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DETERMINANTS OF UNITED STATES FOREIGN INVESTMENT IN INDIA

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ABSTRACT

The United States and India partnership is built on a shared commitment to freedom, democratic principles, equal treatment of all citizens, human rights, and the rule of law. The two nations have shared interests in promoting global security, stability, and economic prosperity through trade, investment, and connectivity. India and the United States cooperate closely at multilateral organizations, including the United Nations, G-20, Association of Southeast Asian Nations (ASEAN) Regional Forum, International Monetary Fund, World Bank, and World Trade Organization. The United States supports India joining the UN Security Council in 2021 for a two-year term and encourages a reformed UN Security Council that includes India as a permanent member. In this regard, the United States supports India's emergence as a leading power especially in Asia where the authoritarian government of China has sought not only economic power but also strategic hegemony. The purpose of this paper is to (i) assess the importance of foreign direct investment in India's current economic development strategy; (ii) analyze trends of United States foreign direct investment in India's major economic sectors; and (iii) discuss the reform and policy recommendations to boost United States investments in India.

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1. INTRODUCTION

According to the Department of State (2021), the United States seeks an expanded trade relationship with India that is reciprocal and fair. In 2019, overall U.S.-India bilateral trade in goods and services reached $149 billion. U.S. energy exports are an important area of growth in the trade relationship. In 2018 India purchased 48.2 million barrels of U.S. crude oil, a significant increase from 9.6 million in 2017. Indian students enrolled in 2020 at U.S. colleges and universities contributed over $8 billion to the U.S. economy. The total number of Indian students in the United States has more than doubled over the last decade, from 81,000 in 2008 to a record high of 202,000 in 2019. India is an ASEAN dialogue partner, an Organization for Economic Cooperation and Development partner, and an observer to the Organization of American States. India is also a member of the Indian Ocean Rim Association (IORA), at which the United States is a dialogue partner. In 2019, the United States joined India's Coalition for Disaster Resilient Infrastructure to expand cooperation on sustainable infrastructure in the Indo-Pacific region (Department of State, 2021). There are rooms for more strengthening of the relations between the United States and India toward a lasting strategic partnership in the areas of the economy, defense, and international security. This appears primordial not only in terms of containing China's attempts to impose its hegemony in East Asia, but also Russia's interests in the Indo-Pacific region and its ties with India especially in the field of defense. The paper focuses on the economic dimension by examining specifically the outcomes of India economic policy; foreign direct investment (FDI) as a diver of economic development in India, an assessment of U.S. FDI in India; and recommendations to increase and sustain this type of investment in India.

2. OUTCOMES OF INDIA ECONOMIC DEVELOPMENT POLICY

The government of the newly independent India on the early 1950s was to lift living standards of the population who earned an average income that was one-fifteenth of the average American income of the time The Madisson Project (2013). Three-fourths of the Indian people were engaged in agriculture working with primitive tools and techniques, as either destitute landless laborers, highly insecure tenants-at-will, or small-plot holders eking out subsistence living from their meager plots. The literacy rate stood at 14 percent, and the average life expectancy was thirty-two years (Adhia, 2015). In fact, lifting the population living standards was not the sole objective because other broad objectives that guided India's development strategy were: (i) the achievement of a high rate of economic growth(ii) the reduction in inequalities and more especially an accelerated effort to remove poverty at a pace faster than would be achieved solely through the normal growth process, (iii) the development of a mixed economy with a strong public sector, especially in key areas of the economy, (iv) the achievement of a high order of self-reliance, (v) the promotion of balanced regional development, with a narrowing of economic difference across regions, and finally, (vi) these social and economic objectives were to be pursued in the framework of a constitutional democracy (Ahluwalia, 1998).

India's government in the 1950s adopted a strategy of economic development which consisted on a rapid industrialization by implementing centrally prepared five-year plans that involved raising a massive amount of resources and investing them in the creation of large industrial state-owned enterprises (Frankel, 2005). The selected industries were those producing basic and heavy industrial goods such as steel, chemicals, machines and tools, locomotives, and power. The industrialization strategy was built on the premise that the industrial sector should constitute the greatest driver of production's growth. In the agriculture sector crop yields in India were quite low compared to other countries, and the famine of 1943 had underscored the need to increase food production. Nevertheless, agricultural development was not the central goal of the government economic strategy (Adhia, 2015). Investments in the creation of public enterprises were chosen because one goal of the government was to establish a socialistic pattern of society, i.e., using democratic methods to bring large swathes of the country's productive resources under public ownership. Industries producing basic and heavy goods were chosen for investment over consumer goods because the government wanted to reduce the country's reliance on imports of basic and heavy industrial goods in line with their belief in the goodness of national self-reliance. "To import from abroad is to be slaves of foreign countries," the first Prime Minister, Jawaharlal Nehru, once declared (Panagariya, 2008). The production of consumer goods such as clothing, furniture, personal care products, and similar goods was left to small privately run cottage industry firms that had the added advantage of being labor-intensive and therefore a potential generator of mass employment (Adhia, 2015).

Table 1. GDP, PPP (Constant 2017 international Trillion of $)

Country	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
India	1.583	2.724	5.501	5.801	6.172	6.629	7.159	7.75	8.277	8.818	9.174	8.443
China	1.616	4.358	13.02	14.044	15.135	16.258	17.403	18.595	19.887	21.229	22.492	23.01
South Korea	0.543	1.079	1.767	1.81	1.867	1.927	1.981	2.039	2.104	2.165	2.209	2.188

Source: World Bank Data

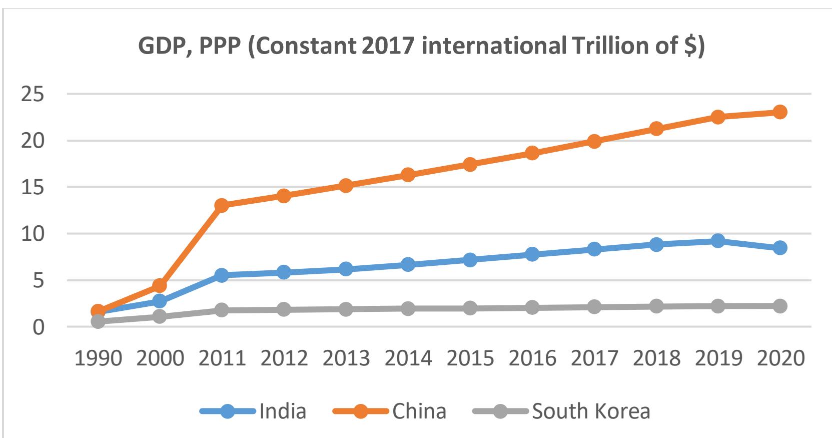

Fig. 1. GDP growth between 1990 and 2020

Table 2. GDP per Capita , PPP (1990-2020. Constant 2017 international $)

