

# India: The Inward and Outward Foreign Direct Investment

Dr. Esin Yurdagul

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By:

**Dr. Esin Yurdagul**

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**DEDICATION**

**Dedicated to India and My Homeless Cats**

## **Preface**

Foreign direct investment has a very crucial role in global businesses. Beyond global businesses, local inward and outward foreign direct investments have also considerably become significant in developing countries. Among others, India has experienced rapid and excessive economic development and a remarkable increase in the inward foreign direct investments into the country and outward foreign direct investments made by Indian firms. Since last year, I have focused on writing this book in order to provide a different perspective on the historical trajectory of both inward foreign direct investments into the country and outward foreign direct investments made by Indian firms through the quantitative and qualitative method of research.

## **Acknowledgement**

I would like to sincerely thank for the support that was provided by Prof. Rakesh Mittal, Mr. Belal Shaikh, Dr. Akhter Alam, and the Commonwealth Vocational University. In addition, I would like to express my heartfelt gratitude to my dearest parents for being the sunshine in my life. By the time that I wrote my book, I acknowledged the authors and sources in an appropriate manner and credited all of them through proper citation in a meticulous manner. Due to the book sales, I will be able to keep more and more homeless animals off the streets and out of danger. I would like to heartily wish the readers have a happy and healthy life and thank them beforehand for buying and reading my book.

## Table of Contents

<b>Dedication</b>	<b>IV</b>
<b>Preface</b>	<b>V</b>
<b>Acknowledgement</b>	<b>VI</b>
<b>Table of Contents</b>	<b>IX</b>

<b>Title of the chapter</b>	<b>Page No.</b>
<b>INTRODUCTION</b>	1 – 5
<b>ABBREVIATIONS</b>	6 – 13
<b>CHAPTER 1</b>	14 - 29
<b>CHAPTER 2</b>	30 – 38
<b>CHAPTER 3</b>	39 – 67
<b>CHAPTER 4</b>	68 – 101
<b>CHAPTER 5</b>	102 – 123
<b>CHAPTER 6</b>	124 – 137
<b>CHAPTER 7</b>	138 – 154
<b>CHAPTER 8</b>	155 – 175
<b>CHAPTER 9</b>	176 – 183
<b>CHAPTER 10</b>	184 – 195
<b>BIBLIOGRAPHY</b>	196 - 221

# **INTRODUCTION**

The role of foreign sector investment (Rani, 2015) or foreign direct investment (hereafter FDI), which include inward or inbound FDI (IFDI); or inward or inbound direct investment (IDI); or FDI inflows and outward or outbound or overseas FDI (OFDI); or outward or outbound or overseas investment destinations (OID(s)); outward or outbound or overseas direct investment (ODI); or FDI outflows, in global businesses is crucial enough to definitely ascertain whether a particular country is affected by new market trends or marketing channels. Therefore, over the last two decades, local (I/O)FDI has also become tremendously and remarkably important and significant in developing countries. In this regard, among the developing countries, the Asian countries have acquired a large share of IFDIs over the past three decades. Especially, IFDIs into South Asia were closely related to a many fold increase in the investment that was made by national investors. This should be viewed as an important characteristic of striving to continuously achieve growth and development among those countries, and thus to hold the attention of economic impact of not only IFDIs but also OFDIs in South Asian countries. (Sharma, R. & Kaur, 2013; Rani, 2015) Among others, Indian economy is developing in a very rapid and excessive manner and may inevitably be regarded as incredible indicator. At the present times, it has transformed into the 5<sup>th</sup> largest economy in the world, one of the most developed economies on the continent of Asia, the largest country of South Asia and the seventh-largest country in the world by area (Library, 2020), and the volume of IFDIs into India and OFDIs by Indian firms has increased in a considerable manner and has become a significant factor in an increasing manner (Ibrahim & Muthusamy, 2014) and continually remained a preferred and attractive destination for global (I/O)FDIs, yet it is certain that the country is in possession of the potential to attract far more foreign investment (FI) that may be achieved inter-alia by further the liberalization and simplification of the (I/O)FDI policy regime.<sup>1</sup> (Ibrahim & Muthusamy, 2014; UNCTAD, 2019a; PIB et al., 2019; Library, 2020) Prior to the 1990s, macro-economic, trade and industrial policies in India were very restrictive. This resulted in the inward-oriented nature of Indian businesses which frequently caused them to seek to be protected from IFDIs into the country (or FDI flows into India or inflows of FDI to India) and imports. (Chaudhry, D. et al., 2018) Economic reforms adopted and implemented in the 1990s modified the Indian macro-economic environment in a deep manner, and led India to become one of the prominent performers of global economies, the fastest growing economy in the world, the largest economy with regard to industrial output, and the largest pool of scientific and technical manpower. (Hooda, S., 2011) Since 1991, India has continually liberalized its economy, its general direction has continued in the same state, the policy measures taken by the government of India or Indian government (GOI) has led IFDIs to have increased manifold without regard to the fact that the ruling party let the Indian economy a better transition from a closed economy that might be characterized by extensive regulation, protectionism, public ownership which results in pervasive corruption and slow growth from 1950s until 1990s to a market-based system by becoming more open to both IFDIs into the country and OFDIs made by Indian firms than ever as there exists a growing consensus and commitment among political parties to pursue liberal FI policies that lead to attract steady IFDIs into the country in order that sustained economic growth can be accomplished (Hooda, S., 2011), and has caused an exponential increase in the magnitude of OFDIs by Indian firms and alteration in the

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<sup>1</sup>The World Investment Report (WIR), which was released by the United Nations Conference on Trade and Development (UNCTAD) in 2019, indicated that global (I/O)FDIs slid by 13 per cent of global (I/O)FDIs and amounted US\$ 1.3 trillion in 2018, and thus the dim global picture demonstrated that this was the 3<sup>rd</sup> consecutive annual decline in (I/O)FDIs, which amounted US\$ 1.5 trillion in the previous year. (UNCTAD, 2019a; PIB et al., 2019)

geographical focus and sectoral composition of such flows. (Hooda, S., 2011; Chaudhry, D. et al., 2018)

Therefore, since the year 1991, reforms that have significantly been adopted and implemented in trade policy had been involved in not only IFDI but also OFDI policies. According to the trend analysis in direct investments over the past decade, both IFDIs and OFDIs became rather muted during the early part of the decade, yet they maintained and increased momentum during the latter half. (IBEF, 2020a) (I/O)FDI policy reforms included instituting automatic approval route for IFDI proposals and gradually enhancing its scope to newer industries, permitting majority foreign ownership levels in overwhelming cases of industries (i.e., the general restriction of 40 per cent of foreign ownership that was imposed by the Foreign Exchange Regulation Act (FERA) has been abolished and foreign ownership up to 100 per cent is permitted in the greatest number of the industries aside from a small list of industries that are exposed to sectoral caps), opening up new sectors to FI (i.e., such new sectors are involved in mining, oil and gas, banking, insurance, telecommunications, ports and harbours, roads and highways, airlines, defence equipment and scientific journals), providing national treatment to foreign firms, and successive dismantling of performance requirements that were imposed on foreign firms (i.e., the performance requirement in the form of phased manufacturing programme was removed for all new projects way back between the years 1991 and 1992). One can also witness an increase in total number of foreign collaborations due to policy measures in 1991. It is evident that India could not attract substantial amount of IFDIs into the country from 1991 through 1999 apart from the maximum amount of IFDIs into the country in 1997. Additionally, it is evidently certain that the financial collaborations have progressively exceed the number of technical collaborations since investors are less interested in technical collaborations rather than financial ones. Thus, one can emphasize that this increase in financial collaborations was able to be due to the relaxation that is given by the GOI in the investment norms for financial collaborations. (Hooda, S., 2011)

The percentage of IFDI approval cases that were involved in performance requirement has fallen from 33 per cent in 1991 to just approximately 9 per cent in 2000. (Kumar, N. & Singh, N., 2002; Pradhan, J.P., 2005) The dividend-balancing condition that was imposed on FI up to 51 per cent has been abolished between the years 1992 and 1993 for all non-consumer goods industries and the same has been extended to 22 consumer goods items between the years 2000 and 2001. (Pradhan, J.P. et. al., 2004; Pradhan, J.P., 2005) The GOI has put in place an investor friendly policy on IFDI, under which IFDI up to 100 per cent is permitted on the automatic route in most sectors or activities or industries. The GOI has progressively liberalized (I/O)FDI policy provisions across various sectors to cause India to become an attractive investment destination. Some of the sectors encompasses defence, construction development, trading, pharmaceuticals, power exchanges, insurance, pension, other financial services, asset reconstruction companies (ARCs), broadcasting and civil aviation. For the past five years, such reforms have made a tremendous contribution to India attracting record IFDIs. Total IFDIs into India from 2014 and 2015 to 2018 and 2019 has accounted for US\$ 286 Billion by comparison with US\$ 189 Billion in the 5-year period anterior to that (from 2009 and 2010 to 2013 and 2014). One of the most important and significant fact is that total IFDIs that amounted to US\$ 64.37 Billion (provisional figure) between the years 2018 and 2019 is the highest ever IFDIs that were received for any financial year. (PIB et al., 2019) In the 2000s, firm-level internationalization decisions in case of OFDI gained more attention in the literature on international trade and OFDI became a means to escape from the institutional voids that are encountered by firms in emerging economies (Pradhan, J.P., 2005; Paul, 2012).

The theoretical models that lead to an explanation of the process of internationalization that assumes a focus on firm heterogeneity with regard to productivity (Melitz, 2003; Helpman et al., 2004; Yeaple, 2009), which is portrayed as the determining factor in firm decisions to enter foreign markets, either by dint of OFDI or exports. (Khanna & Palepu, 2006; Melitz, 2003; Helpman et al., 2004; Pradhan, J.P., 2005; Yeaple, 2009; Paul, 2012)

In particular, with the stated support of globalization, due to the policy liberalization measures in trade, investment and technology at multilateral, regional and individual country level, the world economy has become more interdependent (Pradhan, J.P., 2005; Paul, 2012) and OFDI has evidently become an important and significant component of the world's investment flows in an increasing manner. (Pradhan, J.P., 2005; Paul, 2012; Sasidharan & Padmaja, 2018) The increased competitive pressure from an increase in inflow of cheaper imports (*IBEF, 2020a*) and foreign firms has forcefully caused emerging economies like India where private sector firms drive OFDI in a predominant manner (Khanna & Palepu, 2006) to change their business strategy which was hitherto dominated by domestic market-based business expansion and moved towards a strategy of global market-based expansion. Indian firms recognized that they are forced to become more competitive in the global market (*IBEF, 2020a*) and their survival and growth cannot be ensured by domestic market alone in an increasingly liberalizing and globalizing economy. (Pradhan, J.P., 2005; Khanna & Palepu, 2006; *IBEF, 2020a*)

After Indian policy makers had actually acknowledged and noticed a considerable increase in not only expansion in the activities of existing foreign firms but also large scale entry of new foreign firms into Indian market due to the OFDI policies (Pradhan, J.P. et. al., 2004) and the importance of increasing trend of OFDIs by Indian firms due to the market-oriented reforms that have been undertaken by the GOI in the early 1990s, they did not hesitate to take measures to relax the stringent regulatory rules on OFDIs by Indian firms, i.e., removal of OFDI policies hurdles on a global scale, which contained larger opportunities for capable Indian firms with trans-border expansion, lowering the transaction costs (Pradhan, J.P., 2005; Paul, 2012), the abolition of import licensing system, gradual removal of non-tariff barriers (NTBs), major reductions in tariff rates (*IBEF, 2020a*), and the relaxation of the guidelines by the Reserve Bank of India (RBI) for investing overseas by increasing the annual overseas investment ceiling for Indians to set up JVs and WOSs from US\$ 75.000 to US\$ 125.000, etc. (Sasidharan & Padmaja, 2018; Pradhan, J.P. et. al., 2004; Pradhan, J.P., 2005; Paul, 2012; *IBEF, 2020a*)

The aforementioned measures that were taken by the GOI in order to increasingly liberalize its economy led Indian firms to globally expand through OFDI either to gain possession of foreign technology and/or brand name that are/is also deemed as brownfield investments or establish new infrastructure with the view to argue in favor of overseas trade activities that are proposed as greenfield investments. (Chaudhry, D. et al., 2018) Thus, OFDIs by Indian firms have considerably changed in reference to magnitude and geographical spread and sectorial composition. One has observed a perceptible shift in OFDIs by Indian firms over the last decade or so. In the first half, OFDIs by Indian firms were channeled into resource rich countries, which included Australia, United Arab Emirates (UAE), and Sudan; however, in the latter half, OFDIs by Indian firms were directed to countries which provide higher tax benefits, i.e., Mauritius, Singapore, British Virgin Islands, and the Netherlands. Indian firms prefer to invest in foreign shores primarily through Mergers and Acquisitions (M&As) transactions. Along with rising M&A activity, they will get direct access to newer and more extensive markets, and better technologies, which could permit them to increase their customer base and achieve a global reach. (*IBEF, 2020a*) To analyse the impact of economic reforms and (I/O)FDI policy measures on the magnitude of IFDIs into India and OFDIs by Indian firms and the economic development of India, this book will pertinently provide more details on the IFDIs into India and OFDIs by

Indian firms and their distribution across regions and sectors or activities or industries through more quantitative and qualitative information. Chapter 1 will firstly examine a brief history of India, direct investment, FI, definition of FDI, involvement of FDI, making FDI, components of FDI, advantages and disadvantages of FDI, types of FDI, FDI flows, FDI and economic growth, and COVID-19 and FDI.

Chapter 2 will investigate conditions on investment in India, key terms, reasons for the IFDIs into India, approval routes for the IFDIs into India, the actual IFDIs into India and stakeholders, entry routes for the IFDIs into India, and entities for the IFDIs into India. Chapter 3 will historically analyse the evolution of IFDIs into India. Chapter 4 will provide a better understanding of the conditional sectors or activities or industries, permitted sectors or activities or industries, non-permitted sectors or activities or industries or persons, key changes to the Consolidated (I/O)FDI Policy Circular of 2017, which is also known as (I/O)FDI policy 2017, Consolidated (I/O)FDI Policy 2017, Consolidated (I/O)FDI Circular 2017 and was put into effect from August 28, 2017, and the extant (I/O)FDI policy 2019 and 2020. Chapter 5 will examine analysis on financial year-wise IFDIs into India between the years 1990 and 2000 and between the years 2000 and 2020, cumulative IFDIs into India in 2019 and 2020, investing countries and geographical distribution of IFDIs into India, and sectoral composition of IFDIs into India. Chapter 6 will investigate balance of payments (BOPs), current data trend of BOPs, impacts of IFDIs on India, the main obstacles to IFDIs into India, government measures and initiatives, and COVID-19 and IFDIs into India. Chapter 7 will assume a tremendous focus on OFDIs by Indian firms and its historical evolution. Chapter 8 will examine types of OFDIs by firms, entry mode choices of OFDIs by firms, entry mode choices of OFDIs by Indian firms, and geographical distribution and sectoral composition of OFDIs by Indian firms. Chapter 9 will examine finance measures, issues of Indian Multinational Corporations or Companies (MNCs) or Multinational or Multilateral<sup>2</sup> or Multinational Enterprises (MNEs), impacts of OFDIs by Indian firms, motives for the OFDIs by Indian firms, emerging challenges and issues in OFDIs by Indian firms, and government measures and initiatives. Chapter 10 will contain main obstacles in industrial development of India, the development issues involving trade union in India, and further general conclusion of the book.

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<sup>2</sup>According to UNCTAD (Sikarwar, 2019).

**ABBREVIATIONS**

The following list of the standard Abbreviations will be used in the text.

**A**

ACS: Armoured Car Service

AB(s): Authorized Banks

AD(s): Authorized Dealers

ADR(s): American Depository Receipts

AIF(s): Alternative Investment Funds

AIFTA: Association of Southeast Asian Nations (ASEAN)-India Free Trade Agreement

ARC(s): Asset Reconstruction Companies

ASEAN: Association of Southeast Asian Nations

ATM(s): Automatic Teller Machine(s)

**B**

BOD(s): Board of Directors

BEIC: Britain's East India Company

BJP: Bharatiya Janata Party

BIPA(s): Bilateral Investment Promotion and Protection Agreements

BOP(s): Balance of Payments

BPM6: Balance of Payments and International Investment Position Manual

BRIC: Brazil, Russia, India and China

**C**

CA: Capital Account

CAB: Capital Account Balance

CAD: Current Account Deficit

CCEA(s): Cabinet Committee on Economic Affairs

CCWT: Cash and Carry Wholesale Trading

CFC(s): Controlled Foreign Companies

CFH(s): Construction of Farm Houses

CIC(s): Credit Information Companies

CMIE: Centre for Monitoring of Indian Economy

CSR: Corporate Social Responsibility

**D**

DCA(s): Department of Company Affairs

DDP: Department of Defence Production

DEA(s): Department of Economic Affairs

DFS(s): Department of Financial Services

DIA: Direct Investment Abroad

DIPP: Department of Industrial Policy and Promotion

DP(s): Department of Pharmaceuticals

DPIIT: Department for Promotion of Industry and Internal Trade

DR: Department of Revenue

DR(s): Depository Receipts

DRA: Development and Regulation Act

DS: Department of Space

DT(s): Department of Telecommunications

DTAA(s): Double Tax Avoidance Agreements

DTC: Direct Tax Code

DTH: Direct to Home

DTT(s): Double Tax Treaties

## **E**

ECB(s): External Commercial Borrowings

ED: Economic Department

EEFC: Exchange Earners' Foreign Currency

EICB: East India Company of Britain

EME(s): Emerging Market Economies

EMNC(s): Emerging Multinational Corporations or Companies

EMNE(s): Emerging Multinational Enterprises

EPZ(s): Export Processing Zones

ESI: Enforcement of Security Interest

EU: European Union

## **F**

FC(s)(R): Forward Contracts (Regulation)

FCCB(s): Foreign Currency Convertible Bonds

FCNR(s): Foreign Currency Non-Residents

FCNR(s)(B): Foreign Currency Non-Residents (Bank)

FDI: Foreign Direct Investment

FEDCO: Foreign Exchange Department Central Office

FEM: Foreign Exchange Management

FEMA: Foreign Exchange Management Act

FERA: Foreign Exchange Regulation Act

FI: Foreign Investment

FI(s): Foreign investors

FICCI: Federation of Indian Chambers of Commerce and Industry

FIFP: Foreign Investment Facilitation Portal

FII: Foreign Institutional Investment

FII(s): Foreign Institutional Investors

FIPB: Foreign Investment Promotion Board

FM: Finance Minister

FMCG(s): Fast Moving Consumer Goods

FPI: Foreign Portfolio Investment

FPI(s): Foreign Portfolio Investors

FTA: Free Trade Agreement

FTZ(s): Free Trade Zones

FVCI(s): Foreign Venture Capital Investors

FY: Fiscal Year

## **G**

GATT(s): General Agreement on Trade and Tariffs

GDR(s): Global Depository Receipts

GDP: Gross Domestic Product

GFCF: Gross Fixed Capital Formation

GNP: Gross National Product

GOI: Government of India or Indian Government

## **H**

HDFC: Housing Development Finance Corporation

HITS: Head-end-in-the Sky

## **I**

I: Internalization or Internalization Theory or Factors or Advantages

IBRD: International Bank for Reconstruction and Development

IDA: International Development Association

IDI: Inward or Inbound Direct Investment

IEME(s): Indian Emerging Multinational Enterprises

IFC: International Finance Corporation

IFDI: Inward or Inbound Foreign Direct Investment

IFS: International Financial Statistics

II: Invest India

IIC: Indian Insurance Company

IJV(s): Indian Joint Ventures

IMF: International Monetary Fund

IMNC(s): Indian Multinational Corporations or Companies

INR: Indian Rupee

IPO(s): Initial Public Offerings

ISP: Internet Service Provider

IIT(s): Infrastructure Investment Trusts

IRDAI: Insurance Regulatory and Development Authority of India

IT: Information Technology

ITNC(s): Indian Transnational Corporations

IV(s): Investment Vehicles

IVCU(s): Indian Venture Capital Undertakings

## **J**

JV(s): Joint Ventures

## **L**

L: Foreign Locations or Locational Factors or Advantages

LBGB: Lottery Business and Gambling and Betting

LCO(s): Local Cable Operators

LEP: Look East Policy

LLP(s): Limited Liability Partnerships

LNG: Liquefied Natural Gas

LPG: Liberalization, Privatization, and Globalization

## **M**

M&A(s): Mergers and Acquisitions

MBRT: Multi Brand Retail Trading

MCA: Ministry of Civil Aviation

MCA(s): Ministry of Corporate Affairs

MCI: Ministry of Commerce and Industry

MEA(s): Ministry of External Affairs

MFCA(s): Ministry of Finance and Company Affairs

MHA(s): Ministry of Home Affairs

MHFW: Ministry of Health and Family Welfare

MIB: Ministry of Information and Broadcasting

MIGA: Multilateral Investment Guarantee Agency

MNC(s): Multinational Corporations or Companies

MNE(s): Multinational Enterprises

MOD: Ministry of Defence

MOF: Ministry of Finance

MOM(s): Ministry of Mines

MOR(s): Ministry of Railways

MRTP(s): Monopolies and Restricted Trade Practices

MSAA: Manufacturing of Small Arms and Ammunition

MSME(s): Micro, Small and Medium Enterprises

MMSME(s): Ministry of Micro, Small and Medium Enterprises

MSO(s): Multi System Operators

## **N**

NAFTA: North Atlantic Free Trade Agreement

NBFC: Non-Banking Financial Company

NDA: National Democratic Alliance

NEP: New Economic Policy

NER: North East Region

NFIP: New Foreign Investment Policy

NIC: National Informatics Centre

NIP: New Industrial Policy

NITI: National Institution for Transforming India

NLEM(s): National List of Essential Medicines

NRE(s): Non-Resident Entities

NRI(s): Non-Resident Indians

NRO: Non-Resident Ordinary

NTB(s): Non-tariff Barrier(s)

## **O**

O: Ownership-specific Advantages or Comparative Advantages

OCB(s): Overseas Corporate Bodies

OCI(s): Overseas Citizen(s) of India

ODI: Outward or Outbound or Overseas Direct Investment

OECD: Organization for Economic Co-operation and Development

OFDI: Outward or Outbound or Overseas Foreign Direct Investment

OID(s): Outward or Outbound or Overseas Investment Destinations

OID: Overseas Investment Division

OLI: Ownership-Location-Internationalization

ONGC: Oil and Natural Gas Commission

## **P**

PE: Private Equity

PEF: Private Equity Fund

PFRDA: Pension Fund Regulatory and Development Authority

### **PIO: Person of Indian Origin**

PI: Portfolio Investment

PI(s): Portfolio Investors

PMLA: Prevention of Money Laundering Act

PM: Prime Minister

PPP: Point-to-Point Protokol

PS: Private Security

PSA(s): Private Security Agencies

PSA(s)(R): Private Security Agencies (Regulation)

PSACS: Private Security and Armoured Car Service

PSU(s): Public Sector Undertakings

## **Q**

QFI(s): Qualified Foreign Investors

## **R**

RBI: Reserve Bank of India

R&D: Research and Development

REB: Real Estate Business

REBS(s): Real Estate Broking Services

REIT(s): Real Estate Investment Trusts

## **S**

SAARC: South Asian Association for Regional Cooperation

SAFTA: South Asian Free Trade Area

SARFAESI: Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest

SBO: Significant Beneficial Owner

SBPRT: Single Brand Product Retail Trading

SBR: Single Brand Retail

SBRT: Single Brand Retail Trading

SEB: Special Empowered Board

SEBI: Securities and Exchange Board of India

SC(s)(R): Securities Contracts (Regulation)

SEZ(s): Special Economic Zones

SIA: Secretariat for Industrial Assistance

SJM: Swadeshi Jagaran Manch

SOP: Standard Operating Procedure

SPV(s): Special Purpose Vehicles

SR(s): Security Receipts

SRFA(s): Securitization and Reconstruction of Financial Assets

## **T**

TDR(s): Transferable Development Rights

TISPROI: Transfer or Issue of Security by Persons Resident Outside India

TLP: Trade Liberalization Programme

TMG: Technical Monitoring Group

TRAI: Telecom Regulatory Authority of India

## **U**

UAE: United Arab Emirates

UHM: Union Home Ministry

UK/U.K.: United Kingdom

UN: United Nations

UNCTAD: United Nations Conference on Trade and Development

USA/U.S.A/US/U.S.: United States of America or the United States

## **V**

VAT: *Value Added Tax*

VCF(s): Venture Capital Funds

## **W**

WB: World Bank

WBG: World Bank Group

WBG: World Bank Group India

WIR: World Investment Report

WLA(s): White Label Automatic Teller Machines

WLAO(s): White Label Automatic Teller Machines Operations

WOS(s): Wholly-Owned Subsidiaries

WT: Wholesale Trading

WTO: World Trade Organization

# CHAPTER 1

### 1.1. A brief history of India

The history of Indian sub-continent is traced back to both the Indus Valley Civilization (2300-1750 B.C.) and the coming of Aryans that are known as Pre-Vedic and Vedic periods. (Mcintosh, 2008). (Naqvi & Mohmand, 2010) The Indus Valley civilization that is known as one of the oldest civilizations grew well and luxuriantly and was in a period of highest productivity, influence, and excellence during the 3<sup>rd</sup> and 2<sup>nd</sup> millennia B.C., covered more area in northwestern India (CIA, 2019), and further obtained two main cities that are known as Harappa in western Punjab and Mohenjo-Daro on the lower Indus in Sindh, which is now known as the two important provinces of Pakistan. Not only Harappa but also Mohenjo-Daro were considered to be urban grain growing civilizations and it was believed that they had governed by Aryans who originally came from Iran. (Mcintosh, 2008; Naqvi & Mohmand, 2010; CIA, 2019) Approximately 1500 B.C., the Indian sub-continent was infiltrated by Aryan tribes that originally came from the northwest India; moreover, the classical Indian culture was created by their merger with the earlier Dravidian inhabitants. Much of South Asia was united by the Maurya Empire of the 3<sup>rd</sup> and 4<sup>th</sup> centuries B.C. that was at the zenith of their power under Ashoka. In the 4<sup>th</sup> and 6<sup>th</sup> centuries A.D., the Gupta dynasty ushered the Golden Age in India and led to flower Indian science, art, and culture. Over a period of 700 years, Islam has become a dominant religion on the sub-continent. In the 10<sup>th</sup> and 11<sup>th</sup> centuries, India was invaded by Turks and Afghans that set up the Delhi Sultanate. In the early 16<sup>th</sup> century, the Mughal Dynasty that ruled India for more than three centuries was established by the Emperor Babur. In the 16<sup>th</sup> century, footholds in India was initially established by European explorers. It was the 19<sup>th</sup> century when Great Britain<sup>3</sup> became the dominant political power on the sub-continent and India was viewed as the Jewel in the Crown of the British Empire. The British Indian Army had a crucial role in not only World War I but also World War II. Years of non-violent resistance to the British rule; or the British colonial rule (Maddison, 1971) or domination (Müller & Patel, 2004); or the colonial era of Britain (Gautam, A. & Gautam, I., 2014) led by Mohandas Gandhi (1869-1948)-Mahatma Gandhi, byname of Mohandas Karamchand Gandhi, Indian lawyer, politician, social activist, and writer who became the leader of the nationalist movement against the British rule of India (Britannica)- and Jawaharlal Nehru (1889-1964)-studying law in London, the most prominent political leader amongst the young and upcoming socialists (Manish et al., 2015), the first Prime Minister (PM) of independent India (1947-64), a scientist and founder of the Indian Statistical Institute, conceived of and oversaw economic policy of a hybrid nature, involving both state-directed and private-sector efforts (Malone & Chaturvedy, 2009), establishing parliamentary government and becoming noted for his neutralist (non-aligned) policies in foreign affairs (Britannica)- was eventually a cause of Indian independence in 1947. (Britannica; Maddison, 1971; Müller & Patel, 2004; Malone & Chaturvedy, 2009; Gautam, A. & Gautam, I., 2014; Manish et al., 2015; CIA, 2019) Prior to partition in 1947, the Indian sub-continent are comprised of Pakistan, India and Bangladesh; however, today, the three independent countries and nations. (Naqvi & Mohmand, 2010) The Indian sub-continent witnessed large-scale communal violence prior to and in the aftermath of the sub-continent division into two separate states or the neighboring countries-India and Pakistan. In the aftermath of three wars since independence, the last war in the year 1971 led East Pakistan to

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<sup>3</sup>“Great Britain, therefore, is a geographic term referring to the island also known simply as Britain. It is also a political term for the part of the United Kingdom (UK or U.K.) made up of England, Scotland, and Wales (including the outlying islands that they administer, such as the Isle of Wight). The UK, on the other hand, is purely a political term: it is the independent country that encompasses all of Great Britain and the region now called Northern Ireland.” (Cunningham, 2020)

become the separate nation of Bangladesh. In 1998, India conducted nuclear weapons tests, and then fostered boldness and courage in Pakistan to carry out its own tests that same year. In November 2008, terrorists who originated from Pakistan carried out a series of coordinated attacks in Mumbai that is known as the financial capital of India. Despite its pressing problems that include large population, huge territories, abundant natural resources that would permit it to be independent and autarkic (Uegaki, 2009), environmental degradation, extensive poverty, and widespread corruption, India has emerged as a regional and global power and has recently been actively engaging in international trade and international financing, and has recently been swiftly strengthening its involvement in the world economy (Uegaki, 2009) due to economic growth that followed the launch of economic reforms in 1991, a massive youthful population, and a strategic geographic location. (Uegaki, 2009; CIA, 2019; please see, Beveridge, 1862 and 1863; Jackson, 1906; Kosambi, 1964; Chandra, B., 1971; Sharma, R.S., 1977; Chandra, S., 1978; Chandra, B. et al., 1989 and 2000; Kulke & Rothermund, 2002; Thaper, 2002; Robb, 2002; Stein, 2010; Das, B.D., 2011; Walsh, 2011; Davies, 2012)

### 1.2. Direct investment

According to the sixth edition of the BOPs and International Investment Position Manual (BPM6), direct investment is regarded as a category of cross-border investment that is associated with a resident in one economy that assumes control or a significant degree of influence on the management of a firm that is resident in another economy. Aside from the equity which brings about control or influence, direct investment also becomes involved in investment in indirectly controlled or influenced firms, investment in fellow firms, debt, and reverse investment. Direct control or influence may be successfully assumed by owning equity, which increases the occurrence of voting power in the firm, or could be successfully assumed indirectly through acquiring voting power in another enterprise which possesses voting power in the enterprise in question. Immediate direct investment relationships demand for direct ownership of equities that is provided by the direct investor to the extent of 10 per cent or more of the voting power in the direct investment enterprise. If a direct investor possesses more than 50 per cent of the voting power in the direct investment firm, then she or he is deemed as controlling that firm. The existence of a significant degree of influence implies that the direct investor is in possession of between 10 to 50 per cent of the voting power in the direct investment firm. Indirect direct investment relationship comes into being when the investor is in possession of voting power in one direct investment firm which acquires voting power in another firm or firms; for instance, by dint of a chain of direct investment relationships, an entity is permitted to assume indirect control or influence. (RBI, 2010; Shodhganga, 2015) As well as the equity that leads to assume control or influence, direct investment also encompasses investment that is associated with that relationship, such as investment in the firms that are indirectly influenced or controlled, investment in fellow firms where the same direct investor assumes control over, debt with the exception of selected debt, and reverse investment. (WB, 2019c)

### 1.3. Foreign investment

Foreign capital can be acquired either in the form of concessional assistance that is related grants and loans acquired at low rates of interest with long maturity period or non-concessional flows or FI. (Rani, 2015) FI may be regarded as an important economic process during which foreign state and private firms and enterprises<sup>4</sup> invest capital, technology and innovations into

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<sup>4</sup>A parent enterprise is deemed as an enterprise that assumes control over assets of other entities in countries other than its home country, commonly by owning a certain equity capital stake. An equity capital stake of 10 per cent or more of the ordinary shares or voting power for an

the firms of another country. (Ibrahim & Muthusamy, 2014) In general, FI is in the form of private foreign participation in certain sectors of domestic economy. (Rani, 2015) It is very common that the capital flows from developed countries to developing countries. If there exist no (I/O)FDIs then one cannot think of the successful development of modern world economy. In order to gain a financial return, their funds to the economy of other countries that obtain a certain income and develop certain branches of industries of such countries are committed by many countries. The received capital leads the countries to take an opportunity to make as if new again and bring out the possibilities of all required branches of industries, to increase the occurrence of the effectiveness of production and produce competitive goods and services. It is evident that FI is an essential and a preeminent factor in assuming influence over the development of global economy. A channel through which the country can have access to foreign capital is provided by FI that creates many opportunities to host countries to enhance their economic development and opens new vistas opportunities to home countries to optimize their earnings by employing their ideal resources. It is highly essential to both supplement domestic capital and secure scientific, technical and industrial knowledge. As a result of this, the GOI attempted to adopt a liberal attitude through the changes in the allowance for more frequent equity participation to foreign firms, and to receive equity capital in technical collaboration in India offered, especially with gladness and approval. (Ibrahim & Muthusamy, 2014)

#### 1.4. Definition of foreign direct investment

*“The IMF Manual (BPM6) recommends adherence to the 10 per cent threshold limit in equity stake for defining FDI. The present definition being used to classify FDI in India is at variance with this definition (to the extent that the threshold limit of 10 per cent is not strictly adhered to).” (NCAER, 2009; Shodhganga,, 2015)*

FDI is identified as a category of cross-border investment which is associated with a resident in one economy which has control or a significant degree of influence on the management of a firm that is resident in another economy (WB, 2019c), cross-border investment that is made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in a firm (the direct investment firm) that is resident in a country other than that of the direct

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incorporated enterprise, or its equivalent for an unincorporated enterprise, is usually regarded as a threshold for the control of assets. A foreign affiliate is an incorporated or unincorporated enterprise in which an investor, who is resident in another economy, owns a stake that allows a lasting interest in the management of that enterprise (an equity stake of 10 per cent for an incorporated enterprise or its equivalent for an unincorporated enterprise). Foreign affiliates or associates are subsidiary enterprises, associate enterprises, and branches in the WIR: (i) **subsidiary enterprise:** an incorporated enterprise in the host country in which another entity directly owns more than a half of the shareholders' voting power and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body. (ii) **associate enterprise:** an incorporated enterprise in the host country in which an investor owns a total of at least 10 per cent, but not more than a half, of the shareholders' voting power. (iii) **branch:** a wholly or jointly owned unincorporated enterprise in the host country which is one of the following: (a) a permanent establishment or office of the foreign investor; (b) an unincorporated partnership or JV between the foreign direct investor and one or more third parties; (c) land, structures (except structures owned by government entities), and/or immovable equipment and objects directly owned by a foreign resident; and (d) mobile equipment (such as ships, aircraft, gas- or oil-drilling) operating within a country other than that of the foreign investor for at least one year. (UNCTAD, 2000)

investor (OECD, 2008; NCAER, 2009), an investment that involves a long-term relationship and reflects a lasting interest and control of a resident entity in one economy (foreign direct investor or parent firm) in a firm resident in an economy other than that of the foreign direct investor (FDI firm or affiliate firm or foreign affiliate) (UNCTAD, 2000), a major driver of economic growth and a source of non-debt finance for the economic development of the country (PIB et al., 2019), a transfer of funds or materials from one country which is called capital exploring country to another country which is called host country in return for a direct or indirect participation in the earnings of that firm and as a form of long-term international capital movement that is made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm (Ibrahim & Muthusamy, 2014), capital inflows from abroad that invest in the production capacity of the economy and are usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects which are financed by the investors (PCI, 2005; Singh, K., 2005), a venture that is undertaken to acquire a lasting interest and an effective voice in the management of a foreign enterprise (IMF, 1977; Keshari, 2013), a category of cross-border investment in which an investor resident in one economy establishes a lasting interest in and a significant degree of influence over a firm resident in another economy (OECD, 2019a), an investment from a party in one country into a business (or corporation) in another country with the intention of establishing a lasting interest (Corporatefinanceinstitute, 2019), an investment which is made by an individual or an organization of one country into another organization or firm of another country, and also an investment that is made by a firm or individual in one country into business interests located in another country (Chen, J., 2019). (IMF, 1977; UNCTAD, 2000; PCI, 2005; Singh, K., 2005; OECD, 2008; NCAER, 2009; Keshari, 2013; Ibrahim & Muthusamy, 2014; OECD, 2019a; WB, 2019c; PIB et al., 2019; Chen, J., 2019; Corporatefinanceinstitute, 2019)

Both the International Monetary Fund (IMF) and the Organization for Economic Co-operation and Development (OECD) defines FDI as direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in a firm that is resident in another economy (the direct investment firm). (Duce, 2003) Furthermore, the IMF respectively identifies it as part of his or her stock portfolio if an investor owns less than 10 per cent. (Amadeo, 2019a)

In general, FDI happens when an investor establishes foreign business operations or acquires foreign business assets, such as establishing ownership or controlling interest in a foreign firm (Chen, J., 2019), when an organization wants to expand into another country or want to have a lasting interest in the firm of another firm (Wallstreetmojo, 2019), when a firm owns another firm in a different country, and when an individual or business owns 10 per cent or more of a foreign firm. (Chen, J., 2019; Wallstreetmojo, 2019; OECD, 2019a) FDI is different from foreign portfolio investment (FPI), in which an investor merely purchases equities of foreign-based firms (Chen, J., 2019), investors passively hold securities from a foreign country (Corporatefinanceinstitute, 2019), or firms simply put their money into assets in another country. FDI leads foreign firms to directly become involved in with day-to-day operations in the other country. This demonstrates that they are not just bringing money with them, but also knowledge, skills and technology. (Chen, J., 2019; Corporatefinanceinstitute, 2019; Ecnmy, 2019)

Furthermore, FDI, as distinguished from PI, is in possession of the connotation of setting up a lasting interest that implies the existence of a long-term relationship between the direct investor and the direct investment firm and a significant degree of influence on the management of the

latter (Duce, 2003) in a firm being resident in an economy other than that of investor. (Duce, 2003; Rani, 2015)

### **1.5. Involvement of foreign direct investment**

FDI suggests that a significant degree of influence on the management of the firm resident in the other economy is exerted by the investor. Individuals as well as business entities might undertake FDI. It is frequently known that FDI becomes involved in not only the initial transaction, which establishes the relationship between the investor and the firm between the two entities (Duce, 2003), but also all subsequent capital transactions between them and among foreign affiliates (UNCTAD, 2000), which are firms that are in a direct investment relationship, not only incorporated but also unincorporated. (UNCTAD, 2000; Duce, 2003) It is also often concerned in facilitating international trade and transfer of knowledge, skills and technology (PCI, 2005; Singh, K., 2005) and provisions of management, technology, and more than just a capital investment. The major characteristics of FDI is that it creates either effective control of, or at least substantial influence over, the decision-making of a foreign business. (PCI, 2005; Singh, K., 2005; Chen, J., 2019) It is predominantly included in any long-term investments by an entity that is not a resident of the host country. Commonly, the investment is over a long duration of time and the idea is to make an initial investment and then subsequently keep investing to leverage the advantages of the host country which could be in the form of access to better (and cheaper) resources, access to a consumer market or access to talent specific to the host country, which increase the occurrence of the enhancement of efficiency. (Gautam, A. & Gautam, I., 2014) FDI can be considered a major component in international economic integration since it leads to stable and long-standing connections between economies, a significant channel for the transfer of technology between countries, encouragement for international trade through access to foreign markets, and important vehicle for economic development. The indicators becoming involved in this kind of group are inward and outward values for stocks, flows, and income, by partner country and by industry and FDI restrictiveness. (OECD, 2019a)

### **1.6. Making foreign direct investment**

If a firm of a different country makes FDIs in the business of another country or attempts to expand its horizon in another country, two things becoming significant and crucial are as follows: (i) one is how they should build up their business or influence to generate enough revenue in a foreign country; and (ii) another is what would be the most profitable methods of FDI. FDIs are widely made in open economies which provide a skilled workforce and above-average growth prospects for the investors (as opposed to closely regulated economies) (Chen, J., 2019), and further government support and encouragement. (Chen, J., 2019; Wallstreetmojo, 2019) The traditional FDI theory places a high value on the ownership specific competitive advantages (i.e., technological, managerial, reputational, etc.) of the investing firms as a key to employ to the greater possible advantage in foreign locations. But, the internalization theory of FDI (Buckley et al., 1976; Hennart, 1991b) argued and asserted that firms greatly desire to expand their activities on the line of foreign locations, being efficiency seekers are considerably prone to lead to the reduction in the transaction costs of cross-border activities. Furthermore, this notion of transaction costs is reconciled and resolved by the Ownership-Location-Internationalization (OLI) theory of John Dunning (1980, 1981a, and 1988) or the OLI framework or the eclectic paradigm which is given by Dunning (2000). (Buckley et al., 1976; Dunning, 1980, 1981a, and 1988; Hennart, 1991b; Dunning, 2000) In essential, the OLI gives an explanation of what leads to a firm more outward-oriented (Dunning, 2000) and suggests that FDI is a result of firms that are in possession of ownership-specific advantages (**O**) or comparative advantages such as proprietary knowledge, access to finance, etc. (Hennart, 1991a;

Makino & Neupert, 2000; Dunning, 2000) that include proprietary knowledge, access to finance, etc. (Dunning, 2000) that they are highly inclined to employ the greatest possible advantage in foreign locations (**L**) or the locational factors or advantages when particular locations are more replete with certain resource than others (Hennart, 1991a; Makino & Neupert, 2000; Dunning, 2000) that they do by dint of internalization (**I**) or the internalization theory or factors or advantages that derives from the transaction cost theory indicates that if the net benefits, which are gained from internalizing cross-border intermediate product markets, are high, the more likely the firm is to operate abroad (Dunning, 2000; Kathuria, 2010). Even if such theories of FDI was developed in a large manner and was attributed to the experiences of developed countries, it can still lead to the good explanation of the motivational factors behind the trans-border expansion of firms of developing countries (Dunning, 1981b; Lall, S., 1983). In accordant with the literature, the MNCs of developing world that is concerned with **O**, will be inclined to be in possession of advantages that are less advanced, are commonly associated with products in the mature phases of the product cycle, and are primarily related to low cost production, natural resources extraction, and an ability to cater to low margin markets. As regards **L**, MNCs will, due to the consequence of their **O**, be inclined to place a high premium on their activities in countries at the same or lower stages of economic development (Dunning et al., 1986). With regard to **I**, MNCs will be inclined to show preference for joint ventures (JVs) to gain access to local market knowledge, technology, and capital, and hence they may pay compensation for their inherent resource limitations (Lecraw, 1981). (Lecraw, 1981; Dunning, 1981b; Lall, S., 1983; Dunning et al., 1986; Hennart, 1991a; Makino & Neupert, 2000; Dunning, 2000; Kathuria, 2010; Paul, 2012)

There exist several kinds of ways through which FDI is made; but, the most prominent methods of FDI are greenfield investments where a great number of firms in foreign countries attempt to start everything from scratch or zero, they would train people to work in their factory or organization, and they would try to provide offerings as per the culture of the country, or they would build up their own factory in a different country, if they become involved in FDI (i.e., both McDonald and Starbucks started everything from scratch and they are now the prominent brands in India) and brownfield investments, a short-cut method of greenfield investments, where the foreign businesses do not want to take the pain of building up to something from scratch in another country and they expand their business by either going for cross-border M&As (i.e., the acquisition of Jaguar by Tata Motors, which is a part of Tata Group which is known as the the Mumbai-based firm (Karnik & Balachandran, 2016)). (Karnik & Balachandran, 2016; Wallstreetmojo, 2019)

Other methods are summarized as follows: (i) by opening or starting a subsidiary or associate firm of a domestic firm in a foreign country or incorporating a wholly or fully-owned subsidiary (WOS) or firm anywhere (Rani, 2015); (ii) by acquiring a controlling interest in an existing foreign firm, voting stock in a foreign firm, or shares in an associated firm that makes a merger or acquisition of an unrelated firm or enterprise (Rani, 2015) activity or participating in an equity JV with another investor, or a foreign firm (Chen, J., 2019); (iii) by expanding business of anyone into a foreign country, or gaining possession of a lasting interest that is different from FPI and that happens any foreign investors (FIs) has 10 per cent or more ownership of the voting power in the organization of another country according to per guidelines established by OECD (Wallstreetmojo, 2019). Furthermore, the threshold for a FDI that establishes a controlling interest or lasting interest is a minimum 10 per cent ownership stake in a foreign-based firm or more of the voting power in a firm in one economy by an investor in another economy (OECD, 2019a). The element of control that is a representation of the intent to actively manage and influence the operations of a foreign firm is portrayed as the key to FDI.

This is the main difference between FDI and a passive FPI. Owing to this reason, a 10 per cent stake in the voting stock of foreign firm is an imperative for the definition of FDI; but, there are cases and instances where this criterion has not always been applied, i.e., effective controlling interest in a firm is permitted to be established with less than 10 per cent of the voting shares of firm (Chen, J., 2019) and it is possible to exert control over more widely traded firms despite owning a smaller percentage of voting stock. (Rani, 2015; Chen, J., 2019; Wallstreetmojo, 2019; OECD, 2019a; Corporatefinanceinstitute, 2019) A 10 per cent ownership does not lead a controlling interest to be given to the investor. It does enable impact on the management of firm, operations, and policies. Owing to this reason, governments track people who make investments in the businesses of their country. (Amadeo, 2019a) The World Bank (WB) staff estimates that utilize data from the UNCTAD and official national sources provide a supplement to FDI data. (WB, 2019c)

### **1.7. Components of foreign direct investment**

Components of FDI are identified by the Technical Monitoring Group (TMG) was constituted by Department of Industrial Policy and Promotion (DIPP) with the representatives from RBI, DIPP, Department of Economic Affairs (DEA), Department of Company Affairs (DCA) and National Informatics Centre (NIC) in order to acquire speedy implementation of the recommendations made by the Committee on Compilation of FDI. TMG also recognized the identity of the below-mentioned 14 items, which are required to become involved in FDI statistics with the view to make the data internationally comparable. (DIPP, 2003) Three components in FDI that include the below-mentioned 14 items might be summarized as follows: (i) re-invested earnings; (ii) equity capital; (iii) and other capital or intra-company loans or intra-company debt transactions. (UNCTAD, 2000 and 2007)

#### **1.7.1. Re-invested earnings**

Reinvestment of earnings arises from an equity of a direct investor in its direct investment enterprise and is recorded as an imputed financial account entry. (NCAER, 2009; RBI, 2010) It is comprised of the share of direct investor (in proportion to direct equity participation) of earnings that is not distributed as dividends that are provided by affiliates or earnings that are not remitted to the direct investor. These kinds of retained profits, which are provided by affiliates, are reinvested. (UNCTAD, 2000 and 2007) The three items also recognized by TMG might be summarized as follows: (i) re-invested earning of incorporated entities; (ii) re-invested earning of unincorporated entities; and (iii) re-invested earnings of indirectly held direct investment enterprises. (DIPP, 2003) It also serves as a representation of the difference between the profit of a foreign firm and its distributed dividend, and hence serves as a representation of undistributed dividend. It covers re-invested earnings of incorporated and unincorporated entities as well as re-invested earnings of indirectly held direct investment enterprise and is included as part of FDI (credit) in the financial account with a corresponding contra entry in the investment income component of the current account (debit). One can observe positive or negative reinvestment of earnings in some cases (i.e., in cases where losses by the direct investment enterprise or dividends payable in a period are larger than net earnings in that period). While positive re-invested earnings are deemed as an injection of equity into the direct investment enterprise by the direct investor, negative re-invested earnings are regarded as a withdrawal of equity. (NCAER, 2009; RBI, 2010; Shodhganga, 2015) The change in the reporting practice which established new items, particularly re-invested earnings of the already introduced ones, contributed to the reported higher total IFDIs in a significant manner. In India, the international practice of reporting IFDIs data was adopted and the information for the year 2000 and 2001 onwards was publicly declared.

*“Till then re-invested earnings and other capital provided by foreign direct investors were not being reported as part of the inflows data. Thus the reported inflow figures have better comparability for the 2000 and 2001 onwards and the earlier figures suffer from a degree of underestimation. This was introduced following the recommendations of the RBI Committee on Compilation of FDI in India, October 2002.” (Shodhganga, 2011)*

### **1.7.2. Equity capital**

Equity capital is deemed as the foreign direct investor's purchase of shares of an enterprise in a country other than its own. (UNCTAD, 2000 and 2007) Additionally, it is comprised of equity that is recognized by TMG: (i) in unincorporated entities; (ii) non-cash acquisition against technology transfer, plant and machinery, goodwill, business development and similar considerations; (iii) control premium; and (iv) non-competition fee. (DIPP, 2003; NCAER, 2009) Furthermore, equity FDI is sub-divided into two components: (i) greenfield investment; and (ii) acquisition of shares that is also known as M&As. It may also comprise brownfield investment which can be regarded as a representation of a hybrid of greenfield and M&A FI. This kind of investment appears as M&A in a formal manner, although its effect resembles greenfield investment. In brownfield investment, the FIs endeavor to be in possession of a firm and to undertake near-complete renovation of plant and equipment, labour and product lines. (UNCTAD, 2000; Shodhganga, 2015)

### **1.7.3. Other capital or intra-company loans or intra-company debt transactions**

Other capital is deemed as the inter-company debt transactions of FDI entities. (NCAER, 2009) It is comprised of the seven items which are also recognized by TMG: (i) short- or long-term borrowings and lending of funds between direct investors (parent enterprises) and affiliate enterprises (UNCTAD, 2000 and 2007); (ii) trade credit; (iii) suppliers credit; (iv) financial-leasing; (v) financial derivatives; (vi) debt securities; and (vii) land and buildings. (UNCTAD, 2000; DIPP, 2003; UNCTAD, 2007; NCAER, 2009; Shodhganga, 2015)

## **1.8. Advantages and disadvantages of foreign direct investment**

### **1.8.1. Advantages of foreign direct investment**

It is perceived that the developing economies can reap benefits from FDI in various different ways that can be summarized as follows: (i) they are allowed to make an addition to their scarce financial resources for domestic investments in the local market; (ii) they are allowed to add an augment to their foreign exchange earnings by tending toward an increase in exports by means of the assistance of the world-wide network of the MNCs that may be viewed as the vehicles of FDI; (iii) they are allowed to create their own advanced technology and improved managerial skills that are hardly open to these kinds of countries; (iv) they are allowed to lead to the improvement of competition and overall efficiency in the domestic economy through the entry of new foreign firms or more investment in the existing firms and considerably reducing the scope for rent-seeking by the protected local firms; and (v) they are allowed to increase the occurrence of the additional employment opportunities for their human as well as material resources. (Keshari, 2013) It is also evident that FDI provides some advantages to the beneficiaries, such as the global economy, the investors, i.e., market diversification, tax incentives, lower labor costs, preferential tariffs, and subsidies and the foreign host country or recipients, i.e., economic stimulation, development of human capital, increase in employment, and access to management expertise, skills, and technology. (Corporatefinanceinstitute, 2019) Capital goes to the well-run businesses that aim for the best growth prospects anywhere across the globe. Due to the best return with the least risk sought by the investors, businesses can run very well regardless of race, color, creed, a competitive advantage, religion, or politics. It leads to the reduction in the effects of politics, cronyism, and bribery and to the smartest money that give a reward for the best businesses across the globe. Their goods and services deliver and

distribute to the market faster than without unrestricted FDI. (Amadeo, 2019a) The long-term relationship between the investor and the host country provides many benefits to not only the investor but also the host country. The investors drive a benefit from receiving higher returns for their investments than they would have gotten for the same investment in their country. (Gautam, A. & Gautam, I., 2014)<sup>5</sup> Their holdings outside of a specific country, industry, or political system are diversified by FDI. Return without an increase in risk will always be derived from diversification. Besides, even if FDI is also commonly a long-term commitment (Ecnmy, 2019) and takes longer to emerge as an important vehicle, it has more long-lasting footprint in a foreign country and countries, which make an FDI, do not have to worry as much about foreign firms coming or leaving overnight (the way they do with super short-term investments or hot money) (Ecnmy, 2019). FDI offsets the volatility that is established by hot money when an asset bubble is created by short-term lenders and currency traders who invest lots of money all at once, then sell their investments just as fast. As a result, this may lead a boom-bust cycle destroying economies and causing the end of political regimes to be created. (Ecnmy, 2019; Amadeo, 2019a) For host countries or recipient countries or businesses, these kinds of benefits are chiefly related to economic reasons (Corporatefinanceinstitute, 2019), best practices management, accounting, or legal guidance from their investors will be received and the latest technology, operational practices, and financing tools can be incorporated by them, and also the adaptation of such practices lead them to enhance their lifestyles of employees and to raise the standard of living for more people in the host country. (Corporatefinanceinstitute, 2019; Amadeo, 2019a) Additionally, the host country might gain benefits by the increased know-how or technology transfer to its workers, increased pressure on its domestic industry to compete with the foreign entity thus leading the industry to improve as a whole or by owning a demonstration impact on other entities which think about investing in the host country. (Gautam, A. & Gautam, I., 2014)

Moreover, local economies can also be strengthened by FDI by creating new jobs (i.e., FDI is responsible for creating around 2 Million new jobs a year in developing countries) and boosting government tax revenues. Additionally, over longer periods of time FDI might own big positive spillover effect. Things like training workers or building physical infrastructure might merely provide benefits for the firm at first; however, as jobs are changed by workers and one finds new uses for the infrastructure, the rest of the economy might also gain benefit. (Ecnmy, 2019) Advantages for FDI in India can be summarized as follows: (i) deep-rooted and highly effective democratic regime that assures a calm and stable political environment; (ii) well-developed administration and an independent judicial system, in company with a vast geography that makes the country a repository of resources; (iii) educated, hard-working and skilled work-force, i.e., engineers, management staff, accountants, and lawyers; (iv) host country of an ever-growing consumer base that makes it one of the world's largest markets for manufactured goods and services; (v) proximity to key manufacturing sites, key suppliers and low development costs whose factors make it an effective base from which MNCs can export to other high-growth emerging markets; and (vi) among emerging market multinationals, the top ranking Indian firms as ranked by Transparency International with regard to transparency and compliance. (Santandertarde, 2019; please see, Moran, 2005; GTZ, 2009; Kurtishi-Kastrati, 2013a)

### 1.8.2. Disadvantages of foreign direct investment

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<sup>5</sup>For the individual investors or businesses, most of such benefits are based upon cost cutting and lowering risk. (Corporatefinanceinstitute, 2019)

Notwithstanding the advantages offered by FDI, two major disadvantages to FDI might still be summarized as follows:

- i. **Displacement of local businesses:** FDI gives a reward to the best firms in any country across the globe. Thus, consequently, it leads to the reduction in the impact forces of local governments on them. (Amadeo, 2019a) Anytime foreigners purchase firms that assume control over important parts of the economy, it is inevitable that they will be exposed to a small number of the really difficult thorny issues. Allowing foreign firms assume control over major industries, such as telecommunications or transportation can likely lead to difficult and full of obstacles and problems down the road. (Ecnmy, 2019) For instance, Walmart is often criticized for driving out local businesses that cannot compete with its lower prices (Corporatefinanceinstitute, 2019).
- ii. **The messy politics of FDI:** International corporations assume lots of power, and they will only assent to the request for the investments in a foreign country in lots of cases if they acquire big government bonuses, like tax breaks or free land. And as soon as foreign firms are established, they could become a permanent force in local politics. Lots of countries actually prefer to make an FDI, particularly when the flows from rich countries into poorer countries occurs. The idea is that when international firms invest in a foreign country, they can probably be subject to either a drastic rearrangement or reorganization of an existing industry, since they are organizing competition for the domestic firms that already exist, or can increase the occurrence of entirely new industries. (Ecnmy, 2019) For that reason, it is recommended that countries not enable the foreign ownership of firms in strategically important industries since an IMF report reveals that **O** of the nation could be lowered by that.
- iii. **Profit repatriation** (i.e., in the case of profit repatriation, the primary concern is that firms will not reinvest profits back into the host country). (Corporatefinanceinstitute, 2019) It might easily be seen that people also feel uneasy and concerned about where the profits of a foreign owned firm will go. The local economy might gain benefit from the initial FI; however, provided that the firm sends all the profits to investors in another country for years on end, that would be able to be a drag on the local economy in the long run. (Ecnmy, 2019)

As the recipient firm is beneficial from the investment, it can be obliged to pay higher taxes. It is regrettable that this benefit is offsetted by a considerable number of nations by providing tax incentives to attract FDI. The business of its value without adding any might be stripped by FIs who could achieve sales of unprofitable portions of the firm to local, less sophisticated investors and use the collateral of firm to gain low-cost local loans. As an accepted alternative to reinvest it, they could lend the funds back to the parent firm, i.e., trade agreements are a powerful way for countries to encourage more FDI.

The North Atlantic Free Trade Agreement (NAFTA), the largest free trade agreement (FTA) of the world, make an increase in FDI between the United States of America (USA or U.S.A. or US or U.S.), Canada, and Mexico to US\$ 452 Billion in 2012; however, that was just one of advantages that are gained by NAFTA. (Ecnmy, 2019; Corporatefinanceinstitute, 2019; Amadeo, 2019a) This leads to large capital outflows from the host country, and thus a great number of countries have regulated to limit FDI. (Corporatefinanceinstitute, 2019)

However, in general, international organizations being pleasing to the IMF and the WB are to the greatest extent furnishing the maximum support for FDI, and it is very likely that the

greatest number of economists assume that it does more good than harm. Still, there exist also a large number of instances of FDI that has gone wrong. And even when it goes well there are bound to be both winners and losers. (Ecnmy, 2019; please see, Moran, 2005; GTZ, 2009; Kurtishi-Kastrati, 2013a)

### **1.9. Types of foreign direct investment**

FDI are categorized into the following types: (i) horizontal; (ii) vertical; (iii) conglomerate; (iv) platform; (v) inward; and (vi) outward.

#### **1.9.1. Horizontal foreign direct investment**

A horizontal FDI is known as the most common kinds of FDI and is regarded as the investor establishing or expanding the same type of domestic business operation in a foreign country as it operates or conducts in its home country, i.e., a cell phone provider that is based in the USA, and also opens stores in China (People's Republic of China) or McDonald's that opens restaurants in Japan would be referred to as horizontal FDI. (Chen, J., 2019; Ecnmy, 2019) To be more precise, the investor, a firm, or a business attempts to merge with another firm of another country to become stronger in the market and the products or services provided are of a homogeneous nature. It is made first to have a piece of market share in the foreign market and next to reduce competition. (Wallstreetmojo, 2019) Such FDI is also known as primary FDI where firm seeks to perform same business (i.e., production, sales, promotional, etc.) activities in foreign country as it does in home country, i.e., Ford, which is known as a giant automobile firm, assembles same product line (cars) in India or any other country as it does in USA. (Khan, A.H. & Faisal, 2018)

#### **1.9.2. Vertical foreign direct investment**

A vertical FDI is one where different but still related to the main business activities performed or conducted by the major business of investor are established acquired in a foreign country or are expanded into a foreign country through a different level of supply chain, such as when a manufacturing firm acquires an interest in a foreign firm that supplies parts or raw materials required for the manufacturing firm to make its products (Chen, J., 2019) or when a firm of one country acquires or merges with another firm of different country just to add more value to their value chain (Wallstreetmojo, 2019), i.e., McDonald's could purchase a large-scale farm in Canada to produce meat for their restaurants (Ecnmy, 2019) or if a firm invests in a foreign firm just to have a supplier producing raw materials for them, it would be a vertical FDI (Wallstreetmojo, 2019). This is not considered to be the same as horizontal FDI because a kind of international integration in such FDI occurs in not only forward but also backward form of vertical FDI, i.e., it is possible that Ford takes major stakes in some tyre firms or even manufacturing tyres in India or a country concerned. (Khan, A.H. & Faisal, 2018; Chen, J., 2019; Wallstreetmojo, 2019; Ecnmy, 2019)

#### **1.9.3. Conglomerate foreign direct investment**

A conglomerate FDI is one in which a firm or individual acquires a FI in a business that is unrelated to its existing business in its home country. This is also uncommon as it requires overcoming two barriers to entry: entering a foreign country and entering a new industry or market. (Ecnmy, 2019) Because this kind of investment becomes involved in entering an industry where the investor has no previous experience, it often takes the form of a JV with a foreign firm already operating in the industry (Chen, J., 2019), i.e., Virgin Group, which is based in the UK, acquired a clothing line in France (Ecnmy, 2019). Such FDI is also known as one of special types of FDI where firms cross two international barriers one; therefore, they enter into foreign market and the most important is that they enter into new industry, i.e., Berkshire Hathaway, which is owned by Warren Buffet and is also known as a top and leading

conglomerate where it owns major stakes and somewhat direct investments in top MNCs all over the world starting from Walmart to prominent car manufacturers. (Khan, A.H. & Faisal, 2018; Chen, J., 2019; Ecnmy, 2019)

#### **1.9.4. Platform foreign direct investment**

A business is expanded into a foreign country; however, the output from the operations in a foreign country is exported to a third country. Additionally, this is deemed as export-platform FDI, and also occurs in low-cost locations inside free-trade areas in a chief manner, i.e., Ford purchased manufacturing plants in Ireland with the primary purpose of exporting cars to other countries in the European Union (EU). (Ecnmy, 2019)

#### **1.9.5. Inward foreign direct investment**

Inward FDIs are the investments, which are made in the local resources. (Wallstreetmojo, 2019)

#### **1.9.6. Outward foreign direct investment**

Outward FDIs are the investments, which are made abroad, that are thoroughly backed by the government. (Wallstreetmojo, 2019)

#### **1.10. Foreign direct investment flows**

Flows of FDI consist of capital provided (either directly or through other related enterprises) by a foreign direct investor to an FDI enterprise, or capital that is received from an FDI enterprise by a foreign direct investor. (UNCTAD, 2000 and 2007) Data on FDI flows are exhibited on net bases (capital transactions' credits less debits between direct investors and their foreign affiliates). Net decreases in assets or net increases in liabilities are recorded as credits, while net increases in assets or net decreases in liabilities are recorded as debits. Thus, consequently, FDI flows with a negative sign assume that at least one of the components of FDI is negative and not offset by positive amounts of the remaining components.

Moreover, these exist also instances of reverse investment or disinvestment. FDI flows might be characterized into the following types: (i) **foreign direct investment net inflows:** FDI net inflows are the value of IFDIs made by non-resident investors in the reporting economy, and also direct investment in the reporting economy that encompasses all liabilities and assets that are transferred between resident direct investment enterprises and their direct investors. In addition, it includes transfers of assets and liabilities between resident and non-resident fellow enterprises if it happens that the ultimate controlling parent is non-resident. (ii) **foreign direct investment net outflows:** FDI net outflows are identified as the value of OFDIs that are made by the residents of the reporting economy to external economies, and also as direct investment abroad that contains assets and liabilities that are transferred between resident direct investors and their direct investment enterprises. In addition, it encompasses transfers of assets and liabilities between resident and non-resident fellow enterprises, if it happens that the ultimate controlling parent is resident. (WB, 2019c)

#### **1.11. Foreign direct investment and economic growth**

Economic growth, which is occasionally and simply known as growth, is commonly regarded as Gross Domestic Product (GDP) growth, which typically refers to a measure of the size and health of its economy or the economic output of a nation (Amadeo, 2019b) and is also known as the total value of goods and services produced over a specific time period. Economic growth might be fast, slow, positive (if the GDP growth rate is positive, it indicates that the economy is doing well, and the nation's wealth is increasing (Shankar, 2019)), weak (if economic growth is weak, then it means that the economy is doing poorly), negative (if the GDP growth rate is very minimal or negative, it means that unemployment in the country rises, as the production has gone

down, and thus producers fire employees to reduce costs, thereby increasing unemployment; or if the GDP growth rate is negative, that is if the GDP falls from the previous period to the current, it implies that the economic growth of the nation is declining and that there is something wrong in the economy (Shankar, 2019); or if GDP falls from one quarter to the next, then the economic growth is negative, especially this frequently brings with it falling incomes, lower consumption and job cuts) or in recession if it has two consecutive quarters (i.e., six months) of negative growth, then the economy is in recession. (Amadeo, 2019b; Shankar, 2019; Bank of England, 2019) The GDP growth rate measures how fast the economy is growing or determines the nation's economic health (Shankar, 2019) by comparing one quarter of the country's GDP to the previous quarter. (Shankar, 2019; Amadeo, 2019b) Ameer and Xu (2017), who performed detailed investigation into IFDI and OFDI on economic growth in developing economies in the time period from 2005 to 2014 annually, found that there is positive and significant impact of IFDI and OFDI on economic growth in the long-run among developing economies from 2005 to 2014 and the positive and significant effects of IFDI and OFDI on economic growth are highly robust by applying different econometric techniques, and the control variables, which have significant role in defining exact relationship between IFDI, OFDI, and economic growth, should be relevant and related with the econometric model to derive accurate relationship between IFDI, OFDI and economic growth. (Ameer & Xu, 2017; please see, Chakraborty & Basu, 2002; Kurtishi-Kastrati, 2013b; Barkauskaite & Naraskeviciute, 2016) According to in-depth analysis, which has been based upon the secondary data and has become involved in the (I/O)FDI and its effects on Indian economy, it has been concluded that there exists a significant impact of (I/O)FDI on GDP of India and a high level of is identified as an affirmation country in case of several developing or underdeveloped countries like India that is subject to the insufficiency of financial resources, low level of capital formation, low level of income and low level of capital accumulation (Rani, 2015) owing to its heavy dependence on the external financial sources and the inadequate domestic resources that are wholly not enough to carry out development programmes. Aside from economic growth, it is also evident that a vital role for economic development<sup>6</sup> of any country is played by (I/O)FDI. (Rani, 2015; Siwach, 2015)

### 1.12. COVID-19 and foreign direct investment

The current coronavirus pandemic or the corona pandemic or the COVID pandemic or the COVID-19 pandemic or the *coronavirus COVID-19* pandemic or the COVID-19 is known as the disease which was led by the novel corona virus and has given rise to the global crisis that is now shaping (I/O)FDI. The first case of someone in China, who suffer from, might be traced back to November 17, 2019, according to government data that the *South China Morning Post has seen* that would be helpful for scientists in order to track the spread of the disease and maybe decide on its source. According to indirect records of the Chinese government, first person who had been infected with new disease might have been a Hubei resident aged 55; but,

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<sup>6</sup>“Economic development is the process by which a nation improves the economic, political, and social well-being of its people. The term has been used frequently by economists, politicians, and others in the 20<sup>th</sup> century. The concept, however, has been in existence in the West for centuries. Modernization, Westernization, and especially Industrialization are other terms people have used while discussing economic development. Economic development has a direct relationship with the environment and environmental issues. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP. Consequently, as economist Amartya Sen points out, economic growth is one aspect of the process of economic development.” (Thefreedictionary)

any confirmation of patient zero has been made yet. (Ma, J., 2020) The outbreak of the COVID-19 has evolved from a local issue to a global issue in a quick manner. The COVID-19 crisis has already wiped trillions of dollars off valuations of firms. It might well be in the best interest of a country to impose temporary barriers on investment as a protective measure. Foreign acquisition bids otherwise might occur at a wholesale price in strategic and non-strategic sectors alike. It is more likely that the current freezing over of FIs gives rise to a deeper economic recession once the health emergency subsides. In this regard, protectionism, which is aimed at protecting local producers, jobs and businesses through tools that include tariffs on imports, subsidies, tax cuts, etc. and whose proponents argue that governments should frame economic policy which caters to domestic audiences, while critics consider such policies to be short-sighted and incapable of addressing issues of growth or unemployment (Shah, 2017), has been one of the most important indicators for the countries. It is also argued that this crisis has already hit at the high point of one of the fiercest trade wars on record since the Great Depression. According to a study conducted by the University of St. Gallen about new export curbs on medical supplies which today are costing lives directly that is also called any indicator, even more restrictions will be caused by this crisis. (Shah, 2017; Rodríguez-Chiffelle & Vanham, 2020) However, from fundamentally protectionist campaigns of world leaders such as President Trump's Buy American and PM Modi's Make in India campaign (please see, Beena, 2018), which is an international marketing strategy, conceptualized by the PM Modi on 25 September, 2014 to attract IFDIs from business around in the world, and in the process, strengthen India's manufacturing sector (Mani & Nithyashree, 2016), to isolationist decisions of developed nations such as Brexit-the global economy has become more protectionist in an increase manner. Tax breaks to firms that import jobs back, deliberate currency fluctuations to make a country more favorable as an export market are commonly becoming employed ploys by national governments. (Mani & Nithyashree, 2016; Shah, 2017; Beena, 2018)

The ongoing COVID-19 speeds up and accelerates the process of deglobalization. Although the G20 or Group of Twenty continually commits (I/O)FDI and trade during the process of ongoing COVID-19, restrictions on incoming investment are placed by some countries. It is known that investment screening measures are not new. Prior to the global pandemic, three justifications for such measures were established by a research study making an analysis of (I/O)FDI-screening measures: (i) fear of becoming dependent on a foreign firm for the delivery of critical goods and services; (ii) a desire to ensure that domestic technology; and (iii) expertise remain within national borders and the prevention of surveillance or sabotage of essential services. However, the scope of their expansion is new since new dimensions on such insecurities, which will own global ramifications for (I/O)FDI and trade flows, have been added by the pandemic, i.e., rules on FI have been tightened by countries like Germany and Australia-the second largest recipient of Chinese investment since 2007-(Ghosh, S., 2020), temporary measures were announced by Australia, which was the first country that announced the temporary tightening of conditions for entry of FI, with a strengthened review process lasting between 30 days and six months (Rodríguez-Chiffelle & Vanham, 2020), with the view to lower investment review thresholds to zero for all economic sectors as of March 29, 2020, France reduced investment screening threshold to 25 per cent, and Spain imposed a 10 per cent threshold on non-European (I/O)FDIs and released guidelines to protect public security, order and health<sup>7</sup>, (I/O)FDI rules have been

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<sup>7</sup>“A simmering fear has been stoked by the recent open market purchase of over 1 per cent shares of Housing Development Finance Corporation by China; however, there have been concerns which are overplayed as China has been buying by means of different kinds of vehicles and exchange traded fund. In recent times, it is advised that the EU member countries buy into companies with the view to counter the threat of Chinese takeovers, but market circles are in

tightened by Canada, and its (I/O)FDI regulations are also tightened by India, which is concerned by the prospect of a Chinese takeover of critical firms, also tightened its (I/O)FDI regulations. According to the report released by UNCTAD, the main United Nations (UN) body that deals with trade, investment and development issues, global (I/O)FDIs might fall by 40 per cent in 2020 and 2021, and also one will witness a continuous decline in cross-border M&As. The extent of decline will be dependent upon the degree to which the restrictive FDI measures come to be binding and supply chains are relocated to home markets. There are many consequences, i.e., MNCs will almost certainly undergo the experience of increasing levels of social and political uncertainty that will impose an obligation on sophisticated corporate diplomacy. In actual fact, even prior to COVID-19, it was widely recognized that large firms should embrace a more stakeholder-oriented model-one which assumes attention to multiple stakeholders, such as communities, customers and employees, that are affected by the activities of particular businesses. Indeed, in addition to this, it highly seems that COVID-19 might accelerate this trend as the social obligations and political pressures on firms increase. (Ghosh, S., 2020; Rodríguez-Chiffelle & Vanham, 2020; Ufimtseva et al., 2020)

In April 2020, the UNCTAD revised its recent forecasts about the impacts of COVID-19 on global (I/O)FDIs from a conservative -5 to -15 per cent drop, to a decisive -30 to -40 per cent contraction. Even in the absence of further downward revisions, it is highly potential that those losses are considered to be more dramatic than at any time in modern history that the reference point is characterized as the financial crisis of 2007 and 2008. In the aftermath of this crisis, (I/O)FDIs immediately fell by 37 per cent in 2009, down to US\$ 1.1 Trillion, and the Great Recession took hold. Today, at the onset of the pandemic, some US\$ 500 Billion in FI has already been wiped off by the COVID-19, and it is very likely that worse is to come soon. It has been reported that such curbs have been introduced by 54 governments by the end of the first quarter of 2020. Safeguarding might be considered to be the perfect sense in one way. (Rodríguez-Chiffelle & Vanham, 2020)

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*belief that new restrictions on FIs-either on portfolio or strategic investments-would not go down well among investors.” (Ghosh, S., 2020)*

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# CHAPTER 2

In India, IFDI is viewed as an investment through which the non-resident investor and foreign firm can start a new firm can acquire an effective share in an existing firm with the specific objective of carrying on industrial activities or business. (Ibrahim & Muthusamy, 2014) Such private IFDI can be categorized as follows: (i) IFDI is investment by Non-resident Entity or Entities (NRE(s)) or person resident outside India in the capital of an Indian firm under scheduled (1) of Foreign Exchange Management (FEM) Regulation, 2000. (ii) Foreign Institutional Investment (FII) is entity establishment or incorporated outside India which propose to make investment in India and which is registered as a FII in accordance with the SEBI FIIs Regulations, 1995. (iii) FPI is a person registered in accordance with the provision of SEBI Regulation, 2014 as amended from time to time. The GOI announces its intention to attract foreign countries and to promote IFDI to supplement domestic capital technology and skill for accelerated economic growth. (Rani, 2015)

### 2.1. Key terms

Some key terms that are utilized in this Master Direction can be summarized as follows:

- i. Act is the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999).
- ii. Capital instruments are regarded as equity shares, debentures, preference shares and share warrants that are issued by an Indian firm. The details of what shall construe capital instruments can be found at Para 4 of this Master Direction.
- iii. Convertible note is deemed as an instrument that is issued by a start-up firm that evidences receipt of money initially as debt that is repayable at the option of the holder, or that is convertible into such number of equity shares of such start-up firm, within a period not exceeding five years from the date of issue of the convertible note, upon occurrence of specified events as per the other terms and conditions that are agreed to and are indicated in the instrument.
- iv. E-commerce is buying and selling of goods and services that contain digital products over digital and electronic network. (i) e-commerce entity is the following entities that conduct the e-commerce business: (a) a firm that incorporated under the Companies Act, 1956 or the Companies Act, 2013; or (b) a foreign firm that covered under section 2(42) of the Companies Act, 2013; or (c) an office, branch or agency in India that is possessed or directed by a person who does not reside in India. (ii) inventory-based model of e-commerce is defined as an e-commerce activity where inventory of goods and services is possessed by e-commerce entity and is sold to the consumers in a direct manner. (iii) marketplace-based model of e-commerce is identified as providing of an IT platform by an e-commerce entity on a digital and electronic network to act as a facilitator between buyer and seller. (iv) FI is not allowed in inventory-based model of e-commerce.
- v. FDI linked performance conditions are regarded as the sector specific conditions that are stipulated in regulation 16 of FEMA 20 (R) for firms that receive FI.
- vi. FDI means the investment through capital instruments by a person who does not reside in India: (i) in an unlisted Indian firm; or (ii) in 10 per cent or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian firm: (a) if an existing investment by a person who does not reside in India in capital instruments of a listed Indian firm falls to a level below 10 per cent of the post issue paid-up equity capital on a fully diluted basis, the investment will continually be deemed as FDI. (b) fully diluted basis is the total number of shares that would be outstanding if all possible sources of conversion are exercised.

