where facilities like infrastructure,labour,power etc are easily available which might helps them to minimize total cost incurred and creates economies of scale. Literature reviews has been discussed to show the importance of various location decision variables and average values corresponding to each states are illustrated. A further study is done to verify the relationship between each variables and FDI inflows and results are obtained.

3.2 LITERATURE REVIEW

Internationally, there exists wide variety of studies regarding the intercountry differences for the inflow of FDI.The studies has also identified the location decision variables as a country specific and could not apply for analyzing region wise FDI flows. The literature on the regional distribution of FDI flows and their motivational factors are limited and this chapter would rely on few studies which is state specific and explains regional inequality of India. Below has discussed some of the previous literature studies on the impact of FDI in the Indian economy. Recently, A muthusamy (2020) has done a research on IMPACT OF FDI ON INDUSTRIAL GROWTH OF INDIA .Statistical techniques are applied in his work to examine the inflow of foreign capital in the form of FDI and has shown how this foreign agreements has affected the industrial growth of India from 2013-2014 to 2018-2019.Since it was the post-recession era, the period of study was very important and it has reported that most of the foreign enterprises has done investment on the manufacturing sector of the country. Karl Pearson correlation is used here and the results obtained have shown positive relationship between the FDI and industrial growth of India in the selected years. In his conclusion, he stated that the competitive investment climate of India has been very attractive in these consecutive years and the reformed policy measures have been the key factor for the attraction. India is one of the major destinations among developing countries for green field investments and according to Muthusamy; most of the investments has positive impacts rather than a potential threat to the nation.

Sharmiladevi and Saifilali (2013) has explained the DETERMINANTS OF FDI INFLOWS OF INDIA by using the ordinary Least square method .They have taken FDI as a dependant variable for the analysis and the independent variables includes gross domestic product of different states, inflation rates,taxation,index of industrial product (IIP) and exchange rates. All the data's has proved to be consistent as per the reserve bank of India and has shown a 5% significance level for the chosen independent variables which means that they are the important determinants of FDI in India. In the methodology, several hypotheses has been pre determined to check the credibility of data compiled and the author has lately rejected the null hypothesis to reach a statement regarding the importance of the selected independent variables for attracting FDI into India.

Similar work is done by Alam and Shah on 2013 where the bidirectional relationship between market size and labor costs are analysed. His study has used the panel data of OECD member countries and Granger causality tests was used to measure the data collected.Independant variables such as market size, labour cost ,productivity of labour force, corporate tax rate etc of states in India were used as location decision variables and statistical tests are done for the final compilation of data.

Mishra and Ramakanta (2002) has considered the reverse failing of FDI trends in India as the industry sector of the nation seems to lose much investments in the era of globalization and tight competition in the market. He has recommended that measures should be taken not only to remove the imperfections exists in the FDI attraction measures and policy framework changes to reach consistency but also to implement investor friendly environment. He suggested that this could be done through optimization of government policies and by providing smart infrastructure facilities in the country.

Dukhabandhu Sahoo (2004) revealed that FDI has played a major role in the economic growth of the country and has done the study at macro level. According to his research, the FDI through various Greenfield investments was not able to fulfill the objectives of increasing exports and saving and has suggested reduce the tariff rates of the country for better export promotion. Though this problem has paved the way for tax reformation and appreciation of Indian rupee against the other currencies in the world, the rate of tariff is still high and has continued to block the economic attractiveness of the nation as an export platform for labour intensive massive production. His sectoral level findings have showed that the inflow of FDI has affected positively the output, productivity of labour and export. However a small variation was identified in major sectors regarding the above mentioned variables and this is due to fact that the country was not able to identify all its FDI absorptive capacity.

All of the above mentioned previous literature studies has contributed and helped me to follow up with my reserach and the study of Goldar in 2007 was similar to my purpose of the work .He found out that the decision of local companies to invest according to the location variables is almost similar to the motivational factors of the foreign enterprises.100 largest cities in the 17 states of India were subjected to econometric analysis and the study has pointed out the size of cities, transportation facilities and agglomeration economies as an important location decision variables for welcoming investments.

3.3 DETERMINANTS-STATE SPECIFIC

Based on the above literatures, let us consider the possible determinants which have greater influence in Indian scenario. According to the State Bank of India, the following location decision variables have influenced the Indian economy and their expected relationship with FDI for different states has been discussed.

MAJOR LOCATION DECSION	SELECTED VARIABLES	RELATIONSHIP WITH

VARIABLES		FDI(EXPECTED SIGN)
MARKET SIZE	❖ GDP	+
INDUSTRIAL OREINTATION	❖ PER CAPITA MANUFACTURING OUTPUT ❖ PER CAPITA SERVICE OUTPUT	+ +
INFRASTRUCTURE	❖ ROAD ROUTE DENSITY ❖ RAILWAY ROUTE DENSITY	+ +
LABOUR CONDITIONS	❖ WAGES PER WORKER ❖ LITEARCY RATES	- +
POLICY ENVIRONMENT	❖ STATE OWN TAX REVENUE AS PERCENT OF NSDP(TAX)	-

(Mukherjee)

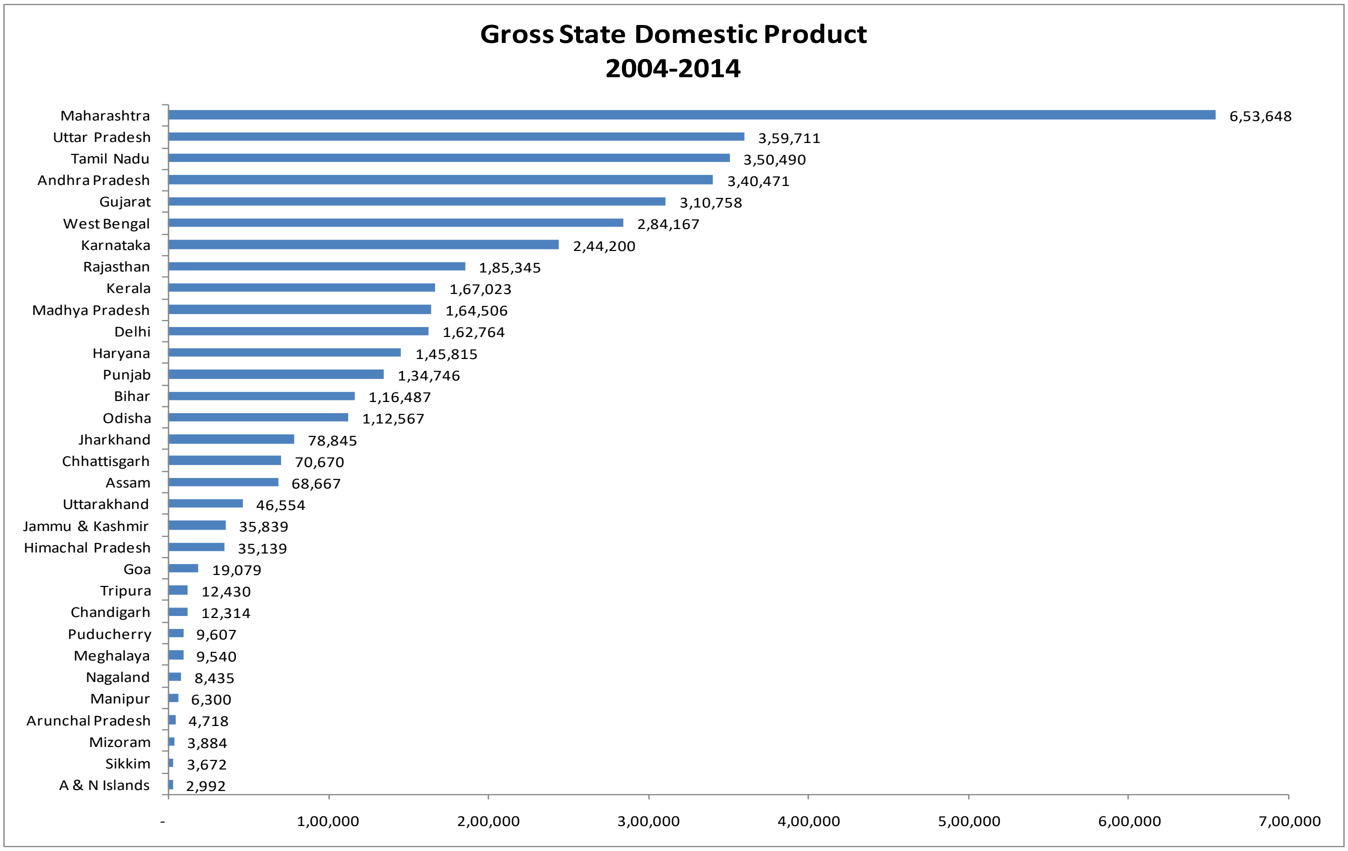
MARKET SIZE

The size of local market which could be illustrated with the scale and growth of a region has been regarded as the most important determinant for FDI in India .Potential demand for the business of foreign firms has a direct link with the market size. In a large country like India, the attractiveness for local sales is characterised by the size of its market and more profitable than exports. Market seeking FDI flows from major multinational companies find large domestic markets as a major determinant.

Here number of variables could be selected to represent the Market size of different regions such as GDP,per capita income, population density ,number of potential sites in a state etc.I have considered the Gross state domestic product(GSDP) of different states which is depicted below :

Note: original excel file has attached along with the report.

Figure 13: Gross Domestic Product in Rs Crores from 2004 to 2014.



INDUSTRIAL ORIENTATION

Another major determinant of FDI which reveals the importance of higher industrial outputs in states and its influence in attracting foreign funds. Talking about the natural resource seeking companies, locations providing availability of natural resources, transportation and tax incentives has shown high range of FDI inflows. Previous chapter has provided evidence which highlights the importance and share of service sector for FDI and this is mainly due to the availability of non –material knowledge –intensive assets .In the view of above, explanatory variables such as per capita manufacturing output to represent industrial base and per capita service output to analyse the service activity of different states has been selected.

Figure 14: Per Capita Service output from 2005 to 2014(in Crores)

