FDI Inflow

Why in News

During **April to August, 2020,** total Foreign Direct Investment **(FDI) inflow of USD 35.73 billion** was received. It is the **highest ever for the first 5 months of a financial year.**

- FDI inflow has increased **despite** Gross Domestic Product (GDP) growth contracted 23.9% in the first quarter (April-June 2020).

Key Points

- **Recent Increase in FDI Inflows:**
  - FDI (USD 35.73 billion) received in the first 5 months of 2020-21 is **13% higher** as compared to the first five months of 2019-20 (USD 31.60 billion).
    - Total FDI inflow **grew by 55%,** i.e. from **USD 231.37 billion in 2008-14** to **USD 358.29 billion in 2014-20.**
  - **FDI equity inflow** (one of the three components of FDI) received during April to August, 2020 was USD 27.10 billion. It is **also the highest ever for the first 5 months** of a financial year and **16% more** compared to the first five months of 2019-20 (USD 23.35 billion).
  - **Measures taken by the Government** on the fronts of **FDI policy reforms, investment facilitation** and **ease of doing business** have resulted in increased FDI inflows into the country.
    - According to the World Investment Report 2020 by the UNCTAD, **India was the 9th largest recipient of FDI in 2019.**
- **Government Measures to increase FDI:**
  - In 2020, schemes like production-linked incentive (PLI) scheme for electronics manufacturing, have been notified to attract foreign investments.
  - In 2019, the Central Government **amended FDI Policy 2017,** to permit **100% FDI under automatic route in coal mining activities.**
  - Further, the government **permitted 26% FDI in digital sectors.** The sector has particularly high return capabilities in India as favourable demographics, substantial mobile and internet penetration, massive consumption along with technology uptake provides great market opportunity for a foreign investor.
  - **FDI in manufacturing** was already under the **100% automatic route,** however in 2019, the government clarified that **investments in Indian entities engaged in contract manufacturing is also permitted under the 100% automatic** route provided it is undertaken through a legitimate contract.
    - **Contract Manufacturing:** Production of goods by one firm, under the label or brand of another firm.
  - **Foreign Investment Facilitation Portal (FIFP)** is the online single point interface of the Government of India with investors to facilitate FDI. It is **administered by the**

Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.

- **Increase in FDI Inflows is further Expected:**
    - As foreign investors have indicated interest in the **government's moves to allow** private train operations **and bid out airports.**
        - In March 2020, Government **permitted** non-resident Indians (NRIs) to acquire up to 100% stake in Air India.
    - Valuable sectors such as **defence manufacturing** where the government **enhanced the FDI limit under the automatic route from 49% to 74%** in May 2020, could also attract large investments going forward.

Foreign Direct Investment

- FDI is the **process** whereby residents of one country (the home country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country).
    - It is **different from Foreign Portfolio Investment** where the foreign entity merely buys stocks and bonds of a company. FPI **does not provide the investor with control over the business.**
- **Flows of FDI** comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise.
- FDI has **three components,** viz., equity capital, reinvested earnings and intra-company loans.
    - **Equity capital** is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
    - **Reinvested earnings** comprise the direct investors' share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
    - **Intra-company loans or intra-company debt transactions** refer to short- or long-term borrowing and lending of funds between direct investors (or enterprises) and affiliate enterprises.
- **Routes through which India gets FDI:**
    - **Automatic Route:** In this, the foreign entity does not require the prior approval of the government or the RBI.
    - **Government route:** In this, the foreign entity has to take the approval of the government.
        - The **Foreign Investment Facilitation Portal (FIFP)** facilitates the single window clearance of applications which are through approval route.

Way Forward

- Foreign Direct Investment (FDI) is a **major driver of economic growth** and an **important source of non-debt finance** for the economic development of India. A **robust and easily accessible FDI regime, thus, should be ensured.**
- Economic growth in the post-pandemic period and India's large market shall continue to attract market-seeking investments to the country.

Source: TH