- vii. FPI is treated as any investment that is made by a person who does not reside in India in capital instruments where such investment is (i) less than 10 per cent of the post issue paid-up equity capital on a fully diluted basis of a listed Indian firm; or (ii) less than 10 per cent of the paid-up value of each series of capital instruments of a listed Indian firm.
- viii. Foreign Portfolio Investors (FPIs) is defined as a person that is registered in terms of the provisions of Securities and Exchange Board of India (SEBI) (FPIs) Regulations, 2014. (i) any Foreign Institutional Investors (FIIs) or a sub-account that is registered under the SEBI (FIIs) Regulations, 1995 and is in possession of a valid certificate of registration from SEBI shall be treated to be a FPI till the expiry of the block of three years from the enactment of the SEBI (FPIs) Regulations, 2014.
- ix. FI is defined as any investment that is made by a person who does not reside in India on a repatriable basis in capital instruments of an Indian firm or to the capital of an LLP. (i) issue or transfer of participating interest or right in oil fields by Indian firms to a person who does not reside in India would be a FI. (ii) if a declaration is made by persons as per the provisions of the Companies Act, 2013 about a beneficial interest that is owned by a person who does not reside in India, then even if the investment is able to be permitted to be made by a resident Indian citizen, the same shall be treated as FI. (iii) a person who does not reside in India is able to be permitted to be in possession of FI either as IFDI or as FPI in any certain Indian firm.
- x. Group firm is regarded as two or more enterprises that, directly or indirectly, are in a position to (i) exercise 26 per cent, or more of voting rights in other enterprise; or (ii) appoint more than 50 per cent of members of Board of Directors (BODs) in the other enterprise.
- xi. Indian entity is regarded as an Indian firm or an LLP.
- xii. Investment is to pledge a sum of money as, come into possession of, maintain control over or relinquish to the possession or control of any security or unit that is issued by a person who reside in India. (i) investment will encompass acquisition, holding or transfer of Depository Receipts (DRs) that are issued outside India, the underlying of which is referred to as a security that is issued by a person who reside in India. (ii) for the purpose of an LLP, investment shall be considered as capital contribution or acquisition or transfer of profit shares.
- xiii. Investment on repatriation basis is an investment, the sale or maturity proceeds of which are, net of taxes, permitted to be repatriated and the expression investment on non-repatriation basis, will be understood correspondingly.
- xiv. Investment Vehicle(s) (IV(s)) is an entity that is registered and regulated under relevant regulations that are framed by SEBI or any other authority that is designated for the purpose and will be Real Estate Investment Trusts (REITs) that are governed by the SEBI (REITs) Regulations, 2014, Infrastructure Investment Trusts (IITs) that are governed by the SEBI (IITs) Regulations, 2014 and Alternative Investment Funds (AIFs) that are governed by the SEBI (AIFs) Regulations, 2012. (i) a Venture Capital Fund (VCF) that is established in the form of a trust or a firm or a body corporate and registered under the SEBI (VCF) Regulations, 1996 will not be treated as an IV for the purpose of FEMA 20(R) and this Master Direction.
- xv. Limited Liability Partnership(s) (LLP(s)) is viewed as a partnership that is formed and registered under the LLP Act, 2008.

- xvi. Listed Indian firm is considered as an Indian firm which is in possession of any of its capital instruments that are listed on a recognized stock exchange in India and the expression unlisted Indian firm shall be understood correspondingly.
- xvii. Non-Resident Indian(s) (NRI(s)) is deemed as an individual who does not reside India and is citizen of India.
- xviii. Overseas Citizen(s) of India (OCIs) is an individual who does not reside in India and is registered as an OCI Cardholder under Section 7 (A) of the Citizenship Act, 1955.
- xix. Resident Indian citizen is deemed as an individual who is a person who reside in India and is citizen of India on account of the Constitution of India or the Citizenship Act, 1955 (57 of 1955).
- xx. Real estate business (REB) is dealing in land and immovable property in order to gain profit therefrom, and also does not contain development of townships, construction of residential or commercial premises, roads or bridges, educational institutions, recreational facilities, city and regional level infrastructure, townships. In addition to this, earning of rent income on lease of the property, not amounting to transfer, will not be equal to REB, Real Estate Broking Services (REBSs) is prevented from being included in the definition of REB, and 100 per cent FI is permitted in REBSs under automatic route.
- xxi. Sectoral cap is identified as the maximum investment that encompasses not only FI on a repatriation basis by persons who do not reside in India in capital instruments of a firm or the capital of an LLP, as the case may be, but also indirect FI, if it is not provided otherwise. It is required that this be the composite limit for the investee Indian entity. (i) Foreign Currency Non-Residents (FCNR(s)) and DRs that possess underlying of instruments that are being in the nature of debt shall not be become involved in the sectoral cap. (ii) any equity that is possessed by a person who does not reside in India and happens as a consequence of conversion of any debt instrument under any arrangement shall be counted and considered under the sectoral cap.
- xxii. Unit is decribed as the beneficial interest of an investor in an IV. (RBI, 2018a)

## 2.2. Conditions on foreign investments in India

The conditions on FI are based upon two conditions that are summarized as follows:

- i. **Entry conditions on FI:** FIs made by non-residents can be allowed in the capital of a resident entity in certain sectors or activities or industries with entry conditions. These kinds of conditions may encompass norms for minimum capitalization, lock-in period, etc. The entry conditions that exist in several different types of sectors or activities or industries are comprehensively detailed.
- ii. **Other conditions on FI besides entry conditions:** (i) apart from the entry conditions on FI, the FIs or investors are authoritatively obliged to abide by all relevant sectoral laws, regulations, rules, security conditions, and state or local laws or regulations. (ii) in favor of establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is involved in defence, telecom, Private Security (PS) or information and broadcasting, approval of RBI is not authoritatively obliged to the cases where government approval or license or permission that is made by the concerned Ministry or Regulator has already been permitted. (DIPP et al., 2017)

### 2.3. Reasons for the inward foreign direct investments into India

The prerequisite and imperative for foreign capital for a developing country like India could begin to exist on account of the following reasons: (i) domestic capital is not adequate for the economic growth of country and it is required to attract foreign capital. (ii) desire for new experiences cannot lead domestic capital and entrepreneurship to surreptitiously penetrate into certain lines of production and foreign capital may pave the way for domestic capital. (iii) there possibly exist potential savings in a developing economy like India, yet this may occur at a higher level of economic activity, and hence it is imperative that foreign capital give assistance to accelerate and take up economic activities in the initial phase of development. (iv) it is possibly not easy to become a mobilize of domestic savings for the financing of projects that are imperative for the economic development of country in a bad manner and this indicates that the capital market is itself poor and is not in possession of modern industries and advanced technology and foreign capital is essential as a temporary measure during the period in which the capital market is in the process of development. (v) foreign capital may bring about other productive factors that rarely contribute to a whole and are becoming involved in technical know-how, business experience and knowledge that are to the same degree indispensable for economic development. (Ibrahim & Muthusamy, 2014)

### 2.4. Approval routes for the inward foreign direct investments into India

IFDI is permitted in a greatest number of sectors or activities or industries. (Ukibc, 2016) They can be performed by non-residents in the equity shares or fully, compulsorily and mandatorily convertible debentures or fully, compulsorily and mandatorily convertible preference shares of an Indian firm, by means of the automatic route or the government route. (DIPP et al., 2017) The GOI revises the sectoral lists for IFDI into India that falls under the automatic route, prior approval route, and prohibited list on a regular basis. IFDI into the country is also acted upon other sectoral laws and/or regulations of the relevant industry regulator. It is required that Indian firms that are permitted to receive IFDI into the country, either under the automatic route or the government route comply with provisions of the (I/O)FDI policy that includes reporting the (I/O)FDI to the RBI. (Ukibc, 2016) There exist two main channels for the entry of IFDI into the country: (i) the Secretariat for Industrial Assistance (SIA)<sup>8</sup> or the Foreign Investment Promotion Board (FIPB)<sup>9</sup> route; and (ii) the RBI automatic approval route. From the inception of economic reforms in India from 1991 to 2000, the government route was the main channel for the entry of most of IFDI into the country as the GOI strictly monitored the approvals. Thus, consequently, in terms of the entry of IFDI into the country, the SIA or FIPB route became the greater channel for the entry of IFDI into the country than the RBI route, yet a dilution of this trend has been witness in the last five years. FI regulations, which cause a spurt in the entry of IFDI into the country through the RBI route, which might be considered to be a positive sign, have been eased

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<sup>8</sup>“It has been set up by the GOI in the DIPP in the Ministry of Commerce and Industry (MCI) to provide a single window for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require government approval, conveying government decisions 62 on applications filed, assisting entrepreneurs and investors in setting up projects (including liaison with other organizations and state governments) and in monitoring implementation of projects.” (Shodhganga, 2011)

<sup>9</sup>“The FIPB, being established in 1991, DEA, Ministry of Finance (MOF) is the nodal single window agency for all matters relating to (I/O)FDI as well as promoting investment in the country. It considers and recommends (I/O)FDI proposals, which do not come under the automatic route. Its objectives are to promote (I/O)FDI by undertaking and facilitating investment promotion activities in our country and abroad.” (Shodhganga, 2011)

by the GOI with the investment boom in India and different states competing for the entry of IFDI into the country. (NCAER, 2009)<sup>10</sup>

#### 2.4.1. Automatic approval route

Any prior approval either by the GOI or the RBI is not required for the entry of IFDI into the country in sectors or activities or industries to the extent permitted under the automatic route. It is merely required that the investors notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to FIs. (NCAER, 2009) The entry of IFDI into the country in sectors or activities or industries to the extent that covers under the automatic route are permitted under the automatic approval route without prior approval either of the GOI or the RBI. (Chaudhary, N. et al., 2014) The investors are allowed in virtually every sector, aside from those of strategic concern that include defence (in recent times, it has been opened up to a limited extent) and rail transport. Foreign firms are allowed to establish 100 per cent subsidiaries in India, and also no prior approval from the exchange control authorities (RBI) is required, except for certain specified to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors. (Shodhganga, 2015) The entry of IFDI into the country in sectors or activities or industries is currently issued by the GOI (Ukibc, 2016) or the non-resident investor or the Indian firm does not require any approval from GOI for the investment as it is specified in the Consolidated (I/O)FDI Policy in all sectors or activities or industries. (Ukibc, 2016; DIPP et al., 2017)

#### 2.4.2. Prior government approval route

In the limited category of sectors or activities or industries, which require prior government approval, the proposals were viewed in a time-bound and transparent manner by the FIPB under the DEA and the MOF. Additionally, approvals of composite proposals, which are involved in FI or foreign technical collaboration, were granted on the recommendations of the FIPB. (NCAER, 2009; Khan, H.R., 2012) IFDI into the country in sectors or activities or industries that falls under the government approval route stipulates compulsory conditions for prior approval of the GOI (Ukibc, 2016) through FIPB is also required. (Chaudhary, N. et al., 2014; Ukibc, 2016) Applications and/or proposals for (I/O)FDI under government approval route as laid down in the (I/O)FDI policy from time to time (Chaudhary, N. et al., 2014), are considered by the FIPB that is part of the DEA within the MOF. (Chaudhary, N. et al., 2014; Rani, 2015; Ukibc, 2016) According to the Consolidated (I/O)FDI Policy 2017, prior approval of the GOI was required under the government route. Proposals for FI under government route, were also considered by respective administrative ministry or department. (DIPP et al., 2017) Still, in recent times, such applications and/or proposals for IFDI under government approval route have been considered by the Foreign Investment Facilitation Portal (**FIFP**), which is the new online single point interface of the GOI for investors, is established is being administered by the Department for Promotion of Industry and Internal Trade (DPIIT), MCI in order to facilitate IFDI into the country. (**FIFP, 2019**)

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<sup>10</sup>“In 1999, the GOI set up the Foreign Investment Implementation Authority (FIIA) (which was one of the primary institutions in India that handle (I/O)FDI related issues) to facilitate quick translation of (I/O)FDI approvals into implementation. It functions for assisting the (I/O)FDI approval holders in obtaining various approvals and resolving their operational difficulties. FIIA has been interacting periodically with the (I/O)FDI approval holders and following up their difficulties for resolution with the concerned administrative ministries and state governments.”(Shodhganga, 2011)

### 2.5. The actual inward foreign direct investments into India and stakeholders

The actual IFDIs into India is welcomed under five broad heads: (i) discretionary approval route of FIPB that represents larger projects which require bulk of inflows and account for discretionary approval of government; (ii) automatic approval route RBI (via RBI that reflects an upward trend of IFDIs since 1995 and is meant for smaller sized investment projects); (iii) acquisition of shares route (since 1996) where acquisition of existing shares route and External Commercial Borrowing(s) (ECB(s)) route gained prominence (in 1999 and 2003) and shows an upward increasing trend; (iv) RBI's NRI's scheme; and (v) ECBs American Depository Receipts (ADRs) or Global Depository Receipts (GDRs)) route. (Hooda, S., 2011) The stakeholders are Invest India (II), FIPB, Department of Defence Production (DDP), Ministry of Defence (MOD), Ministry of Home Affairs (MHA), Ministry of Information and Broadcasting (MIB), Ministry of Civil Aviation (MCA), Department of Space (DS), Department of Telecommunications (DT), DPIIT, Department of Financial Services (DFS), Department of Pharmaceuticals (DP), Ministry of Mines (MOM). (Investindia, 2018)

### 2.6. Entry routes for the inward foreign direct investments into India

There are two entry routes for IFDIs into India. Those are summarized as follows:

- i. Investments may be permitted to made by non-residents in the equity shares or fully, compulsorily and mandatorily convertible debentures or fully, compulsorily and mandatorily convertible preference shares of an Indian firm, by dint of the automatic route or the government route.
- ii. FI in sectors or activities or industries under government approval route will be contingent upon government approval where: (i) an Indian firm is being set up in company of FI and is not possessed by a resident entity. (ii) an Indian firm is being set up in company of FI and is not managed by a resident entity. (iii) the control of an existing Indian firm, which is now possessed or managed by resident Indian citizens and Indian firms, which are being possessed or managed by resident Indian citizens, will be/is being devolved upon to a NRE that is brought about by a cause of transfer of shares and/or fresh issue of shares to NREs by means of amalgamation, merger or demerger, acquisition, etc. (iv) the ownership of an existing Indian firm, which is now possessed or managed by resident Indian citizens and Indian firms, which are being possessed or managed by resident Indian citizens, will be/is being devolved upon to a NRE that is brought about by a cause of transfer of shares and/or fresh issue of shares to NREs by means of amalgamation, merger or demerger, acquisition, etc. (v) it is comprehensively explained that that FI shall be involved in all kinds of FIs, direct and indirect, in spite of whether the mentioned investments have been made under Schedule 1 (FDI), 2 (FII), 2A (FPI), 3 (NRI), 6 (Foreign Venture Capital Investors (FVCIs)), 9 (LLPs), 10 (DRs) and 11 (IVs) of the FEMA (Transfer or Issue of Security by Persons Resident Outside India (TISPROI) Regulations. Foreign Currency Convertible Bonds (FCCBs) and DRs that are in possession of underlying of instruments which are permitted to be issued under Schedule 5 that is in the nature of debt, shall not be regarded as FI. But, any equity, which is possessed by a person resident outside India, which results from conversion of any debt instrument under any arrangement, shall be FI. (vi) investment that is made by NRIs under Schedule 4 of FEMA (TISPROI) Regulations will be regarded as domestic investment at par with the investment that is made by residents. (vii) a firm, trust and partnership firm that is not incorporated in India and possessed and directed by NRIs will meet the proper standards and requirements for investments under Schedule 4 of FEMA (TISPROI). Regulations and this kind of investment will also be regarded as domestic investment at par with the investment that is made by residents. (DIPP et al., 2017)

### 2.7. Entities for the inward foreign direct investments into India

For a country where capital is not readily available, IFDI has been an important source of funds for entities. In India, entities are permitted to be made in five different ways that can be categorized as follows: (i) partnership firm or proprietary concern; (ii) VCF; (iii) trusts; (iv) an Indian firm; and (v) LLPs.

- i. **IFDI in partnership firm or proprietary concern: (i) a NRI or a Person of Indian Origin (PIO)** resident outside India are permitted to make investment in the capital of a firm or a proprietary concern in India on non-repatriation basis: (a) amount is permitted to be invested by inward remittance or out of NRE(s) or FCNR(Bank) (FCNR(B)) or Non-Resident Ordinary (NRO) account that is maintained with authorized dealers (ADs) or authorized banks (ABs). (b) no investment that is not engaged in any agricultural or plantation or REB or print media sector. (c) amount that is permitted to be invested shall be ineligible for repatriation outside India. (ii) **investments with repatriation option:** in favor of availing repatriation option, NRI or PIO is allowed to endeavor to obtain prior permission of RBI for investment in sole proprietorship concerns or partnership firms. It is expected that the application will be conclusively settled in consultation with the GOI. (iii) **investment by non-residents other than NRIs or PIO:** a person resident outside India other than NRIs or PIO is allowed to apply and endeavor to obtain prior approval of RBI for making investment in the capital of a firm or a proprietorship concern or any association of 16 persons in India. It is expected that the application will be conclusively settled in consultation with the GOI. (iv) **restrictions:** no investment that is made in a firm or proprietorship concern is permitted to be engaged in any agricultural or plantation activity or REB or print media.
- ii. **IFDI in VCFI:** FVCIs may invest in Indian Venture Capital Undertakings (IVCUs) or VCFs or other firms. **If a domestic VCF is established as a trust,** a person resident outside India (NRE or individual including an NRI) is permitted to invest in such domestic VCF subject to approval of the FIPB. Yet, **if a domestic VCF is established as an incorporated firm under the Companies Act, 2013,** then a person resident outside India (NRE or individual including an NRI) is permitted to invest in such domestic VCF under the automatic route of IFDI Scheme, under the circumstances prevailing in the due course of pricing guidelines, reporting requirements, mode of payment, minimum capitalization norms, etc.
- iii. **IFDI in trusts:** FDI in Trusts other than VCF is not allowed.
- iv. **IFDI in an Indian firm:** Indian firms are permitted to issue capital against IFDI.
- v. **IFDI in LLPs:** IFDI in LLPs is allowed, under the the following conditions: (i) IFDI will be able to be made, through the government approval route, merely in LLPs that operate in the sectors or activities or industries where 100 per cent IFDI may be made, through the automatic route and there exist no IFDI linked performance conditions that consist of non-banking finance companies or development of townships, housing, built-up infrastructure, construction-development projects, etc. (ii) LLPs in the firm of IFDI will not be permitted to operate in agricultural or plantation activity, print media or REB. (iii) an Indian firm that is in possession of IFDI will be allowed to make downstream investment in an LLP only if both-the firm, as well as the LLP-are operating in the sectors where 100 per cent IFDI may be made, through the automatic route and there exist no IFDI-linked performance conditions. (iv) LLPs in firm of IFDI will be ineligible to make any downstream investments. (v) foreign capital participation that are in LLPs will be permitted merely by way of cash consideration that is received by inward remittance, through normal banking

channels or by debit to NRE or FCNR account of the person concerned that maintained in firm of an AD or ABs. (vi) investment that are made in LLPs by FIIs and FVCIs will not be allowed. LLPs will also not be allowed to be advantage to ECBs. (vii) if it happens that the LLP in company of IFDI is in possession of a body corporate, which is a designated partner or nominates an individual to pose as a designated partner with reference to the provisions of Section 7 of the LLP Act, 2008, it is recommended that such a body corporate merely be a firm that is registered in India under the Companies Act, 2013 and not any other body, such as an LLP or a trust. (viii) in favor of these kinds of LLPs, the designated partner resident in India, as it is defined under the Explanation to Section 7 (1) of the LLP Act, 2008, would also have to fulfill the expectation of the definition of person who reside in India, as it is prescribed under Section 2 (v) (i) of the FEMA, 1999. (ix) it is expected that the designated partners will take responsibility for compliance with all the above-mentioned conditions, and also legally be obligated to all penalties that are imposed on the LLP for their contravention, if any. (x) conversion of a firm in company of IFDI, into an LLP, will be permitted merely if the above-mentioned stipulations (except clause (v) which would not be compulsory if there should be happen to be a firm) are fulfilled and in company of the prior approval of FIPB or government. (Jain, S., 2019)

**CHAPTER 3**

India, as a World Trade Organization (WTO) founding member since January 01, 1995 and a founding member of General Agreement on Trade and Tariffs (GATT) since July 08, 1948 (WTO, 2019), and a founding member of the IMF since December 27, 1945 (Original members (Article II, Section 1), which signed the Articles of Agreement by December 31, 1945 (IMF, 2017)) and the WB where India and World Bank Group India (WBG) are the founder members (WB, 2005) of four of the five constituents of the World Bank Group (WBG), viz. International Bank for Reconstruction and Development (IBRD) since December 27, 1945 or International Development Association (IDA) since September 24, 1960 or International Finance Corporation (IFC) since July 20, 1956 or Multilateral Investment Guarantee Agency (MIGA) since January 06, 1994 (WB, 2019b) (WB, 2005) are institutions in the UN system. They share the same goal of raising living standards in their member countries. Their approaches to this goal are complementary, with the IMF, which assumes a focus on macro-economic issues, that is an organization of 189 countries, which work to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world (IMF, 2017) and the WB, which concentrates on long-term economic development and poverty reduction. (IMF, 2019; WB, 2005; IMF, 2017; WTO, 2019; WB, 2019b) Funds from the WB (mostly through IBRD and IDA) for several development projects have been accessed by India. The WB assistance initially began in 1948 when a funding for Agricultural Machinery Project was approved. In 1957, the WB established the WB resident mission in India. In August 1958, the first meeting of the Aid India Consortium took place at Washington DC under the aegis of the WB. In 1959, first investment of IFC in India was held with US\$ 1.5 Million. In January 1994, India became a member of MIGA. India is still a non-member of the International Centre for Settlement of Investment Disputes. (WB, 2005)

According to Department of Commerce (2019), the South Asian Free Trade Area (SAFTA) is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC) that was established in 1985 and the member states of SAARC are Afghanistan, which became the 8<sup>th</sup> member with the signing of a joint declaration during the 14<sup>th</sup> SAARC summit held in New Delhi in April 2007, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. According to UN (2019), SAFTA signatory countries are the same as those member states of SAARC (UN, 2019). The member states signed the SAARC Preferential Trading Arrangement (SAPTA), which aimed at promoting mutual trade and economic cooperation among the member countries through exchange of concessions, in April 1993 and put it into effect in December 1995. But, the member states acknowledged the imperative for progressing beyond a preferential trading arrangement and moving towards a higher level of trade and economic cooperation in the region. Thus, consequently, a framework agreement on SAFTA was signed by the SAARC Council of Ministers in January 2004 in Islamabad. The SAFTA was put into effect on 1<sup>st</sup> January, 2006. Phase-I of the Trade Liberalization Programme under SAFTA implemented with effect from 1<sup>st</sup> July, 2006, succeeding the 1993 SAPTA (UN, 2019) and scheduled to be completed by 31<sup>st</sup> December, 2015. (UN, 2019; Department of Commerce, 2019) India has assumed tremendous importance to sign Bilateral Investment Treaties (BITs) with both developed and developing nations. As a result, it has concluded 57 numbers (up to 2006) of BITs, out of which 27 are with developed nations and majority of them, are with developing countries of Asia (16), the Middle East (9), Africa (4), and Latin America (1). Furthermore, India has aimed at maintaining Double Tax Avoidance Agreements (DTAAs), which is an agreement, wherein the investor pays tax only in the resident nation and Mauritius being a tax haven accounts for very minimal, almost zero tax regime (Kaushal, 2018), (Double Tax Treaties (DTTs)) with 70 countries (up to 2006). India is also the member of many FTAs (Free Trade Area, nearly 17 in numbers, up to 2006). (Hooda, S., 2011; Kaushal, 2018)

### 3.1. The evolution of inward foreign direct investments into India

The historical trajectory of IFDIs into India may be traced back with the establishment of East India Company of Britain (EICB) or the Britain's East India Company (BEIC) in the 16<sup>th</sup> century, as the age of colonization did not begin in earnest. (Gautam, A. & Gautam, I., 2014) Due to the British Industrial Revolution, which is called the 1<sup>st</sup> Industrial Revolution, took place in Great Britain in the mid-17<sup>th</sup> and early 18<sup>th</sup> centuries, it became an economic and colonial powerhouse. (Kelly, 2019; Yurdagul, 2019)<sup>11</sup> During the colonial era of Britain in India, British capital flew into India, especially major amount of FI was provided by the British firms, which established their units in mining sectors and in those sectors that suit their own economic and business interest. In the aftermath of the Second World War, Japanese firms entered Indian market and enhanced their trade with India. However, the UK stood at the most dominant investor in India. Taking into account the national interests, the policy makers formulated a plan for the (I/O)FDI policy that is aimed at IFDI as a medium for gaining possession of advanced technology and mobilizing foreign exchange resources. (Ibrahim & Muthusamy, 2014)

#### 3.1.1. The pre-colonization in the 16<sup>th</sup> century and 17<sup>th</sup> century

The origin of IFDIs into India might be traced back to 1500 A.D. when Portuguese inroads primarily led to the European colonization of India (Gautam, A. & Gautam, I., 2014) and the Portuguese established their first textile unit in Calicut, followed by the BEIC in 1600 A.D. when the BEIC took serious actions to initiate trade with India, and thus this led to the natural changes in the Indian economy in a gradual and comprehensive manner and the historical trajectory of IFDIs into the country (Gautam, A. & Gautam, I., 2014), and further the Dutch East India Company in 1602 A.D. They came to the country as merchants and later turned industrialists and some of them became rulers. Fierce competition followed between such merchants and industrialists from these kinds of countries till 1800 A.D. (Shodhganga, 2011; Gautam, A. & Gautam, I., 2014) Eventually, the BEIC recognized the strategic trading importance of India, a land rich in salt, handicrafts (mainly textiles) and valuable spices (the transport and trade of which formerly had been dominated by non-European middle men) and soon attempted to establish a wider British presence in India. It was the first time that the IFDIs into the country had begun since the pre-colonization period of the early 1700s. During this period, the Indian economy made up approximately one-quarter of the economic output of the world and traders and aspiring conquerors from Europe and elsewhere were extremely attracted by Indian wealth under the Mughal and Maratha dynasties attracted traders and aspiring conquerors from Europe and elsewhere. Indian share of world income that was nearly equal to Europe's share of 23.3 per cent at that time collapsed from 22.6 per cent in 1700, nearly to as low as 3.8 per cent in 1952. (Malone & Chaturvedy, 2009) The 17<sup>th</sup> century marked the BEIC's initial establishment of a new Westernized Elite by replacing the Warlord Aristocracy by an efficient bureaucracy and army. This may be regarded as the biggest change that the British led to make in the social structure and led the British to occupy many of the most lucrative commercial, financial, business and plantation jobs in the modern sector.

This period might be regarded as the achievement of a monopolistic trading position and the collapse of traditional system of the BEIC. All high-level posts where Indians were not included

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<sup>11</sup>The industrial revolution took place in a number of places across the world that include England, North America, Continental Europe, Eastern Europe and Asia. Between 1750 and 1850, the 1<sup>st</sup> phase of the Industrial Revolution began in England, and then spread to Continental Europe and North America. The 2<sup>nd</sup> phase of the Industrial Revolution occurred between 1850 and 1914 and began in America, and then spread to Europe. (Brooks, 2018; Yurdagul, 2019)

were reserved for the British. By the end of the 17<sup>th</sup> century, Indian calicos were regarded as a main force in European markets (Landes, 1998, p. 154), i.e., the share of Indian textiles in total English trade with Southern Europe accounted for more than 20 per cent in the 1720s. (Landes, 1998, p. 154; Clingingsmith & Williamson, 2005)

### **3.1.2. The colonization in the 18<sup>th</sup> century and 19<sup>th</sup> century**

By comparison with that of other colonial nations, British were more different and its focus on imperialism was more pragmatic, and its motivation was neither evangelical (there was none of the dedicated Christian fanaticism which the Portuguese and Spanish demonstrated in Latin America) nor cultural (there was less enthusiasm for cultural diffusion than the French or the Americans showed in their colonies). Its motivation was fundamentally attributed to economical reasons, and hence India was merely to a certain extent westernized by British. Their interests were made of various kinds. Firstly, their main purpose was to achieve a monopolistic trading position. Secondly, due to a free trade regime, India would be able to a major market for British goods and a source of raw materials; however, British capitalists having invested in India and sold banking or shipping service there enjoyed monopolistic privileges continuously and effectively. Additionally, India also created lucrative employment for a sizeable portion of the British upper middle class, and the remittances they sent home made an appreciable contribution to Britain's BOPs and capacity to save. Thirdly, assuming control over India was a key element in the world power structure, in terms of geography, logistics and military manpower. Although some British concepts of property were introduced by the British, they did not enforce them too far when they met. There existed no major changes in education, in village society, in the caste system, the position of untouchables, the joint family system, or in production techniques in agriculture. Therefore, one can observe the limited British impact on not only economic but also social development in India. (Maddison, 1971) In the course of the early 18<sup>th</sup> century when the dissolution of Mughal hegemony occurred, India was the first country in Asia to be in a possession of a modern textile industry, preceding Japan by twenty years and China by forty years (Buchanan, 1966, pp. 211-321; Maddison, 1971) and played a major role in the world export market for textiles, i.e., cotton textile wages started from a low nominal real base (Parthasarathi, 1998; Allen, 2001).

Parthasarathi (1998) argued that while low nominal wages in pre-colonial and early colonial India gave it the edge in world textile markets, living standards for labour in the South of India were just as high as British merchants and British ships were the main suppliers to the Atlantic trade, a lot of it the so-called re-export trade. (Buchanan, 1966, pp. 211-321; Maddison, 1971; Parthasarathi, 1998; Allen, 2001; Clingingsmith & Williamson, 2005) Even prior to the British colonial rule, India began undergoing the experience of a decline in agricultural productivity, and thus losing its world market share in textiles and this provided decreased productivity to the textile industry, i.e., cotton textile wages saw a high real base in the mid-18<sup>th</sup> century. (Parthasarathi, 1998; Allen, 2001; Clingingsmith & Williamson, 2005) In the aftermath of the decisive British military victory at Plassey in 1757, the BEIC eventually emerged successful and colonized India (Shodhganga, 2011) and turned from a trading firm into a ruling hierarchy exercising effective sovereignty that was reinforced with a buttress of a significant military capacity. India was redesigned by the British colonial rule where the British ceded control of the areas which today form the modern states of Pakistan, Bangladesh, Sri Lanka, Bhutan, and India (Müller & Patel, 2004). (Malone & Chaturvedy, 2009; Müller & Patel, 2004; Shodhganga, 2011) There was a significant decline in Indian agricultural productivity. This shows that even long before the Industrial Revolution that factory-driven technologies appeared between 1780 and 1820, Britain was already beginning to wrest away from India its dominant grip on the world export market for textiles (Parthasarathi, 1998; Allen, 2001) and India was continually

unsuccessful in retaining possession of its world market share in textiles, i.e., a decline in the share of textile made up approximately 6 per cent in the 1780s (Inikori, 2002, p. 517). (Parthasarathi, 1998; Allen, 2001; Inikori, 2002, p. 517; Clingingsmith & Williamson, 2005) Despite the end of the BEIC's legally enforced monopoly privileges in 1833, the British continually asserted effective dominance over the system of managing agencies that were originally established by former employees of the BEIC with the purpose of both managing industrial enterprise and handling most of India's international trade and were closely linked with British banks, insurance and shipping firms, and were in possession of a quasi-monopoly in access to capital, and interlocking directorships which led them to assume control over supplies and markets. (Buchanan, 1966, pp. 211-321; Maddison, 1971) This continually and significantly provided decreased productivity to the textile industry, and thus share of Indian in textiles amounted to less than 4 per cent in the 1840s (Inikori, 2002, p. 517) and India eventually lost all of its export market and much of its domestic market for textiles in the course of the mid-19<sup>th</sup> century. (Inikori, 2002, p. 517; Clingingsmith & Williamson, 2005)

*“The British were not averse to Indian economic development if it increased their markets but refused to help in areas where they felt there was conflict with their own economic interests or political security. Hence, they refused to give protection to the Indian textile industry until its main competitor became Japan rather than Manchester, and they did almost nothing to further technical education.” (Maddison, 1971)*

Das, G. (2005) mentioned that Indian people turned to capitalism from 1947 until 1991. (Das, G., 2005) However, they became capitalist even in the mid-18<sup>th</sup> century. Indian capitalists had made their money trading with the British merchants and had acquired some education in English started cotton mills in Bombay in 1851 due to financial and managerial help from British trading firms, and the main focus was lying on coarse yarns sold domestically and to China and Japan where yarn exports made up approximately half of output. Dominance over the system of managing agencies that was effectively maintained by the BEIC might be observed even in the Bombay textile industry, where most of the capital was Indian, 28 per cent of the managerial and supervisory staff were British in 1925 (42 per cent in 1895) and the British component was even bigger in more complex industries. This naturally led to raise Indian production costs. (Buchanan, 1966, pp. 211-321) From 1921 and 1992, in the Tata Group steelworks, the average salary of foreign supervisory staff amounted to 13.527 Rupees a year, whereas the average salary of Indian workers was equal to 240 Rupees. The cost of such foreigners was twice as much as in the USA and they commonly worked in a less efficient manner. Receiving preference for foreign staff frequently caused the design that was not appropriate, i.e., multi-storey mills in a hot climate or use of mule rather than ring spindles. (Buchanan, 1966, pp. 211-321; Maddison, 1971) Trade with the rest of the world, which presumptuously claimed Britain for all useful Indian exports, was deliberately stifled by British colonial policy in India. During the two centuries of British colonial rule, the relative weight of India in the world economy plummeted, but the effective economic growth rate of the country was, on average, zero. (Malone & Chaturvedy, 2009) A phase of thinking about economic planning around the world was marked by the inter-war period during the period from 1918 through 1939. The trend towards stronger state regulation was deemed as an outcome of the global economic crisis of the 1930s that was affected by the Soviet case that led to astonishment. Being dependent on the political programme, such regulations were involved in not only raising trade barriers but also deficit spending and state-led infrastructure projects, both in fascist Germany and Italy and in the USA and in the UK. (Schivelbusch, 2006, pp. 09-13)

Such ideas led to the influences on the growing academic interest in India towards modern economics that from the beginning put a high focus on the question of British colonial rule and

its economic impacts. (Chibber, 2006; Lockwood, 2012a; Hänsel, 2018) During this process, a milestone in the Indian economy was obviously marked by the year 1943 when (I/O)FDI policies start to be dictated and influenced by indigenous Indian politicians and businesses regardless of the country still being ruled by the UK government and the number of MNCs was very limited accounting for not more than 14 across the whole country. (Nayak, 2008; Sahiti, Arben et al., 2017) In this regard, the Bombay Plan of 1944 was viewed as the manifestation of business planning. Drafting a plan was considered to be both a hegemonic project of shielding the movement against any leftist influences and a capitalist plot. (Chibber, 2006; Lockwood, 2012a) Leftists groups did not only express the desire to draft a planning framework for India, but also put it on the agenda of business groups who led to the publication of the Bombay Plan in 1944. However, aside from that, the planners of the Bombay Plan owned a clear political and economic interest in its actual implementation. Ideas of imperialism, nationalism, state ownership vs. state control, and socialism were gained as an objective of heterogeneous debates within the national movement and was joined in close association with a pro-capitalist agenda. (Hänsel, 2018)

### 3.1.3. At independence

Under two hundred years of British colonial rule, India became a conveyor belt for raw commodities of India that fed the Industrial Revolution in the UK and a destination of British capital (Gautam, A. & Gautam, I., 2014) while India failed to experience the Industrial Revolution and its own economy stagnated and served as a significant market for Britain's manufactured goods (Malone & Chaturvedy, 2009) and that was destined for the manufacturing industries in Britain. (Müller & Patel, 2004; Malone & Chaturvedy, 2009; Gautam, A. & Gautam, I., 2014) Up to August 1947, the policy of the GOI was one of allowing unconditional and unrestricted inflows of foreign capital due to political dependency. (Shodhganga, 2011) On 15 August, 1947, at independence, the British colonial rule bequeathed India one of the the poorest economy in the world per capita that was preponderantly agrarian<sup>12</sup> and was stagnant with the stalled industrial development and its agricultural production, which was even not able to produce food for a rapidly increasing population. (Tirthankar, 2000) Recurring and widespread famines also marked this period in a considerable manner. (Sainath, 2005; Malone & Chaturvedy, 2009) It is evident that British colonial rule was not able to lift Indian people out of poverty or avert famines; yet, it provided for the institutions of democracy, such as the rule of law, an independent judiciary, and a free press and constructed railways, canals, and harbors. A hundred years of peace-the Pax Britannica or British peace that was mainly used for the period of relative tranquility from circa 1815 to 1914 in the regions to which Britain's power extended (Merriam-webster)-was given to India during the period of British colonial rule. Although the first fifty years of stagnation on British colonialism is blamed by the Indian nationalists, Maddison, a trade economist, admits that the world economy was also stagnant during that period (particularly, in the aftermath of World War I) when world per capita GDP yearly increased at just under 1 per cent. According to him, the major culprits were mainly conflict and autarky and world numbers are regarded as a thirty-two-country average made by Maddison representing 80 per cent of world output. Not only world's but also India's economy was caused by a greatest number of inter-war governments disgraceful protectionism to grow much more slowly. (Merriam-webster; Maddison, 1989; Das, G., 2005)

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<sup>12</sup>Approximately 60 per cent of GDP of India was attributed to agricultural activities that were mainly dependent on monsoon rains with no significant irrigation systems in place. (Dev, 2006; Bhalla, 2007)

According to Malone and Chaturvedy (2009), the historical trajectory of India can be divided into three periods when India's economic growth and development were synchronized with India's political life: (i) desperate times in the wake of the Raj: the search for an autonomous economic policy (1947-1966); (ii) autocracy and socialism: a toxic mix (1966-1990) that can be divided into two periods: since the year 1966 and in the 1970s, and reforms, globalization and growing global interdependence (1990 onwards). (Malone & Chaturvedy, 2009)

#### 3.1.4. Throughout the period from 1947 to 1966

The period of 1947 and 1966 includes the **First Five-Year Plans (1951-1956), the Second Five-Year Plans (1956-1961), and the Third Five-Year Plans (1961-1966)**. A long battle against hunger and poverty has been waged by the GOIs since its fifty five years of independence. Having achieved independence from British colonial rule in 1947, to attempt to remedy such situation through the immense task of reorganizing a country geared towards colonial economics by British colonial rule, the new democratic GOI led by **Jawaharlal Nehru** adopted and implemented the (neo-liberal) broad mixed state-led market-based policies, leaning towards heavy interventionism and high levels of economic protection for key domestic industries. This is also called the import substitution policy (Kumar, N., 1995) or model that was entirely opposed to expressing disapproval of and raising objections to FI (Malone & Chaturvedy, 2009). (Müller & Patel, 2004; Kumar, N., 1995; Malone & Chaturvedy, 2009)

The economic policies of GOI were fundamentally based upon planning, assuming control, and regulation. (Beena et al., 2003) From 1947 until 1991, the GOI assumed a high degree of control over industrial activities by regulating and promoting much of the economic activity (Beena et al., 2003) and a Fabian socialist economic path where the core of Fabian socialism was to advance the principles of socialism through gradualist and reformist means and not by violence or revolution (Manish et al., 2015) was also adopted by the Indian rulers and intellectuals (Das, G., 2005) who were enormously and especially influenced by the British Fabian Society (Bhagwati, 1993; Austin, 1999; Das, G., 2000; Beena et al., 2003; Guha, 2007; Varma, 2008; White, 2010). (Bhagwati, 1993; Austin, 1999; Das, G., 2000 and 2005; Guha, 2007; Varma, 2008; White, 2010; Manish et al., 2015) Many problems being linked to not only industrial but also economic growth were encountered by the then GOI right after the independence of British colonial rule led the GOI to put into effect Industrial Policy Resolution (1948)<sup>13</sup> to accelerate and support development through IFDI and also to obtain the necessary technical, industrial, and scientific knowledge. (Kumar, N., 1995)

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<sup>13</sup>In the aftermath of independence, in terms of foreign capital, for the first time, the GOI' policy was formulated in the Industrial Policy Resolution of 06 April, 1948. Participation of foreign capital and enterprise was obviously recognized by the GOI, especially with regard to industrial technique and knowledge for rapid industrialization of the economy. (Constituent Assembly of India) During the period since independence, the role of private foreign capital in India has been to facilitate the drift towards monopoly and concentration of economic power in the hands of the few. There existed no restrictions on the 100 per cent ownership of Indian subsidiaries; however, informed pressure on foreign companies was exerted by the authorities in order to sell part of their equity to local investors. To discourage new entrants into India, the policy environment was not predictable policy in a sufficient manner. Hence, from the beginning of independence period, it was obvious that there existed thrust on manufacturing sector. Till 2011, the same sector results in concern for the country as far as exports from this sector is concerned and more IFDIs is in need of being attracted in this sector. (Shodhganga, 2011)

Therefore, the policy makers were naturally inclined to assume a tremendous attention to the issues, which were related to foreign capital and operations of MNCs. Without forgetting about the national interests, they designed the (I/O)FDI policy that was aimed at IFDI as a medium for gaining possession of advanced technology and mobilizing foreign exchange resources. It should be mentioned that with time and as per economic and political regimes one has seen the changes in the (I/O)FDI policy too. (Gautam, A. & Gautam, I., 2014) In term of IFDIs, in the aftermath of World War II that lasted from 1939 to 1945, Japanese MNCs penetrated the Indian market and promoted their trade with India in an increasing manner; however, the UK was still continuously the most dominant investor in India (Gautam, A. & Gautam, I., 2014) and its total amount of IFDI in the mid-1948s rose to Rs. 2.560 Million. India's cheap and abundant resources were continually attracted by quite a large number of MNCs that were resourceseekers engaged in the raw materials and extractive industries. UNCTAD (1998) and Dunning and Lundan (2008), who stated that low cost resources are of paramount importance for MNCs to sustain their operations and enhance their competitive level in the global market, were of tremendous support in such IFDI motive of FIs. Due to location distinctive advantages that was identified as OLI paradigm by Dunning (1973 and 1998), India's market became more attractive through a result of **O** and market imperfections, i.e., industrial and economic growth. (Kumar, N., 1995; Dunning, 1973 and 1998; UNCTAD, 1998; Dunning & Lundan, 2008; Gautam, A. & Gautam, I., 2014)

Majority of ownership and the control of foreign capital that still remained under the hands of locals was ensured by the actual legislation in spite of the fact that the MNCs were provided guarantees of unconstrained remittances that were analogous to domestic enterprises that were concerned with dividends and profits. During this time, there existed twenty-seven foreign MNCs (Nayak, 2008) entering the Indian marketplace owing to the changes in the (I/O)FDI policy that still did not keep these MNCs from generating profits. These MNCs obtained a competitive advantage over the local enterprises that were deficient in adequate knowledge in research, expertise and technology to support the needs of the emerging local industries. This led a great number of domestic firms had to struggle with competing in the domestic market with these MNCs and had to undergo the experience of the government-led protective measures in order to command these MNCs not to enter in the domestic market where local firms were not able to offer a response to the major threat posed by these MNCs with respect to meeting needs and expanding capabilities. Although the GOI recognized the importance of IFDIs into the country and sought to have a guarantee of systematic increase in the IFDIs into the country to promote its economic growth and development it had to launch the import substitution model to protect development of the domestic manufacturing sector and other heavy industries and replace foreign imports with domestically manufactured goods. (Nayak, 2008; Sahiti, Arben et al., 2017) Hence, the form of IFDIs into the country or imports was not encouraged by the development strategy, while the limited domestic resources were widely distributed by licensing of manufacturing activity. Thus, political sub-ordination of India became the best protection for the British and MNCs' market from Japanese competition (Shodhganga, 2011) and the GOI was extremely obliged to protect its domestic industry from abroad due to import controls and high duties, and from domestic competition due to licensing and reservations. Licensing constraints dominated industrial policy by reason of that strict entry barriers were maintained. This can be also regarded as a representation of picking up the pieces left behind by the British colonial rule. Focus on import substitution model was maintained by Indian trade policy until the 1990s. One might impose restrictions on import in different kinds of forms. In accordance with the objective of attaining self-reliance, one imposed import licensing with the view to assume control over the importers. Furthermore, one canalized imports.

This meant that merely one agency, which was generally called a public sector firm, would be able to import particular commodities. (Beena et al., 2003; Shodhganga, 2011) High inputs costs causing Indian producers and manufacturers to become uncompetitive in the global market were led by import controls and high tariff rates, and further some particular items were also exposed to export controls in order to ensure easy availability, low domestic prices and for environmental reasons. Thus, consequently, domestic industries maintained and grew their business operations in an isolated environment with limited exposure to the international products and markets (Beena et al., 2003) by virtue of the fact that the GOI implemented this model in an uneven matter, and as a result it was never entirely not able to detach from the powerful and influential Indian elites who heavily and tremendously influenced and became stronger and more powerful to buy out the businesses of the departing British (Das, G., 2005) and their vested interests. (Müller & Patel, 2004; Beena et al., 2003; Das, G., 2005)<sup>14</sup> Share distribution on industry performance in Indian Gross National Product (GNP) should be doubled from 3.8 per cent in 1913 to 7.5 per cent in 1947, and the share of manufactures in her exports would mean an increase from 22.4 per cent in 1913 to 30 per cent in 1947. (Das, G., 2005) For instance, especially, from the 1950s to the end of 1980s, a measure of criticism internationally and nationally for its economic performance was received by the GOIs. (Müller & Patel, 2004) In particular, despite her economic pick-up after 1950 when India adopted democracy that took root in India and gradually the masses acquired a stake in the system, periodically electing representatives even from the lowest castes, issues concerning underperformance where the world economy experienced a golden age that was driven by trade expansion until the year 1971 are addressed by the neo-classical economists.

Like the rest of the Third World, India was not able to accrue any profits from global trade expansion because it had closed its economy and pursued import substitution, and further socialism of **Jawaharlal Nehru** had shackled the economy with fierce controls on the private sector, pejoratively known as Licence Raj and the flawed economic institutions of Nehruvian socialism caused damage to India's confidence that certainly rose and adopted democracy's redistributive pressures being involved in free power to farmers and other subsidies have significantly slowed the growth and development of Indian economy and have expounded on all the reasons for the Indian reform process that has been so distressingly slow. (Maddison, 1995; Das, G., 2005) Thus, one progressively and gradually had to involve in a combination with international pressure, and eventually took a revolutionary step towards transitioning its economic system into an *open market economy*. (Müller & Patel, 2004) After the Industries Development and Regulation Act (DRA) had been put into effect in 1951, all foreign firms had to obtain government approval to establish a new production unit or to expand their activities. This also meant that the manufacturer was aimed at changing the line of production. Furthermore, when permission was granted according to the act, it was to product, capacity and location in a very specific manner. The decision to award a license encompassed a great number of stages and came to be a highly bureaucratic process, with some elements of state capture by incumbent domestic firms. Not only this but also other government policies caused a very high degree of bureaucratization of the economy. The small scale sector dominated a great number of sectors like textiles, and as a result domestic firms in such sectors were not able to

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<sup>14</sup>This reminds me of the Korean MNCs, a few of which gained the possession of the assets of a few of the Japanese entrepreneurial firms and became the 1990s' chaebol conglomerates. In particular, some other firms were designed during the late 1940s and early 1950s and were closely associated with the First Republic of Korea that was run by Syngman Rhee from 1948 to 1960. (Savada & Shaw, 1990; please see, Yurdagul, 2015 and 2019)

benefit from economies of scale and such sectors were not able to become attractive to FIs, i.e., foreign MNCs.

Additionally, control over the exit option for a firm was assumed by the GOI. It was intent to keep lots of people off the unemployment rolls and to reduce unemployment, yet it encouraged the industrial economic efficiency as well. There existed also periodic attempts at market-oriented reforms, commonly pursuing BOPs pressures, which induced the very narrow scope of policy responses that combined exchange rate depreciation and an easing of restrictions on foreign capital inflows and had little influence over actual inflows, which remained small. Because, foreigners with only pre-independence origins were permitted to govern their shareholdings in a great number of firms. This demonstrated that there existed generally a sense of discomfort with a foreign presence in industry, especially in non-essential sectors like consumer goods, although domestic enterprises were permitted to enter into technology licensing arrangements, which frequently encompasses an equity stake at the same time, in sectors to which the then GOI gave high priority and greater importance. (Beena et al., 2003)

The strategic sectors, such as insurances, airlines, mining, power, oil and petroleum of the Indian economy were nationalized through the first successive **First Five-Year Plans** (1951-1955)-that was launched in the year 1952 and that the overriding aim of the development policy of these plans was involved in across-the board import substitution in the context of a foreign trade regime that was extensively dependent on quantitative restrictions (Bhagwati & Desai, 1970; Panagariya, 2008)-and facilitating development and industrialization. (Nayak, 2008; Bhagwati & Desai, 1970; Panagariya, 2008) Besides, the GOI placed a tremendous emphasis on the development of capital-intensive industries that expectantly brought about the benefit of technology and industrial linkages to the rest of the economy. (Encarnation, 1982; Athukorala & Veeramani, 2016) Additionally, not only domestic but also foreign firms were invited to enhance their investments in the core industries that deemed to accelerate social development and economic growth, the GOI asked foreign MNCs to include domestic firms to participate in their equity in order to be able to further continue their operations. (Davenport & Slim, 1992; Sahiti, Arben et al., 2017) Between the years 1956 and 1961, to further support the process of industrial development, the GOI officially announced the **Second Five-Year Plans** that inaugurated an industrialization scheme that moved away from the classical growth model, and instead based its strategy, which was called the Nehru-Mahalanobis model<sup>15</sup>, on developing heavy industries, which were perceived as optimal for the rapid industrialization of India. It is given a tremendous support to this model by a variety of controls, both tariff and quantitative restrictions. (Virmani, 2006; Malone & Chaturvedy, 2009) But, during the period from 1957 to 1958, Indian autarkic policies and bureaucratic ways of conducting business with respect to the

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<sup>15</sup>The Professor Prasanta Mahalanobis (also known as P.P. Mahalanobis) model, who adopted the simple two sector model of Soviet Planning of Feldman type and retained the greatest emphasis on investment goods, as they were considered to be very crucial for further economic growth of India. The disadvantage of this strategy was treated as capital deepening-that is to say, the commitment of large amounts of capital to heavy industry that would yield low returns and this investment would simultaneously lead to buying power that would not be able to be absorbed due to neglect of consumption goods, and thus this would be able to give rise to inflation. Mahalanobis also created a four sector model. This time, although he also placed a high value on investment goods, he divided the other sector into three sub-sectors that are summarized as follows: (i) industry; (ii) agriculture and cottage industry; and (iii) services, education and health, etc. It is mandated that merely one third of the total investment go to the three sub-sectors as mentioned above. (Karmakar, 2012)

foreign MNCs had severe consequences for the country's foreign exchange reserves. The crisis occurred in the BOPs. (Kumar, N., 1995)

Despite its reconsideration of encouraging the IFDIs, the GOI brought about an increase in liberalization of (I/O)FDI policy through the concessions and incentives, such as openness in the manufacturing industries, such as of heavy electric equipment, drugs, synthetic rubber and fertilizers. Although core industries were nationalized by the GOI, perceived strategic limitations were set for foreign MNCs with regard to domestic capital participation and rigid restrictions and tariffs on imports. Despite all perceived strategic restrictions on the IFDIs, one can witness the increasing levels of IFDIs during the period from 1948 to 1961. (Nayak, 2008) Asiedu (2002) explained this phenomenon by having an emphasis on the fact that some foreign MNCs favor markets that impose barriers on imports as it provides opportunities to maximize profits in the domestic markets. If one takes accounts of the size of the Indian marketplace, during this time, India was be able to regarded as a heaven for FIs who acknowledged that domestic competitiveness was relatively low, local manufacturers had inadequate infrastructure and very poor technological capabilities despite its protectionist measures on imports. (Asiedu, 2002; Sahiti, Arben et al., 2017) This phenomenon can be also explained by foreign aid having an important role in the development process of India and the need for it influenced foreign policy to an extent during the 1950s and 1960s when the acquisition of development assistance from both East and West was facilitated by the profile and standing of India. Nehru inquired for financial and technical help from almost all industrialized countries, and also got a loan of money from the WB to develop long-term infrastructure. (PCI, 1992; MOF, 1994; Heitzman & Worden, 1995) In particular, much of this foreign aid offering strong benefits to India (Bhagwati, 1970) was used to import food and other necessary items crucial the survival of India as a fragile and potentially fractious new country. (Bhagwati, 1970; Hallwood, 1973)

In actual fact, even in adverse world conditions, aid has been used by developing countries with the view to reduce BOPs deficit, and to increase (or at least sustain) investment rather than consumption. It is also evident that aid led India to be able to lead to an increase in investment during the 1960s when the (I/O)FDI policy of India was more restrictive due to the need to develop local industries (Shodhganga, 2011). (Cassen, 1986; Malone & Chaturvedy, 2009; Shodhganga, 2011) The 1962 border war with China and the 1965 war with Pakistan that led to worrying levels of deficit spending (Defence spending in 1965 and 1966, of around 24.06 per cent of total expenditure, was the highest in the period from 1965 to 1989) and accelerating inflation (Kapila, 2001) led India to undergo the experience of slow economic progress and to be exposed to external changes from better to worse. In 1965, the USA did cut foreign aid, which had been a major factor in averting devaluation of the Rupee until now, to India for a year. The GOI was under pressure assumed by the USA and other international actors, such as the IMF and WB to liberalize its restrictions on trade whose deficits had reached unmanageable proportions over some years. (Kapila, 2001; Chaudry, P.K. et al., 2004) Such moves and timing have mainly interpreted by Indian people, as there was some evidence that the West favoured Pakistan over India. The unpopular step of devaluation accompanied by some liberalization (a reduction of export subsidization and import tariffs) was considered to be the response by the GOI. (Malone & Chaturvedy, 2009) The industrial policy of 1965 permitted foreign MNCs to venture by means of technical collaboration within the country. Thus, as a result, the GOI adopted a liberal attitude by permitting more frequent equity participation to foreign firms, and to receive equity capital in technical collaborations with gladness and approval. (Gautam, A. & Gautam, I., 2014)

### 3.1.5. Throughout the period from 1966 to 2000

The period of 1966 and 1990 includes the Fourth-Five Plans (1969-1974), the Fifth-Five Plans (1974-1979), the Sixth-Five Plans (1980-1985), and the Seventh-Five Plans (1985-1990).

#### 3.1.5.1. Since the year 1966

During this period, India underwent the experience of a wide mixed autocratic and socialist policies under the regime of **Indira Gandhi** (1917-1984), in full **Indira Priyadarshini Gandhi**, née **Nehru**, politician who served as PM of India for three consecutive terms (1966-1977) after a brief interlude of Lal Bahadur Shastri as Nehru's successor from 1964 onwards (Malone & Chaturvedy, 2009) and a fourth term from 1980 until she was assassinated in 1984 (Britannica). In 1966, the Gandhi regime was still continuously under control assumed by the USA. After one year when foreign aid provided by the USA was cut off, one can witness the collapse of the Consortium's aid package that was formed to give support to not only devaluation but also trade liberalization measures. The Gandhi administration had to succumb to the overwhelming forces and reverse a greatest number of liberalization measures. (Britannica; Edugreen, 2009; Malone, 2009; Malone & Chaturvedy, 2009) And then, in the same year, the GOI put into effect the Monopolies and Restrictive Trade Practices (MRTPs) Act that included stringent measures with the view to curb the economic power of the top business houses. Under the MRTPs Act, all foreign firms above a certain asset base were prohibited to enter into almost all sectors of the industry, and even an expansion of existing plants were required for permission from the GOI on a case-by-case basis. (Encarnation, 1982; Athukorala & Veeramani, 2016) In order to overcome food shortages, it pursued Green Revolution that was regarded as one of the great successes of Indian and global agricultural development and was engineered by Indian and some foreign experts through a strong assistance provided by foreign donors, such as the Ford and Rockefeller Foundations between the years 1967 and 1978, and as a result India reinvented itself from a food-deficient country to one of the world's leading agricultural producers. (Edugreen, 2009; Malone, 2009; Malone & Chaturvedy, 2009)

#### 3.1.5.2. In the 1970s

In the 1970s, there was modest liberalization of the economy. (Das, G., 2005) Despite the liberalization policies, significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties, etc. led the GOI to have to adopt strict foreign policy in 1970s, i.e., a selective and highly restrictive foreign policy as far as foreign capital, type of (I/O)FDI and ownerships of foreign firms was concerned (Gautam, A. & Gautam, I., 2014) and the sense of discomfort with the FIs led to a number of key policy decisions during the late 1970s (Beena et al., 2003). Hence, to maximize its benefits from IFDIs, the GOI followed a very selective policy towards the IFDIs and foreign collaborations until the late 1970s although India always looked upon IFDIs as a means for the transfer of technology to its manufacturers and it, therefore, used to discourage IFDIs which were not accompanied by technological know-how. In 1973, a highly complex regulatory framework, such as the GOI established Foreign Investment Board (FIB), evolved and put into effect the FERA that placed restrictions on foreign equity was formally ratified (Kumar, N., 1995) in order to regulate flow of foreign capital and IFDIs (Gautam, A. & Gautam, I., 2014) and to govern financial and technical collaboration agreements between Indian and foreign firms. Severe restrictions on almost every aspect of foreign collaborations were imposed by this regulatory framework, i.e., on the entry of a foreign firm, degree of foreign equity participation, repatriation of profits and dividends, the amount of technical fees or royalty payment to be made to foreign collaborators, the duration of technical collaboration agreements and the sectors in which the foreign collaborations are to be allowed. According to Martinussen (1988), among these stringent restrictions, the one that limits foreign equity participation only up to 40 per cent of the equity, with the remainder that has to be transferred to

the local counterparts (Sahiti, Arben et al., 2017) was a most inhibiting factor for undertaking any fresh investment in the Indian industries among potential FIs. (Beena et al., 2003; Martinussen, 1988; Keshari, 2013; Gautam, A. & Gautam, I., 2014; Sahiti, Arben et al., 2017)

This demonstrated that foreign firms were forced to limit their foreign shareholdings to a maximum of 40 per cent and severe restrictions on FI, which were imposed by (I/O)FDI policy, caused a small number of foreign firms to be permitted to retain an equity share of more than 40 per cent (Beena et al., 2003), only limited firms to be permitted to operate in specific activities and to acquire more equity ownership due to special permission.<sup>16</sup> Thus, consequently, best technologies of these foreign firms in India could not be sued by many (Beena et al., 2003) and a little amount of new FI found its way into India in the 1970s. (Mukherjee, 1987; Beena et al., 2003; Keshari, 2013) MRTPs Act, which placed restrictions on the size of MNCs' operations and pricing strategies, was also enacted. (Kumar, N., 1995) Immediately after the reinforcement of both legislations, the IFDIs trend, which was negative from 1962 to 1968, became volatile from 1969 to 1977. (Nayak, 2008) These findings are in accordance with the research, which has been conducted by Brewer (1992) and Dunning and Lundan (2008). They indicated that policies that undermine the profitmaximizing strategy of MNCs and those that limit their bargaining power led to the creation of negative imperfections, and thus ultimately gave rise to a decrease of IFDIs into the country. (Brewer, 1992; Dunning & Lundan, 2008; Sahiti, Arben et al., 2017) Since the Indian state highly regulated and monitored the financial sector policies were not able to assume tremendous importance in generating enough capital from within and outside the country. All the major banks had been possessed by the Indian state since nationalization in 1969. (Beena et al., 2003)

In the year 1973, FERA came into force, requiring all foreign companies operating in India, with up to 40 per cent equity, to register under Indian corporate legislation. The GOI initially began with the following measures: (i) no IFDI was permitted without transfer of technology. (ii) renewals of foreign collaborations were restricted. (iii) FERA, 1973 was restricted to IFDI in certain core or high priority industries. (iv) equity participation was restricted to 40 per cent. In essential, the policy was aimed at retaining majority domestic ownership and effective control in foreign firms, and thus was identified by a cautious welcome to FI. For technology transfer and royalty payment, a selective licensing regime was followed by the GOI. Technical collaborations were allowed for import substitution, technology upgradation, and also for export oriented enterprises. Foreign collaborations were encouraged in designated protected industries, which include drugs and pharmaceutical, aluminum, heavy electrical enterprises, fertilizers, machine tools and extensive concessions and tax advantages were offered to attract MNCs. Hence, during this period, the GOI was trying out the outcomes of IFDI on different kinds of sectors which kept in mind the future and growth prospects of indigenous firms. (Shodhganga, 2011)

### **3.1.5.3. In the 1980s**

From 1950 to 1980, development was fundamentally featured by strong centralized planning, government ownership of basic and key industries, excessive regulation and control of private enterprise, trade protectionism by dint of tariff and non-tariff barriers and a cautious and selective approach towards foreign capital. It was a quota, permit, and license regime to a full extent and was guided and controlled by a bureaucracy, which was trained in colonial style.

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<sup>16</sup>A great number of firms acted in accordance with this command; however, two eminent ones (Coca Cola and IBM) did not comply and they were requested to shut down their Indian operations. (Beena et al., 2003)

This so called inward-looking regulatory regime, import substitution strategy of economic development continued until the early 1980s, but eventually started to be broadly questioned with the beginning of 1980s.

Policy makers began realizing the drawbacks of this strategy that inhibited competitiveness and efficiency and produced a much lower rate of growth than expected. (I/O)FDI policy was not export-oriented and was restrictive in nature that could not be a caused of making BOPs situation favourable. Hence, in the 1980s, measures were taken as a part of structural adjustment programme in order to make the Indian economy more liberal, and also as a part of the industrial policy resolutions, the attitude towards IFDI and norms for IFDI were liberalized. This period was the period of opening up and gradual liberalization. (Shodhganga, 2011) Das G. (2005) described it as a modest liberalization of the Indian economy. (Das, G., 2005) The rules and procedures that were linked to technological collaborations were relaxed and streamlined in a considerable manner, especially, the soaring oil prices continuously led to low exports and deterioration in BOP position, and as a result the GOI felt forced to make necessary changes in the foreign policy, take liberalization measures, and take streamlining of procedures into account. The GOI publicly announced that the modest liberal reforms that led to dramatic changes (Das, G., 2005) in the industrial sector highly sought to lead an increase in competency, efficiency and growth in industry by dint of a stable, pragmatic and non-discriminatory policy for IFDIs.