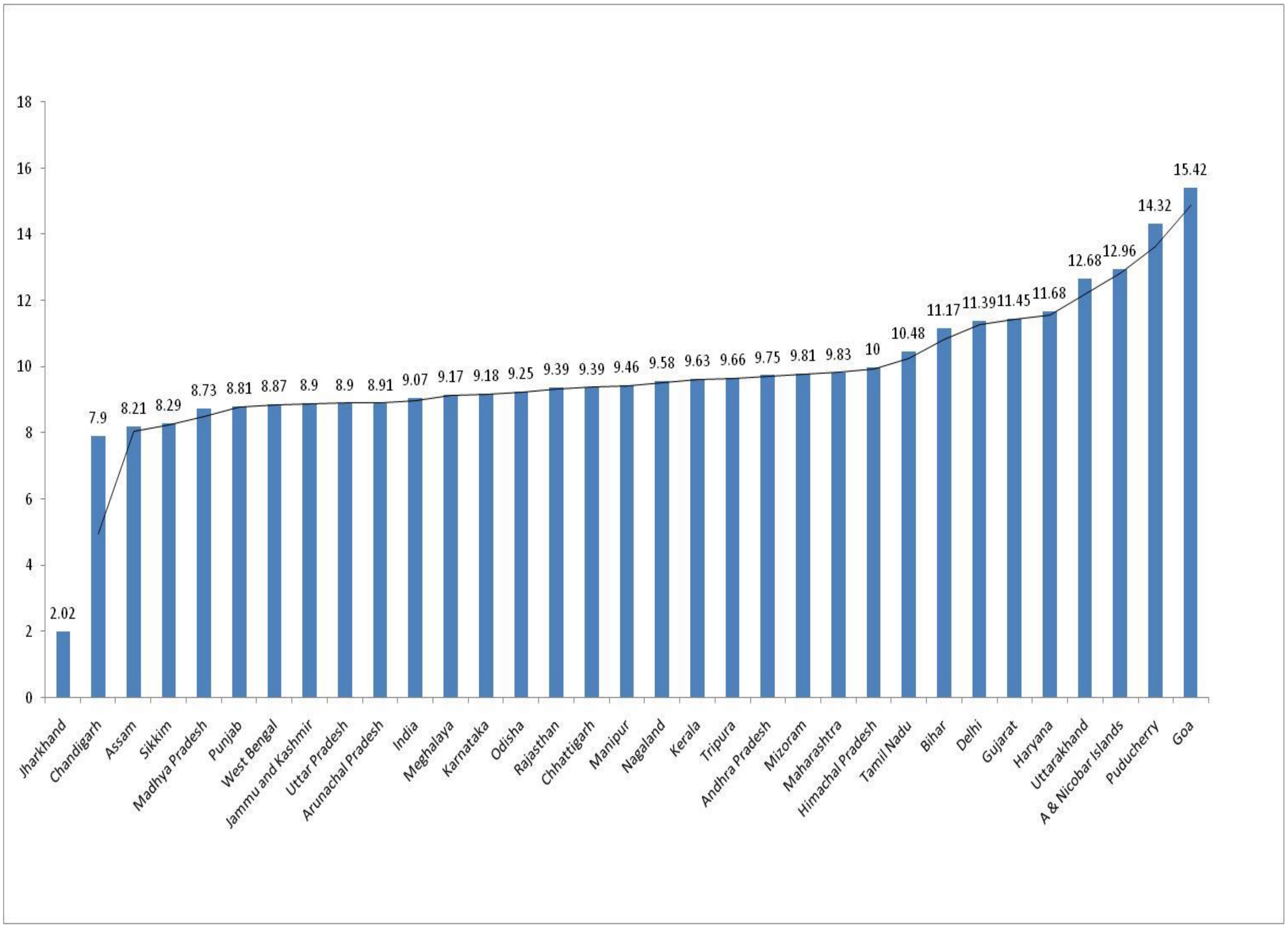
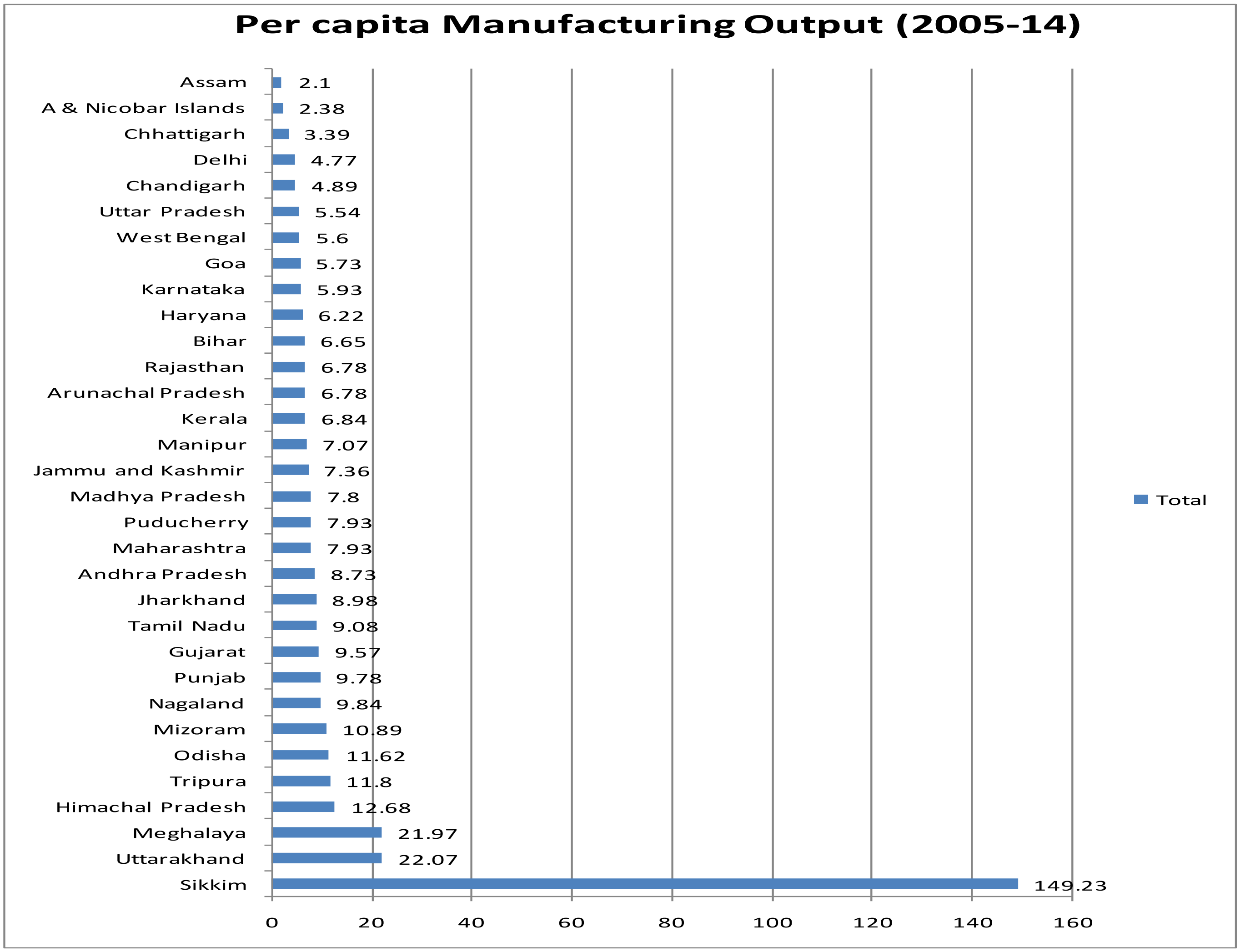


Figure 15: Per Capita Manufacturing Output from 2005 to 2014 in Rs Crores



INFRASTRUCTURE

Physical infrastructure together with macroeconomic environment plays a more decisive role as a motivational factor for FDI in developing country like India compared to factors such as market size, availability of natural resources, labour costs etc (Dunning 1998).Foreign firms opt for the convenience in transportation facilities to reach the nearest output markets and this would helps them to minimize the expenses incurred. Availability of major ports, vicinity to coastal areas, good road and railway networks are the most commonly used variables to represent the infrastructure of India (state bank of India)

In order to test the importance of this location decision variable in attracting FDI, the indicators such as Road route density (in 1000 square km for states) and Railway route density (in 1000 square km for states) has been considered here.

Figure 16: Railway route density (Per 1000 Sq.Km) -excel file attached

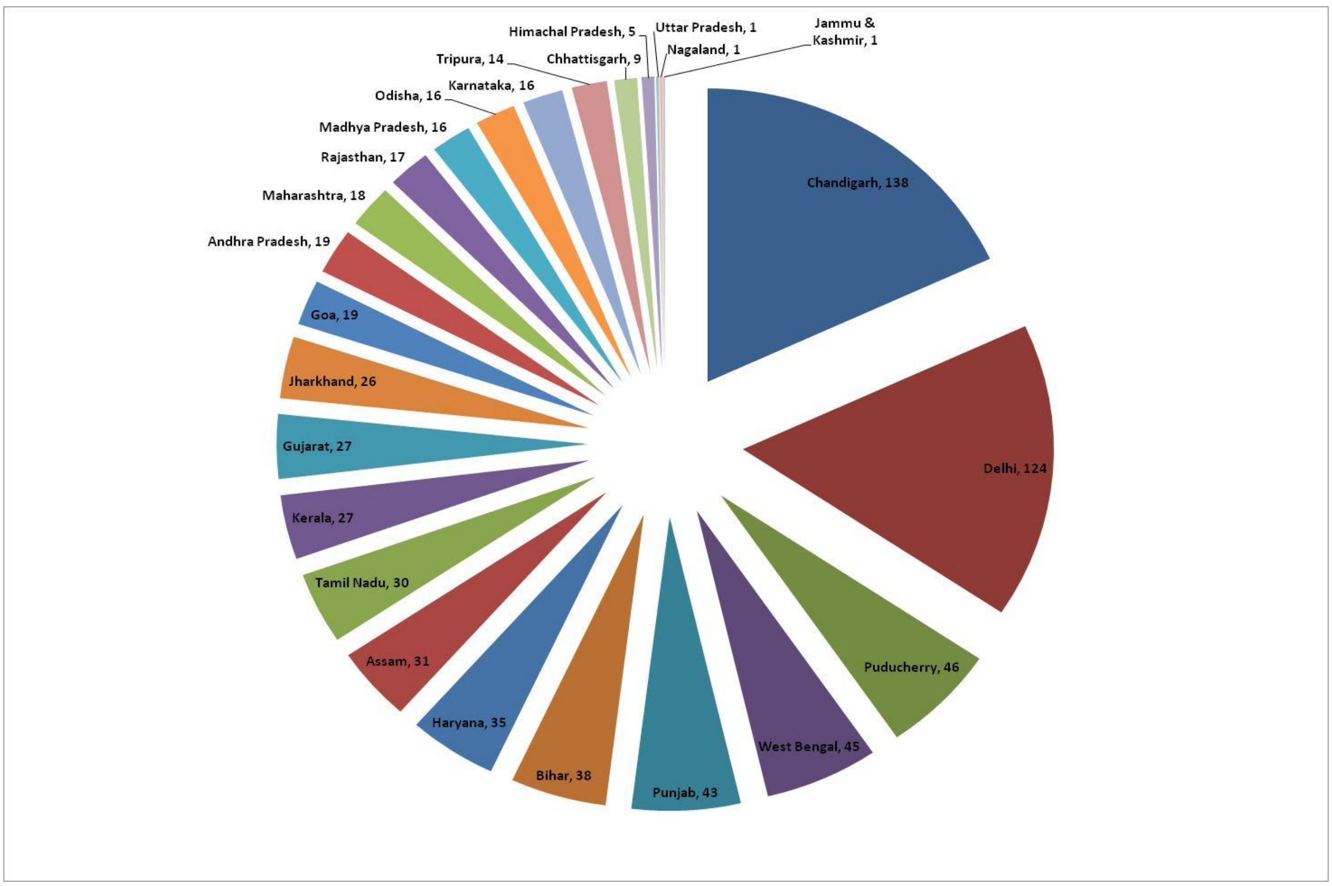
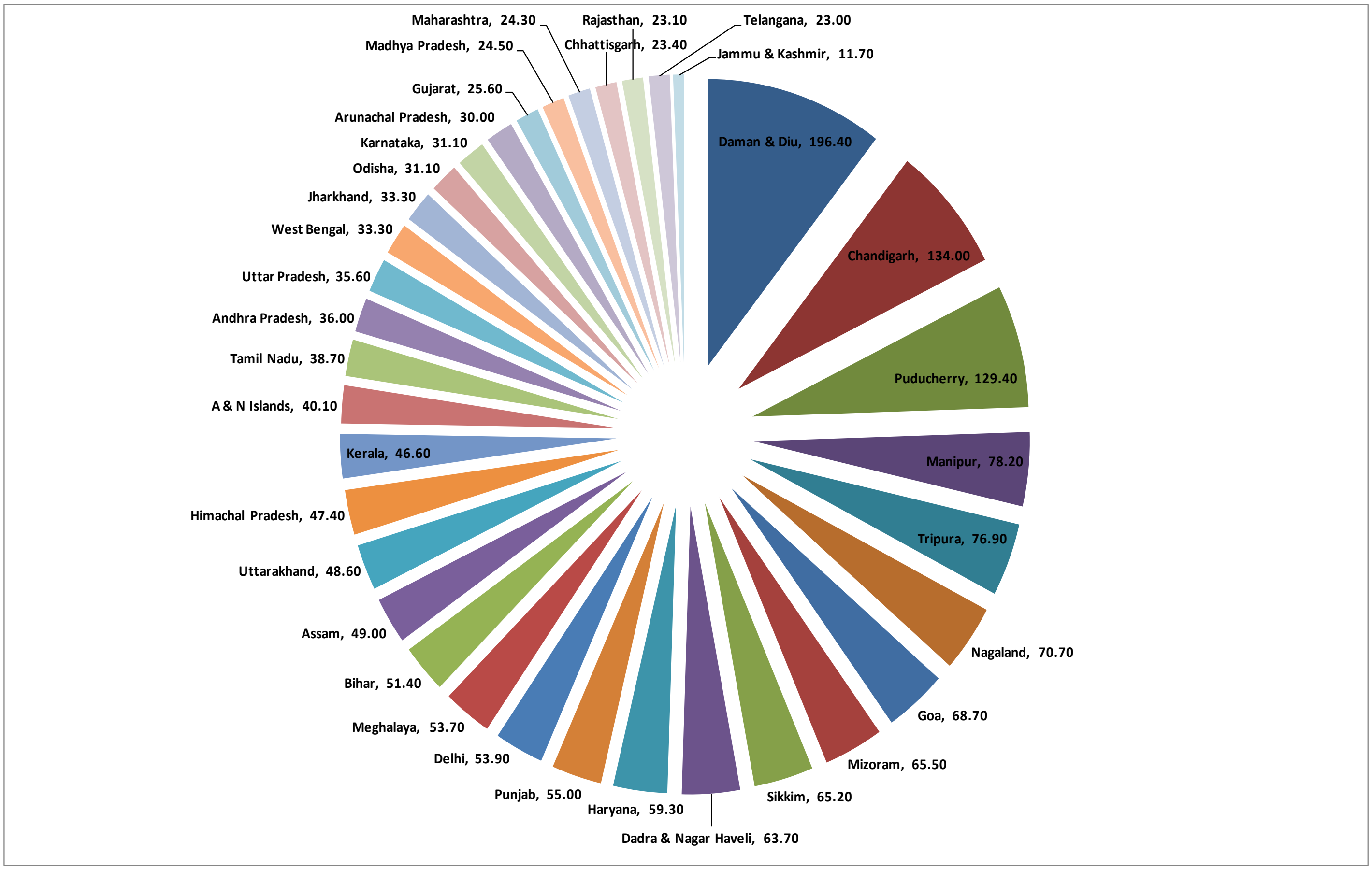