Year	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
India	1813	2579	4400	4583	4819	5117	5464	5851	6183	6519	6714	6118
China	1424	3452	9687	10398	11150	11917	12692	13488	14344	15243	16092	16411
Korea, Rep.	12656	22964	35389	36049	37021	37967	38829	39815	40957	41948	42719	42251

Source: World Bank Data

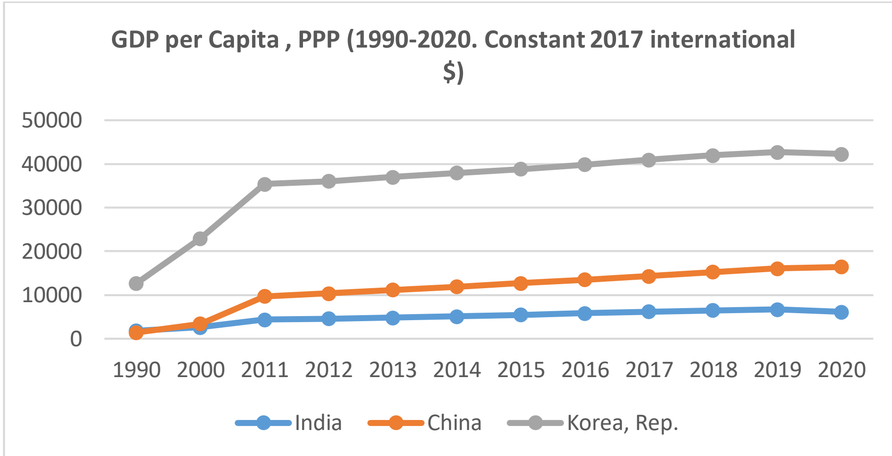

Fig. 2. GDP per Capita between 1990 and 2020
The figure is calculated from the estimated per capita income of the two countries. See The Madisson-Project (2013) database at http://tinyurl.com/pvqeuay.

Table 1 and Table 2 show the steady increase of the economic growth in India, but it remains clearly below the level achieved by China.

Table 3. Population in Billion

Country	1990	2000	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
China	1.135	1.263	1.344	1.351	1.357	1.364	1.371	1.379	1.386	1.393	1.398	1.402
India	0.873	1.057	1.25	1.266	1.281	1.269	1.31	1.325	1.339	1.353	1.366	1.38

Source: World Bank

Table 3 shows that India's population growth has been rapidly increasing. Such population should reach 1.6 billion in 2050, taking over China as the most populous country in the world. This will put a further strain on India's resources, with water supply being the main issue as many Indians don't have access to safe water. Moreover, large cities are already very congested and by 2050, the congestion might make the cities even more a difficult place for work and residence.

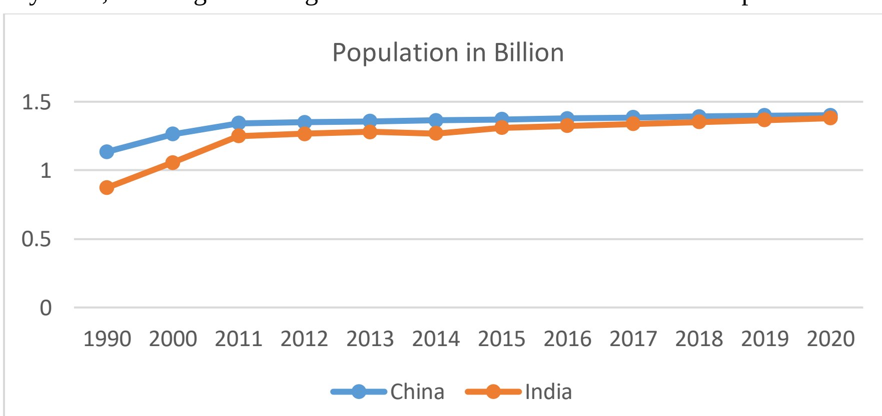

Fig. 3. Population Trends in China and India

Table 4. Human Development Index Data (2019)

Rank	Country	HDI value (2019)	Life expectancy at birth (years)	Expected years of schooling (years)	Mean years of schooling (years)	Gross national income (GNI) per capita (PPP $)
4	Hong Kong	0.949	84.9	16.9	12.3	62,985
23	Republic of Korea	0.916	83	16.5	12.2	43,044
85	*China*	*0.761*	*76.9*	*14.00*	*8.1*	*16,057*
131	*India*	*0.645*	*69.7*	*12.2*	*6.5*	*6,681*

Source: United Nations Development Program

The human development index ranking in India in 2019 was 131out of 189 countries while Hong Kong, the United States, and China rankings were respectively 85, 17, and 4. India should enhance economic and social development by increasing GDP per capita and improving the effectiveness of health and education sectors. FDI can play here a vital role in terms of financing, technical assistance, and strategic partnerships.

3. FOREIGN DIRECT INVESTMENT AS A DIVER OF ECONOMIC DEVELOPMENT IN INDIA

The Indian government sponsored protection of domestic firms between 1978 and 1990 eroded the country's industrial development pace. Firms were unable to purchase advanced technological equipment and machinery and thus domestic companies were lagging behind in comparison with multinational corporations (MNCs) (Kumar, 1994). The quality of their products appeared to be lower, more expensive, and quite restricted in range. Therefore, domestic firms lost their competitive edge and were unable to keep up with their foreign counterparts because their manufactured products became unattractive for exports. The characteristics of this period relate to the change of attitude by India's government towards foreign investors. The idea behind the reforms was to strengthen the competition of Indian companies in the international markets through the increased presence of more MNCs in India. The previous rigid restrictions of high tariffs and restrictions on imports along with limitations on domestic capital participation started to noticeably relax to some extent (Balasubramanyam & Mahambare, 2003).