In actual fact, the macro-economic stabilization and structural adjustment program was officially introduced by the GOI with the help of WB and IMF. Such reforms led India to open its door to IFDIs and adopted a more liberal foreign policy in order to restore the confidence of FIs. Hence, this led to an indispensable component of the partial liberalization of Indian economy and the FI climate in India has improved in a considerable and remarkable manner. (Das, G., 2005; Gautam, A. & Gautam, I., 2014) Since the early 1980s, the GOI had continuously maintained the possession of all the major banks that have been regained since nationalization in 1969 and had pursued a serious BOPs crisis and a large loan from the IMF, and thus its FI policy became more relaxed. A number of JVs in the automotive industry, which involves not just financial but also technical relationships between Indian and Japanese manufacturers, were engendered by this. (Beena et al., 2003)<sup>17</sup> The GOI implemented the first major break in (I/O)FDI policy with the purpose of permitting FI up to 40 per cent in the equity of new ventures in specified industries from Oil Exporting Developing countries, in the absence of insisting that IFDIs should also be accompanied by a technology transfer. The second major break from the general policy was also permitted in the case of investment by NRIs even if no technology transfer was involved therein. Furthermore, the GOI introduced several schemes with the objectives of relaxations under FERA for attracting the funds from NRIs. Some of the cases of relaxations, which were permitted in the procedures and the schemes in which NRIs could invest, were summarized as follows: (i) bulk investments scheme for the revival of sick industrial units; (ii) investment in new issues of Indian shipping firms under 40 per cent scheme investment in priority industries under 40 or 74 per cent scheme; (iii) removal of ceilings for private limited firms; (iv) opening of foreign collection accounts; (v) grant of rupee loans or overdrafts for IFDI in export-oriented activities; (vi) hospitals; (vii) hotels with 3, 4, 5 star ratings; (viii) shipping firms; (ix) development of computer software; (x) oil exploration; and

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<sup>17</sup>A few years later, Japanese two-wheeler manufacturers preferred to enter the domestic market, again by dint of JVs with major Indian producers and a series of arrangements between component manufacturers in the two countries followed the ventures here again. (Beena et al., 2003)

(xi) services and investment in country funds. The third exception was considered to be the FI in export-oriented manufacturing units and service sectors, such as tourism and travel. (Keshari, 2013) Other major sectors or industries, like the computer industry, were offered a more liberal trade and investment environment as well. (Beena et al., 2003)

However, the changes in the (I/O)FDI policy that is related to significant implications for trade liberalization and ultimately that positively influenced IFDIs, the number of JVs and technological transfers led to a fluctuating pattern, and further the downturn occurred during the period from 1982 to 1983. In the aftermath of Ms. Gandhi's assassination in 1984, her son, Rajiv Gandhi, run the GOI and sought to liberalize the Indian economy a greater manner by removing price controls and reducing corporate taxes. Foreign businesses and IFDIs in a considerable number of sectors were over again welcomed and more priority was given to modernization of the economy through computerization and telecommunications by the newly GOI, which also put more efforts into improving better relations with Western governments. The Seventh Five-Year Plans (1985-1989) was officially announced in terms of placing greater emphasis on the allocation of resources to energy and social spending (at the expense of industry and agriculture). (Malone & Chaturvedy, 2009)

To reduce control on industries, especially large ones, the GOI publicly announced a series of measures through 1985-industrial policy. These measures were regarded as New Economic Policy (NEP), which coincided with the policy framework of the Seventh Five-Year Plan. (Shodhganga, 2011) In the year 1986, the GOI announced to reduce tax rate on royalties to 2 per cent in the budget and introduced a special facility for import of design, drawing and related technological input up to a limit of Rs. 25 Lakh, which could be availed by all scheduled industries. Towards the end of the 1980s, one could observe a noteworthy change in India's overall economic policy. The GOI adopted liberal industrial and trade policies with the objectives of increasing exports and encouraging competition in hitherto much protected domestic market. The GOI decided to establish four more Export Processing Zones (EPZs), additionally to two existing ones, to attract MNCs. Even 100 per cent foreign equity would be permitted in entirely export-oriented units, Free Trade Zones (FTZs) or EPZs. The GOI has raised the earlier limit of 40 per cent on foreign equity in tourism related project (51 per cent) and also increased the period of approval for FI proposals from one year to two years. (Keshari, 2013)

After the long-run fluctuations in the overall IFDIs, a slight decline occurred in 1988. (Malone & Chaturvedy, 2009) In May 1988, in order to promote a larger IFDI, a committee, which is known as the Fast Tract Arrangement that has been made for speedy clearance of applications received for various investment proposals in the different ministries, government departments, RBI, etc. was established by the GOI. This was initially included in merely the investors from West Germany and Japan; yet, it was also involved in the investors from the UK, the USA and France. The function of arrangement is due to a special investment Promotion Group, which is comprised of representatives from MFO, Industries and External Affairs under the Chairmanship of Joint Secretary, Investments. The Group inquires into any undue delay at any stage of clearance of IFDI proposals which include areas like customs clearances, release of foreign exchange for remittances abroad, tax concessions, visa, opening of offices, appointment of personnel, expediting approvals for industrial licensing, investment or collaboration, etc. Since August 1988, the GOI has liberalized and relaxed the procedures for engagement of foreign technical experts or technicians of Indian firms by letting the RBI assume more powers. The New Foreign Investment Policy (NFIP) (Gautam, A. & Gautam, I., 2014) or New Industrial Policy (NIP) would permit import of technology without obtaining clearance from the GOI, provided that the royalty payment does not exceed 5 per cent on domestic sales and 8 per cent

on exports. In addition, clearance of GOI with the decision to be communicated to the entrepreneur within a period of 30 days would be required for the proposal for the same, provided that a lump sum payment for technical fee is included in the import of technology. (Keshari, 2013; Gautam, A. & Gautam, I., 2014)

#### **3.1.5.4. In the 1990s**

This period includes the Eighth Five-Year Plans (1992-1997) and the establishment of the Ninth Five-Year Plans (1997-2002). It is known that India has historically become protectionist, particularly when it comes to its retail sector that is 98 per cent unorganized and a major employer of local labor. The GOI has feared that a surge in IFDI in retail might maybe hamper local employment. (Indian Government Website for Make In India, 2017; Shah, 2017) It is very critical to the understanding of the impact of pre-1990 policies on the Indian industrial structure that was weak, both financially and technologically. Inefficiencies, high costs, poor management, non-competitiveness, excessive reservation, import controls, lack of export orientation and disincentives to the FIs can be characterized as the major prevailing problems that were experienced by the GOI. (Beena et al., 2003) Furthermore, during the early 1990s, the issues of foreign exchange market crisis led India to be on the verge of bankruptcy on the grounds of enormous deficits in fiscal and current accounts, high inflation rates, rising debts to finance obligations and inadequate maintenance of the foreign exchange market. (Ghosh, 2006) Therefore, during the 1990s, more wide-ranging influences and effects can be witnessed as the India's economy became incorporated with the rest of the world. As quickly as possible, the economic institutions of Nehruvian socialism began to be substituted by capitalist ones in the 1990s that was the period of liberal reforms. (Das, G., 2005) Due to NIP that was announced on May 31, 1990, up to 40 per cent of foreign equity participation in a firm will be allowed on an automatic basis provided the landed value of imported capital goods does not exceed 30 per cent of the value of plant and machinery; but, this liberalization will be able to be applied merely to a positive list of industries. (Keshari, 2013) India underwent the experience of not only the deteriorating internal economic basics but also worsening external balances and did not favour international developments over other external problems, such as the collapse of the Soviet Union or the Soviet Union or the Union of Soviet Socialist Republics, which was India's major trading partner, and the first Gulf War in 1991, which cut the level of remittances from Indians working abroad, contributed to a major BOPs crisis for India. (Malone & Chaturvedy, 2009)

In 1991, when India was precipitated by high levels of debt and high inflation particularly distressed the Indian population (particularly the rural poor, who were highly dependent on basic foods and other commodities, the prices of which rose rapidly) (Ahluwalia, 1996; Malone & Chaturvedy, 2009), the GOI was officially obliged to fullfledge neo-liberal reforms when the GOI signed onto the international financial bodies which included the WB and IMF. (Shodhganga, 2011) The WB and IMF loans where the two central components of these neo-liberal policies have been the liberalization of India's private sector and a reform of the public sector (Müller & Patel, 2004) and attempted to basically change the business environment by dint of a number of not only domestic but also external reforms where one of the foremost components of the NIP was deemed as a significant widening of the range of activities in which foreign firms could enter as well as an easing of the conditions under which they came in. (Beena et al., 2003; Ahluwalia, 1996; Müller & Patel, 2004; Malone & Chaturvedy, 2009; Shodhganga, 2011) Due to pressure from the WB and IMF, India has to adopt structural changes by liberalizing trade and investment policy. In the aftermath of the announcement of a NIP on 24 July, 1991, which initiated radical reforms that was aimed at improvement of domestic industrial productivity and IFDI besides acquiring new technologies to steadily facilitate the integration of the Indian economy with the World economy (Hansen, 2008, quoted

in Shodhganga, 2015), the process of economic reforms, which initiated in 1985, got a big boost. The new policy was especially aimed at competitive and market-oriented economy rather than the controlled and protected economy. (Hansen, 2008, quoted in Shodhganga, 2015; Shodhganga, 2011)

To promote trade, industrial reforms, which included the dismantling of industrial licensing policy, deregulation, privatization and disinvestments along with reforms in exchange rate regime, reduction in import tariffs, removal of quantitative restrictions and reduction in import tariffs, full convertibility of the rupee on current account on BOP, etc. were considered to be important milestones. Furthermore, (I/O)FDI policy significantly changed by opening up of a great number of sectors that were until then closed to IFDI, and also automatic approval route was instituted. The business environment of the Indian markets was also changed by all these measures together. (Pradhan, 2009, quoted in Shodhganga, 2015) According to the introductory Chapter of the MOF Economic Survey for 1991, it is concluded that compared to domestic investment the contribution of FI is bound to remain minor. (ED & MFCA, 1992) During this time, simultaneously, efforts were being made to solve the BOPs crisis with India's own resources and ingenuity as self-reliance presented itself as the only alternative (Ibid.) instead of placing the focus on the long-term planning processes recognizing the imminence of reform. (Ibid.; Singh, K., 2005) In March 1991, India experienced a very severe financial crisis that developed as India's hard currency reserves fell to US\$ 2.1 Billion-less than the value of six weeks of imports-with US\$ 1.5 Billion in payments to the multilateral financial institutions due at the end of March. (Kamath, 1992)

In June 1991, the GOI embarked on a set of wide-ranging reforms having greater emphasis on freeing up the investment and trade regime, reforming the financial system, and modernizing the tax system and divesting public enterprises. Over the past ten years, such reforms have progressively and slowly expanded to other areas being included in agriculture, pensions, insurance, capital markets and infrastructure, and have encompassed full-blown privatization. With the removal of import licensing on all but a handful of intermediate inputs and capital goods items, these high tariff rates that had been raised substantially during 1980s to turn quota rents into tariff revenue became effective restrictions on imports. (Panagariya, 2004; Malone & Chaturvedy, 2009)

In the aftermath of commencement in July 1991, the GOI had initiated many measures to open up finance sector to more FI and had proclaimed the presence of massive import liberalization measures for the past decades. FI was publicly announced in 1991 under the FEMA run by then FM Dr. Manmohan Singh (Rani, 2015), for instance, under the NIP, the GOI set up and constituted FIPB whose main function was to invite and facilitate FI through single window system from the PM's Office (Gautam, A. & Gautam, I., 2014) pursuant to the Statement of Industrial Policy that was tabled before both houses of the parliament on July 24, 1991 and was prescribed for constituting a Special Empowered Board (SEB) to negotiate with a number of large international firms and approve IFDIs in selected areas, which led to the formation of FIPB. (Gautam, A. & Gautam, I., 2014; Rani, 2015; Prakhar, P. et al., 2017) Thus, conducive environment for FI in India was created by the first generation reforms. In actual fact, this led to the beginning of the process of liberalization of (I/O)FDI policy. One of the measures undertaken was that FI and technology collaboration was also welcomed to acquire higher technology, to lead to an increase in exports and to contribute to expand the production base. (Shodhganga, 2011) One witnessed an increase in the foreign equity cap that amounted to 51 per cent for the existing firms. The GOI had permitted the use of foreign brand names for domestically produced products that the GOI restricted earlier. Additionally, India came to be the member of MIGA for protection of FIs. (Gautam, A. & Gautam, I., 2014) The GOI was

closely adhered to the self-reliance model and was highly prone to reform only as much as was absolutely essential to arrest the crisis and revert to status quo. Like unevenness in implementation of import substitution model, the GOI implemented this policy in an uneven manner, and hence several stakeholders became opposed to these economic reforms.

In the November of 1991—a few months after the new liberal economic policy had been implemented—, a protest that significantly obtained political roots initially begun in the form of the *Swadeshi Jagaran Manch (SJM)* created by *Rashtriya Swayamsevak Sangh* that is also known as *Rashtriya Seva Sangh*, a Hindi National Volunteer Organization founded in 1925 by *Keshav Baliram Hedgewar (1889-1940)*, a physician living in the Maharashtra region of India, as part of the movement against British colonial rule and as a response to rioting between Hindus and Muslims (Britannica). People marched in the streets to protest against globalization and privatization by identifying MNCs as a main target and portraying IFDI as a new form of western imperialism which the Indian Nation was to combat through indigenous capabilities. (Britannica; Singh, K., 2005)

The anti-IFDI rhetoric (Ibid.; Singh, K., 2005) directed toward a particular goal of exploiting the feeling of insecurity spawned by the liberalization of the economy and strengthening national identity which was held synonymous with Hindu consciousness by invoking the spectre of foreign domination. (Ibid.; Singh, K., 2005; Boutron, 2005) Between the years 1991 and 1992 when the GOI initiated economic reforms (Shodhganga, 2011), the economic crisis led the private sector to be free from a myriad of government controls, deregulated financial markets, reduced import tariffs and the economy, which was on the brink of a BOPs crisis, to be opened up to more FI to prevent from happening of a BOPs crisis, and a stock market scam to lead to the formation of the capital market regulator—the SEBI.

During the initial phase of opening up, the then GOI simultaneously initiated measures for liberalizing policy that was related to IFDI and technology transfer, announced the abolition of widespread industrial licensing (i.e., except for 15 critical industries, industrial licensing was abolished in July 1991 and the number of industries reserved for public sector was opened up for the private sector), a great number of concessions for foreign equity capital and raised the foreign equity capital limit to 51 per cent, permitted IFDI to be made in exploration, production, refining of oil and marketing of gas and NRIs and Overseas Corporate Bodies (OCBs) to invest 100 per cent equity in high priority areas as well as in export houses, hotels and tourism related industries, rationalized taxes, reduced import tariffs and reformed foreign exchange regulations (Shodhganga, 2011), curbed import tariffs, and put an end to industrial licensing with the view to foster competition. (Shodhganga, 2011; Nag & Sircar, 2020)

The GOI made approval mechanism for IFDI simpler and transparent and announced two approval routes, i.e., automatic route and FIPB route. A great number of sectors were not covered under the automatic route. (Shodhganga, 2011) Therefore, one should mention that this period marked a turning point in the history of India's (I/O)FDI developments. According to Cerra and Saxena (2002), in March 1992, the new GOI led by the PM **Pamulaparti Venkata Narasimha Rao** who was also known as **P.V. Narasimha Rao** and was leader of the Congress (I) Party faction of the Indian National Congress or Congress Party and PM of India from 1991 to 1996 (Britannica), proclaimed the presence of a floating exchange rate regime that served India well, not least during the global financial and economic crisis of 2008 and 2010, with a falling Rupee absorbing much of the shock. (Britannica; Cerra & Saxena, 2002; Malone & Chaturvedy, 2009) Thirty five high priority industries were initially notified for approval under automatic route for which foreign equity cap was pegged at 51 per cent (GOI, DIPP, Press Note No. 10 (1992 series), dated 24 June, 1992). The GOI restructured the domestic capital market

with the Securities and Exchange 50 Commission and the National Stock Exchange as the driving forces, and liberalized interest rates, and permitted foreign firms to establish 100 per cent subsidiaries in India and FI to be made in virtually every sector, aside from those of strategic concern, such as defense and transport. (Shodhganga, 2011)

Until the year 1995, there also existed some measures and initiatives which were taken by the GOI. Despite the far-reaching unanimity for IFDI between the years 1995 and 1996 when the GOI began to showcase the progress made as a result of IFDI along with defending the changes to critics, in April 1996, the director of the Confederation of Indian Industry, a business lobby group, expressed his disagreement with an over reliance on imported components rather than Indian made ones (Ibid.), more precisely the role of foreign MNCs in India. In actual fact, the rural population shaping the largest part of the Indian nation and being swayed by anti-IFDI rhetoric was hardly influenced and was only to a remoted degree involved in IFDI. Hence, it could not be expected that the PM P.V. **Narasimha Rao** could reform the Indian economy too fast. Prior to the announcement of any reforms in contentious areas, which included taxation, financial services and the public sector, to explore each issue, and make recommendations, committees were appointed by the PM P.V. **Narasimha Rao**. (Ibid.) Such recommendations were almost identical to prescriptions which were made by the WB and IMF and were considered to be more acceptable from Indian committees. (Singh, K., 2005) The next coalition GOI during the years 1996 and 1998 was willing to thoroughly understand IFDI through the policies that led to an increase in IFDI, and further liberalization. During this period, one can see a greater understanding on the role of IFDI in not only private but also public sectors.

*“FIPB was initially constituted under the aegis of PM's Office and was subsequently transferred to DIPP in 1996 with a newly constituted board, specified levels of approval notified vide Order dated July 01, 1996 and fresh set of guidelines for consideration of (I/O)FDI proposals by FIPB prescribed vide Press Note No. 3 of 1997 Series. FIPB recommendation was required to be considered by the Industry Minister before approving each proposal involving a total investment of Rs. 600 Crore or less.”* (Prakhar, P. et al., 2017)

From 1997 to 1998, since *large-scale divestment of state-run assets to garner revenues was prompted by economic sanctions post India's nuclear weapons tests, and the Asian financial crisis prompted* (Nag & Sircar, 2020), the GOI had to take more technical measures with regard to the particular aspect of liberalization of investment forms. In January 1997, the first ever guidelines for IFDI expeditious approval in areas that were not covered under automatic approval were publicly announced by the then GOI. (Singh, K., 2005; Nag & Sircar, 2020) Additionally, during the same period the GOI gathered further momentum and expanded 111 industries for approval under automatic route and incrementally raised sectoral caps for specified industries or service sector up to 50, 51 and 74 per cent respectively (GOI, DIPP, Press Note No. 2 (1997 series), dated 17<sup>th</sup> January, 1997). (Shodhganga, 2011) Furthermore, from 1998 to 1999, it publicly declared that many reforms would be designed to give support to and to contribute to the progress of a favorable business environment for investors and also offered a great number of incentives that were included in tax concessions, simplification of licensing procedures and dereserving some industries such as drugs, aluminum, heavy electrical equipments, fertilizers, etc. in order to further boost the IFDIs. (Ibrahim & Muthusamy, 2014) The most significant step might be deemed as replacement of FERA, 1973 with FEMA, 1999. The objective of the Act is to consolidate and amend the law that was related to foreign exchange with the purpose of facilitating external trade and payments and for promoting the

orderly development and maintenance of foreign exchange market in India. The GOI eliminated licensing.<sup>18</sup>

In addition to this, it permitted firms in all but a few sectors to start their operations in the absence of government approval, and gave allowance to automatic route for IFDI is permitted. Aside from certain specified activities, there were requirements for prior approval from exchange control authorities, i.e., RBI. A great number of new sectors were thrown open for IFDI. In the same year as momentum continued, the GOI shifted its focus to opening infrastructure, insurance and service sector, liberalizing royalty payment regime and giving permission for royalty on trademarks and brand names and for foreign equity up to 100 per cent in roads, ports, harbors, bridges, and high ways, and released guidelines on IFDI in Non-Banking Financial Companies (NBFCs) for non-fund-based activities, and further prescribed minimum capital requirements of US\$ 0.5 Million for all activities permitted with FI (GOI, DIPP, Press Note No. 14 (1999 series). (Shodhganga, 2011) However, in general, between the years 1998 and 2000, the facets of IFDI were not able to be understood by all the parties and the IFDI trends became a result of political formation. (Singh, K., 2005)

#### 3.1.5.5. In the 2000s

India witnessed the last period of the Ninth Five-Year Plans (1997-2002), the establishment of Tenth Five-Year Plans (2002-2007), the **Eleventh** Five-Year Plans (**2007-2012**), and the **Twelfth** Five-Year Plans ( 2012-2017), known as the last Five-Year Plans. In 2000, except a few, the GOI placed a greatest number of activities under the automatic route with 100 per cent foreign equity participation and all the remaining activities under the automatic route. This can be regarded as the occurrence of a paradigm shift occurred, wherein, except for a negative list (GOI, DIPP, Press Note 2 of 2000), sustained policy thrust for opening up service, financial and key infrastructure sectors or activities or industries, led total dimension of IFDIs to be concentrated in tertiary sector that provided very 51 lucrative returns to FIs due to the changes in sectoral cap (i.e., some of the important features are noted here followed by the sector specific policy), removed the dividend balancing condition or the condition of dividend balancing which was applicable to IFDI in 22 specified consumer goods industries stands withdrawn for dividends declared after 14<sup>th</sup> July, 2000 (GOI, DIPP, and Press Note No. 7 of 2000 series), made investment and returns on them freely repatriable, except where the approval is liable to specific conditions, which included lock-in period on original investment, dividend cap, foreign exchange neutrality, etc. as per the notified sectoral policy, in order to make the investment in India attractive, and permitted IFDI in all sectors, such as the services sector, except a few sectors where the existing and notified sectoral policy did not allow IFDI beyond a ceiling. IFDIs up to a cap of 26 per cent in the insurance and defense sectors were permitted for the year 2000 and 2001 onwards (Press Note 10 of 2000 and 4 of 2001). In the case of insurance services, there was the main issue of 26 per cent cap on FI aside from restrictions like minimum capitalization norms, funds of policy holders to be retained within the country, compulsory exposure to rural and social sectors and backward classes. For the defense sector, the entry of foreign investor will be allowed depends on the state of art. (Shodhganga, 2011) Despite its non-membership of the OECD, since February 2001, India has been a member of the OECD that was set up by decision of the OECD Council on 23<sup>rd</sup> October, 1962 and encompasses

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<sup>18</sup>I.e., the impact of delicensing was most 49 evident in sectors like steel, automobiles, fast moving consumer goods (FMCG) and consumer electronics which underwent the experience of a surge in entry of new firms. (Shodhganga, 2011)

twenty member countries<sup>19</sup> of the OECD. The Commission of European Communities also takes part in the Centre's Governing Board. (Maddison, 2006)

According to OECD, to promote and encourage its FI for development, tremendous progress in building a policy environment was successfully made by India. Thus, consequently, its economy is growing more rapidly and its IFDIs have accelerated in an impressive manner. But, this does not mean that FI remains sufficient to fulfill the country's needs, especially in infrastructure. India is currently making more efforts to strengthen and liberalize the regulatory framework for FI need to be intensified and India's well-developed economic legislation implemented at an accelerated pace both at national level and right across India's states and union territories. It is still challenging to implement national-level reforms at state level. (OECD, 2009) For that reason, from April 1<sup>st</sup>, 2001, a greatest number of quantitative restrictions on IFDIs was removed by the GOI. Serious challenges from international producers, who own open access to the domestic market, are faced by the small manufacturers under such circumstances. Thus, a major advantage over the domestic small manufacturers with fragmented capacities might have been by international firms, which might gain benefits from large scale. (Beena et al., 2003) The GOI permitted foreign equity up to 100 per cent in order to operate subsidiaries by NBFCs (GOI, DIPP, Press Note No. 2 (2001 series), dated 17<sup>th</sup> April, 2001) and foreign equity up to 100 per cent under the automatic route for drugs and pharmaceutical, hotels and tourism sectors and increased equity capital for internet service providers with gateways, radio paging and end to end bandwidth (from 49 per cent to 74 per cent), subject to approval by FIPB (GOI, DIPP, Press Note No. 4 (2001 series), dated 21<sup>th</sup> May, 2001). (Shodhganga, 2011)

IFDIs up to a cap of 26 per cent in the insurance and defense sectors were continually permitted for the year 2002 (Press Note 2 of 2002), which marked a complete change in IFDI. A greater importance and emphasis on MOF's Economic Survey was placed in the form of a new subsection in industry that exclusively dealt with IFDI, its definition, its role, and much more data than in the previous years, and also there existed also a specific mention on RBI. Eventually, in 2002, the efforts made by the GOI led the IFDIs to be increased. From 2003 to 2004, the GOI tried to reformulate both IFDI and OFDI data. In 2003, IFDI for virtually all items or activities would be able to be brought in through the automatic route under powers that were delegated to the RBI, and for the remaining items or activities through government approval. Government approvals are accorded on the recommendation of the FIPB (SIA, Manual on FDI, Policy and Procedures, GOI, May 2003). (Shodhganga, 2011) Eventually, FIPB was over again transferred from DIPP to DEA vide a Presidential Order dated January 30, 2003 (**Presidential Order**). To involve FIPB under heading MOF and sub-heading DEA, the second schedule of the GOI (Allocation of Business) Rules, 1961 was amended by the aforementioned Presidential Order. (Prakhar, P. et al., 2017)

The next election in 2004 caused IFDI to become a non-electable issue through a widespread acceptance of the topic among all the party lines. (Singh, K., 2005) From 2004 to 2005, the raising of sectoral caps in services sector was a cause of services sector that attracted more IFDIs towards the services where one of the prime reasons for drawing favorable attention to IFDI towards the services was growth potential and quick returns available to foreign investors in India. The changes in the policies and reforms are considered to be well-reflected in IFDIs

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<sup>19</sup>OECD Member countries are Austria, Belgium, the Czech Republic, Finland, France, Germany, Greece, Iceland, Ireland, Italy, South Korea, Luxembourg, Mexico, the Netherlands, Norway, Portugal, Slovak Republic, Spain, Sweden, Switzerland, as well as Chile since November 1998.

and very effective to attract more quantum of IFDI<sup>20</sup>. In March 2005, the GOI publicly announced a revised (I/O)FDI policy, an important element of which was the decision to permit IFDI up to 100 per cent foreign equity under the automatic route in townships, housing, built-up infrastructure and construction-development projects (GOI, DIPP, Press Note No. 2 (2005 series), dated 3<sup>rd</sup> March, 2005). Additionally, the cap for telecom services were also increased from 49 per cent to 74 per cent (Press Note 5 of 2005). (Shodhganga, 2011) The year 2005 also marked the enactment of the Special Economic Zones (SEZs) Act, which entailed a lot of construction and township development that was put into effect in February 2006. IFDI up to 51 per cent was permitted in Single Brand Retail (SBR) (Press Note 3 of 2006) and IFDI up to 100 per cent was also allowed under the automatic route for the establishment of SEZs. Proposals, which were not covered under the automatic route, required approval by FIPB. Additionally, IFDI up to 100 per cent was allowed under the automatic route for establishing 100 per cent Export Oriented Units, which were liable to sectoral policies, and also IFDI up to 100 per cent was allowed under the automatic route for the establishment of industrial parks. Proposals for IFDI or NRI investment in electronic hardware technology park and software technology park units were eligible for approval under the automatic route, which was subject to certain parameters which were listed by the GOI. (Shodhganga, 2011) From 2007 until 2009, one can witness an increase in the IFDIs due to the steps have been taken to gradually increase IFDI across various sectors, including retail and current IFDI allowances for most sectors which range from 49 per cent up to 100 per cent. (Indian Government Website for Make In India, 2017; Shah, 2017)<sup>21</sup>

To develop and enhance cooperation with India, as well as with Brazil, China, Indonesia and South Africa, through a programme of enhanced engagement, defining these countries as Key Partners of the OECD, a resolution was adopted by the OECD Council at Ministerial level adopted a resolution on 16 May, 2007. This cooperation and interaction will mutually benefit not only India but also OECD members and other Key Partners' engagement with India as a major player in the global economy. India, as a Key Partner, encompasses OECD analysis and statistical databases. Due to its participation in OECD bodies and fora, Indian policy makers are permitted to benefit from the OECD's technical expertise and analytical capacity. At fora like the G20, a coordinated approach to addressing pressing policy challenges through leveraging the Organization's policy advice will be supported by this kind of dialogue. Its contextual engagement in the G20 includes India's active role in the Global Forum on Steel Excess Capacity and its adherence to the G20 or OECD Principles of Corporate Governance. OECD statistics, sector-specific country reviews and targeted joint activities are key to not only advancing India's domestic reform agenda but also increasing the OECD's relevance in global governance.

The OECD-wide cooperation with India is coordinated by the Global Relations Secretariat coordinates with the aim of maintaining a mutually beneficial strategic orientation to engage central and state governments, business associations, and think tanks. OECD-India collaboration continuously build in areas of work, which include anti-corruption, corporate governance, economic policy, environment, fiscal relations, as well as, responsible business conduct, steel,

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<sup>20</sup>However, from 2004 to 2005, IFDI still remained constant (Indian Government Website for Make In India, 2017; Shah, 2017)

<sup>21</sup>"The allowances for the retail sector still stand at a staggering 49 per cent. For proposals involving IFDI beyond 51 per cent, the laws mandate at least 30 per cent sourcing to be done domestically." (Mishra, 2017; Shah, 2017)

taxation, trade and investment. OECD general activities encompass its participation in selected OECD Committees and their subsidiary bodies through a membership of the Development Centre, the Global Forum on Transparency and Exchange of Information for Tax Purposes, the International Transport Forum, the Financial Action Task Force, and an Association Country of the International Energy Agency. (OECD, 2019b) The UNCTAD in a report on world investment prospects titled, World Investment Prospects Survey 2009 and 2012 revealed that India has been ranked at the second place in global (I/O)FDIs in 2010 and will continue to remain among the top five attractive destinations for international investors between the periods of 2010 and 2012. (UNCTAD, 2009, 2010, 2011, and 2012; Marimuthu, 2012)

The changes in policy and weak trust in the nations governance and policy caused the IFDIs to only to a very small extent decrease between the years 2009 and 2014 (Shaaz & Raghuram, 2017), i.e., the GOI removed limits on payment of royalty (Press Note 8 of 2009) and permitted IFDI in LLPs (Press Note 1 of 2011) (Shodhganga, 2011). (Shodhganga, 2011; Shaaz & Raghuram, 2017) The year 2014 marked an important year for India (Mani & Nithyashree, 2016); for instance, *Post the Federal Reserve's taper tantrum, authorities began working on an inflation-targeting regime for the central bank and an asset quality review that led disclosure of bad loans of India to be more transparent* and Shri Narendra Modi, in full **Narendra Damodardas Modi**, Indian politician and government official who rose to become a senior leader of the Bharatiya Janata Party (BJP), led his party to victory in elections to the Lok Sabha (lower chamber of the Indian parliament) in 2014, after which he was sworn in as PM of India, and further had served (2001-2014) as chief minister (head of government) of Gujarat state in western India prior to that (Britannica), became PM of India and the National Democratic Alliance (NDA) government (Ukibc, 2016) took the office (Shaaz & Raghuram, 2017). As soon as he firstly came to power, a number of reforms, which include introducing a nation-wide sales tax and an insolvency law, reducing corporate tax rates and kickstarting the biggest sale of state assets, has been championed by him. Simultaneously, import duties and dithered on trade deals, which were setting back progress, has been raised by him as well. (**Nag & Sircar, 2020**; Britannica; Ukibc, 2016; Shaaz & Raghuram, 2017)

The Make in India campaign leads India to become an attractive hub for IFDIs in the manufacturing sector across the world and Indian economy to be recognized as one of the most preferred destination for IFDIs, internationally and globally. In August 2014, 49 per cent IFDIs in the defence sector was permitted by the Cabinet of India and it was raised to 100 per cent in the following year. Rs. 1.20 Lakh Crore worth of proposals from foreign firms, which involved manufacturing electronics in India, were received. Manufacturing industry has been boosted by IFDIs by giving assistance to establish several kinds of manufacturing unit in India's different parts. In current times, India has made a contribution of approximately 2.2 per cent of world's total manufacturing output, which is at par with developed economics like the UK and France. The sectors, which attracted higher IFDIs, were comprised of services, telecommunication, construction activities and computer software and hard ware. Mauritius, Singapore, the USA and the UK were considered to be among the leading sources of IFDIs. (Mani & Nithyashree, 2016) In 2016, touting the radical liberalization of the country's IFDI regulations, PM Modi boasted that India was the most open economy in the world for (I/O)FDI. (Hindustan Times, 2016) The GOI capitalist thought process assuming a strong influence over the (I/O)FDI concept led to implement the most recent policy change in the Consolidated (I/O)FDI Circular released by the government in the month of June 2016, and as a result to cause a certain buzz about the Indian Investment market. As of June 2016, a Consolidated (I/O)FDI Circular was released by the *GOI* to liberalize a greatest number of sectors into 100 per cent IFDIs through a string of liberalizing reforms to IFDIs (Ukibc, 2016), such as food products manufactured

and/or produced in India, defense sector, broadcasting carriage services, civil aviation sector, animal husbandry, and pharmaceutical. (Ukibc, 2016; Shaaz & Raghuram, 2017) The record IFDI of US\$ 60.1 Billion was received by India during the years of 2016 and 2017. (Investindia, 2018) In the year 2017, one witnessed a significant decline in number of proposals, which are brought before the FIPB for its approval by virtue of liberalization of IFDI regime across various sectors. More than 90 per cent of the total IFDIs into India is currently coming through the automatic route. Correspondingly, on February 01, 2017, the Finance Minister (FM) Shri Arun Jaitley declared that considering the FIPB has succeeded in implementing e-filing and online processing of (I/O)FDI applications.

In addition, it has reached a stage where FIPB might be phased out. (Prakhar, P. et al., 2017) In May 2017, the FIPB is being replaced by the FIFP to speed up the IFDIs and to increase the transparency in the IFDI approvals in the country. (Singh, H., 2019b) DPIIT reveals that IFDI equity flows into India between the years 2018<sup>22</sup> when Consolidated (I/O)FDI Policy 2017 and Amendment to (I/O)FDI Policy was implemented on 23<sup>rd</sup> January, 2018 (GOI, MCI, DPIIT & FDI Policy Section, 2018; Investindia, 2018) and India emerged as the top recipient of greenfield IFDIs from the Commonwealth, as per a trade review that was released by the Commonwealth in 2019 amounted to US\$ 44.37 Billion. This demonstrates that the yielding excellent results are due to the fact that the GOI underwent such a tremendous effort for ease of doing business and relaxation in IFDI norms. According to data for the years 2018 and 2019, the highest IFDI equity flows into the country of US\$ 9.16 Billion was attracted by the services sector. Computer software and hardware amounted to US\$ 6.42 Billion, trading stood at US\$ 4.46 Billion, and telecommunications touched US\$ 2.67 Billion. In most recent times, the total IFDI equity flows into the country for the month of March 2019 added up to US\$ 3.60 Billion. Especially, from 2018 to 2019, the maximum IFDI equity flows from Singapore (US\$ 16.23 Billion), Mauritius (US\$ 8.08 Billion), Netherlands (US\$ 3.87 Billion), USA (US\$ 3.14 Billion), and Japan (US\$ 2.97 Billion) was received by India.

There exist also some of the current significant IFDI announcements, which were made by different foreign firms, such as VMware, a leading software innovating enterprise of USA (US\$ 2 Billion in India between by 2023), Bharti Airtel received approval of the GOI for sale of 20 per cent stake in its Direct to Home (DTH) arm to an America-based private equity firm, Warburg Pincus, for around US\$ 350 Million, Idea's appeal for 100 per cent IFDIs into the country was approved by Department of Telecommunication (DT) followed by its Indian merger with Vodafone making Vodafone Idea the largest telecom operator in India, Walmart acquired a 77 per cent stake in Flipkart for a consideration of US\$ 16 Billion, Ikea announced its plans to invest up to Rs. 4.000 Crore (US\$ 612 Million) in the state of Maharashtra to set up multi-format stores and experience centres, Kathmandu-based conglomerate, CG Group is looking to invest Rs. 1.000 Crore (US\$ 155.97 Million) in India by 2020 in its food and beverage business, stated Mr Varun Choudhary, Executive Director, CG Corp Global, and IFC, the investment arm of the WBG, is planning to invest about US\$ 6 Billion through 2022 in

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<sup>22</sup>Addressing the global business elite at the 2018 World Economic Forum taking place from 23 to 26 January, in Davos, Switzerland, Indian PM Modi placed India firmly in the camp of globalization and free trade. Echoing a speech delivered by Chinese President **Xi Jinping**, Chinese politician and government official serving as vice president of the People's Republic of China (2008-2013), general secretary of the Chinese Communist Party (2012-), and president of People's Republic of China (2013-) (Britannica) at the same forum a year earlier, Modi suggested that India could be a standard-bearer for globalization and provide global leadership for trade liberalization. (Britannica; Gautam, M., 2019)

several sustainable and renewable energy programmes in India. Not only a critical driver of economic growth but also IFDI is a key source of non-debt financial resource for the India's economic development. Due to their investments in India, foreign firms take advantage of comparatively lower wages, special investment privileges, such as tax exemptions, etc. The GOI's favourable policy regime and robust business environment have caused foreign capital to continuously flow into the country. In recent years, the GOI has taken a great number of initiatives, such as relaxing IFDI norms across sectors including defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. (IBEF, 2019a) It is expected that India's potential will lead the manufacturing sector to reach US\$ 1 Trillion by 2025 and contribute approximately 25 per cent to India's GDP. (Mani & Nithyashree, 2016)

### 3.1.5.5.1. COVID-19 and Indian economy

The India's economic liberalization moved silently and furtively into the Indian economy during the 1970s and 1980s. (Müller & Patel, 2004) Low interest rates on borrowings and loans to small industries and agriculture was administered by it-that is to say, price controls and credit rationing. In actual fact, the basis of planning in India was referred to as a Harrod-Domar growth paradigm<sup>23</sup> that caused the GOI to assume a tremendous focus on mobilization of savings for investment. The problem was considered to be the financial repression by virtue of price fixing and directed credit. (Beena et al., 2003) Thus, consequently, its annual GDP growth was 1.5 percentage points below even the Third World average between the years 1950 and 1980. (Maddison, 1995) Additionally, during this period, the Indian economy was exposed to the lack of foreign capital and foreign technology and internationally efficient scales and quality of production. (Das, G., 2005) Now India has to face its biggest crisis in decades. (Kapoor, 2020) The COVID-19 has an adverse impact on the almost all sectors, i.e., healthcare, public transport, municipal services including drinking water, sanitation and power supply will be the key priority areas for greater government participation in a post-lockdown economy. The weakness of the public health and the tertiary care infrastructure across most of the country has been exposed by the COVID-19. The inadequacy of public health infrastructure might be considered to be part of the reason for the excessively long and nation-wide lockdown across India, which has been imposed by the GOI since March 25, 2020 when the PM Modi announced the nation-wide lockdown through a television address and will supposedly carry on and will be implemented till May 03, 2020 (Verma, 2020), and was lifted after 68 days from June 01, 2020 (Hindustan Times, 2020).<sup>24</sup> The answer is not the centrally subsidised insurance-based medical care.

It is notably mentioned that state governments have to possess a larger role in community-level public health and tertiary healthcare. India has to learn a lesson from the COVID-19. Firstly, the panchayat-level self-reliance which Modi spoke about has to assume a tremendous focus on

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<sup>23</sup>“A model for what creates economic growth. According to Harrod-Domar, growth equals a country's savings rate multiplied by the marginal product of capital less depreciation. Essentially, high savings generates growth because savings are eventually invested. The Harrod-Domar model has been used to explain lack of development in some parts of the world: because there is little capital to be saved, there is less capital to invest. Critics, however, contend that the model confuses growth and development (which are distinct) and that it can encourage reckless borrowing to spur development.” (Thefreedictionary)

<sup>24</sup>However, the state governments were officially permitted by the Union Home Ministry (UHM) in order to enforce lockdowns or any other restrictions to assume control over the spread of COVID-19. (Hindustan Times, 2020)

public health and healthcare. Secondly, public transport imposes an obligation on greater public investment. The economy strictly has to satisfy a certain requirement to regain momentum. It is certain that the lockdown has disrupted the national labor market, as well as the goods and services market in a rude manner. In addition, the saga of migrants, students and professionals, who are separated from home, might disruptively affect growth revival, provided that easy movement of people is not assured. It is also required that restoring urban and rural road and rail movement make more public investment in capacity creation. The key to economic activity in sub-continental India has come to be cross-border movement of goods and services. Growth in one part has also depended on links with another. Although Modi's version of gram swaraj might look like nice, it will not be able to restore momentum to the economy. Reviving the transport sector is considered to be key to reviving growth.

An increase in governmental activism is not under the obligation to imply the state stepping in to produce, or the economy turning inward by dint of insular trade policies or encouraging segmentation by enhancing village level self-reliance. To be precise, if the private sector can be left free to rejuvenate production that are supported with adequate finance and government spending that revives demand and public investment that might facilitate movement of goods and services, the economy will be able to regain momentum. (Verma, 2020; Hindustan Times, 2020; Baru, 2020) Thirdly, in terms of municipal services including drinking water, sanitation and power supply, the GOI has to launch new programs and policies, which seek to raise awareness of and to articulate the importance and significance of water, sanitation, and supply infrastructure in an integrated and total manner, to increase access to water, sanitation, and supply infrastructure in not just urban but also rural areas. Therefore, every state in India is also obliged to develop its strategies related to water, sanitation, and supply infrastructure that are compatible with the financial and technical capacity of the local states. (Kumar, J. & Senthil, 2020) It is highly likely that a three-week lockdown in a nation of 1.3 Billion people will result in economic recession, Millions of job losses and possible starvation among the poor. According to Raghuram Rajan, the former governor of the RBI, it is explicitly stated that India reforms merely in crisis and this otherwise unmitigated tragedy will demonstrate the weakness of India in terms of society, politics, economy, and so on. Historically, India has taken reform measures, initiatives, and policies during the period of crisis. According to Arvind Subramanian, a former chief economic adviser to the MOF, in favorable comparison to public finances stretched and likely to worsen amid the lockdown, it also seems that fiscal policies are a need of an overhaul.

A budget deficit of 3.5 per cent of GDP in the year through March 2021 had been projected by the GOI, yet some estimation reveals that it would be able to reach as high as 6.2 per cent. He wrote in a local newspaper along with Devesh Kapoor, he added that the GOI assumes a focus on unachievable and unattainable targets and the fact is that Fiscal Responsibility and Budget Management Act has been honored merely in the breach and the consequences with regard to budgetary integrity and transparency are a need of serious review, even overhaul. A great number of analysts agree that the latest moves to open up bond market of India and permit banks to trade currencies abroad would not able to be thought a few years back given India's deep distrust of debt capital and its failure to express recognition of even the existence of an offshore currency market which trades the Rupee. It is more likely that the nation-wide lockdown will see record fall in employment, and further labour force participation as economic activity comes to a halt (Nair, 2020), has clearly given rise to the biggest one-stroke job-destruction ever recorded in history (Yadav, 2020), and will result in recession, Millions of job losses and possible starvation among the poor. (Nair, 2020; Yadav, 2020; Nag & Sircar, 2020) After than a month of lockdowns, Indian factories are carefully reopened as some business

owners prefer to mull the use of more technology and to minimize the use of labour as less as possible. It is apparent that they have to make a greater effort to adapt the challenges which have been caused by COVID-19, especially the challenges of the post-COVID-19 period, i.e., the obligation to bank on the economy growing and absorb some of the job seekers. In a report, which was released on April 07, 2020, Goldman Sachs predicted that India's economy in the current financial year, which ends next March, would grow by 1.6 per cent, down from an earlier expectation of 3.3 per cent prior to the announcement of the extension of the nation-wide lockdown. This might have been viewed as the India's worst slowdown since the 1970s, Goldman said. (Bahree, 2020)<sup>25</sup>

According to a report released on April 07, 2020, the data from the Centre for Monitoring of Indian Economy (CMIE) reinforces anecdotal evidence of a halt in economic activity across manufacturing and services industry that has given rise to massive job losses and a migrant exodus from big cities. The worst hit has been considered to be workers in small industries and the construction and textile sectors, in services like hotels, restaurants and transportation, and daily wage labourers. (Nair, 2020) Additionally, a great number of self-employed persons like street vendors might not be left with the capital to start their businesses again and a great number of farmers, such as dairy and poultry farmers, might be in need of shedding workers, provided that they do not succeed in getting remunerative prices. (Yadav, 2020) On May 12, 2020, Modi again announced a self-reliant mission to accelerate domestic production, which a great number of people mention, is to reverse the globalization and resorting to protectionism. (Kapoor, 2020)

#### **3.1.5.5.2. COVID-19 and inward foreign direct investments into India**

In terms of IFDIs, the (I/O)FDI policy, which is issued by the MCI and GOI, formed and redesigned the IFDIs from time to time. It is expected that the changes to the aforementioned policy, which are reported in a form of a press note and suitable amendments, will be made to the FEMA, 2000 (Forex Laws). Per (I/O)FDI policy, NREs are permitted to invest in India, subject to the (I/O)FDI policy except in those sectors or activities or industries which are given permission for IFDI. (Kumar, J. & Senthil, 2020) It is evident that the extant Indian (I/O)FDI policy, whose rules permit IFDI up to 49 per cent through the automatic route (Gupta, 2020), has been reviewed by the GOI in order to "curb opportunistic takeovers or acquisitions of Indian firms due to the current COVID-19 pandemic" by Chinese investors, i.e., recent acquisitions and exploration of investment opportunities that are provided by Chinese investors in India, scrutiny by the Indian securities regulator of Chinese ownership of PIs and the introduction of stricter (I/O)FDI regimes world-wide. The amendments, which are included in Press Note No. 3 (2020 Series) dated April 17, 2020, have been issued by the DPIIT and GOI under an amendment of the (I/O)FDI policy, which was released by the MCI (Verma, 2020; please see, GOI, MCI, DPIIT & FDI Policy Section, 2020), and will be put into effect from the date on which the principal foreign exchange regulations are amended. (Gupta, 2020; Verma, 2020; GOI, MCI,

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<sup>25</sup>The unemployment rate was at 7.1 per cent in January and rose to 7.7 per cent in February. The data from the CMIE demonstrates that unemployment rate of India in the last week of March and first week of April crossed 23 per cent and this results in an indication of the economic fallout of COVID-19 and the subsequent 21-day lockdown, which was publicly announced on 24 March, but the CMIE also mentioned that the full-month unemployment rate upwards to 8.7 per cent in March-the highest in 43 months or since September 2016-was pushed by the massive rise in the weekly figures pushed (Nair, 2020) and India's decades-high unemployment rate-even before the pandemic-skyrocketed from 7.8 per cent in February to nearly 24 per cent in the first three weeks of the lockdown. (Nair, 2020; Bahree, 2020)

DPIIT & FDI Policy Section, 2020; Aggarwal, T. & Sethi, 2020) As per the note, the GOI has amended Para 3.1.1 of the extant (I/O)FDI policy as contained in the Consolidated (I/O)FDI Policy 2017. The present position as per the policy states that a NRE is allowed to invest in India, subject to the (I/O)FDI policy except in those sectors or activities or industries which are not permitted, but a citizen of Bangladesh and Pakistan or an entity registered in both countries is merely permitted to invest under the government route. In addition, for Pakistan sectors or activities or industries that included defense, space and atomic energy are not allowed for investment in addition to the sectors or activities or industries already in that category. (Verma, 2020) According to a press note dated April 18, 2020 (Kumar, J. & Senthil, 2020) and in accordance with the amendment (or the amended Para 3.1.1 (a) (Verma, 2020)), investments in India by NREs of country (Kumar, J. & Senthil, 2020) or all investments by entities incorporated in a "country which shares land border with India (namely, Border States include Afghanistan, Bangladesh, Bhutan, China, Myanmar, Nepal, Pakistan) or where the beneficial owner<sup>26</sup> of an investment into India is situated in or is a citizen of any such country" or where the beneficial owner mentions the term Significant Beneficial Owner(s) (SBO(s))<sup>27</sup> as against the beneficial owner of investment into India is situated or is a citizen of any such Border States is permitted to invest merely under the government route, i.e., the additional prohibitions for Pakistan which are still hold (Verma, 2020) or the government approval route or whose investments will be required for prior regulatory approval. Additionally, the approval will impose an obligation on the cases that a transfer of ownership in an Indian firm is the cause of the beneficial owner falling within the Border States. It should be pertinently mentioned that the term ownership is not described but reference in this regard might be drawn to the definition that is prescribed in the Master Direction-Foreign Investment in India (please see, Chapter 2- Key terms) that refers to ownership of an Indian firm as the beneficial holding of more than 50 per cent of the capital instruments of such firm and that the aforementioned restrictions will apply to the beneficial owners for the investments that are made into India (Kumar, J. & Senthil, 2020) even in the event of any transfer of ownership of any existing or future IFDI in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the restriction or purview of Paragraph 1 above (or the para 3.1.1 (a) (Verma, 2020), such change in beneficial ownership will also require prior regulatory approval. (Kumar, J. & Senthil, 2020; Verma, 2020; Aggarwal, T. & Sethi, 2020) It is also supposed that the decision will be taken effect from

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<sup>26</sup>The term beneficial owner is identified as an individual who ultimately possesses or assumes control over an entity or the person on whose behalf a transaction is being conducted and contains a person who performs the exercises needed for ultimate effective control over a juridical person, but it is not identified in the Press Note. Section 90 of the Companies Act, 2013 read with the Compkumaranies (SBO(s)) Rules, 2018 (Companies Act). Commands and orders for reporting and Guidelines to identify beneficial owner has also been issued in terms of the SEBI regulations. Further per provisions of the Prevention of Money Laundering Act, 2002 (PMLA) that dictates the financial institutions to conduct diligence on the customers in order to define beneficial owner and issues commands and orders for reporting requirements. (Kumar, J. & Senthil, 2020)

<sup>27</sup>SBO is defined as an individual who either alone or together with other individuals or trust, perfoms the exercises needed for rights or entitlements in a company by way of holding 10 per cent shares or 10 per cent voting rights or right to acquire 10 per cent or more dividend, not just indirect but also direct holdings or right was altogether or such individual perform the exercise of significant influence or control, indirectly or along with direct holding in the company. (Kumar, J. & Senthil, 2020)

the date of FEMA Notification. (Verma, 2020) It is strongly possible that the GOI might take into consideration that beneficial owner will be in possession of the same meaning of SBO. It seems that this regulation has a retrospective impact. This means that all previous transactions prior to the date of the current press note and involving existing investments from land bordering countries will be in need of seeking government approval for buying or selling and/or transacting in shares or debt instruments if it is the cause of a transfer of beneficial ownership. (Kumar, J. & Senthil, 2020) FI, which comes from Pakistan and Bangladesh, was already subject to restrictions under the Indian (I/O)FDI policy. In actual fact, the above-mentioned amendment targeted at Chinese investors. It was triggered by COVID-19; however, it is neither restricted to essential sectors nor specified to be applicable for a defined time period and will not have an adverse impact on investments by means of the FPIs route. (Aggarwal, T. & Sethi, 2020) Because of this regulation, several Chinese investments will have to be locked up, until further clarification or instruction that is made by the GOI.

This order of the GOI does not give consideration to or allow for any restriction on investments into India that are made by Chinese firms under the FIIs or FPIs route. This might be considered to be a step to avoid investments and takeover of Indian listed and unlisted firms and their subsequent control, directly or indirectly, by Chinese firms. (Kumar, J. & Senthil, 2020) For instance, Chinese firms like Xiaomi and Oppo, which are widely known as the China's smartphone manufacturers, plan to expand their businesses into Indian financial services market; however, their plans have been soured by tougher scrutiny of the current extant (I/O)FDI policy. (Reuters, 2020) Although one has witnessed some improvement in the IFDIs from China in recent years, it has remained meagre. In the past, due to calls of New Delhi that Beijing trim its massive trade surplus with India, China solemnly promised to invest in this country. However, China barely set up large investments in the country. In actual fact, the DPIIT data reveals that the IFDIs from China stood at just US\$ 2.34 Billion or merely 0.51 per cent of the cumulative inflows between April 2000 and December 2019. (Kansara, 2020) Actually, the current recession in the global economy, which was especially caused by the COVID-19, will not permit direct investment flows to be abundantly available from a great number of sources. It can easily be seen that this continually becomes a hard truth when interest in the real economy continues to be miniscule compared to speculation-led flows of portfolio capital. In terms of the current stock of Chinese investments in India, one has witnessed the contribution of technology giants, which include Alibaba, Tiktok, Oppo, Xiaomi and Tencent to Paytm, BigBasket, Ola and many more in India. (Sen, 2020) Google intends to invest US\$ 10 Billion over the next five to seven years in order to help accelerate the adoption of digital technologies in India.

*“Mr Sundar Pichai, who was born in the country and is currently chief executive officer of parent Alphabet Inc., made the announcement at the annual Google for India event via video conference. The outbreak of the coronavirus has pointed out the importance of technology for conducting business and for connecting with friends and family.” (IBEF, 2020e)*

# CHAPTER 4

#### 4.1. Conditional sectors or activities or industries

The Consolidated (I/O)FDI Policy 2017 will be main resource of this chapter since it has become a very important element and driver for the future steps, initiatives, and measures that are taken by the GOI, and also it is amended from time to time (GOI et al., 2019). (GOI et al., 2019; DIPP et al., 2017) India's Consolidated (I/O)FDI Policy 2017 has been apprised by the DIPP. It is regarded as a consolidation of the various decisions that were taken by the GOI in the past one year. All Press Notes or Press Releases or Clarifications or Circulars, which were put into force on August 28, 2017 are subsumed and superseded by the current consolidation, which reflects the (I/O)FDI policy as on August 28, 2017. (Dhir & Dhir Advocates, 2017) In the year 2019, the GOI has also reviewed the extant (I/O)FDI policy 2019 on different kinds of sectors and has made some amendments in the (I/O)FDI policy 2017. (Please see, GOI et al., 2019) In the year 2020, the current COVID-19 pandemic and amended Para 3.1.1 of extant (I/O)FDI policy 2020 as contained in (I/O)FDI policy 2017 under the revised positions have led the GOI to have to review the extant (I/O)FDI policy 2020 with the view to curb opportunistic takeovers or acquisitions of Indian firms. (Please see, GOI et al., 2020) The (I/O)FDI policy 2017 has led to liberalization in key sectors. The below-mentioned sectors that were based upon some of the key decisions that were taken by the GOI and amendments that were made by the Press Notes that had been consolidated in the (I/O)FDI policy 2017 can be summarized as follows:

- i. **Defence sector:** Press Note 5 (2016 Series) issued by the DIPP in 2016 permitted 100 per cent IFDI in the defence sector where up to 49 per cent is allowed under the automatic route and beyond 49 per cent is allowed under the government route wherever it is likely to lead to the access to the modern technology for other reasons that would be recorded. Accordingly, this sectoral caps and conditions had been extended to Manufacturing of Small Arms and Ammunition (MSAA) under the Arms Act, 1959. These changes may be deemed as the (I/O)FDI policy 2017.
- ii. **Broadcasting sector:** The sectoral cap in broadcasting carriage services including teleports, DTH, cable networks (digital), mobile TV, Head-end-in-the Sky (HITS) had been raised from 49 per cent that was permitted in 2016 to 100 per cent automatic route.
- iii. **Civil aviation:** In order to convey an assistance to modernization of the airports to set up a high standard while aiding in loosing the pressure on the airports, 100 per cent IFDI that did fall under automatic route has been allowed in leading to the existence of projects that would fall under automatic route. The earlier (I/O)FDI policy 2016 allowed up to 74 per cent under the automatic route and beyond that up to 100 per cent by dint of government approval route. Furthermore, in respect of the scheduled air transport service or domestic scheduled passenger airlines and regional air transport service, the IFDI limit has been raised to 100 per cent, with IFDI up to 49 per cent allowed under automatic route and IFDI beyond 49 per cent by dint of government approval.
- iv. **Food products:** 100 per cent IFDI under automatic route for trading that included by the way of e-commerce was officially allowed in terms of food products that were manufactured and/or produced within India.
- v. **Other financial services:** The (I/O)FDI policy 2016 ensured that an NBFC that was in possession of IFDI that did fall under the automatic route was allowed to participate in merely 18 specified NBFC activities that were liable to minimum capitalization norms that were prescribed under the (I/O)FDI policy 2016. It was required that, aside from those 18 specified NBFC activities, financial activities acquire prior approval of the government. The Press Note 6 (2016 Series) that was dated October 25, 2016 allowed 100 per cent IFDI

that did fall under the automatic route in any financial services activities, under the condition that the activities were regulated by financial sector regulators that is officially involved in RBI, SEBI, Pension Fund Regulatory and Development Authority (PFRDA), Insurance Regulatory Authority of India, etc. Furthermore, minimum capitalization norms as they were mandated under (I/O)FDI policy 2016 for FI in NBFCs were no more capable of being applied, and thus the same were abolished, taking into account the circumstances that became involved in the financial regulators who did prescribe their own set of capitalization norms. This was deemed as much awaited change that was likely to convey a level playing field in the concerned sector.

- vi. **Private security agencies (PSAs):** The (I/O)FDI policy 2016 allowed IFDI up to 49 per cent under government approval route in PSAs. Press Note 5 (2016 Series) permitted IFDI up to 49 per cent under automatic route and beyond 49 per cent and up to 74 per cent was allowed by dint of government approval route.
- vii. **Pharmaceutical sector:** The earlier (I/O)FDI policy 2016 on pharmaceutical sector led to 100 per cent IFDI under automatic route in greenfield pharma and IFDI up to 100 per cent under government approval in brownfield pharma. The (I/O)FDI policy 2017 allowed 74 per cent IFDI under automatic route in brownfield pharmaceuticals and beyond 74 per cent would be allowed by dint of government approval route. (Dhir & Dhir Advocates, 2017)

According to the (I/O)FDI policy 2017, conditional sectors or activities or industries for IFDIs will be summarized as follows:

## 4.2. Agriculture

### 4.2.1. Agriculture and animal husbandry

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** can be summarized as follows: (i) floriculture, horticulture, and cultivation of vegetables and mushrooms under controlled conditions; (ii) development and production of seeds and planting material; (iii) animal husbandry (including breeding of dogs), pisciculture, aquaculture, apiculture; and (iv) services that are related to agro and allied sectors. Apart from the above-mentioned main conditions, IFDI cannot be made in any other agricultural sectors or activities or industries.

**Other conditions** can be concluded as follows: (i) the following is covered by the term under controlled conditions: (a) cultivation under controlled conditions in favor of the categories of floriculture, horticulture, cultivation of vegetables and mushrooms is regarded as the practice of cultivation wherein the control of rainfall, temperature, solar radiation, air humidity and culture medium are taken in an artificial manner. It is probable that control in such parameters will be able to be put into effect by protected cultivation under green houses, net houses, poly houses or any other improved infrastructure facilities where micro-climatic conditions are regulated in an anthropogenical manner.

### 4.2.2. Plantation sector

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** can be attributed to the IFDI, which is officially permitted to be made in the below-mentioned agricultural sectors or activities or industries: (i) tea sector as well as tea plantations; (ii) coffee plantations; (iii) rubber plantations; (iv) cardamom plantations; (v) palm oil tree plantations; and (vi) olive oil tree plantations. Apart from the above-mentioned main conditions, IFDI is officially not permitted to be made in any other agricultural sectors or activities or industries.

**Other condition** consists of the imperative for prior approval of the state government concerned in case of the existence of any future land use change.

### **4.3. Mining and petroleum and natural gas**

#### **4.3.1. Mining**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are based upon mining and exploration of metal and non-metal ores that are included in diamond, gold, silver and precious ores, yet excludes titanium bearing minerals and its ores; liable to the mines and minerals (DRA, 1957).

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are summarized as follows: (i) coal and lignite mining for captive consumption by power projects, iron and steel and cement units and other eligible activities are permitted under and liable to the provisions of coal mines (Nationalization Act, 1973); and (ii) establishing coal processing plants like washeries that are liable to the condition that it is required that the firm not do coal mining and not sell washed coal or sized coal from its coal processing plants in the open market, and supply the washed or sized coal to those parties that are supplying raw coal to coal processing plants for washing or sizing.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are attributed to the IFDI that is permitted to be made in the below-mentioned mining sectors or activities or industries: (i) mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities; and (ii) mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities that are liable to sectoral regulations and the mines and minerals (DRA, 1957).

**Other conditions** are summarized as follows: (i) IFDI in favor of separation of titanium bearing minerals and ores will be liable to the following additional conditions, viz.: (a) value addition facilities are established in India in company with transfer of technology; and (b) it is recommended that disposal of tailings during the mineral separation be carried out in congruence with regulations that are framed by the Atomic Energy Regulatory Board that are composed of atomic energy (Radiation Protection Rules, 2004) and the atomic energy (Safe Disposal of Radioactive Wastes Rules, 1987). (ii) IFDI will not be permitted in mining of prescribed substances that are listed in the Notification No. S.O. 61(E), dated January 01, 2006, and issued by the Department of Atomic Energy.

**Clarifications** are summarized as follows: (i) in favor of titanium bearing ores that encompass ilmenite, leucosene and rutile, manufacture of titanium dioxide pigment and titanium sponge are the constituent parts of value addition. Ilmenite is permitted to be processed to increase the

occurrence of synthetic rutile or titanium slag as an intermediate value added product. (ii) the objective is to confirm that the raw material that is available within the country is used for establishing downstream industries and the technology that is available in an international manner is additionally made available for establishing these kinds of industries in the country. Thus, as a result, if in company of the technology transfer, the objective of (I/O)FDI policy may be accomplished, it is recommended that the conditions, which are prescribed at i. (i) above, be supposed to be satisfied.

#### **4.3.2. Petroleum and natural gas**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are based upon exploration activities of oil and natural gas fields, infrastructure that is related to marketing of petroleum products and natural gas, marketing of natural gas and petroleum products, petroleum product pipelines, natural gas or pipelines, Liquefied Natural Gas (LNG) Regasification infrastructure, market study and formulation and petroleum refining in the private sector that is liable to the existing sectoral policy and regulatory framework in the oil marketing sector and the policy of the government on private participation in exploration of oil and the discovered fields of national oil firms.

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Automatic

**Main conditions** are based upon petroleum that is being refined by the PSUs, with the omission of any disinvestment or dilution of domestic equity in the existing PSUs.

#### **4.4. Manufacturing**

##### **4.4.1. Manufacturing**

**Main conditions** are attributed to the IFDI that is permitted to be made in the below-mentioned manufacturing sector: (i) liable to the provisions of the (I/O)FDI policy, FI in manufacturing sector is made by way of automatic route. Furthermore, a manufacturer is allowed to sell its products that are manufactured within India by means of wholesale and/or retail as well as by means of e-commerce, with the avoidance of government approval. (ii) in spite of the (I/O)FDI policy provisions on trading sector, 100 per cent IFDI that is made under government approval route is permitted for retail trading as well as by means of e-commerce, with respect to food products that are manufactured and/or produced within India.

##### **4.4.2. Defence**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic up to 49 per cent

Government route beyond 49 per cent wherever it is likely to be cause of the access to modern technology or for other reasons that will be recorded.

**Main conditions** are attributed to the IFDI that is permitted to be made in the below-mentioned defence industry: (i) defence industry that is liable to industrial license under the industries (DRA, 1951); and (ii) MSAA under the Arms Act, 1959.

**Other conditions** are summarized as follows: (i) government approval will required by the infusion of fresh FI within the permitted automatic route level, in a firm that does not seek industrial license and is the cause of the change in the ownership pattern or transfer of stake by

existing investor to new FIs. (ii) licence applications will be deemed and licences that are given by the DIPP, MCI, in consultation with MOD and MEA(s). (iii) FI in the sector is liable to security clearance and guidelines of the MOD. (iv) it is recommended that investee firm be structurally established to be self-sufficient in areas of product design and development. It is also requested that the investee or JV firm in congruence with manufacturing facility acquire maintenance and life cycle support facility of the product that is manufactured within India.

#### 4.5. Services sector

##### 4.5.1. Broadcasting

###### 4.5.1.1. Broadcasting carriage services

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are attributed to the IFDI that is officially permitted to be made in the below-mentioned broadcasting carriage services: (i) teleports, which are setting up of up-linking hubs or teleports; (ii) DTH; (iii) cable networks (Multi System Operators (MSOs) which are operating at national or state or district level and are undertaking upgradation of networks towards digitalization and addressability); (iv) mobile TV; and (v) HITS broadcasting service.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** consist of cable networks (other MSOs that are not undertaking upgradation of networks towards digitalization and addressability and Local Cable Operators (LCOs)).

**Notes** are summarized as follows: (i) government approval will officially be required by the infusion of fresh FI, beyond 49 per cent in a firm that does not seek license or permission from sectoral ministry and is the cause of the change in the ownership pattern or transfer of stake by existing investor to new FIs.

###### 4.5.1.2. Broadcasting content services

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Government

**Main conditions** are based upon cable networks (other MSOs that are not undertaking upgradation of networks towards digitalization and addressability and LCOs).

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Government

**Main conditions** consist of up-linking of news and current affairs TV channels.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** included up-linking of non-news and current affairs TV channels or down-linking of TV channels.

Annexure-7 will provide detailed guidelines on the broadcasting sector.

#### **Annexure-7: Conditions for broadcasting sector**

- i. IFDI in favor of up-linking or down-linking TV channels will be liable to compliance with the relevant up-linking or down-linking policy that is occasionally notified by the MIB.
- ii. FI in firms that are engaged in all the aforesaid services will be liable to relevant regulations and such terms and conditions, as they may be occasionally specified by the MIB.
- iii. The FI limit in firms that are engaged in the aforesaid activities shall encompass, along with IFDI, investment that is made by FIIs, FPIs, Qualified FIs (QFIs), NRIs, FCCBs, ADRs, GDRs, and convertible preference shares that are held by foreign entities.
- iv. FI that is made in the aforesaid broadcasting carriage services will be liable to the following security conditions or terms:

**Mandatory requirement for key executives of the firm:** (i) it is ordered that the majority of directors on the board of the firm be Indian citizens. (ii) it is also ordered that the chief executive officer, chief officer in-charge of technical network operations and chief security officer be resident Indian citizens.

**Security clearance of personnel:** (iii) it is required that the firm, all directors on the BODs and such key executives like managing director or chief executive officer, chief financial officer, chief security officer, chief technical officer, chief operating officer, shareholders who individually hold 10 per cent or more paid-up capital in the firm and any other category, as may be occasionally specified by the MIB be security cleared. In terms of the appointment of directors on the board of the firm and such key executives like managing director or chief executive officer, chief financial officer, chief security officer, chief technical officer, chief operating officer, etc., as may be occasionally specified by the MIB, it is requested that prior permission of the MIB have to be acquired. It is also obligatory that the part of firm acquire prior permission from the MIB before any change in the BODs is put into effect. (iv) it is required that the firm acquire security clearance of all foreign personnel who are likely to become deployed for more than 60 days in a year by dint of appointment, contract, and consultancy or in any other capacity for installation, maintenance, operation or any other services before they are deployed and the security clearance be obtained every two years.

**Permission vis-à-vis security clearance:** (v) the permission shall be liable to permission holder or licensee remaining security cleared throughout the currency of permission. In the event of the security clearance that is withdrawn, the permission granted is subject to be terminated forthwith. (vi) in case of security clearance of any of the persons that are associated with the permission holder or licensee or foreign personnels that are being denied or withdrawn for any reasons whatsoever, the objective of holder or licensee is to ensure that the concerned person resigns or her or his services are terminated forthwith due to the permission holder or licensee after she or he receives these kinds of directives from the government that fails which it is required that the permission or license granted be revoked and the firm be disqualified to hold any such permission or license in future for a period of five years.

**Infrastructure or network or software related requirement:** (vii) it is expected that the officers or officials of the licensee firms that are dealt with the lawful interception of services will be resident Indian citizens. (viii) details of infrastructure or network diagram (technical details of the network) would be able to be provided, merely on a need basis, to equipment suppliers or manufactures and the affiliate of the licensee firm. It is required that clearance from the licensor be acquired if the objective is to ensure that such information is to be given to anybody else. (ix) it is required that the firm not transfer the subscribers' databases to any person

or place outside India if they are not allowed by relevant law. (x) it is obligatory that the firm provide traceable identity of their subscribers.

**Monitoring, inspection and submission of information:** (xi) it is required that the firm ensure that necessary provision (hardware or software) is made available in their equipment with the purpose of doing the lawful interception and monitoring from a centralized location as and when it is required by the government. (xii) it is required that the firm, at its own costs and on demand by the government or its authorized representative, provide the equipment, services and facilities, all of which are at designated place(s) imperative for continuous monitoring or the broadcasting service by or under supervision of the government or its authorized representative. (xiii) it is requested that the GOI, MIB or its authorized representative have the right to inspect the broadcasting facilities. It is not required that prior permission or intimation be provided to exercise the right of government or its authorized representative in order to carry out the inspection. It is expected that the firm will, if required by the government or its authorized representative, provide facilities that are imperative for continuous monitoring for any particular aspect of the firm's activities and operations. But, continuous monitoring will be limited merely to security related aspects that consist of screening of objectionable content. (xiv) it is expected that the inspection will be carried out by the GOI, MIB or its authorized representative in an ordinary manner after reasonable notice has been given, except under certain circumstances where the very purpose of the inspection will be defeated by providing such a notice. (xv) it is required that the firm submit such information in respect of its services as it may be required by the government or its authorized representative, in the format as it may be occasionally required. (xvi) it is required that the permission holder or licensee be subject to furnish the GOI or its authorized representative or Telecom Regulatory Authority of India (TRAI) or its authorized representative, such reports, accounts, estimates, returns or such other relevant information and at such periodic intervals or such times as it may be required. (xvii) it is required that the service providers familiarize or train designated officials or the government or officials of TRAI or its authorized representative(s) with respect to relevant operations/features of their systems.

