



How Elections and Policy have Shaped India's FDI Landscape (2014-2024)

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Introduction

The landscape of Foreign Direct Investment (FDI) in India has undergone significant transformations between 2014 and 2024, influenced by the country's political landscape and policy reforms. During this decade, the Indian government has actively sought to position the country as a favorable destination for foreign investors, driven by a combination of electoral mandates, economic policies, and global economic trends.

How Has FDIs Evolved Over the Years?

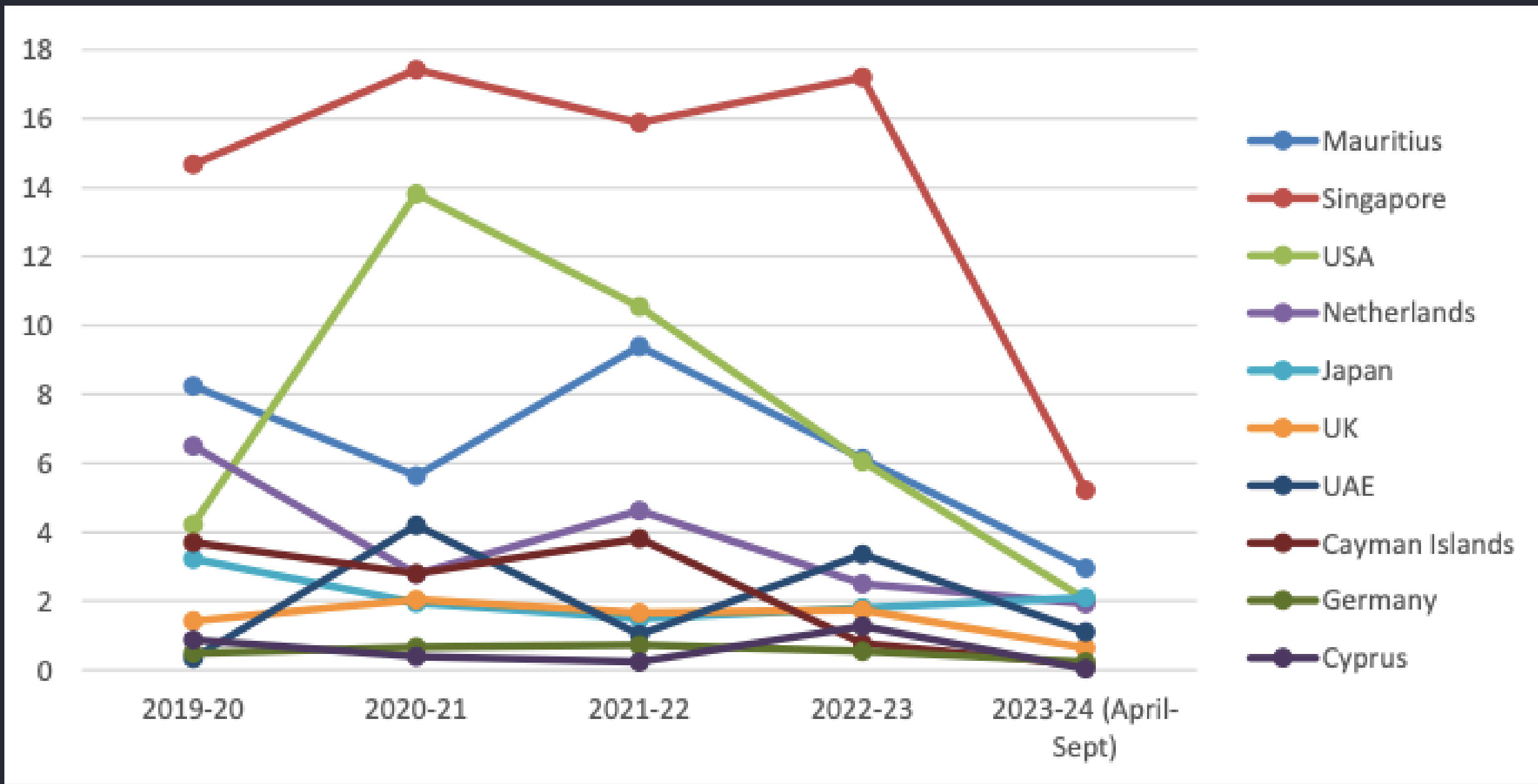


Total FDI Inflow (\$ Billion)

How Has FDIs Evolved Over the Years?