The new incentive package offered included tax incentives, special infrastructure for 100 percent export based MNCs, reduction of tariffs and import taxes, expediting clearance and ease in the FDI approval procedures without having a local business partner. Part of the plan for infrastructure development covered establishment of other export processing zones (EPZs) to attract a larger number of foreign investors (Kumar, 1995). However, as argued by Bhagwati (1993), the reforms were limited and did not bring expected results because of the associated widespread bureaucratic controls imposed by the government relating to production, trade, and investment. The policy changes that were underway during this timeframe aimed to have significant implications for trade liberalization and ultimately, positively influenced inward FDI, the number of joint ventures and technological transfers. The picture of the overall FDI inflows reflects a fluctuating pattern. The downturn occurred from 1982-1983. However, from this point onward, the trend reversed with a slight decline in 1988. FDI rose from $ 79.16 million (1980) to $236.69 million (1990) (table 1). The joint ventures between MNCs and Indian counterparts more than doubled during this period from 307 (1978) to 703 (1990) (Nayak, 2008). Indian domestic companies were able to acquire advanced technology from industrial countries and diversify their products. The Indian outward FDI rose in the United States, Western Europe, the Middle East and Africa (Kumar, 1995).

Table 5. India FDI Inflows from 1980 to 1990 ($ millions)

1980	79.16
1981	91.92
1982	72.08
1983	5.64
1984	19.24
1985	106.09
1986	117.73
1987	212.32
1988	91.25
1989	252.1
1990	236.69

Source: UNCTAD Stat (2012)

According to table 5, India's FDI inflows was in average annually around 117 million of USD, but it was volatile with a standard deviation of 82.8. Such volatility can be also identified through the chart below.

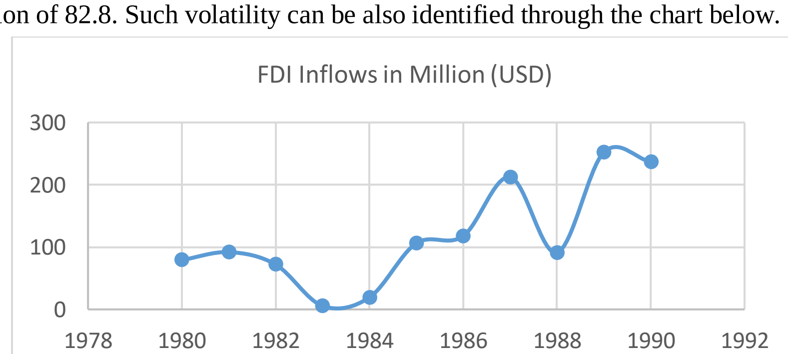

Fig. 4. Evolution of India FDI Inflows in Millions (USD)

Concerning the period between 1991 and 2011, it constitutes a turning point in the history of India's FDI developments. In the early 1990s, the issue of the foreign exchange market crisis was so critical for India that it almost put the country on the brink of bankruptcy because 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). To avoid the worst and put the situation on the right track, India in 1991 appointed Manmohan Singh (Khandare & Babar, 2012), a non-political figure as a finance minister to lead the reform of India's economy. The phase of liberalization that finally reversed the unsatisfactory FDI trends in India and changed the investment climate, had been implemented through critical programs supported by both the World Bank and IMF in a bid to obtain loans to overcome the severe foreign exchange market crisis. Further liberalization of its market was required as a trade-off to obtain loans and access development programs. This process carried risks as well because if India was unable to live up to its promises for reform, investors were ready to exit the country. However, if the government pushed hard on reforms, it was likely to cause turbulence and severe reactions from internal oppositions (Ghosh, 2006).

The concrete implications of reforms that India had to abide by included an allowance of up to 51 percent of equity for thirty-four industries that were on the priority list, extensive reduction of tariffs on imports, abolishment of industrial licensing excluding only a few industries and immediate approval of FDI for most of the Indian economic sectors (IMF, 2005). In addition, there were also other incentives in property and sales taxes, capital grants, direct financial support, and state sponsored assistance to aid investors through feasibility studies for project analysis of their specific areas of interests (Oman, 2000). Throughout this period, to ensure that India retained and enhanced competitiveness, the government continuously conducted systematic revisions of the existing FDI guidelines and enacted updated regulations to further liberalize the market (DIPP, 2012b).

These new reforms had very substantial positive implications in the subsequent years. The introduced FDI policy changes opened the door for many prestigious MNCs to target India's marketplace because of the favorable investment incentives and institutional environment to conduct business in India. Many structural reforms that were initiated and instituted along with new approaches that eased the FDI approval procedures and relaxed extensive bureaucratic conduct turned out to be rewarding. While the total inflows from 1980 to 1990 was about $1,284 million, the inward FDI from 1991-2000 increased more than 14-fold to account more than $18,516 million. Moreover, in the next 10 years, FDI inflows boomed with the largest amount received in India's history.

Table 6. FDI Inflows from 1991 to 2019 ($ millions)

Date	FDI Inflows in Million (USD)	FDI as % GDP
12/31/1991	73.54	0.0272
12/31/1992	276.51	0.0959
12/31/1993	550.37	0.1971
12/31/1994	973.27	0.2974
12/31/1995	2,143.63	0.595
12/31/1996	2,426.06	0.6175
12/31/1997	3,577.33	0.8602
12/31/1998	2,634.65	0.6253
12/31/1999	2,168.59	0.4726
12/31/2000	3,584.22	0.7652
12/31/2001	5,128.09	1.0564
12/31/2002	5,208.97	1.0116
12/31/2003	3,681.98	0.6059
12/31/2004	5,429.25	0.7656
12/31/2005	7,269.41	0.8861
12/31/2006	20,029.12	2.1302
12/31/2007	25,227.74	2.0734
12/31/2008	43,406.28	3.6205
12/31/2009	35,581.37	2.6516
12/31/2010	27,396.89	1.635
12/31/2011	36,498.65	2.0021

12/31/2012	23,995.69	1.3129
12/31/2013	28,153.03	1.5163
12/31/2014	34,576.64	1.6957
12/31/2015	44,009.49	2.0921
12/31/2016	44,458.57	1.9374
12/31/2017	39,966.09	1.5073
12/31/2018	42,117.45	1.5593
12/31/2019	50,610.65	1.7631