**National security conditions:** (xviii) it is required that it be open to the licensor to restrict the licensee firm from operating in any sensitive area from the national security angle. It is also requested that the GOI and MIB have the right to temporarily suspend the permission of permission holder or licensee in public interest or for national security for such period or periods as it may direct and the firm immediately abide by any directives that are issued in this regard that fails which it is imperative that the permission that is issued be revoked and the firm be disqualified to hold any such permission in future for a period of five years. (xix) it is required that the firm not import or utilize any equipment that is deemed as unlawful and/or render network security vulnerable.

**Other conditions:** (xx) licensor may reserve the right to modify such conditions that are mentioned above or incorporate new conditions that are deemed as imperative in respect of the interest of national security and public interest or for proper provision of broadcasting services. (xxi) it is expected that licensee will ensure that it is obligatory that broadcasting service installation that is carried out by it not become a safety hazard and not be in contravention of any statute, rule or regulation and public policy.

#### **4.5.2. Print media**

**% of Equity or IFDI Cap:** 26 per cent

**Entry Route:** Government

**Main condition** is comprised of publishing of newspaper and periodicals that are dealt with news and current affairs.

**% of Equity or IFDI Cap:** 26 per cent

**Entry Route:** Government

**Main condition** is based upon publication of Indian editions of foreign magazines that are dealt with news and current affairs.

**Other conditions** are summarized as follows: (i) in favor of issuing these kinds of guidelines, magazine will be characterized as a periodical publication, which is brought out on non-daily basis that encompasses public news or comments on public news. (ii) it is also deemed that FI would be liable to the guidelines for publication of Indian editions of foreign magazines that are dealt with news and current affairs that are issued by the MIB on December 04, 2008.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Government

**Main condition** is based upon publishing or printing of scientific and technical magazines or specialty journals or periodicals that are liable to compliance with the legal framework as it is applicable and guidelines that are occasionally issued in connection with the point previously mentioned by the MIB.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Government

**Main condition** includes publication of facsimile edition of foreign newspapers.

**Other conditions** are summarized as follows: (i) it is required that IFDI be made by the owner of the original foreign newspapers whose facsimile edition is suggested to be caused to happen within India. (ii) publication of facsimile edition of foreign newspapers is permitted to be undertaken merely by an entity incorporated or registered within India under the provisions of the Companies Act, as it is applicable. (a) it is also recommended that publication of facsimile edition of foreign newspaper be liable to the Guidelines for publication of newspapers and periodicals that are dealt with news and current affairs and publication of facsimile edition of foreign newspapers that are issued by MIB on March 31, 2006, as it is occasionally amended.

#### 4.5.3. Civil aviation

##### 4.5.3.1. Airports

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** consists of greenfield projects.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is comprised of existing projects.

##### 4.5.3.2. Air transport services

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic up to 49 per cent (Automatic up to 100 per cent for NRIs) Government route beyond 49 per cent

**Main conditions** are attributed to the IFDI that is permitted to be made in the below-mentioned air transport services: (i) scheduled air transport service or domestic scheduled passenger airline; and (ii) regional air transport service.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is attributed to the IFDI that is permitted to be made in the non-scheduled air transport services.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is attributed to the IFDI that is permitted to be made in the helicopter services or seaplane services requiring Directorate General of Civil Aviation approval.

#### 4.5.3.3. Other services under civil aviation sector

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is included in ground handling services that are liable to sectoral regulations and security clearance.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is summarized as follows: (i) maintenance and repair organizations; (ii) flying training institutes; and (iii) technical training institutions.

**Definitions:** The civil aviation sector is included in airports, scheduled and non-scheduled domestic passenger airlines, helicopter services or seaplane services, ground handling services, maintenance and repair organizations; flying training institutes; and technical training institutions. In favor of intending to achieve the objectives that are set out below: (i) airport is the meaning of a landing and taking off area for aircrafts, commonly in company of runways and aircraft maintenance and passenger facilities and is included in aerodrome as it is defined in clause (2) of section 2 of the Aircraft Act, 1934. (ii) aerodrome is the meaning of any definite or limited ground or water area intended to be utilized, either wholly or in part, with the purpose of the landing or departure of aircraft and is included in all buildings, sheds, vessels, piers and other structures thereon or pertaining thereto. (iii) air transport service is the meaning of a service for the transport by air of persons, mails or any other thing, animate or inanimate, with the purpose of any kind of remuneration whatsoever, whether such service is composed of a single flight or series of flights. (iv) air transport undertaking is the meaning of an undertaking whose business is included in the carriage by air of passengers or cargo for hire or reward. (v) aircraft component is the meaning of any part, the soundness and correct functioning of which, when it is fitted to an aircraft, is fundamentally important to the continued airworthiness or safety of the aircraft and is included any item of equipment. (vi) helicopter is the meaning of a heavier-than-air aircraft that is supported in flight through the reactions of the air on one or more power driven rotors on substantially vertical axis. (vii) scheduled air transport service is the meaning of an air transport service that is undertaken between the same two or more places

and is operated according to a published time table or with flights so regular or frequent that they establish a recognizably systematic series according to law or provision, each flight that is being open to be utilized by members of the public. (viii) non-scheduled air transport service is the meaning of any service that is not a scheduled air transport service. (ix) seaplane is meaning of an aeroplane capable normally of taking off from and alighting solely on water. (x) ground handling is characterized as follows: (a) ramp handling; (b) traffic handling both of which shall encompass the activities as it is occasionally specified by the MCA through the aeronautical information circulars; and (c) any other activity which is specified by the central government to be a part of either ramp handling or traffic handling.

**Other conditions** are summarized as follows: (i) air transport services would be composed of domestic scheduled passenger airlines; non-scheduled air transport services, helicopter and seaplane services. (ii) foreign airlines are permitted to become actively involved in the equity of firms that operate cargo airlines, helicopter and seaplane services, as per the limits and entry routes that are mentioned above. (iii) foreign airlines are also permitted to invest in the capital of Indian firms that operate scheduled and non-scheduled air transport services, up to the limit of 49 per cent of their paid-up capital. Such investment would be liable to the below-mentioned conditions that are summarized as follows: (a) it was expected that it would be permitted to be made under the government approval route. (b) it is expected that IFDI and FII or FPI will be subsumed by the 49 per cent limit. (c) it is necessary that the investments that are so made abide by the relevant regulations of SEBI that are composed of the Issue of Capital and Disclosure Requirements Regulations or Substantial Acquisition of Shares and Takeovers Regulations, as well as other applicable rules and regulations. (d) a scheduled operator's permit is obtained to be conferred merely on a firm: (d-a) which is registered and has its principal place of business in India; (d-b) the chairman and at least two-thirds of the directors of which are composed of citizens of India; and (d-c) the substantial ownership and effective control of which is proposed to be provided to in Indian nationals. (e) it is required that all foreign nationals who are likely to be related to Indian scheduled and non-scheduled air transport services as a consequence of such investment be cleared from security view point before deployment. (f) it is required that all technical equipment that is likely imported into India as a consequence of such investment be cleared from the relevant authority in the MCA.

**Notes** are summarized as follows: (i) the IFDI limits or entry routes that are mentioned at Paragraph air transport services i. and ii. above, are made applicable in the situation where no investment is made by foreign airlines. (ii) the dispensation for NRIs regarding IFDI up to 100 per cent will also extend in a continual manner with respect to the investment regime that is specified at Para other conditions (iii) (b) above. (iii) the (I/O)FDI policy that is mentioned at Para other conditions iii. above is not made applicable to M/s Air India Limited.

#### **4.5.4. Construction development: Townships, housing, built-up infrastructure**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are based on construction-development projects that would encompass development of townships, construction of residential or commercial premises, roads or bridges, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure, townships. Each phase of the construction development project would be deemed as a separate project for the purposes of (I/O)FDI policy. Investment will be liable to the below-mentioned conditions that are summarized as follows: (i)(a) it is expected that the investor will be allowed to make her or his exit on completion of the project or after development of trunk

infrastructure; for instance, roads, water supply, street lighting, drainage and sewerage. (b) in spite of anything that is contained at (i)(a) above, a FIs will be allowed to make her or his exit and send back FI to her or his country prior to the completion of project under automatic route, offered that a lock-in-period of three years, calculated in respect of each tranche of FI has been concluded. Furthermore, transfer of stake from one non-resident to another non-resident, with the avoidance of repatriation of investment will not either be liable to any lock-in period or to any government approval. (ii) it is required that the project conform to the norms and standards, such as land use requirements and provision of community amenities and common facilities, as it is laid down in the applicable building control regulations, bye-laws, rules, and other regulations of the state government or municipal or local body concerned. (iii) it is expected that the Indian investee firm will be allowed to render merely developed plots in exchange for money. In favor of intending to implement this policy, developed plots will be deemed as plots where trunk infrastructure, i.e., roads, water supply, street lighting, drainage and sewerage, have been made available. (iv) it is required that the Indian investee firm take responsibility for acquiring all imperative approvals, such as those of the building or layout plans, leading to the development of internal and peripheral areas and other infrastructure facilities, payment of development, external development and other charges and abiding by all other requirements as it is prescribed under applicable rules or bye-laws or regulations of the state government or municipal or local body concerned. (v) the state government or municipal or local body concerned that provides an approval of the building or development plans, will act as a monitor of compliance of the above-mentioned conditions that are mentioned by the developer.

**Notes** are summarized as follows: (i) it is comprehensively explained that IFDI is not allowed in an entity which is taken part or suggests to take part in REB, Construction of Farm Houses (CFH(s)) and trading in Transferable Development Rights (TDRs). REB is the meaning of being interested in land and immovable property with the hope of benefiting there from and is not composed of development of townships, construction of residential or commercial premises, roads or bridges, educational institutions, recreational facilities, city and regional level infrastructure, townships. Furthermore, earning of rent or income on lease of the property that is not equal to transfer, will not be the same as REB. (ii) condition of lock-in period at i. above will not apply to hotels and tourist resorts, hospitals, SEZs, educational institutions, old age homes and investment by NRIs. (iii) it is determined that completion of the project will be deemed as per the local bye-laws or rules and other regulations of state governments. (iv) it is comprehensively explained that 100 per cent IFDI under automatic route is allowed in completed projects for operation and management of townships, malls or shopping complexes and business centres. Accompanying as a consequence of FI, transfer of ownership and/or control of the investee firm from residents to non-residents is also allowed. But, there would be a lock-in-period of three years, calculated in respect of each tranche of IFDI, and transfer of immovable property or part thereof is not allowed during this period. (v) transfer, with respect to (I/O)FDI policy on the sector, is composed of the followings: (a) the sale, exchange or relinquishment of the asset; or (b) the extinguishment of any rights therein; or (c) the compulsory acquisition thereof under any law; or (d) any transaction that is involved in the allowing of the possession of any immovable property to be taken or retained in part performance of a contract of the nature that is referred to in section 53A of the Transfer of Property Act, 1882 (4 of 1882); or (e) any transaction, by achieving to obtain shares in a firm or by dint of any agreement or any arrangement or in any other manner whatsoever, which obtains the effect of transferring, or enabling the enjoyment of, any immovable property.

#### **4.5.5. Industrial parks**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is comprised of industrial parks that are new and have existed.

**Other conditions** for investment in industrial parks are covered by Annexure-8.

**Annexure-8: Definitions and conditions for industrial parks**

- i. Definitions are summarized as follows: (i) industrial park is deemed as a project in which quality infrastructure in the form of plots of developed land or built up space or a combination with common facilities, is developed and made available to all the allottee units for the purposes of industrial activity. (ii) infrastructure is treated as facilities that are required for functioning of units that are located in the industrial park and consists of roads as well as approach roads, railway line or sidings as well as electrified railway lines and connectivities to the main railway line, water supply and sewerage, common effluent treatment facility, telecom network, generation and distribution of power, and air conditioning. (iii) common facilities are viewed as the facilities that are available for all the units that are located in the industrial park, and are composed of facilities of power, roads as well as approach roads, railway line or sidings as well as electrified railway lines and connectivities to the main railway line, water supply and sewerage, common effluent treatment, common testing, telecom services, air conditioning, common facility buildings, industrial canteens, convention or conference halls, parking, travel desks, security service, first aid center, ambulance and other safety services, training facilities and such other facilities are proposed to commonly utilize the units that are located in the industrial park. (iv) allocable area in the industrial park is the meaning of followings: (a) in the event of plots of developed land-the net site area that is available for allocation to the units that exclude the area for common facilities. (b) in the event of built up space-the floor area and built up space that are utilized for providing facilities that are commonly found. (c) in the event of a combination of developed land and built-up space-the net site and floor area that is available for allocation to the units that exclude the site area and built up space that are utilized for providing facilities that are commonly found. (v) industrial activity is the meaning of followings: (a) manufacturing; (b) electricity; (c) gas and water supply; (d) post and telecommunications; (e) software publishing, consultancy and supply; (f) data processing, database activities and distribution of electronic content; (e) other computer related activities; (f) basic and applied Research and Development (R&D) on biotechnology, pharmaceutical sciences or life sciences, natural sciences and engineering; (g) business and management consultancy activities; (h) architectural, engineering and other technical activities.
- ii. IFDI in industrial parks would not be liable to the conditionalities that are applicable for construction development projects, etc. that are clarified in Para construction development: townships, housing, built-up infrastructure of this Circular, provided the industrial parks are sufficient for the below-mentioned conditions that are summarized as follows: (i) it would consist of a minimum of 10 units and it is required that no single unit occupy more than 50 per cent of the allocable area. (ii) it is required that the minimum percentage of the area that will be allocated for industrial activity not be less than 66 per cent of the total allocable area.

**4.5.6. Satellites-establishment and operation**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Government

**Main condition** is based upon satellites-establishment and operation that are liable to the sectoral guidelines of DS or *Indian Space Research Organization*.

#### 4.5.7. Private security agencies

**% of Equity or IFDI Cap:** 74 per cent

**Entry Route:** Automatic up to 49 per cent Government route beyond 49 per cent and up to 74 per cent

**Main condition** is comprised of PSAs.

**Other conditions** are summarized as follows: (i) IFDI in PSAs is liable to compliance with PSAs (Regulation) (PSAR) Act, 2005, as it is occasionally amended. (ii) for the purposes of (I/O)FDI policy on the sector, terms PSAs, PS and Armoured Car Service (ACS) (PSACS) will be in possession of the same meaning as it is provided under PSAR Act, 2005, which is produced again as under: (a) PSA is the meaning of a person or body of persons other than a government agency, department or organization that is engaged in the business of providing PS services that are composed of training to PS guards or their supervisor or providing PS guards to any industrial or business undertaking or a firm or any other person or property. (b) PS is the meaning of security that is provided by a person, other than a public servant, to protect or guard any person or property or both and is included in provision of ACS. (c) ACS is the meaning of the service that is provided by deployment of armed guards in congruence with armoured car and such other related services which may be notified by the central government or as the case may be, the state government from time to time.

#### 4.5.8. Telecom services

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic up to 49 per cent Government route beyond 49 per cent

**Main condition** is comprised of telecom services that encompass telecom infrastructure providers Category-I: all telecom services that consist of telecom infrastructure providers category-I, viz. basic, cellular, united access services, unified license (access services), unified license, national or international long distance, commercial V-Sat, public mobile radio trunked services, global mobile personal communications services, all types of internet service provider licenses, voice mail or audiotex or unified *messaging* services, resale of international private leased circuits, mobile number portability services, infrastructure provider Category-I (that provides dark fibre, right of way, duct space, tower) aside from other service providers.

**Other condition** is related to the IFDI in telecom sector which is liable to observance of licensing and security conditions that are ensured and recognized by licensee as well as investors as it is occasionally notified by the DOT, apart from other service providers, which are permitted 100 per cent IFDI under the automatic route.

#### 4.5.9. Trading

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is included in cash and carry wholesale trading (CCWT) or wholesale trading (WT) that consists of sourcing from Micro, Small and Medium Enterprises (MSMEs).

**Definition:** CCWT or WT would imply sale of goods or merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related

sub-ordinated service providers. WT would, correspondingly, be deemed as sales for the purpose of trade, business and profession, in contrast with sales for the purpose of personal consumption. The objective of yardstick is to determine whether the sale is wholesale or not would be the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would consist of resale, processing and thereafter sale, bulk imports with export or ex-bonded warehouse business sales and B2B e-Commerce.

**Guidelines for CCWT or WT:**

- i. For going about the initial steps in WT, requisite licenses or registration or permit, as it is specified under the relevant acts or regulations or rules or orders of the state government or government body or government authority or local self-government body under that it is required that state government be obtained.
- ii. Aside from the case of sales to government, sales that are made by the wholesaler would be deemed as CCWT or WT in company of valid business customers, merely when the objective of WT are made to the below-mentioned entities: (i) entities that hold sales tax or *Value Added Tax* (VAT) registration or service tax or excise duty registration; or (ii) entities that hold trade licenses, i.e., a license or registration certificate or membership certificate or registration under Shops and Establishment Act that is issued by a government authority or government body or local self-government authority that reflect that the entity or person that holds the license or registration certificate or membership certificate, as the case may be, is itself or himself or herself taken part in a business that becomes involved in commercial activity; or (iii) entities that hold permit or license, etc. for undertaking retail trade (like tehbazari and similar license for hawkers) from government authorities or local self government bodies; or (iv) institutions that are in possession of certificate of incorporation or registration as a society or registration as public trust for their self consumption.

**Note: an entity, to whom WT is made, may satisfy any one of the below-mentioned conditions.**

- iii. It is required that full records that indicate all the details of such sales like name of entity, kind of entity, registration or license or permit, etc. number, amount of sale, etc. be maintained on a day to day basis.
- iv. WT of goods would be allowed among firms of the same group. But, it is required that such WT to group firms that are taken together not exceed 25 per cent of the total turnover of the wholesale venture.
- v. WT is permitted to be undertaken as per normal business practice that consists of extending credit facilities that are liable to applicable regulations.
- vi. A wholesale or cash and carry trader may agree to be responsible for retail trading that is liable to the conditions as it is applicable. It is obligatory that an entity that undertakes wholesale or cash and carry as well as retail business maintain separate books of accounts for these two arms of the business and duly that are audited by the statutory auditors. Conditions of the (I/O)FDI policy for wholesale or cash and carry business and for retail business are legally obliged to have to be complied with by the respective business arms in a separate manner.

**4.5.9.1. E-commerce activities**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is comprised of CCWT or WT that encompass sourcing from MSMEs. Liable to provisions of (I/O)FDI policy, e-commerce entities would merely participate in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

#### Definitions

- i. **E-commerce** is deemed as buying and selling of goods and services encompassing digital products over digital and electronic network.
- ii. **E-commerce entity** is regarded as a firm incorporated under the Companies Act, 1956 or the Companies Act, 2013 or a foreign firm covered under section 2(42) of the Companies Act, 2013 or an office, branch or agency in India as it is provided in section 2(v)(iii) of FEMA 1999, owned or controlled by a person who is not residing in India and carry out the e-commerce business activity.
- iii. **Inventory-based model of e-commerce** is referred to as an e-commerce activity where inventory of goods and services is possessed by e-commerce entity and is directly sold to the consumers.
- iv. **Marketplace-based model of e-commerce** is viewed as providing of an IT platform that is owned by an e-commerce entity on a digital and electronic network in order to act as a facilitator between buyer and seller.

#### Guidelines for foreign direct investment on e-commerce sector

- i. 100 per cent IFDI through automatic route is allowed in marketplace-based model of e-commerce.
- ii. IFDI is not allowed in inventory-based model of e-commerce.

#### Other conditions

- i. Digital and electronic network will consist of network of computers, television channels and any other internet application, which is utilized in automated manner, such as web pages, extranets, mobiles, etc.
- ii. Marketplace e-commerce entity will be allowed to enter into transactions with sellers who are registered on its platform on B2B basis.
- iii. E-commerce marketplace is permitted to provide support services to sellers with respect to warehousing, logistics, order fulfillment, call centre, payment collection and other services.
- iv. E-commerce entity that provide a marketplace will not assume ownership over the inventory, for instance goods that are purported to be sold. The business into inventory-based model will be rendered by such an ownership over the inventory.
- v. An e-commerce entity will not allow more than 25 per cent of the sales value on financial year basis that is affected by way of its marketplace from one vendor or their group firms.
- vi. In the marketplace-based model, it is required that goods or services that are made available for sale electronically on website provide name, address and other contact details of the seller distinctly. It is expected that the seller will take responsibility for post sales, delivery of goods to the customers and customer satisfaction.
- vii. In the marketplace-based model, the e-commerce entity may facilitate payments for sale according to the guidelines of the RBI.
- viii. In marketplace-based model, it is expected that the seller will take responsibility for any warranty or guarantee of goods and services that are sold.

- ix. E-commerce entities that provide marketplace will not directly or indirectly assume influence over the sale price of goods or services and it is required that it maintain level playing field.
- x. Guidelines on CCWT as it is given in Para Guidelines for CCWT or WT above will make an official request for B2B e-commerce.

Liable to the conditions of (I/O)FDI policy on services sector and applicable laws or regulations, security and other conditionalities, sale of services by dint of e-commerce will be under automatic route.

#### 4.5.9.2. Single brand product retail trading

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic up to 49 per cent Government route beyond 49 per cent

**Main conditions** are attributed to the IFDI that is permitted to be made in the below-mentioned. Single Brand Product Retail Trading (SBPRT) might be summarized as follows:

- i. The objective of FI in SBPRT is to attract investments in production and marketing, improve the availability of such goods for the consumer, encourage increased sourcing of goods from India, and enhance competitiveness of Indian enterprises by way of access to global designs, technologies and management practices.
- ii. IFDI in SBPRT would be liable to the under-mentioned conditions that can be summarized as follows: (i) it is required that products, which will be sold, be of a single brand merely. (ii) it is required that products be sold under the same brand internationally, i.e., it is required that products be sold under the same brand in one or more countries other than India. (iii) SBPRT would include merely products that are branded during the process of manufacturing. (iv) it is obligatory that a NRE or NREs, whether owner of the brand or otherwise, be allowed to agree to be responsible for SBPRT in the country for the specific brand, in a direct manner or by means of a legally tenable agreement with the brand owner for agreeing to be responsible for SBPRT. The onus for making certain of compliance with this condition will rest with the Indian entity that is undertaking SBPRT within India. It is required that the investing entity provide evidence to this effect at the time of seeking approval that covers a copy of the licensing or franchise or sub-licence agreement, unambiguously states compliance with the above-mentioned condition and also the requisite evidence be filed with the RBI for the automatic route and to competent authority for cases that include approval. (v) with respect to proposals involving FI beyond 51 per cent, sourcing of 30 per cent of the value of goods that are purchased, will be permitted to be done from India, preferably from Ministry of MSMEs (MMSMEs), village and cottage industries, artisans and craftsmen, in all sectors. The quantum of domestic sourcing will be permitted to be self-certified by the firm, to be consequently checked, by statutory auditors, from the duly certified accounts where it is expected that the firm will be maintained. This procurement requirement would have to be satisfied, in the first instance, as an average of five years' total value of the goods purchased, beginning 1<sup>st</sup> April of the year of the commencement of the business, i.e., opening of the first store. From then on, it would have to be satisfied on an annual basis. In favor of intending to reveal the fact that the sourcing requirement is definitely determined and confirmed, it was expected that the relevant entity would be the firm that incorporated in India, which is the recipient of FI in favor of intending to undertake SBPRT. (vi) liable to the conditions that are mentioned in this Para a Single Brand Retail Trading (SBRT) entity that operates by dint of brick and mortar

stores is permitted to commence retail trading by dint of e-commerce. (vii) it was expected that application that seeks permission of the government for IFDI that exceeds 49 per cent in a firm that suggests to undertake SBRT in India would be made to the SIA in the DPIIT. It was also expected that the applications would explicitly and incontestably suggest the expedience of the product or product categories that are suggested to be sold under a single brand. It is required that any addition to the product or product categories that are to be sold under single brand acquire a fresh approval of the government and in the event of IFDI up to 49 per cent, the list of products or product categories that are suggested to be sold aside from food products be provided to the RBI.

**Notes** are summarized as follows: (i) conditions that are mentioned at Para ii. (ii) and (iv) will not be capable of being applied to undertake SBRT of Indian brands. (ii) it is required that Indian brands be possessed and directed by resident Indian citizens and/or firms which are possessed and directed by resident Indian citizens. (iii) it is expected that sourcing norms will not be capable of applied up to three years from commencement of the business, i.e., opening of the first store for entities that undertake SBRT of products that are in possession of state-of-art and cutting-edge technology and where local sourcing is not permissible. From then on, provisions of Para ii. (v) will be capable of being applied. A committee under the Chairmanship of Secretary, DIPP, with representatives from NITI Aayog, concerned administrative ministry and independent technical expert(s) on the subject will analyze the claim of applicants on the issue of the products that are being in the nature of state-of-art and cutting-edge technology where local sourcing is not permissible, and provide recommendations for such relaxation.

#### 4.5.9.3. Multi brand retail trading

**% of Equity or IFDI Cap:** 51 per cent

**Entry Route:** Government

**Main conditions** can be summarized as follows: (i) IFDI, in all products, is permitted to be made in the below-mentioned Multi Brand Retail Trading (MBRT) in case it is liable to the conditions that are mentioned here below: (a) fresh agricultural produce that included fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be not branded. (b) minimum amount, as IFDI, that is to be brought in by the FIs would be US\$ 100 Million. (c) it is required that at least 50 per cent of total IFDI that was brought in the first tranche of US\$ 100 Million, be invested in back-end infrastructure within three years, where back-end infrastructure will be comprised of capital expenditure on all activities that exclude that on front end units, i.e., back-end infrastructure will consist of investment that is made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure, etc. It is recommended that expenditure on land cost and rentals, if there exist any, be counted for purposes of backend infrastructure. It is required that subsequent investment in backend infrastructure be made by the MBRT retailer as it is necessary, being dependent on its business requirements. (d) it is required that at least 30 per cent of the value of procurement of manufactured or processed products that are purchased be sourced from Indian Micro, Small and Medium Industries, which are in possession of a total investment in plant and machinery that do not exceed US\$ 2.00 Million. This valuation is deemed as the value at the time of installation, with the absence of providing for depreciation. It was expected that the small industry status would be considered merely at the time of first engagement with the retailer, and it is recommended that such industry continually qualify as a small industry for this purpose, even though it surpasses in growth of the said investment of US\$ 2.00 Million during the period of its relationship with the said retailer. It is also anticipated that sourcing from agricultural co-

operatives and farmers co-operatives would be reckoned in this category and the procurement requirement would have to be satisfied, in the first instance, as an average of five years' total value of the manufactured or processed products that are purchased, beginning 1<sup>st</sup> April of the year during that the first tranche of IFDI is received. From then on, it would have to be satisfied on an annual basis. (e) self-certification possessed by the firm, to have a guarantee of compliance of the conditions at serial nos. (b), (c) and (d) that are mentioned above, which was able to be cross-checked, as and when it is required. Therefore, it is demanded that the investors maintain accounts that are properly and promptly certified by statutory auditors. (f) retail sales outlets are permitted to be established merely in cities with a population of more than 10 Lakh as per 2011 Census or any other cities as per the decision of the respective state governments, and is also permitted to include an area of 10 kms around the municipal or urban agglomeration limits of such cities; retail locations will be confined to conforming areas as per the Master or Zonal Plans of the concerned cities and provision will be made for requisite facilities that included transport connectivity and parking. (g) government will possess the first right to procurement of agricultural products. (h) the above-mentioned policy is deemed as an enabling policy merely and the state governments or union territories would be free to take responsibility for their own decisions in respect of implementation of the policy. Thus, accordingly, retail sales outlets are permissible to be established in those states or union territories which have conveyed their agreement, or convey their agreement in future, to permit IFDI in MBRT under this policy. The list of states or union territories that have agreed is at ii. below. This kind of agreement, in future, to allow establishment of retail outlets under this policy, would be provided to the GOI by dint of the DIPP, and thus other new states or union territories would be added to the list at (ii) below. The establishment of the retail sales outlets will be in compliance of applicable state or union territory laws or regulations that included the Shops and Establishments Act, etc. (ix) retail trading, in any form, through e-commerce, would not be permitted for firms with IFDI that are engaged in the activity of MBRT. (ii) List of states or union territories as it is mentioned in Paragraph (i) (h): (a) Andhra Pradesh; (b) Assam; (c) Delhi; (e) Haryana; (f) Himachal Pradesh; (g) Jammu and Kashmir; (h) Karnataka; (i) Maharashtra; (j) Manipur; (k) Rajasthan; (l) Uttarakhand; and (m) Daman and Diu and Dadra and Nagar Haveli (union territories).

#### 4.5.9.4. Duty free shops

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** can be concluded as follows: (i) duty free shops would be deemed as shops that are established in custom bonded area at international airports or international seaports and land custom stations where there exists transit of international passengers. (ii) FI in duty free shops is liable to be in compliance of conditions that are stipulated under the Customs Act, 1962 and other laws, rules and regulations. (iii) it is required that duty free shop entity not participate in any retail trading activity in the domestic tariff area of the country.

#### 4.6. Railway infrastructure

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main conditions** are comprised of construction, operation and maintenance of the following: (i) sub-urban corridor projects through Point-to-Point Protokol (PPP); (ii) high speed train projects; (iii) dedicated freight lines; (iv) rolling stock that include train sets, and locomotives or coaches

manufacturing and maintenance facilities; (v) railway electrification; (vi) signaling systems; (vii) freight terminals; (viii) passenger terminals; (ix) infrastructure in industrial park that pertains to railway line or sidings that include electrified railway lines and connectivities to main railway line; and (x) mass rapid transport systems.

**Notes** are summarized as follows: (i) IFDI in the activities, which are mentioned above, which is not barred from private sector participation that include IFDIs into India is liable to sectoral guidelines of Ministry of Railways (MOR). (ii) Proposals that become involved in IFDI beyond 49 per cent in sensitive areas from security point of view, will be permissible to be brought by the MOR prior to the Cabinet Committee on Security for consideration on a case to case basis.

#### **4.7. Financial services**

It is required that FI in other financial services, other than those that are mentioned below, acquire prior approval of the government.

##### **4.7.1. Asset reconstruction companies**

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is based upon ARCs that is deemed as a firm that is registered with the RBI under Section 3 of the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.

**Other conditions** are summarized as follows: (i) persons who do not reside within India are permitted to invest in the capital of ARCs that are registered with RBI, up to 100 per cent on the automatic route. (ii) it is expected that investment limit of a sponsor in the shareholding of an ARC will be governed by the provisions of SARFAESI Act, 2002, as it is occasionally amended. By the same token, it is also expected that investment that is made by institutional or non-institutional investors will be governed by the aforementioned Act, as it is occasionally amended. (iii) it is required that the total shareholding of an individual FII or FPI be below 10 per cent of the total paid-up capital. (iv) FIIs or FPIs are permitted to invest in the Security Receipts (SRs) that are issued by ARCs. FIIs or FPIs may be permitted to invest up to 100 per cent of each tranche in SRs that are issued by ARCs, liable to directions or guidelines of RBI. It is advised that this kind of investment be within the relevant regulatory cap as it is capable of being applied. (v) all investments would be liable to provisions of the SARFAESI Act, 2002, as it is occasionally amended.

##### **4.7.2. Banking-private sector**

**% of Equity or IFDI Cap:** 74 per cent

**Entry Route:** Automatic up to 49 per cent Government route beyond 49 per cent and up to 74 per cent

**Main condition** is based upon banking-private sector.

**Other conditions** are summarized as follows: (i) this 74 per cent limit will encompass investment under the PIS by FIIs or FPIs, NRIs and shares that are acquired before September 16, 2003 by erstwhile OCBs, and continually encompass initial public offerings, private placements, GDR or ADRs and acquisition of shares that are obtained from existing shareholders. (ii) the aggregate FI in a private bank from all sources will be permitted up to a maximum of 74 per cent of the paid-up capital of the bank. At all times, at least 26 per cent of the paid-up capital will have to be possessed by residents, with the exception of those who are

regarded as a WOS of a foreign bank. (iii) the stipulations as above will be capable of being applied to all investments in existing private sector banks as well. (iv) other conditions with reference to limits that are permitted under PISs by dint of stock exchanges for FIIs or FPIs and NRIs, setting-up of a subsidiary that is owned by foreign banks and limits with respect to voting rights that can be found at Annexure-9.

#### **Annexure-9: Permissible limits under PISs through stock exchanges for FIIs or FPIs and NRIs**

The limits that are allowed under PISs by means of stock exchanges for FIIs or FPIs and NRIs will be summarized as follows:

- i. In the event of FIIs or FPIs, as until this time, individual FII or FPI holding is confined to below 10 per cent of the total paid-up capital, aggregate limit for all FIIs or FPIs may be not permitted to exceed 24 per cent of the total paid-up capital that may be permitted to raise up to sectoral limit of 74 per cent of the total paid-up capital that is provided by the bank concerned by dint of a resolution that is passed by its BODs in the aftermath of a special resolution to that effect that is passed by its general body. The conditions are summarized as follows: (i) in the event of NRIs, as until this time, individual holding is confined to 5 per cent of the total paid-up capital both on repatriation and non-repatriation basis and aggregate limit may be not permitted to exceed 10 per cent of the total paid-up capital both on repatriation and non-repatriation basis; but, NRI holding may be permitted up to 24 per cent of the total paid-up capital both on repatriation and non-repatriation basis under the condition that a special resolution to that effect in the general body is passed by the banking firm. (ii) people who seek to apply for IFDI in private banks that are in possession of JV or subsidiary in insurance sector may submit their applications to the RBI for consideration in consultation with the Insurance Regulatory and Development Authority of India (IRDAI) in order to confirm that the 49 per cent limit of foreign shareholding that is capable of being applied to the insurance sector is not being violated. (iii) it is required that transfer of shares under IFDI from residents to non-residents will continually acquire approval of RBI and government as per Para entry routes for IFDIs above as it is capable of being applied. (iv) the policies and procedures that are occasionally prescribed by RBI and other institutions that encompass SEBI, Ministry of Corporate Affairs (MCA(s)) and IRDAI on these matters will continually apply. (v) RBI guidelines that pertain to acquisition that is acquired by purchase or otherwise of shares of a private bank, if such acquisition is a cause of any person who possess or assuming control over 5 per cent or more of the paid-up capital of the private bank will also be applicable for non-resident investors.
- ii. **Establishing of a subsidiary that is possessed by foreign banks:** (i) foreign banks will be considered eligible for either possessing branches or subsidiaries but not both. (ii) foreign banks that are regulated by banking supervisory authority in the home country and satisfy RBI's licensing criteria will be permitted to acquire 100 per cent paid-up capital to let them to establish a WOS in India. (iii) a foreign bank may be permitted to operate in India by dint of merely one of the three channels, viz.: (a) branches; (b) a WOS; and (c) a subsidiary with aggregate FI that is made up to a maximum of 74 per cent in a private bank. (iv) a foreign bank will be considered eligible for setting up a WOS either by dint of conversion of existing branches into a subsidiary or by dint of a fresh banking license. A foreign bank will be considered eligible for setting up a subsidiary by the way of acquisition of shares of an existing private sector bank under the condition that at least 26 per cent of the paid capital of the private sector bank is permitted be acquired by residents who are always in

complete agreement with Para i. (ii) that is mentioned above. (v) a subsidiary of a foreign bank will be liable to the licensing requirements and conditions that are chiefly in accord with those that are imperative for new private sector banks. (vi) RBI will issue guidelines for establishing a WOS of a foreign bank in a separate manner. (vii) all applications that are made by a foreign bank for establishing a subsidiary or for conversion of their existing branches to subsidiary within India will have to be addressed and submitted to the RBI.

- iii. **During this time, there exists a limit of ten per cent on voting rights** with respect to banking firms, and it is demanded that this be noted by potential investor. Any change in the ceiling may be permitted to be caused to take place merely after final policy decisions are made and appropriate parliamentary approvals are acquired.

#### 4.7.3. Banking-public sector

**% of Equity or IFDI Cap:** 20 per cent

**Entry Route:** Government

**Main condition** is based upon banking-public sector that is liable to banking firms (Acquisition and Transfer of Undertakings) Acts, 1970 or 1980. This ceiling (20 per cent) is also capable of being applied to the state bank of India and its associate banks.

#### 4.7.4. Credit information companies

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is comprised of credit information companies (CICs).

**Other conditions** are summarized as follows: (i) FI in CICs is liable to the CICs (Regulation) Act, 2005. (ii) FI is considered liable to regulatory clearance from RBI. (iii) This kind of FII or FPI investment would be considered to be liable to the conditions that are summarized as follows: (a) it is required that a single entity directly or indirectly possess below 10 per cent equity. (b) it is mandatorily required that any acquisition in excess of 1 per cent be reported to RBI. (c) it is requested that FIIs or FPIs investing in CICs not seek a representation on the BODs that pertain to their shareholding.

#### 4.7.5. Infrastructure firms in the securities market

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Automatic

**Main condition** is based upon infrastructure firms that are in securities markets, that is to say, stock exchanges, commodity exchanges, depositories and clearing corporations, in compliance with SEBI Regulations.

**Other conditions** are summarized as follows: (i) FI that included investment that is made by FPIs, will be liable to the Securities Contracts (Regulations) (SC(s)(R)) (Stock Exchanges and Clearing Corporations) Regulations, 2012, and SEBI (Depositories and Participants) Regulations, 1996 as it is occasionally amended, and other guidelines or regulations that are issued by the central government, SEBI and occasionally the RBI. (ii) words and expressions that are utilized herein and are not defined in such regulations, yet are defined in the Companies Act, 2013 (18 of 2013) or the SC(s)(R) Act, 1956 (42 of 1956) or the SEBI Act, 1992 (15 of 1992) or the Depositories Act, 1996 (22 of 1996) or in the concerned regulations that issued by

SEBI shall obtain the same meanings, respectively, shall be assigned to them in those acts or regulations.

### Definitions

- i. Futures trading that is undertaken in commodities are regulated under the Forward Contracts (Regulation) (FC(s)(R)) Act, 1952. Commodity exchanges, like stock exchanges, are infrastructure firms in the commodity futures market. With the intention of infusing best practices that are globally acceptable, modern management skills and latest technology, it was determined to come to a considered decision about permitting FI in commodity exchanges.
- ii. For the purposes of expressing the followings in an explicit manner: (i) commodity exchange is regarded as a recognized association under the provisions of the FC(s)(R) Act, 1952, as it is occasionally amended, in order to contribute to the progress of exchange platform for the purpose of trading in forward contracts in commodities. (ii) recognized association is deemed as an association to which recognition for the present has been granted by the central government under Section 6 of the FC(s)(R) Act, 1952. (iii) association is any-body of individuals, whether incorporated or not, constituted for the purposes of regulating and controlling the business of the sale or purchase of any goods and commodity derivative. (iv) forward contract is referred to as a contract for the delivery of goods and which is not a ready delivery contract. (v) commodity derivative is identified as the following terms: (a) a contract for delivery of goods, which is not a ready delivery contract; or (b) a contract for differences which receives its value from prices or indices of prices of these kinds of underlying goods or activities, services, rights, interests and events, as it may be notified in consultation with SEBI by the central government, but does not encompass securities.

### 4.7.6. Insurance

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Automatic

**Main condition** is attributed to the IFDI that is permitted to be made by the below-mentioned organizations or institutions: (i) insurance firm; (ii) insurance brokers; (iii) third party administrators; (iv) surveyors and loss assessors; and (v) other insurance intermediaries that are appointed under the provisions of IRDAI Act, 1999 (41 of 1999).

**Other conditions** are summarized as follows: (i) it is required that no Indian Insurance Firm (IIC) permit the aggregate holdings through total FI in its equity shares that are obtained by FIs that encompass PIs to exceed forty-nine per cent of the paid-up equity capital of such IIC. (ii) it is required that the FI up to forty-nine per cent of the total paid-up equity of the IIC be permitted on the automatic route that is liable to approval or verification that is provided by the IRDAI. (iii) it is required that FI in this sector be liable to compliance with the provisions of the Insurance Act, 1938 and the condition that firms that receive IFDI acquire mandatory license or approval from the IRDAI in order to undertake insurance and related activities. (iv) it is required that an IIC confirm that its ownership and control are always assumed by resident Indian entities as it is determined by DFS or IRDAI as per the rules or regulation that is occasionally issued by them. (v) it is required that FPI in an IIC be governed by the provisions that are contained in sub-regulations (2), (2A), (3) and (8) of Regulation 5 of FEMA Regulations, 2000 and provisions of the SEBI (FPIs) Regulations, 2014. (vi) it is required that any increase in FI in an IIC be in accord with the pricing guidelines that are specified by RBI under the FEMA Regulations. (viii) it is required that the foreign equity investment cap of 49 per cent apply on

the same terms to the organizations or institutions that are mentioned above, such as insurance brokers, third party administrators, surveyors and loss assessors and other insurance intermediaries that are appointed under the provisions of IRDAI Act, 1999 (41 of 1999). If it is the case that where an entity like a bank, whose primary business is not in the side of the insurance area, is permitted by the IRDAI in order to functionally act as an insurance intermediary, then it is required that the foreign equity investment caps that are capable of being applied to that sector continually apply, under the condition that the revenues of such entities from their primary (i.e., non-insurance related) business must account for above 50 per cent of their total revenues in any financial year. (ix) it is required that the provisions of Paragraphs i. (ii) and (iv) of Annexure-9 that are related to banking-private sector be capable of being applied with respect to bank promoted insurance firms. (x) it is expected that terms control, equity share capital, FDI, FIs, FPI, IIC, Indian firm, Indian control of an IIC, Indian ownership, NRE, public financial institution, resident Indian citizen, total FI will obtain the same meaning as it is provided in Notification No. G.S.R 115(E), dated 19<sup>th</sup> February, 2015, and issued by Deep Foundations Institute and regulations that are occasionally issued by IRDAI.

#### 4.7.7. Pension sector

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Automatic

**Main condition** is pension sector.

**Other conditions** are summarized as follows: (i) FI in the pension funds is permitted as per the PFRDA Act, 2013. (ii) FI in pension funds will be liable to the condition that entities that bring in foreign equity investment as per Section 24 of the PFRDA Act shall acquire mandatory registration from the PFRDA and abide by other requirements as per the PFRDA Act, 2013 and rules and regulations that are framed under it for so engaging in pension fund management activities in India. (iii) it is required that an Indian pension fund confirm that its ownership and control are always assumed by resident Indian entities as it is determined by the GOI or PFRDA as per the rules or regulation that is occasionally issued by them.

#### 4.7.8. Power exchanges

**% of Equity or IFDI Cap:** 49 per cent

**Entry Route:** Automatic

**Main condition** is comprised of power exchanges that are registered under the Central Electricity Regulatory Commission (Power Market) Regulations, 2010.

**Other conditions** are summarized as follows: (i) it is required that FII or FPI purchases be confined to secondary market merely. (ii) it is expected that no non-resident investor or entity that includes persons, who are acting in concert, will possess more than 5 per cent of the equity in such firms. (iii) it was expected that the FI would be in compliance with SEBI Regulations; other applicable laws or regulations; security and other conditionalities.

#### 4.7.9. White label automatic teller machine operations

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is comprised of white label automatic teller machines (ATM) (WLAs) operations (WLAOs).

**Other conditions** are summarized as follows: (i) it is required that any non-bank entity for the purpose of establishing to WLAs hold a minimum net worth of Rs. 100 Crore as per the latest financial year's audited balance sheet that is always to be maintained. (ii) if there should be happen to be the entity that is also engaged in any other financial services as it is dogmatically asserted at Para other financial services that are mentioned below, then it is demanded that the FI in the firm that establishes WLAs also have to abide by the minimum capitalization norms, if any, that are introduced for FIs that are permitted in such other financial services. (iii) IFDI in the WLAOs will be liable to the specific criteria and guidelines that issued by RBI vide Circular No. DPSS.CO.PD.No. 2298/02.10.002/2011-2012, as it is occasionally amended.

#### 4.7.10. Other financial services

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** consists of financial services activities that are regulated by financial sector regulators, viz. RBI, SEBI, IRDA, PFRDA, National Housing Bank, or any other financial sector regulator as it may be notified by the GOI.

**Other conditions** are summarized as follows: (i) it is recommended that FI in other financial services activities be liable to conditionalities that encompass minimum capitalization norms, as it is specified by the concerned regulator or government agency. (ii) it is imperative for other financial services activities to be regulated by one of the financial sector regulators. In all these kinds of financial services activity that are not regulated by any financial sector regulator or where merely part of the financial services activity is regulated or where there exists doubt that refers to the regulatory oversight, FI that is permitted up to 100 per cent will be eligible under government approval route that is liable to conditions that encompass minimum capitalization requirement, as it may be decided by the government. (iii) any activity that is idiosyncratically regulated by an Act, the FI limits will be confined to those levels or limit that may be specifically stated in that Act, if so mentioned. (iv) Downstream investments that are made by any of these entities that have engaged in other financial services will be liable to the extant sectoral regulations and provisions of FEM (TISPROI) Regulations, 2000, as it is occasionally amended.

#### 4.8. Pharmaceuticals

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic

**Main condition** is greenfield.

**% of Equity or IFDI Cap:** 100 per cent

**Entry Route:** Automatic up to 74 per cent Government route beyond 74 per cent

**Main condition** is brownfield.

**Other conditions** are summarized as follows: (i) non-compete clause would not be permitted in automatic or government approval route, with the exception of the special circumstances with the approval of the government. (ii) it is required that the prospective investor and the prospective investee provide a certificate in addition to the application for FI as per Annexure-10. (iii) government may incorporate appropriate conditions for IFDI in brownfield cases, at the time of granting approval. (iv) IFDI in brownfield pharmaceuticals, under not only automatic but also government approval routes, is further liable to compliance of following conditions: (a)

the production level of National List of Essential Medicines (NLEMs) drugs and/or consumables and their supply to the domestic market at the time of induction of IFDI is maintained over the next five years at an absolute quantitative level. The benchmark for this level would be determined to come to a decision in respect of the level of production of NLEMs drugs and/or consumables in the three financial years, immediately preceding the year of induction of IFDI. Of these, the highest level of production in any of these three years would be taken as the level. (b) R&D expenses are maintained in value terms for 5 years at an absolute quantitative level at the time of induction of IFDI. The benchmark for this level would be decided with reference to the highest level of R&D expenses which has been incurred in any of the three financial years immediately preceding the year of induction of IFDI. (c) the administrative ministry will be provide complete information that pertains to the transfer of technology, if any, in addition to induction of FI into the investee firm. (iv) the compliance of conditionalities will be monitored by the administrative ministry or ministries, for instance, Ministry of Health and Family Welfare (MHFW), DP or any other regulatory agency or development as it is occasionally notified by central government.

**Notes** are summarized as follows: (i) IFDI up to 100 per cent, under the automatic route is allowed for manufacturing of medical devices. Thus, subsequently, the conditions that are mentioned above will not be capable of being applied to greenfield as well as brownfield projects of this industry. (ii) medical device is deemed as the following terms: (a) any instrument, apparatus, appliance, implant, material or other article, whether utilized alone or in combination which encompass the software that is intended and designed by its manufacturer to be utilized specifically for human beings or animals for one or more of the certain purposes of- (a-a) diagnosis, prevention, monitoring, treatment or alleviation of any disease or disorder; (a-b) diagnosis, monitoring, treatment, alleviation of, or assistance for, any injury or handicap; (a-c) investigation, replacement or modification or support of the anatomy or of a physiological process; (a-d) supporting or sustaining life; (a-e) disinfection of medical devices; (a-f) control of conception, and that does not accomplish the action that is primarily intended in or on the human body or animals by any pharmacological or immunological or metabolic means, yet that is permitted to be facilitated in its intended function by these kinds of means; (b) an accessory to such an instrument, apparatus, appliance, material or other article; (c) a device that is reagent, reagent product, calibrator, control material, kit, instrument, apparatus, equipment or system whether utilized alone or in combination thereof intended to be utilized for examination and conveying any confidential information for medical or diagnostic purposes by dint of in vitro examination of specimens that are derived from the human body or animals. (iii) the definition of medical device at Notes (b) above would be liable to the amendment in Drugs and Cosmetics Act.

**Annexure-10: Certificate to be furnished by the prospective investor as well as the prospective recipient entity (at Para other conditions being in pharmaceuticals ii.)**

It is formally and genuinely confirmed that the following is related to the complete list of all inter-se agreements that contain the shareholders agreement that is entered into between FIs and investee brownfield pharmaceutical entity

1. ....
2. ....
3. ....

(copies of all agreements will be enclosed)

Additionally, it is also formally and genuinely confirmed that none of the inter-se agreements that encompass the shareholders agreement that is entered into between FIs and investee brownfield pharmaceutical entity include any non-compete clause in any form whatsoever. Furthermore, it is formally and genuinely confirmed that there exist no other contracts or agreements between the FIs and investee brownfield pharma entity other than those that are listed above. The FIs and investee brownfield pharma entity undertake to address to the government any inter-se agreements that is permitted to entered into between them occurring after the submission and consideration of this application.

#### 4.9. Permitted sectors or activities or industries or persons

**Table 4.9.1: Permitted sectors or activities or industries (Investindia, 2018)**

<b>Sectors or Activities or Industries</b>	<b>Automatic approval route</b>	<b>Government approval route</b>
Agriculture & Animal Husbandry	100%	
Air Transport Services (Non-scheduled and other services under civil aviation sector)	100%	
Air Transport Services (Scheduled air transport services and regional air transport services)	Up to 49%	Above 49%
Airports (Greenfield & Brownfield)	100%	
ARCs	100%	
Autocomponents	100%	
Automobiles	100%	
Banking-private Sector	Up to 49%	Above 49%
Banking-public Sector		20%
Biotechnology (Brownfield)	Up to 74%	Above 74%
Biotechnology (Greenfield)	100%	
Broadcast Content Services (Up-linking of Non-News and Current Affairs, TV Channels or Down-linking of TV Channels)	100%	
Broadcasting Carriage Services	100%	
Broadcasting Content Services		49%
Capital Goods	100%	
CCW/Tor WT (including sourcing from MSEs)	100%	
Chemicals	100%	
Coal & Lignite	100%	
Construction Development (Townships, Housing, Built-up Infrastructure)	100%	
Construction of Hospitals	100%	
Core Investment Company		100%
CICs	100%	
Defence	Up to 49%	Above 49%
Digital Media		Up to 26%
Duty Free Shops	100%	
E-commerce Activities	100%	
Electronic Systems	100%	
Food Processing	100%	
Food Products Retail Trading		100%
Gems & Jewellery (Manufacturing)	100%	

Healthcare (Brownfield)	Up to 74%	Above 74%
Healthcare (Greenfield)	100%	
Industrial Parks (new and existing)	100%	
Infrastructure firms in the Securities Market	49%	
Insurance	Up to 49%	
Information Technology (IT) and Business Process Management	100%	
Leather	100%	
Manufacturing	100%	
Medical Devices	Up to 100%	
Mining and Exploration of metal and non-metal ores	100%	
Mining and mineral separation of titanium bearing minerals and ores, its value addition, and integrated activities		100%
MBRT		51%
Other Financial Services	100%	
Other services under Civil Aviation sector (Maintenance and Repair organizations; flying training institutes; and technical training institutions)	100%	
Other services under Civil Aviation sector (Ground Handling Services subject to sectoral regulations and security clearance)	100%	
Pension	49%	
Petroleum & Natural Gas	100%	
Petroleum Refining (by Public Sector Undertakings (PSUs))	49%	
Pharmaceuticals (Brownfield)	Up to 74%	Above 74%
Pharmaceuticals (Greenfield)	100%	
Plantation Sector	100%	
Ports and Shipping	100%	
Power Exchanges	49%	
Print Media (Publication or printing of scientific and technical magazines or specialty journals or periodicals and facsimile edition of foreign newspapers)		100%
Print Media (Publishing of newspaper, periodicals, and Indian editions of foreign magazines dealing with news and current affairs)		26%
PSAs	Up to 49%	Above 49%
Railway Infrastructure	100%	
Renewable Energy	100%	
Roads & Highways	100%	
Satellites-establishment and operation		100%
SBPRT	100%	
Telecom Services	Up to 49%	Above 49%
Textiles & Garments	100%	
Thermal Power	100%	
Tourism & Hospitality	100%	
WLAOs	100%	

Permitted IFDIs into India may be categorized into three types: (i) IFDIs 100 per cent through automatic route are permitted. (ii) IFDIs up to 100 per cent through government route are permitted. (ii) IFDIs up to 100 per cent through government and automatic route are permitted. (Investindia, 2018) In the following sectors or activities or industries, IFDIs into the country up to the limit indicated against each sectors or activities or industries is permitted, subject to applicable laws and/or regulations; security and other conditionalities. (Rani, 2015) It should be noted that all the information that pertains to the sectors or activities or industries as it is stated above, is in conformity with the extant Consolidated (I/O)FDI Policy 2017 that is issued by the DPIIT as it is occasionally amended, and in sectors or activities or industries that are not listed above, IFDI is allowed up to 100 per cent on the automatic route, liable to applicable laws or regulations; security and other conditionalities. (Investindia, 2018; for further detailed definitions, clarifications and/or exceptions, please refer to Consolidated (I/O)FDI Policy 2017 and Amendment to (I/O)FDI Policy 2018 (GOI, MCI, DPIIT & FDI Policy Section, 2018))

**The following is also involved in the investors are permitted to invest in India.**

- i. A NRE is permitted to invest in India under the (I/O)FDI policy apart from those sectors or activities or industries which are not allowed. But, a citizen of Bangladesh or an entity that is incorporated in Bangladesh is permitted to invest in India, merely under the government route, in sectors or activities or industries other than defence, space, atomic energy and sectors or activities or industries prohibited for FI.
- ii. NRIs who resident in Nepal and Bhutan as well as citizens of Nepal and Bhutan are allowed to invest in the capital by Indian firms on repatriation basis under the condition that the amount of consideration for such investment shall be paid only by way of inward remittance in free foreign exchange through normal banking channels.
- iii. OCBs have not been recognized as a class of investors in India in view of the effect from September 16, 2003. Erstwhile OCBs which are not incorporated in India and are not under the adverse notice of RBI are permitted to make fresh investments, subject to the (I/O)FDI policy as incorporated NREs, in company of the prior approval of GOI if the investment is through government route; and in company of the prior approval of RBI if the investment is through automatic route.
- iv. A firm, trust and partnership firm, which are not incorporated in India and are owned and controlled by NRIs, are permitted to invest in India in company of the special dispensation as accessible to NRIs, subject to the (I/O)FDI policy.
- v. The following conditions are summarized as follows: (i) in terms of Schedule 2 and 2A of FEMA (TISPROI) Regulations, as the case might be, respectively, FIIs and FPIs are permitted to invest in the capital of an Indian firm under the portfolio investment scheme which confines with the limit of the individual holding of an FII or FPI below 10 per cent of the capital of the firm and the aggregate limit for FII or FPI investment to 24 per cent of the capital of the firm. This aggregate limit of 24 per cent is allowed to lead to an increase in the sectoral cap or statutory ceiling, as it is capable of being applied, by the Indian firm concerned by passing a resolution by its BODs followed by passing of a special resolution to that effect by its general body and under the condition that prior intimation will be given to RBI. Sectoral or statutory cap will not be exceeded by the aggregate FII or FPI investment, individually or in conjunction with other kinds of FI. (ii) an Indian firm that has issued shares to FIIs or FPIs, subject to the (I/O)FDI policy for that the payment has been received directly into firm's account should report these figures separately under Item No. 5 of Form

Foreign Currency-Gross Provisional Return (FC-GPR) (Annexure-1: Form FC-GPR).<sup>28</sup> (a) a daily statement with respect to all transactions (except derivative trade) has to be submitted by the custodian bank in soft copy in the prescribed format directly to RBI and also uploaded directly on the OFRS web site.<sup>29</sup>

- vi. No one other than registered FIIs or FPIs and NRIs as per Schedules 2, 2A and 3 respectively of FEM (TISPROI) Regulations, 2000 are permitted to invest or trade by means of a registered broker in the capital by Indian firms on recognized Indian stock exchanges.
- vii. A SEBI registered FVCIs may make a contribution up to 100 per cent of the capital of an Indian firm that is engaged in any activity mentioned in Schedule 6 of Notification No. FEMA 20/2000, such as start-ups irrespective of the sector that it is engaged in, subject to the automatic route. A SEBI registered FVCIs is permitted to invest in a domestic venture capital fund registered under the SEBI (VCF) Regulations, 1996 or a Category-I AIFs registered, subject to the SEBI (AIFs) Regulations, 2012. It is imperative that those kinds of investments also be under the extant FEMA Regulations and extant (I/O)FDI policy, such as sectoral caps, etc. The investment is allowed to be made in equities or equity linked instruments or debt instruments issued by the firm, such as start-ups and if a start-up is organized as a partnership firm or an LLP, the investment is permitted to be made in the capital or through any profit-sharing arrangement or units that are issued by a VCF or by a Category-I AIFs either through purchase by private arrangement either from the issue of the security or from any other person holding the security or on a recognized stock exchange. It is also allowed to establish a domestic asset management firm to manage its investments. SEBI registered FVCIs can also invest, subject to the FDI Scheme, as NREs, in other firms, under the (I/O)FDI policy and FEMA Regulations.
- viii. A NRI is allowed to subscribe to National Pension System that is governed and is administered by PFRDA, those kinds of provided subscriptions are allowed to be made through normal banking channels and the person is eligible to be permitted to invest as per the provisions of the PFRDA Act. It is anticipated that the annuity or accumulated saving will be repatriable. (DIPP et al., 2017)

#### **4.10. Non-permitted sectors or activities or industries or persons**

IFDI into India was not permitted in the following sectors or activities or industries or persons in agriculture or plantation activities; real estate business, or construction of farm houses; activities and sectors, which are not opened to private sector investments; agriculture (excluding floriculture, horticulture, development of seeds, animal husbandry, pisciculture and cultivation of vegetables, mushrooms, etc. under 58 controlled conditions and services related to agro and allied sectors) and plantations (other than tea plantation); and FI in trusts other than investment by SEBI registered FVCIs in domestic VCF under Schedule 6 to FEMA Notification No. 20 is not permitted (DIPP, MCI & GOI, 2013). (Shodhganga, 2011; DIPP, MCI & GOI, 2013) IFDI

<sup>28</sup>“Form FC-GPR: Issue of capital instruments by an Indian company to a person resident outside India. It is a form issued by RBI under FEMA, 1999. When the company receives the FI and against such investment the company allots shares to such foreign investor then it is the duty of the company to file details of such allotment of shares with the RBI within 30 days and for that company has to use the form FC-GPR for submitting details with RBI.” (Team Ebizfiling, 2019)

<sup>29</sup><https://secweb.rbi.org.in/ORFSMainWeb/Login.jsp>

into India is not permitted in the following sectors or activities or industries or persons at the present time:

- i. Investment by a person resident outside India is prohibited in the following sectors or activities or industries: (i) lottery business including government or private lottery, online lotteries, etc.; (ii) gambling and betting including casinos; for instance, foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also completely prohibited for lottery business and gambling and betting activities (Rani, 2015); (iii) business of chit funds (Shodhganga, 2011) (except for investment made by NRIs and OCIs on a non-repatriation basis); (iv) nidhi firm (borrowing from members and lending to members only (Ukibc, 2016)); (v) trading in TDRs; (vi) REB or CFHs; (vii) manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes. The prohibition is also on manufacturing of the products mentioned and FI in other activities relating to these products including wholesale cash and carry, retail trading, etc. will be governed by the sectoral restrictions laid down in Regulation 16 of FEMA 20 (R). (viii) sectors or activities or industries not open to private sector investment, viz.: (a) atomic energy; and (b) railway operations.
- ii. Any investment by a person who is a citizen of Bangladesh or Pakistan or is an entity that is incorporated in Bangladesh or Pakistan requires prior government approval.
- iii. A person who is a citizen of Pakistan or an entity that is incorporated in Pakistan can, only with the prior government approval, invest in sectors or activities or industries other than defence, space, atomic energy and sectors or activities or industries prohibited for FI. (Shodhganga, 2011; Rani, 2015; Ukibc, 2016; RBI, 2018a)

#### **4.11. Key changes to the inward foreign direct investment policy 2017**

In order to lead to an increase in IFDIs into India, the GOI has fundamentally liberalized IFDI regime by making norms easier for a host of important sectors that become involved in defence, civil aviation, pharmaceuticals, PS, broadcasting, etc. Up to this time, the greatest number of the changes have been apprised by the DIPP and RBI that consolidated in the (I/O)FDI policy 2017. The main changes brought by the IFDI regime through the (I/O)FDI policy 2017 are summarized as follows:

- i. **Start-ups:** The (I/O)FDI policy 2017 for the first time is capable of holding provisions that are characteristic of start-up firms. The start-up firms are eligible for issuing equity or equity linked instruments or debt instruments to FVCIs against receipts of foreign remittance, as per the FEMA Regulations. Additionally, start-ups are permissible to issue convertible notes to person who does not reside within India, liable to certain conditions that are mentioned therein. This was already apprised by the RBI vide Notification No. FEMA.377/2016-RB that was dated January 10, 2017 and amendments to the FEM (TISPROI) Regulations, 2000 (FEMA 20) were made to permit start-ups to issue convertible notes to FIs. In addition, the aforesaid notification provides for the meaning of a start-up firm, which is deemed as a private firm incorporated under the Companies Act, 2013 or the Companies Act, 1956 and is recognized as such along with the notification number G.S.R. 180 (E) that was dated February 17, 2016 and was issued by the DIPP. Moreover, the (I/O)FDI policy 2017 provides for the definition of Convertible Notes that is deemed as an instrument that is issued by a start-up firm that evidences receipt of money initially as debt that is repayable at the option of the holder, or that is convertible into such number of equity shares of such start-up firm within a period not exceeding five (5) years from the date of issue of the convertible note, upon occurrence of specified events as per the other terms and conditions that are agreed to and indicated in the instrument. A person

who does not reside within India (i.e., other than citizens or entities of Pakistan and Bangladesh) will be allowed to purchase convertible notes that are issued by an Indian start-up firm for an amount of Rs. 25 Lakh or more in a single tranche.

- ii. **Competent authority:** The observance and effect of FIPB was ended vide office memorandum, which was dated June 05, 2017 and issued by the DEA and MOF. DIPP made available for the use of a Standard Operating Procedure (SOP) (GOI et al., 2017) on June 29, 2017 in order to process IFDI proposals that inter-alia listed out the competent sectoral authorities with the purpose of approval for FI that was granted in respect of sectors or activities or industries that require government approval. The (I/O)FDI policy 2017 undergoes the replication of the aforesaid changes that were announced in the SOP and is in possession of a definition of competent authority, which is regarded as the concerned administrative ministry or department that was empowered to grant government authorities for FI under the extant of (I/O)FDI policy and FEMA Regulations. It should be mentioned that Chapter 4, which pertains to procedure for government approval, provides for the relevant competent authorities with the purpose of approval for FIs that were granted for sectors or activities or industries that require government approvals which are in accord with the SOP. It inter-alia ensures that the proposals for FI would be examined by the relevant competent authorities as per the SOP, which was specified by the DIPP. The proposal for consideration of Cabinet Committee on Economic Affairs (CCEA) will be placed by the relevant competent authority in case of the proposals that become involved in total foreign equity inflow of more than Rs. 5000.00 Crore. Furthermore, additional IFDIs into India has been limited up to cumulative amount of INR (Indian Rupee) or Rs. 5.000 Crore into the same entity, beyond that it is required that fresh approval be acquired to be endeavored to obtain.
- iii. **IFDI linked performance conditions:** A new addition in the (I/O)FDI policy 2017, is deemed as the sector specific condition for firms that receive FI.
- iv. **IFDI in LLPs:** The (I/O)FDI policy 2017 also allows that conversion of an LLP into a firm or vice-a-versa, which is in possession of FI and operate in sectors or activities or industries where 100 per cent IFDI is permitted by way of the automatic route and there exist no IFDI linked performance conditions, is allowed through automatic route. It should be mentioned that the (I/O)FDI policy 2016 did not permit the conversion of an IFDI funded LLP into a firm or vice-a-versa.
- v. **VCF:** The (I/O)FDI policy 2017 provides a simplification of the definition of VCF, which is currently deemed as a fund registered under the SEBI (VCFs) Regulations, 1996.
- vi. **Downstream investment:** The (I/O)FDI policy 2017 does not offer clarity on whether the intimation has to be made to regional offices of RBI or the central office of RBI. However, it was requested that the (I/O)FDI policy 2016 requires an entity in order to notify its downstream investment to the SIA, 3 DIPP and FIPB and the intimation in order to be made to the RBI and the FIFP.
- vii. **CCWT:** The (I/O)FDI policy 2016 permitted a wholesale or cash and carry trader to undertake SBRT, liable to the conditions, which are related to IFDI in SBRT. The (I/O)FDI policy 2017 permits wholesale or cash and carry traders to undertake retail trading and reference to single brand has been removed. Thus, consequently, the wholesale or cash and carry traders can undertake not only the activities of SBRT but also wholesale through a single entity, liable to prescribed conditions.

- viii. **SBRT:** The stringent sourcing norms that are enforced and are clearly stated have been loosened up to three (3) years from the date of commencement of the business, i.e., opening of the first store for entities undertaking SBRT of products, which are in possession of state-of-art and cutting edge technology and where local sourcing is not permissible, in accordance with that the provisions of Paragraph SBPRT i. (v) will be capable of being applied. The government's decision to loosen the local sourcing norms was also informed in Press Note 5 (2016) Series that is dated June 24, 2016, which has for the time being been consolidated in (I/O)FDI policy 2017. A committee under the Chairmanship of Secretary, DIPP in the company of representative of NITI Aayog, concerned administrative ministry and independent technical expert(s) on the subject will analyze the claim of applicants on the issue of the products that are being in the nature of state-of-art and cutting-edge technology where local sourcing is not eligible and provide recommendations for such relaxation.
- ix. **E-commerce:** It was mandatory that the government earlier require 25 per cent maximum sales from a single vendor, but the period for computation of sales had not been specified by it. The (I/O)FDI policy 2016 did not permit an e-commerce entity from permitting more than 25 per cent of the sales which were effected by dint of its market place from one vendor or its group firms as well. The new (I/O)FDI policy 2017 illuminates that the 25 per cent of sales value must be computed per financial year.
- x. **Branch office, liaison office or project office:** To set up branch office, liaison office or project office or any other place of business within India if the principle business of the applicant is based upon defence, telecom, PS or information and broadcasting, approval of the RBI is not demanded to be acquired in the cases where government approval or license or permission, which is provided by the concerned ministry or regulator has already been granted. This had already been appraised by the RBI last year. (Dhir & Dhir Advocates, 2017; please see, GOI et al., 2017)

#### 4.12. The extant inward foreign direct investment policy 2019 and 2020

The GOI has examined the extant (I/O)FDI policy on several different sectors again and has brought about the following amendments in the Consolidated (I/O)FDI Policy Circular of 2017. (GOI et al., 2019) The proposal for Review of IFDI on various sectors was approved by the Union Cabinet, which was chaired by the PM Modi on 28<sup>th</sup> August, 2019. This (I/O)FDI policy reform will lead to tremendous impact and more benefits that may be characterized as follows: (i) the changes in (I/O)FDI policy will lead India to become a more attractive FDI destination that results in benefits of increased investments, employment and growth. (ii) In the coal sector, in favor of sale of coal, 100 per cent IFDI that is permitted under automatic route for coal mining, activities that encompass associated processing infrastructure will attract international players to lead to a creation of an efficient and competitive coal market. (iii) furthermore, manufacturing by dint of contract will equally contribute to the objective of Make in India. IFDI that is at the present being permitted under automatic route in contract manufacturing will result in a big boost to manufacturing sector in India. (iv) loosening local sourcing norms for IFDI in SBRT was notified in Union Budget Speech of FM. This will result in greater flexibility and ease of operations for SBRT entities, in addition to create a level playing field for firms with higher exports in a base year. Besides, allowing online sales before opening of brick and mortar stores will bring the policy in sync with current market practices, and result in *create more employment opportunities* in logistics, digital payments, customer care, training and product skilling. (v) the above-mentioned amendments to (I/O)FDI policy may be considered to be liberalization and simplification of the (I/O)FDI policy to lead to less restriction to business within the country, larger IFDIs, and thereby more contribution to growth of investment, income

and employment. Furthermore, it should be mentioned that in accordance with the fact that FM offered a matter for consideration of advancing the progress of consolidate the gains under IFDI to lead India to turn into a more attractive IFDI destination in Union Budget 2019 and 2020, the GOI has made a decision to propose a number of amendments in the (I/O)FDI policy (PIB et al., 2019); for instance, in terms of coal mining, the GOI entirely opened up the coal sector for commercial mining for all local and global firms after lessening the restrictions on end-use and prior experience in auctions via an ordinance on January 09, 2020, yet it guaranteed that this would not be harmful and detrimental to state-monopoly Coal India. The promulgation of Mineral Laws (Amendment) Ordinance, 2020 to amend the coal mines (Special Provisions Act, 2015), as well as the mines and minerals (DRA, 1957) was also approved by the Union Cabinet. It is also required that the amendment to the latter will initially start auctions of iron ore mining leases prior to the expiration date in March 2020. The ordinance proscribes captive coal block auctions in future, but will permit to any India-registered firm to bid and lead to the development of coal blocks, Section 11A of the mines and minerals (DRA) offers the central government to be able to auction coal and lignite mining licenses merely to firms that engaged in iron and steel, power and coal washing sectors, and the amendment to mines and minerals (DRA) will give a permission for seamless transfer of environment and forest clearance in operational mines and help attract more participation in coal block auctions. Besides, it is expected by the GOI that coal imports will be ceased by power plants in due course, decision for reducing coal imports will be characterized by originality and innovation of Making India self-reliant in today's time when oil prices are not very certain, and that Indian and global corporates will attract not only IFDIs but also OFDIs, apart from major firms that include Peabody, BHP Billiton, and Rio Tinto. Although Coal India has imposed a task on producing one Billion tones by 2023 and 2024; however, production cannot still satisfy demand for coal mining, and thus India is need of private players in coal mining. (Singh, S.C., 2020)

**CHAPTER 5**

The move for capital account liberalization took off in India within a few years of 1991 economic reforms, and also was followed by large inflows of non-debt creating IFDIs into India and FPI. The steady opening up took responsibility for a climate of uncertainty in the financial market with related surges in short-term FPI by FIIs. Although one observed the moderate-to-high growth rates in the domestic economy during the post global crisis years and till 2018, IFDIs into the country did not pick up as much as did FPI. As per RBI sources, one observed disproportionate flows of FPI, at US\$ 244.7 Billion on average over the six years ending 2018 and 2019. This contrasts to the much smaller average of US\$ 53.3 Billion for IFDIs into the country over the same period. As composed to the flows for a single year 2018 and 2019, FPI inflows at US\$ 256.9 Billion was about four times of IFDIs at US\$ 64.8 Billion. (Sen, 2020)

### 5.1. Inward foreign direct investments into India between the years 1990 and 2000

In the year 1991, the NEP was espoused. Since then, the IFDIs into India has been liberalized in a progressive manner. One should easily mention that the IFDIs into the country have faced a myriad of trends and have been consistently fluctuated over the last years of course not only with an increasing trend but also downfall that was caused by some different reasons in few selected years. Even if one has been able to witness the substantial IFDIs into the country in recent years, it cannot be satisfactory as compared to the situation with China and other South East Asian countries. (Goswami & Saikia, 2012)

**Table 5.1.1: IFDIs into India from 1990 until 2000 (RBI, 2001c)**

Year	Direct	Investment	Portfolio	Invetsment	Total	
	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn	Rs. Crore	US\$ Mn
1990-1991	174	97	11	6	185	103
1991-1992	316	129	10	4	326	133
1992-1993	965	315	748	244	1713	559
1993-1994	1838	586	11188	3567	13026	4153
1994-1995*	4126	1314	12007	3824	16133	5138
1995-1996*	7172	2144	9192	2748	16364	4892
1996-1997*	10015	2821	11758	3312	21773	6133
1997-1998*	13220	3557	6794	1828	20014	5385
1998-1999*	10358	2462	-257	-61	10101	2401
1999-2000*	9338	2155	13112	3026	22450	5181

**Note:** \* encompasses acquisition of shares of Indian firms by NRIs under Section 29 of FERA.

The above-table, which is based upon the Table 139: IFDIs (1990-2000) that was provided by the RBI, shows the IFDIs into India having been estimated by the RBI during the period from 1990 to 2000. (RBI, 2001c) Between the years 1999 and 2000, one observed fluctuations in the IFDIs. According to a perusal of India's ((I/O)FDI policy vis-à-vis other major Emerging Market Economies (EMEs), even if India's approach towards IFDI has been comparatively conservative to initially open the door to IFDIs, a steadily increasing extent began with catching up with the more liberalized policy stance of other EMEs from the early 1990s onwards, inter-alia in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profits and relaxations regarding norms for owning equity. This progressive liberalization amalgamate with considerable improvement in terms of macro-economic fundamentals, reflected in growing size of IFDIs that increased nearly 5 fold during first decade of the present millennium. (Chaudhary, N. et al., 2014) It can easily be seen that the IFDIs into the country remained constant during the years of 1990 and 1993. Between the years 1993 and 1999, there existed an increase in the IFDIs into the country. (Shaaz & Raghuram, 2017) From 1999 through 2000, the IFDIs declined markedly.