Figure 17: Density of NH (in km/ 1000 sq. km) -Excel file attached



Source :

LABOUR CONDITIONS

To minimize the cost of production, the efficiency seeking foreign firms are looking for locations having lower wage rate .Dunning in 1998 revealed that the labour cost was one of the major location decision variables for foreign companies to do FDI in India, while in 1990s it was the availability of skilled labours .Firms are no longer considering the wage rate since they believed that high wage rates has resembled skilled workers. In this section, to depict the labour conditions of different states, variables such as wage rate and literacy rate from 2005 to 2011 are considered.

Figure 18: Average annual wage rates from 2005 -11

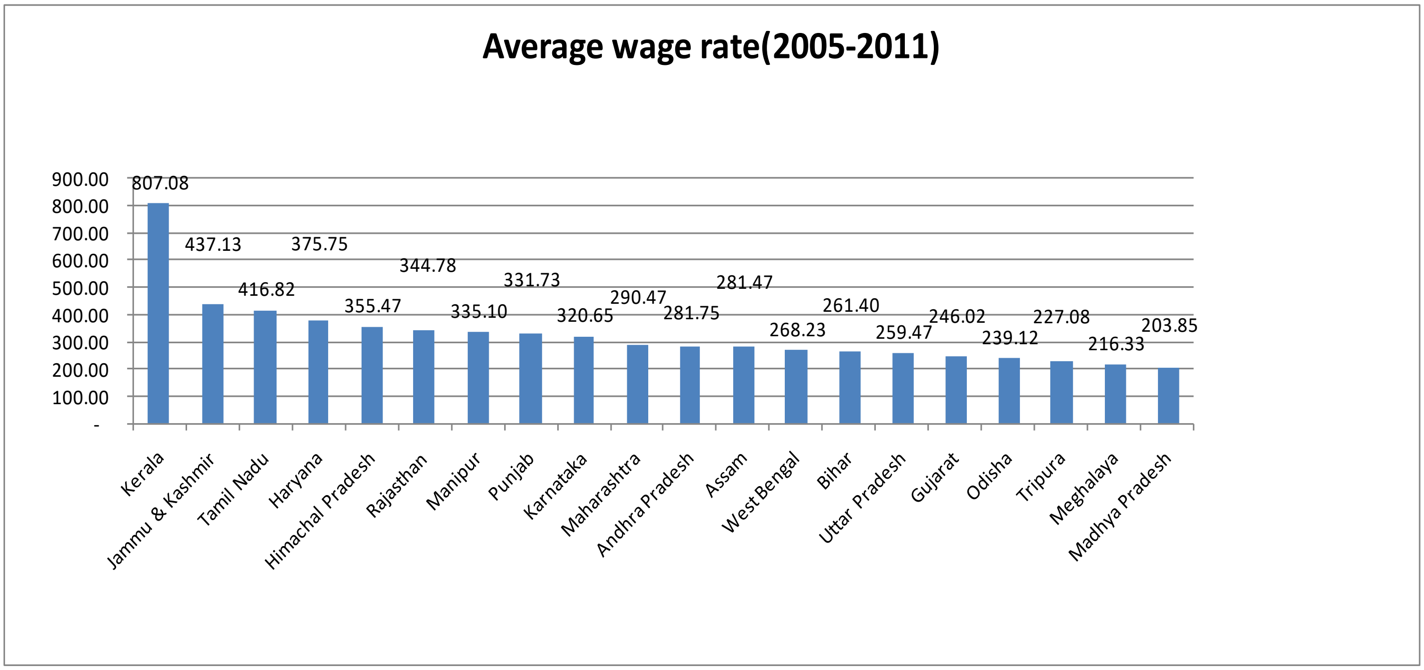
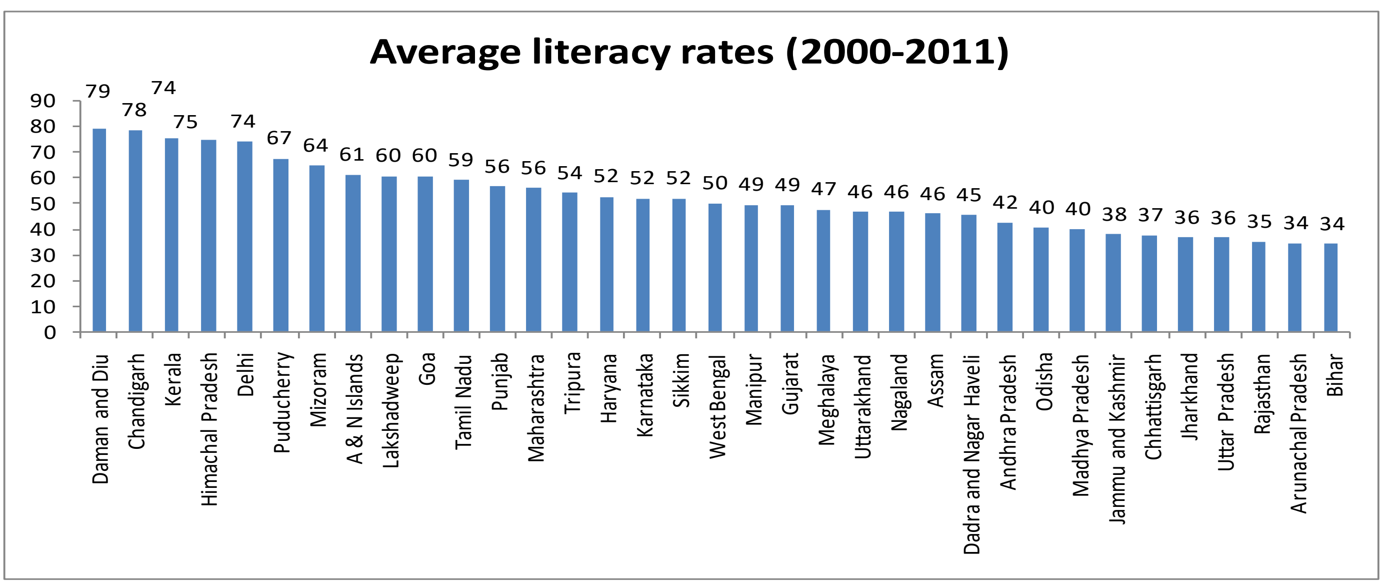


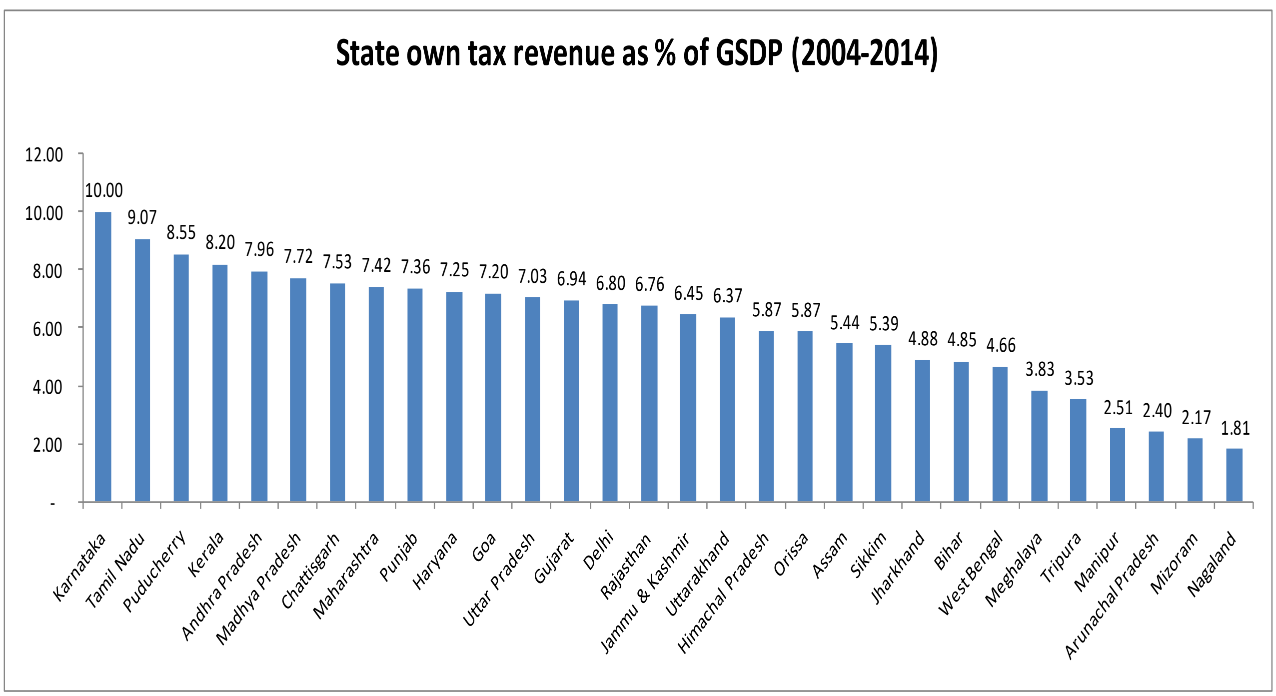
Figure 19: Average Annual literacy rates of states



POLICY ENVIRONMENT

FDI policies, structure of tax, incentives for investments are the local policy environment factors should be taken into account for foreign firms to do investment in a particular location. Most of the states in India are giving sector specific or region specific incentives for foreign firms in order to attract them to new industrial areas or the existing ones. Exemption from stamp duty, registration fees, electricity duty etc characterizes those incentives. Empirical evidence in the context of European Union has shown that most of the foreign firms focus on overall tax burden and not on single corporate taxes. In order to observe the effect of policy environment on FDI inflows in different states, the state own tax revenue as a percentage of GSDP is considered here.