Source: UNCTAD

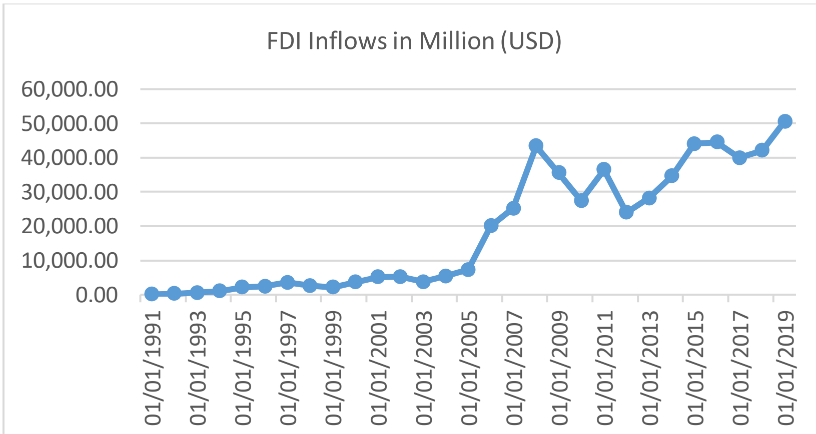

Fig. 5. Changes of FDI Inflows in Millions (USD)

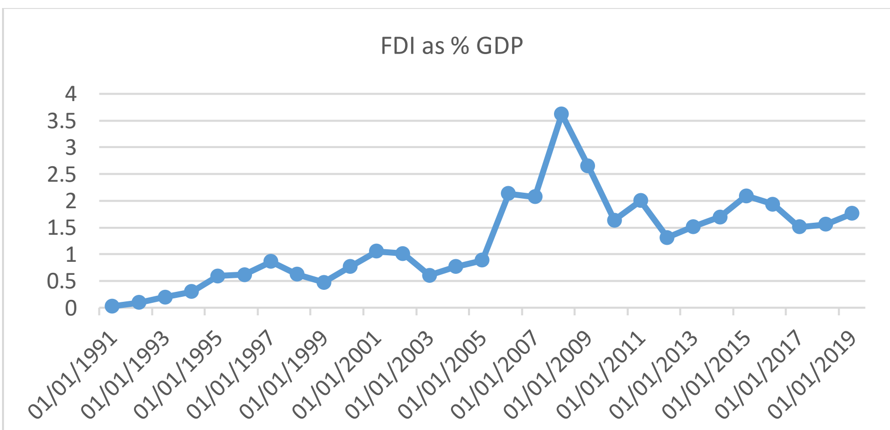

Fig. 6. Changes of FDI as % GDP

In total, FDI inflows in India increased considerably between 1991 and 2019 by moving from 73.54 million of dollars to 50,610.65 million of USD. The annual average of FDI inflows in India during this period was 18660.47 million od USD with a standard deviation of 17708.61. Here again, the volatility of FDI inflows in India is noticeable. That said, it is essential to note that the characteristics of the increased number of registered foreign companies in India during this period was due to the return of MNCs like Ford, General Motors and IBM that had ceased their operations and left the country in previous decades due to imposed restrictions on foreign investors. In addition, the largest number of MNCs that entered the marketplace from 1991 to 2000 was from the European Union and Asia. They accounted for about 65% of total inflows (Nayak, 2008) whereas, in the previous years, companies from the United Kingdom and the United States were omnipresent. In total, new regulatory changes triggered an FDI boom, strengthened India's credibility, enabled the government to develop local industries and raised the competitive level for all actors involved in the market. Domestic firms benefited greatly from the new composition of foreign investors as they were exposed to new business strategies and organizational skills, while cooperating with their foreign counterparts through joint ventures and other forms of partnerships. The Indian labor force engaged with MNCs also managed to acquire a different and pertinent set of skills and capabilities from their experiences.

According to the most recent consolidated Indian policy, 100 percent of FDI is allowed in most sectors under the automatic route. The nature of conditions to which foreign investors may be subject prior to approval include requirements concerning the minimum lock-in periods or capitalizations. On the other hand, the only prohibited sectors for non-resident investors are: multi-brand retailing, lottery, manufacturing of tobacco related products, atomic industry, railways, chit fund, trading in transferable rights and Nithi company (DIPP, 2012a). In this context, the entrance of MNCs not only may create a monopoly in some of the highly protected industries, but it can also lead to allocation of enormous economic powers to limited foreign investors. Liberalization of these sectors carries both risks and benefits. While relaxations of the FDI policy will ultimately increase inflows, it can also create disturbances for local businesses and can drag them into bankruptcy if they are not able to withstand competition from their foreign counterparts. The most recent proposed significant change in the FDI policy relates to the retail sector which was aimed at attracting many large multi-brand MNCs across the world. The proposed retail policy changes that were initially approved at the end of 2011, were supposed to allow MNCs to own a maximum of 51 percent. However, the decision was abolished because of the harsh criticism from opposition political parties and concerns raised by small shop owners throughout the country (Hu et al., 2012). Currently, investments are allowed only into single brand product retailing, allowing investors to own up to 100 percent of the equity. However, MNCs engaged beyond 51 percent are obliged to source 30 percent of their products from locals whose products are made in India (DIPP, 2012a). Let's us now focus on the dynamic of the United States foreign investment in India.

4. DYNAMIC OF THE UNITED STATES FDI IN INDIA

As shown in table 7, the United States was the 6th top investing country in India during the period 2000-2017 (Table 7). Concerning figure below, it shows the country-wise share in cumulative FDI equity investments in India between January 2000 and 2018.

Table 7. Share of Top Investing Countries in India

Rank	Country	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18*	Total ($ Mill)	2000-2017
1	Mauritius	30.32	48.18	23.13	33.1	23.55	39.98	45.22	68,877	34.7
2	Singapore	16.03	11.71	28.49	24.71	38.6	22.14	20.88	47,989	24.2
3	Japan	9.06	11.35	8.18	7.64	7.37	11.97	3.75	17,284	8.7
4	UK	24.01	5.48	15.31	5.3	2.53	3.77	1.18	16,296	8.21
5	Netherlands	4.3	9.42	10.8	12.6	7.45	8.56	7.67	16,926	8.52
6	USA	3.4	2.83	3.84	6.69	11.82	6.05	5.23	12,200	6.14
7	Germany	4.95	4.36	4.94	4.12	2.78	2.72	3.68	7,634	3.84
8	Cyprus	4.84	2.49	2.65	2.16	1.43	1.54	0.88	4,557	2.29
9	France	2.02	3.28	1.45	2.33	1.69	1.56	1.2	3,766	1.9
10	UAE	1.08	0.91	1.21	1.35	2.78	1.72	0.97	3,060	1.54