## 5.2. Inward foreign direct investments into India between the years 2000 and 2020

Table 5.2.1: IFDIs into India from 2000 until 2019 (In terms of US\$) (RBI, 2019c)

Year	GI	R/D-I	DI to India	FDI by India	NFDI	NPI	Total
2000-2001	4031	0	<b>4031</b>	759	3272	2590	5862
2001-2002	6130	5	<b>6125</b>	1391	4734	1952	6686
2002-2003	5095	59	<b>5036</b>	1819	3217	944	4161
2003-2004	4322	0	<b>4322</b>	1934	2388	11356	13744
2004-2005	6052	65	<b>5987</b>	2274	3713	9287	13000
2005-2006	8962	61	<b>8901</b>	5867	3034	12494	15528
2006-2007	22826	87	<b>22739</b>	15046	7693	7060	14753
2007-2008	34844	116	<b>34729</b>	18835	15893	27433	43326
2008-2009	41903	166	<b>41738</b>	19365	22372	-14030	8342
2009-2010	37746	4637	<b>33109</b>	15143	17966	32396	50362
2010-2011	36047	7018	<b>29029</b>	17195	11834	30293	42127
2011-2012	46552	13599	<b>32952</b>	10892	22061	17170	39231
2012-2013	34298	7345	<b>26953</b>	7134	19819	26891	46711
2013-2014	36047	5284	<b>30763</b>	9199	21564	4822	26386
2014-2015	45147	9864	<b>35283</b>	4031	31251	42205	73456
2015-2016	55559	10652	<b>44907</b>	8886	36021	-4130	31891
2016-2017	60220	18005	<b>42215</b>	6603	35612	7612	43224
2017-2018	60974	21544	<b>39431</b>	9144	30286	22115	52401
2018-2019	62001	18699	<b>43302</b>	12590	30712	-618	30094

**Notes:** (i) the above-mentioned abbreviations in the above-table are summarized as follows: Gross inflows or investments (GIs), Repatriation (R), Disinvestment (D-I), Direct investment (DI), Net FDI (NFDI), Net PI (NPI). (ii) data for 2018 and 2019 are provisional. (iii) data from 1995 and 1996 onwards include acquisition of shares of Indian firms by NRIs under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of (I/O)FDI since January 1996. (iv) data on (I/O)FDI was revised from 2000 to 2001 with expanded coverage to approach international best practices. (v) negative (-) sign indicates outflow. (vi) direct investment data for 2006 and 2007 include swap of shares of 310 Crore.

The above-table whose data are based upon Table 148: FDI flows from and into India from 2000 to 2019 in Handbook of Statistics on the Indian Economy 2018 and 2019 (RBI, 2019c) exhibits the IFDIs, which were estimated by the RBI during the period from 2000 to 2019 in terms of US\$ Million. (RBI, 2019b; RBI, 2019c) From 2000 to 2019, fluctuations in the IFDIs into India were observed. From 2000 to 2001, the IFDIs continually declined. It remained constant from 2001 to 2006. (Shaaz & Raghuram, 2017) A comparative analysis of IFDI approvals and inflows demonstrates that there exists a huge gap between the amount of IFDI approved and its realization into actual disbursements. Especially, from 2005 to 2006, one witnessed a difference of almost 40 per cent between investment committed and actual IFDIs. In actual fact, all this is dependent on different kinds of factors-that is to say regulatory, procedural, government clearances, lack of sufficient infrastructural facilities, delay in implementation of projects, and non-cooperation from the state government, etc. and a great number of long-term projects under foreign collaborations are considerably delayed, or in few cases, they might even be denied without proper and sufficient infrastructural support and facilities. It is highly possible that these are considered to be some reasons that would be able to be characterized by this low ratio of approvals vs. actual IFDIs. (Hooda, S., 2011) The IFDIs kept on rising year wise. From 2006 to 2007, it galloped to US\$ 22739 Million. This means that

there existed a tremendous increase in IFDIs in a year, and also this was due to more liberalizing the (I/O)FDI policy towards the infrastructure and services sector (i.e., from 2004 onwards, the GOI permitted 100 per cent IFDI in infrastructure and most of the tertiary sector that reflected in attracting more than double IFDI from 2006 to 2007). (Shodhganga, 2011) Despite the occurrence of global economic crisis, increased economic growth and sustained developmental process of the country that regenerate FIs' confidence in Indian economy led us to witness the increase in IFDIs in 2008 (Hooda, S., 2011). (Hooda, S., 2011; Marimuthu, 2012)

Despite the liberal policy stance and strong economic fundamentals seems to have driven the steep rise in IFDIs into the country over past one decade and sustained their momentum even during the period of global economic crisis that ignited between the years 2008 and 2009 and between the years 2009 and 2010, despite faster recovery from the crisis, the subsequent moderation in IFDIs period seems incapable of being explained to some extent. (Chaudhary, N. et al., 2014) From 2009 to 2010, not only global economic crisis but also the changing policy and weak trust in the nations governance and policy led to decline in the IFDIs into the country. (Shaaz & Raghuram, 2017) The same policy, which was implemented in 2006 and 2007, continually furthered, yet reflected in decline in IFDI up to US\$ 33109 Million. Especially, the year 2010 marked the sharp decline in IFDIs that accounted for US\$ 27024 Million. (Shodhganga, 2011) According to the UNCTAD report, the global (I/O)FDI flows began to bottom out in the latter half of 2009 and showed a modest recovery in the first half of 2010 with South Asia being the first to bounce back from the recent downturn. Even during the period of recession, no negative rate was recorded by India. (Marimuthu, 2012) So, during the ten years, i.e., from 2000 to 2010, IFDIs amount rose by US\$ 22995 Million. (US\$ 27024 Million-US\$ 4029 Million). Thus, it shows that IFDIs were increased by 570.73 per cent. (Shodhganga, 2011) In spite of the fact that sound domestic economic performance ahead of global recovery, IFDIs into the country continued to be sluggish, when the global (I/O)FDI flows to EMEs rebounded between the years 2010 and 2011. It is evident that actual IFDIs into the country between the years 2010 and 2011 fell short of its potential level (reflecting underlying macro-economic parameters) partly on account of amplification of policy uncertainty as measured through Kauffmann's Index. One observed significant moderation in IFDIs into the country during the period from 2010 to 2011 by comparison with other EMEs in Asia and Latin America that had received large inflows. This had caused concerns to be raised in the wake of widening Current Account Deficit (CAD) in India where foreign capital leads to an increase in the productivity of labour and foreign exchange reserves that fulfill the expectation of the CAD (Ibrahim & Muthusamy, 2014) aside from the perceived sustainable level of 3.0 per cent of GDP during April and December 2010.

This significantly assumes that (I/O)FDI is generally known to be the most stable component of capital flows, which needed to finance the CAD and adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports. (Ibrahim & Muthusamy, 2014; Chaudhary, N. et al., 2014) In 2011, one witnessed a recognizable decline in the IFDIs. This downfall can be attributed to the global financial crisis and the two major economic disasters; the Subprime Mortgage Crisis followed by the European Debt Crisis. Between the years 2011 and 2014, the changing policy and weak trust in the nations governance and policy continued and led to decline in the IFDIs into the country. In 2014 when the leadership change occurred, general elections and the UNCTAD's WIR, which was released in 2014 revealed the fact that India became the 4<sup>th</sup> most-favoured investment destination, and the IFDIs into the country jumped 26 per cent in 2014 (Ukibc, 2016) and 2016 when a Consolidated (I/O)FDI Policy led to the change in the demonetization policy and the liberalization of most of the sectors into 100 per cent IFDIs into the country, the IFDIs into the

country represented a stable growth rate and increasing trend although there were some fluctuations in the IFDIs into the country can be observed since several political changes and leaderships changes can be considered the reasons for a given of time period, i.e., apart from the leadership change and demonetization policy change, several corruption scams, high inflation, and ambiguous leadership leads India to receive a period of no trust in the previous government. (Ukibc, 2016; Shaaz & Raghuram, 2017) From the year 2014 to 2019, the IFDIs into the country continually showed a stable growth rate and increasing trend. (Ukibc, 2016)

In 2017, one also witnessed a stable growth rate, and further an increase in the IFDIs into the country. Although one observed the steep decline in 2018, one still witnessed an increase in the IFDIs in 2019. It is highly expected that the IFDIs in the country will likely increase and maintain stable growth rate and more FI will flow into the country as the GOI eases restrictions on FDI.

**Table 5.2.2: As per international best practices: (Data on IFDIs into India have been revised since 2000 and 2001 with expended coverage to approach International Best Practices) (Amount US\$ Million) (RBI, 2019b)**

S. no	Financial Year (April-March) Financial years from 2000-2001 to 2018-2019	Inward Foreign Direct Investment						Investment by FII's FII's Fund (net)
		Equity				IFDIs	into India	
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #	Re-invested Earnings +	Other Capital +	Total IFDIs	%age growth over previous year (in US\$)	
1	2000-2001	2,339	61	1,35	279	4,029	-	1,847
2	2001-2002	3,904	191	1,645	390	6,13	(+) 52 %	1,505
3	2002-2003	2,574	190	1,833	438	5,035	(-) 18 %	377
4	2003-2004	2,197	32	1,46	633	4,322	(-) 14 %	10,918
5	2004-2005	3,25	528	1,904	369	6,051	(+) 40 %	8,686
6	2005-2006	5,54	435	2,76	226	8,961	(+) 48 %	9,926
7	2006-2007	15,585	896	5,828	517	22,826	(+) 155 %	3,225
8	2007-2008	24,573	2,291	7,679	300	34,843	(+) 53 %	20,328
9	2008-2009	31,364	702	9,03	777	41,873	(+) 20 %	(-) 15,017
10	2009-2010	25,606	1,54	8,668	1,931	37,745	(-) 10 %	29,048
11	2010-2011	21,376	874	11,939	658	34,847	(-) 08 %	29,422
12	2011-2012	34,833	1,022	8,206	2,495	46,556	(+) 34 %	16,812
13	2012-2013	21,825	1,059	9,88	1,534	34,298	(-) 26%	27,582
14	2013-2014	24,299	975	8,978	1,794	36,046	(+) 5%	5,009
15	2014-2015	30,933	978	9,988	3,249	45,148	(+) 25%	40,923
16	2015-2016	40,001	1,111	10,413	4,034	55,559	(+) 23%	(-) 4,016
17	2016-2017	43,478	1,223	12,343	3,176	60,22	(+) 8%	7,735
18	2017-2018 (P)	44,857	664	12,542	2,911	60,974	(+) 1%	22,165
19	2018-2019 (P)	44,366	693	13,57	5,746	64,375	(+) 6%	(-) 3,587
20	2019-2020 (P) (up to June 2019)	16,329	163	3,228	1,59	21,31	-	3,928

CUMULATIVE TOTAL (from April, 2000 to March, 2019)	439,229	15,624	143,346	30,575	218,178	-	218,178
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**Notes:** (i) the above-table is RBI's Bulletin March 2019 dt.11.05.2019 (Table No. 34-FI inflows). (ii) inflows under the acquisition of shares in March 2011, August 2011 and October 2011, included net IFDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha). (iii) RBI included Swap of Shares of US\$ 3.1 Billion under equity components during December 2006. (iv) monthly data on components of IFDI as per expended coverage are not available. These data, therefore, are not comparable with IFDI data for previous years. (v) figures that were updated by RBI up to March 2019. Figures are considered to be provisional. (vi) data with respect to re-invested earnings and other capital are estimated as average of previous two years. (vii) # figures for equity capital of unincorporated bodies are estimates. (viii) (P) all figures are considered to be provisional. (RBI, 2019b)

**Table 5.2.3: DPIIT's-financial year-wise IFDI equity flows: (As per DPIIT's FDI data base-equity capital components only) (RBI, 2019b)**

S. no	Financial year (April-March) Financial years from 2000-2001 to 2018-2019	Amount of IFDI	Flows	%age growth over previous year (in terms of US\$)
		Rs. Crore	US\$ Mn	
1	2000-2001	10,733	2,463	-
2	2001-2002	18,654	4,065	(+) 65 %
3	2002-2003	12,871	2,705	(-) 33 %
4	2003-2004	10,064	2,188	(-) 19 %
5	2004-2005	14,653	3,219	(+) 47 %
6	2005-2006	24,584	5,54	(+) 72 %
7	2006-2007	56,39	12,492	(+) 125 %
8	2007-2008	98,642	24,575	(+) 97 %
9	2008-2009	142,829	31,396	(+) 28 %
10	2009-2010	123,12	25,834	(-) 18 %
11	2010-2011	97,32	21,383	(-) 17 %
12	2011-2012	165,146	35,121	(+) 64 %
13	2012-2013	121,12	22,423	(-) 36 %
14	2013-2014	147,518	24,299	(+) 8%
15	2014-2015	181,682	29,737	(+) 22%
16	2015-2016	262,322	40,001	(+) 35%
17	2016-2017	291,696	43,478	(+) 9%
18	2017-2018#	288,889	44,857	(+) 3%
19	2018-2019#	309,867	44,366	(-) 1%
20	2019-2020 (P) (up to June 2019)	113,511	16,33	-
	CUMULATIVE TOTAL (from April, 2000 to March, 2019)	2,378,887	420,142	-

**Notes:** (i) the above-table also includes the amount that was remitted by the dint of RBI's-NRI Schemes between the years 2000 and 2002. (ii) Foreign Exchange Dealers Association of India

conversion rate was applied from INR to US\$, on the basis of monthly average rate that was provided by RBI (Department of Economic Policy and Research), Mumbai. (iii) # figures for the years 2014 and 2015 to 2018 and 2019 are provisional, liable to reconciliation with RBI. (iv) ^ Inflows for the month of March 2012 were the same as it was reported by RBI, in the aftermath of the adjustment that was made in the figures of March 11, August 11, and October 11. (RBI, 2019b) (v) due to the bilateral (I/O)FDI flows agreement between Association of Southeast Asian Nations (ASEAN) and India, ASEAN became a major source of IFDIs into India and ASEAN firms invested US\$ 45 Billion in cumulative IFDI equity capital in India between the years 2010 and 2015, which represented 16 per cent of IFDIs into the country. (ASEAN, 2017)

### 5.3. Cumulative inward foreign direct investments into India in 2019

**Table 5.3.1: Total IFDIs (from April 2000 to March 2019) (RBI, 2019a)**

1.	CUMULATIVE AMOUNT OF IFDIS (Equity inflows+Re-invested earnings+Other capital)	-	US\$ 609,838 Mn
2.	CUMULATIVE AMOUNT OF IFDI EQUITY FLOWS (excluding, amount remitted through RBI's NRI Schemes)	Rs. 2,378,353 Crore	US\$ 420,021 Mn

**Table 5.3.2: IFDIs during fourth quarter of financial year 2018 and 2019 (from January 2019 to March 2019) (RBI, 2019a)**

1.	TOTAL IFDIS INTO INDIA (Equity inflows+Re-invested earnings+Other capital) (as per RBI's Monthly bulletin)s	-	US\$ 17,711 Mn
2.	IFDI EQUITY FLOWS	Rs. 76,603 Crore	US\$ 10,874 Mn

The table 5.3.1 demonstrates that cumulative amount of IFDIs that include equity inflows, re-invested earnings, and other capital that totally amount US\$ 609.838 Million from April 2000 to March 2019 and cumulative amount of IFDIs that does not include amount remitted through RBI's NRI Schemes amounts US\$ 420.021 Million (Rs. 2.378.353 Crore). The table 5.3.2 indicates that total IFDIs into India from January 2019 to March 2019 includes equity inflows, re-invested earnings, and other capital (as per RBI's Monthly bulletin) that amount US\$ 17.711 Million and IFDI equity flows from January 2019 to March 2019 accounts for US\$ 10.874 Million (Rs. 76.603 Crore). During this period, re-invested earnings and other capitals account for US\$ 6.837 Million. This reflects the significant preference of the FIPs to IFDI equity flows into the country.

**Table 5.3.3: IFDI equity flows (month-wise) during the financial year 2018 and 2019 (RBI, 2019a)**

S. No	Financial Year 2018-2019 (April-March)	Amount of IFDI	
		Rs. Crore	Equity Flows US\$ Mn
1	April, 2018	35,104	5,348
2	May, 2018	30,479	4,513
3	June, 2018	19,597	2,891
4	July, 2018	19,025	2,770
5	August, 2018	17,441	2,508

6	September, 2018	33,472	4,635
7	October, 2018	34,595	4,698
8	November, 2018	12,495	1,739
9	December, 2018	31,056	4,391
10	January, 2019	31,181	4,408
11	February, 2019	20,404	2,865
12	March, 2019	25,019	3,601
	2018-2019 (from April, 2018 to March, 2019) #	309,867	44,366
	2017-2018 (from April, 2017 to March, 2018) #	288,889	44,856
	%age growth over last year	(+) 7%	(-) 1%

**Notes:** (i) country and sector specific analysis can be available from the year 2000 onwards, as RBI convey this confidential information about remittance-wise details from April 2000 onwards merely. (ii) # figures are considered to be provisional, liable to reconciliation with RBI, Mumbai. (RBI, 2019a)

**Table 5.3.4: Total IFDIs (from April 2000 to June 2019) (RBI, 2019b)**

1.	CUMULATIVE AMOUNT OF IFDIS (Equity inflows+Re-invested earnings+Other capital)	-	US\$ 628,774 Mn
2.	CUMULATIVE AMOUNT OF IFDI EQUITY FLOWS (excluding, amount remitted through RBI's NRI Schemes)	Rs. 2,491,864 Crore	US\$ 436,350 Mn

**Table 5.3.5: IFDIs during first quarter of financial year 2019 and 2020 (from April 2019 to June 2019) (RBI, 2019b)**

1.	TOTAL IFDIS INTO INDIA (Equity inflows+Re-invested earnings+Other capital) (as per RBI's Monthly bulletin)s	-	US\$ 21,310 Mn
2.	IFDI EQUITY FLOWS	Rs. 113,511 Crore	US\$ 16,330 Mn

The table 5.3.4. indicates that cumulative amount of IFDIs into India that include equity inflows, re-invested earnings, and other capital which totally amounted US\$ 628.774 Million from April 2000 and June 2019 and cumulative amount of IFDI equity flows that does not include amount remitted through RBI's NRI Schemes amounted US\$ 436.350 Million (Rs. 2.491.864 Crore). The table 5.3.5 shows that total IFDIs into India from April 2019 to June 2019 contains equity inflows, re-invested earnings, and other capital (as per RBI's monthly bulletin) which amount US\$ 21.310 Million and IFDI equity flows from April 2019 to June 2019 accounts for US\$ 16.330 Million (Rs. 113.511 Crore).

As compared to the total IFDIs into the country from January 2019 to March 2019, one easily observed a considerable increase in the the total IFDIs into the country from April 2019 to June 2019.

**5.4. Cumulative inward foreign direct investments into India in 2020****Table 5.4.1: Total IFDIs (from April 2000 to March 2020) (RBI, 2020a)**

1.	CUMULATIVE AMOUNT OF IFDIS (Equity inflows+Re-invested earnings+Other capital)	-	US\$ 680,919 Mn
2.	CUMULATIVE AMOUNT OF IFDI EQUITY FLOWS (excluding, amount remitted through RBI's NRI Schemes)	Rs. 2,731,911 Crore	US\$ 469,998 Mn

The above-table indicates that cumulative amount of IFDIs into India that include equity inflows, re-invested earnings, and other capital which totally amounted US\$ 680.919 Million from April 2000 and March 2020 and cumulative amount of IFDI equity flows that does not include amount remitted through RBI's NRI Schemes amounted US\$ 469.998 Million (Rs. 2.731.911 Crore).

**Table 5.4.2: IFDIs during fourth quarter of financial year 2019 and 2020 (from January 2020 to March 2020) (RBI, 2020a)**

1	TOTAL IFDIS INTO INDIA (Equity inflows+Re-invested earnings+Other capital) (as per RBI's Monthly bulletins)	-	US\$ 18,325 Mn
2	IFDI EQUITY FLOWS	Rs. 95,549 Crore	US\$ 13,208 Mn

The above-table demonstrates that total IFDIs into India from January 2000 to March 2020 contains equity inflows, re-invested earnings, and other capital (as per RBI's monthly bulletin) which amount US\$ 18.325 Million and IFDI equity flows from January 2000 to March 2020 accounts for US\$ 13.208 Million (Rs. 95.549 Crore). During this period, re-invested earnings and other capitals account for US\$ 5.117 Million. This might be regarded as a reflection of the significant preference of the FIPs to IFDI equity flows into the country. As compared to the total IFDIs into the country from January 2019 to March 2019 and from April 2019 to June 2019, it can be easily seen that there was a considerable decline in the the total IFDIs into the country from January 2020 to March 2020. It is obvious that this might be caused by COVID-19.

**Table 5.4.3: IFDI equity flows (month-wise) during the financial year 2019 and 2020 (RBI, 2020a)**

S. No	Financial Year 2018-2019 (April-March)	Amount of FDI Equity Inflows	
		Rs. Crore	US\$ Mn
1	April, 2019	36,463	5,252
2	May, 2019	26,481	3,795
3	June, 2019	50,567	7,282
4	July, 2019	30,774	4,472
5	August, 2019	18,164	2,553
6	September, 2019	19,551	2,741
7	October, 2019	22,808	3,211
8	November, 2019	20,036	2,804
9	December, 2019	33,166	4,659
10	January, 2020	39,719	5,570

11	February, 2020	24,025	3,361
12	March, 2020	31,804	4,278
	2019-2020 from April, 2019 to March, 2020 #	353,558	49,977
	2018-2019 from April, 2018 to March, 2020 #	309,867	44,366
	%age growth over last year	(+) 14%	(+) 13%

**Notes:** (i) country and sector specific analysis might be available from the year 2000 onwards, as RBI convey this confidential information about remittance-wise details from April 2000 onwards merely. (ii) # figures are considered to be provisional, liable to reconciliation with RBI, Mumbai.

### 5.5. Investing countries and geographical distribution

Mumbai received heavy investment from Mauritius (29 per cent), apart from U.K. (17 per cent), USA (10 per cent), Singapore (9 per cent) and Germany (4 per cent) and 1371 numbers of technical collaborations between the years 1991 and 2008 and New Delhi received maximum investment from Mauritius (58 per cent), apart from Japan (10 per cent), Netherlands (9 per cent), and UK (3 per cent) and 315 numbers of technical collaborations between the years 1991 and 2008. Bangalore received heavy investment from Mauritius (40 per cent) alone, apart from USA (15 per cent), Netherlands (10 per cent), Germany (6 per cent), and UK (5 per cent), and 516 numbers of technical collaborations between the years 1991 and 2008 and Chennai received IFDI flows from Mauritius (37 per cent), Bermuda (14 per cent), USA (13 per cent), Singapore (9 per cent) and Germany (4 per cent), and 660 numbers of technical collaborations between the years 1991 and 2008, and eventually Ahmedabad. (Hooda, S., 2011; please see, Anitha, 2012)

#### 5.5.1. Investing countries from 2016 to 2019

**Table 5.5.1.1:** Share of top investing countries IFDI equity flows (financial years): Amount Rupees in Crore (US\$ in Million) (RBI, 2019a)

Ranks	Country	2016-2017 (April-March)	2017-2018 (April-March)	2018-2019 (April-March)	Cumulative inflows (April, 2000-March, 2019)	%age to total inflows (in terms of US\$)
1	<b>MAURITIUS</b>	105,587 (15,728)	102,492 (15,941)	57,139 (8,084)	738,156 (134,469)	32%
2	<b>SINGAPORE</b>	58,376 (8,711)	78,542 (12,180)	112,362 (16,228)	505,946 (82,998)	20%
3	<b>JAPAN</b>	31,588 (4,709)	10,516 (1,633)	20,556 (2,965)	173,332 (30,274)	7%
4	<b>NETHERLANDS</b>	22,633 (3,367)	18,048 (2,800)	27,036 (3,870)	162,251 (27,352)	7%
5	<b>UK</b>	9,953 (1,483)	5,473 (847)	9,352 (1,351)	140,370 (26,789)	6%
6	<b>USA</b>	15,957 (2,379)	13,505 (2,095)	22,335 (3,139)	146,372 (25,556)	6%
7	<b>GERMANY</b>	7,175 (1,069)	7,245 (1,124)	6,187 (886)	65,477 (11,708)	3%
8	<b>CYPRUS</b>	4,050 (604)	2,680 (417)	2,134 (296)	51,544 (9,869)	2%
9	<b>UAE</b>	4,539	6,767	6,356	39,310	2%

		(675)	(1,050)	(898)	(6,652)	
10	<b>FRANCE</b>	4,112 (614)	3,297 (511)	2,890 (406)	36,825 (6,643)	2%
11	<b>TOTAL IFDIs FROM ALL COUNTRIES*</b>	291,696 (43,478)	288,889 (44,857)	309,867 (44,366)	2,378,886 (420,142)	-

**Notes:** (i) cumulative country-wise IFDI equity flows from April 2000 to March 2019 might be seen at Annex-A: statement on country-wise IFDI equity flows from April 2000 to March 2019 that included 163 countries (ii) %age that worked out in US\$ terms and IFDIs is received through FIPB or SIA+RBI's automatic route+acquisition of existing shares only. (iii) figures are considered to be provisional.

The major investing countries in India is presented by the analysis in the above-table that \* includes IFDIs under NRI Schemes of RBI. The sources of IFDIs have been broadened by India in the period of reforms. There exist 163 countries that invested in India by comparison with 15 investing countries in 1991 (Shodhganga, 2011). India amounted to a grand total of about 420.020.61 in US\$ Million (Rs. 2.378.352.60 Crore) (RBI, 2019a), for the entire period. Hence, an increasing number of countries invested in India after reforms taken by the GOI. In the aftermath of liberalization of economy, apart from USA, UK, Germany, Japan, Italy, and France which were not only the major investors now but during pre-liberalizations era also, according to the ranking results that were defined by the IFDIs into the country, Mauritius, Cayman Islands that hit rank 12, South Korea that hit rank 15, Malaysia that hit rank 24, and many more countries predominantly appear on the list of major investors. Mauritius that has enjoyed the top position on India's IFDI map since 1995 becomes the largest investor in India. IFDIs coming from Mauritius account for 32 per cent of the total IFDI into the country due to the dominance of Mauritius which is because of the DTTs, i.e., DTAA between the two countries, which favours routing of investment through this country. This kind of taxation treaty that has been made out with Singapore as well has led Singapore (Hooda, S., 2011) with a relative share of 20 per cent to become the second largest investing country in India. (Shodhganga, 2011; Hooda, S., 2011; RBI, 2019a) The other major countries are Japan and Netherlands with a relative share of 7 per cent followed by UK, USA, Germany, Cyprus, UAE, and France. Thus, consequently, an analysis of past three years of IFDIs demonstrates that only five countries constitute about 72 per cent of the total IFDIs into the country.

### 5.5.2. Investing countries from 2017 to 2020

**Table 5.5.2.1:** Share of top investing countries IFDI equity flows (financial years): Amount Rupees in Crore (US\$ in Million) (RBI, 2019b)

Ranks	Country	2017- 2018 (April- March)	2018- 2019 (April- March)	2019- 2020 (April- June)	Cumulative Inflows (April, 2000- June, 2019)	%age to Total Inflows (in terms of US\$)
1	<b>MAURITIUS</b>	102,492 (15,941)	57,139 (8,084)	32,484 (4,676)	770,640 (139,145)	32%
2	<b>SINGAPORE</b>	78,542 (12,180)	112,362 (16,228)	37,106 (5,339)	543,052 (88,337)	20%

3	<b>JAPAN</b>	10,516 (1,633)	20,556 (2,965)	3,284 (472)	176,616 (30,746)	7%
4	<b>NETHERLANDS</b>	18,048 (2,800)	27,036 (3,870)	9,423 (1,356)	171,674 (28,708)	7%
5	<b>UK</b>	5,473 (847)	9,352 (1,351)	2,056 (295)	142,425 (27,084)	6%
6	<b>USA</b>	13,505 (2,095)	22,335 (3,139)	10,119 (1,455)	156,491 (27,011)	6%
7	<b>GERMANY</b>	7,245 (1,124)	6,187 (886)	1,135 (163)	66,613 (11,871)	3%
8	<b>CYPRUS</b>	2,680 (417)	2,134 (296)	406 (58)	51,950 (9,927)	2%
9	<b>FRANCE</b>	<b>3,297</b> <b>(511)</b>	<b>2,890</b> <b>(406)</b>	<b>854</b> <b>(123)</b>	<b>37,679</b> <b>(6,766)</b>	<b>2%</b>
10	<b>UAE</b>	<b>6,767</b> <b>(1,050)</b>	<b>6,356</b> <b>(898)</b>	<b>718</b> <b>(103)</b>	<b>40,027</b> <b>(6,755)</b>	<b>2%</b>
	<b>TOTAL IFDIS FROM ALL COUNTRIES*</b>	288,889 (44,857)	309,867 (44,366)	113,511 (16,330)	2,492,397 (436,471)	-

**Notes:** (i) cumulative country-wise IFDI equity flows from April 2000 to June 2019 might be found at Annex-A: statement on country-wise IFDI equity flows from April 2000 to June 2019 that included 165 countries. (ii) %age worked out in US\$ terms and IFDIs were received by dint of FIPB or SIA+RBI's automatic route+acquisition of existing shares merely. (iii) figures are considered to be provisional.

The above-table that \* includes IFDIs under NRI Schemes of RBI, indicates that there is a subtle difference between the two lists of share of top investing countries IFDI equity flows into India. There exist 165 countries that invested in India by comparison with 163 investing countries. As compared to the top investing countries IFDI equity flows, France with US\$ 37.679 Million hit rank 9 whereas UAE with US\$ 40.027 Million hit rank 10. During this period, France become the 9<sup>th</sup> largest investing country. Furthermore, according to IBEF (2020b), in October 2019, 37.4 per cent stake in Adani Gas Ltd for Rs. 5.662 Crore (US\$ 810 Million), making it the largest IFDIs in city gas distribution sector of India, was acquired by French oil and gas giant, Total S.A. In August 2019, one of India's biggest IFDIs into India deals with Saudi Aramco, where Saudi Arabia US\$ 228.87 Million hit rank at Annex-A, was publicly announced by Reliance Industries. Eventually, Saudi Aramco acquired a 20 per cent stake in Reliance's oil-to-chemicals business at an enterprise value of US\$ 75 Billion. (IBEF, 2020b)

**Table 5.5.2.2: Share of top investing countries IFDI equity flows (financial years): Amount Rupees in Crore (US\$ in Million) (RBI, 2020a)**

Ranks	Country	2017- 2018 (April- March)	2018- 2019 (April- March)	2019- 2020 (April- March)	Cumulative Inflows (April, 2000- June, 2019)	%age to total Inflows (in terms of US\$)
1	<b>MAURITIUS</b>	102,492 (15,941)	57,139 (8,084)	57,785 (8,241)	795,941 (142,710)	30%

2	<b>SINGAPORE</b>	78,542 (12,180)	112,362 (16,228)	103,615 (14,671)	609,562 (97,670)	21%
3	<b>NETHERLANDS</b>	<b>18,048</b> <b>(2,800)</b>	<b>27,036</b> <b>(3,870)</b>	<b>46,071</b> <b>(6,500)</b>	<b>208,322</b> <b>(33,852)</b>	7%
4	<b>JAPAN</b>	<b>10,516</b> <b>(1,633)</b>	<b>20,556</b> <b>(2,965)</b>	<b>22,774</b> <b>(3,226)</b>	<b>196,105</b> <b>(33,499)</b>	7%
5	<b>USA</b>	<b>13,505</b> <b>(2,095)</b>	<b>22,335</b> <b>(3,139)</b>	<b>29,850</b> <b>(4,223)</b>	<b>176,222</b> <b>(29,779)</b>	6%
6	<b>UK</b>	<b>5,473</b> <b>(847)</b>	<b>9,352</b> <b>(1,351)</b>	<b>10,041</b> <b>(1,422)</b>	<b>150,411</b> <b>(28,211)</b>	6%
7	<b>GERMANY</b>	7,245 (1,124)	6,187 (886)	3,467 (488)	68,944 (12,196)	3%
8	<b>CYPRUS</b>	2,680 (417)	2,134 (296)	6,449 (879)	57,993 (10,748)	2%
9	<b>FRANCE</b>	3,297 (511)	2,890 (406)	13,686 (1,896)	50,511 (8,539)	2%
10	<b>CAYMAN ISLANDS</b>	<b>7,932</b> <b>(1,237)</b>	<b>7,147</b> <b>(1,008)</b>	<b>26,397</b> <b>(3,702)</b>	<b>49,848</b> <b>(7,536)</b>	2%
	<b>TOTAL IFDIS FROM ALL COUNTRIES*</b>	288,889 (44,857)	309,867 (44,366)	353,558 (49,977)	2,732,444 (470,119)	-

**Notes:** (i) cumulative country-wise IFDI equity flows from April 2000 to March 2020 might be found at Annex-A:Statement on country-wise IFDI equity flows from April 2000 to March 2020 that included 171. (ii) %age worked out in US\$ terms and IFDIs were received by dint of FIPB or SIA+RBI's automatic route+acquisition of existing shares merely. (iii) figures are considered to be provisional.

The major investing countries in India is presented by the analysis in the above-table that \* includes IFDIs under NRI Schemes of RBI. The sources of IFDIs have been broadened by India in the period of reforms. There exist 171 countries that invested in India during this period. (RBI, 2020a) Cayman Islands that hit rank 12 enjoyed the new position on India's IFDI map. Netherlands hit rank 3, Japan hit rank 4, USA hit rank 5, and UK hit rank 6. As compared to data from previous years, Mauritius has still enjoyed the top position on India's IFDI map and has still the largest investor despite its relative share 30 per cent.

The other major countries are Netherlands and Japan with a relative share of 7 per cent followed by USA, UK, Germany, Cyprus, France, and Cayman Island.

### 5.5.3. Geographical distribution of inward foreign direct investments into India

**Table 5.5.3.1: Statement on RBI's Regional Offices with state covered received IFDI equity flows (from April 2018 to June 2019): Amount Rupees in Crore (US\$ in Million) (RBI, 2019b)**

S. No.	RBI's-Regional office	State covered	2018-2019 (April-March)	2019-2020 (April-June)	Cumulative inflows (April, 2000-June, 2019)	%age to total inflows (in terms

						of US\$)
1	MUMBAI	MAHARASHTRA, DADRA&NAGAR HAVELI, DAMAN&DIU	80,013 (11,383)	10,907 (1,568)	724,897 (128,656)	30%
2	NEW DELHI	DELHI, PART OF UP AND HARYANA	70,485 (10,142)	35,080 (5,046)	519,299 (89,688)	21%
3	BANGALORE	KARNATAKA	46,963 (6,721)	20,934 (3,012)	246,444 (40,682)	9%
4	CHENNAI	TAMIL NADU, PONDICHERRY	18,164 (2,613)	5,909 (850)	179,805 (30,698)	7%
5	AHMEDABAD	GUJARAT	12,618 (1,803)	18,325 (2,639)	135,474 (23,184)	5%
6	HYDERABAD	ANDHRA PRADESH	23,882 (3,457)	1,957 (281)	108,199 (18,750)	4%
7	KOLKATA	WEST BENGAL, SIKKIM, ANDAMAN &NICOBAR ISLANDS	8,531 (1,229)	1,164 (167)	32,283 (5,599)	1%
8	KOCHI	KERALA, LAKSHADWEEP	1,807 (257)	161 (23)	13,096 (2,244)	0.5%
9	CHANDIGARH	CHANDIGARH, PUNJAB, HARYANA, HIMACHAL, PRADESH	4,374 (618)	417 (60)	12,065 (2,150)	0.5%
10	JAIPUR	RAJASTHAN	2,553 (363)	161 (23)	11,703 (1,983)	0.5%
11	BHOPAL	MADHYA PRADESH, CHATTISGARH	224 (32)	9 (1)	7,542 (1,433)	0.3%
12	PANAJI	GOA	111 (16)	16 (2)	4,946 (985)	0.2%
13	KANPUR	UTTAR PRADESH, UTTRANCHAL	234 (34)	27 (4)	3,857 (698)	0.2%
14	BHUBANESHWAR	ORISSA	483 (69)	277 (40)	3,255 (589)	0.1%
15	GUWAHATI	ASSAM, ARUNACHAL	48 (7)	44 (6)	635 (122)	0.03 %

		<b>PRADESH, MANIPUR, MEGHALAYA, MIZORAM, NAGALAND, TRIPURA</b>				
16	PATNA	<b>BIHAR, JHARKHAND</b>	0,22 (0,03)	4 (0.6)	675 (113)	0.03 %
17	JAMMU	<b>JAMMU &amp; KASHMIR</b>	0,41 (0,06)	1 (0.1)	40 (6)	0.00
18	REGION NOT INDICATED	39,377 (5,624)	18,119 (2,607)	487,65 1 (88,77 0)	20%	
SUB.TOT AL	309,867 (44,366)	113,511 (16,330)	2,491,86 4 (436,35 0)			
19	RBI's-NRI SCHEMES (from 2000 to 2002)	0	0	533 (121)	-	
GRAND TOTAL	309,867 (44,366)	113,511 (16,330)	2,492,39 7 (436,47 1)	-		

**Notes:** (i) statement on RBI's Regional Offices with state covered that acquire IFDI equity flows from April 2018 to June 2019 encompasses equity capital components merely. (ii) the region-wise IFDIs are characterized as per RBI's Regional Office acquires IFDIs that are furnished by RBI, Mumbai. (iii) figures are considered provisional.

There is no change in the top 18 ranking from last year's statement. The growth of IFDI equity flows remains the same as from the previous year aside from the change in total IFDIs of the city of New Delhi. Its total IFDIs attracted 21 per cent of total IFDIs. However, due to the lack of date, one can mention which key industries attracted IFDIs into Delhi region. Due to the increase in its %age to total IFDIs, the five cities, such as Mumbai, New Delhi, Bangalore, Chennai, and Ahmedabad constituted 72 per cent of total IFDIs. It is imperative that the issues of geographical disparities of IFDIs into the country address on priority, and further geographical disparities of IFDIs be abolished. A large number of states are seriously making tremendous efforts to simplify regulations for the establishment and operation of the industrial units, yet efforts made by a great number of state governments are still not being encouraged. Even the state like West Bengal which was once deemed as Manchester of India attracted merely 1.2 per cent of IFDIs into the country. Even if West Bengal, Bihar, Jharkhand, Chhattisgarh are blessed with rich minerals deficiency of initiatives, which are properly taken by the governments of these states, causes them to be unsuccessful in attracting IFDIs into the country. (Anitha, 2012) Mumbai, New Delhi, Bangalore, Chennai, and Ahmedabad are still main local destinations which attract highest IFDIs into the country.

**Table 5.5.3.2: States/union territories attracting highest IFDI equity flows (from October 2019 to March 2020): Amount Rupees in Crore (US\$ in Million) (RBI, 2020a)**

S. No.	State covered	2019-2020 (October-March)	Cumulative inflows (October, 2019- March, 2020)	%age to total inflows (in terms of US\$)
1	<b>MAHARASHTRA</b>	52,073 (7,263)	52,073 (7,263)	30%
2	<b>KARNATAKA</b>	30,746 (4,289)	30,746 (4,289)	18%
3	<b>DELHI</b>	28,487 (3,973)	28,487 (3,973)	17%
4	<b>GUJARAT</b>	18,964 (2,591)	18,964 (2,591)	11%
<b>5</b>	<b>JHARKHAND</b>	<b>13,208</b> <b>(1,852)</b>	<b>13,208</b> <b>(1,852)</b>	<b>8%</b>
6	<b>TAMIL NADU</b>	7,230 (1,006)	7,230 (1,006)	4%
7	<b>HARYANA</b>	5,198 (726)	5,198 (726)	3%
8	<b>TELANGANA</b>	4,865 (680)	4,865 (680)	3%
9	<b>UTTAR PRADESH</b>	1,738 (243)	1,738 (243)	1%
10	<b>ANDHRA PRADESH</b>	1,476 (206)	1,476 (206)	0.9%

**Notes:** (i) cumulative state-wise/union territories-wise IFDI equity flows from October 2019 to March 2020 are at Annex-C: statement on state-wise IFDI equity flows from October 2019 to March 2020. (ii) %age worked out in US\$ terms and IFDIs were received by dint of FIPB or SIA+RBI's automatic route+acquisition of existing shares merely. (iii) figures are considered to be provisional.

If one compares and finds differences for the two above-tables, one easily sees the new position of Jharkhand on India's IFDI map. Jharkhand hit rank 5 and enjoys its new position.

*“The main motto of the Atma Nirbhar Bharat is to make the country work upon its strengths and become competitive and not to make India inward-looking. Andhra Pradesh was at the first position, Uttra Pradesh was in the second position, and Telangana at the third position in the ranking of States Ease of Doing Business that was published on 5<sup>th</sup> September 2020.”* (FDIIndia, 2020)

### **5.6. Sectoral composition of inward foreign direct investments into India**

*“The entry of IFDI into India on a commercial scale began in 1875 with initial investments in the field of mining, tea plantation, railways, insurance, generation and distribution of electricity and wholesale and retail trade.”* (Shodhganga, 2011)

From 1947 when India attained independence to 2011, private foreign capital, especially of the direct equity type, had a general tendency to avoid sectors which included agriculture, public utilities, social overheads, and to go into only lucrative industries. This is also not unexpected since considerations, which include profit incentives and export and import incentives, are

absent in the case of sectors like agriculture, public utilities, and social overheads in a general manner. Another reason why private capital is not attracted to such sectors is the fact that most of the projects in such sectors have comparatively long maturity, the waiting period being too much for private investors to bear, low return on investment, and uncertainty of projects. (Shodhganga, 2011) It is empirically and theoretically indicated that IFDI does not obtain a positive impact on economic growth and vice versa for either specific or group of countries and vice versa at the sectoral level. The service and telecom sectors are regarded as the major recipients of IFDI; however, maximum contribution to GDP of the Indian economy has been provided by the metallurgy and service sector. Empirical analysis carried out by Siddiqui and Ahmed (2017) demonstrates that IFDI results in and obtains an impact on growth at the sectoral level; but, growth results in IFDI while it does not impact on IFDIs, i.e., the service, telecom and automobile sector cause high IFDIs that correspond to high growth in the Indian economy whereas the metallurgy sector causes high growth, but low IFDIs. In addition, the IFDIs in the chemical and drugs and pharmaceuticals sector are considered high by comparison with their growth. Aside from IFDI and growth that effect each other at the sectoral level of Indian economy, other significant factors that effect IFDI and growth are exports, human capital and institutional quality as it is inferred from not only literature but also empirical analysis. It is suggested that the Indian economy be prone to lead to extremely close focus on attracting IFDI in diverse fields that are different from the present trend where maximum IFDI was received by the service sector from 2000 through 2014 and the investment policy assume a more focus on attracting IFDI in the infrastructure sector with the view to attain high growth levels. It is demanded that serious steps be taken to exert the power of attracting IFDIs in sectors that are in possession of spillover effects like the chemical and metallurgy sector. As export is deemed as a significant factor that has an impact on growth, and also more effective in stimulating the occurrence of economic growth in the Indian economy rather than IFDI, it is also suggested that India open up export-oriented sectors in order to exert the power of attracting IFDI in export-oriented sectors, and therefore higher growth be achieved for such sectors and hence for the Indian economy at the aggregate level as well. (Siddiqui & Ahmed, 2017; please see, Jana et al., 2019) Statement on RBI's Regional Offices with state covered received IFDI equity flows from April 2018 to June 2019 (RBI, 2019a) shows that IFDIs into the country are heavily concentrated around five cities that can be summarized as follows: (i) Mumbai where the key sectors attracting IFDIs into Mumbai are services (30 per cent), computer software and hardware (12 per cent), power (7 per cent), metallurgical industry (5 per cent), and automobile industry (4 per cent); (ii) New Delhi where the key industries attracting IFDIs into Delhi region are telecommunications (19 per cent), services (18 per cent), housing and real estate (11 per cent), automobile industry (8 per cent), and computer software and hardware (6 per cent); (iii) Bangalore where top sectors reported the IFDIs are computer software and hardware (22 per cent), services (11 per cent), housing and real estate (10 per cent), telecommunications (5 per cent), and fermentation industries (4 per cent); (iv) Chennai where the key sectors attracting IFDIs are construction activities (21 per cent), telecommunications (10 per cent), services (10 per cent), computer software and hardware (7 per cent), automobile industry (7 per cent); and (v) Ahmedabad. (Hooda, S., 2011; RBI, 2019a)

#### **5.6.1. Sectoral composition from 2016 to 2019**

In 2016, to draw favorable attention to modern technology in the country, up to 49 per cent IFDIs in defense production was introduced by India. Thus, this policy led to more than 18.34 Billion Rupees (US\$ 244 Million) until December last year, according to a government statement. (Sharma, A., 2020)

**Table 5.6.1:** Sectors attracting highest IFDI equity flows: Amount Rupees in Crore (US\$ in Million) (RBI, 2019a)

S. No.	Sectors	2016-2017 (April-March)	2017-2018 (April-March)	2018-2019 (April-March)	Cumulative Inflows (April, 2000-March, 2019)	%age to total Inflows (in terms of US\$)
1	<b>SERVICES SECTOR: Financial, Banking, Insurance, Non-Financial or Business, Outsourcing, R&amp;D, Courier, Technology Testing and Analysis</b>	58,214 (8,684)	43,249 (6,709)	63,909 (9,158)	416,301 (74,149)	18%
2	<b>COMPUTER SOFTWARE &amp; HARDWARE</b>	24,605 (3,652)	39,670 (6,153)	45,297 (6,415)	221,756 (37,238)	9%
3	<b>TELECOMMUNICATIONS</b>	37,435 (5,564)	39,748 (6,212)	18,337 (2,668)	188,249 (32,826)	8%
4	<b>CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and constructiondevelopment projects</b>	703 (105)	3,472 (540)	1,503 (213)	119,614 (25,046)	6%
5	<b>TRADING</b>	15,721 (2,338)	28,078 (4,348)	30,963 (4,462)	143,599 (23,021)	5%
6	<b>AUTOMOBILE INDUSTRY</b>	10,824 (1,609)	13,461 (2,090)	18,309 (2,623)	123,989 (21,387)	5%
7	<b>CHEMICALS (OTHER THAN FERTILIZERS)</b>	9,397 (1,393)	8,425 (1,308)	13,685 (1,981)	91,062 (16,582)	4%
8	<b>DRUGS &amp; PHARMACEUTICALS</b>	5,723 (857)	6,502 (1,010)	1,842 (266)	84,165 (15,983)	4%
9	<b>CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES</b>	12,478 (1,861)	17,571 (2,730)	15,927 (2,258)	93,873 (14,805)	4%
10	<b>POWER</b>	7,473 (1,113)	10,473 (1,621)	7,330 (1,106)	77,889 (14,316)	3%

**Notes:** (i) cumulative sector-wise IFDI equity flows from April 2000 to March 2019 are at Annex-B: statement on sector-wise IFDI equity flows from April 2000 to March 2019 that included 63 sectors or activities or industries. (iii) IFDI sectoral data has been revalidated or reconciled in line with the RBI, which might be regarded as a reflection of minor changes in the IFDI figures (increase or decrease) as compared to the earlier published sectoral data. (iv) figures are considered to be provisional.

The above-table includes sectors attracting highest IFDI equity flows. Services sector that include financial, banking, insurance, non-financial or business, outsourcing, R&D, courier, technology testing and analysis is ranked 1<sup>st</sup>, with 18 per cent of total IFDIs. Its total IFDIs doubles the total IFDIs of computer software and hardware that is ranked 2<sup>nd</sup>.

### 5.6.2. Sectoral composition from 2017 to 2020

According the WIR 2019, in 2017, growth in cross-border M&As stood at US\$ 23 Billion and global (I/O)FDI flows amounted to US\$ 1.5 trillion.

But, while transactions in retail trade, which covered e-commerce, and telecommunication, led to a primary growth in cross-border M&As to US\$ 33 Billion in 2018, while they slid by 13 per cent in 2018 to US\$ 1.3 Trillion (according to Global Investment Trend Monitor report released by the UNCTAD, the global (I/O)FDI amounted to US\$ 1.41 trillion (Suneja, 2020)), namely, the third consecutive annual decline. The latest edition of the WIR of the UNCTAD reveals that India retained the number ten position in the latest ranking of top IFDI receiving countries for the year 2018 and received US\$ 42 Billion in IFDIs in 2018, a growth of 6 per cent. China occupied the second place and received the highest IFDIs among the developing countries at all time high of US\$ 139 Billion, a growth of 4 per cent. The top three recipients of IFDIs into India became manufacturing, communication and financial services and the acquisition of Flipkart, country's biggest e-commerce platform, by Walmart and telecommunication came to terms with becoming involved in Vodafone and American Tower that amounted to US\$ 2 Billion. Additionally, it highlighted the changes to the (I/O)FDI policy that introduced for the e-commerce sector terming the changes restrictive. In February 2019, in order to safeguard the interests of domestic offline retailers, several restrictive changes in its (I/O)FDI policy for e-commerce were introduced by India. Tata Motors appeared on the top hundred list of MNCs of the UNCTAD. (Sikarwar, 2019; Suneja, 2020) Global Investment Trend Monitor report released and compiled by the UNCTAD, the global (I/O)FDI flows were still flat in 2019 and stood at US\$ 1.39 Trillion. (Suneja, 2020)<sup>30</sup>

More than half of global (I/O)FDI flows were continually absorbed by developing economies. Among South Asian countries recording a 10 per cent increase in IFDIs to US\$ 60 Billion, India drove the IFDIs growth, with a 16 per cent increase in IFDIs to an estimated US\$ 49 Billion (the US\$ 42 Billion recorded in 2018). Suneja (2019) indicated that the majority flowed into services industries, which included IT. India became the top 10 recipients of IFDIs in 2019 and attracted US\$ 49 Billion in IFDIs, a 16 per cent increase from the previous years. IFDIs to developing economies were still unchanged at an estimated US\$ 695 Billion. As per the multilateral agency, IFDIs into developed countries continually stood at a historically low level and fell by a further 6 per cent to an estimated US\$ 643 Billion (Suneja, 2020). The IFDIs into the EU decreased by 15 per cent to US\$ 305 Billion; however, the USA received US\$ 251 Billion IFDI in 2019, as compared to US\$ 254 Billion in 2018-to be more precise, it saw a zero-growth of IFDIs-, but the USA continued to become the largest recipient of IFDIs, followed by China with flows of

<sup>30</sup>By comparison to the previous year, one witnessed a 1 per cent decline from a revised US\$ 1.41 Trillion in 2018. (Suneja, 2020)

US\$ 140 Billion (it also saw zero-growth in IFDIs and its IFDIs in 2018 amounted to US\$ 139 Billion) and Singapore with US\$ 110 Billion. The IFDIs into the UK were down six per cent as Brexit unfolded. (Suneja, 2020; Thehindubusinessline, 2020) The below-table includes sectors attracting highest IFDI equity flows. Services sector continues to dominate the table in 2020, with 17.63 per cent of IFDIs. According to Anitha (2012), during this period, the growth of sector-wise IFDIs remained the same as from the previous years apart from the change in total IFDIs of trading. Whereas trading was ranked 5<sup>th</sup> its total IFDIs constituted 6 per cent. This reflected a considerable increase in the total IFDIs of trading within the country. India is the largest democratic country with rule of law and a highly educated English speaking work force (Anitha, 2012) and a body of persons who are at work, are available for work, or are leading to a large pool of working population. Not only poor quality primary education but also higher education still lead to a severe, prolonged deficiency of talent. IFDIs in education sector accounts for US\$ 2.506.52 Million (Rs. 15.459.63 Crore) and is still lesser than one per cent. (Anitha, 2012; please see, Castillo, 2019)

**Table 5.6.2.1: Sectors attracting highest IFDI equity flows: Amount Rupees in Crore (US\$ in Million) (RBI, 2019b)**

S. No.	Sectors	2017-2018 (April-March)	2018-2019 (April-March)	2019-2020 (April-June)	Cumulative Inflows (April, 2000- June, 2019)	%age to total Inflows (in terms of US\$)
1	<b>SERVICES SECTOR: Financial, Banking, Insurance, Non-Financial or Business, Outsourcing, R&amp;D, Courier, Technology Testing and Analysis,</b>	43,249 (6,709)	63,909 (9,158)	19,462 (2,799)	435,764 (76,948)	18%
2	<b>COMPUTER SOFTWARE &amp; HARDWARE</b>	39,670 (6,153)	45,297 (6,415)	15,585 (2,241)	237,341 (39,479)	9%
3	<b>TELECOMMUNICATIONS</b>	39,748 (6,212)	18,337 (2,668)	29,352 (4,227)	217,601 (37,053)	8%
4	<b>CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction development projects</b>	3,472 (540)	1,503 (213)	532 (77)	120,146 (25,122)	6%
5	<b>TRADING</b>	<b>28,078 (4,348)</b>	<b>30,963 (4,462)</b>	<b>7,921 (1,138)</b>	<b>151,520 (24,160)</b>	<b>6%</b>
6	<b>AUTOMOBILE INDUSTRY</b>	13,461 (2,090)	18,309 (2,623)	6,756 (972)	130,745 (22,359)	5%
7	<b>CHEMICALS (OTHER THAN FERTILIZERS)</b>	8,425 (1,308)	13,685 (1,981)	1,008 (145)	92,070 (16,727)	4%
8	<b>DRUGS &amp; PHARMACEUTICALS</b>	6,502 (1,010)	1,842 (266)	1,581 (227)	85,746 (16,210)	4%

9	<b>CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES</b>	17,571 (2,730)	15,927 (2,258)	3,698 (532)	97,571 (15,337)	4%
10	<b>POWER</b>	10,473 (1,621)	7,330 (1,106)	1,320 (190)	79,209 (14,506)	3%

**Notes:** (ii) cumulative sector-wise IFDI equity flows from April 2000 to June 2019 might be found at Annex-B: statement on sector-wise IFDIs from April 2000 to June 2019 that included 63 sectors or activities or industries. (iii) FDI sectoral data has been revalidated or reconciled in conformity with the RBI that is regarded as a reflection of minor changes in the IFDI figures that include not only increase but also decrease by comparison with the sectoral data that has been earlier published. (iv) figures are considered provisional.

**Table 5.6.2.2: Sectors attracting highest IFDI equity flows: Amount Rupees in Crore (US\$ in Million) (RBI, 2020a)**

S. No.	Sectors	2018-2019 (April-March)	2019-2020 (April-March)	Cumulative inflows (April, 2000-March, 2020)	%age to total inflows (in terms of US\$)
1	<b>SERVICES SECTOR: Financial, Banking, Insurance, Non-Financial or Business, Outsourcing, R&amp;D, Courier, Technology Testing and Analysis</b>	63,909 (9,158)	55,429 (7,854)	471,730 (82,003)	17%
2	<b>COMPUTER SOFTWARE &amp; HARDWARE</b>	45,297 (6,415)	54,250 (7,673)	276,006 (44,911)	10%
3	<b>TELECOMMUNICATIONS</b>	18,337 (2,668)	30,940 (4,445)	219,189 (37,271)	8%
4	<b>TRADING</b>	<b>30,963 (4,462)</b>	<b>32,406 (4,574)</b>	<b>176,005 (27,595)</b>	<b>6%</b>
5	<b>CONSTRUCTION DEVELOPMENT: Townships, housing, built-up infrastructure and construction development projects</b>	1,503 (213)	4,350 (617)	129,964 (25,662)	5%
6	<b>AUTOMOBILE INDUSTRY</b>	18,309 (2,623)	19,753 (2,824)	143,742 (24,211)	5%
7	<b>CHEMICALS (OTHER THAN FERTILIZERS)</b>	13,685 (1,981)	7,492 (1,058)	98,554 (17,639)	4%
8	<b>CONSTRUCTION (INFRASTRUCTURE) ACTIVITIES</b>	<b>15,927 (2,258)</b>	<b>14,510 (2,042)</b>	<b>108,383 (16,847)</b>	<b>4%</b>
9	<b>DRUGS &amp; PHARMACEUTICALS</b>	<b>1,842 (266)</b>	<b>3,650 (518)</b>	<b>87,814 (16,501)</b>	<b>4%</b>
10	<b>HOTEL &amp; TOURISM</b>	<b>7,590 (1,076)</b>	<b>21,060 (2,938)</b>	<b>91,779 (15,289)</b>	<b>3%</b>

**Notes:** (i) cumulative sector-wise IFDI equity flows from April 2000 to March 2020 are at Annex-B: statement on sector-wise IFDI equity flows from April 2000 to March 2020 that included 63 sectors or activities or industries. (iii) IFDI sectoral data has been revalidated or reconciled in line with the RBI, which might be deemed a reflection of minor changes in the IFDI figures (increase or decrease) as compared to the earlier published sectoral data. (iv) figures are considered to be provisional.

There is a subtle difference between the Table 5.6.2.1 and Table 5.6.2.2. Trading hit rank 4, construction (infrastructure) activities hit rank 8, drugs and pharmaceuticals hit rank 9, and hotel and tourism hit rank 10. During this period, one continually might witness a remarkable increase in the total IFDIs of trading within the country. For *further additional information about the geographical and sectoral distribution of IFDIs into India, it is highly recommended to visit the following websites* <https://www.fdi.finance/news>, <https://www.rbi.org.in/>, and <https://www.ibef.org/>.

**CHAPTER 6**

### 6.1. Balance of payments

In order to identify the happenings in the international payments, record of the financial matters between countries is kept by the governments. (Lipsev & Chrystal, 2007; Rahman, 2016) Kindleberger defined the BOPs of a country as a systematic record of all economic transactions between the residents of the reporting country and residents of foreign countries during a given period of time. (Kindleberger, 1985) Additionally, the sixth edition of the BPM6 of the IMF identified BOPs as a statistical statement that summarizes economic transactions between residents and non-residents during a specific time period. (RBI, 2010) It is also regarded as the record of all economic transactions between residents of a country and the rest of the world. (Indiamacroadvisors, 2019) The BOPs contain all transactions showing: (i) transactions in goods, services and income between an economy and the rest of the world; (ii) changes of ownership and other changes in that economy's monetary gold, special drawing rights, and financial claims on and liabilities to the rest of the world; and (iii) unrequited transfers. Such transactions are further categorized into the followings: (i) the current account contains the recording of all transactions that are associated with trade in, or flows of (Indiamacroadvisors, 2019) goods and services (Jhingam, 2008; Rahman, 2016), primary income that shows the amounts payable and receivable in return for providing temporary use of labour, financial resources, or non-produced non-financial assets (natural resources), and secondary income reflects redistribution of income between resident and non-residents, i.e., when resources for current purposes are provided without economic value being exchanged in return (transfers) between residents and non-residents and thus constitutes an important segment of BOPs (Indiamacroadvisors, 2019), and also transfers. Furthermore, transactions that are associated with financial assets, FIs, short-term and long-term lendings are also recorded by capital account. In this regards, capital account can be deemed as changes in the foreign assets and liabilities of the country. (Jhingam, 2008; Rahman, 2016) (ii) the capital account is comprised of its transactions in financial assets in the form of short-term and long-term lending and borrowings and private and official investments, and further contains credit and debit transactions under non-produced non-financial assets and capital transfers between residents and non-residents, and thus records acquisitions and disposals of non-produced non-financial assets, such as land sold to embassies and sales of leases and licenses, as well as transfers which are capital in nature. (Indiamacroadvisors, 2019) In short, the capital account can be viewed as international flow of loans and investments, and as a representation of a change in the foreign assets and liabilities of the country. Long-term capital transactions are related to international capital movements with maturity of one year or more and encompasses direct investments like building of a foreign plant, PI like the purchase of foreign bonds and stocks, and international loans. Short-term international capital transactions are made for a period ranging between three months and less than one year. (Jhingam, 2008; Rahman, 2016) (iii) the financial account that shows net acquisition and disposal of financial assets and liabilities during a period, and further it demonstrates how the net lending to or borrowing from the rest of the world has occurred, and conversely how the current account surplus is used or the CAD is financed. (Jhingam, 2008; Rahman, 2016; Indiamacroadvisors, 2019) In the aftermath of its independence, India's BOPs on its current account was negative. (Hooda, S., 2011) Since 1948, BOPs data for India has been compiled and published by the RBI. Thus, as a result, since then, more than a few developments have occurred not only domestically but also globally. Taking into account such developments and producing a comprehensive BOPs manual documenting current practices, procedures of compilation, presentation, coverage and sources of data for India's BOPs and assessing them with regard to international best practices, from BPM 5, 1993 manual to BPM 6, 2009 method of accounting and classifying the data has been shifted by India. (Indiamacroadvisors, 2019; please see, RBI, 2010)

Foreign capital has sufficiently compensated for the deficiency of financial resources within the country. This results in the financial liberalization policies after a BOPs crisis had occurred in 1991. In September 1992, unrestricted entry for FIPs were permitted with regard to volume of investment in the securities market of India. Thus, subsequently, one could observe a rapid increase in its financial claims against the rest of the world, particularly in the form of reserve assets of the central banks. These phenomena could be viewed as a kind of reflection of weak financial networks in its domestic markets that would have functioned as financial intermediaries and added to domestic investment. India is a typical developing industrial state, owing to its comparatively small current account surplus (sometimes, deficit), and active introduction of many kinds of foreign financial resources, which have spurred domestic economic development. Since 1994 when it was the first year that the (I/O)FDI data had been published in International Financial Statistics (IFS), the net IFDIs into India has been at all times positive-that is to say, IFDIs>OFDIs. Additionally, since 1994 through 2007, the total net IFDIs into the country has been larger than the total net CAD.

Since the year 1995 with the exception of the years 2001 and 2004 when the current account was in surplus, the net IFDIs into the country has covered a part of the CAD. (Uegaki, 2009) Since 1996 and 1997, its overall BOPs has become positive, especially and mostly due to an increase in IFDIs into the country and deposits from NRIs, and commercial borrowings. (Hooda, S., 2011)<sup>31</sup> The variable IFDIs into the country and the component of BOPs Capital Account Balance (CAB) exhibit that there exists an impact of IFDIs on CAB; but, the difference that is being, there exists bi-directional causality between CAB and IFDIs-that is to say, IFDIs has an impact on the CAB in India as well as the CAB also has an impact on the IFDIs. This demonstrates that the IFDIs are very important macro-economic variable for an emerging economy like India. (Rahman, 2016) India's IFDIs as compared with an increase of US\$ 9.8 Billion in the previous quarter rose by US\$ 16.9 Billion in June 2019. According to the latest reports of India, in June 2019, a deficit of US\$ 14.3 Billion was recorded by current account, its Direct Investment Abroad (DIA) expanded by US\$ 3.0 Billion, and its FPI rose by US\$ Billion. The country's nominal GDP stood at US\$ 703.7 Billion in June 2019. (Ceicdata, 2019)

**Table 6.1: Major items of Indian BOPs (US\$ Billion) (RBI, 2018b)**

	April-June 2018 P			April-June 2017 PR		
	Credit	Debit	Net	Credit	Debit	Net
A. Current Account	155.7	171.5	-15.8	139.9	154.9	-15.0
1. Goods	83.4	129.1	-45.7	73.1	115.1	-41.9
Of which:						
POL	11.9	34.7	-22.8	7.5	22.8	-15.4
2. Services	48.2	29.5	18.7	45.9	27.6	18.3
3. Primary Income	5.3	11.1	-5.8	4.7	10.6	-5.8
4. Secondary Income	18.8	1.7	17.1	16.1	1.6	14.5
B. Capital Account and Financial Account	142.4	125.9	16.6	155.7	140.2	15.5
Of which:						

<sup>31</sup>It should be mentioned that even though India obtained a well-developed equity market it did not obtain a well-developed debt market. (Anitha, 2012)

Change in Reserves (Increase (-)/Decrease (+))	11.3	0.0	11.3	0.0	11.4	-11.4
C. Errors & Omissions (-) (A+B)		0.8	-0.8		0.6	-0.6

**Notes:** (i) total of sub-components may not tally with the aggregate due to rounding off. (ii) P: Preliminary and PR: Partially Revised. (RBI, 2018b) (iii) there exists also the table that is based upon the Table 126: India's overall BOPs in US\$ Million from 1970 to 2000 that was provided by the RBI represents the IFDIs having been estimated by the RBI during the period from 1990 to 2000 and that...represents data that are not available separately and have been clubbed elsewhere. (RBI, 2001a) (iv) there exists also the table that is based upon the Table 127: India's overall BOPs in Rupees from 1970 to 2000 that was provided by the RBI reflects the IFDIs having been estimated by the RBI during the period from 1990 to 2000 and wherever data cannot be available, figure has been viewed as nil.. (RBI, 2001b) (v) there exists also the table that is based upon the Table 131: India's overall BOPs in US\$ Million that was provided by the RBI. (RBI, 2019c) (vi) there exists also the table that is based upon the Table 132: India's overall BOPs in Rs. Crore that was provided by the RBI. (RBI, 2019c)

### 6.2. Current data trend of balance of payments

In January and March 2019, India constricted its CAD (i.e., an 8-quarter low of US\$ 4.6 Billion (0.7 per cent of GDP) by comparison with US\$ 13.1 Billion (1.8 per cent of GDP) in the year-ago quarter). The contraction in CAD was mainly and predominantly by reason of the lower trade deficit in the same period. During this period, merchandise trade deficit narrowed down to US\$ 35.2 Billion from a deficit of US\$ 41.6 Billion in the same period last year due to a slowdown in imports, which result from slump in domestic consumption along with lower crude-oil prices, the capital account witnessed a robust surplus of US\$ 19.2 Billion thanks to higher FPI of US\$ 9.4 Billion as a consequence of net purchases in both debt and equity market, and higher dollar inflows were aided by a rise in expectations of PM Modi winning a second term at the general election 2019. Net accretion of US\$ 14.2 Billion to the country's foreign exchange reserves was permitted by the strong IFDIs into the Indian debt and equity markets. On a cumulative basis, for the fiscal year (FY) 2018 and 2019 the CAD rose by a six-year high of 2.1 per cent of GDP (US\$ 57.2 Billion). During the first three quarters, higher crude oil prices led to higher CAD although the CAD stood at 1.8 per cent of GDP (US\$ 48.7 Billion) in the previous FY. A deterioration in CAD in the first quarter of FY 2020 could be brought by the trade deficit at elevated levels in April and May 2019 at US\$ 15.33 Billion and US\$ 15.36 Billion, respectively. It is expected that increased attractiveness of India under a strong and stable government along with major central banks turning dovish will lead its capital account to be healthy and PIs who will be able to continually maintain some caution despite, with escalated global trade frictions, uncertainty over crude oil prices and stumbling domestic economy link together. (Indiamacroadvisors, 2019)

### 6.3. Impacts of inward foreign direct investments on India

(I/O)FDIs and the laws that exercise a directing and restraining influence over them can be of central and vital importance for a firm's growth strategy of developed, developing, and emerging market countries. There exist crucial differences across the countries with regard to the reasons why their firms make (I/O)FDIs. For instance, most of the developed countries (i.e., the EU and the USA: in 2017, in the aftermath of the announcement that USA-based Apple will bolster its efforts by investing US\$ 507.1 Million to foster its R&D mindset in China where Apple's third-largest market today behind the Americas and Europe (Chen, J., 2019)) investments are made via M&As between mature firms. Such global corporations' investments

are based upon either restructuring or refocusing on core businesses. (Chen, J., 2019; Amadeo, 2019a) For developing and emerging market countries, their firms that are in need of private investment in infrastructure, energy, and water to increase jobs and wages are obliged to acquire the multinationals' funding on the market at reasonable conditions and expert skill and knowledge in the areas where their international sales can be expanded. The U.N. report warned that climate change would hit them the hardest.