Figure 19: State own tax revenue for states (% of GSDP)

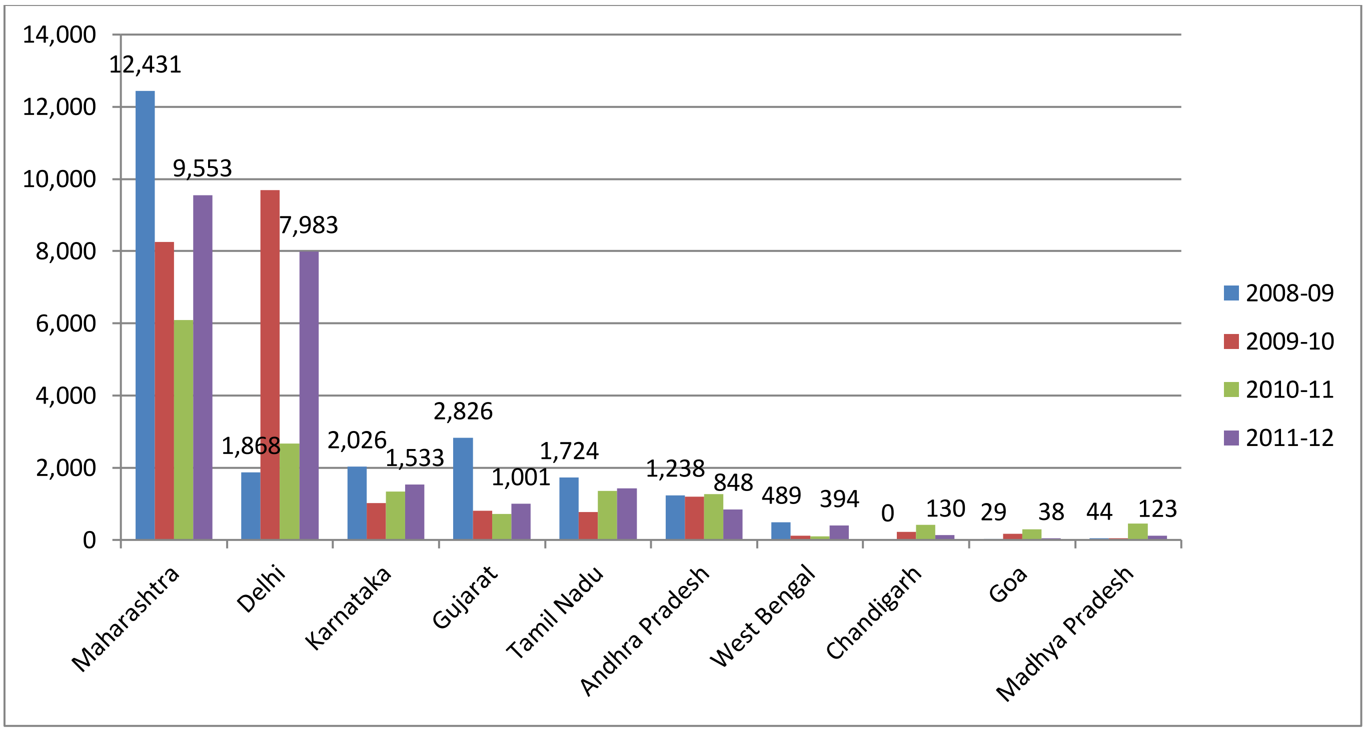


3.4 OBSERVATIONS

Inflow of FDI (2008-2012)

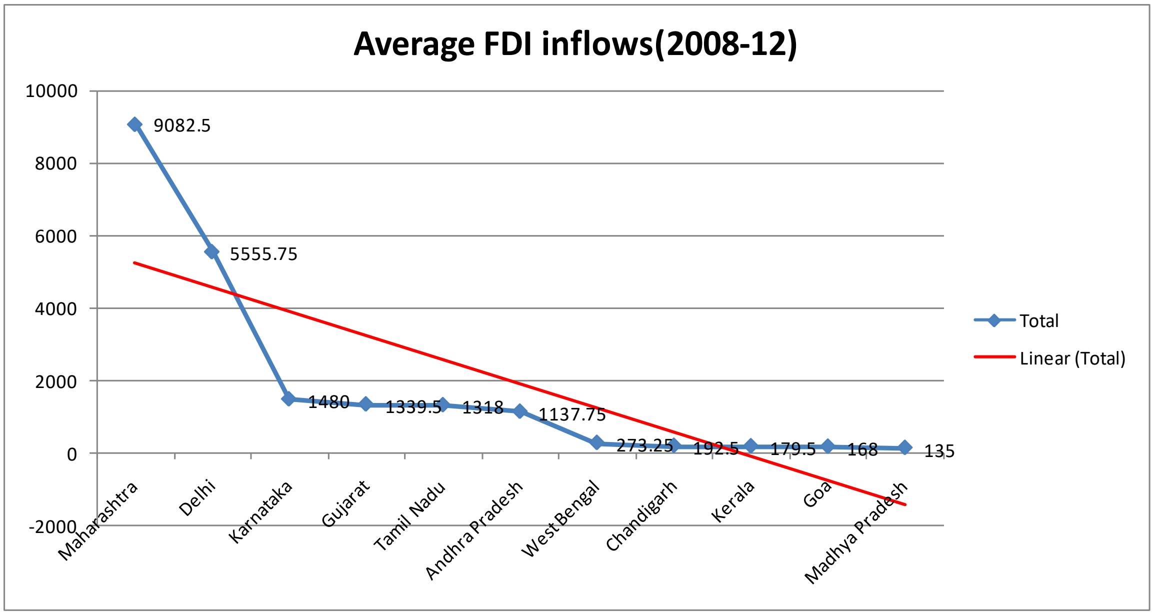
To study the relationship between the FDI inflows and the location decision variables, the FDI equity inflows to top 10 states of India from 2008 to 2012 is considered.

Figure 20: FDI Equity inflows to top 10 states of India ($ millions)



Source: table from department of industrial policy and promotion (DIPP), Ministry of commerce and industry, Government of India

Figure 21

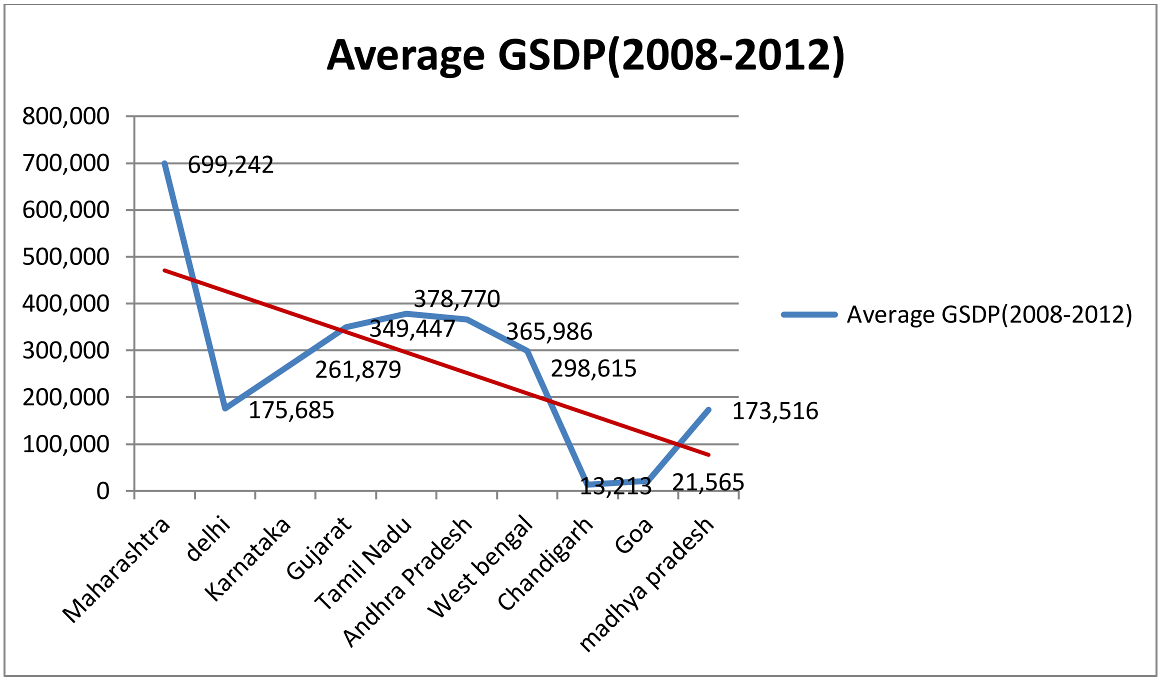


Maharashtra has reported top average FDI inflows (9082.5 $ million) followed by Delhi, Karnataka etc and minimum amount could be seen in Madhya Pradesh (135 $ million).A trend line (red colour) is shown to depicts the trend of FDI during this period in the following states.

Average values of location decision variables (2008-12)

- Market size-GSDP

Figure 22: Average gross state domestic capital of 10 states (in Rs crores)

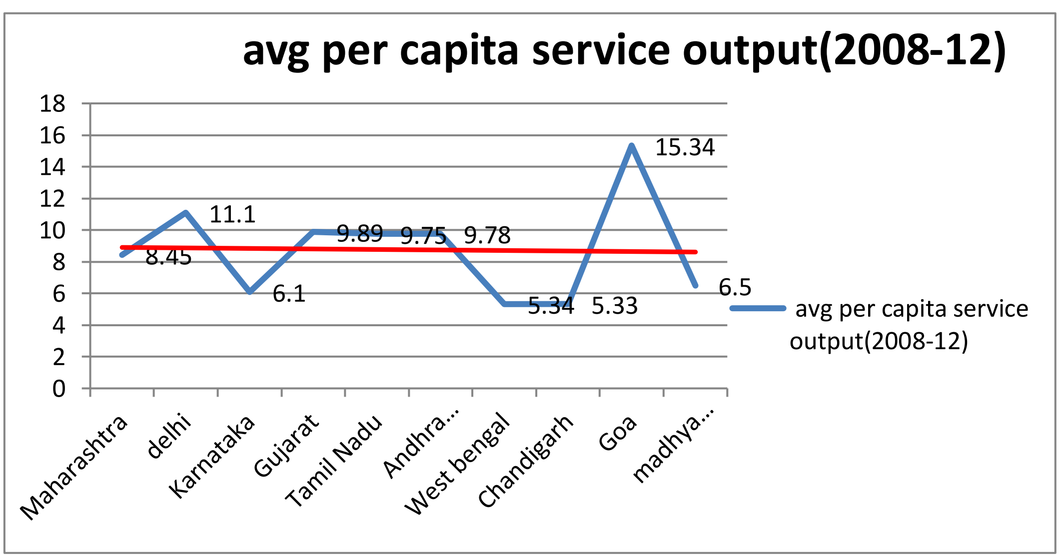


The Average GSDP of top ten states in terms of FDI inflows has been illustrated with Maharashtra has highest value and Chandigarh the lowest.

Slope of Trend line: Downward

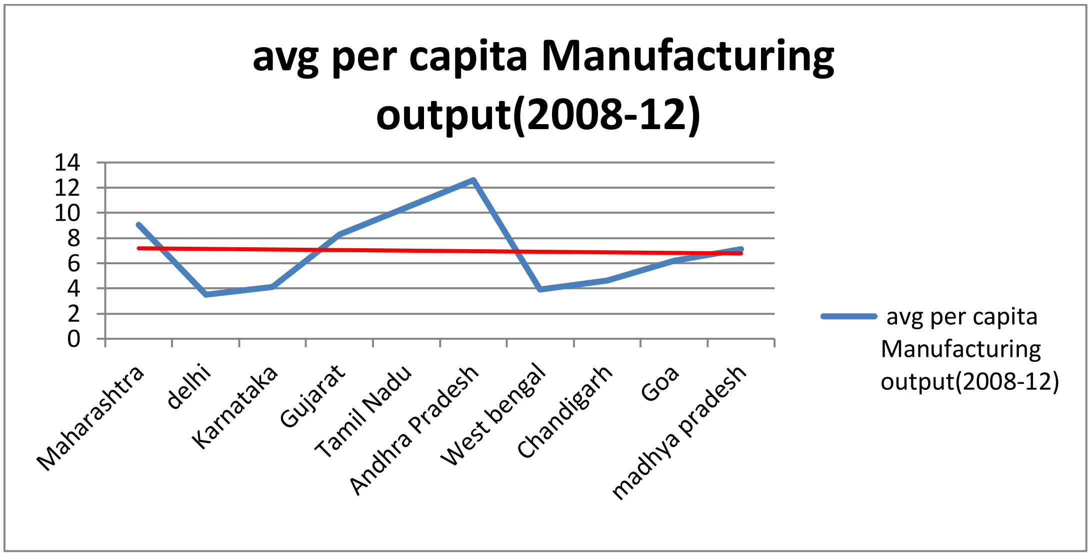
- ❖ Industrial Orientation- Per capita service and manufacturing output (2008-12)