Source: FDI Fact Sheet, DIPP, September 2017

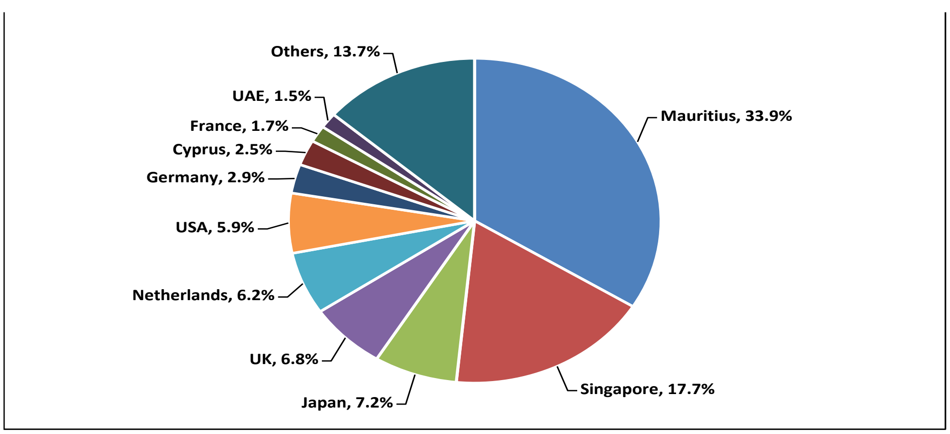

Fig. 7. The Country-wise Share in Cumulative FDI Equity Investments
Source: DIPP (2018)

In terms of sources of FDI inflows, Mauritius, and Singapore account for about 52 per cent of cumulative equity investments in India between 2000-01 and 2017-18 (Figure 7). Historically, the other major sources of such investments are Japan, United Kingdom, Netherlands, and United States. In the years between 2013-14 and 2017-18, the combined share of Mauritius and Singapore in FDI equity investments in India has been increasing systematically. Their share in FDI equity investments increased from about 56 per cent in 2016-17 to 63 per cent in 2017-18 during the implementation of an amended double taxation avoidance agreement by India with these countries in a phased manner effective from April 2017 to prevent tax evasion on incomes and capital gains (RBI, 2018b). Moreover, based on table 8 outlines FDI from USA in India and its share in GDP as percentage. In this table, the highest share of U.S. FDI in GDP is 0.204% recoded in the year 2009-10, the second highest share of FDI in GDP recorded as 0.192% in the year 2008-09.

Table 8. FDI from USA in India and its share in GDP as percentage

Year	FDI Inflows in US Million Dollars	FDI Inflows in Rupees in Crore	FDI Growth Rate	Total GDP in Rs Crore	GDP Growth Rate	FDI Share as Percentage in Total GDP in Rs
2002-03	319	1504	-	2570935	-	0.058%
2003-04	360	1658	10%	2775749	7.96%	0.059%
2004-05	668	3055	84%	2971464	7.05%	0.102%
2005-06	502	2210	-28%	3253073	9.47%	0.067%
2006-07	856	3861	75%	3564364	9.56%	0.108%
2007-08	1089	4377	13%	3896636	9.32%	0.112%
2008-09	1802	8002	83%	4158676	6.72%	0.192%
2009-10	1943	9230	15%	4516071	8.59%	0.204%
2010-11	1170	5353	-42%	4918533	8.91%	0.108%
2011-12	1115	5347	0%	5247530	6.68%	0.101%
2012-13	557	3033	-43%	5482111	4.47%	0.055%

Source: Dr. B. China Venkata Lingaiah (2022)

U.S. multinational enterprises (MNEs) invest in nearly every country, but their investment in affiliates in five countries accounted for more than half of the total position at the end of 2020. The U.S. direct investment abroad position was largest in the United Kingdom ($890.1 billion), followed by the Netherlands ($844.0 billion) and Luxembourg ($759.4 billion). Canada ($422.2 billion) and Ireland ($390.3 billion) rounded out the top-five. By industry of the directly owned foreign affiliate, investment was highly concentrated in holding companies, which accounted for nearly half of the overall position in 2020. Most holding company affiliates, which are owned by U.S. parents from a variety of industries, own other foreign affiliates that operate in a variety of industries. By industry of the U.S. parent, investment by manufacturing MNEs accounted for 51.6 percent of the position, followed by MNEs in finance and insurance (13.9 percent) (BEA, 2021). U.S. MNEs earned income of $452.0 billion in 2020 on their cumulative investment abroad, a 13.0 percent decrease from 2019. Dividends, or repatriated profits, decreased by $124.6 billion, or 30.7 percent. The top host countries of U.S. direct investment abroad in 2020 are the United Kingdom, Netherlands, Luxembourg, Canada, and Ireland. All these countries are ahead of India which is in the 6th position (Table 9).

Table 9. U.S. Direct Investment Abroad (2020)

	Direct investment position on a historical-cost basis (millions of USD)	%
All countries	6,152,301	100
UK	890,086	14.47
Netherlands	843,954	13.72
Luxemburg	759,360	12.34
Canada	422,160	6.86
Ireland	390,274	6.34

Source: Bureau of Economic Analysis (July, 2021)[1]

[1] *More details on the dynamic of U.S. direct investment abroad in all countries between 2017 and 2020 can be found in https://www.bea.gov/sites/default/files/2021-07/dici0721.pdf*

Nevertheless, from India's government perspective, the United States become the second biggest FDI source for India during April-September 2020 replacing Mauritius, during the first half of the current financial year, according to data of the Commerce and Industry Ministry. Indeed, between April and September 2020, India attracted FDI worth of $7.12 billion from the United States and $2 billion from Mauritius, which slipped to fourth position. Mauritius was the second biggest FDI source during the same period previous year. The United States was the fourth biggest investor during that period. Singapore with $8.30 billion foreign inflows continued to be the top source of FDI for India in April-September 2020-21. The country has received $2.1 billion inflows from Cayman Isands. The islands was followed by Netherlands ($1.5 billion), U.K. ($1.35 billion), France ($1.13 billion), Japan ($653 million) , Germany ($202 million), and Cyprus ($48 million) (DPIIT, 2020).