*“In 2017, developing countries received US\$ 694 Billion, or 58 per cent of total global (I/O)FDI. They received 43 of world-wide investment. Investments rose 8 per cent in developing Asia, which received US\$ 502 Billion.” (Amadeo, 2019a)*

During this time, after India had regulated to relax IFDI 100 per cent IFDI in SBR was made without government approval. It is also reported that the regulatory decision provides great assistance to Apple's inclination to open a physical store in the Indian market, where the firm's iPhones have thus far only been available through third-party physical and online retailers. (Chen, J., 2019)

### **6.3.1. Impacts of inward foreign direct investments on exports and imports**

Over the last few decades, India's exports have evidently grown much faster than GDP where the estimation that is provided by the WB from 1990 until 2018 and projection that is provided by the IMF outlook October 2018 for year 2019 reveals the fact that the IFDIs into India lead to an increase in the GDP (WB, 2019a; Statisticstimes, 2019). Not only a great number of different kinds of factors but also IFDIs into the country have contributed to this phenomenon in an apparent manner; however, until a particular time in the past, any attempt has not been able to be done in order to systematically examine or inquire into the role of IFDIs in India's export performance. This issue was systematically examined and inquired into by Sharma K. (2000) through annual data for 1970 and 1998. His results proposed that there exists an increase in demand for Indian exports when its export prices fall in relation to world prices and also there exists an adverse impact of the real appreciation of the Rupee on export demand of India. Therefore, it is recommended that the GOI should keep inflation lower than major trading partners and reliance on flexible exchange rate that will be increased to assure that the real appreciation of Rupee will be maintained. Export supply is positively associated with the domestic relative price of exports and is reduced by a higher domestic demand. This proposes that tight monetary and fiscal policies are imperative, particularly at the time of high growth to check domestic prices and demand pressure. It is found that FI has statistically no significant impact on India's export performance despite the coefficient of IFDI variable that has acquired a positive sign and there exists no evidence to assert that the level of infrastructure has effected export supply.

However, one should present and understand the substantial results of this study that needs close attention and vigilance to minimize risk in order to conceptualize the effects of liberalization on the relationship between IFDIs into the country and exports. Hence, rather short time series data does not lead to the exact results. (Sharma, K., 2000; WB, 2019a; Statisticstimes, 2019) In a very general way, the analysis indicates that there exists an independent relationship between IFDIs and imports due to the fact that the time period after liberalization of IFDI is insufficient enough and the size of IFDI is also very conspicuously deficient in India as compared to other developing countries, that there exists a unidirectional causality from export to IFDIs into the country and it may be due to outward-oriented export-led development policy that will attract IFDIs into India in the short-run, and that aggregate imports and exports are considered bi-directional in India in the short-run during the period of the study that was conducted by Bhat and Raj (2005) due to the data bases that encompassed from July 1992 to October 2003. (Bhat

& Raj, 2005) Goswami and Saikia examined and analyzed the relationship between the (I/O)FDI flows and exports in 2012. They found that they were not non-stationary at level; however, even if they were stationary at the first differences they also indicated that there existed bi-directional causality between the two variables, i.e., IFDIs into the country leads to manufactured export growth and then export-led growth further causes to encourage the IFDIs into the country. This implied that more export-oriented (I/O)FDI should be encouraged and promoted by the government in order to acquire a direct effect on export growth that bring about the economic growth within the country. Due to the NEP that was adopted and implemented in 1991 in order to liberalize the IFDIs into the country, one could witness any positive impact on the growth of the North East Region (NER).

Thus, consequently, it should be emphasized that one could experience negligible IFDIs within the region. On the other hand, one can face the minimal border trade; however, in order to achieve more benefit from the current Indo-ASEAN FTA that can be portrayed as a part of or the Indian policy of Look East (ASEAN, 2017), which is also called the Look East Policy (LEP), the insufficient and unsatisfactory industries that are based on relative advantage by drawing favorable attention to more FI within the country have to be developed by the region. However, notwithstanding its natural advantage of trade with neighbouring countries and the potentiality to develop several different kinds of industries as being blessed with vast natural resources, the NER cannot draw favorable attention to any sizeable amount of IFDIs into the country owing to the lack of infrastructure, problem of insurgency and bad governance. Hence, the objective should be to abolish such fundamental constraints that were initially adopted by dint of strategic intervention. (Goswami & Saikia, 2012; ASEAN, 2017) Sharma R. and Kaur (2013) mentioned that there is strong evidence of unidirectional causality running from the (I/O)FDI flows to imports and (I/O)FDI flows to exports, i.e., (I/O)FDI flows have an influence on not only imports but also exports, yet it is not led by imports and exports. Rather, there is a bi-directional causality between imports and exports. It was indicated that their empirical results for India indicate that there is a bi-directional causality between (I/O)FDI flows and imports, (I/O)FDI flows and exports, and hence one can assure exports and imports that briefly stated that (I/O)FDI flows lead to imports (importing technologies) that in turn bring about exports and exports further lead to (I/O)FDI flows. In addition, it is indicated that (I/O)FDI flows lead to exports that in turn caused more imports.

It is also found that bi-causal relationship between imports and exports in India proposes that it is imperative that India assume more attention to technology imports and its transfer as an essential condition for leading to the expansion of its exports, and further the GOI of these countries utilize such perspective of imports as an effective measure in formulation of its export promotion strategy. Hence, it is expected that this will additionally contribute to the progress of industrial upgradation by dint of advanced machinery and equipment. (Sharma, R. & Kaur, 2013) Das G.S. and Kalra (2015) conducted a study on the trends of exports, imports and (I/O)FDI assuming by them that they are being in approximate same direction. According to the results of their study, it was shown that there exists a strong positive relationship of (I/O)FDI with exports and imports. If there exists an increase in the (I/O)FDI flows in some specified units, then there exists also an increase in the imports and exports. However, it was demonstrated that there exists a negative relationship of (I/O)FDI flows and balance of trade-the difference in value between a country's imports and exports. This denotes that there exists a positive impact on balance of trade. Due to the regression analysis, the amount of exports, imports and balance of trade can be predicted, i.e., between the years 2013 and 2014, the growth rate of balance of trade is -20.76 that can be considered as a good sign for the economic development of India. The present government run by PM Modi allowed IFDIs in a great number of sectors, such as in

defense, railway infrastructure, insurance, etc. It will also lead India to draw favorable attention to and further acquire more FI into the country, and thus this leads India to be able to reduce its imports and increase its exports, and further that objective of a favourable balance of trade can be accomplished. It should be succinctly highlighted that the positive effects of IFDIs can be utilized in a favourable sense. (Das, G.S. & Kalra, 2015) The below-table was based upon the Table 118: India's foreign trade-US Dollar, and further had been sourced from Directorate General of Commercial Intelligence and Statistics. It is noted that data for 2017 and 2018 are considered to be revised and data for 2018 and 2019 are provisional.

**Table 6.3.: India's foreign trade (US\$ in Million) (RBI, 2019c)**

Year	Exports			Imports			Trade balance		
	Oil	Non-oil	Total	Oil	Non-oil	Total	Oil	Non-oil	Oil
1980-1981	31,5	8453,2	8484,7	6654,9	9211,6	15866,5	-6623,4	-758,4	-7381,8
1981-1982	246,3	8457,6	8703,9	5786,2	9386,7	15172,9	-5539,9	-929,1	-6469,0
1982-1983	1278,0	7829,6	9107,6	5816,2	8970,4	14786,6	-4538,2	-1140,8	-5679,0
1983-1984	1535,8	7913,6	9449,4	4673,1	10637,8	15310,9	-3137,3	-2724,2	-5861,5
1984-1985	1529,4	8348,7	9878,1	4549,8	9862,5	14412,3	-3020,4	-1513,8	-4534,2
1985-1986	527,0	8377,5	8904,5	4078,0	11988,9	16066,9	-3551,0	-3611,4	-7162,4
1986-1987	321,8	9422,9	9744,7	2199,5	13527,2	15726,7	-1877,7	-4104,3	-5982,0
1987-1988	500,4	11588,1	12088,5	3118,1	14037,6	17155,7	-2617,7	-2449,5	-5067,2
1988-1989	348,7	13621,7	13970,4	3009,0	16488,2	19497,2	-2660,3	-2866,5	-5526,8
1989-1990	418,4	16194,1	16612,5	3767,5	17451,7	21219,2	-3349,1	-1257,6	-4606,7
1990-1991	522,7	17622,5	18145,2	6028,1	18044,4	24072,5	-5505,4	-421,9	-5927,3
1991-1992	414,7	17450,7	17865,4	5324,8	14085,7	19410,5	-4910,1	3365,0	-1545,1
1992-1993	476,2	18061,0	18537,2	6100,0	15781,6	21881,6	-5623,8	2279,4	-3344,4
1993-1994	397,8	21840,5	22238,3	5753,5	17552,7	23306,2	-5355,7	4287,8	-1067,9
1994-1995	416,9	25913,6	26330,5	5927,8	22726,5	28654,4	-5510,9	3187,1	-2323,8
1995-1996	453,7	31341,2	31794,9	7525,8	29149,5	36675,3	-7072,0	2191,7	-4880,4
1996-1997	481,8	32987,9	33469,7	10036,2	29096,2	39132,4	-9554,4	3891,7	-5662,7
1997-1998	352,8	34653,7	35006,4	8164,0	33320,5	41484,5	-7811,2	1333,1	-6478,1
1998-1999	89,4	33129,3	33218,7	6398,6	35990,1	42388,7	-6309,2	-2860,8	-9170,0
1999-2000	38,9	36783,5	36822,4	12611,4	37059,3	49670,7	-12572,5	-275,8	-12848,3
2000-2001	1869,7	42690,6	44560,3	15650,1	34886,4	50536,5	-13780,4	7804,2	-5976,2
2001-2002	2119,1	41707,6	43826,7	14000,3	37413,0	51413,3	-11881,2	4294,6	-7586,6
2002-2003	2576,5	50142,9	52719,4	17639,5	43772,6	61412,1	-15063,0	6370,3	-8692,7
2003-2004	3568,4	60274,1	63842,6	20569,5	57579,6	78149,1	-17001,1	2694,5	-14306,5
2004-2005	6989,3	76546,6	83535,9	29844,1	81673,3	111517,4	-22854,8	-5126,7	-27981,5
2005-2006	11639,6	91450,9	103090,5	43963,1	105202,6	149165,7	-32323,5	-13751,7	-46075,2
2006-2007	18634,6	107779,5	126414,1	56945,3	128790,0	185735,2	-38310,7	-21010,5	-59321,2
2007-2008	28363,1	134541,1	162904,2	79644,5	171794,7	251439,2	-51281,4	-37253,6	-88535,0
2008-2009	27547,0	157748,0	185295,0	93671,7	210024,6	303696,3	-66124,8	-52276,6	-118401,3
2009-2010	28192,0	150559,5	178751,4	87135,9	201237,0	288372,9	-58943,9	-50677,5	-109621,4
2010-2011	41480,0	209656,2	251136,2	105964,4	263804,7	369769,1	-64484,4	-54148,5	-118632,9
2011-2012	56038,5	249925,3	305963,9	154967,6	334352,0	489319,5	-98929,0	-84426,6	-183355,7
2012-2013	60865,1	239535,5	300400,6	164040,6	326696,1	490736,6	-103175,4	-87160,6	-190336,1
2013-2014	63179,4	251236,4	314415,7	164770,3	285443,3	450213,6	-101591,0	-34206,9	-135797,9
2014-2015	56794,1	253557,9	310352,0	138325,5	309707,9	448033,4	-81531,4	-56150,0	-137681,4
2015-2016	30582,6	231708,4	262291,1	82944,5	298063,3	381007,8	-52361,8	-66354,8	-118716,7
2016-2017	31545,3	244307,2	275852,4	86963,8	297393,2	384357,0	-55418,6	-53086,0	-108504,6
2017-2018	37465,1	266061,1	303526,2	108658,7	356922,3	465581,0	-71193,6	-90861,2	-162054,8
2018-2019	46544,4	283525,2	330069,6	140918,4	373115,6	514034,1	-94374,0	-89590,5	-183964,5

#### 6.4. The main obstacles to inward foreign direct investments into India

India is the second largest country by population, and is regarded as a safe heaven for FIs. But, it is evident that India has suffered from a host of self-imposed restrictions and problems, which are closely related to open its markets entirely too global investors through the implemented full scale economic reforms. Some of the main obstacles to India's poor performance of IFDIs into the country and the compelling reasons for relatively less IFDIs into the country may be summarized as follows: (i) **indecisive government and political instability**: despite too many anomalies on the government side over the last two decades, they are still assuming and commading adverse impacts on the IFDIs into the country, such as mismanagement and oppression by the different firm that has an effect on the image of the country and has also a depressing effect on the prospective investor, who are immensely cognizant of safety and constant return on their investment. (ii) **lack of adequate infrastructure**: it is referred to as an example of a vital obstacle to IFDIs into country. This crucial impediment to the form of poor infrastructure can be cited as a kind of discouragement for FIs who tend to invest in India; for instance, biggest and timeworn infrastructure problem is regarded as the supply of electricity and power cuts are viewed as a common problem and a great number of industries obviously feel obliged to close their business. (iii) **high corporate tax rates and confusing tariff policies**: in general, corporate tax rates in East Asia are being in the range of 15 to 30 per cent, as compared to a rate of 48 per cent for foreign firms in India. It is evident that high corporate tax rate is cited as a major disincentive to foreign corporate investment in India. (iv) **stringent Draconian labor laws**: large firms in India are able to curtail their expenses and costs or terminate the employment of any workers, or cause to cease operations of the unit through the permission of the state government. Such laws lead the workers to be protected and the occurence of legitimate attempts to be prevented with the view to alter the structure of business. In order to curtail costs and expenses that were caused by unnecessary workers, approval from both employees and state governments-approval that is infrequently given are required by firms. Furthermore, trade unions squeezed huge sums from firms by dint of over-generous voluntary retirement schemes. In order to overcome such obstacles and resolve such problems and issues that were related to stringent Draconian labor laws, it is required that India take initiatives to adopt and implement more flexible labor laws; for instance, one can lead to the growth of the manufacturing sector if one can improve the infrastructure facilities and witness labour reforms to be taken place. (v) **limited scale of export processing zones**: Export Processing Zones (EPZ(s)) of India have been in need of dynamism by virtue of several kinds of reasons, such as their comparatively limited scale; the general ambivalence of government about drawing favorable attention to IFDIs; the unclear and changing incentive packages that are attributable to the zones; and the power of the central government in the regulation of the zones. India that set up its first EPZ in the year 1965 has been unsuccessful in an attempt to the development of the zones as compared to China that took initiative for establishment merely in the year 1980. (vi) **well-entrenched corruption**: one can witness corruption in approximately every public service, from defense to distribution of subsidized food to the poor people, to the generation and transmission of electric power. A combination of legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top have caused FIs to renounce their investment in the corruptible environment in India. (Kumar, N., 2001) Vittal (2001) also indicates that corruption and misuse of public office for private gain lead the development of a country to be paralyzed and its precious resources to be distracted from public needs of the entire nation. Corruption is opposed to the poor people since it does not permit them to satisfy their needs. If corruption levels in India amount to those of Scandinavian countries, GDP growth of India will rise to 1.5 per cent and the growth of IFDIs into the country will be equal to 12 per cent. (Vittal, 2001, quoted in Anitha 2012) (vii) **lack of decision making**

**authority with the state governments:** the process of reform attempting to liberalize the economy has mostly directed its attention on the centre and has not given to the state governments much power. In the most important infrastructure areas, the central government continually assumes control. (viii) government regulations. (Kumar, N., 2001; Vittal, 2001, quoted in Anitha 2012; Anitha, 2012) (ix) cautious policy of the government regarding IFDIs. (x) less efficient factor market and infrastructure. (xi) recent slowdown of industrial growth. (Goswamia & Saikiab, 2012)

### 6.5. Government measures and initiatives

The GOI offers tax and non-tax investment incentives on particular sectors, i.e., electronics and regions, i.e., NER, Jammu and Kashmir, Himachal Pradesh and Uttarakhand and also leads to the creation of incentives for the manufacturing firms with the view to establish SEZ, National Investment and Manufacturing Zones and Export-Oriented Units. Furthermore, each state government is in possession of its own policy that offers additional investment incentives that included subsidized land prices, attractive interest rates on loans, reduced tariffs on electric power supply, tax concessions, etc. The central government development banks and state industrial development banks offer reasonable rates on medium to long-term loans for new projects. In recent times, the government has sought further relaxation in IFDIs policy in a variety of sectors by means of these kinds of measures as it has caused to appear the FI limit, has eased conditions for investment and has led a great number of sectors to fall on the automatic route instead of the government route that imposes an obligation on approval that is provided by the FIPB. On the one hand, the GOI has led to the implementation of reforms to dispose of the banking system, yet it is evident that it takes time and is possibly able to have an impact on the supply of credit. On the other hand, although the fiscal deficit and public debt continues to be large, the government has still taken serious steps to reduce them. The most remarkable of such initiatives is the introduction of the good and services tax that is aimed at boosting tax revenues and resulting in making the economy more competitive in the long run. Sectors that have gained benefits from the expansion that is involved in real estate, private banking, defence, civil aviation, SBR and television news. (For more details, one may consult the website of Invest India, the official Investment Promotion and Facilitation Agency of the GOI). (Santandertarde, 2019) The GOI was in talks with stakeholders to further ease IFDIs in defence under the automatic route to 51 per cent from the current 49 per cent, in order to boost the Make in India initiative and to lead to the generation of employment. Department of Revenue (DR) and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application. The approval mechanism for IFDI proposals has been eased by the MCI, the GOI by putting an end to the approval of DR and mandating clearance of all proposals which require approval within 10 weeks after the receipt of application. In September 2017, the GOI required the states to assume a focus on strengthening single window clearance system for fast-tracking approval processes with the view to lead an increase in Japanese investments in India. Furthermore, government approval will not be required for IFDI up to an extent of 100 per cent in REBSs. In January 2018, the GOI permitted foreign airlines to invest in Air India up to 49 per cent with government approval, the investment cannot exceed 49 per cent in a direct or an indirect manner, and further GOI permitted 100 per cent IFDI in SBRT through automatic route.

In September 2018, the National Digital Communications Policy 2018, which envisaged increasing IFDIs in the telecommunications sector to US\$ 100 Billion by 2022, was released by the GOI. In December 2018, the IFDI rules related to e-commerce were revised by the GOI. As per the rules 100 per cent IFDI was permitted in the marketplace-based model of e-commerce. Additionally, sales of any vendor by dint of an e-commerce marketplace entity or its group firms

had been restricted to 25 per cent of the total sales of such vendor. The GOI planned to permit 100 per cent IFDI in insurance intermediaries in India to boost the sector and attract more funds. As of February 2019, the GOI takes the measures and initiatives to reach its objective of US\$ 100 Billion worth of IFDIs more efficiently. In February 2019, the Draft National e-Commerce Policy promoting IFDI in the marketplace model of e-commerce was released by the GOI that indicates that the (I/O)FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants and which is planning to consider 100 per cent IFDI in insurance intermediaries in India to give a boost to the sector and attracting more funds. Restrictions on the approval mechanism for IFDI proposals has been reduced and eased by the MCI by putting an end to the approval of DR and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application. The GOI is still willing to negotiate with stakeholders to further reduce restrictions on IFDI in defense that was under government route including investment in MSAA covered under Arms Act, 1959 (Shaaz & Raghuram, 2017) under the automatic route to 51 per cent from the current 49 per cent, in order to give a boost to the Make in India initiative and to generate employment. (Shaaz & Raghuram, 2017; IBEF, 2019a) Furthermore, the GOI permitted 100 per cent IFDIs in insurance intermediaries. In Union Budget 2019 and 2020, the GOI suggested the opening of IFDIs in aviation, media (animation and Animation, Visual Effects, Gaming and Comics) and insurance sectors in consultation with all stakeholders. The GOI had planned to permit 100 per cent IFDIs in insurance intermediaries in India to boost the sector and attract more funds. In August 2019, the GOI allowed 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries). In December 2019, the GOI allowed 26 per cent IFDIs in digital sectors. (IBEF, 2020b) According to per a recent market attractiveness survey that has been conducted by Emerging Market Private Equity Association, India has become the most favored and attractive emerging market for investment of global partners for the coming 12 months. Moreover, according to per a report that has been released by the Union Bank of Switzerland that is a multinational diversified financial services firm headquartered in Zurich and Basel (Investopedia), it is expected that India will increase its annual IFDIs to US\$ 75 Billion over the next five years. The objective of the GOI is also to absorb US\$ 100 Billion worth of IFDIs in the next two years. The WB has indicated that it is anticipated that private investments in India will grow by 8.8 per cent in FY 2018 and 2019 to overtake private consumption growth of 7.4 per cent, and thereby drive the growth in India's GDP in FY 2018 and 2019. (Investopedia; IBEF, 2019a) In March 2020, the GOI allowed NRIs to gain the possession of up to 100 per cent stake in Air India. In April 2020, the GOI amended existing Consolidated (I/O)FDI Policy for limiting opportunistic takeovers or acquisition of Indian firms from neighboring nations. In May 2020, the GOI led to the increase an IFDIs in defence manufacturing under the automatic route from 49 per cent to 74 per cent. (IBEF, 2020b) In August 2020, PM Modi treated of Atmanirbhar Bharat Defence Industry Outreach Webinar through video conferencing, and also assumed an emphasis on the need of making India self-reliant in the defence sector by aiming to lead to the increase in defence manufacturing in India. (Kumar, S., 2020)<sup>32</sup>

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<sup>32</sup>“For many years, India has been one of the biggest defence importers. When India got independence, it had great capability in defence manufacturing and an ecosystem of defence manufacturing established over 100 years. Unfortunately, this subject could not get requisite attention, said PM Modi.” (Kumar, S., 2020)

### 6.6. COVID-19 and inward foreign direct investments into India

In January 2020, investment of US\$ 1 Billion for digitizing small and medium businesses and creating one million jobs by 2025 was announced by Amazon India, and further Mastercard announced investment of up to US\$ 1 Billion in India over the next five years to double its R&D effort in the Indian market. (IBEF, 2020b) However, after India had reportedly confirmed the first case of the COVID-19 infection on 30 January, 2020 in the state of Kerala (Vara, 2020), it has an unexpected adverse impact on IFDIs into India. During the process of deglobalization, which is caused by COVID-19, like many countries, the (I/O)FDI policy is aimed at saving Indian firms from takeover amid COVID-19. (Vara, 2020; Kumar, J. & Senthil, 2020) Sonal Varma, head of Asia economics ex-Japan at Nomura Holdings Inc., notices that the biggest challenge facing India might be deemed as the dearth of growth capital in the current context. Throughout its history, India has had to force itself to do something difficult and unpleasant that it has been avoiding doing during times of crises. (Nag & Sircar, 2020) It is the first time that India has have to take more serious initiatives and measures to tighten its regulations since 1991 when the IFDIs were gradually liberalized. This is considered to be a new post-1991 non-neo-liberal policy paradigm, which is seemingly in the works and seeks to ensure to strengthen the economic muscles of the nation, and also to be the impact of deglobalization on its IFDI policies. According to statements made by PM Modi and his Cabinet colleagues, a fiscally constrained government might ostensibly attempt to own the larger economic role expected of it in a post-lockdown context by reverting to greater inward-orientation. In an unlikely echo of ideal and idyll of gram swaraj of Mahatma Gandhi, the heads of the nearly 2.50.000 gram panchayats were told by Modi that that the biggest lesson COVID-19 has taught India is to come to be self-reliant, and that the imperative of adjusting particular actions to circumstances is that every village will have to come to be self-reliant for its basic needs.

His message of self-reliance is not just for the purpose of gram panchayats. It is more likely to plan and devise the Make in India programme with industrial policy once again gaining ascendancy; however, it seems that there is a contradiction between calls for self-reliance in manufacturing, for reduced dependence on imports (from China, in particular), and the renewed effort to attract more IFDIs into the country, with a view to bring in firms relocating out of China. (Baru, 2020) The initiative taken by the GOI is to block direct investments from China. However, the definition of beneficial owner (and interpreting the definition of the term used in the other laws) might conclude that the revised position would also have an impact on investments from other jurisdictions where beneficial owners intended to or have invested more than 50 per cent of the capital instruments of an Indian firm by dint of Special Purpose Vehicles (SPV(s)). The same will be an indirect investment, provided that a Chinese citizen, living or corporate person, owns an interest in such an SPV in a foreign jurisdiction. Ownership of an India firm has been characterized as the beneficial holding of more than 50 per cent of the capital instruments of the Indian firm. It is very common that the creation of SPV in Hong Kong, Singapore, Mauritius, the Netherlands or other jurisdictions to avail tax treaty benefits under the respective DTAAs, which are executed by India with the aforementioned countries, will impart a structure to investments in India from the Border States. The revised position requires the GOI approval which will be imperative for the followings: (i) all the future investments through SPV, if there exists a Chinese element, which results in a situation of beneficial ownership; and/or (ii) transfer of more than 50 per cent of capital instruments of the Indian firm by the SPVs where the beneficial owner is from the Border States.

If a VCF or Private Equity Fund (PEF) possess a Chinese LP (Limited partners, or LPs are those who are investors in a PEF (Balakrishnan, 2020)) who falls within the definition of beneficial

owner, government approval for investments into Indian firms will be required. (Balakrishnan, 2020; Kumar, J. & Senthil, 2020) In actual fact, the amended (I/O)FDI policy, which corners China in the Indian market for (I/O)FDI, might be portrayed as a step in geopolitics of keeping pace with USA in particular, rather than in good economic strategy that facilitates the real economy and jobs. (Sen, 2020) Reliance Chairman Mukesh Ambani, known as Asia's richest man, has been selling stakes in Jio Platforms as he attempts to bring Reliance's net debt of more than US\$ 20 Billion down to zero before March 2021. His objective is to shift away from oil and petrochemicals toward faster-growing consumer businesses. (Gulfnews, 2020) On April 22 when marks one of the biggest foreign investments in India, it was declared by the two sides that a 9.99 per cent stake or a US\$ 5.7 Billion stake in Mukesh Ambani's Reliance Jio Platforms Ltd.,<sup>33</sup> which is the digital services holding firm which is controlled by Reliance (Gulfnews, 2020) and is also known as the largest Indian-based telecommunications firm, part of Ambani's Reliance Industries empire, and also the owner of various consumer digital services, such as their music platform (Vorhaus, 2020), for Rs. 43.574 Crore has been bought by Mark Zuckerberg-led Facebook, who is aimed at using WhatsApp for e-commerce opportunities with small and local businesses and whose competitors will be Alibaba-backed Big Basket, Amazon's Pantry and Walmart-owned Flipkart. This is the largest IFDI for a minority investment and due to this investment Jio has become the fifth-largest firm in India. (Gulfnews, 2020; Vorhaus, 2020; Theprint team, 2020)<sup>34</sup>

At a meeting, the PM Modi tries to attract IFDIs into India by thinking intensely about reforms in mines and coal sector, with thrust on availability of minerals from domestic sources. In another meeting to spur reforms in the defence and aerospace sectors, the PM Modi also assumed an emphasis on cutting imports, especially reducing import dependence related to defence sector. (Anand, M., 2020) The proposed reforms are included in commercial coal mining, aviation, and higher defence IFDI. The GOI is planning to make separate budgetary provisions for procuring merely Indian made defence items and to create a negative list of weapons that might be imported as part of larger reforms to boost the economy in the post COVID-19 world. Therefore, it was announced that the IFDIs limits are being enhanced from 49 per cent to 74 per cent under the automatic route despite the security clearances that will still also be required.<sup>35</sup> FM Nirmala Sitharaman highlighted that this is not regarded as a privatization of the factories, but is being done to improve performance. (Pabby, M., 2020) Unfortunately, the Modi government failed to draw favorable attention to IFDIs in defence sector.<sup>36</sup> Therefore, it is not immediately clear that the new enhanced limits to defence sector

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<sup>33</sup>Aside from Reliance Jio Platforms, the two other private sector players in the telecom sector, Vodafone-Idea and Airtel-Singtel, own foreign partners. (Gupta, 2020)

<sup>34</sup>However, this is not first attempt of Facebook to step into the country. (Please see, *Financialexpress*, 2020)

<sup>35</sup>The increase in IFDIs limit to 74 per cent is considered to be good, because being liable for the quality and performance of the product was an issue for foreign original equipment manufacturers in the absence of assuming the control over the company. (Unjhawala, 2020)

<sup>36</sup>*“Not only has India failed to attract IFDIs in defence, but it has also failed to attract any substantial private sector investments. The Modi government had revised the IFDI limit to 49 per cent in July 2016 via the automatic route and also allowed 100 per cent on a case to case basis. But it did not result in increased IFDIs. Between the years 2016 and 2017, India failed to attract any IFDIs in defence. Between the years 2017 and 2018, it received US\$ 0.01 Million, and between the years 2018 and 2019 that stood at US\$ 2.18 Million.”* (Unjhawala, 2020)

will be able to attract IFDIs. Half a dozen Indian firms and the American firms are working together to develop vaccines against the virus that gives rise to COVID-19. Indian firms are among the largest manufacturer of generic drugs and vaccines in the world where India is home to half a dozen major vaccine makers that have a head start over others.<sup>37</sup> (Biswas, 2020) In May 2020, private equity (PE) firm Vista Equity Partners announced its plans to invest US\$ 1.61 Billion (Rs. 11.367 Crore) in Jio Platforms for a 2.32 per cent stake and PE firm (IBEF, 2020b) Silver Lake, known as the well-known and well-funded private equity firm, declared that it would announce investment of 56.56 Billion Indian Rupees (approximately US\$ 747 Million) in Jio Platforms for 1.15 per cent stake (IBEF, 2020b) (Vorhaus, 2020) and New York-based KKR&Co. became the latest private equity firm to invest in Jio Platforms Ltd. 113.7 Billion Indian Rupees (US\$ 1.5 Billion) for a 2.3 per cent stake in Jio Platforms will be paid by KKR&Co. Testing of its online grocery shopping portal across India, which is still under a nation-wide lockdown to assume control over the spread of the COVID-19, has been started by Reliance Industries Ltd. Now JioMart is delivering in more than 200 cities and the JioMart shopping app is available via Facebook Inc.'s WhatsApp that has approximately 400 Million users within the country.

It is highly expected by Facebook that the partnership with JioMart will be very helpful to make WhatsApp the primary way small businesses connect with customers. (IBEF, 2020b; Vorhaus, 2020; Gulfnews, 2020) During this period, major operating American firms have become very active in establishing their own businesses and acquiring existing firms in India, or making majority investments (i.e., Walmart WMT's acquisition of two-thirds of Flipkart, the Indian e-commerce firm). (Vorhaus, 2020) In June 2020, aside from Facebook and Silver Lake, Jio Platforms Ltd. publicly announced to sell 22.38 per cent stake worth Rs. 1.04 Trillion (US\$ 14.75 Billion) to ten global investors in a span of eight weeks under separate deals, which involve Vista, General Atlantic, Mubadala, Abu Dhabi Investment Authority, TPG Capital, and L. Catterton. This is considered to be the largest continuous fundraise by any company in the world. (IBEF, 2020c) It is certain that the COVID-19 has triggered a looming economy, but this might be a great chance for India to enact sweeping reforms to fix ailing sectors and attract more IFDIs. This call has been made by a former central banker and an ex-government official, as well as financial market participants, who indicate that India is need of liberalizing and deepening its financial markets, and taking policy steps in order to fix the banking and farm sectors. There are early signs of this already happening, with the central bank giving overseas investors greater access to its sovereign bonds, which permit local banks to tap offshore currency markets and firms a choice of more complex hedging tools. It is seemingly evident a great deal still need to be done to draw favorable attention to long-term foreign capital to plug the domestic saving-investment gap. (Nag & Sircar, 2020) Therefore, the PM Modi has felt the obligation to implement to revive the economy<sup>38</sup> of India that has been shattered by the COVID-

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<sup>37</sup>I.e., Serum Institute of India is known as the world's largest vaccine maker by number of doses which are globally produced and sold. Every year the 53-year-old firm makes 1.5 Billion doses, mostly from its two facilities in the western city of Pune. The firm owns two other small plants in the Netherlands and the Czech Republic and around 7.000 people work for it and a host of smaller ones, which make doses against polio, meningitis, pneumonia, rotavirus, Bacillus Calmette–Guérin, measles, mumps and rubella, among other diseases. (Biswas, 2020)

<sup>38</sup>Some in government are in belief that more domestic effort will be required. Autarchy is not being suggested, but the Modi government hopefully devotes greater domestic efforts and means to rebuild economic capabilities and capacities with the view to ensure in the remainder of its term. According to the critics, this will be considered to be a return to the strategy of self-

19. Therefore, in order to attract foreign firms with high-end technologies to establish their manufacturing bases in India in collaboration with Indian firms, global firms are allowed to invest up to 74 per cent in the defense manufacturing units of the country, up from 49 per cent, without imposing as a necessity of any government approval. (Sharma, A., 2020) Due to the new IFDI rules of India, it might be a competing destination to lure more foreign nations to invest in the country. According to N.R. Bhanumurthy, professor at the National Institute of Public Finance and Policy, the availability of low wage skilled labor, which makes India a suitable business destination, might be viewed as a bonus. To facilitate businesses, their labor and land acquisition laws have been liberalized by a great number of Indian States. In recent times, German footwear brand Von Wellx recently determined to shift its manufacturing base from China and is planning to establish its unit near the Indian city of Agra in Uttar Pradesh State. It is also expected to generate 10,000 jobs. Furthermore, according to the USA-India Strategic Partnership Forum, more than 200 USA firms are planning to move their bases to India, post the presidential elections. The objective of the USA firms, as a part of global supply chains, is to establish substitute of China by means of IFDIs by moving their production to India and to bring critical supplies. Under such circumstances, India will be in need of US\$ 100 Billion worth of IFDIs annually, provided that it is to be a US\$ 5 Trillion economy. However, this does not mean that China would not be able to be abandoned by the USA firms. They have to find alternate sites. Therefore, a replacement might be offered by India that has become an alternate manufacturing hub in the region. Due to the shifting of manufacturing units from China to India, India will gain 9-10 per cent growth, and hence take the overall investment rate to 35-36 per cent. (Kapoor, 2020) The OFDI in India in the duration of April and July stood at US\$ 20 Billion. According to the FM Nirmala Sitharaman, the high OFDI flows in the pandemic indicate that the commitment of India for making reforms is seriously taken by the FIs, they lead India to become a very desirable destination; otherwise, one could not be witnessing a good amount of OFDIs into India even during the pandemic time when India, as a great number of Indian critics would indicate, owns the strictest lockdown. In addition, she released the state rankings which were on the basis of the implementation of the State Business Reform Action Plan 2019 and mentioned that the Atma Nirbhar Bharat Abhiyan or Self-Reliant India Mission will open the way for India in establishing its strengths, and also becoming a self-reliant nation through greater export competitiveness, better pricing and quality of exports that exhibit the Indian skill of making things to perfection. (FDIIndia, 2020)

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reliance and industrial policy of the past. According to some economists, this should not also denote a return to the control-licence-permit raj of the past. This might be a latent possibility provided that if one takes into account the fact that functionaries of the state, from the neighbourhood constable to the UHM, have enjoyed unprecedented power, entering the life of every citizen over the past few weeks. For the first time after many years, the terms for the normal functioning of civil society and the economy is set by the bureaucracy. It is certain that this has been reversed. Therefore, any return to greater state activism or greater governmental activism (in the economy, in need of adequate financial resources, which means that the GOI has to limit its activism to the most important sectors) has to ensure that GOI does not once again become a constraint on growth and more intrusive and burdensome, but facilitates and enables it. It is required that the GOI be more supportive of the citizen and enterprise, in cities and villages a during the process of post-lockdown state governments at the centre and in the states- and its business be not in the business. (Baru, 2020)

**CHAPTER 7**

### 7.1. Outward foreign direct investments by Indian firms

OFDI is considered to be one of the foremost steps to enter the global marketplace and in recent times, necessary steps have been taken by India with the view to make its presence felt in the global arena. (IBEF, 2020a) In India, OFDI is deemed as an investment by below-mentioned capital of an Indian firm: (i) NRE; and (ii) person resident outside India. (Goyal, D., 2016; IBEF, 2020a) In a great number of cases, Indian firms especially prefer to use OFDI as a means of establishing trade supporting infrastructure in overseas markets to increase its non-price segment of competitiveness. (Pradhan, J.P., 2005; Paul, 2012) It is also evident that there is a contrast in the nature of OFDI between the pre-liberalization and post-liberalization phases where the period from 1975 to 1990 is frequently viewed as the first wave and the economic policies of India is inward-looking that was marked by a reluctant approach to international trade and IFDIs into the country (Pradhan, 2003, quoted in Shodhganga, 2015) and that from 1991 the second wave of internationalization of Indian firms. (Pradhan, 2003, quoted in Shodhganga, 2015; Chaudhry, D. et al., 2018; please see, Shodhganga, 2015)

According to Hansen (2010), a classical presentation of OFDIs by Indian firms in historical perspective is divided into three phases. (Hansen, 2010) The first phase in the 1970s and 1980s was chiefly driven by modest investments that were made in JVs in Asia and Africa and was formed and designed by political and regulatory restrictive government policies. The second phase was deemed as a start-up phase in the 1990s and early 2000s which was largely considered to be an outcome of more liberal government stance on (I/O)FDI. The third was regarded as a take-off phase (from early 2000s on) when OFDIs by Indian firms exhibited a totally different trend as compared to the previous two phases in association with growth, industrial composition, and geographical orientation. (Hansen, 2010; Andreff, 2015) But, I will describe the process of evolution of internationalization of Indian firms by dint of OFDIs by Indian firms as the following phases: (i) the first phase of internationalization in the 1950s and 1960s; (ii) the second phase of internationalization in the 1970s and 1980s; (iii) the third phase of internationalization in the 1990s; and (iv) the fourth phase of internationalization in the 2000s. In this regard, the first and second phase of internationalization will be viewed as the pre-liberalization phases and the third and fourth phase will be deemed as the post-liberalization phases.

#### 7.1.1. The first phase of internationalization in the 1950s and 1960s

Indian firms have traditionally assumed a tremendous focus on organic growth. Even when the strategy had been to grow inorganically, it most times involved domestic M&As. (EXIM, 2014) It is known that OFDIs by Indian firms can be traced back to either 1950s (Athukorala, 2009) or the early 1960s, historically and originally. (Athukorala, 2009; Chaudhry, D. et al., 2018)

However, since the year 1857, the first firm has been registered to date and India has 14.41 Lakh registered firms with the Registrar of Corporate Affairs, MCA(s), and GOI.<sup>39</sup> In order to understand the issue of the industrial base in India, the trends in domestic industries may provide some answers as to why Indian firms were in need of investing outside India. (Kallummal et al., 2016)

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<sup>39</sup>Annexure-3: total registered firms in India since the year 1857 contains all firms registered during the period from 1857 to 2014 irrespective of the current status of the firm. Since the year 1857, there have been total registered firms in India (Source: compiled by the authors from MCAs and GOI). (Kallummal et al., 2016)

In India, early initiators of OFDIs were the private sector firms. (Shodhganga, 2015)<sup>40</sup> They expanded production bases through their investments in trans-border (Lall, S., 1983; Pradhan, J.P., 2005) or outward or cross-border activities (Chaudhry, D. et al., 2018) in Sri Lanka and a considerable number of African countries which had emerged as attractive investment destinations for a selected number of Indian business conglomerates (Chaudhry, D. et al., 2018). (Lall, S., 1983; Pradhan, J.P., 2005; Chaudhry, D. et al., 2018) In the year 1959, India tasted the first OFDI through the first overseas Indian venture, which was a textile mill set-up in Ethiopia by the large Indian conglomerate Birla Group of firms (Ghouse & Aslam, 2010), which was also known as the second largest business conglomerate of India at the time. (Kudaisya, 2003; Ghouse & Aslam, 2010) In the succeeding year, the Birla Group established an engineering unit in Kenya (Lall, R.B., 1986; Pradhan, J.P., 2005) and a textile factory at Addis Ababa, Ethiopia and a WOS, namely Tata International AG was established by the Tata group at Zug, Switzerland in 1961 and the next overseas project was the starting of an assembly plant for sewing machines (a sewing machine assembly plant (Lall, R.B., 1986; Athukorala & Veeramani, 2016) by the Shriram Group at Ratmalana, Sri Lanka, in the year 1962 (Shodhganga, 2015)<sup>41</sup>, and further the Kirloskar (Chaudhry, D. et al., 2018) started to export Diesel pump sets into Egypt, with an initial order of 150 units. (Africanfarming, 2013; Lall, R.B., 1986; Pradhan, J.P., 2005; Ghouse & Aslam, 2010; Shodhganga, 2015; Athukorala & Veeramani, 2016; Chaudhry, D. et al., 2018)

In the early 1960s, Indian firms initially emerged as Indian Transnational Corporations (ITNCs); or Multinational Companies or Corporations (IMNCs) in the international arena, which can be regarded as a early-1960s phenomenon (Lall, S., 1983; Pradhan, J.P., 2005) during the period when huge Indian conglomerates ventured outside the country, as one of the earliest South-South investment projects (EXIM, 2014), and as a constituent part of this process and have developed rapidly. However, this was merely far and few (EXIM, 2014) and the greatest number of the foreign affiliates established by Indian firms during the ensuing two decades were attributed to the small- or medium-scale ventures and annual total OFDIs continued to be small and stood at the range of US\$ 3 to 5 Million. (Lall, S., 1983; Pradhan, J.P., 2005; EXIM, 2014; Athukorala & Veeramani, 2016) Especially, despite only a very small percentage of total OFDIs by Indian firms, a secure and firm position provided a base for further progress and advancement having assumed by a few Indian firms through OFDIs during this period. (EXIM, 2014) Since then, one has observed a continual growth of IMNC activities over time with continuous changes in the nature, characteristics and motivations of such activities. (Lall, S., 1983; Pradhan, J.P., 2005; Athukorala & Veeramani, 2016) A few Indian firms have continually

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<sup>40</sup>Indian industries and firms extremely relied on domestic markets and operated with a production base that was marked by inadequate scale and over diversification, insufficient technological capabilities, poor product quality and low productivity growth. This behaviour of Indian firms was to a perfect degree in conformity with the inward-looking policy and controlled industrial productive system that was adopted and implemented in the 1960s. Thus, they were taken to be inward-looking, seeking protection from IFDI, and imports. (Pradhan, J.P., 2017)

<sup>41</sup>The 1960s were one of the most important and significant decades in Indian history that was marked by the sustainable low-growth phase that was initially observed in the 1960s remained the same in the 1970s (Pradhan, J.P., 2017) and the Indian firms that began investing overseas. Although India's restrictive policies for overseas investment limited them to small, minority JVs in developing economies. (Singh, S.B., 2017)

invested abroad in the mid-1960s. (EXIM, 2014) In the year 1969, the GOI issued the first policy that was aimed at approving and monitoring OFDI.

OFDIs that were made by Indian firms was allowed merely in minority-owned JVs abroad, if the foreign government and foreign partner firm did not long for otherwise. In respect of the mode of financing of such projects, the government imposed severe restrictions on cash remittances for equity participation and merely stimulated and promoted the export of capital equipment that was provided by India. (Athukorala & Veeramani, 2016) The introduction of the MRTPs Act in 1969 led to hostile political environment for the functioning of large private-owned Indian firms. (Chaudhry, D. et al., 2018) In the year 1969 at a time when the Indian political leadership was bent on restricting the growth of monopoly houses, rapid overseas expansion of Birla Group, which made the first move to build its overseas business empire in the late 1950s in anticipation of oncoming trade and exchange controls, began. That year, Aditya Birla (then manager of Hindalco) ventured into Thailand to establish Indo-Thai Synthetics Limited with a capacity of 12,000 spindles, and then he established a rayon manufacturing unit in Thailand with a capacity of 24 tons. (Athukorala, 2009)

### **7.1.2. The second phase of internationalization in the 1970s and 1980s**

One observed the start of a sustained growth in Indian overseas investment during 1970s when the industrial licensing system became more rigid and stringent as part of the governmental move to control big businesses (Ghouse & Aslam, 2010). In actual fact, India has been able to be emerged as an important overseas investor due to the followings: (i) rapid economic growth; (ii) easy access to financial resources; and (iii) strong motivations to acquire resources and strategic assets abroad. (Ghouse & Aslam, 2010; Singh, S.B., 2017) The sustainable low growth phase remained the same in the 1970s when OFDIs by Indian firms developed (Andreff, 2015). (Andreff, 2015; Pradhan, J.P., 2017) In the year 1973, FERA was put into effect, covered the overall regulation of Indian JVs (IJVs) (Ranganathan, 1988), and continued to lead to the same political environment that was provided by the enacted MRTPs Act. Furthermore, to lead to the expansion of production to new overseas destinations, an additional thrust to domestic firms within the country was given by a rise in costs of local and imported inputs and retarded growth of national economy. (Ranganathan, 1988; Chaudhry, D. et al., 2018)

In the mid-1970s, the knowledge-based industries, such as pharmaceutical and software, to lead to the creation of capabilities, which later graduated to the next level of learning by capitalizing technological advantage through liberalized regime, has been aided by the GOI (Sauvant et al., 2010). India underwent the experience of the surge in domestic market-driven investments, led to the accumulation of technological skills, and later explored dynamic links between the process of growth and technological up-gradation through strategic JVs and acquisition of technology portfolios in developed countries (Bhagat et al., 2011) that yield better stock returns (Gubbi et al., 2010; Kohli & Mann, 2012). (Sauvant et al., 2010; Gubbi et al., 2010; Bhagat et al., 2011; Kohli & Mann, 2012; Kaushal, 2018) One can witness a rapid increase and systematic rise in the number of overseas ventures from the late 1970s when the industrial licensing system became much more unfavourable for Indian firms (Chaudhry, D. et al., 2018), and further got much more stringent as a component of the governmental movement to command control over big businesses. (Lall, R.B., 1986; Athukorala & Veeramani, 2016; Chaudhry, D. et al., 2018) Kumar, N. (2007) asserted that the greatest number of the foreign affiliates were initially established in the year 1975<sup>42</sup>. (Kumar, N., 2007; Ghouse & Aslam, 2010)

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<sup>42</sup>It was known that there existed no a descriptive analysis through the available OFDI data sources since OFDIs by Indian firms was miniscule and sporadic and frequently remained

Due to liberalization of (I/O)FDI policy, Indian firms invested abroad by dint of under stringent conditions that were fixed by the state, namely with the objective of developing JVs with foreign partners rather than WOSs. OFDIs by Indian firms eventually reached a peak between the years 1976 and 1977, then slowed down. At the moment, Indian OFDI was felt-namely, by the GOI-as a tool for export promotion in particular in the equipment goods industry. This led to market seeking OFDI primarily in not only neighbouring host countries like Malaysia, Indonesia, Singapore, and Thailand, and other Asian developing countries, but also in the Middle-East and a few African countries, with a focus on countries which obtain a significant number of people with Indian origins as local residents, as well as slightly in the UK and the USA. (Andreff, 2015)

**Table 7.1.2.1: FDI: OFDI flows and stocks, annual (UNCTAD, 2019b)**

Year	Direction-Outward Mode-FDI Stock	Direction-Outward Mode-FDI Flow
1980	78,07079	4
1981	80,07079	2
1982	81,07079	1
1983	86,07079	5
1984	90,07079	4
1985	93,07079	3
1986	92,07079	-1
1987	97,07079	5
1988	108,0708	11
1989	118,0708	10

**Note:** There are no data for the period from 1970 to 1979.

Until the 1980s, the sustainable low growth phase continually remained the same and Indian industries and firms were extremely and continually dependent on domestic markets and operated with a production base (Pradhan, J.P., 2017), and also India attempted to foster and enhance economic cooperation among developing countries, with a particular focus on increasing the strength of trade and investment links. The spirit of South-South cooperation became an inspiration for its OFDI and IMNCs provided a majority of OFDI projects that placed a special emphasis on the developing region. (Ranganathan, 1988; Pradhan, 2008a and 2008b; Pradhan, J.P., 2017) The objective of this policy was to promote Indian investments in the form of exports of machinery and equipment from India, principally and mainly by dint of JV operation. (ASEAN, 2017) The greatest number of the foreign affiliates were continually established in the 1980s, and also they were comprised of small- or medium-scale ventures. (Nagaraj, 2006) Compared to other MNCs of Brazil, Russia, India and China (BRIC), the Indian ones where the major IMNCs in the 1980s were Birla, Thapar (Lall, R.B., 1986; Athukorala & Veeramani, 2016), Tata Group, JK Group, Modi, Hindustan Machine Tools, Usha Martin Black, Kirloskar, Shahibag, Godrej, Larsen&Toubro, Sarabhai, Indian Tobacco, Mahindra&Mahindra, NowrosjeeWadia, and Mafatlal, were gaining benefit from a first mover advantage. Some of them were partially or fully state-owned, but most of them were owned by Indian family capital by dint of frequently in collaboration with public financial institutions. Eventually, one might still observe the rather modest size of their OFDIs. In 1980, 82 per cent of OFDIs by Indian

beyond the scope of data-driven analyses until the year 1975. (Chaudhry, Divya et al., 2018) However, in actual fact, one would be able to obtain the data from the year 1980 according to the UNCTAD. (UNCTAD, 2019b)

firms was located in manufacturing industry and 18 per cent in the tertiary sector. In 1982, India acquired 225 JVs in 37 developing and developed countries. (Lall, R.B., 1986; Andreff, 2015; Athukorala & Veeramani, 2016) By 1983, there existed 140 FI projects that were in operation and another 88 projects that were in several different kinds of stages of implementation. (Lall, R.B., 1986; Athukorala, 2009; Ghose & Aslam, 2010; Athukorala & Veeramani, 2016) OFDI criteria were to some extent liberalized in the mid-1980s; however, the basic emphasis on the BOPs implications of the investment projects continued to be largely unaltered during that decade. (Panagariya, 2008; Athukorala & Veeramani, 2016)

### 7.1.3. The third phase of internationalization in the 1990s

A motivation of the Indian (I/O)FDI policy during the first and second phase of its evolution was led by two main objectives: (i) promoting OFDIs by Indian firms as a tool of South-South cooperation; and (ii) maximizing economic gains from OFDI at minimum possible foreign exchange costs to India (Pradhan, J.P., 2005)<sup>43</sup>, but the third phase of internationalization, which targeted (I/O)FDIs (Andreff, 2015), marked a significant transformation process which began with the fact that the GOI initially began recognizing the pivotal role of OFDIs by Indian firms in promoting global business by Indian entrepreneurs, aside from increasing the strength of economic and business cooperation between India and other countries (ASEAN, 2017) and led to a significant shift in a high-growth phase that was visibly and extensively facilitated by the adoption of liberal and open policy measures in terms of the private sector, (I/O)FDI, trade, technology and competition. (Pradhan, J.P., 2005; Andreff, 2015; ASEAN, 2017; Pradhan, J.P., 2017) In actual fact, even at the beginning of the 1990s when the share of India in OFDIs from developing economies was the lowest, OFDIs by Indian firms underwent a remarkable and tremendous change and a perceptible shift not only with respect to magnitude but also with respect to geographical spread and sectorial composition (IBEF, 2019b)<sup>44</sup> if one compares the four large emerging market economies used as comparison Brazil, China, Mexico and South Africa and the total number of projects that were approved had reached 229. (Ghose & Aslam, 2010; IBEF, 2019b) A greatest number of domestic firms underwent the experience of restructuring with the view to lead to the improvement of their inadequate product development capabilities and inefficient industrial expertise to meet the growing global competition. Permitting cash transfer for OFDIs by Indian firms led to a boost to the cross-border production activities of the Indian firms in the 1990s. (Pradhan, 2009, quoted in Shodhganga, 2015)<sup>45</sup> OFDIs by Indian firms had to be in the form of Indian minority participation in order to save Indian currency and capital. (Agarwal, 1981, quoted in Shodhganga, 2015) India had to open up its economy in the early 1990s<sup>46</sup> that followed a major crisis that was caused by a foreign

<sup>43</sup>OFDIs have grown in a rapid manner due to IMNCs in developing countries and this phenomenon has been a significant and crucial characteristics of economic globalization over the last three decades. (Athukorala, 2009)

<sup>44</sup>“The OFDI to developing countries fell sharply from 86 per cent to approximately 40 per cent during this period. Among the developed countries the UK and the USA were the most preferred destinations.” (UNCTAD, 2004, quoted in Shodhganga, 2015)

<sup>45</sup>According to Kumar, N. (2007), the greatest number of the foreign affiliates, which were initially established in the year 1975, were continuously established during the period from 1990 until 1991, and it amounted to merely US\$ 220 Million. (Kumar, N., 2007); Ghose & Aslam, 2010)

<sup>46</sup>India continually followed import-substitution development strategy with strong negative bias to exports until the year 1991. The GOI protected Indian firms from imports and large foreign

exchange crunch that dragged the Indian economy close to defaulting on loans. The foreign exchange reserves of India were exhausted and became used up in an entire manner. To cope with and survive in difficult situations, the government did reach a decision to lead to the main economic reforms that were towards restoring the Indian economy. Such reforms were generally and widely treated as structural adjustments or liberalization or globalization. On July 24, 1991, the GOI publicly introduced a NEP. It is very common that this new model of economic reforms is proposed as the Liberalization, Privatization, Globalization (LPG) model where Liberalization is deemed as the process of making policies less constraining of economic activity and also reduction of tariff or removal of non-tariff barriers; Privatization is treated as the transfer of ownership of property or business from a government to a private owned entity; and Globalization is identified as the expansion of economic activities across political boundaries of nation states. (Ravan, S.V., 2014)

Thus, as a result, the GOI initiated the liberalization-cum-structural adjustment reforms that could be deemed as a visible trace on a clear departure from the state-led import substitution policy that were adopted and implemented in the previous four decades (Panagariya, 2008; Athukorala & Veeramani, 2016), implemented economic liberalization, and hence led to the acceleration of the integration of the Indian economy with the global economy in the subsequent years and the Indian economy was opened to external world and it created new global business opportunities for Indian business enterprises that had accumulated significant levels of created assets including technology, skill, brand-names and marketing advantages. According to Das, K.C. (2015), gradual liberalization of capital account led India to become one of the forerunners from developing countries in investing abroad. (Panagariya, 2008; Das, K.C., 2015; Athukorala & Veeramani, 2016)

This liberalized policy regime<sup>47</sup> has made a contribution to the rise of Indian global OFDIs, i.e., since the early 1990s, the LEP has assumed a positive influence on Indian investments in the ASEAN that was established on 8<sup>th</sup> August, 1967, whose member states are comprised of Brunei Darussalam, Cambodia, Indonesia, Lao *People's Democratic Republic*, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam, and whose Secretariat is based in Jakarta, Indonesia, and that is now deemed as Act East. The goal of this policy is to encourage accelerated engagement of India with ASEAN, as well as with other countries in Asia, on issues of trade, investment, connectivity and related areas. Due to the establishment of new agreements and memoranda of understanding, economic cooperation have been strengthened by the frequent bilateral visits of leaders and policymakers in India and ASEAN. (ASEAN, 2017) OFDI became a preeminent aspect of Indian businesses merely after its economic reforms had

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firms had capability of growing larger by virtue of licensing and anti-monopolistic regimes. Indian guidelines for OFDIs by Indian firms mandated that OFDIs by Indian firms should give support for export and the equity contribution should be in the form of exports of machinery, equipment and know-how. (Pradhan, 2003, quoted in Shodhganga, 2015)

<sup>47</sup>If the (I/O)FDI policy regime cannot be liberalized, then the Indian firms cannot gain the possession of the benefits of such enlarged global business opportunities, and further the process of not only internal but also external liberalization were continually maintained, and hence this led to the heightened competition in the domestic market, thereby imposing the restrictions on the scope for growth of domestic enterprises that are highly dependent merely on the domestic market. The GOI recognized such changes in the business environment, and eventually became very successful in the liberalization of (I/O)FDI policy regime during the 1990s. (Pradhan, J.P., 2005)

been initially adopted and implemented since the year 1991 and the activity of OFDIs by Indian firms has gained momentum since the onset of economic reforms in 1991 (or the initial phase of economic reforms (Shodhganga, 2011)). (Shodhganga, 2011; EXIM, 2014)

The year 1992 marked the relaxation of severe and stringent restrictions on OFDI that can be proposed as a component of the new policy emphasis. In this regard, the first step was regarded as the introduction of an automatic route for OFDI up to US\$ 2 Million with a cash component which did not exceed US\$ 0.5 Million in a block of 3 years. The requirement of minority capital participation was replaced by a requirement to conform to the rules and regulations of the host country. Permission for Indian firms was given by the GOI in respect of the capitalization of service fees and royalties to meet equity participation, to acquire foreign currency loans abroad, and to grant loans to their foreign JVs with Indian parent firms. Additionally, in some cases, direct cash remittances to JVs were allowed. (Kudaisya, 2003; Athukorala & Veeramani, 2016) The continuity of the precise guidelines for IJVs and WOSs abroad that were formulated in 1978 that the basic essence of (I/O)FDI policy was insprituallly based upon the desire of utilizing Indian direct investment abroad as tool of encouraging and contributing the growth of Indian exports, yet in the absence of providing any scope for local capital to shift trans-border by dint of cash remittances continued to be in the same place until the year 1992. Hence, this led the attitude of GOI towards OFDI to cause a dramatic change as a consequence of the changes in developmental parameters of the country. (Pradhan, J.P., 2005) The year 1994 marked the higher levels of involvement with the OFDIs. (Andreff, 2015) However, total OFDIs by Indian firms belonged to a very small percentage until the mid-1990s and liberalization reforms increased the occurrence of a rapid increase in OFDIs by Indian firms in the mid-1990s. (Athukorala, 2009) The third phase of internationalization of Indian firms has been initiated since roughly 1995. (Nagaraj, 2006; Athukorala & Veeramani, 2016) Until the year 1996, the GOI eased capital account restrictions in order to permit Indian firms to raise capital abroad, by way of Eurobonds and GDRs or ADRs, and acquire firms in other countries. (Shodhganga, 2011)

The introduction of stricter protection of intellectual property led a great number of Indian firms to begin undertaking in-house R&D activities in the late 1990s, and began to use the inorganic route of acquisitions to acquire advanced technologies, access new markets, skills, and to enlarge their operations on a global scale. The liberalization of trade and investment regimes in overseas markets, technological changes, changing consumer preferences and the liberalization of (I/O)FDI regime not only at the domestic but also global level, etc. led to a considerable increase in competition in the domestic market, and thus Indian firms were forced to diversify into the global market. The automatic approval route for OFDI projects was established along with successive 77 enhancement of permissible overseas investment ceiling from US\$ 2 Million in 1992 to US\$ 15 Million in 1995, and further to US\$ 50 Million in 2001 for a financial year. (Pradhan, 2009, quoted in Shodhganga, 2015) The main push factors of OFDIs by Indian firms may be summarized as follows: (i) a restrictive business environment in the home country owing to the restrictive domestic policies; (ii) the GOI regulations which placed restriction on the growth and diversification of large firms and sluggish growth in domestic demand; and (iii) OFDI was not viewed as a part of South-South economic and Political Co-operation anymore. (Shodhganga, 2015) The decline in the share of manufacturing sectors during this period has been led by the fall in OFDIs from three largest outward investors of the previous phases, namely fertilizers and pesticides where the share of fertilizer, pesticide and seeds industry ranked as the highest among all manufacturing activities despite its sharp decline (from close to 18 per cent in the first and second phase to 8 per cent in this phase), leather and shoes and iron and steel, and carpet industries (Chaudhry, D. et al., 2018) largely. This phase of the

internationalization through OFDIs marked the emergence of drugs and pharmaceuticals industry as a preminent outward investor whose share in total OFDI increased from 2 per cent of first and second phase of internationalization through OFDIs to 6 per cent in this phase and also the growth of number of Indian firms, which invested abroad (Bruschieri, 2008; Andreff, 2015).<sup>48</sup> Indian firms faced with a downturn of the Indian economy between the years 1998 and 2002 and had to internationalize their operations not only for their survival but with specific strategies for sustained growth (Kant, 2008; Andreff, 2015). Despite a dramatic decline in services sectors that included hotel and restaurant and financial services where financial and leasing services and hotels and tourism became the most important contributors to OFDIs in the first and second phases, yet underwent a steep decline in their share during this phase (Chaudhry, D. et al., 2018), Indian IT or Information Communication Technology industry and software that were the largest overseas investors with 32 per cent of approved OFDI equity of India, and media broadcasting and publishing that accounted for 17 per cent share of approved OFDIs by Indian firms (Chaudhry, D. et al., 2018) emerged as the two largest service sector investors or propeller of OFDI equity of India (Chaudhry, D. et al., 2018) and also the two largest leading outward investors from the economy with 32 per cent and 17 per cent share respectively. The emergence of knowledge-based segment of Indian economy related to such sectors denotes the rapid pace at which India is enhancing global position in knowledge-based economy and that the technological capabilities of Indian enterprises marked the diversification towards basic and frontier research activities under the facilitating role of national innovation system.

In addition, the year 1999 (Pradhan, J.P., 2017) marked the location-wise movement from developing countries, such as the UK and USA to industrialized and developed countries, and resulted in the decline in developing regions, such as the South-East, East Asia, Central Asia, and Africa aside from Latin America that has undergone some improvement in its hosting role from less than 1 per cent to 4 per cent. (Pradhan, J.P., 2003) Thus, it is evident that both sectoral and geographical orientation of OFDIs during this phase brought about the rise of knowledge-based sectors in the Indian economy that attempted to harness opportunities that were offered by service-driven economies in the West. (Pradhan, J.P., 2003; Bruschieri, 2008; Kant, 2008; Andreff, 2015; Pradhan, J.P., 2017; Chaudhry, D. et al., 2018) The relaxation of the government policy on Indian equity participation led the OFDI projects that were approved during this phase to take the form of majority ownership in bulk of the cases. Due to the rapidly and significantly altering and evolving characteristics of its OFDI, OFDIs by Indian firms have emerged as a strategic business decision to overcome constraints from limited home market growth, and to survive in an increasingly competitive business environment. (Pradhan, J.P. & Abraham, 2005; Pradhan, J.P., 2005) There was a remarkable increase in the number of projects that were approved between the years 1990 and 1991 when there were 220 approved projects and there were 395 between the years 1999 and 2000. (Kumar, N., 2008; Ghose & Aslam, 2010)

**Table 7.1.3: FDI: OFDI flows and stocks, annual (UNCTAD, 2019b)**

Year	Direction-Outward Mode-FDI Stock	Direction-Outward Mode-FDI Flow
1990	124,0708	6
1991	113,0708	-11
1992	293,8931	24

<sup>48</sup>Particularly, in the pharmaceutical (Bruschieri, 2008) and automotive industry (Andreff, 2015).

1993	294,2438	0,350641
1994	376,2438	82
1995	495,2438	119
1996	735,2438	240
1997	617,29	113
1998	705,78	47
1999	1665,9	80

#### 7.1.4. The fourth phase of internationalization in the 2000s

During the fourth phase of internationalization in the 2000s, the internationalization of Indian firms gained momentum as foreign exchange restrictions on capital transfers for overseas acquisitions liberalized in successive stages from 2000. (Nagaraj, 2006; Athukorala & Veeramani, 2016) The enactment of FEMA in 2000 further led to the liberalization of the political framework through a systematical increase in per annum upper limits for OFDIs under the automatic route. (Chaudhry, D. et al., 2018) From 2000 through 2020, one can easily witness a steady and rapid increase in OFDIs (Khan, A.H. & Faisal, 2018) where Indian industries are becoming involved in overseas M&As in an increasing manner, i.e., Tata Tea bought the UK-based Tetley, a big acquisition that put the Tata Group on the global map in 2000 and Ranbaxy has made global forms of pharma acquisitions with the process of IT and business during the 2000s. Investments in a broad range of sectors, which include IT, pharmaceutical, steel, food and beverages and services, has been spanned by OFDIs by Indian firms. (WIR, 2008; Khan, A.H. & Faisal, 2018) Between the years 2000 and 2007, the OFDIs by Indian firms has increased. (Athukorala, 2009) Between the years 2000 and 2001, OFDIs by Indian firms amounted to US\$ 678 Million (Singh, S.B., 2017; Khan, A.H. & Faisal, 2018) and at the same time one observed a significant dismantling of foreign exchange restrictions on capital transfers for acquisition of foreign ventures by Indian firms. (Athukorala, 2009) A greatest number of OFDIs by Indian firms, which went to the developing countries, led by a few natural resource investments in Russia in 2001 and Sudan in 2002. (Hansen, 2008, quoted in Shodhganga, 2015)

Home-country institutional support and measures have also played a role in facilitating Indian OFDI, i.e., the Overseas Investment Guarantee of the Export Credit Guarantee Corporation of India Ltd. provides protection for OFDIs by Indian firms in other countries, preferably ones that own bilateral investment protection agreements and state-owned and commercial Indian banks have also provided financing support to OFDIs by Indian firms, i.e., the Indian EXIM bank has encouraged Indian firms, which aim to invest overseas, to establish production facilities and acquire firms abroad. (RBI, 2006; ASEAN, 2017) The year 2003 marked the beginning of a directional shift with OFDIs by Indian firms that targeted the developed countries. (Hansen, 2008, quoted in Shodhganga, 2015)<sup>49</sup> In April 2003, Indian commercial banks were allowed to extend credit or non-credit facilities to Indian JVs and WOSs abroad up to the extent of 10 per cent of their unimpaired capital funds of the bank. (RBI, 2006; ASEAN, 2017) The dismantling of foreign exchange restrictions on capital transfers for acquisition of foreign ventures by Indian firms significantly continued in the period between 2003 and 2004. (Athukorala, 2009) Indian firms have become involved in significant and growing levels of M&As abroad and the share of India has grown faster than those of the comparators over the years. From 2004 through 2005, it surpassed that of South Africa. Overall, there was a surge in OFDIs by Indian firms since about

<sup>49</sup>Over a half of total OFDIs made by Indian firms during the period from 2003 to 2009 went to developed economies. (Hansen, 2008, quoted in Shodhganga, 2015)

2005 (Athukorala, 2009) and Indian firms have been allowed to fund OFDIs by utilizing ECB since the year 2005. (Ghouse & Aslam, 2010) In November 2006, the limit on credit or non-credit facilities to overseas JVs or WOSs got enhanced to 20 per cent of their unimpaired capital funds of the bank. (RBI, 2006; ASEAN, 2017) Thus, subsequently, more Indian cross-border deals are being financed in whole or in part, by foreign banks, in the year 2006. Over the period of 2006 through 2007 one has observed an increase in share in total OFDIs by Indian firms of developing countries (from below 0.5 per cent in the early 1990s to roughly 6 per cent from 2006 through 2007) (Athukorala, 2009), and further the share of India surpassed that of Mexico.