Figure 23: Average per capita service output of 10 states



Slope of Trend line: Downward

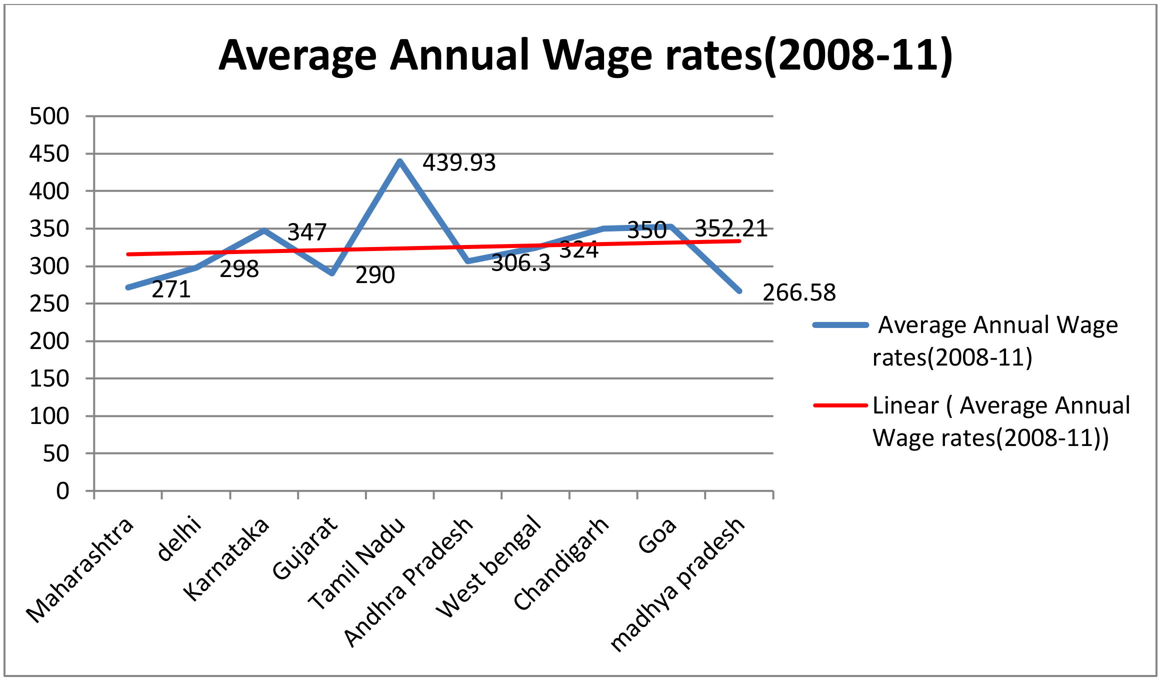
Figure 24: Average per capita manufacturing output of 10 states



Slope of Trend line: Downward

❖ Labour conditions- Average literacy rates and wages per worker(2008-11)

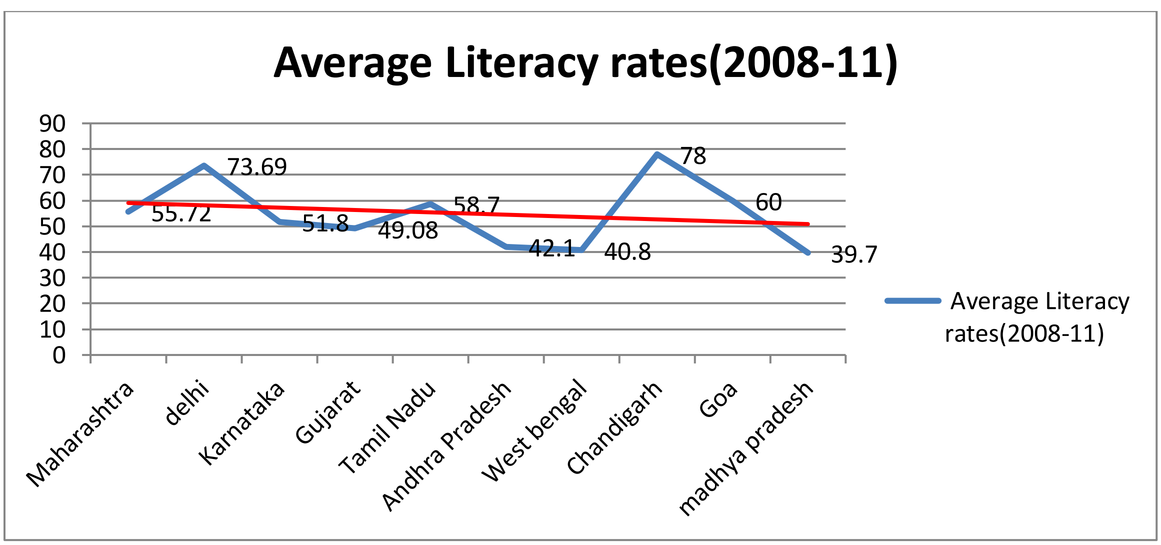
Figure 25: Average annual wage rates of 10 states



Slope of Trend line: Upward

The average wages rates of states tend to increase from Maharashtra to Madhya Pradesh and the average literacy rates are decreasing in nature. Tamil Nadu has the highest average wage rate from 2008 to 2011 followed by Goa and Chandigarh.

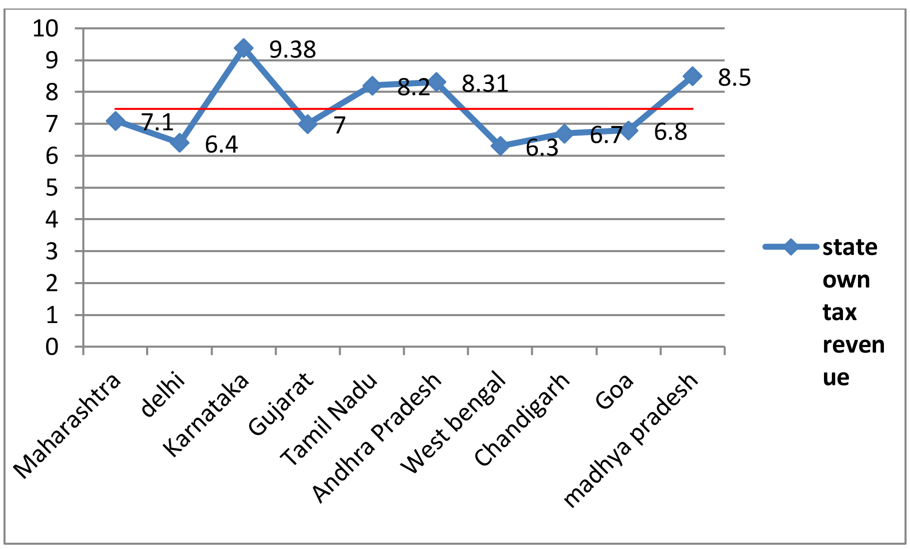
Figure 26: Average Literacy rates of 10 states



Slope of trend line: downward

- ❖ Policy Environment- State own Tax revenue as percentage of GSDP(2008-12)

Figure 27



Karnataka has the highest average state own tax revenue followed by Andhra Pradesh and Madhya Pradesh. Foreign firms are likely to invest more on those states where induced taxes are low.

Slope of trend line: upward

3.5 CONCLUSION

The analysis carried out in this chapter is based on statistics over the selected period (2008-12) covering top ten states having FDI equity inflows. Significant regional inequality has been observed for Indian states in terms of FDI inflows and location decision variables. As regards the market size, the average trend line for GSDP for states has shown a downward slope which could be related to the trend in FDI inflows. Developing economies has always been an attractive factor for host companies looking for foreign investments.

Economic structure of a state shown by industrial orientation contributes a major part of FDI inflows. For instance, the per capita service output and manufacturing output has a strong positive influence on the decision of locations. The charts shown above has positive correlation with the FDI inflows of 10 states is the underlying evidence .This is also confirmed with the sectorial distribution of FDI inflows and study on service sector in the previous chapter.

As regards to the labour conditions, the wage of workers seems to have a negative impact on the FDI inflows and the literacy rates shows positive relation for different states. The trend line of states own tax revenue as percentage of GSDP shows that FDI attracts states with lower tax rates.

CHAPTER 4: POLICY EFFECTS ON ATTRACTING FDI

4.1 INTRODUCTION

Considering the fastest growing economy and large flow of foreign investments, the government of India has formulated its policy to attract more companies and to increase the equity shares in different sectors. Any changes in the sectoral policy will be notified from time to time by the Department of industrial policy and promotion (DIPP).One of the changes made is the initiation of Make in India campaign on 2014 by the Prime Minister Narendra Modi .Starting with developments in the defence sector, the project has implemented various improvements in the infrastructure of the country which would further motivate the foreign firms to invest in different sectors of the country. Following will discuss the objectives, effects and challenges faced during the campaign.

4.2 FDI FOR MAKE IN INDIA

Make in India initiative is launched officially on 2014 with the purpose of renewed focus on manufacturing. The main goal of this new policy framework is to make the country a best manufacturing destination. Reform initiatives were taken by the government to create an environment for providing a momentum to manufacturing ,design, innovation and start-ups.The initiative is further focused on making a conductive environment for investment, facilitating modern infrastructure facilities, new sectoral openings for FDI and forging a positive mindset between government and industries

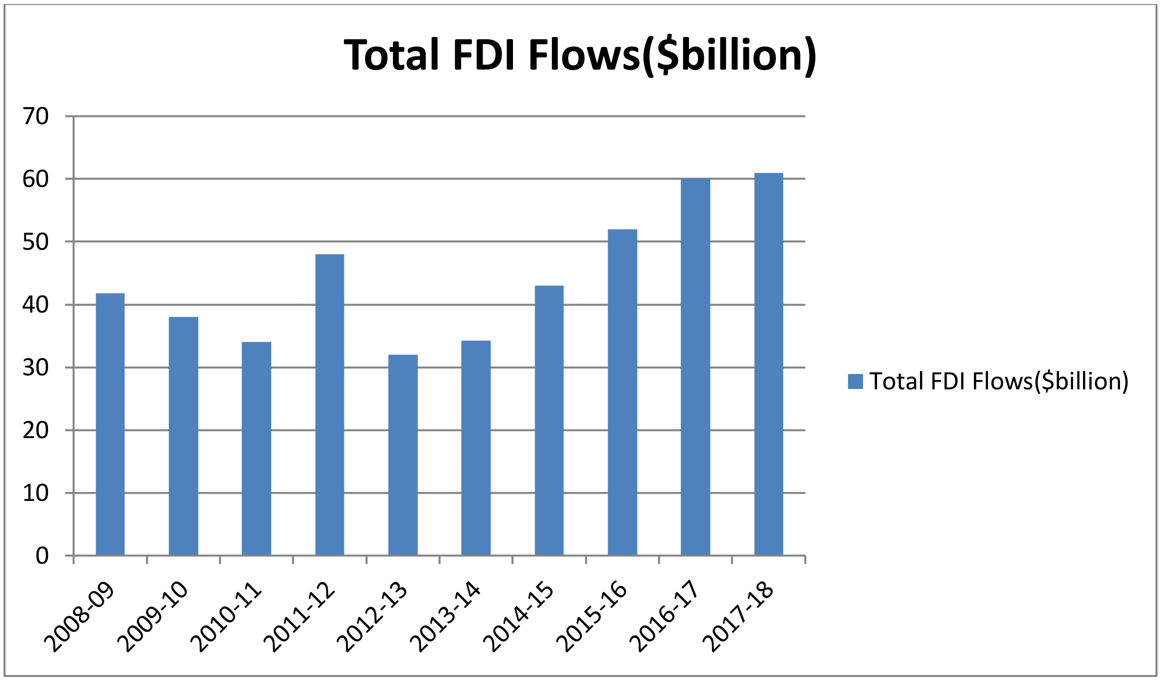
Liberal and transparent policy framework has been put in place by the government, wherein most of the sectors are open for FDI under the automatic route .Investments could be made without the prior approval from the reserve bank of India and it will be flexible under the automatic route and there is a need for approval from the government when it comes to government routes. The revised policy initiative aims to make India as an integral part of global supply chain by opening up vigorously sectors like defence, insurance, construction, railways, medical etc for foreign direct investments. Detailed effects of new policy frameworks on different sectors are discussed below:

DEFENSE SECTOR

Since the domestic defence industry are not able to meet the current expectations, the country has engaged in import activities which incurred huge expenses. Advanced technological knowhow is required as this sector is capital intensive and policies should be made flexible. Earlier FDI regime above 49% is allowed only through automatic route and the government route requires prior approval even if it is an access to modern technology. In this regard, the following changes have been made after make in India initiative for the development of the country:

- ❖ Foreign investments beyond 49% with the underlying benefit of new technological access could be made through government route under special contracts and sanctions.
- ❖ Under the arms act 1959, the FDI limit has been made applicable only for the manufacturing of small arms and ammunitions.

Figure 28



Annual FDI inflows have declined from $ 41.8 billion in the year 2009 to $34.2 billion in 2013.But after the MII, the value has escalated by 18.6 % between 2014 and 2017.