- During FY 2004-05 to FY2013-14, India's cumulative FDI inflows stood at \$ 305.3 billion while the cumulative nominal GDP in that period stood at \$ 13.55 trillion. Thus, the FDI inflows stood at 2.2% of GDP during the same period.
- During FY 2014-15 to FY2022-23, the cumulative FDI made up \$ 596.5 billion and while the cumulative GDP stood at \$ 23.8 trillion, making FDI inflows to be 2.5% of GDP during the period.
- The compound annual growth rate (CAGR) for FDI in India during FY 2012 - 13 to FY 2022 - 23 stood at 28%

Major FDI Equity Inflow to India

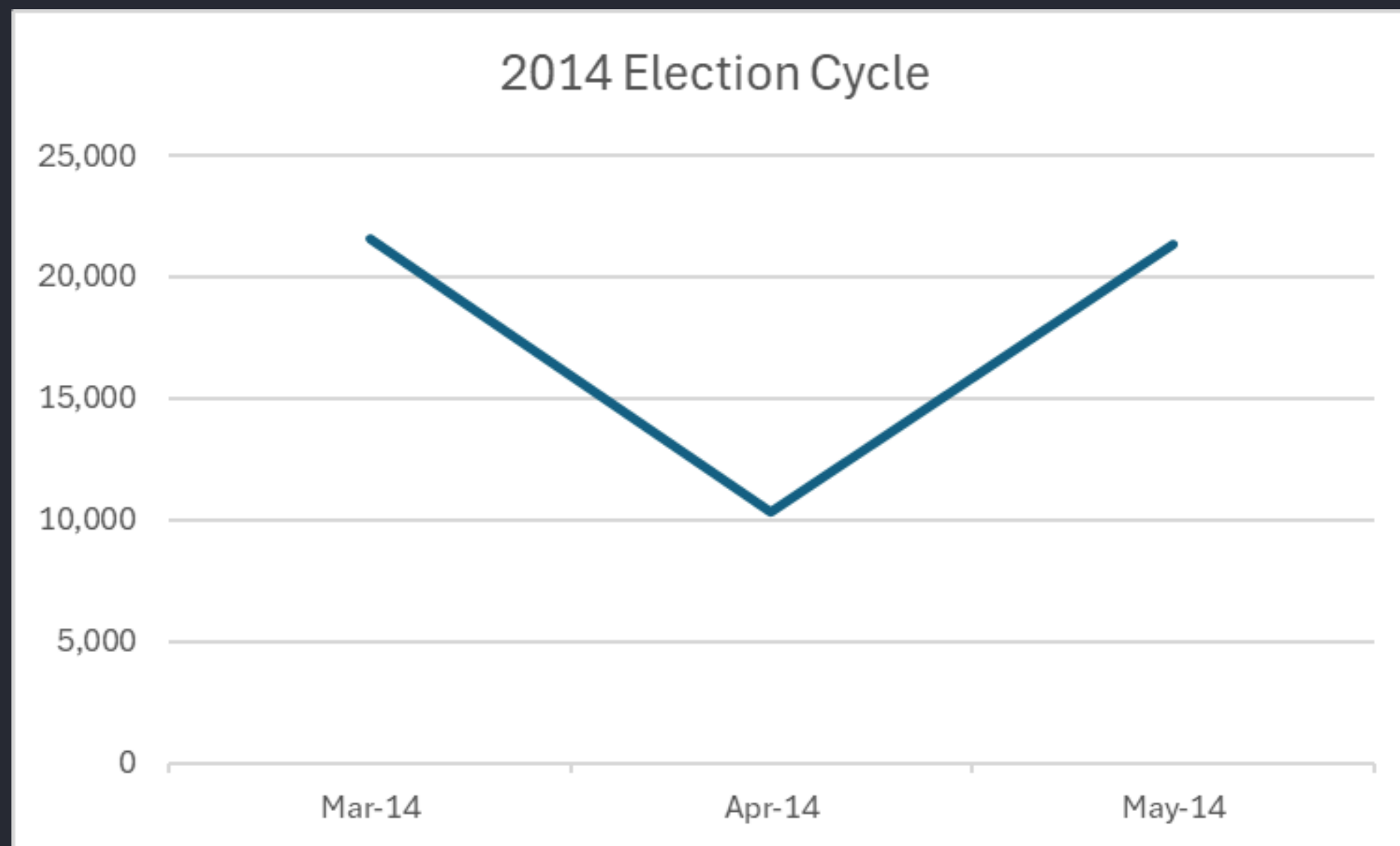


FDI Equity Inflow to India, Country-wise (\$ Billion)