The reshaping of India FDI policy may explain the increase of FDI in India especially inflows from the United States. Indeed, the announcements made by the Government of India (GoI) on reforms to the existing FDI policy on June 20, 2016, were meant to liberalize and simplify the FDI policy so as to provide ease of doing business in India leading to larger FDI inflows contributing to growth of investment, income and employment (GoI, 2016). The amendments have resulted in India becoming an open economy for FDI with majority of the sectors coming under the automatic approval route. The amendments, later incorporated in Consolidated FDI Policy effective from August 28, 2017 (DIPP, 2017b). FDI policy has been further liberalized in key sectors according to the amendments announced by the GoI on January 10, 2018. These include: (i) 100 per cent FDI under automatic route for single brand retail trading; (ii) 100 per cent FDI under automatic route in construction development; (iii) foreign airlines allowed to invest up to 49 per cent under approval route in Air India; (iv) foreign institutional and portfolio investors allowed to invest in power exchanges through primary market; and (v) amendment of the definition of medical devices as contained in the FDI policy (GoI, 2018). The government has amended the FDI policy to facilitate ease of doing business, attract investment, and promote growth in income and employment. These amendments, with a focus on boosting the Make in India program, have resulted in India becoming an open economy for FDI with majority of the sectors coming under the automatic approval route. The Make in India program is showing some early positive signs of attracting FDI towards establishing manufacturing facilities in India (Singh & Sasi, 2016).

In this context, Samsung has launched the world's biggest mobile factory in Noida near Delhi in July 2018. With this, Samsung's smartphone manufacturing capacity in India is expected to increase from 68 million to 120 million per year (Kotoky & Rai, 2018). Xiaomi after its foray into India in July 2014, started manufacturing smartphones from August 2015 onwards in partnership with Taiwanese contract manufacturer Foxconn (TNN, 2017). In a bid to ramp up its manufacturing capacity in the country, the company has announced the opening of three new plants (Bhatia, 2018). A lot of expectation has been placed on the Make in India manufacturing sector to attract foreign investment and generate employment. But with so much technological innovation and use of capital-intensive (and labor displacing) mode of production, it remains to be seen how far the manufacturing sector succeeds in generating employment along with economic growth, in line with the well-intentioned goals of the Make in India program. Therefore, the government should not lose sight of the traditionally labor-intensive sectors and should ensure an enabling environment for FDI flow to such sectors (e.g., light machine tools, textiles and readymade garments, leather products, and food processing), with plants set up in small towns close to rural and suburban areas (NCAER, 2009). The government should also focus on simplifying the existing labor laws and make them more flexible as this would not only help in attracting FDI, but also generate employment opportunities particularly in the manufacturing sector (PTI, 2014; ET, 2016) which is increasingly adopting capital-intensive mode of production (Sen & Das, 2015; Kapoor, 2016). Another area of concern is regional concentration of FDI flows in India (Mukherjee, 2011) with a handful of States accounting for a major part of the total inflow. In this age of co-operative federalism, to avoid regional inequality from getting escalated by such skewed FDI inflows, it is necessary that FDI-related policies tackle regional and State-level issues (Malhotra, 2014). This, however, would require political will, both at the Centre and State level. Given the nature and trend of flow of FDI experienced so far in India, the challenge lies in attracting FDI flows into sectors having the potential for generating growth and employment, in the context of a rapidly evolving economic and technological landscape. To over-emphasize the role of FDI in terms of creating jobs and contributing to growth would be irrational. At best, FDI flow can play the role of supplementary investment in relation to domestic investment required for growth and development of the economy (Basu & Ghosh, 2017).

Table 10. Sector Attracting Highest FDI in India

Ranks	Sector	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18 *	Total ($ Mill)	2000-2017
1	Service sector	21.94	31.86	17.87	22.67	24.42	31.95	15.81	35,207	24.3
2	Telecommunications	8.4	2	10.5	14.77	4.69	20.47	32.97	19,475	13.5
3	Computer Software and Hardware	3.35	3.2	9.04	11.71	20.93	13.44	16.5	17,305	12
4	Construction Development - Township, Housing, Builtup Infrastructure	13.21	8.78	9.85	3.92	0.4	0.39	1.97	7,049	4.87
5	Automobile Industry	3.88	10.13	12.18	13.91	8.96	5.92	6.69	12,074	8.34
6	Trading	0	0	10.78	13.92	13.63	8.6	7.87	11,707	8.08
7	Drugs and Pharmaceuticals	13.59	7.4	10.27	7.64	2.67	3.15	4.68	9,606	6.63
8	Chemicals (other than fertilizers)	17	1.93	7.05	3.89	5.21	5.13	4.86	9,733	6.72
9	Power	6.95	3.53	8.56	3.61	3.08	4.1	3.86	6,655	4.59
10	Infrastructure Activities	0	0	0	0	15.99	6.85	4.79	7,255	5.01
11	Metallurgical Industries	7.51	9.67	0	0	0	0	0	3,252	2.25
12	Hotel and Tourism	4.18	21.49	3.9	3.96	0		0	5,515	3.81

*** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis*

Source: FDI Fact Sheet, DIPP, September 2017

Table 11. Sector-wise Cumulative FDI Equity Inflows in India (2000-01 to 2017-18)

Sector	Amount in US$ Billion	Share (%)
Services (as per DIPP classification)	66.19	17.56
Computer Software & Hardware	30.82	8.8
Telecommunications	30.6	8
Construction Development	24.83	6.59
Automobile Industry	18.76	4.89
Trading	18.56	4.92
Drugs and Pharmaceuticals	15.72	4.17
Chemicals (other than fertilizers)	14.60	3.87
Power	13.21	3.51
Construction (Infrastructure) Activities	12.55	3.33
Total of Top 10	245.40	65.12
Grand Total	376.85	100

Source: DIPP (2018)

Table 10 and Table 11 show that FDI in India is more concentrated in services. A more distributed financing from this investment should target the IT sector, pharmaceuticals, housing finance companies, automobiles, infrastructure, fast moving consumers goods, and logistics. Another essential questions is whether India's government will make changes to the list of prohibited sectors that includes the following items (FDI India , 2020):

- Lottery Business, which includes Government/private lottery, online lotteries, etc.
- Gambling, Betting as well as casinos etc.
- Chit funds
- Nidhi company
- Trading in Transferable Development Rights (TDRs)

- Real Estate Business
- Construction of Farm Houses (Real estate business does not include development of townships, construction of residential /commercial premises, roads or bridges)
- Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