PHARMACEUTICAL

To make the sector more attractive for FDI, 74% of investments under automatic route have given the permission for Brownfield Pharmaceuticals. Investments beyond this range has been allotted to government routes .Foreign investment promotion board has the special authority to accept non-compete clause .Following conditions are mandatory for the FDI in Brownfield pharmaceuticals which has got approval under government and automatic routes.

- ❖ Absolute quantitative level is maintained for the production and supply of National List of essential Medicines (NLEM) to the domestic market during the registration of FDI and this level is maintained for the next five years. The maximum level of quantity would depend upon the production and consumption of NLEM drugs for the first three years after initiation.
- ❖ R&D expenses are also subjected to an absolute quantitative level and the benchmark depends on the incurred expenses over the first three years of FDI registration.
- ❖ Complete information regarding the transfer of technology must be provided to the administrative ministry and all the records are kept confidential.

Table 9: India Pharma exports to top ten countries after MII

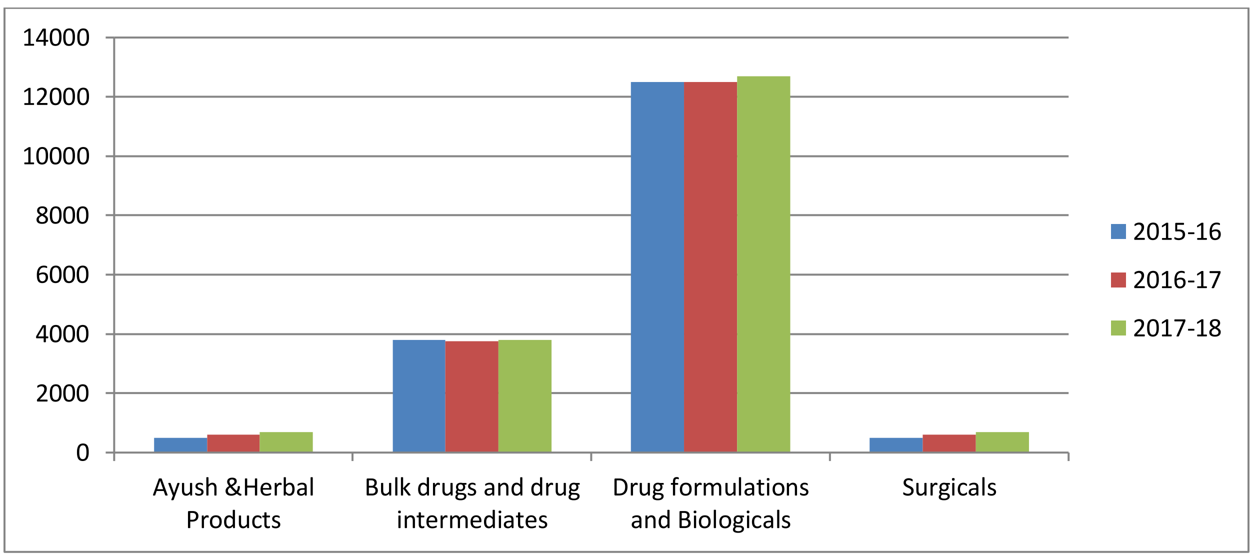
Rank	Country	2015-16	2016-17	2017-18
1	USA	5513,78	5563.54	5116.32
2	SOUTH AFRICA	605.27	484.89	582.99
3	UK	563.76	549.81	556.7
4	RUSSIA	373.76	383.46	468.74
5	NIGERIA	436.61	397.99	466.67

6	GERMANY	347.65	333.3	388.43
7	BRAZIL	326.17	337.37	383.72
8	KENYA	332.48	325.43	254.62
9 10	AUSTRALIA	232.78	236.87	253.8
	FRANCE	231.76	208.87	251.44

Source: Ministry of commerce and industry, DGCIS

Pharmaceuticals Export Scenario

Fig: 29: Indian pharmaceutical's export after MII (USD Million)

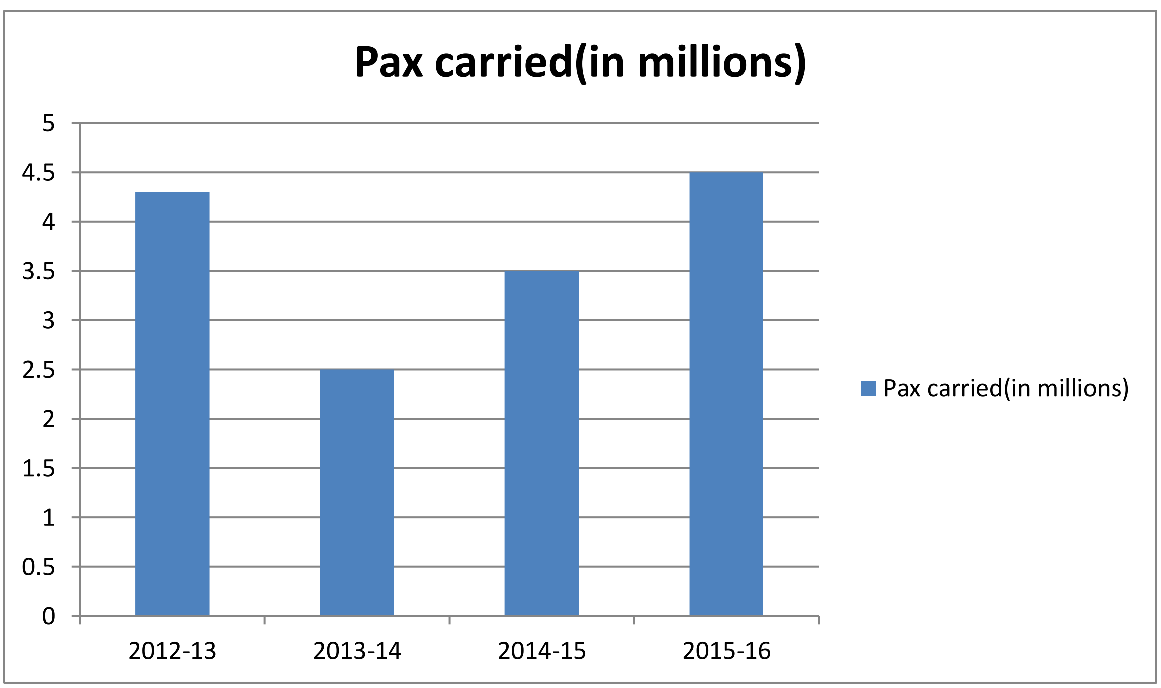


CIVIL AVIATION SECTOR

Foreign equity cap increased from 74% to 100% for activities such as non-scheduled airport services and ground handling services based on automatic routes. Brownfield airport projects are sanctioned as a part of MII so that the existing airports could be modernised to reach international standards.FDI inflows up to 49% could be done under automatic routes and higher investments through government routes according to new policy framework for scheduled air transport service and regional services. The latest FDI policy circular issued on 2018 has allowed the foreign companies to make investments on AIR INDIA.

This sector has shown interesting trends in the government's approach as the reformed policies has seen some foreign investments as 'not direct investments 'and some of them were reported as FDI.It is difficult to analyse the new approach towards direct and portfolio investments .

Figure 30: Passenger growth after MII (2014-16)



Source: Achievement Report Feb 13, 2017-Ministry of Industrial policy and Ministry of Civil Promotion

Table 10: Major 5 Equity inflows in the sector after MII

Foreign Collaborator	Country	Indian company	FDI Equity Inflow(USD Million)
ETIHAD Airways	UAE	Jet Airways Ltd	305.96
Dachser Beteiligungs-AG	Singapore	Dachser India Pvt Ltd	20.10
Kick2shop Logistics Services International	Singapore	Instakart Services private Limited	19.50
UAE-Transport Aircraft	Russia	Multirole Transport Aircraft Limited	16.88
Singapore Airlines Limited	Singapore	Tata SIA Airline Limited	11.01

Source: Data from DIPP FDI cell-Achievement Report

FDI reported growth of 605% growing from USD 61.8 million from April 2012- March 2014 to USD 435.81million during post MII period (2014 -2016)

CONSTRUCTION DEVELOPMENT SECTOR

Top priority from the Indian government is given for this sector as it results in infrastructure development, job opportunities, skilled workers, designers etc.100% investment under automatic routes is permitted on certain contractual basis.

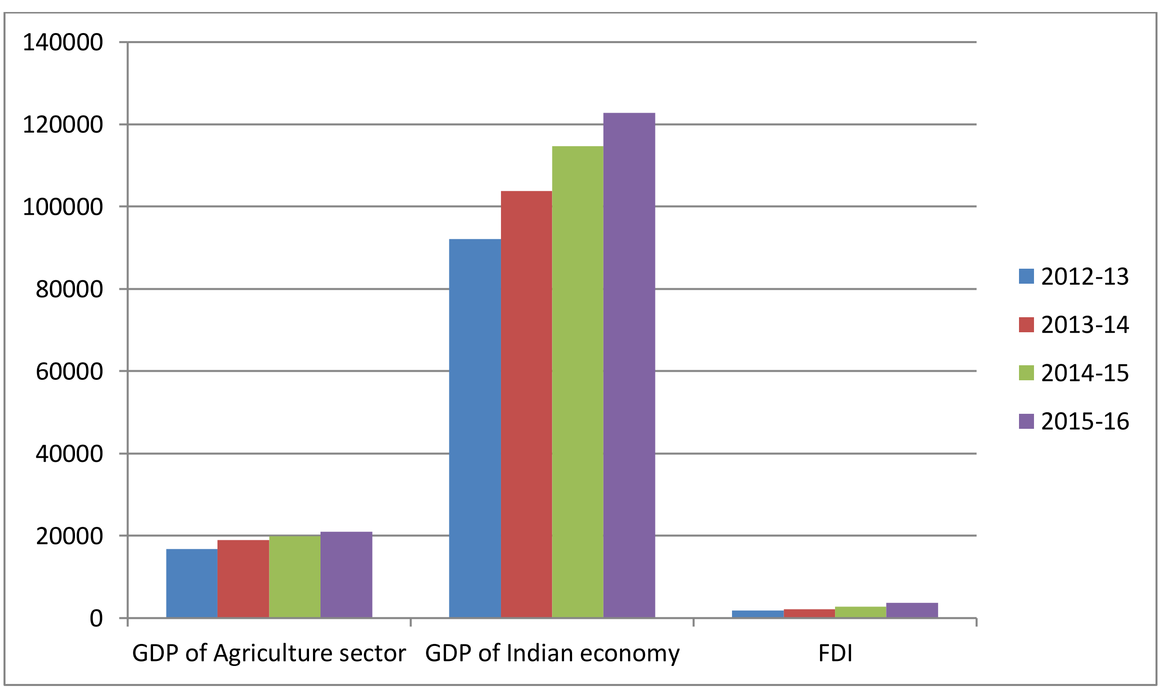
- ❖ Conditions such as area restrictions of floor area 20,000 sq.mtrs in projects and minimum US $ 5 million investments policy are removed
- ❖ Transfer of stake without investment repatriation is no more subjected to any lock in period and government approvals
- ❖ Exit is permitted if the project is completed before estimated time
- ❖ Real estate broking service eligible for 100 % FDI and is not accounted as real estate business.

AGRICULTURE SECTOR

"Under controlled conditions" exists for horticulture, floriculture development of seeds and mushroom cultivation until 2010 and it affect a few motivational factors of foreign investments. There exist also separate conditions for investors interested in the development of transgenic seeds or vegetables.

Consolidated FDI policy of June 2016 has brought many reformations for the above conditions and the climate is more favourable for foreign investors. Underlying conditions for genetically modified seeds were removed and overruled the concerns of farmers and environmental activists. The role of middlemen is no longer required which could eliminate their dominancy that exists for many years. I think these changes could uplift the concept of a modernised India and helps to boost the skills and capability of domestic farmers.

Figure 31: Inflow of FDI, India's agriculture GDP and total GDP (comparison between periods 2012 -2014 and post MII)



Source: Handbook of statistics on Indian Economy

4.3 SUMMARY

The 2014 policy framework could be considered as a radical change especially for two sectors such as agriculture and Health. The trend of rising foreign Cap in the Brownfield investments for the Pharmaceutical sectors has motivated the new producers of generic medicines in the domestic market and also supports them to deliver to other parts of the world. The amendments in the FDI policy implemented for the agriculture sector has given the opportunity for the investors to produce genetically modified seeds .However they has faced opposition from farmers which could be neglected with the support from the government since this would help to lower the use of fertilizers and gives higher productivity.