Country wise, Singapore, the USA, Mauritius, the Netherlands and Japan have been the top countries from where FDI equity inflows came in India during the period 2019- 20 to 2023-24. These countries contributed around 70% to 75% of FDI inflows to India during the period.

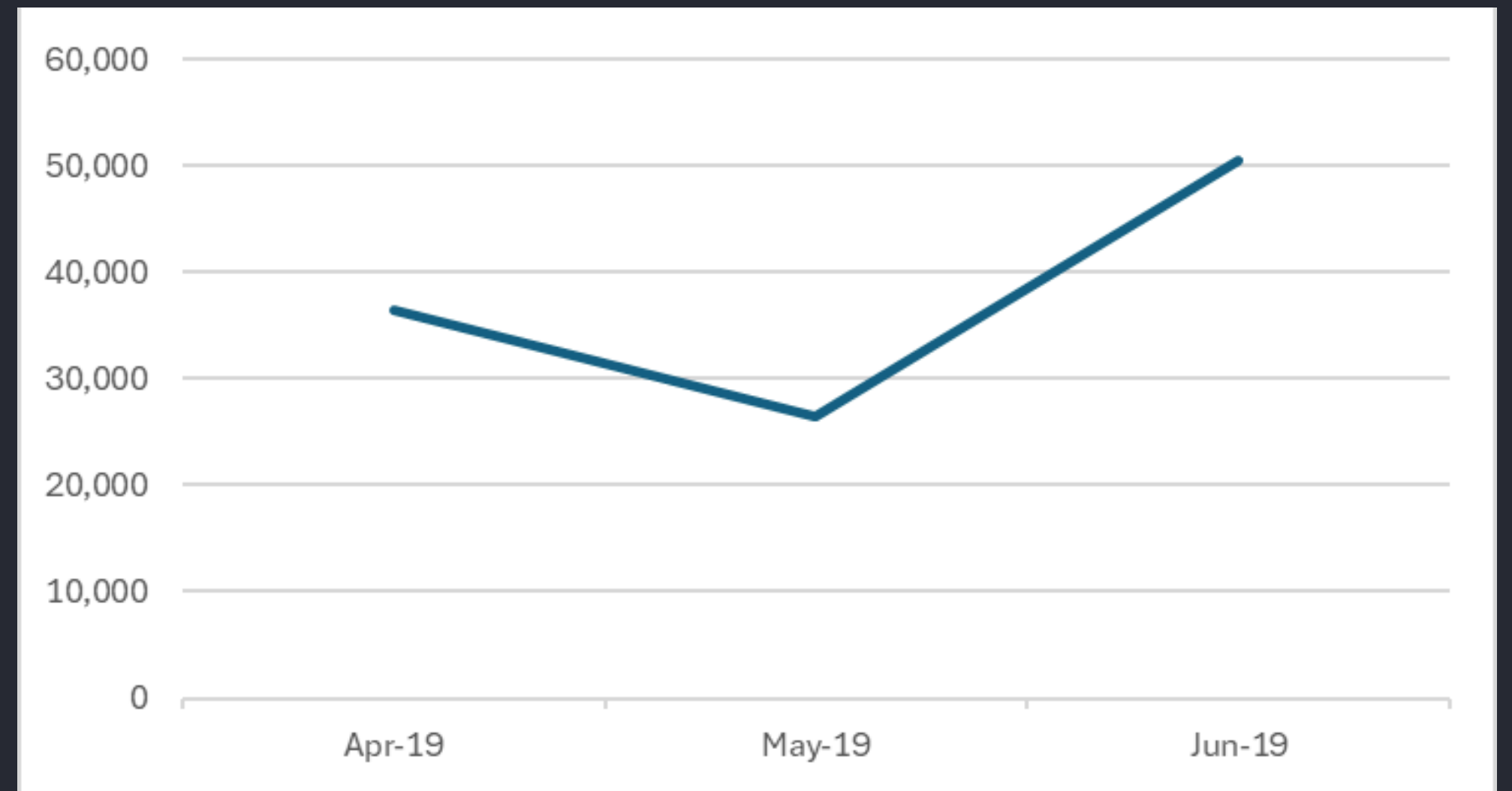
2014 Lok Sabha Elections

The 2014 Lok Sabha Elections took place from 7th April to 12th May. The results were declared on 16th May. Foreign Direct Investment (FDI) decreased by a considerable amount in April 2014, or during the elections. It picked up its flow after the elections.