Tata Steel borrowed US\$ 8500 Million in Singapore in a syndicated loan that were involved in 17 Banks to fund growth and acquisitions in South Asia and China. (Ghouse & Aslam, 2010) Between the years 2007 and 2012, the OFDIs by Indian firms have continually increased. (Athukorala, 2009)<sup>50</sup> One could witness the increase in the share of OFDIs in Gross Domestic Capital Formation in India, which was much faster than the other four economies and the average for all developing economies in the year 1994, and it remained the same in the year 2007. One could also observe an increase in total OFDIs by Indian firms, which amounted to approximately US\$ 25 Million in the early 1990s, and accounted for about US\$ 14 Billion in 2007. (Ghouse & Aslam, 2010) In June 2007, Indian commercial banks were allowed to extend term loans to Indian promoters for acquisition of equity in overseas JVs and WOSs, providing the term loans have been approved by the EXIM Bank for refinance. (RBI, 2007; ASEAN, 2017) Among many other fundamental reasons and causes, demonetization can be considered as one of the most important reasons and causes for slow economic growth and development. Additionally, one of the most crucial reason for the remarkable decline in the OFDIs by Indian firms is that the global financial crisis, which is regarded as the period of extreme stress in global financial markets and banking systems between mid-2007 and early 2009 and is also referred to as the deepest recession that the major advanced economies had undergone since the Great Depression in the 1930s, and where rebound from this financial crisis was also much slower than past recessions that were not related to a financial crisis, occurred (RBA, 2019) despite an increase in IFDIs into India. This resulted in the demotion of investment pattern of not only host countries but also foreign countries. (Khan, A.H. & Faisal, 2018; RBA, 2019)<sup>51</sup>

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<sup>50</sup>There were 1595 approved projects from 2007 through 2008. (Kumar, N., 2008; Ghouse & Aslam, 2010) Tata Group had bought over Anglo-Dutch steelmaker Corus for US\$ 12 Billion in the year 2007-a year before the global economic crisis-with the view to become the fifth largest steel firm of the world. Since the Corus acquisition in the year 2007, Tata steel has suffered from the UK business in particular manner, and further Tata Steel Europe has not been able to turn profitable although it has assumed opportunities for numerous job cuts, asset sales and modernization. Although Tata Group has failed to survive in the UK, some of Tata Group's other high profile acquisitions have worked in the global arena. In the year 2008, Tata Motors gained the possession of Jaguar Land Rover from Ford that has since then been the saving grace for Tata Motors, which has failed to revive domestic passenger car sales. (Karnik & Balachandran, 2016)

<sup>51</sup>*"The crisis-and especially the financial crisis with its associated credit crunch-also affects the ability of emerging market firms to invest abroad. Put differently, even if MNCs were not deterred by the deteriorating economic situation in foreign markets, the supply side for OFDI has deteriorated sharply. In particular, the capacity of firms to finance M&As and greenfield investments has declined. Among other reasons, this is the case because international finance is harder to come by due to the credit crunch-a serious bottleneck for firms (e.g., from India) that finance their foreign expansion largely through credits."* (Sauvant et al., 2009)

But, OFDIs by Indian firms has developed and grown so rapidly, particularly since the occurrence of the global financial crisis. (Khan, A.H., 2019) Especially, in 2009, some of the Indian firms began being the strongest Emerging Multinational Corporations or Enterprises (EMNCs or EMNEs). (Athukorala, 2009) This obviously shows that OFDIs made by Indian firms have become one of the most important, influential, and significant components to succeed in entering and penetrating the global marketplace. (IBEF, 2019b) From 2012 to 2013, one observed an obvious decline in the OFDIs by Indian firms that were greatly dropped with that in previous years. (EconomicTimes, 2018) From 2013 to 2014, OFDIs by Indian firms amounted to US\$ 13989 Million. (Singh, S.B., 2017)

According to the RBI (2016), since the year 2016, its policy has been aimed at transfer of technology and skill, sharing of results of R&D, access to wider global market, promotion of brand image, generation of employment and utilization of raw materials available in India and in the host country. (RBI, 2016, p. 3) Apart from an increase in the permitted investment cap, the liberalized (I/O)FDI policy gives consideration to an automatic approval route and eased ownership structure, and entry and establishment conditions. The existing policy permits outward-investing Indian firms to freely decide on either JVs or WOSs. They may either utilize equity contributions from the capitalization of dues from exports of India-made capital goods or invest in any bonafide business activity, aside from real estate and banking. Besides, Indian banks, which operate in India, could establish overseas JVs and WOSs in banking business if they are in possession of clearance under the Banking Regulation Act, 1949.

*“An automatic route was provided where prior approval from the RBI for undertaking OFDIs is not required and the Indian party simply effects the remittances towards such investments through the designated AD. An Indian party is permitted to make investment in overseas entities, not exceeding 400 per cent of the net worth as on the date of last audited balance sheet of the Indian party. However, investment exceeding US\$ 1 Billion in any financial year would require prior approval of the RBI with effect from 03 July, 2014.” (RBI, 2016; ASEAN, 2017)*

During the process of LPG reforms, Indian economic development and growth were observed and maintained with more pace and stability until the currency demonetization that occurred in India in November 2016 and that resulted in the changes in entire equation of all kinds of investments that were made by or by dint of (I/O)FDI. Not only IFDIs but also OFDIs were tremendously affected by the currency demonetization. It was also found that demonetization caused a sudden decrease in cash flow from market, and hence lack of new currency that is available for business transactions, a great number of firms at domestic level as well as international level became unsuccessful in retaining possession of their confidence for further not only IFDIs but also OFDIs.

Although both of them were also deemed as one of the most important and significant sources for the Indian economic stability and development demonetization led India to encounter problems associated with liquidity crunch for foreign payments and IFDIs and one observed and witnessed a more substantial reduction in OFDIs during this time when it became detrimental to confidence of foreign ventures to invite IMNCs to invest within their countries. (Khan, A.H. & Faisal, 2018)<sup>52</sup> One may have witnessed fluctuations in the OFDIs by Indian firms until the year

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<sup>52</sup>It is apparent that some sluggishness in Indian economy occurred during the period of post-demonetization, yet one has observed the momentary recession and the decline in the growth during the process of the analysis conducted by Khan, A.H. (2019). In recent economic scenario in India in the aftermath of demonetization, fall in liquidity and complex tax structure has caused OFDI to terrifically come down, and eventually India has had to experience sharp

2017. The RBI data reveals that India Inc's OFDI amounted to US\$ 3.12 Billion in May 2017 and the OFDIs from IMNCs stood at US\$ 3.56 Billion in April 2018. In May 2018, according to the RBI data, it was demonstrated that the OFDIs by Indian firms into their overseas subsidiaries or JVs fell by 63 per cent to US\$ 1.17 Billion. Cumulatively, the OFDIs by Indian firms in first two months (April-May) of this fiscal amounted to US\$ 4.73 Billion. (Economicstimes, 2018)

**Table 7.1.4.1: FDI: OFDI flows and stocks, annual (UNCTAD, 2019b)**

Year	Direction-Outward Mode-FDI Stock	Direction-Outward Mode-FDI Flow
2000	1733,476	514,4454
2001	2531,754	1397,437
2002	4070,579	1678,039
2003	6073,154	1875,78
2004	7734,425	2175,367
2005	9741,303	2985,488
2006	27035,64	14284,99
2007	44080,35	17233,52
2008	63337,82	21142,47
2009	80839,25	16057,78
2010	96900,6	15947,43
2011	109508,8	12456,16
2012	118072,3	8485,695
2013	119837,5	1678,741
2014	131524	11783,49
2015	139038,3	7572,417
2016	144085,6	5072,36
2017	155175,7	11140,55
2018	166193,4	11037,03

According to the above-table, between the years 2000 and 2018, in terms of OFDI stocks and flows, one could witness a considerable increase in OFDI stocks and flows despite some fluctuations. In March 2019, Infosys announced its plans to acquire 75 per cent stake in ABN AMRO's subsidiary and its stake Russia's PJSC Biosintez to 96.96 per cent was raised by Sun Pharmaceuticals. In August 2019, Sun Pharma entered into licensing agreement with China System Medical Holdings to increase the occurrence of development and commercialization of seven generic products in Mainland China. In September 2019, Liquefied Natural Gas importer Petronet entered into agreement with USA LNG developer Tellurian Inc. and announced the investment of US\$ 2.5 Billion; Reliance Power announced its plans to consider joint venture with Japanese energy major JERA, to jointly establish a 750 MW gas-based combined cycle power project (phase-1) at Meghnaghat in Bangladesh; and Oyo gained the possession of Copenhagen-based data science firm Danamica. This might be considered to be the fast-growing lodging start-up works to expand its business in Europe. (IBEF, 2020a)

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decline in OFDIs between the years 2017 and 2018 by approximately 26 per cent to US\$ 5665.18 Million from US\$ 7657.55 Million between the years 2016 and 2017. (Khan, A.H., 2019)

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In October 2019, India took necessary measures to become a prominent and dominant actor in the global arena. Investment outlook in some of the overseas market seems positive, i.e., in a recent development, the Ministry of External Affairs (MEAs) initiately established a direct sea and air link between India and the Latin American region, as Indian corporates are projected to significantly invest in the mining, oil, IT and pharmaceutical sectors in that region and it is expected that OFDI, which will be made by Indian firms, will be increased by being backed by stable market conditions and considerable impacts of the investments on local economies, and further that the Indian industry will probably raise its revenue in Africa where Indian vital sectors are IT services, infrastructure, agriculture, pharmaceuticals and consumer goods to boost its revenues. (IBEF, 2019b)<sup>53</sup> The data on OFDI for the month of October 2019 that has been released by the RBI will fall not only under automatic route but also the approval route. (RBI, 2019d) In November 2019, PVR Cinemas, which is known as a leading multiplex chain, launched its first property in Sri Lanka. This marks it as its first international venture. In December 2019, Indian Oil Corporation Limited's INDMAX refining technology was licensed to Naftna Industrija Srbije of Serbia for production of higher value products.

In the same period, *Memorandum of Understanding* was signed between the National Small Industries Corporation and Aramco Asia for the development of MSME Ecosystem in India in Oil & Gas sector; Panacea Biotec bagged orders worth around Rs. 170 Crore (US\$ 24.32 Million) from UN agencies, which include UNICEF, for supply of Pentavalent vaccine; and supply chain focussed fintech firm, LivFin, raised US\$ 5 Million of equity capital from German development finance institution DEG. (IBEF, 2020a)<sup>54</sup>

**Table 7.1.4.2: OFDIs by Indian firms from 2000 until 2019 (In terms of US\$) (RBI, 2019c)**

Year	GI	R/D-I	DI to India	FDI by India	NFDI	NPI	Total
2000-2001	4031	0	4031	<b>759</b>	3272	2590	5862
2001-2002	6130	5	6125	<b>1391</b>	4734	1952	6686
2002-2003	5095	59	5036	<b>1819</b>	3217	944	4161
2003-2004	4322	0	4322	<b>1934</b>	2388	11356	13744
2004-2005	6052	65	5987	<b>2274</b>	3713	9287	13000
2005-2006	8962	61	8901	<b>5867</b>	3034	12494	15528
2006-2007	22826	87	22739	<b>15046</b>	7693	7060	14753
2007-2008	34844	116	34729	<b>18835</b>	15893	27433	43326
2008-2009	41903	166	41738	<b>19365</b>	22372	-14030	8342
2009-2010	37746	4637	33109	<b>15143</b>	17966	32396	50362
2010-2011	36047	7018	29029	<b>17195</b>	11834	30293	42127
2011-2012	46552	13599	32952	<b>10892</b>	22061	17170	39231
2012-2013	34298	7345	26953	<b>7134</b>	19819	26891	46711
2013-2014	36047	5284	30763	<b>9199</b>	21564	4822	26386
2014-2015	45147	9864	35283	<b>4031</b>	31251	42205	73456
2015-2016	55559	10652	44907	<b>8886</b>	36021	-4130	31891
2016-2017	60220	18005	42215	<b>6603</b>	35612	7612	43224

<sup>53</sup>As per McKinsey&Co., it is expected that Indian revenues in Africa will rise to US\$ 160 Billion by 2025. (IBEF, 2019b)

<sup>54</sup>Development economists advocated a long time ago that countries that pursued objectives of outward-oriented development strategies are more likely to accomplish the goal of higher rates of economic growth than those that are internationally focused. (Chakraborty, S., 2019)

2017-2018	60974	21544	39431	<b>9144</b>	30286	22115	52401
2018-2019	62001	18699	43302	<b>12590</b>	30712	-618	30094

**Notes:** (i) The above-mentioned abbreviations in Table 7.1.4.2 are summarized as follows: Gross inflows or investments (GIs), Repatriation (R), Disinvestment (D-I), Direct investment (DI), Net FDI (NFDI), Net PI (NPI). (ii) Data for 2018 and 2019 are considered to be provisional. (iii) Data from 1995 and 1996 onwards include acquisition of shares of Indian firms by NRIs under Section 6 of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996. (iv) Data on FDI was revised from 2000 to 2001 with expanded coverage to approach international best practices. (v) Negative (-) sign indicates outflow. (v) Direct investment data for 2006 and 2007 include swap of shares of Rs. 310 Crore. Also see Notes on Tables. The above-table 7.1.4.2 whose data are based upon Table 148: FDI flows from and into India between the years 2000 and 2019 in Handbook of Statistics on the Indian Economy 2018 and 2019 (RBI, 2019c) shows the OFDIs by Indian firms that have been estimated by the RBI during the period from 2000 to 2019 (US\$ Million). (RBI, 2019b; RBI, 2019c)

**Table 7.1.4.3: Summary of OFDIs (Amount\* in US\$ Million) (RBI, October 2019d)**

Month	Equity (1)	Loan (2)	Guarantee issued (3)	Total financial commitment (1+2+3)
October 2018	822.28	631.42	2,589.43	4,043.13
September 2019	400.83	512.60	598.89	1,512.32
October 2019	865.54	429.52	970.11	2,265.17

**Note:** \* shows that the data that was published is provisional and is exposed to the change that is based upon online reporting by AD banks. The above-table will denote the summary of OFDIs released by Foreign Exchange Department Central Office (FEDCO) and Overseas Investment Division (OID). (RBI, 2019d)

#### 7.1.4.1. COVID-19 and outward foreign direct investments by Indian firms

India has taken quick measures in terms of the fight against COVID-19 and has gained worldwide appreciation. The GOI continually ensures that a continuous revision of rules and guidelines will keep up with the COVID-19 situation. (Verma, 2020)

**Table 7.1.4.1.1: Summary of OFDIs based on reporting date-February 2020 (Amount\* in US\$ Million) (RBI, 2020b)**

Month	Equity (1)	Loan (2)	Guarantee issued (3)	Total financial commitment (1+2+3)
February 2020	538,69	1.168,45	678,93	2.386,07

**Table 7.1.4.1.2: Summary of OFDIs based on reporting date-comparative position-March 2019 and 2020 (Amount\* in US\$ Million) (RBI, 2020b)**

Month	Equity (1)	Loan (2)	Guarantee issued (3)	Total financial commitment (1+2+3)
March 2019	1.762,34	536,28	1.813,97	4.112,59
March 2020	537,11	829,82	1.308,26	2.675,19

The above-tables will denote the summary of OFDIs based on reporting date-Comparative position-February 2020 and March 2019 and 2020 that was released by FEDCO and ODI. It should be noted that the data published is considered to be provisional and subject to change that is based on online reporting by AD banks. (RBI, 2020a) By comparison between March 2019 and 2020, one might obviously see the decline in total financial commitment is mainly because of COVID-19, which gave rise to a global lockdown and halt in most of the business activities (Economicstimes, 2020), policies that have been adopted and implemented by the GOI. By comparison between February 2020 and March 2020, one sees a decline in the equity and loan; however, in contrast, one see an increase in the guarantee issued. Thank to the increase in guarantee issued, total financial commitment in March 2020 is more than total financial commitment in February 2020.

According to Ghosh, S. (2020), it is obvious that invocation of offshore guarantees by Indian firms, pressure from overseas lenders, and takeover attempts by deep pocketed foreigners amid plummeting stock and asset prices are considered to be among the concerns creeping in as COVID-19 continually has an impact on business and life. Guarantees are offered by Indian firms in order to secure contracts and lower borrowing cost of overseas subsidiaries and group firms. A great number of those firms are initially fear that liquidity crunch and dip in earnings would be able to cause the situation to be difficult for them. Therefore, they now cannot allay their fears. It has also to be questioned whether they could service their ECBs-frequently unhedged against foreign currency fluctuation-owing to fall in sales and exports. But, according to Gopal Krishna Agarwal, BJP's national spokesperson on economic affairs, even firms with ECBs are under pressure and they expect that COVID-19 will be covered as a force majeure event in order that their obligation might be deferred by them. The three-month moratorium has been given by local lenders on interest and loan repayment, yet offshore banks have not offer such relief. According to Gopal Krishna Agarwal, it is obvious that there exist certain concerns among firms, but it is also recommended that they not fear hostile acquisitions as there are enough laws in India in relation to securities market and competition which do not encourage such takeover bids. In order to fulfil ECB obligations, encashment of offshore guarantees and pressure has become the more immediate worries. According to Moin Ladha, partner at Khaitan&Co., entities are regarded as exploring various options, such as restructuring their overseas borrowings amongst group firms that own a better financial position. In certain cases, such steps are also involved in a specific approval from the RBI. In this regard, according to Ashish Pyasi, Associate Partner at Dhir and Dhir Associates, there exist contracts, guarantees, as well as ECB terms with force majeure provision that might encompass a pandemic like COVID-19.

To give respite from the payment obligations, if government provides some support, either at monetary level or suspension of performance of such obligations for some time in congruence with bilateral treaties, it will make things easier for guarantors. It is certain that this would be take some time. (Economicstimes, 2020; Ghosh, S., 2020) According to Kumaramangalam and Jagdhari (2020), success of firms in the next 18 months will not be determined by their profitability or growth, yet only by their ability to survive and not run out of cash. It is advised by them that firms build a cash runway for at least 18 months, i.e., till September 2021 and all start-ups build a best or planned or worst-case scenario for their revenues and for their costs. (Kumaramangalam & Jagdhari, 2020) In terms of OFDIs, according to an annual tracker released on 7<sup>th</sup> May, 2020, nearly 850 Indian firms are based in the UK, whose combined revenue dwindled to £41.2 Billion from £48 Billion in 2019; however, it has also suggested that Indian businesses and entrepreneurs still remain positive about the future amidst the COVID-19 pandemic that poses the serious challenges and investing in the UK. This demonstrates the

continued importance of the contribution that Indian firms continually assume a great attention to contribute to the UK economy, and thus their optimistic attitude might have been deemed as a feature of the UK-India relationship for the last decades and as a powerful asset as the two countries attempt to strengthen their ties and rebuild their economies once the pandemic has passed. (Sonwalkar, 2020)

In January 2020, US\$ 81.12 Million in its WOSs in the UK was invested by Calleis Infrastructure. In February 2020, US\$ 978.92 Million in its WOSs in Mauritius was invested by Bharti Airtel. (IBEF, 2020a) In March 2020, US\$ 2.70 Billion in overseas businesses were invested by Indian firms. In April 2020, India's OFDI dipped 62 per cent to US\$ 976.14 Million. The fall in OFDI may mostly be attributed to the COVID-19. (Economicstimes, 2020) According to Confederation of Indian Industry, in May 2020, Indian firms tangibly invested approximately US\$ 22 Billion worth of OFDI, which were made by Indian firms in the USA, and led to the creation of 125,000 direct jobs which cover all 50 states, Washington DC and Puerto Rico. According to the report, which was titled Indian Roots, American Soil and was based on a survey which included 155 Indian firms that operate across a range of industries from pharmaceuticals and life sciences to telecommunications and manufacturing in the USA, Texas became the top investment destination for OFDIs by Indian firms and received US\$ 9.5 Billion, followed by New Jersey's US\$ 2.4 Billion and US\$ 1.8 Billion in New York. In Texas, Indian firms created approximately 17,578 jobs, followed by 8,271 jobs in California and 8,057 jobs in New Jersey. Additionally, the report reveals that although 20 USA states received over US\$ 100 Million in investments from these 155 Indian firms, approximately 77 per cent of them intentionally attempted to lead to an increase in investments with 83 per cent which states that they could hire more employees locally over the next five years. According to the survey results, the USA was a preferred investment destination for Indian firms which are making a significant contribution to supporting local jobs. Aside from merely tangible investments and direct jobs, it ostensibly seemed that the actual economic impact of OFDIs by Indian firms in the USA became much larger. Contribution of Indian firms included US\$ 175 Million towards corporate social responsibility (CSR) where the contribution was made by Indian firms to local communities through their CSR initiatives like supporting students, organizing special skill and training programmes and approximately US\$ 900 Million on R&D. (IBEF, 2020d) Eventually, India plans to establish a solar power park in Sri Lanka as part of a strategy to project its presence in the Indian Ocean Region amid Chinese seeks to lure nations into its Belt and Road initiative. India's largest power generation utility NTPC Ltd. plans to establish this project in the island nation under the aegis of International Solar Alliance. (IBEF, 2020f)

**Table 7.1.4.1.3: Summary of OFDIs based on reporting date-comparative position-July 2020 (Amount\* in US\$ Million) (RBI, 2020c)**

Month	Equity (1)	Loan (2)	Guarantee issued (3)	Total financial commitment (1+2+3)
July 2019	537,98	602,63	703,73	1,844,34
June 2020	321,21	162,90	409,07	893,18
July 2020	387,30	303,54	1,827,86	2,518,60

**Note:** \* The data released by FEDCO and ODI is provisional and subject to change which is based on online reporting by AD banks.

**CHAPTER 8**

### 8.1. Types of outward foreign direct investments by firms

Taking into account the types of OFDI, major types of OFDI (UNCTAD, 2006) might be summarized as follows:

- i. **Horizontal or market-seeking OFDI:** the primary motivation for horizontal or market-seeking OFDI is regarded as a desire to acquire market access and evade from possible trade frictions in the host countries. Control or influence over it is exerted by the proximity-concentration trade off in which proximity to the host market eschews trade costs. OFDI of this type takes place when a firm makes a decision on serving foreign market by dint of local production rather than through exports.
- ii. **Vertical or efficiency driven OFDI:** the motivation behind vertical or efficiency driven OFDI in developing countries is international factor price differences. It occurs when a firm divides into fragments of its production process internationally that locates each stage of production in the country where it can be made at the lowest cost.
- iii. **Strategic asset-seeking OFDI:** the strategic asset-seeking OFDI occurs when investors seek to acquire access to internationally recognized brand names and local distribution networks to increase the strength of their international competitive position and also takes place in the form of technology sourcing OFDI when a firm seeks to acquire access to foreign technology by dint of either the acquisition of foreign firms acquired by purchase or the establishment of R&D facilities in foreign centres of excellence.
- iv. **Resource seeking OFDI:** the resource seeking OFDI takes place when a firm defines particular host country locations as an attractive source of natural resources at the lowest cost. It is very common that such OFDI is related to exports of resource-based products from the host country. (UNCTAD, 2006; Herzer, 2011; Paul, 2012)

### 8.2. Entry mode choices of outward foreign direct investments by firms

A firm has been able to provide opportunity for making a decision on investing in a foreign country. If the firm makes a decision on OFDIs, it has to make two choices in regular succession without gaps: (i) whether to acquire or purchase an existing firm or establish the facility; and if it makes a decision on establishing its own facility; and (ii) whether to do it alone by dint of the establishment of a WOS or the engagement of a local partner by dint of the creation of a JV; for instance, entry mode choice. Such decisions are frequently a strategic ones since each choice is abundantly supplied with benefits and risks. Though acquisitions are a fast means of establishing a base for production in an alien environment, they are also piggy-bagged by post-acquisition failures by virtue of technological mismatch, lack of knowledge of the new market and differences in cultures, etc. (Dikova & Witteloostuijn, 2004), and the assets valuation problems prior to acquisition (Harzing, 2002). But, on the other hand, greenfield investments offer a great deal of flexibility and choice in terms of location, plant size, etc. and even permit the firm to keep its trade secrets to itself, with the exception for facilitating propagating corporate cultures abroad. They frequently have the longest gestation period, apart from an increase in the investment risk of the firm. (Brouthers, K.D. & Brouthers, L.E., 2000) in the form of exposure to currency fluctuations (Davidson, 1983) and political and economic stability in the country. (Anderson & Gatignon, 1986; Davidson, 1983; Brouthers, K.D. & Brouthers, L.E., 2000; Harzing, 2002; Dikova & Witteloostuijn, 2004) JVs though facilitate investors to draw on the experience, and resources of local partner that minimizes risks, yet are frequently and abundantly supplied with challenges as the local partner has different capabilities, interests and goals (Dikova & Witteloostuijn, 2004), and also sometimes opportunism behavior. (Gomes-Casseres, 1989; Hennart, 1991a; Dikova & Witteloostuijn, 2004)

Furthermore, like any other partnership concern, there is the risk of the partners' interests, which have changed over time, in JVs. (Chang & Rosenzweig, 2001) Hence, subsequently, each mode is in possession of its benefits and challenges. Due to the OLI framework, one can comprehensively understand the reasons of why a firm becomes more outward-oriented. (Dunning, 2000)

*“Dunning (2000) emphasized on various alternatives ranging from buying and selling of goods in the open market with the non-equity agreement between firms to the integration of intermediate product market to purchase the foreign produce. The entry mode reflects the degree of firms control and ownership in the host country. The firm can either choose to operate with the lowest degree of ownership through the licencing mode termed as externalization or through JVs and WOSs with a certain degree of ownership and control termed as internalization of foreign markets. Internalization benefits accrue to firms by avoiding unnecessary transaction cost in external market and increasing efficiency through intra-firm transactions.” (Dunning, 2000; Kaushal, 2018; please see, Beena, 2018)*

But, there are several kinds of theories that give an explanation of the choice of entry mode of firms (for a brief summary, refer Andersen, 1997). These theories can be summarized as follows: (i) **the behavioural theory of firm**, which is given and developed by Cyert and March (1963) through its underlying assumption that firms remain close to their past practices and routines, give an explanation of that the process of internationalization is gradual and sequential merely. (Cyert & March, 1963) In this sequential learning, the U-model (Uppsala) of internationalization of firm states that: (a) firms seek to move to distant countries only after they have established themselves in markets that are closer to home and the experience that is gained at home is not of a significance in foreign markets (Kogut & Singh, 1988); and (b) the more the knowledge gained about a particular market, the more will be the commitments made in respect of ownership of the establishment that starts from exports to establishing of production facility. (Kogut & Singh, 1988; Arora & Fosfuri, 2000) (ii) **the resource-based view of the firm** given and developed by Wernerfelt (1984) advocates that the heterogeneity in the choice of entry mode results in interplay between an endowment of complementary capabilities of a firm and that there are two kinds of capabilities (Wernerfelt, 1984): (a) downstream capabilities like marketing, distribution and country-specific institutional expertise are not perfectly mobile (or geographically non-fungible) across countries; and (b) upstream capabilities like R&D activities or intangible technology advantages are mobile (i.e., geographically fungible) (Anand & Delios, 2002). In addition, the complementarities between internationally mobile and non-mobile capabilities drive the cross-border M&As or JVs. (Ibid.; Wernerfelt, 1984; Anand & Delios, 2002) (iii) **the syncretic theory**, which is given and developed by Hill et al. (1990) and Contractor (1990), states that different entry modes offer different levels of ownership commitments, degrees of control and risk (Arora & Fosfuri, 2000), i.e., licensing of technology would not be high risk and high ownership and simultaneously would not provide a high degree of control. (Hill et al., 1990; Contractor, 1990; Arora & Fosfuri, 2000) But, WOSs and acquisitions are not low risk, yet would not offer a low degree of control. It is suggested that there are strategic variables, environmental variables and transaction specific variables which lead to the formation of the decision making process of entry mode. (iv) **transaction cost theory**, which is given and developed by Williamson (1979) and formalized by Anderson and Gatignon (1986) and Hennart (1988) for entry choice assumes that the choice between full ownership and partial ownership (i.e., WOS vs. JV) will be dependent on the costs and benefits of sharing ownership, which is relative to that of full ownership, under conditions of considerable risk and uncertainty. (Williamson, 1979; Anderson & Gatignon, 1986; Hennart, 1988) This view argues that JV is preferred rather than WOS when the investing firm imposes

an obligation on complementary assets or intermediate inputs, which include industry specific knowledge, market familiarity, access to technology, distribution network and natural. Hennart (1991a) has used as a basis of the study on transaction cost theory of entry choice and has established and recognized the identity of several key variables for Japanese investment in USA. (Hennart, 1991a) According to him, the imperative for JV will be strong in the following four cases: when parent firm (a) is in possession of little local experience; (b) is in need of gaining an access to local resources; (c) newly extends its business activities into disparate industrial fields; or (d) penetrates a high growth industry. In opposition to what has just been implied, firms, which need to transfer large amount of tacit knowledge, or which constitute the difference in their products by advertizing will give priority and preference to WOS, as the transfer of knowledge and brands are liable to free-riding by the partner. (Anderson & Gatignon, 1986; Hennart, 1991a) General speaking, transaction cost explanation for the entry choice between JV and WOS have been supported by the though studies, which were conducted by Gomes-Casseres (1989), Hennart (1991a), Buckley and Casson (1998), Hennart and Larimo (1998), Makino and Neupert (2000), etc., there were also few studies that were conducted by Hill et al. (1990), Kim, W.C. and Hwang, P. (1992), etc. and that assumed a tremendous focus on the non-transaction cost factors, also including host government restrictions, host country risk and uncertainty, and strategic factors. (Gomes-Casseres, 1989; Hill et al., 1990; Hennart, 1991a; Kim, W.C. & Hwang, P., 1992; Buckley & Casson, 1998; Hennart & Larimo, 1998; Makino & Neupert, 2000) Studies that were conducted by Erramili (1996), Shane (1994) did not find support for transaction cost theory, yet have supposed that the choice is nationality specific, where the role of nationality was more significant than the cultural distance. It is interesting that Hennart and Larimo (1998), Makino and Neupert (2000), etc. refuted the conclusion of such studies since they found cultural distance that had an influence over the entry-choice by dint of transaction cost explanation-to a much greater degree of potent factor than nationality. (Shane, 1994; Erramili, 1996; Hennart & Larimo, 1998; Makino & Neupert, 2000; Kathuria, 2010) Apart from the OFDI being of different types, various instruments can also be taken by them and such can acquire differential economic and commercial impacts that are based upon the sectors of investments. (Kallummal et al., 2016)

### **8.2.1. Entry mode choices of outward foreign direct investments by Indian firms**

In the Indian context, OFDIs in JVs and WOSs would be able to be made both through the automatic route as well as the approval route. In the case of OFDIs, data on direct investment in equities, loans and guarantees extended is captured by the RBI. Under the automatic route, an Indian entity is allowed to make investment in overseas JVs or WOSs which is not exceeding 400 per cent of its net worth, subject to certain exemptions, which has included investment that is made out of balances that are held in the Exchange Earners' Foreign Currency (EEFC) account of the Indian party or out of funds raised through ADRs and GDRs. It is mandated that the Indian party approach an AD Category-I bank with an application in Form OFDI and the prescribed enclosures or documents to affect remittances towards these kinds of investments. Reporting might electronically be done by the ADs to the Foreign Exchange Department of the RBI through Overseas Investment Application Software as and when the Indian firms makes remittance. (Shodhganga, 2015) Prior to the year 1978, despite the governmental permission for IJVs abroad, the policy regime that governed OFDI was yet to lead to a concrete shape. The evolution of the Indian governmental regulatory framework towards Indian direct investment in JVs and WOSs abroad in the distinct phases since the year 1978 has been able to be observed. In 1978, the GOI formulated the precise guidelines for IJVs and WOSs abroad. Ranganathan (1988) mentioned that registered Indian firms under the Companies Act, 1956 were permitted

by the 1978 OFDI guidelines.<sup>55</sup> (Ranganathan, 1988; Pradhan, J.P., 2005) Until approximately the mid-1990s, greenfield investment was the most noticeable norm for the OFDIs by Indian firms that operate overseas. However, during this period, no recorded cases of overseas acquisitions can be found. Having been provided with the nature of terms and conditions, which is applicable to the OFDI, all foreign affiliates, which were established during this period, were comprised of JVs, commonly and especially with minority ownership. This can be viewed as a reflection of foreign exchange restrictions on capital outflows, a disproportionately large share of equity took the form of capital goods that are exported by the parent firms. (Kallummal et al., 2016) At the end of mid-1990s, greenfield investment was the major norm for the Indian firms, some of whose operations moved to the developed countries rather than the developing countries and any case was set down in permanent form of overseas acquisitions. Taken into account the nature of terms and conditions which are applicable to OFDIs, all cases that were recorded during this year were considered JVs, especially and generally with minority ownership. In essential, acquiring full ownership has become the mode of entry in most of the large acquisitions in developed economies while acquiring minority ownership occurred merely in less than 15 per cent of cases and minority ownership is commonly and largely restricted to acquisition in developing and transitional economies. (Ghouse & Aslam, 2010; please see, Kallummal et al., 2016) According to a study conducted by the the Federation of Indian Chambers of Commerce and Industry (FICCI), which was known as the largest and oldest apex business organization in India and established in the year 1927 (Ghouse & Aslam, 2010), (FICCI, 2006), 68 per cent of acquisitions provided by Indian firms between the years 2000 and 2006 had been involved in acquisition of full ownership (i.e., OFDIs by Indian firms were chiefly driven by M&As with their number increasing from a meagre 37 deals in the year 2001 to more than 170 deals in the year 2006 (Assocham, 2007, quoted in Shodhganga, 2015) and had been treated as the mode of entry in most of the large acquisitions in developed economies (Ghouse & Aslam, 2010). (Hansen, 2008, quoted in Shodhganga, 2015)<sup>56</sup> Between the years

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<sup>55</sup>The 1978 OFDI guidelines underlined in the South-South cooperation, whose roots were originally and historically linked to the country's struggle for political independence from the colonial rule, required that Indian equity participation would have to be in accordance with the rules and regulations of the host country in order to undertake overseas direct investment. (Ranganathan, 1988; Pradhan, J.P., 2005)

<sup>56</sup>Acquisitions began to be increasingly viewed as less risky mode of foreign market entry and an easier method of acquiring new technology skills experience and marketing intangible assets. (Pradhan & Abraham, 2005, quoted in Shodhganga, 2015; Pradhan & Alakshendra, 2006, quoted in Shodhganga, 2015) In 2002 and 2009, Indian firms have systematically gained possession of leading developed country firms to give a rapid boost their domain expertise, technological competitiveness, market size, and brand recognition. In some cases, specifically, such acquisitions were undertaken to attain global size and status, and to create new competitive advantages by 78 combining the best international technology with low-cost Indian labour. Energy and mineral security have driven large greenfield investments in developing countries, although a great number of telecom, consumer goods, food, IT, metal, and power firms were also utilizing M&As to build market size or secure raw materials in such countries. (Aykut & Goldstein, 2006, quoted in Shodhganga, 2015) Some of the recent mega deals contained Mittal's acquisition of Arcelor in 2006. (Hansen, 2008, quoted in Shodhganga, 2015) In particular, the M&A strategies had been popular in the pharmaceutical and the software industries. (UNCTAD, 2005, quoted in Shodhganga, 2015)

2000 and 2008, one could observe an increase in the total number of acquisitions, i.e., from 25 in the year 2000 to 277 in the year 2008.

Since approximately 2004, the expansion of OFDIs made by Indian firms has primarily and preponderantly taken the form of acquisitions. (FICCI, 2006; Assocham, 2007, quoted in Shodhganga, 2015; Hansen, 2008, quoted in Shodhganga, 2015; Ghose & Aslam, 2010; please see, Kallummal et al., 2016) A greatest number of total OFDIs made by Indian firms was in the form of M&As and greenfield investments during the period between 2002 to 2005. (Hansen, 2008, quoted in Shodhganga, 2015) From 2005 to 2006, OFDIs made by Indian firms were chiefly prone to the way of equities and loans. Between the years 2005 and 2008, the value of total acquisitions accounted for US\$ 22 Billion, roughly 80 per cent of Indian total reports OFDIs (Kallummal et al., 2016) From 2006 to 2007, funding of OFDIs made by issues of guarantee additionally became a significant way for Indian firms. (Singh, S.B., 2017) From 2007 to 2008 when the global financial crisis occurred, foreign acquisitions that were provided by Indian firms resulted in an increase at a much faster rate by comparison with the average developing country experience, India became the fourth largest overseas business acquirer country among the developing and transitional economies after Singapore, UAE, and Russia (Athukorala, 2009), and eventually Indian share in total valued of developing economy acquisition (7 per cent) became larger than those of China (5 per cent) and Brazil (5.8 per cent). The new development foreign ventures also preferred to shift toward full ownership. (Athukorala, 2009; Ghose & Aslam, 2010)

In along with this new development, the ownership structure of foreign ventures also shifted toward majority and full ownership. Furthermore, such development brought about in an increase in foreign acquisitions that were provided by Indian firms, i.e., at a much faster rate by comparison with the average developing country experience. (Athukorala, 2009) A greatest number of total OFDIs made by Indian firms was continually in the form of M&As and greenfield investments until the year 2009. (Hansen, 2008, quoted in Shodhganga, 2015) It seems that Indian firms have placed a high value on M&As, which do not imply infusion of a new capital into in case of the means of re-invested earnings and intra-company loans, rather than large greenfields projects, and as a result this has led to an increase in the volume of IFDIs into the country. (Anitha, 2012) One observed a decline in the share of financing OFDIs by dint of equities, from 88.8 per cent from 2000 to 2001 to 73.4 per cent from 2013 to 2014; but, one witnessed an increase in the share of loans in financing OFDIs made by Indian firms, from 10.5 per cent to 26.4 per cent during the corresponding period, and a substantial increase in the financing of OFDIs made by Indian firms by means of issue of guarantee, from mere US\$ 113 Million from 2000 to 2001 to US\$ 22980 Million from 2013 to 2014. (Singh, S.B., 2017) During the period from 2014 to 2015 (also during the period from 2007 to 2008), the OFDIs made by Indian firms were largely and mainly comprised of an upper hand of WOS with an average of 76 per cent shares and the other route the JV amounted only to 24 per cent shares.<sup>57</sup> It can be seen that the JV has been increasing growth rates of 34 percentages while the WOS has risen merely 10.4 percentages. The OFDIs made by Indian firms have witnessed a shift from the domination of the WOS in the initial years towards an increase in the shares by the JV in the composition. (Kallummal et al., 2016) OFDIs, which were made by India firms to developed countries, have chiefly been through M&As, while the mode of entry to developing economies

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<sup>57</sup>“In the context of India, a number of foreign firms, which started as JV, now work independently as WOS. The notable examples include Mahindra-Ford (now Ford India), Kirloskar-Toyota (now Toyota India), TVS-Suzuki (now Suzuki India) etc.” (Hennart, 1991a; Makino & Neupert, 2000; Kathuria, 2010)

has chiefly been through greenfield investments. The main reason for mode of M&As in developed economies is that markets are considered to be mature there and firms preferably are prone to gain market share through acquisitions rather than greenfield investments.

It seems that the real GDP growth in host countries and an efficient governance system in host countries is considered to be the major driver of OFDIs by Indian firms and inflation rate in host economy is also ignored while making a decision on the location of OFDIs by Indian firms. (Singh, S.B., 2017) Another noteworthy feature in 2016 and 2017 was the rise in the amount of non-fund mode of financing OFDI that occurs through guarantees that are issued by parent enterprises in India to their affiliates abroad. Although this mode has exceeded the levels of fund-related modes (equity and debt), which has led to a remarkable increase in the level of financial commitment in a subsequent manner, in an increasing manner, actual OFDIs have continually become much lower as the invocation of such issued guarantees has been negligible. (Khan, H.R., 2012; Rajan & Yanamandra, 2015; Chaudhry, D. et al., 2018) In May 2018, of the total investment by Indian firms in overseas ventures, US\$ 374.18 Million was in the form of equity infusion, US\$ 162.96 Million in loan and US\$ 630.45 Million as guarantee issuances, as per RBI data. Indiabulls Real Estate (US\$ 368.09 Million), Oil and Natural Gas Commission (ONGC) (US\$ 57.94 Million), Tata HitachiNSE 0.85 per cent Construction Machinery (US\$ 26.62 Million), and Wadhawan Global Capital (US\$ 15.23 Million) were also among the major firms which had made investment in their overseas subsidiaries or JVs. (Economicstimes, 2018)

According to OFDIs made by Indian firms from dates October 01, 2019 to October 30, 2019, which displays the data on the OFDIs by Indian firms that was released by FEDCO and ODI and also covers the entry mode choices of OFDIs by Indian firms that establish a *WOS* or enter into a *JV* (RBI, 2019d), is comprised of 484 Indian Parties. (RBI, 2019d) In the top ten of the OFDIs by Indian firms, some firms that consist of 3D Technopak Limited that is ranked number 1, Abhimanyu Baldevsingh Singh that is ranked number 6, and Adani Green Energy Ltd. that is ranked number 10 enter into a *JV*, while the other firms are prone to establish their *WOSs*. According to the data being provisional and subject to change based on reporting by banks, from the RBI on OFDI, during April 2019, approximately US\$ 2.56 Billion in their *JVs* or *WOSs* was invested by Indian firms. (Economicstimes, 2020)

According to OFDIs made by Indian firms from dates November 01, 2019 to November 30, 2019, which shows the data on the OFDIs by Indian firms that was released by FEDCO and ODI and also includes the entry mode choices of OFDIs by Indian firms that establish a *WOS* or enter into a *JV* (RBI, 2019e), 552 Indian parties prefer to invest abroad. (RBI, 2019e) Half of the top ten rankings are *WOSs*, while half of the top ten rankings are *JVs*. According to the ranks, the first three top ten rankings have also changed. Of the total investment by Indian firms in April 2020 and 2021, US\$ 586.42 Million was in the form of loans, US\$ 230.81 Million was equity infusion; however, US\$ 158.91 Million was in the form of issuance of guarantees, the data showed. (RBI, 2019d; RBI, 2019e; Economicstimes, 2020)

### 8.3. Geographical distribution and sectoral composition

#### 8.3.1. Geographical distribution of outward foreign direct investments

In general, Indian firms primarily and predominantly are inclined to seek technological assets in developed countries<sup>58</sup> and natural resources in developing countries, which are driven by

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<sup>58</sup>I.e., according to Sauviant et al. (2010), India's long tradition of economic relations with Germany and the access to German market and skilled labours are considered a crucial factor behind India's overseas German investments. (Sauviant et al., 2010)

institutional transitions and banking and financial markets development in the home country, and host market attractiveness with respect to resources, strategic assets, market expansion, bilateral investment treaties, and (I/O)FDI openness.

Host market attractiveness with regard to resources, strategic assets, market expansion, bilateral investment treaties and (I/O)FDI openness are deemed as the most sought-after motives of internationalization by the IMNCs. (Sauvant et al., 2010; Nayyar, 2008; Sun et al., 2012; Bhasin & Jain, V., 2015; Das, K.C. & Banik, 2015; Duysters et al., 2015; Gubbi, 2015; Reddy et al., 2015; Kaushal, 2018) Before the 1990s, policies in India, which were being different from the policies in other developing countries, were highly and evidently prone to promote (I/O)FDIs and technology transfer amongst themselves under the overall objective of enhancing South-South cooperation (Wells, 1983); for instance, in terms of OFDIs made by Indian firms, South-South trade promotion has caused the presence of IMNCs in Africa ever since the 1960s to the phenomenal OFDIs made by Indian firms (Kaushal, 2018), the surge in OFDIs by Indian firms to Africa is a new form of South-South cooperation. (Wells, 1983; Kallummal et al., 2016; Kaushal, 2018) In general, host developing countries preferred the EMNCs to developed country MNCs. Hence, in the 1970s and 1980s, the Indian Emerging Multinational Corporations or Enterprises (IEMNCs or IEMNEs) mainly and characterically assumed a heavy focus on OFDI into developing countries. From 1961 to 1989, OFDIs made by Indian firms amounted to US\$ 73 Million (Kallummal et al., 2016) and host countries from the developing world amounted to 82 per cent of OFDIs made by Indian firms. (Pradhan & Sauvant, 2010; Kallummal et al., 2016; Singh, S.B., 2017)

According to Nunnenkamp et al. (2012), who had focused on the determinants of OFDIs of IEMNCs with the help of a gravity model, it demonstrates that a search of resources or superior technologies hardly gives an explanation of OFDIs of IEMNCs, and it is highly apparent that market-related factors have dominated the location choices of Indian direct investors and that larger Indian Diaspora in the host countries attracted OFDI of IEMNCs. (Nunnenkamp et al., 2012; Singh, S.B., 2017) The bulk of their OFDIs was intra-regional, mainly in neighboring countries. The general pattern of third-world concentration was shared by Indian subsidiaries; however, they were considered to be unique for their wider spread within the developing world. (Encarnation, 1982; Lall, R.B., 1986) During this period, IEMNCs geographically spanned latest in East Africa, Middle East, and South and East Asia that were dependent on the Indian Diaspora in such economies forging JVs operations. India accorded a share in a colonial heritage and familiarity with operating within restrictive trade and investment policy regimes to such economies. In this regard, its operations are different from operations of EMNCs from the East Asian economies and those from Latin American economies since they assumed such heavy focus on their neighboring economies within their own region. (Diaz-Alejandro, 1977; Wells, 1983; Cuervo-Cazurra, 2008; Athukorala, 2009)

**Table 8.3.1.1: Regional distribution of OFDIs by Indian firms during the second phase of internationalization in the 1970s and 1980s. (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018)**

<b>Regions</b>	<b>No. of approvals (% of total)</b>	<b>Approved equity (% of total)</b>
<b>South-East and East Asia</b>	29.3	36.3
<b>South Asia</b>	13.1	9.4
<b>Pacific Islands</b>	1.3	0.1
<b>Africa</b>	12.7	17.0
<b>West Africa</b>	8.3	9.7

<b>Central Asia</b>	1.8	10.4
<b>Latin America and the Caribbean</b>	0.9	0.3
<b>Developing Countries</b>	72.1	86.1
<b>Western Europe</b>	17.5	7.8
<b>North America</b>	10.0	6.1
<b>Oceania</b>	0.4	0.0
<b>Developed Countries</b>	28.0	13.9
<b>Total</b>	100.0	100.0

The above-table exhibits the regional distribution of OFDIs by Indian firms during the second phase of internationalization in the 1970s and 1980s. During this period, regional distribution of OFDIs made by Indian firms might be concluded according to their rankings: South-East and East Asia, South Asia, Pacific Islands, Africa, West Asia, Central Asia, Central and East Europe, Latin America and the Caribbean, Developing Countries, Western Europe, North America, Oceania, and finally Developed Countries. (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018)

**Table 8.3.1.2: Top-20 host countries of OFDIs by Indian firms during the second phase of internationalization in the 1970s and 1980s. (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018)**

<b>Host countries</b>	<b>No. of approvals (% of total)</b>	<b>Approved equity (% of total)</b>
<b>Thailand</b>	6.1	12.4
<b>Singapore</b>	8.3	11.9
<b>Kazakhstan</b>	0.9	9.6
<b>Senegal</b>	0.4	7.4
<b>UK</b>	13.5	6.4
<b>USA</b>	10.0	6.1
<b>Indonesia</b>	3.9	5.7
<b>Malaysia</b>	7.4	5.5
<b>Sri Lanka</b>	7.0	4.5
<b>Nigeria</b>	5.7	4.2
<b>Nepal</b>	5.7	4.1
<b>Kenya</b>	3.1	2.0
<b>Russia</b>	3.5	1.9
<b>Saudi Arabia</b>	1.8	1.4
<b>UAE</b>	3.5	1.0
<b>Bangladesh</b>	0.4	0.9
<b>Egypt</b>	0.9	0.5
<b>Bahrain</b>	1.3	0.5
<b>Uzbekistan</b>	0.4	0.3
<b>Panama</b>	0.9	0.3
<b>Subtotal (top-20)</b>	84.7	86.2
<b>All Countries</b>	100.0	100.0

Top-20 host countries of OFDIs, which were made by Indian firms from 1975 until the end of 1980, consisted of Thailand, Singapore, Kazakhstan, Senegal, UK, USA, Indonesia, Malaysia, Sri Lanka, Nigeria, Nepal, Kenya, Russia, Saudi Arabia, UAE, Bangladesh, Egypt, Bahrain, Uzbekistan, and Panama. (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018) India speeded up the tempo and increased the rate that India invested overseas after liberalization in the early 1990s.

In almost three decades, it experienced exponential growth through overseas M&As. (Kaushal, 2018)

*“It is interesting to note that policy makers prior to 1990s were in favour of promoting OFDI amongst developing countries under the overall objective of enhancing South-South trade development. OFDI underwent a considerable change in the 1990s not only in terms of magnitude, but also in terms of geographical focus and sectoral composition. It has been argued that this change in the geographical distribution and sectoral composition of OFDI has been in line with the change in the motives of firms investing overseas—from essentially market-seeking to more asset-seeking ones to support export activity with regional presence.” (EXIM, 2014)*

By the 1990s, global economic integration, as the basic tenet of their development strategy, a great number of developing host countries had adopted and supported, willingly and eagerly, yet with varying degrees of embracement. This new policy orientation and the context of waning North-South political tensions have led these countries to currently decided to make FI that was largely based upon economic considerations instead of particularly preferring investors from developing countries. Thus, subsequently, diverting from the past trend where direction of OFDI of IEMNCs was evidently prone to invest in countries where one observed little technological competition before the 1990s (Khan, H.R., 2012), a major transformation occurred in their geographical distribution of OFDIs over the past decades.

The more recent trend states that OFDI of IEMNCs is increasingly flowing to developed economies and changes in their direction of OFDI (Khan, H.R., 2012) particularly take place in the case of IEMNCs as they lead to an increase in venturing out beyond their traditional domain—other developing countries—to developed countries. This can partly be viewed as a reflection of getting more diversified across countries and growing confidence of the Indian corporates and availability of resources (Singh, S.B., 2017) and overseas assets at competitive rates (Khan, H.R., 2012). One observed an increase in the developed economy share of approved investment of IMNCs in the third phase of internationalization in the 1990s and the fourth phase of internationalization in the 2000s. (Athukorala, 2009; Khan, H.R., 2012; Singh, S.B., 2017)

While the developing economy share of approved investment of IMNCs amounted to 35 per cent in the early 1990s it accounted for more than 53 per cent in the 2000s, especially between the years 2002 and 2006. Much of such diversification has been considered to be the results of acquisitions rather than greenfield (investment in newly established firms). They heavily focused on the developed economies in the 1990s and they amounted to over 80 per cent of the total number of Indian acquisitions in the 2000s, especially during the period from 2000 to 2006, share much higher than that in total OFDI. According to the data conducted by Export-Import (EXIM) Bank of India (2014) that was based on (I/O)FDI markets database from the Financial Times, major motives for the OFDIs made by Indian firms for 412 overseas projects (per cent) are summarized as follows: (i) growth potential in host market (36.2 per cent), proximity to markets or customers (31.8 per cent), availability of skilled workforce (19.4 per cent), regulation or business climate (15.8 per cent), infrastructure and logistics (9.2 per cent), government support (8 per cent), industry cluster or critical mass (7.5 per cent), lower costs (5.3 per cent), finance incentives for taxes or funding (3.9 per cent), language skills (3.9 per cent), and other motive (14.6 per cent). (EXIM, 2014; Athukorala & Veeramani, 2016)

From 1990 to 2007, approximately 62 per cent of OFDIs made by Indian firms were directed to developed countries. (Singh, S.B., 2017) In 2001 and 2002, Commonwealth of Independent

States region amounted to 40.9 per cent of OFDIs by Indian firms.<sup>59</sup> Instead, the OFDIs by Indian firms caused Africa and Asia Pacific to emerge as significant destinations with 24.3 and 31.4 per cent share against 3.9 per cent and 6.8 per cent share in 2001 and 2002, respectively. Within the same period, Russia and USA acquired maximum OFDIs share of 40.9 and 25.5 per cent, respectively. (Kaushal, 2018) To be more precise, during the first half of the mid-2000s, Indian firms were prone to direct their overseas investments to resource-rich countries, such as Australia, UAE and Sudan; however, in the latter half of the mid-2000s (since the year 2003 (EXIM, 2014)), to seek higher tax benefits, the parent firms of India have channeled a significant amount of OFDI to third countries by means of countries with which India had signed bilateral investment treaties (especially Mauritius), tax havens, and offshore financial centres, including Hong Kong and Singapore (Athukorala & Veeramani, 2016) where Indian OFDIs to ASEAN initially contributed to a wide fluctuation in 2005 and ASEAN had become not only an important investment destination for Indian OFDIs but also a major source of not only OFDI but also IFDI, where ASEAN firms also became involved in Indian infrastructure development and other services industries, to India since then (ASEAN, 2017), British Virgin Islands and Netherlands. (Athukorala & Veeramani, 2016; ASEAN, 2017; Kaushal, 2018)<sup>60</sup> In the year 2005, due to (I/O)FDI policy liberalization, Indian firms were permitted to float SPVs in international capital markets to finance acquisitions abroad facilitating the use of leveraged buy-outs. Since then, SPVs having established in off-shore financial centres that include the Netherlands, Mauritius and Singapore, had been mostly utilized as conduits in order to mobilize funds and invest in third countries that chiefly keep in view the business and legal consideration, taxation advantages and easier access to financial resources in the countries. Thus, as a result, OFDIs by Indian firms had increased in a rapid manner since 2005 and 2006. By 2008, it might be easily seen that OFDIs by Indian firms was increasingly and considerably flowing to developed countries, such as the Netherlands, Singapore, British Virgin Islands, Mauritius, USA, UAE, UK, Switzerland, Cayman Islands, and Hong Kong. The off-shore centres, which were established in the Netherlands, Singapore and Mauritius, had become major destinations for OFDIs by Indian firms. (Singh, S.B., 2017)

During this period, one had witnessed a considerable strong growth in the bilateral (I/O)FDIs between Indian and ASEAN member states due to the familiar business environment, spatial proximity, diaspora linkages and expanding business opportunities. Policy initiatives had led to an improvement of policy integration between India and ASEAN member states, i.e., functional economic agreements, 4 covering FTAs, comprehensive economic cooperation agreements and framework agreements with ASEAN member states individually or as a group, and bilateral investment treaties. Especially, in 2009, the ASEAN-India Free Trade Agreement (AIFTA) on trade in goods was signed by two parties and put into effect on 01 January, 2010. (ASEAN, 2017) According to Mahajan (2013) and UNCTAD (2015), between the years 2011 and 2012, India predominantly channeled its OFDIs into tax haven nations, such as Mauritius, Singapore, British Virgin Islands, and the Netherlands. (Mahajan, 2013; UNCTAD, 2015) Until 2012, India predominantly channeled its OFDIs into tax haven nations that neither were in possession of large resource base nor significant domestic markets to attract investments, yet still provided remarkable and noticeable tax benefits, and thus were utilized as a lucrative destination for

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<sup>59</sup>However, Commonwealth of Independent States region experienced a meager decline from 2011 to 2012 (0.4 per cent). (Kaushal, 2018)

<sup>60</sup>The RBI data shows that Mauritius, Singapore and Netherlands were the three largest destinations of OFDI of Indian IMNCs in that order, especially with Mauritius amounting to over 35 per cent of the total flows. (Athukorala & Veeramani, 2016)

outward routing of investments, such as Singapore, as the Mauritius, the Netherlands, and British Virgin Islands (especially in 2011 and 2012), Cyprus (Peng et al., 2011), and Panama. Singapore was the leading OFDI destination that was followed by Mauritius, Netherland and Panama among others. This means that a significant amount of Indian OFDIs had moved towards countries that provided tax benefits like such countries. (Peng et al., 2011; EXIM, 2014)

*“These small tax haven countries actually absorb huge OFDI from BRIC nations to actually re-invest the substantial portion back in BRIC through capital round-tripping. (Fung, E.S. et al., 2011; Peng, 2012) becoming the leading foreign direct investors as well. Bureaucratic regulations and heavy taxation on domestic earnings are cited as the most important concerns for MNCs to invest in the tax-haven economies. (Hoskisson et al., 2013)” ( Kaushal, 2018)*

In the year 2012, ASEAN continually became a major destination for Indian not only IFDIs but also OFDIs, and also a peak of OFDIs to ASEAN witnessed. However, one could not ensure the continued peak performance. Since the peak, a decline in OFDIs had occurred. (ASEAN, 2017) In the meantime, in 2012, India signed a bilateral agreement with not only ASEAN but also other countries.

As of December 2013, Bilateral Investment Promotion and Protection Agreements (BIPAs) with 83 countries out of which 72 BIPAs had already come into force and the remaining agreements were in the process of being enforced had been signed by India. But, a greatest number of India BIPA programmes were designed and drawn up ostensibly achieving the objective of attracting more IFDIs into the country rather than safeguarding and protecting interests of OFDIs by Indian firms. However, it was rather intriguing that India had signed BIPAs with all but 4 (USA, Singapore in addition to the Channel Islands and the British Virgin Islands) of the top 15 destinations for OFDIs made by Indian firms.

*“India's BIPA programme, at least on paper, appears to meet this standard since India has concluded investment treaties with several top destinations for OFDIs by Indian firms. Another important factor with respect to the country's BIPA programme is the role of the industry in shaping such treaties. There are good reasons for taking into account the perspective of the actual beneficiary of the BIPA programme, viz. the Indian business investor.” (EXIM, 2014)*

Until 2014, developed countries, such as the Netherlands, Singapore, British Virgin Islands, Mauritius, USA, UAE, UK, Switzerland, Cayman Islands, and Hong Kong became the major destinations for OFDIs by Indian firms, increasingly and considerably. (Singh, S.B., 2017) In the meantime, in the year 2014, an FTA on services and investment with ASEAN was signed by India. These different agreements contributed to intensify economic, trade and investment cooperation between India and ASEAN member states. In 2015, approximately 22 per cent of Indian global OFDI stock, which was more than US\$ 18.4 Billion of Indian OFDI stock, was held by ASEAN. It is also suggested that this made the region the largest destination for Indian investment in developing and transition economies and Indian enterprises assumed a particular focus to ASEAN as an important destination for OFDIs. A presence in ASEAN was also established by at least 1950 Indian firms, most of which were presence Singapore. The shares of global OFDI stocks of Japan, the USA, China and the EU in the region (i.e., 13 per cent, 5 per cent, 6 per cent and 2 per cent, respectively) was less larger than this proportion. Despite the aforementioned different agreements, decline in Indian OFDIs into ASEAN continually occurred until the year 2016 when ASEAN inflows exceeded US\$ 1 Billion- approximately, 1 per cent of total ASEAN inflows. (ASEAN, 2017) After Cyprus and India had negotiated in a tough manner for some years, the new DTAA was signed by both parties on November 18, 2016. The new Cyprus-India DTAA was put into effect on January 01, 2017 in Cyprus and on

April 01, 2017 in India, where the financial year ends on March 31, replaced the old one from June 1994, and further it was highly probable that the implementation of the Article 26 of the OECD model DTAA were the most important amendment, as it ensured the rescindment of Cyprus from India's black list of non-cooperative countries, to which Cyprus had been added on November 01, 2013. It was expected that the new Cyprus-India DTAA was to re-boost trade and investment activities between the two parties. (Shanda Consult Ltd., 2017) India has quite recently signed a revised DTAA, which is an agreement, wherein the investor pays tax merely in the resident nation and Mauritius, which is known as a tax haven accounts for very minimal, almost zero tax regime, and will attract capital gain tax at 50 per cent of the prevailing domestic rate for the two years starting April 2017 and 100 per cent from April 2019, with Mauritius. The Mauritius route of investments causes tax avoidance in the home country as well as tax exemption in host country, i.e., India. The agreement has been mainly resulted in black money that has been laundered out of India and reinvested back through Mauritius route as white money has an adverse impact on the Indian economy. Roughly similar to India's bilateral treaties with Cyprus and Mauritius, India has initiated talks with Singapore to amend the bilateral DTAA as well. (Kaushal, 2018)

**Table 8.3.1.3: Top-10 overseas countries of OFDIs by Indian firms from dates October 01, 2019 to October 30, 2019. (RBI, 2019d)**

Sr. No	Name of the Indian Party	Name of the JV/WOS	Whether JV/WOS	Overseas Country	Major Activity	Financial Commitment			
						Equity	Loan	Guarantee Issued	Total
1	3D TECHNOPAK LIMITED	3D TECHNOPAC SARL	JV	FRANCE	MANUFACTURING	0.3513	0.0000	0.0000	0.3513
2	3F INDUSTRIES LTD	3F GHANA OILS AND FATS LIMITED	WOS	GHANA	MANUFACTURING	0.0000	0.0000	8.0000	8.0000
3	8FINITY GLOBAL VENTURES LLP	COLLABTRIBE LLC	WOS	USA	FINANCIAL, INSURANCE AND BUSINESS SERVICES	0.1800	0.0000	0.0000	0.1800
4	A.P.T.PORTFOLIO PRIVATE LIMITED	A.P.T.CAPITAL LIMITED	WOS	UK	FINANCIAL, INSURANCE AND BUSINESS SERVICES	0.0000	0.5000	0.0000	0.5000
5	AA INFRAPROPERTIES PVT LTD	INDOCEAN DEVELOPERS PVT LTD.	WOS	SRI LANKA	CONSTRUCTION	0.0000	3.5000	0.0000	3.5000
6	ABHIMANYU	CONTOLOE DIGITAL	JV	SINGAPORE	COMMUNITY,	0.0004	0.0000	0.0000	0.0004

	BALDEVSINGH SINGH	MEDIA PTE LTD			SOCIAL AND PERSONAL SERVICES				
7	ABIL INFRAPROJECTS PRIVATE LIMITED	FLORA DEVELOPMENTS LIMITED	WOS	UK	CONSTRUCTION	0.0000	0.3260	0.0000	0.3260
8	ACG ASSOCIATED CAPSULES PRIVATE LIMITED	ACG LUKAPSD.O.O	WOS	CROATIA	MANUFACTURING	2.2478	0.0000	0.0000	2.2478
9	ACG ASSOCIATED CAPSULES PRIVATE LIMITED	ACG CAPSULES (THAILAND) CO LTD	WOS	THAILAND	MANUFACTURING	0.1882	0.0000	0.0000	0.1882
10	ADANI GREEN ENERGY LIMITED	ADANI SOLAR USA INC	JV	USA	ELECTRICITY, GAS AND WATER	0.0000	12.0000	0.0000	12.0000

It was highly expected that the tax treaty amendments with Cyprus, Mauritius, and Singapore would be able to have a tremendous impact on the FIs in future; however, the step, which was taken by the GOI, probably also might be considered to be a reflection of their belief in the economy and the ability to attract FI without tax incentives. (Kaushal, 2018) The above-entire table, which exhibits the data on the OFDIs made by Indian firms that was displayed by FEDCO and ODI and is included in the geographical distribution of OFDIs by Indian firms from dates October 01, 2019 to October 30, 2019 (RBI, 2019d), is comprised of 484 Indian Parties. France, Ghana, USA, UK, Sri Lanka, Singapore, Croatia, and Thailand are the top ten ranking overseas destinations in which Indian parties invest. As compared to the data on top-20 host countries of OFDIs by Indian firms during the second phase of internationalization in the 1970s and 1980s (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018), in October 2019, USA, UK, Sri Lanka, Singapore, and Thailand are still the top ten ranking overseas destinations and developed nations are the main destinations in which Indian parties prefer to invest rather than developing nations. (RBI, 2019d; Pradhan, J.P., 2005; Chaudhry, D. et al., 2018) According to the data on the OFDIs made by Indian firms, which is displayed by FEDCO and ODI and includes the geographical distribution of OFDIs made by Indian firms from dates November 01, 2019 to November 30, 2019 (RBI, 2019e), there are 552 Indian parties which prefer to invest abroad. A new comparative ranking of the countries that attract and receive the OFDI, indicates, among those parties, UK that tops the list as the most attractive country for OFDI and is also ranked as the fifth most attractive country in terms of OFDI, Sri Lanka that is ranked as the second most attractive country for OFDI, UAE, USA, Malaysia, Brazil, Taiwan, and Singapore are the top ten ranking overseas destinations. Between two successive months, there are no large changes in rank that may indicate some differences related to such changes. (Please see, RBI, 2019e)

### 8.3.2. Sectoral composition of outward foreign direct investments

During the three decades beginning in the late 1960s, more than 80 per cent of Indian OFDI was invested in manufacturing. (Lall, S., 1982; Lall, R.B., 1986; Athukorala, 2009; Athukorala & Veeramani, 2016) According to sectoral profile of Indian OFDIs made by Indian firms from 1961 to 1970, the Indian firms invested in the primary sector. (Shodhganga, 2015) During the mid-1970s, capacities, which were supported by the government policy, were created by the case of pharmaceutical and software industries like the knowledge-based industries. This can be deemed as the beginning of the era of liberalized regime, especially in post-2000 when IMNCs was seen to have graduated to the next level stage learning from the experiences and India witnessed a surge in domestic market driven investments that were largely by leveraging acquisition in order to grow rapidly in global markets, all of these led to surge in OFDI flows. (Kallummal et al., 2016) From 1975 until the end of 1980, the manufacturing sector channeled approximately 65 per cent of approved OFDI equity of India, services sector that the largest amount of approved OFDIs made by Indian firms was claimed by financial and leasing services, and hotels and tourism activities during this period channeled roughly 33 per cent of it, and firms that were engaged in primary or extractive activities that required low or moderate levels of technological sophistication like fertilizers and pesticides, iron and steel, leather, shoes and carpets, wood and paper, etc. accounted for the bulk of approved OFDI equity of India channeled a miniscule 2 per cent of it. It is also crucial that other developing countries at similar or lower levels of development largely became the major destinations for the greatest number of OFDIs made by Indian firms during this time and approximately 86 per cent of approved OFDI equity and 72 per cent of OFDI approvals could be regarded as being to that of those countries. (Chaudhry, D. et al., 2018)<sup>61</sup>

**Table 8.3.2.1: Sectoral composition of OFDIs by Indian firms during the second phase of internationalization in the 1970s and 1980s (Pradhan, J.P., 2005; Chaudhry, D. et al., 2018)**

Sectors or Activities or Industries	No. of approvals (% of total)	Approved equity (% of total)
Exploration and refining of oil	0.4	0.0
Exploration of minerals and precious stones	0.9	1.8
Extractive or primary	1.3	1.8
Oilseeds, food products and processing	4.4	4.1
Textiles and garments	5.2	4.1
Wood, pulp, and paper	1.3	5.2
Leather, shoes and carpets	1.7	9.2
Chemicals, petro-chemicals and paints	7.8	3.5
Drugs and pharmaceuticals	3.5	2.1
Rubber, plastic and tyres	2.6	1.0
Cement, glass and building material	0.9	1.9
Iron an steel	4.4	7.3
Electrical and electronic equipment	2.6	1.0
Automobiles and parts thereof	2.6	1.4
Gems and jewellery	0.4	0.0
Electronic goods and consumer durables	0.9	0.1

<sup>61</sup>According to sectoral profile of Indian OFDIs by Indian firms until the year 1979, the Indian firms invested in the primary sector. (Shodhganga, 2015)

<b>Beverages and tobacco</b>	3.0	1.5
<b>Engineering goods and metallurgical items</b>	7.8	3.8
<b>Fertilizers, pesticides and seeds</b>	2.2	18.0
<b>Miscellaneous</b>	4.4	1.2
<b>Manufacturing</b>	55.7	65.3
<b>IT, communication and software</b>	2.6	2.5
<b>Hotels, restaurants, and tourism</b>	10.4	11.2
<b>Civil contracting and engineering services</b>	2.6	0.8
<b>Consultancy</b>	3.0	0.2
<b>Trading and marketing</b>	11.7	5.6
<b>Financial services and leasing</b>	7.4	11.8
<b>Transport services</b>	1.3	0.3
<b>Other professional services</b>	3.0	0.5
<b>Services</b>	43.0	32.9
<b>Total</b>	100.0	100.0

Moreover, sectoral composition of OFDIs by Indian firms were comprised of exploration and refining of oil, exploration of minerals and precious stones, extractive or primary that include oilseeds, food products and processing, textiles and garments, wood, pulp and paper, leather, shoes and carpets, chemicals, petro-chemicals and paints, drugs and pharmaceuticals, rubber, plastic and tyres, cement, glass and building material, iron and steel, electrical and electronic equipment, automobiles and parts thereof, gems and jewellery, electronic goods and consumer durables, beverages and tobacco, engineering goods and metallurgical items, fertilizers, pesticides and seeds, miscellaneous; manufacturing that encompass IT, communication and software, hotels, restaurants, tourism, civil contracting and engineering services, consultancy, trading and marketing, financial services and leasing, transport services, other professional services; and services. (Nagaraj, 2006; Athukorala & Veeramani, 2016)<sup>62</sup>

Since late 1990s, the OFDIs made by Indian firms began to engage in more high-tech and trade supporting sectors. A great number of Indian IT firms like Tata Consultancy Services, Infosys, WIPRO, and Satyam endeavoured to be in possession of global contracts and established overseas offices in developed economies with the view to be close to their key clients. Besides, other sectors, which had attracted significant share of OFDIs by Indian firms in the recent years, were involved in extraction of crude petroleum, oil and gas field services and services incidental to mining. (Khan, H.R., 2012) Generally speaking, between the years 1999 and 2008, the manufacturing sector was the first one ranked in the list of the best sectors for OFDIs made by Indian firms. The rankings had financial services in the second place, followed by non-financial

<sup>62</sup>From 1980 to 1989, Indian firms invested in agriculture, mining and quarrying, and coal and petroleum products, which were considered to be in primary sector. (Shodhganga, 2015) Within manufacturing, Indian firms overextended themselves in a much broader spectrum of activities than those of other countries. (Wells, 1983) Textiles and yarn were considered as the largest sector and amounted to a quarter of capital held overseas, which was followed by paper and pulp, engineering of various types, food processing and chemicals. While firms from East Asian countries used their new locations as export platforms, Indian firms were primarily and preponderantly involved in import-substitution production. These feature may be regarded as a reflection of the nature of the highly interventionist and inward-looking nature of the Indian domestic policy regime that had given rise to a highly diversified and inward-oriented domestic manufacturing base. (Athukorala, 2009; Athukorala & Veeramani, 2016)

services, trading and other sectors, among the best sector to invest in or do business during this period. From 2000 to 2002, one witnessed a rapid increase in manufacturing sector, i.e., from 28.8 per cent to 73.1 per cent. (Athukorala, 2009; Athukorala & Veeramani, 2016) During the period from 2000 to 2007, the OFDIs made by Indian firms to Africa had risen phenomenally and predominantly in different kinds of sectors; for instance, chemicals, oil and gas industries contributed around half of the total during this period. (Kallummal et al., 2016; Kaushal, 2018) From 2004 to 2007, one witnessed a vast diversification in the sectoral or industry composition of overseas activities of Indian firms, i.e., a decline in the share of manufacturing in total approves capital, i.e., from 72.3 per cent to 24.9 per cent.