In defence, the investors were not keen to do manufacturing in India reasoned with transfer of technologies or imitation. India has reported high degree of exports in this sector. Portfolio investors has benefited from the new reformation of policies for the civil aviation sector and foreign investors found wider opportunities in the retail sector.

Table 11: Distribution of top FDI inflows during the MII Period from October 2014 to March 2016

Sector/Industry	RFDI	Non-RFDI	Total	Share of RFDI (%)
1.**Manufacturing**	11,070	2,482.3	13,562.4	81.6
• Transport Equipment	3,890.4	182	4,072.4	95.5
• Chemicals	1,693.4	623.9	2,317.3	73.1
• Machinery & Equipment	1,109.3	269.8	1,379.1	80.4
• Food products &Beverages	897.7	247.3	1,145	78.4
2.**Non-Manufacturing**	19,251.3	18,958.3	38,209.6	50.4
• Trade	3,106	5,038.6	8,144.6	38.15
• Transport & Storage &Communications	2,975.8	3,208.4	6,184.3	48.1
• Construction	3,314	2,642.8	5,956.8	55.6
• Business services	3,161.8	1,374.8	4,536.7	69.7

Source: Based on the analysis of individual tranches of inflows reported in the SIA newsletter

4.4 EFFECTS OF POLICY CHANGES IN TEXTILE INDUSTRY

The ambitious policy schemes with increased penetration of retail, favourable infrastructure, skilled and cheap workforce etc has already boost up the textile manufacturing sector of the country. Let’s see some of the major policy reformations by the Indian government to make this sector attractive for foreign investments.

Technology up gradation fund scheme (TUFS): According to this scheme, an investment of USD 41.33 billion has been sanctioned in the textile industry. Main idea is to facilitate the process of modernisation and up gradation of the current process.

Table: 12: Category wise subsidy approved under TUFS (09/02/2105) (Rs in Crore)

Category	No: of application	Project cost	Sanctioned loan amount	Loan under TUFS	Subsidy for full tenure of loan
spinning	282	9,643	5,965	5,415	1,090
Weaving	945	3,557	2,648	2,519	710
Processing	507	4,841	2,367	2,240	651
Garmenting	583	1,086	692	637	174
Others	1641	18,442	10,256	9,390	2,497
Total	3598	37,568	21,929	20,201	5,121

Integrated textile park scheme: Funds for infrastructure development, design and training centre buildings, warehouse facilities etc are given under this scheme.74 textile parks has been developed and USD 692 million sanctioned by government for job creation.

Integrated processing development scheme: Initiated to provide more environmental friendly and competitive atmosphere in the industry.

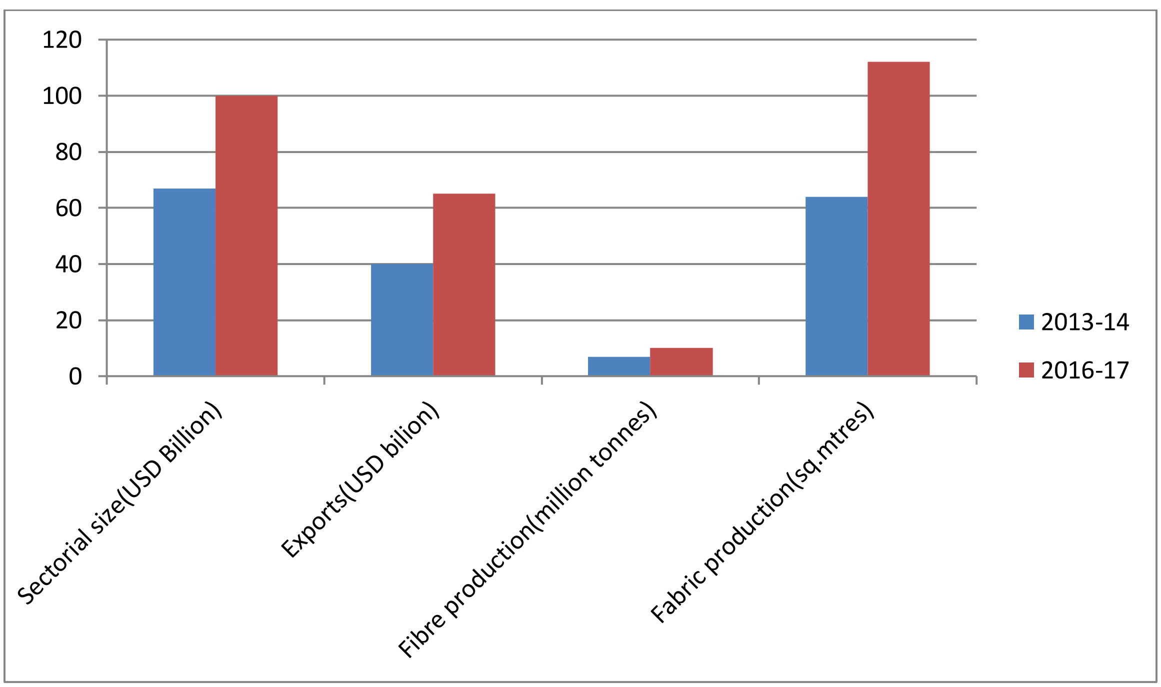
Integrated skill development scheme: allocation of USD 300 million for minimizing the skill gap and to produce competent resources .Training programs are optimized and proper monitoring schemes for the process has been started under this mission.

Technology mission for technical textiles: Objectives are structured according to two mini missions for developing a healthy ecosystem for the implementation of technical textiles in India. Mini mission 1 believes on making a standardised process and integrating resource centres with proper IT infrastructure, whereas the second mission supports the government to develop a domestic and export market for the technical textiles.

STATISTICS OF TEXTILE MARKET

The sector has contributed 14% to industrial production,4% to GDP and the export earnings estimated around 15%.As we could see below the export earnings has rise up to USD 65 billion after the MII sceheme.Improved skills and capability of Indian textile industry and quality products has attracted FDI during this period. With the help of different schemes and funds under the new policy framework, the sector has currently undergoing process innovation and is more standardised. The production level of fibre and fabric has been increased due to rising demand and counted to 10 million tonnes and 112 sq.mtrs.

Figure 32



Source: Gulhane s, Turukmane R (2017) Effect of make in India on textile sector

PROVISONS OF BUDGET

- Custom duties on fibres and yarns has been reduced from 5% to 2.5% to attract foreign firms
- For Branded readymade garments, Excise duty of 2% (no CENVAT) and 12.5% (CENVAT credit) are imposed.
- Tariff value of textiles has seen 30% increase of retail sale price.

Major investment in the sector April 2014 to March 2016

Table 13

Foreign collaborator	Indian company	FDI Inflow(USD million)
E-Land-Asia Holdings PTE Limited	Fashion India private limited	51.94
Procter &Gamble Overseas, Netherlands	Procter & Gamble Home Products Ltd	37.58
Ramunia investments limited ,Mauritius	VAS Data services private Ltd	29.28
Seiren Co. Limited	Seiren India Private Limited	19.57
General Atlanti Singapore fund PTE	AND Designs India Ltd	17.07

ltd		
Celio International S.A...Brussels	Celio Future Fashion Ltd	16.53
Ahlstrom, Finland	Ahlstrom Fibre Composites India Pvt Ltd	16.42

4.5 CONCLUSION

The advent of “MAKE IN INDIA” has contributed significant foreign investments starting from service sector to power. Prime Minister Narendra Modi believes that the change in the infrastructure of the industry should be the top priority as it could support the developments in all sectors and boost up the FDI inflows. The transparent policies led to the opening of Automatic routes for most of the sectors, have paved the way for FDI inflows without any restrictions faced before.

According to Department of Industry policy and Promotion, the flow of FDI through this route has increased to 87% with 2.2 Billion USD during the period of Post MII.India has reached the top destination for FDI ,surpassing the united states of America and people republic of china.

There was an increase of USD 65 billion in the export of textiles and the support from various schemes (under MII) discussed has got positive response from foreign investors all around the world. Delhi, Gujarat, Haryana, Karnataka, Andhra Pradesh and Tamil nadu are able to take advantage of the new policy framework and have reported about 70 % of FDI inflows during 2014-2016 periods.

Speaking about the other side, there were some challenges reported regarding the Make in India Campaign. The productivity of manufacturing sector doesn’t reach to the estimated standards and the skills of the cheap workforce are insufficient. Indian bureaucratic procedures and internal corruption makes the country less attractive for the investors. Capital outflow is another major challenge faced during the post MII period. With the drop of Indian Rupee value from 54 a dollar in 2013 to 70 a dollar in 2019, the net outflow of capital has increased.

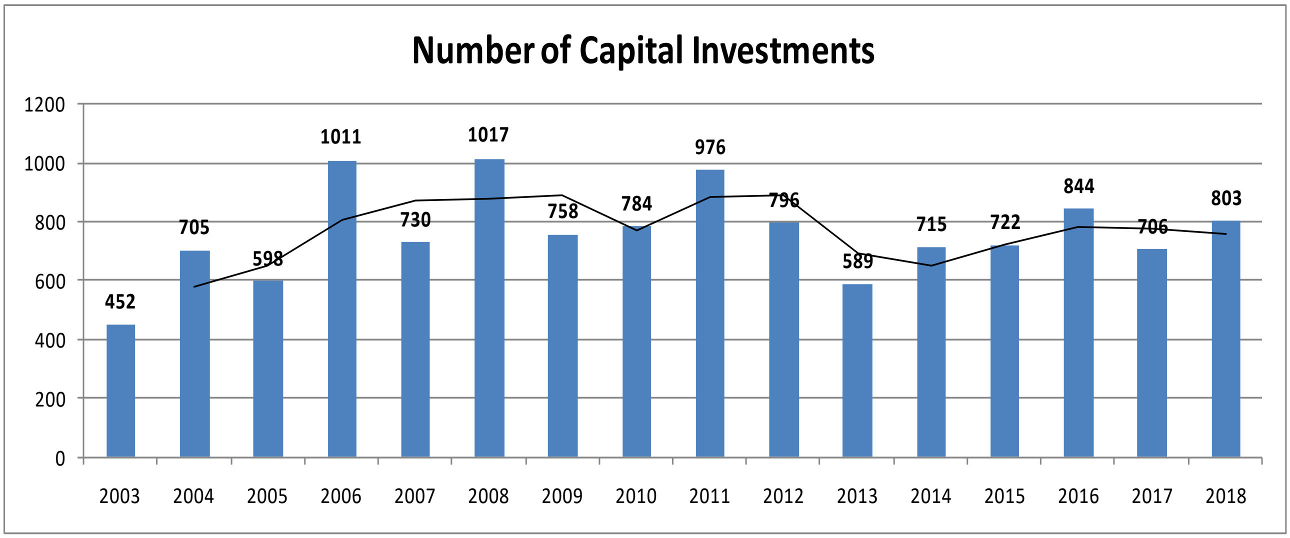
(pib.gov.in, 2020)

CHAPTER 5: ANALYSIS OF FDI DATA (2003-2018)

Number of investments

According to the data, there are 12206 investments made by foreign firms reported as FDI inflows from 2003 to 2018.Less number of investments are made in 2003 and the year 2008 has welcomed about 1017 investments (largest).As we could see in the chart below, there were less decline in the number of investments from 2014 to 2018 compared to the period 2003-2014.This could be the effect of policy schemes developed in India (post MII period)

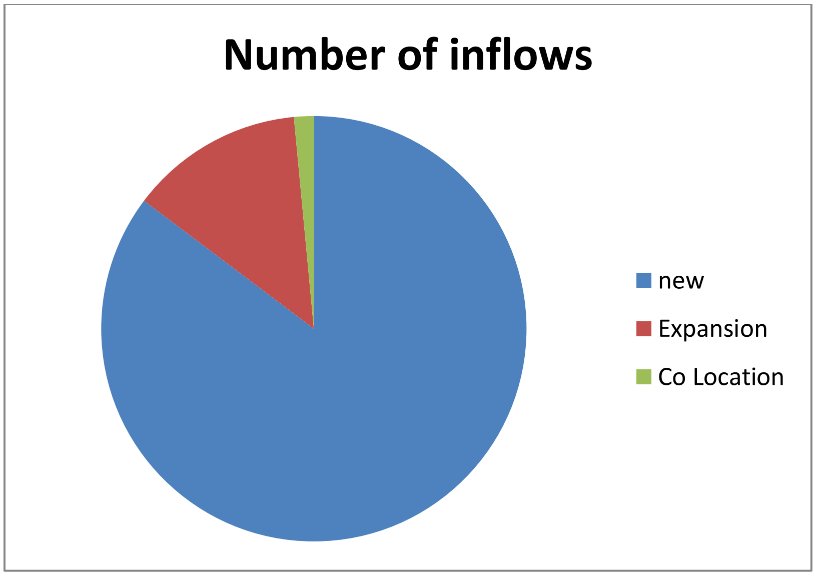
Figure 33: Number of capital investments