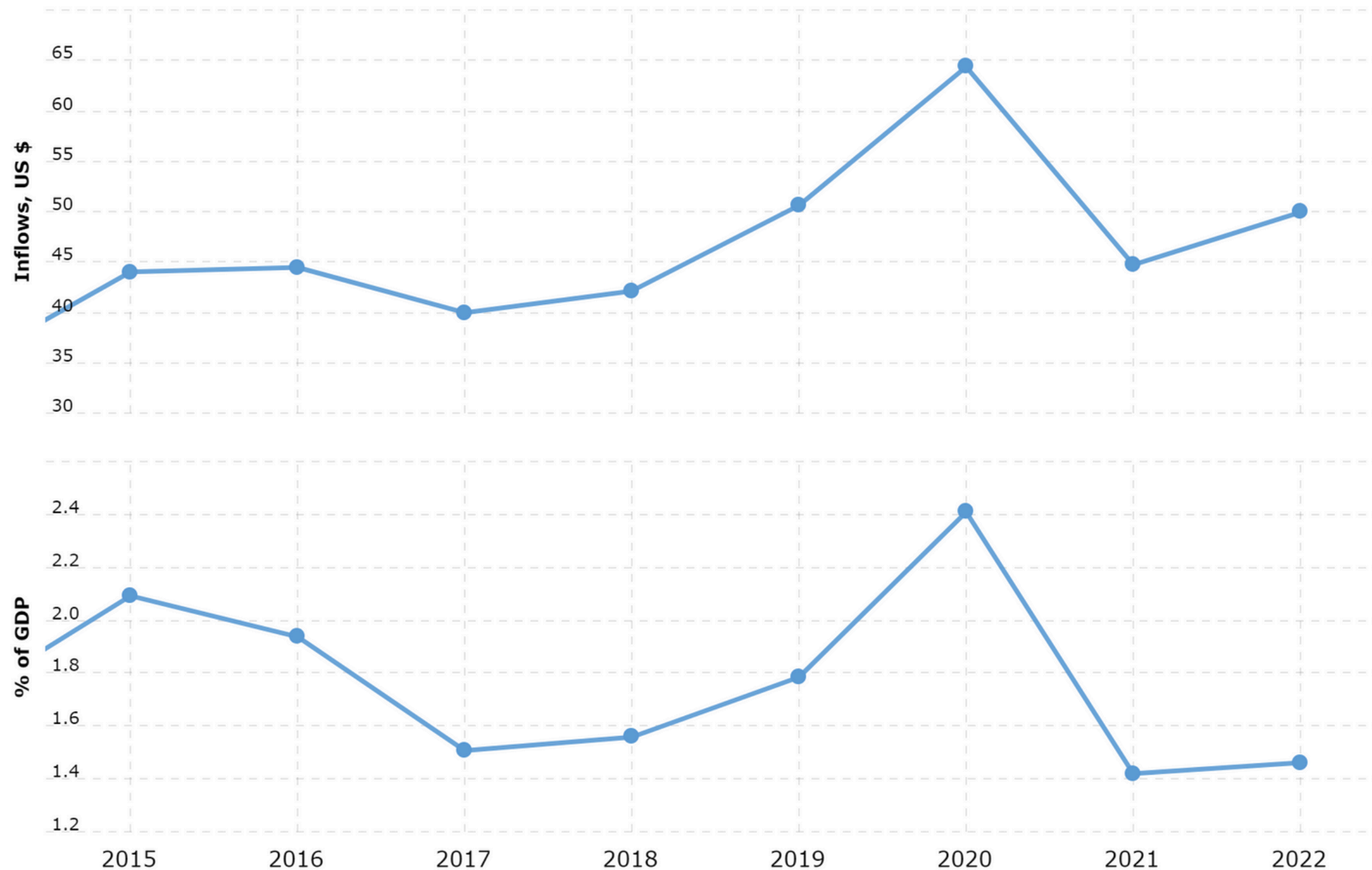


2019 Lok Sabha Elections

The 2019 Lok Sabha Elections took place from 11th April to 19th May. The results were declared on 23rd May. Foreign Direct Investment (FDI) decreased during the elections like in 2014, but they picked up with its highest of the year in June 2019.