5. CONCLUSIVE REMARKS AND POLICY RECOMMENDATIONS

India has tremendous strengths especially in information technology and business process outsourcing. The country also ranks second worldwide in farm output and 12th in the world in terms of nominal factory output. Additionally, the Asian giant houses a workforce that is growing faster than many countries. The population of India is young. More than 85% of the people are below the age of 55. Of that number, more than 41% are between 25 and 54 years old. Furthermore, India not only has a strong growth rate especially in the information technology and business process outsourcing sectors, but also it has a stable political system. Indeed, the country kept a democracy since being released from British rule over 60 years ago. In 2014, Narendra Modi was elected prime minister. His government and policies have made good progress in recent years, although the country is still lagging in many ways (Kupper, 2022). Mr. Modi launched the "Make in India" initiative to encourage investment in manufacturing. He pledged to eliminate restrictive regulations and lower bureaucratic barriers for both local and foreign companies. He also, loosened restrictions on retail, defense and other industries, India climbed in the World Bank's ranking of ease of doing business, and foreign direct investment shot up. But while industrial production has ticked higher, trade numbers suggest companies aren't exporting much more than they used to (Abrams, 2019). In total, changes of FDI policies in India, especially after the reforms and liberalization of 1991 played an enormous role in the increased FDI inflows. The historical FDI developments in India show how a government can maneuver with its FDI policy to strengthen domestic firms, develop core industries, protect areas of national interest, and still ensure systematic flow of inward FDI. The overall picture of FDI developments in India, from its independence until now, depicts critical key lessons that can be learnt for other developing countries (Sahiti & others, 2017):

- Firstly, India's experience shows that market size does not necessarily determine the levels of inward FDI. Despite its huge market, foreign investors ceased their operations in India when they believed that unfavorable government policies would undermine their profit-making capabilities and limit their economic power to a large extent. However, appropriate reforms and policy relaxations had the opposite effect. This shows that economies can become successful regardless of their size only if respective governments implement effective FDI policies that would maximize the levels of inflows while ensuring that MNCs presence does not create a disturbance in the markets and threaten the existence of domestic firms.
- Secondly, India should seek the support of international institutions and experts if needed to speed up reforms and catch up with other countries that are succeeding in this direction. The access to development programs helped India to arrive at this stage. Additionally, import-substitution policies can aid development of infant local industries and domestic firms in the short-run. Policies that are aimed at the establishment of a strong local base proved to be significantly essential. Nevertheless, such approach is not sustainable in the long run. Exposure to competition and not government protectionism measures ultimately help local companies to catch up with their foreign counterparts in terms of technology, efficiency, knowledge, and expertise.
- Thirdly, India's experience implies that the process of FDI liberalization should follow a proactive pattern rather than a reactive one. The relaxation of policies should be systematic and holistic and not a reaction to a severe economic crisis. Otherwise, the government will see its bargaining and negotiation power reduced and may need more international support.

In this context, the Government of India should tackle a variety of constraints to FDI that can be summarized as follows:

- India is making it hard for some companies to conduct simple transactions in the country. For example, GE Capital's Mauritius subsidiary was informed it had to pay a 40 percent capital gains tax it owed on a 2017 sale even though India and Mauritius have a tax agreement that allows companies operating in the two countries to avoid double taxation from each jurisdiction. The Indian court declared that GE Capital's subsidiary was not, in fact, a bona fide Mauritius company despite that company's protestations to the contrary (Brannon, 2021).
- India has apparently increased the caps for foreign direct ownership in a variety of industries such as insurance, airlines, and single-brand retail, but it still requires these companies to maintain "Indian management and control," a broad term that gives the Indian government excessive latitude to exert control over a foreign-owned business (Brannon, 2021).
- Lack of clear cut and transparent sectoral policies for FDI: Expeditious translation of approved FDI into actual investment would require more transparent sectoral policies, and a drastic reduction in time-consuming procedures.

- Lack of decision-making authority with the state governments: The reform process so far has mainly concentrated at the central level. India has yet to free up its state governments sufficiently so that they can add much greater dynamism to the reforms. In most key infrastructure areas, the central government remains in control, or at least with veto over state actions. Greater freedom to the states will help foster greater competition among themselves.
- Limited scale of export processing zones: The very modest contributions of India's export processing zones to attracting FDI and overall export development call for a revision of policy. India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale.
- Large firms in India are not allowed to retrench or layoff any workers, or shutdown the unit without the permission of the state government. Particularly, the continuing barrier to the dismissal of unwanted workers in Indian establishments with 100 or more employees paralyzes firms in hiring new workers. Labor- intensive manufacturing exports require competitive and flexible enterprises that can vary their employment according to changes in market demand and changes in technology.
- Among the 80% of the workforce engaged in the unorganized sector, two-thirds work in enterprises with limited access to electricity, using manual labor in the age of the robot. Fifty eight percent of enterprises within the unorganized sector have less than ten workers, and a full third of informal workers are reluctant entrepreneurs who are self-employed in highly labor-intensive fields because they have no other choice (Bajpai & Biberman, 2019).
- Financial sector reforms are crucial for large FDI flows into the country. However, only some limited steps have been undertaken and these are by no means going to make any significant changes to the existing system. Indeed, state-owned banks account for nearly 70 percent of assets in the nation's banking sector. This intense involvement of the public sector distorts markets, making it difficult for India to address financing gaps in key areas of development such as infrastructure, small and medium-sized businesses, and housing Malpass, 2019).
- High corporate tax rates corporate tax rates in East Asia are generally in the range of 15 to 30 percent, compared with a rate of 48 percent for foreign companies in India. High corporate tax rate is definitely a major disincentive to foreign corporate investment in India (World Bank, 2019).
- Furthermore, according to the Department of Economic Affairs (2020), the Government of India has issued a notification amending the Foreign Exchange Management Rules of 2019. It outlines that any investing entity: (i) that belongs to/is incorporated in; or (ii) that is beneficially owned by a citizen of or a person situated in, a country sharing a land border with India [2] must obtain the Government's approval prior to making its investment. The Revised Rules came into effect on April 22, 2020. Under the revised rules, the following transactions will require prior Government approval (even if the sector is an "automatic route" sector):
- Direct acquisitions: any acquisition of a stake in an Indian entity by an affected investor.
- Indirect acquisitions: any transaction that will result in an affected investor becoming a beneficial owner of an Indian entity.
- Prior government approval must also be obtained for any transfers of existing foreign investment, which would result in an affected investor securing beneficial ownership of an Indian company. The revised rules will impact cross-border/multi-jurisdictional acquisitions by an affected investor that has an India component, even where the transaction does not result in a transfer of shares of an Indian entity. For example, an affected investor will need prior government approval for any acquisition outside India, if such acquisition leads to a change in beneficial ownership of the Indian entity.
- The revised rules contain language that is not entirely clear. Here are some of the key issues that are yet to be clarified by the Indian government:
- Will prior Government approval need to be obtained for all transactions resulting in any beneficial ownership of an Indian entity being held by an affected investor (an extreme interpretation)? Practically, would the Government utilize de minimis thresholds regarding the significance or quantum of the beneficial ownership?
- The status of investors from the Special Administrative Regions of Hong Kong and Macau is unclear, given that these regions form a part of the People's Republic of China (PRC). Given that Hong Kong is an important investor into India, will investors from Hong Kong be subject to the same scrutiny as those entities from the PRC?
- The Revised Rules currently apply to additional investments made by affected investors already holding interests in Indian entities. For example, a PRC entity that has a wholly- owned subsidiary in India will need to seek the