Type of Investment

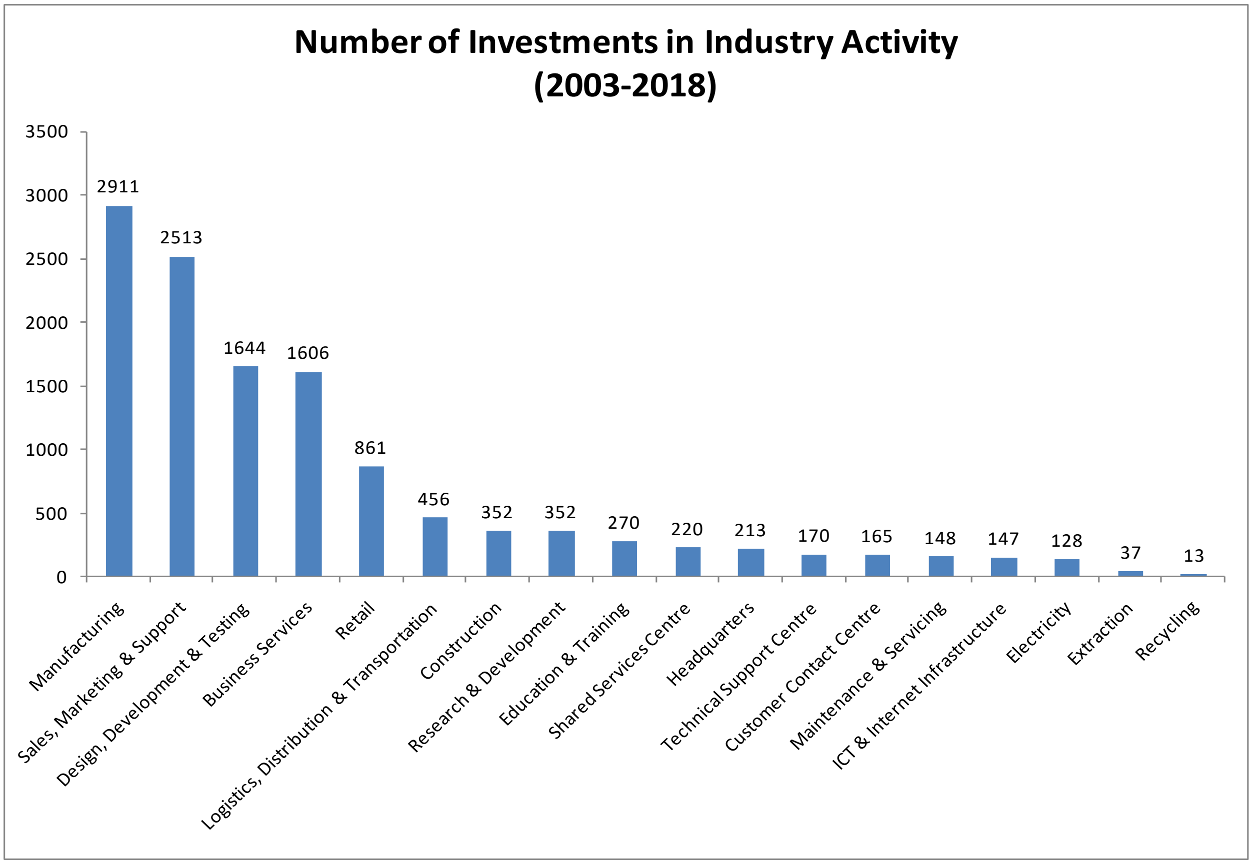
Out of the total number of inflows, about 85 percent of them are new investments compared to expansion projects and the injection of the existing investments. Inflow of large percentage of new investments are reported in the year 2006(910 new investments) and drastic change has seen in the year 2013(only 521).The beginning of MMI period (2014-2016)has attracted more new investments since the restrictions on foreign companies has been minimized.

Figure 34: type of investments(2003-2018)



Type of Industry Activity

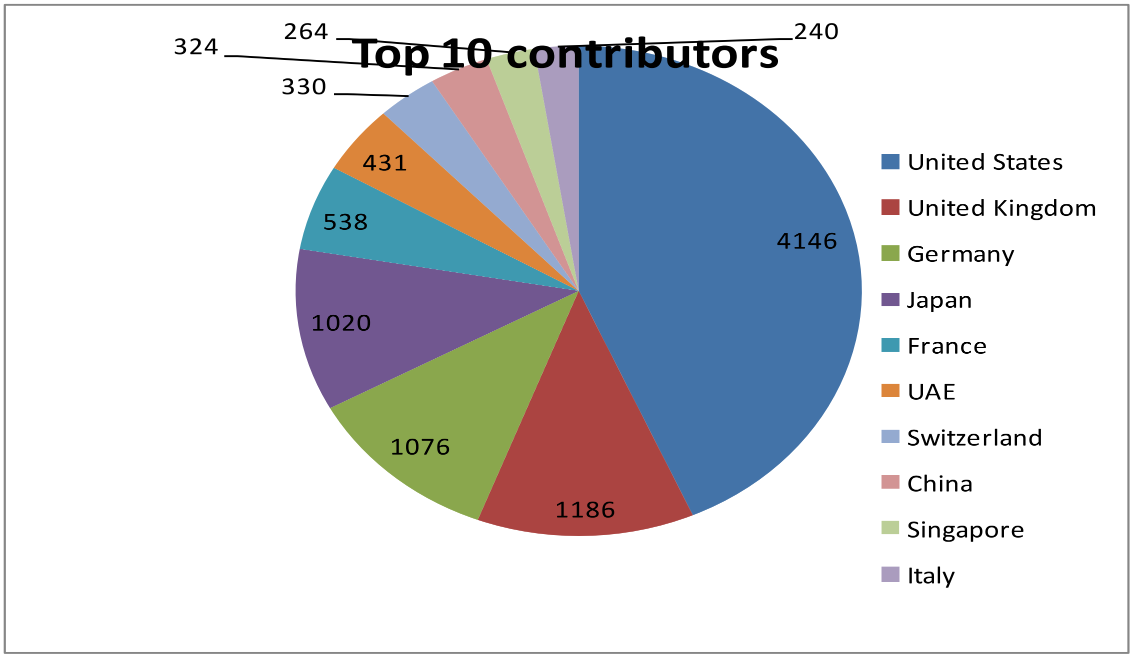
Figure 35: Number of investments in Industry activity



From the chart above, it is evident that most of the inflow happened in the manufacturing sector followed by sales.Marketting and support, Design, Development and testing etc. This trend has matched with the analysis of Top ten sectors attracting FDI inflows under the MII period.

<u>Major contributor and Receiver of FDI inflows</u>

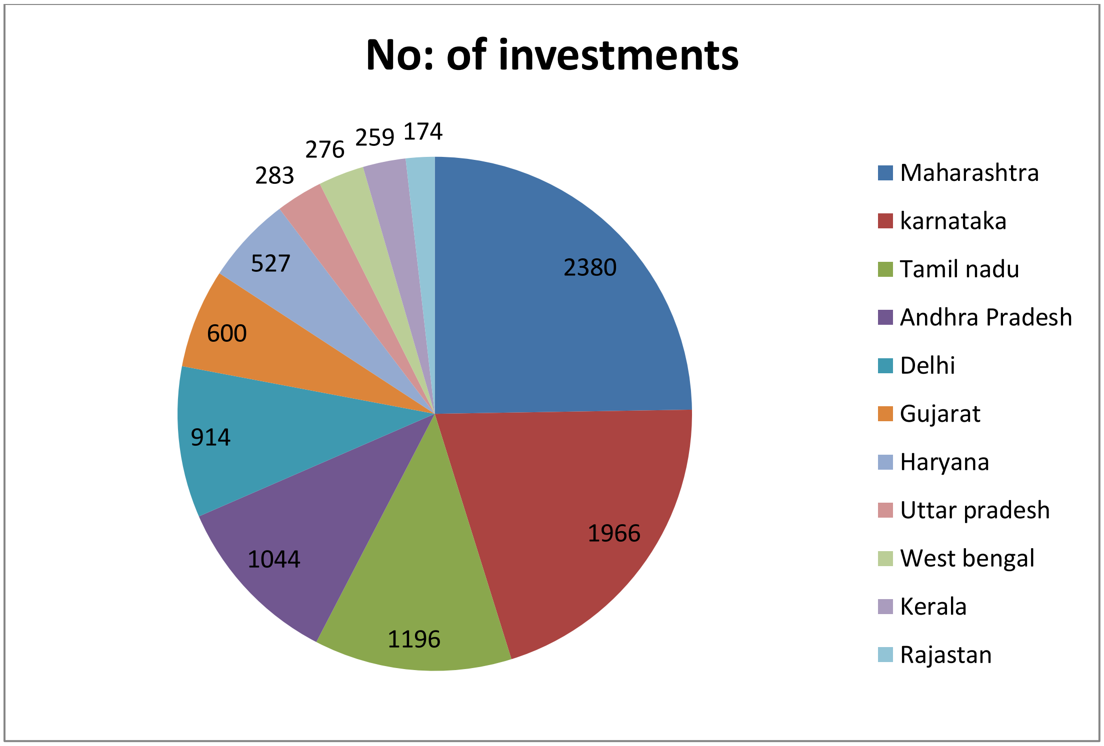
Figure 36



United States has contributed about 23.59 % of total capital investment through 4146 investments during 2003 -2018 followed by United Kingdom, Germany etc.

While talking about the major states of India receiving FDI inflows, Maharashtra has received major share of FDI amounted 90867 $million from 2380 investments.

Figure 37



Industry sector and Number of investments

Table :14

Sector	Total number of investments
Software & IT services	2147
Business services	1191
Industrial equipment	913
Financial services	776
Communications	719
Automotive components	505
Chemicals	453
Transportation	445
Consumer products	388
Textiles	380
Food & tobacco	366
Automotive OEM	356
Electronic components	354
Metals	316
Real estate	300

Hotels & tourism	229
Consumer electronics	223
Semiconductors	187
Business machines & equipment	186
Pharmaceuticals	180
Plastics	173
Coal, oil & gas	155
Aerospace	138
Renewable energy	133
Non-automotive transport OEM	114
Medical devices	112
Healthcare	100
Rubber	89
Warehousing	82
Engines & turbines	75
Building materials	69
Beverages	67
Ceramics & glass	66
Biotechnology	54
Paper, printing & packaging	42
Leisure & entertainment	40
Minerals	34
Space & defence	30
Wood products	19
Grand Total	**12206**

According to the data from financial times, software and IT services has attracted large number of investments followed by business services, industrial equipment, financial services etc.

CHAPTER 6: CONCLUSION

So far, we have seen the interpretation of FDI data in order to analyse the contributions of various countries, sector wise shares, state wise inflows etc .These interpretations could vary significantly as they depends on inaccurate numbers and predictions. Therefore to draw an exact conclusion regarding the specified chapters would be a difficult task in the real scenario.

This chapter aims to explain those factors that would affect the reported inflows and are

- ❖ False reporting
- ❖ Delayed reporting
- ❖ Disinvestments
- ❖ Weak internal system

The presence of backlog by companies for the pending entries of inflow could cause **false reporting** while dealing with large inflows of data. Reporting of inflows in subsequent years could be eliminated over years and considered to be normal. However, during the study on the impact of a specific policy in FDI, this **delayed reporting** could be a problem as it will not give proper results. Identification of the mode of entry and nature of foreign investments is very crucial to know the real impact of FDI. **Disinvestments** and repatriation process could be an example as they have also creates new capacity in the economy. Another factor is the **weak internal system** .Government has to develop its local institutions dealing with foreign enterprises and the board members should carefully monitor the process

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