*“There has been a notable increase in services-related OFDI; disaggregated data (not departed here for brevity) shows that the major areas of concentration were manufacturing and pharmaceuticals, automotive; consumer goods; chemicals and fertilizers. Modern data is one the basis of Indian financial year source compiled from RBI, Annual report (various years).”* (Athukorala, 2009; Athukorala & Veeramani, 2016)

Despite a notable shift in the sectoral or industry composition of OFDIs made by Indian firms with a notable increase and decline in the share of manufacturing sectors and a corresponding increase and decline in services-related OFDI made by Indian firms, the most remarkable and interesting shift in the sectoral or industry composition of OFDIs made by Indian firms may had been witnessed in the year 2008. (Athukorala, 2009; Athukorala & Veeramani, 2016) According to the sectoral composition of OFDIs made by Indian firms from 2008 to 2009 and from 2013 to 2014, the sectoral pattern of OFDIs by Indian firms had been mostly invested in services and manufacturing sector. Within manufacturing, major sub-sectors that attracted OFDIs by Indian firms encompassed agriculture machines and equipments, basic organic chemicals, drugs, medicines and allied products, refined petroleum products, indigenous sugar, etc. Likewise, within services sector, a greatest number of OFDIs made by Indian firms had also flowed to business services, data processing, financial services, architectural and engineering, and other technical consultancy services. (Singh, S.B., 2017) Between the years 2008 and 2010, agriculture, mining, hunting, forestry and fishing became the most attractive sector for OFDIs by Indian firms. The rankings contained construction in the second place, followed by electricity, gas and water, manufacturing, services<sup>63</sup>, community, social and personal services, and miscellaneous. Between the years 2010 and 2014, mining was ranked as the most attractive sector for the OFDIs by Indian firms, oil and gas became the second most attractive, and agriculture and agro products was ranked as the third most attractive sectors for the OFDIs by Indian firms, followed by manufacturing, such as automotive, plastic and chemicals, pharmaceutical and healthcare, FMCGs, food and beverages, metals and ores, electronic engineering, and other manufactured products, services, such as banking and financial services, hospitality and real estate, shipping, ports and infrastructure, IT and Information Technology Enable Services, telecom, and travel and tourism. (Athukorala & Veeramani, 2016) One could also observe a drop in the shares of manufacturing sector from 38 per cent to 27 per cent that was also indicated by the low growth rate, yet sectors like the agriculture, hunting, forestry and fishing and transport, storage and communication services exhibited 9 and 16 percentage points increase. This means that the share of agriculture, hunting, forestry and fishing increased from 6 per cent between the years 2007 and 2008 to 15 per cent between the years 2014 and 2015. The share of transport, storage and communication services increased from 10 per cent between the

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<sup>63</sup>Financial, insurance, real estate and business services amounted to over 40 per cent of total services OFDIs made by Indian firms; transport, storage and communication services; and wholesale, retail trade, restaurants and hotels. (Athukorala & Veeramani, 2016)

years 2007 and 2008 to 26 per cent shares between the years 2014 and 2015. One also observed a subtle diversion away from the core investment in the manufacturing activities to transport, storage and communication services in the trends of OFDIs made by Indian firms. (Kallummal et al., 2016)

In general, it can be emphasized that young Indian firms were highly and evidently inclined to invest in service sector, while the older Indian firms were naturally prone to channel their OFDIs in manufacturing sector (Sauvant et al., 2010; Kaushal, 2018), i.e., from 2012 to 2016, Indian OFDI, which did flow to ASEAN, was mainly and excessively dominated by services activities, primarily in finance and insurance, repair of motor vehicles and motorcycles, and real estate activities. The bulk of cumulative OFDIs made by Indian firms in ASEAN was received by these three groups of services industries. (Sauvant et al., 2010; ASEAN, 2017; Kaushal, 2018) According to the top emerging trends of 2017, the sectoral pattern of OFDIs by Indian firms had been mostly invested in services and manufacturing sector. (Singh, S.B., 2017) The below-entire table, which reflects the data on the OFDIs made by Indian firms that was collected by FEDCO and ODI and also contains the sectoral distribution of OFDIs by Indian firms from dates October 01, 2019 to October 30, 2019 (RBI, 2019d), is comprised of 484 Indian Parties. (RBI, 2019d) The major sectors or activities or industries of the top ten rankings are manufacturing, financial, insurance and business services, construction, and electricity, gas, and water, community, social and personal services, respectively. The entire table, which shows the data on the OFDIs by Indian firms that was displayed by FEDCO and ODI and also contains the sectoral distribution of OFDIs made by Indian firms from dates November 01, 2019 to November 30, 2019 (RBI, 2019e), is comprised of 552 Indian Parties. (RBI, 2019e) The top ten rankings are comprised of the major sectors or activities or industries, such as the financial, insurance and business services, construction, manufacturing, and electricity, gas, and water. Between two successive months, large differences have not been observed and viewed.

**Table 8.3.2.2: Top-10 major activities of OFDIs by Indian firms from dates October 01, 2019 to October 30, 2019 (RBI, 2019d)**

Sr. No	Name of the Indian Party	Name of the JV/WOS	Whether JV/WOS	Overseas Country	Major Activity	Financial		Commitment	
						Equity	Loan	Guarantee Issued	Total
1	3D TECHNOPAK LIMITED	3D TECHNOPAC SARL	JV	FRANCE	MANUFACTURING	0.3513	0.0000	0.0000	0.3513
2	3F INDUSTRIES LTD	3F GHANA OILS AND FATS LIMITED	WOS	GHANA	MANUFACTURING	0.0000	0.0000	8.0000	8.0000
3	8FINITY GLOBAL VENTURES LLP	COLLABTRIBE LLC	WOS	USA	FINANCIAL, INSURANCE AND BUSINESS SERVICES	0.1800	0.0000	0.0000	0.1800
4	A.P.T.PORTFOLIO PRIVATE LIMITED	A.P.T.CAPITAL LIMITED	WOS	UK	FINANCIAL, INSURANCE	0.0000	0.5000	0.0000	0.5000

					AND BUSIN ESS SERVI CES				
5	AA INFRAPROP ERTIES PVT LTD	INDOCEA N DEVELOP ERS PVT LTD.	WOS	SRI LANKA	CONST RUCTI ON	0.0000	3.5000	0.0000	3.5000
6	ABHIMANY U BALDEVSI NGH SINGH	CONTILOE DIGITAL MEDIA PTE LTD	JV	SINGA PORE	COMM UNITY, SOCIA L AND PERSO NAL SERVI CES	0.0004	0.0000	0.0000	0.0004
7	ABIL INFRAPROJ ECTS PRIVATE LIMITED	FLORA DEVELOP MENTS LIMITED	WOS	UK	CONST RUCTI ON	0.0000	0.3260	0.0000	0.3260
8	ACG ASSOCIATE D CAPSULES PRIVATE LIMITED	ACG LUKAPS D.O.O	WOS	CROATIA	MANU FACTU RING	2.2478	0.0000	0.0000	2.2478
9	ACG ASSOCIATE D CAPSULES PRIVATE LIMITED	ACG CAPSULES (THAILAN D) CO LTD	WOS	THAIL AND	MANU FACTU RING	0.1882	0.0000	0.0000	0.1882
10	ADANI GREEN ENERGY LIMITED	ADANI SOLAR USA INC	JV	USA	ELECT RICIT Y, GAS AND WATE R	0.0000	12.0000	0.0000	12.0000

#### 8.4. Funding pattern of outward foreign direct investments by Indian firms

The sources of funding of OFDIs made by Indian firms are permitted in a number of ways that might be summarized as follows: (i) purchase of foreign exchange on-shore from an AD in India; (ii) capitalization of foreign currency proceeds to be received from the foreign entity on account of exports, fees, royalties or any other dues from the foreign entity for supply of technical know-how, consultancy, managerial and other services; (iii) swapping of shares of Indian entity with those of overseas entity; (iv) use of balances held in the EEFC accounts of Indian entity maintained with an AD; (v) foreign currency proceeds through ECBs/FCCBs; and (vi) exchange of ADRs/GDRs issued in accordance with the scheme for issue of FCCBs. Banks in India are normally not allowed to fund the equity contributions of the promoters; however, financial assistance to Indian firms by the domestic banks for acquisition of equity in overseas

JVs or WOSs or in other overseas firms, new or existing, as strategic investment has been allowed. This kind of policy should contain overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc. Whereas the Board of the Bank might frame its own guidelines and safeguards for such lending, the company and the country benefit from such acquisition(s). In order to facilitate such financial support of Indian business abroad, the prudential limit on credit and non-credit facilities extended by banks to IJVs (where the holding by the Indian company is more than 51 per cent) or WOSs abroad from the existing limit of 10 per cent to 20 per cent of their unimpaired capital funds (Tier I and Tier II capital) have been enhanced by the RBI.

In May 10, 2007, the GOI permitted banks in India to extend funded and/or non-funded credit facilities to wholly owned step-down subsidiaries of subsidiaries of Indian firms (where the holding by the Indian company is 51 per cent or more) abroad. But, among others, banks have to ensure that the JV or WOS is located in a country which does not place restriction on acquiring this kind of foreign currency loan or repatriation of loan or interest and they may lead to the creation of legal charge on overseas securities or assets securing such exposures. Exim Bank has been included in giving support for OFDIs by Indian firms since its inception. In this regard, its role has been unique, given its mandate. The Overseas Investment Finance programme of Exim Bank seeks to cover the entire cycle of OFDIS by Indian firms which include the financing requirements of IJVs and WOSs with a suite of financing instruments, which might be summarized as follows: (i) finance for Indian firm's equity participation; (ii) direct finance to the overseas JVs/WOS; (iii) finance for acquisition of overseas business or firms that include leveraged buyouts; and (iv) direct equity investment. As on December 31, 2011, credit, which aggregated to US\$ 240.92 Billion for 374 ventures set-up by over 298 companies in 69 countries, had been approved by Exim Bank. While some of the overseas acquisitions have been successful in a huge manner, other investments have been written off within a short span of time in an entire manner. It is evident that there exist a number of reasons for failure; however, the most predominant one is viewed as the inability to withstand adverse changes in the operating economic and regulatory environment. This is considered to be a pointer to the need for adequate risk mitigants in the process of investments abroad. In the year 1980, Export Credit Guarantee Corporation of India Limited publicly announced the Overseas Investment Insurance scheme. Since inception of the scheme, it has issued the merely 61 insurance covers with an aggregate value of US\$ 5.73 Billion. The low popularity of the scheme is a good explanation of the perception that the cost of insurance cover is high (which is between one to 2.5 per cent per annum that depends on country and tenure of investment). However, it is essential to realize the spectrum of coverage the scheme offers by providing insurance coverage to investments against political risks that include war, expropriation and foreign exchange repatriation restrictions.

Thus, consequently, such insurance covers more than those having investments in developed countries would be beneficial to the Indian firms, which are prone to make investments in politically vulnerable countries. Existing JVs or WOSs or SPVs are being utilized to fund acquisitions through leverage buyout route which leads to the reduction in the risk on the domestic balance sheet. A substantial portion of investment has occurred through the SPVs set-up for the purpose abroad. The funding is frequently arranged through overseas banks backed either by shares or assets of the target company and/or guarantees by the Indian parent. So far firms have largely utilized a mix of their retained earnings (internal source) and borrowings (external source) in order to finance their overseas acquisition. This is in quite contrast to what is usually found in the context of a great number of other countries' cross-border M&As where share swapping is a popular option of financing. However, share swaps have not emerged as a favored payment option in India except in a few large transactions in the software industry.

During the post-reform period, the GOI has liberalized Indian capital market in a significant manner. Therefore, one has witnessed a significant improvement of the market capitalization of stocks of Indian firms over the years. It, in turn, seems that this has facilitated greater access to overseas capital markets for financing their OFDIs. Furthermore, the profitability and strengthened the balance sheets of Indian firms, which also helped them to undertake cross-border acquisitions through internal resources, has been improved by sustained growth in corporate earnings. (Khan, H.R., 2012)

**CHAPTER 9**

*“India is attracted to economies with better rule of law. Indian OFDI is going to smaller but richer host countries. Lastly, India seems to be investing in economies to seek fuels. There is also some evidence that it is investing to acquire technology. Exchange rates do not play a major role in affecting Indian investment.” (Fung, K.C. & Garcia-Herrero, 2012)*

### 9.1. Finance measures

Finance measures may be one of the major factors for OFDIs by Indian firms. According to empirical study conducted by Sasidharan and Padmaja (2018), financing constraints becomes a significant matter for OFDI decisions and it is more likely expected that large firms and firms with a bigger cash flow, greater liquidity, higher productivity, and lower fixed costs will invest abroad. One has not observed a mitigating impact of productivity and an evidence of external finance dependence if one takes account into OFDI. It is also confirmed that internal funds are considered to be very important in case of the investment decisions of a firm and financing constraints obtains a significant role in determining the share of OFDI. It is found that financing constraint measures (cash flow and liquidity) are in possession of a positive and significant effect on OFDIs and the impacts of other control variables are similar to the specifications for the likelihood of firms that make OFDI decisions.

Financing constraints also have an impact on not only the probability and amount of OFDI, but also a significant role in determining the number of foreign affiliates of firms that invest abroad. It is more likely expected that firms with a bigger cash flow and more liquidity will obtain more foreign affiliates. One of the most important thing is that the export orientation of firms can be considered to be a main factor in determining their FI decisions and it is also suggested that the need for policies with the objective of strengthening export orientation of firms are to further enhance their internationalization by dint of OFDIs. It is evident that the improvement of access to finance would give assistance to firms from emerging markets to overcome obstacles to entering and penetrating foreign markets. Finance measures are comprised of internal and external finance measures.

- i. **Internal finance measures** can be summarized as follows: (i) **cash flow**: a cash flow indicator is used for the standard approach in measuring financing constraints in the literature is using a cash flow indicator. The cash flow sensitivity of an investment is regarded as an evidence of the existence of financing constraints in the aftermath of the pioneering work of Fazzari et al. (1988). Kaplan and Zingales (1997) defined it as a measure of financing constraint that has been questioned by several researchers and proclaimed that it provides the future investment opportunity and is naturally not monotonic. While Fazzari et al. (2000) make mention of specific limitations in the approach followed by Kaplan and Zingales (1997), who argued that their theoretical model is not successful in capturing the approach that has been used in the literature and indicated that their empirical classification system is not elaborated and perfected if one longs for identify whether firms are constrained and the degree of financing constraints across firm groups. The sensitivity of the investments of a firm to cash flow can be evidence of financing constraints. A great number of subsequent empirical studies referred to the cash flow as a measure of financing constraints (Bond & Meghir, 1994; Carpenter et al., 1998). To effectively contend with the investment cost problems, even if they are not in possession of access to external finance, firms with a higher degree of internal finance can easily find it. Sasidharan and Padmaja (2018) refer to the cash flow as the ratio to total assets, where cash flow is measured as profit after tax plus depreciation and amortization. (ii) **liquidity**: liquidity is additionally used as an alternative measure of financing constraints, which is commonly utilized in literature. The measurement of liquidity ratio is current assets minus current liabilities that are scaled by total assets. A positive impact of

liquidity on the probability of firms that invest abroad is highly expected. Due to the availability of higher liquidity, firms can effectively contend with the fixed cost problems. Together with the possibility of utilizing internal funds, firms are able to acquire financing resources from external sources. Liquidity is also identified as a standard measure of financing constraints that are utilized by several kinds of empirical studies (Greenaway et al., 2007; Stiebale, 2011).

- ii. **External finance measures:** external finance is known as another preeminent source of financing for firms. The existence of upfront costs and the lag between the expenses that are incurred and receipts that are received leads to the importance of it. (Manova, 2015). Acting in the compliance with Manova (2015) and Duanmu (2015), in order to account for the role of external finance, the following two measures are included by Sasidharan and Padmaja (2018): (i) capital expenditure that is not financed by cash flow, amounts to outside funding that are required by firms to undertake long-term investment projects and relates to fixed costs (Manova, 2015); (ii) access to finance that is identified as a ratio of long-term bank credit to total assets, is an alternative measure of dependence on external finance, and also it constitutes the primary and governing factor in an access of a firm to bank credit. It is expected that both variables will obtain a positive effect on the OFDI decisions of a firm. (Bond & Meghir, 1994; Kaplan & Zingales, 1997; Carpenter et al., 1998; Fazzari et al., 1998 and 2000; Greenaway et al., 2007; Stiebale, 2011; Manova, 2015; Duanmu, 2015; Sasidharan & Padmaja, 2018)

## 9.2. Issues of Indian multinational corporations

In actual fact, the emergence of IMNCs has occurred against the backdrop of a long standing import-substitution regime that does not inevitably suggest that a protected home market is regarded as a breeding ground for successful global expansion of local firms; to be more precise, precedence does not inevitably involve as a consequence of causation. India had begun with the process of industrialization process long before it gained as an objective of independence in 1947. It is evident that there exist some isolated cases of domestic firms that develop market niches that benefits specific patent right legislation and entry barriers that are imposed on foreign firms; however, in general, it remains a matter of speculation what would have been economic destiny of India and the role of Indian big businesses if the political leadership had embraced the process of economic reforms, which initially occurred in 1991, much earlier or if a conducive setting for the continuation of private sector-led industrial expansion had been provided by the post-independence government as it was envisaged in the Bombay Plan. Although IMNCs has dominated the global markets in a rapid manner, they are still at the formative stage of their global operations and their competitive edge is still largely based upon country-specific, rather than firm-specific, advantages despite their some isolated cases of firms that develop their own firm-specific advantages. In general, they are seemingly complementary to, rather than directly competing with, developed country MNCs in their global operation. National gains from the overseas expansion of IMNCs are still considered to be an important area for research.

*“Of particular relevance in this connection is the possible trade-off between OFDI and domestic investment. The economic viability of new overseas acquisitions and the compatibility of emerging trends of MNC-related trade flows with the O of the national economy are other issues worth exploring for their potentially significant contributions to research.” (Athukorala, 2009)*

### 9.3. Impacts of outward foreign direct investments by Indian firms

There has been much research reported on the impacts of OFDIs by firms. Kim, Seung-jin (2000) showed the existence of positive effect of OFDI on Korean exports at the industry-level, and domestic investment that utilize aggregate trend analysis. (Kim, Seung-jin, 2000) Chen and Yang (2013) indicated that their study on Taiwanese manufacturing firms reveals the fact that there is a positive relationship between OFDI and its domestic R&D spending, especially in R&D-intensive industries during the study period 1992 and 2005. (Chen, K. & Yang, S., 2013) According to the study on the employment effect in the case of Estonia conducted by Masso et al. (2008), it has been suggested that the logic of OFDIs from low cost transition and developing economies are different from that of high-income countries, and it has also been reported that OFDI generally and positively has an impact on home country employment growth. (Masso et al., 2008) OFDI has a positive impact on GDP and Gross Fixed Capital Formation (GFCF) and it has caused an increase in not only GDP but also GFCF, i.e., the OFDI stock, as a percentage of GDP, increased from 0.37 per cent in 2000 to 1.16 per cent in 2005 to 5.59 per cent in 2010 and to 5.73 per cent in 2011 and OFDIs, as per cent of GFCF, have also caused an increase at a lesser pace. (Das, K.C., 2015) Debaere et al. (2010) have examined the employment effect in the case of Korea and demonstrated that moving to less-advanced countries has led a decrease in the employment growth rate of a firm while moving to more-advanced countries has not resulted in a consistent impact on employment growth in any significant manner. (Debaere et al., 2010) Zhao et al. (2010) examined the effects of Chinese OFDI in eight developed countries on growth in its own productivity and revealed the fact that there exist beneficial spillover effects of OFDI in the improvement of total factor productivity growth over the study period. (Zhao et al., 2010) According to the study on the effect of OFDI on domestic output (GDP being the measure of output) in developing countries conducted by Herzer (2011), there exists a positive long-run effect for a sample of 43 countries. (Herzer, 2011) Goh et al. (2013) observed the limited impact of Malaysian OFDI on trade. (Goh et al., 2013; Das, K.C., 2015)

There has been much research reported on the impacts of OFDIs by Indian firms. Pradhan, J.P. (2007) reported export improving role of OFDI in the case of Indian manufacturing firms from 1990 through 1991 and from 2000 through 2001. (Pradhan, J.P., 2007) Large M&As deals as well as greenfield investments by IMNCs has resulted in an increase in OFDI. Especially, according to the study on the relationship between OFDI and Chinese patent application conducted by Huang and Wang (2009), there is also the existence of reverse technology spillover from such investments. (Huang & Wang, 2009) The study on auto industry examined by Pradhan, J.P. and Singh, N. (2009) emphasized that R&D intensity of Indian automotive firms has been significantly and tremendously impacted by OFDI. (Pradhan, J.P. & Singh, N., 2009) In January 2004, PM Manmohan Singh declared that Indian corporate will hereafter be freely permitted to make overseas investment up to 100 per cent of their net worth, whether by dint of an overseas JV or a WOS. Thus, consequently, Indian firms are able to size the global opportunities and also to gain possession of technological and other skills for the purpose of adoption in India. Furthermore, in the year 2005, it was the first time that the RBI permitted domestic banks to obligingly and helpfully contribute money to Indian firms for the purpose of their overseas acquisitions. In addition, economic conditions have become more favorable. As of June 2006, India had exchange reserves of US\$ 164.5 Billion; therefore, Indian firms are able to fund overseas acquisitions more readily. It is common that Indian firms have conventionally utilized large cash reserves to gain possession of foreign firms and their objective is, above all, to acquire less expensive distressed assets. Due to the positive cash flows of efficient Indian business, one can still observe cash transactions, relatively and commonly.

However, one can witness an increase in M&A transactions that are financed via debt as Indian firms have come to be more global in culture and as the Indian banking system has come to be more sophisticated. The improvement in India's country risk ratings has also led to make access to capital easier. In fact, particular Indian firms are additionally in possession of credit ratings higher than the sovereign rating. To be more precise, they have acquired greater access to capital in overseas markets. It is expected that such greater imperative for gaining access to debt financing will assist in further development and progress of Indian corporate debt market that is somewhat weak. A great number of Indian executives overcame cultural barriers by dint of their experiment working in multinationals long ago and many more by dint of work have studied aboard. All of the previously mentioned cases increase the occurrence of a level of comfort and ease in leading to the conduct of business in a global manner and in gaining a more global perspective of business opportunities. Successful deals across the world increasing the occurrence of so much visible encouragement serves a primary motivation for Indian business people who are making steady progress in an environment where their entrepreneurial zeal and enthusiasm is globally being noticed and acknowledged, i.e., Ranbaxy and M&M have become known to not only industry insides but also have come to be global brands that lead to the waves on global markets, and not only Indian large firms but also a great number of smaller firms have succeeded in entering and penetrating the global market. Therefore, the removal of policy and regulatory obstacles has become an fundamental primary step in opening up the global expansion opportunities that are offered for Indian firms. (Ghouse & Aslam, 2010)

Das, K.C. (2015) also observed the causal impact of investing abroad on domestic activity of Indian manufacturing MNCs from 2008 to 2009 and from 2011 to 2012. It is suggested that it is more likely that OFDI will produce various complementary outcomes for the Indian economy by dint of exports and R&D channels. Hence, OFDI promotion policy is not without any good. Nonetheless, OFDI has not caused significant impact in some of the indicators, i.e., domestic investment, sales (output), employment, the import of raw materials and import of capital goods. Mobilization of financial resources by Indian firms from the global financial markets could be the reason for the insignificant impact on domestic investment while low involvement of Indian manufacturing firms in international production network and global value chain, which could be extremely important and essential to bring into being desired complementary impacts of OFDI on domestic activities could give rise to the insignificant impact of OFDI on domestic output, employment, import of raw materials, and capital goods. On the other hand, policy measures with the view to enhance Indian international supply chain connectivity, by dint of better internal and external connectivity would facilitate to obtain complementary benefits of OFDI led by the manufacturing sector. It is imperative that more substantial results as regards the complimentary impacts of OFDI on domestic activities be produced and reported. (Das, K.C., 2015) The impacts of Indian OFDI can be concluded as follows: (i) reduction of inequality of Indian firms; (ii) improvement in R&D expense of firms except those firms with already relatively high expenditure (3<sup>rd</sup> quartile); (iii) exports to sales initially improve for three years and then worsen for small firms (first quartile), but, for the mid-size firms (median) it worsens after one year; and (iv) median of operating ratio (expense or sales) as well as after tax profit margin (perform achieve and trade or sales) worsened over the year. (Roy & Narayanan, 2016)

#### **9.4. Motives for the outward foreign investments by Indian firms**

Competitive advantage is regarded as a precondition; however, it is an insufficient condition for OFDI. There are some other factors that encourage and cause firms to be enthusiastic about investing abroad.

A long list of factors like risk diversification, lack of information to the potential buyers about firms, products, technologies, etc. has been provided by early literature. The time period and industries have led to the different kinds of motives for the OFDIs by Indian firms. Moreover, the key elements can be identified and summarized as follows: (i) access to technology and knowledge-based view of the Indian firms has caused them to take into consideration of and to seek the improvement of their competitiveness and the rise of their production value chain. In 2003, Wipro gained possession of Nerve Wire Inc. (USA) for US\$ 18.7 Million to seek the improvement of domain knowledge and other IT related advantages. Wockhardt Ltd. acquired a pharmaceutical firm in the UK for the purpose of markets, knowledge and strategic reason. (ii) an increase in the number of home grown Indian firms (i.e., Tata Group, Infosys, and Ranbaxy) and their improvement of ownership specific advantages being involved in financial capability. In addition, the growth of competitiveness of Indian firms being involved in providing outward business and IT services to foreign clients has caused such firms to go global to operate near their clients and to seek and offer growth opportunities in market abroad. (iii) security of natural resources. In 2003, Hindalco gained possession of two copper mines in Australia and ONGC Ltd., purchased a 25 per cent stake in Sudan oil field from Talisman Energy (Canada) for US\$ 720 Million to seek the security of the supply of resources. (iv) production facilities and international names for instances infuses. In 2003, expert information services were purchased by PVT Ltd. (Australia) for US\$ 22.9 Million with the view to enter and penetrate Australia market and Daewoo commercial firm (Republic of Korea) was purchased by Tata Motors for US\$ 118 Million in order to gain access to the South East Asian market. (Ghouse & Aslam, 2010)

#### 9.5. Emerging challenges and issues

The followings might be summarized as emerging challenges and issues in OFDIs made by Indian firms.

- i. **Use and abuse of multi-layered structure:** providing a transparent policy framework for OFDI is linked to multi-layered structures. The motivations vary from genuine business or commercial considerations to taxation benefits which are accessible to any global investors. On the flip side at times, the underlying motive would be able to lead to the creation of opacity by dint of a labyrinth of structures for reasons unjustified on business grounds or from the point of view of interest of home country. Thus, in this regard, one needs to obtain a greater clarity in this approach.
- ii. **Controlled foreign companies under direct tax code:** to incentivize the OFDIs by Indian firms, in the last Union Budget, GOI had announced a 50 per cent reduction in the tax rate in terms of dividend inflows from JV or WOS. Taxation in terms of OFDIs by Indian firms under the controlled foreign companies norm of the proposed Direct Tax Code (DTC) would obtain implications for OFDIs by Indian firms. But, it might take a few years before one comes to any definitive conclusions on their implications in the aftermath of the introduction of DTC.
- iii. **Impact on CAD:** The build-up in the foreign exchange reserves had given support to the initiatives of liberalization of a great number of the capital controls which include the OFDIs made by Indian firms. India, being a CAD economy, is in need of closely monitoring the capital outflows which goes from the country. One needs surplus on capital account to finance growing CAD of India, and also has to keep the level of foreign exchange reserves at a comfortable level given several demands on the reserves. Therefore, unlimited capital outflows for OFDIs made by Indian firms would be able to obtain significant implications for sustainability of CAD of India and external debt profile.

- iv. **Impact on domestic investments:** another important aspect, which warrants close monitoring of capital outflows, is implication for domestic investment. One needs to be ensured that domestic investments are not crowded out by OFDIs by Indian firms.<sup>64</sup> Although one has witnessed a concomitant increase in both domestic capital formation and OFDIs by Indian firms in recent years, potential implications of rising trend in OFDIs made by Indian firms for domestic investment, growth and employment are in need of being examined against the benefits that domestic firms derive elsewhere in respect to expanded market base, backward and forward vertical integration and cheap skilled labour. In a globalized business environment, it seems that establishing an overseas presence becomes inevitable by virtue of a policy of country on outsourcing, emphasis on on-shore presence, protectionism, etc. Therefore, the Indian firms are obliged to balance the need for domestic business expansion with the compulsions of OFDIs.
- v. **Likely impact of devolvement of contingent liabilities:** in recent years, one has witnessed an increase in the non-fund exposure in the form of guarantees issued by Indian firms towards their JV or WOS. Given the uncertain global environment, exponential rise in issuance of guarantees would be able to be a potential concern for banks who frequently provide back to back guarantees and the Indian firms concerned.
- vi. **Impact of economic downturn of foreign economies:** another important factor is that the overseas business model would be able to go awry due to a variety of reasons including sudden downward trend of the economy as experienced during the recent global financial crisis and the Eurozone sovereign debt crisis. These kinds of events might have an adverse impact on the financials of the Indian firms with a spill-over effect on the domestic corporates and banking sectors. During the period of global crisis, Indian firms are able to face challenges to their OFDIs. This would be due to moderation in internal accruals and also on account of the funding constraints that maybe faced by IJV or WOS which arise out of faced by the multinational investment banks and financing institutions. Indian corporate that had gained the possession of overseas assets at much higher premium in a bullish phase of business cycle or did not undertake intensive due diligence prior to such acquisitions in anticipation of future growth, potentially risk huge valuation loss during the downturn.
- vii. **Ensuring security through strategic acquisitions:** the emerging economies are also increasingly becoming conscious of ensuring security in the fields of energy, commodity and food for the future generations. In recent past, this has increased the occurrence of a spate of strategic acquisitions, notable among them being acquisition of coal mines, oil fields, etc. Proposals for acquisition of overseas assets, especially in the energy sector by dint of special purpose fund or by dint of the PSUs in the related field are now being discussed for long-term strategic benefit of the country, and also there is a debate on diverse kinds of options of funding. Given the nature of our foreign exchange reserves, which have not been built out of surplus, visibly makes excessive demands upon the external sector and various other demands which are being placed on the reserves, funding

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<sup>64</sup> “A situation in which a government, especially the USA government, borrows so much money that it discourages lending to private businesses. Crowding out generally occurs because lenders prefer the government as a borrower because it is much less risky and the government is able to pay any interest rate. Thus, when the government is borrowing heavily and lenders have only a finite amount they can lend, it may crowd out private borrowers.” (Thefreedictionary)

of such ventures out of reserves does not look a viable option. The other alternatives including overseas borrowing against sovereign backing or domestic resource which raise by dint of special cess and utilization of private sector resources in a PPP model are in need of being evaluated for this purpose. (Khan, H.R., 2012)

#### 9.6. Government measures and initiatives

Cumulative stock of OFDI amounted US\$ 155 Billion in 2017. The data provided by RBI indicates that OFDIs made by Indian firms in equity, loan and guaranteed issue accounted for US\$ 12.59 Billion in 2018 and 2019 and US\$ 2.841 Million in April and June 2019. Some governmental initiatives are summarized as follows: (i) PSUs of the GOI invested more than US\$ 15 Billion in Russian oil and gas projects and are formulating a plan for undertaking more investments in the Russian oil and gas fields. (ii) the RBI, which was stimulated by sufficient forex reserves, brought about the relaxation of norms for domestic firms that invest abroad by removing the ceiling for an increase in funds by dint of pledge of shares, domestic and overseas assets. Along with JVs and WOSs, the central bank publicly introduced alike concessions for pledging of shares in the matter of step-down subsidiary. (iii) the RBI also liberalized or rationalized guidelines for FIs abroad by Indian firms. It raised the annual overseas investment ceiling to US\$ 125.000 from US\$ 75.000 in order to establish JVs and WOSs. The governmental supportive policy regime that was complemented by experimental outlook of India Inc. would be able to bring about an upward trend in OFDI in future. The Union Cabinet allowed ONGC Videsh to gain possession of 11 per cent stake in Russian oil firm JSC Vankorneft from Rosneft Oil Co. for US\$ 930 Million. (IBEF, 2019b) The data provided by the RBI shows that India's OFDI in equity, loan and guaranteed issue amounted to US\$ 12.59 Billion in 2018 and 2019 and US\$ 9.85 Billion in April and January 2019 and 2020. OFDIs made by Indian firms grew 18 per cent to US\$ 2.69 Billion in March 2019 as compared to year-on-year. In January 2020, US\$ 2.23 Billion in their foreign firms were invested by Indian firms. The GOI's PSUs invested more than US\$ 15 Billion in Russia's oil and gas projects and were seeking to undertake more investments in the country's oil and gas fields. The RBI, which was encouraged by adequate forex reserves, led to the relaxation of the norms for Indian firms which invested abroad by abolishing the ceiling for raising funds by dint of pledge of shares, domestic and overseas assets. In addition to JVs and WOSs, the central bank proclaimed similar concessions for pledging of shares in case of step-down subsidiary. The RBI also liberalized or rationalized guidelines for OFDIs by Indian firms, and further raised the annual OFDI ceiling to US\$ 125.000 from US\$ 75.000 to set up JVs and WOSs. The government's supportive policy regime, which was complemented by India Inc.'s experimental outlook, would be able to increase the occurrence of an upward trend in OFDI of Indian firms in future. The Union Cabinet allowed ONGC Videsh to gain possession of 11 per cent stake in Russian oil firm JSC Vankorneft from Rosneft Oil Co. for US\$ 930 Million. Despite COVID-19, OFDI outlook in some of the overseas market seems positive, i.e., the Indian industry was projected to lead to an increase in its revenue from Africa. IT services, infrastructure, agriculture, pharmaceuticals and consumer goods were thought of as being vital to India that boost Africa revenues to US\$ 160 Billion by 2025, as per McKinsey&Co. In another development, the MEA initially took a step to establish a direct sea and air link between India and the Latin American region, as Indian corporates had planed significant investments in the mining, oil, IT and pharmaceutical sectors in that region. It is also expected that OFDIs by India firms will increase, backed by stable market conditions and considerable impact of the investments on local economies. (IBEF, 2020a)

# CHAPTER 10

### 10.1. Main obstacles in industrial development of India

The twelve major obstacles in industrial development of India will be highlighted by the following points:

- i. **Poor capital formation:** poor rate of capital formation is regarded as one of the major obstacles that have caused the slow rate of industrial growth in India.
- ii. **Political factors:** prior to preindependence, industrial policy was followed by the British colonial rulers who were actually not in favor of the interest of the country in any respect. Hence, India continuously became a primary producing country during 200 years of British colonial rule that eventually impeded the industrial development of the country in its early period.
- iii. **Lack of infrastructural facilities:** India is still not advanced and forward with regard to its infrastructural facilities and being underdeveloped and backward is an important obstacle and hindrance to the industrialization of the country. Hence, since the country does not obtain proper transportation (rail and road) and communication facilities in a great number of parts, industrial development cannot be accomplished in those regions despite the possession of huge development potentialities in those areas.
- iv. **Poor performance of the agricultural sector:** there are two reasons for this: on the one hand, industrial development in India heavily depends on the performance of the agricultural sector. On the other hand, the poor performance of the agricultural sector caused by natural factors results in industrial stagnation in the country. Agriculture relinquishes to the possession and control of raw materials and foodstuffs, and further brings into being demand for the goods that are produced by the industrial sector. Hence, the industrial development and development of industries within the country are retarded by this poor performance of the agriculture.
- v. **Gaps between targets and achievements:** during those Five-Year Plans Period, India experienced not only success in some direction, but also failures in other areas. There were a huge gap between its targets and achievements; therefore, India has had to experience such trend, which is all along against its smooth industrial development, and has completed approximately seven decades (1951-2017) of planning. During the Five-Year Plans Period, a mixed picture has been presented the Indian experience and it has not only achieved success of economic planning in some directions, but has also failed in other areas. I feel obliged to present a broad overview of the success and failure of economic planning. India derived the concept of economic planning from the Russia (then USSR) and launched 12 Five-Year Plans until the year 2017. The Five-Year Plans may be summarized as follows: (i) **First Five-Year Plans** were made for the duration of 1951 to 1956 and were fundamentally and actually based upon the Harrod-Domar growth model with the major focus on the agricultural development of the country. These plans became successful and achieved growth rate of 3.6 per cent (more than its target). (ii) **Second Five-Year Plans** were made for the duration of 1956 to 1961 and were fundamentally and actually based upon the P.P. Mahalanobis model with the focus on the industrial development of the country. These plans became successful and achieved growth rate of 4.1 per cent. (iii) **Third Five-Year Plans** were made for the duration of 1961 to 1966, and also were known as Gadgil Yojna. The target of this plan was mainly to make the economy independent and to reach self active position of take off. The China War did not let this plan achieve its growth target of 5.6 per cent. (a) Plan Holiday was made for the duration of Plan Holiday from 1966 to 1969. The reason behind the Plan Holiday was mainly based upon the Indo-Pakistan war and failure of the Third Five-Year Plans. During this period, plans were

annually made and equal priority was primarily given to agriculture its allied sectors and the industry sector. (iv) **Fourth Five-Year Plans** were made for the duration of 1969 to 1974. There existed two major objective of this plan: (a) growth with stability; and (b) progressive achievement of self reliance. During this period, the slogan of Garibi Hatao is given during the 1971 elections by Indira Gandhi. However, this plan failed and could achieve growth rate of 3.3 per cent merely against the target of 5.7 per cent. (v) **Fifth Five-Year Plans** were made for the duration of 1974 to 1979. The GOI placed a highest value on agriculture and industry and mines. This plan overall became successful and achieved the growth of 4.8 per cent against the target of 4.4 per cent. The Durga Prasad Dhar, also known as D.P. Dhar, prepared and lauched the draft of this plan that was terminated in the year 1978. (a) Rolling Plan was made for the duration of an annual plan for the periods of 1978 and 1979 and it is also considered to be a continuation of the terminated Fifth Five-Year Plans. (vi) **Sixth Five-Year Plans** were made for the duration of 1980 to 1985. The objective of this plan was fundamentally and actually based upon investment yojna, infrastructural changing and trend to growth model. There existed two main objectives of this plan: (a) poverty eradication; and (b) technological self reliance. Although growth target of India was 5.2 per cent, it achieved merely 5.7 per cent. (vii) **Seventh Five-Year Plans** were made for the duration 1985 to 1990. The main objectives of this plan were to establish the self-sufficient economy and provide opportunities for productive employment. It was the first time that the GOI placed a high premium and value on the private sector, despite public sector. Its growth target was 5.0 per cent; however, it achieved 6.0 per cent. (a) Annual Plans: The GOI could not implement the Eighth Five-Year Plans owing to its volatile political situation at the centre. Therefore, two annual programmes are formed between the years 1990 and 1991 and between the years 1991 and 1992. (viii) **Eighth Five-Year Plans** were made for the duration of 1992 to 1997. The GOI placed a highest premium on the development of the human resources, such as employment, education, and public health. During the Eighth Five-Year Plans period, NEP of India was launched by the government of Narasimha Rao. This plan became successful and its annual growth target achieved 6.8 per cent despite the target of 5.6 per cent. (ix) **Ninth Five-Year Plans** were made for the duration of 1997 to 2002. During the Ninth Five-Year Plans period, the growth with justice and equity was the major focus of the GOI that launched this plan in the 50<sup>th</sup> year of independence of India. This plan failed to achieve the growth target of 7 per cent and grow merely at the rate of 5.6 per cent. (x) **Tenth Five-Year Plans** were made for the duration of 2002 to 2007. The main objectives of this plan were to double the per capita income of India in the next 10 years and to reduce the poverty ratio 15 per cent by 2012. Although this plan was aimed at achieving 8.0 per cent its growth target was merely 7.2 per cent. (xi) **Eleventh Five-Year Plans** were made for the duration of 2007 to 2012. The PM C. Rangarajan prepared this Five-Year Plans. The theme of this plan was mainly based upon faster and more inclusive growth. Even if the objective of this plan was to achieve 8.1 per cent, its growth rate target was merely 7.9 per cent. (xii) **Twelfth Five-Year Plans** were made for the duration of 2012 to 2017. The objectives of this plan were mainly to maintain faster, more inclusive and sustainable growth and to grow at the rate of 8 per cent. It has become the recent Five-Year Plans of India. Three-year action plan is the document that merely gives rise to a broad roadmap to the GOI and does not detail any schemes or allocations as it is not in possession of financial powers. Since it is not in need of being approved by the Union Cabinet, its recommendations are not being united in a relation with the GOI. The documents of the NITI Aayog is not in possession of any financial role and are merely considered to be policy guidemaps for the GOI. Now the present NDA government under PM Modi has ceased the formation of Five-Year Plans. **Thus, 12<sup>th</sup> Five-**

**Year Plans would be considered to be the last Five-Year Plans of India.** The **decades-old Five-Year Plans will pave the way for a three-year action plan** that will become a part of a seven-year strategy paper and a 15-year vision document. The National Institution for Transforming India (NITI), which is known as NITI Aayog and is a policy think tank of GOI that was established in 2015 (Jain, A.K., 2019), replaced the Planning Commission and lauched a **three-year action plan from April 01, 2017.** (Singh, H., 2019a) It should be mentioned that it is in possession of a dual objective of achieving sustainable development goals and to enhance cooperative federalism with bottom to top approach and its initiatives become included in Action Plan-3 Years, Strategy Plan-7 Years, and Vision Plan-15 Years. (Jain, A.K., 2019)

- vi. **Dearth of skilled and efficient personnels and others:** India has struggled with the problem of dearth of technical and efficient personnel that is required for the industrial development of the country. If there is no properly trained and skilled personnel, it is not easy to handle such highly sophisticated computerised machineries that are necessary for industrial development of the country. Furthermore, inefficiency and insincerity of those personnel who engaged in industrial sector has led to the huge wastage of resources of the industrial sector and social factors, such as immobility of labour and capital and lack of proper initiative and enterprises on the part of people of India also highly bring about this slow pace of industrialization in the country.
- vii. **Elite-oriented consumption:** in recent years, the large industrial houses have been prone to generate goods of rich men in a strong manner. Because of the reason given, not only the production of white goods like refrigerators, washing machines, air conditioners, etc. but also the other luxury products expanded in a substantial manner; however, a slow growth rate has been recorded by the production of commodities for mass consumption, and thus it is evident that this has led to the a distortion of output structure of Indian industries that has been the result of a recessionary tendency in the market of these luxury products.
- viii. **Concentration of wealth:** in India, the pattern of industrialization has become the result of concentration of economic power in the hands of few large industrial houses, and hence has not succeeded in accomplishing the objective of planning in the reduction of concentration of wealth and economic power, i.e., Tata Groups along with 38 firms at present bring about a substantial increase in their assets from Rs. 375 Crore between the years 1963 and 1964 to Rs. 14.676 Crore between the years 1991 and 1992, and Birla also lead to the increase in its assets from Rs. 283 Crore between the years 1963 and 1964 to Rs. 6.775 Crore between the years 1991 and 1992, and subsequently other large business houses have also caused to increase in their assets at a very faster rate and are in possession of such as tight stronghold in the economy.
- ix. **Poor performance of the public sector:** although the GOI attained a substantial expansion during the planning period, it could not lead to the public sector enterprises to enhance their efficiency and effectiveness in respect of organizational performance. Its faulty pricing policy and lack of proper management necessitating huge budgetary provision every year caused a large number of such enterprises to acquire huge losses in a regular manner; hence, the public sector investment could not succeed in creating required surpluses that are necessary for further investment in industrial sector of the country.
- x. **Regional imbalances:** concentration of industrial development into some few states has given rise to another problem of imbalances in industrial development of the country. On the one hand, maximum industrial-development has been attained by Western region that are comprised of Maharashtra and Gujarat. However, on the other hand, the plight of the

poor states are continually being ignored in the process of industrialization of the country despite a huge development potential of their own. In spite of a huge investment in the public sector that has been made in the backward states like Bihar, Orissa and Madhya Pradesh, the trickling down effects of such investment were invisible as well. Various fiscal incentives, capital subsidies and other facilities were introduced for industrial development of backward area, and were mainly channelized to develop industries in backward areas of developed states that caused a gross neglect of the demand of backward states.

- xi. **Industrial sickness:** bad and inefficient management has given rise to the peculiar problem of the growing sickness of the Indian industrial sector. The reason of such sickness is related to the Sixth Five-Year Plans, where the pattern of industrial development has been insufficiently guided by cost considerations. In a regime of eschewing international competition, industries have been prone to get established at sub-optimal capacities that bring about a high cost industrial structure. Inadequate attention has also been given to improvements in technology and quality of products. Some of these factors have caused the emergence of sickness in specific industries, especially when market conditions are prone to create a measure of competition with the economy, i.e., the RBI estimate indicated that every seventh small scale unit in India was sick at the end of December 1983. Since then, growing sickness of industrial units has become the result of a huge problem in the path of industrial development of the country, and as per the RBI estimate, a total number of sick industrial units in India were 1.71.316 on 31<sup>st</sup> March, 2003 and such sick industrial units had become involved in an outstanding bank credit to the extent of Rs. 34.815 Crore.
- xii. **Regime of state controls:** industrial inefficiencies have resulted in perpetuation of regional state controls and regulatory mechanism and have been paving the way for the path of industrialization of the country. In recent years, in order to make necessary economic reforms in the industrial structure of both the public as well as private sectors of the country, the GOI has seriously undertaken some measures. Despite such measures that are quite challenging in nature, it is also expected that these kinds of measures are to make progress in terms of a remove from several kinds of impediments, which are previously mentioned above and also of the achievement of industrial development of the country in the next coming years. (Kwatiah, 2019)

## 10.2. The development issues involving trade union in India

The ten main obstacles to the development of trade union within the country might be summarized as follows:

- i. **Small size of unions:** a greatest number of trade unions within the country are composed of small size that obtain an average membership of roughly 500 workers. The characteristics of the problem are mainly that one observes a gradual increase in the total membership of the unions and a decrease in the average membership that is very low in India, by comparison with other countries. Approximately 44 per cent unions obtain a membership of less than 100. Various factors that lead to the small size of unions can be concluded as follows: (i) the requirement of the Trade Union Act, 1926 is that any seven workers are able to establish a union and get it registered. This leads to a considerable and substantial number of small unions. (ii) unionization in India chiefly began with the big employers and it progressively and slowly becomes known by more small units than before. However, this is still in the continuous process. Hence, one can observe an increase in the number of unions and union membership, yet one can witness a decrease in the average membership. (iii) in general, the trade union begins existence in a factory or the

unit of employment. In India, every factory is not in possession of a trade union. Whenever the employees in a certain factory become organized a new union begin to exist. (iv) rivalry among the leaders and the central organizations is a cause of multiplicity of trade unions, thereby leads to reduction in the average number of membership. One can easily observe an increase in the number of small unions that is an unhealthy development. By virtue of the weak bargaining power, the challenge of employers cannot be faced by small unions for long. Their funds are not enough to satisfy a demand or requirement and they are in strong need of help to obtain and contract for the services of experts if there is a serious situation or occurrence that happens in an expected manner and demands immediate action, and also the mutual benefit schemes cannot undertaken by them. Being in collective bargaining leads small unions to exacerbate the state of being in need of a great help from the government and they are unsuccessful in being acted upon exerting pressure on the government and the employers to achieve to satisfy demands of workers. They are dependent on the political parties in an exhaustive manner or on those kinds of outside personalities who happen to assume political influence on the employers and the government machinery.

- ii. **Uneven growth of unionism:** the trade unionism in India grows in a quite uneven manner and draws merely toward a common center of few industries that encompass coal mines, plantations, food industries, textiles, chemicals, utility services, transport and communications and commerce, etc. The degree of unionization ranges from industry to industry that vary from 28 per cent in plantation to 75 per cent in tobacco manufacturing industry. It is also stated that trade union activities mainly draw toward a common center of organized sector merely, particularly of textile industry. Textile industry in India has been both the prime mover of all trade union activities and the supreme centre of all labour activities and labour trouble. It is the industry that leads to production of several labour leaders who have determined the destinies and future of the Indian labour movement. Some of them, such as Shri N.M. Lokhande, B.P. Wadia, Harihar Nath Shashtri, N.M. Joshi, R.S. Ruikar had been among those leaders in the earlier period, and soon afterwards other leaders, such as Shri Khandubhai Desai, S.A. Dange, G.D. Arpbedkar, S.R. Vasawade and V.V. Dravid began their career and became the organizers of textile labour. Another important feature of the unionism is that it mostly directs towards a common center of some states and bigger industries merely. The most important reason is that this kind of development is concentrated in particular industries in this kind of big centres and merely in specific states. Most of workers, who are members of trade unions, belong to manual labour class.
- iii. **Financial weaknesses of the unions:** trade union in India is weak in a financial manner. One of the most important reason is that the workers are on a low income, yet particular other reasons of limited finances can be summarized as follows: (i) workers are indifferent to the trade unions and do not desire greatly to make a contribution to union funds out of their money where they earn hard. (ii) multiplicity and inter rivalry of unions is one of the most important reasons that unions become involved in leading to an increase in their membership, and thus they continually maintain the subscription rate unduly low and do not collect even that subscription in a regular manner. (iii) members do not make payment of their subscription to the union in a regular manner. They rather prefer to make ad hoc payment at whatever time that a dispute occurs. This can be a lack of commitment of the union. A good part of their total subscription income is expended on routine expenses; for instance, running of the office and other expenditure. A conspicuously deficient in amount (roughly 5 per cent) is expended on trade disputes. Scarcely 5 per cent of the total income

is expended on labour welfare activities. The insufficiency of funds that command adverse influence over their entire working may be deemed as the major reason of the deplorable conditions of the trade unions. They cannot either undertake any welfare activities for their members or they cannot undertake successful conduct of strikes, etc. For the purpose of fund, full time competent salaries staff cannot be employed by them, and hence the services of honorary workers have to be availed by them.

- iv. **Multiplicity of unions and intra union rivalry:** the multiplicity of trade unions may be treated as another important characteristics of the Indian trade unionism. Political outsiders that greatly desire to create their hold result in multiple unions in order to lead an increase in commanding their political influence and set up their own unions. The divergent political view, namely existence of different conflicting and rival organizations results in the development of unionism that is inadequate and unhealthy. Even within a single organization, one can witness several groups that are in possession of different kind of persons and different kinds of views. This leads to the development of small unions. Inter-union and intra-union rivalry undermines the strength and solidarity of the workers are undermined by inter-union and intra-union in a great number of ways, such as: (i) a single union is a representation of a very small number of workers, and subsequently does not receive pleasure or satisfaction from the confidence of most of the employees. (ii) such small unions postulate merely a limited range of functions rather than encouraging strike, disloyalty and non-cooperation and averting the direction of members and transferring their energy from restricted matters to some constructive and cooperative channels. (iii) a greatest number of unions cannot be successful in acknowledging the importance of labour welfare activities and mutual help. This feature of trade unionism has destroyed the root of the unionism that results in the weakness of the power of collective bargaining, and also has led to the reduction of the effectiveness of workers and of securing their legitimate rights. Each trade union obeys the path of democracy in a theoretical manner and acquires register of members, organizes and is responsible for elections, and adheres to accounts, etc. In a way that is practical, there exist leaders who act as autocrats, manipulate elections dishonestly for their personal gain and interest, and devote themselves to other means of seizing power. This results in intra-union rivalry. If a leader of a group concedes defeat in election, she or he may confront and struggle with the results prior to the Labour Court of a Higher Court and attempt to acquire an injunction for averting the elected group from functioning or the other course from opening or designing a new union, and hence dividing the existing union into different kinds of groups.
- v. **Outside leadership:** the outside leadership, i.e., leadership of trade unions that is not elected within the workers, yet that is elected outside the industry may be regarded as another discouraging and demoralizing characteristic of Indian trade union. Leaders of trade unions are chiefly professional politicians and lawyers who do not obtain historical background in the industry. It applies both at local and at the national level. Various reasons for this phenomenon might be concluded as follows: (i) the file and rank is illiterate in a large manner and is not capable of making communication with the management. (ii) the management personnel come from high castes in a general manner, and thus in case of being dealt with the management, the psychological advantage leads to the management. (iii) deficiencies in formal power of unions are prone to place a high value on the charismatic type of the leader, especially and mostly a politician, who can act as a defender of the workers against his enemies. (iv) in order to assure a measure of equation of power in collective bargaining, where the workers are not educated and are not in possession of a high status. (v) in order to eschew victimization of office bearer of the

unions. Such outsiders or outside leaders are comprised of political leaders in a general manner and work for their political masters as a servant instead of the workers. They greatly desire to impose control and restraint on the union in order to employ to the greatest possible advantage of their individual standing as political leader. Furthermore, direct contact with file and rank and top leaders is absent since the leaders are to attempt to place attention to several unions. Since the workers who have to place in distressing circumstances which are related to their immediate needs are ignored, they are not successful in putting the case of workers in an effective manner.

- vi. **Politicization of the unions:** the influence assumed by the political parties can be referred to as one of the biggest problems that is faced by the trade union movement in India. Multiplicity of the trade unions within the country is actually attributable to the domination and control of trade union movement that is assumed and exerted by rival political parties that result in the inter-union rivalry. This feature causes the trade unions to act as tools of political parties to extend and obey their political aims. Since the very beginning, the trade union movement has been in possession of its allegiance with political parties. The major reasons of the politicization of trade union movement can be found in their being illiterate, ignorant and backward workers who did not have the potential of deciding to do the task of organization without asking permission from anyone else. There existed a broad social gulf between them and the employers and managers and other officers. They felt threat to and apprehensive about the employers, managers, police and the government. Under these circumstances, they were in need of considerable and remarkable outside assistance to overcome their initial feelings of disquiet and apprehension and jitteriness and restiveness and to gain knowledge of the rudiments of agitation and organization through experience or instruction. Moreover, a considerable number of prominent public men, social workers and political leaders volunteer themselves for the assistance that will be given to them.
- vii. **The problem of recognition of trade unions:** the recognition of trade unions may be one of the fundamental issues in industrial relation system within the country. The attitude of the management was obdurate and indifferent and if it felt obliged to recognize any union that was able to negotiate with it, then it recognized it, otherwise it did not. The present day industrial scenario has to face the same situation more and less. The employers frequently indicate unwillingness to recognize a trade union on the pretext that it cannot be a representation of the greater number of workers or there are already consisting of two or more unions in the plant. These cannot be considered to be valid grounds for indicating unwillingness to recognize it since they are individually concerned about uniting all employees with common interests in a single union and are placing a high premium on their own concern.
- viii. **Migratory character of workers:** a greatest number of workers in Indian industries originally came from the nearby villages. In this regards, they are obliged to come in the morning and to return to their village in the evening. Such migratory feature of Indian labour has led to a tremendous obstacle to the development of trade union movement. Their migratory feature causes the workers not to attract union activities since they are chiefly struggling with coming from in the mornings and returning to their villages in the evenings. In general, they cannot perform their duties and tasks during the harvest time. Although they affix their signature to the union they are still not concerned about the union. Workers now and then are not prone to become a member of any trade union since they feel indifferent to it. This can be deemed as one of the reasons that only 28 per cent of the total workers have become members of the unions.

- ix. **Lack of commitment of workers to unions:** the industrial workers who are chiefly illiterate do not remain loyal to any particular trade union, if there exists more than one union in the industry. They are highly prone to remain loyalty to any union in power to assure their security and to expect in betterment of their overall circumstances in life. Several studies conducted on worker behaviour in situations of intense trade union rivalry indicate this phenomenon. It is also demonstrated by some studies that workers become members of more than one trade union at the same time. The dual membership reflects a reality within the country. Merely a small percentage of workers are really linked to a political motivation, yet a large number of workers show a clever awareness and resourcefulness to avail themselves of trade union rivalry by making an exchange of their affiliation in a swift manner, i.e., the win of one party in the general election can easily lead the workers to shift their loyalty to a union that is affiliated to the ruling party.
- x. **Casteism and communalism in the trade unions:** in harmony with the process of parliamentary electioneering, caste and communal feelings have pierced through the trade union movement, i.e., it is very comprehensible that the workers coming from homogeneous groups on the basis of case and community tend to assure their security; however, it is not comprehensible that lighting for leadership within the same union on caste and communal basis vitally affects subsequent events and lead to decisively important consequences and this situation can be treated as a characteristic of giving rise to very dangerous and unpleasant turn. To be more precise, this can be deemed as one aspect of politicization. In recent times, in some states especially Gujarat, unions that have preponderantly scheduled caste membership has also been established. In some industrial units, notably where contract labour is engaged, unions are organized and formed by tribal workers. In general, such unions have the reputation of being indifferent to the unions of non-tribal workers. (Sunitha, C., 2019)

### 10.3. General conclusion

(I/O)FDI becomes one of the most certain vital components of the deficit in total savings where a great number of developing countries like India that are still struggling with. (Siwach, 2015) Both IFDIs into India and OFDIs by Indian firms have a long history on the Indian economy. The year 1991 marked the economic reforms that caused Indian businesses merely after its economic reforms to initially be adopted and implemented by the GOI. (EXIM, 2014) Especially, for the past two decades, a significant increase has been observed with regard to the importance of both IFDIs into India and OFDIs by Indian firms. (Siwach, 2015) In terms of the IFDIs into India, the presence of IFDIs in Indian capital market that has been evidenced by an increase in their net sizable investments has grown in a considerable and remarkable manner. This shows that Indian capital markets have come to be vibrant with regard to their composition of various constituents of the market and IFDIs have evidently tremendous and significant impact on the Indian economic growth with regard to export, GDP and foreign exchange reserves. (Ibrahim & Muthusamy, 2014) However, it seems that India is still in need of enormous amount of financial resources to carry forward the agenda of transformation, i.e., from a planned economy to an open market, to tackle imbalance in BOPs, to accelerate the rate of economic growth and to have a sustained economic growth. (Hooda, S., 2011) Anitha (2012) indicated that key industries attracted IFDIs into certain regions, such as New Delhi, Mumbai, etc. But, it is very crucial for addressing the issue of and abolishing geographical disparities of IFDIs into the country. Efforts, which have been seriously made by many states, should be encouraged and regulations for the purpose of establishing and operating the industrial units should be simplified and governments of states should take more measures and initiatives in order that these states would be able to attract IFDIs in a successful manner. Not only

geographical cap but also the sectoral cap for IFDIs has been hiked by the GOI for the years, yet it is recommended that the GOI relook at sectoral caps and revisit issues that pertain to limits in such sectors as coal mining, insurance, real estate, and retail trade, aside from the small-scale sector. It is also required that the government permit more IFDIs into the country under automatic route and initiate reforms like leading to more sectors under the automatic route, an increase in the IFDI cap, and simplification of the procedural delays.

It is imperative that SEZs be improved with regard to their size, road and port connectivity, assured power supply and decentralized decision-making and that the GOI take serious steps to deal with the improvement of the depth and liquidity of debt market as leveraged investment rather than investing their own cash is preferred by a great number of firms. Thus, one can highlight that countries with well-developed financial markets are significantly and remarkably prone to achieve tremendous benefits from IFDIs. Different languages in different states in the country address the issues of commercialization of education, regional gap, and structural gap in the sense of prime concern and precedence. IFDIs in education sector must be promoted by placing a high premium on the status of primary and higher education within the country, yet it is imperative that the GOI take appropriate measures and initiatives with the view to assure quality education and support equal opportunity in education where the elite and middle classes prefer to send their children to English private schools whereas the vast poor send theirs to the government schools of their mother tongue (Aula, 2014) where Hindi is recognized as the official language of the government and is spoken by the majority of people, English, an international language, is recognized as the status of official language within the country and is utilized in business, education, and higher education in an excessive manner, each state and union territory are in possession of one or more official languages, 22 scheduled languages that were given recognition, status and official encouragement is recognized by the constitution, Tamil<sup>65</sup>, Sanskrit<sup>66</sup>, Telegu<sup>67</sup>, Kannada<sup>68</sup>, Malayalam<sup>69</sup> and Oriya<sup>70</sup> were formally and officially

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<sup>65</sup>“The Tamil language belongs to the Dravidian family and is mainly spoken by the Tamil people in both India and Sri Lanka. It is also the official language of Singapore and Sri Lanka, and is an official language in India's Tamil Nadu state and Union Territory of Puducherry. Tamil is among the 20 most spoken languages in the world and is also among the longest-surviving languages as it dates back to 500 B.C. Today, there are over 60 million native speakers (5.9 per cent of the Indian population) and another 4 million (0.4 per cent of the population) speak it as a second language. About 1.860 newspapers are currently published in Tamil. It was declared a classical language in 2004.” (Misachi, 2018)

<sup>66</sup>“Sanskrit is a dialect of the Old Indo-Aryan language. It dates back to the 2<sup>nd</sup> millennium BC and is considered the oldest Indo-European language. Sanskrit evolved from the Vedic form currently known as Vedic Sanskrit. The language is spoken as a first language by approximately 14.100 Indians, and 1.2 million speak it as a second language, representing less than 1 per cent of the population. Most Sanskrit speakers are found in Mattur, Odisha, Banswara, and Shimoga District. In Nepal, about 1.600 people speak it as their first language. Sanskrit was declared a classical language in 2005.” (Misachi, 2018)

<sup>67</sup>“Telugu is a Dravidian language and one of the official primary languages in Indian states. It is an official language in the states of Andhra Pradesh, Telangana, and Puducherry Territory. Telugu has the third highest number of native speakers, spoken by 74 million people or 7.9 per cent of the population, and has a total of 84 million speakers (8.2 per cent). The Telugu language dates back to 1500 and 1000 B.C., when it split from the Proto-Dravidian language. However, early inscription dates back to between 400 and 100 B.C. It was declared a classical language in 2008.” (Misachi, 2018)

awarded the distinction of classical language, and other major languages in India encompass Bengali, Marathi, Urdu, Gujarati, Punjabi and Assamese (Santandertarde, 2019; please see, Castillo, 2019). It is demanded that R&D be strengthened within the country through conscious work to attract IFDIs into R&D, which can be regarded as a means of strengthening the country's technological prowess and competitiveness, and that the GOI create and establish by putting a high value on business friendly environment in order to attract large greenfields projects and simplify and loosen regulations to improve realization ratio (percentage of IFDI approvals to actual flows), and eventually assume more direct responsibility for the development of human capital and technology to achieve maximum benefits of IFDIs in a persistent manner. (Anitha, 2012; Aula, 2014; Santandertarde, 2019; please see, Castillo, 2019) Furthermore, it is especially recommended that the GOI encourage and promote industries to grow make IFDIs an attractive avenue to invest (Ibrahim & Muthusamy, 2014) by easing restrictions on IFDIs into the country. (Ibrahim & Muthusamy, 2014; Ukibc, 2016)

For instance, I previously mentioned that Mauritius is still dominant actor in terms of IFDIs. This dominance is due to the DTAA. If India wants to benefit from the IFDIs it may do the same agreement with more countries. Aside from DTAA, India, like South Korea, and other countries may negotiate FTAs (please see, Yurdagul, 2015), and thus this may lead India to be important trading partner and to become one of the largest export destination, and hence this may bring about some trends in investment and trade patterns, which will lead the economic exchange and relations which are based on the expansion of trade and the flows of the reciprocal direct investment, to become more dynamic phase. Rani (2015) mentioned that trade policy reforms initially occurred in 1991 led to drastic changes in a shift from the inward-oriented policy of the past to an outward-oriented policy. (Rani, 2015) Prior to the 1990s, policy makers preferred to promote OFDI amongst developing countries under the overall objective of enhancing South-South trade development. However, OFDIs by Indian firms considerably

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<sup>68</sup>“Kannada is a Dravidian language spoken by about 50 million people or 5 per cent of the Indian population as either first or alternative language. It is spoken by over 37 million people or 3.7 per cent of the population as a first language. Kannada is a predominant language in the states of Karnataka, Andhra Pradesh, and Tamil Nadu. The history of the language dates back to 450 B.C. and is considered one of India's oldest surviving languages. It was declared a classical language in 2008.” (Misachi, 2018)

<sup>69</sup>“Malayalam is a Dravidian language that is mainly spoken in the Indian states of Kerala, Tamil Nadu, and Karnataka. It is among the 22 scheduled languages in India and is spoken as a first language by 34 million people (3 per cent of the population), and is spoken as an alternative language by another 700.000 people. Its development is credited to Thunchaththu Ezhuthachan. However, the language's origin remains a subject of dispute, as some scholars suggest it developed from Middle Tamil, while others claim it originated from Proto-Tamil-Dravidian. Malayalam was designated a classical language in 2013.” (Misachi, 2018)

<sup>70</sup>“The Odia language is spoken by approximately 4.2 per cent of the population of India, the majority of which live in the eastern part of the country, including the state of Odisha and West Bengal. It was the sixth language to be designated a classical language on the basis of its long literary history. The history of Odia language dates back to 10 A.D. and is thought to have originated from Odra Magadhi Prakrit.” (Misachi, 2018)

experienced some changes in terms of magnitude, geographical distribution and sectoral composition. It has been argued that the changes in the geographical distribution and sectoral composition of OFDI along with the change in the motives of firms that invested overseas—from fundamentally market-seeking to more asset-seeking ones in order to give strength to and maintain export activity with regional presence. (EXIM, 2014) The first OFDI into India was based upon textiles. But, the manufacturing sector became the leading sector with time. Since 1990, Indian firms have assumed an emphasis on more high-tech and trade supporting sectors. Services-related OFDIs made by Indian firms also play an important role in terms of OFDIs by Indian firms.

In recent times, although manufacturing sector is one of the best performing sectors, other sectors including the financial, insurance and business services, construction, and electricity, gas, and water are also considered to be the best performing sectors. I recommend that Indian firms establish trade support networks, and also be prone to different sectors or activities or industries. According to EXIM (2014), with increasing OFDIs by Indian firms, a systemic analysis of the benefits of investment treaties for protection of OFDIs by Indian firms by all stakeholders involved would be of immense importance in a certain manner. This is where the role of the proposed Overseas Investment Promotion Council acquires further merit—that is to say, an ideal platform for the industry for these kinds of constructive forums would be provided by this institutional mechanism. It is highly recommended that any good investment treaty programme for an emerging economy like India not only be designed for attracting IFDIs but also accounting for OFDIs by their firms from that economy. (EXIM, 2014)

The COVID-19 has been forming and shaping the (I/O)FDI policies of countries. Despite the obligatory deglobalization, countries have to deal with not just the COVID-19 with the view to slow down the spread of the virus and to prevent the collapse of the health care system but also economic and financial consequences in an effective manner. However, one highly needs an exceptional global solidarity and cooperation in the process of deglobalization—that is to say, I call it globalization in the process of deglobalization. Provided that India overcomes major obstacles in industrial development and to the obstacles to the insufficient industry and unsatisfactory industrial conditions within the country and to poor performance of IFDIs into India, solves the development issue of trade union, and tackles the challenges and issues posed by the objective of India in terms of OFDIs made by Indian firms, it simply might be emphasized that India might become the digital and financial hub through DTAAAs and FTAs due to IFDIs into the country and OFDIs by Indian firms. I recommend that India also desire for less lax and rent for land and building, create government-led job employment with the IFDIs and OFDIs, a better environment for strong unions without political motivations and aims, and maintenance of mutual friendly relations in various fields and that India simply imitate the South Korean developmental model through the adoption and implementation of formal institutions and similar policies. (Please see, Yurdagul, 2015 and 2019) I eventually reckon that future belongs to the equal life chances and opportunities for all; therefore, educational equity and equality and more transparency rather than corruption and nepotism at local and national level might resolve to the problems that India has encountered and will encounter.

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## ABOUT THE BOOK

This book will pertinently provide more details on the inward foreign direct investments into India and outward foreign direct investments by Indian firms and their distribution across regions and sectors or activities or industries through the quantitative and qualitative method of research in order to analyse the impact of economic reforms and inward and outward foreign direct investment policy measures on the magnitude of inward foreign direct investments into India and outward foreign direct investments by Indian firms and the economic development of India.



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