[2] The following are countries that share a land border with India: (1) Afghanistan, (2) Bangladesh, (3) Bhutan, (4) China, (5) Myanmar, (6) Nepal and (7) Pakistan.

prior approval of the Government in order to make additional investment into its wholly owned subsidiary. It is vague as to why such an approval is required given that the PRC entity already owns all the shares of its wholly owned Indian subsidiary.

- Further, the timelines for processing approval applications from affected investors is unclear. This could introduce significant uncertainties for indirect acquisitions and cross-border/multi-jurisdictional transactions in which India is only one component of a larger transaction.
- There is no limit for repatriation on income in the nature of salary, pension, dividend, interest, rent, distribution from any type of deposits, investment, or properties including profits from proprietorship or partnership business. Specifically, all investments and profits earned by branches of a foreign company are repatriable after taxes are paid. There are though two uncommon exceptions to this; first, certain sectors such as defense are subject to special conditions and there is a lock-in period where companies have to wait for permission to be granted by the Indian government. The second exception is only when non-resident Indians (NRIs) specifically choose to invest under non-repatriable schemes.
- In sum, the government of India should safeguard prior policy incentives and overcome FDI policy restrictions outlined above. Moreover, the government should resolve issues relating to electricity. For instance, the southern state of Andhra Pradesh, home to plants operated by automakers such as Kia Motors (000270.KS) and drug manufacturers including Pfizer (PFE.N), is facing an electricity deficit of 8.7%, the data showed, pushing it to resort to widespread power cuts. Coal inventories at power plants had an average stock of nine days at the beginning of this financial year starting April 1, the lowest since at least 2014. Federal guidelines recommend power plants to have at least 24 days of stock on average (Varadhan, 2022).
- Furthermore, the government must rid India of corruption. India scored 40 points out of 100 on the 2021 Corruption Perceptions Index reported by Transparency International. The country’s expanding population is linked to a shortage of adequate work options, which leads to corruption. To keep the country’s corruption under control, the government should adopt deterring measures and should work on all fronts to create a corruption-free India (India Briefing , 2018).
- Another factor contributing to the rise of corruption is a lack of education. To a significant extent, spreading education can assist to alleviate this problem. People who engage in corrupt practices such as receiving and offering bribes, using unlawful means to build their enterprises, acquiring black money, and other advantages that they do not have legal access to must face harsh penalties. These people must be strictly punished. The media and the government should work together to organize sting operations to expose corrupt individuals in various industries. Such sting operations will not only expose corrupt individuals but will also deter others from engaging in such behavior. Each of us must accept it as a personal obligation to follow the proper procedure for getting things done rather than paying bribes to get things done or avoid fines (Katyal, 2022).
- Mr. Modi’s biggest move against corruption fell flat. He shocked economists all over the world in 2016 by suddenly canceling most rupee notes in circulation. The target was people hoarding cash for corruption, funding terrorism or evading taxes—the idea being that they would be unable to exchange their money for new notes and so would just swallow their losses. By contrast, the bank-note withdrawal hit almost every Indian trying to get by in what is a very cash-dependent economy. Commerce stagnated and lines snaked out of banks day after day. The effects lingered for months (Abrams, 2019).
- Another challenge is the fostering of India’s ranking with respect to the ease of doing business. Indeed, according to the World Bank Group Report (2020), India ranks 63 out of 190 countries with “Doing Business “and got a score of 71. Despite the previous improvements, India should foster even more its ranking by referring to best practices of benchmarks’ countries [3]. The continuous improvement should target the following areas of business regulation:

1. Starting a Business of all
2. Dealing with Construction Permits
3. Getting Electricity
4. Registering Property
5. Getting Credit
6. Protecting Minority Investors
7. Paying Taxes

[3] *The following countries have respectively the best ease of business ranking: New Zealand; Singapore; Hong Kong SAR, China; Denmark; South Korea; and the United States.*

8. Trading across Borders
9. Enforcing Contracts
10. Resolving Insolvency

Finally, the trend of U.S. FDI in India will depend not only on the continuous fostering the foreign investment policy, but also a set of factors outlined as follows:

- MNC activity increases when advances in communications, transportation, and technology facilitate MNC control over foreign operations.
- Rapid economic growth often stimulates MNC expansion, whereas depressed economic conditions have the opposite effect.
- Capital liberalization leads to increased FDI; capital and exchange controls discourage FDI.
- FDI often contracts in response to financial crises, but it may expand in response to trade protectionism because MNCs shift production abroad to circumvent trade barriers.
- MNCs may undertake FDI in countries where inputs are available in order to secure the supply of inputs at a stable accounting price.
- U.S. firms develop new products in the developed world for the domestic market, and then markets expand overseas. FDI takes place when product maturity hits and cost becomes an increasingly important consideration for the MNC.
- Finally, the reform of FDI policy and the achievement of a sustained economic growth should attract more U.S. FDI and generate many benefits for India such as : (i) the creation of a strong economic growth and employment (e.g.; increase capital stock ; increased productivity; rise in GNI [per capital and consumption); (ii) the financing of the current account deficit; (iii) The boosting of exports from the host country; (iv) The increase of wages and the fostering of labor conditions; (v) the offering of better training for local workers through improved human capital , technology and know-how transfer which lead to the diversification of the economy.

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