Non Election Year Trends



There are two visible decreases in FDI. One of which may be attributed to the government's policy of demonitisation in 2016. The other, observed in 2021, can be easily attributed to the COVID-19 Pandemic.

Policies Contributing to Increased FDI Inflow post-2014

- The increased FDI inflow into India post-2014 can be attributed to a two-fold policy reform:
 - i. Increasing the FDI cap and expanding the automatic approval route in a few industries
 - ii. Fostering a better investment landscape
- Excluding a small list which included sectors like defence, public sector banking, satellite, etc, FDI up to 49% was allowed under the automatic approval route.
- FDI cap limit (maximum permitted investment) was raised in certain sectors like defence and railways.
- To improve the investment landscape, labour laws were reformed, infrastructure was developed and land acquisition was made business-friendly.

Policies Contributing to Increased FDI Inflow post-2019

- The policies adopted by the government post-2019, to increase the growth rate in FDI inflows, expanded on the existing policies.
- 100% FDI has been approved under the automatic approval route to sell coal and coal mining activities.
- 26% FDI under the Government route has been approved for uploading/ streaming of News & Current Affairs through Digital Media, on the lines of print media.
- The previous policy had no special provision for contract manufacturing so the 2019 policy clarified 100% FDI under automatic route for contract manufacturing.
- Local sourcing norms in Single Brand Retail Trading (SBRT) were eased to provide for greater flexibility and ease of operations.

Notable FDI Projects

- The aforementioned changes to the FDI policy of India have attracted several projects that have contributed significantly to the economy.
- The increase in the FDI cap of the civil aviation industry to 100% (up to 49% through automatic route and above 49% through the government sector), incentivised airlines to invest in India. An example of this is Singapore Airlines' investment of 267 USD into Air India which will secure Singapore Airlines a 25.1% stake in Air India.
- Similarly, the increase in the FDI cap in the defence sector (up to 74% through automatic route and 100% through government route) has attracted INR 494 crores in FDI in the defence sector since the revised policy.
- Hong Kong-headquartered investment firm BPEA EQT acquired India's largest chain of fertility clinics, Indira IVF. Indira IVF is now expecting a 20-25% growth.

How Does India Compare to Other Countries in Asia Pacific?

Table 1. FDI INTO ASIA-PACIFIC BY PROJECT NUMBERS, 2022		
	No. of Projects	Percentage Change by Project Numbers
India	994	125.9% ←
Australia	420	31.7%
Singapore	384	9.7%
China	314	-24.3%
Japan	194	11.5%
Vietnam	175	45.8%
Malaysia	143	26.6%
Philippines	131	122.0%
South Korea	98	4.3%
Hong Kong	98	11.4%
Others	524	
Total	3475	

India saw the highest FDIs by project number in the Asia Pacific region. The percentage change in project numbers in India was 45% higher compared to its performance in the pre-pandemic period in 2019.

Looking Towards 2024 Elections : Major Sectors for FDIs Since 2023

Table 2. Percentage Out of Total FDI Equity Inflow (Major Sectors), 2023-24 (April - September)	
Services Sector	16%
Computer Software & Hardware	15%
Trading	6%
Telecommunications	6%
Automobile Industry	5%
Construction (Infrastructure) Activities	5%
Construction Development (Townships, housing, built-up infrastructure and construction-development projects)	4%
Chemicals (Other than Fertilizers)	3%
Drugs & Pharmaceuticals	3%
Metallurgical Industries	3%

During FY 2023 – 24, around 60% of FDI equity flows have been concentrated in sectors including services, computer software & hardware, trading, telecommunications, automobiles, infrastructure and construction development (townships, housing, built-up infrastructure)

Looking Towards 2024 Elections : Drop in FDI in FY 2023 - 24

During the quarter ending September 2023

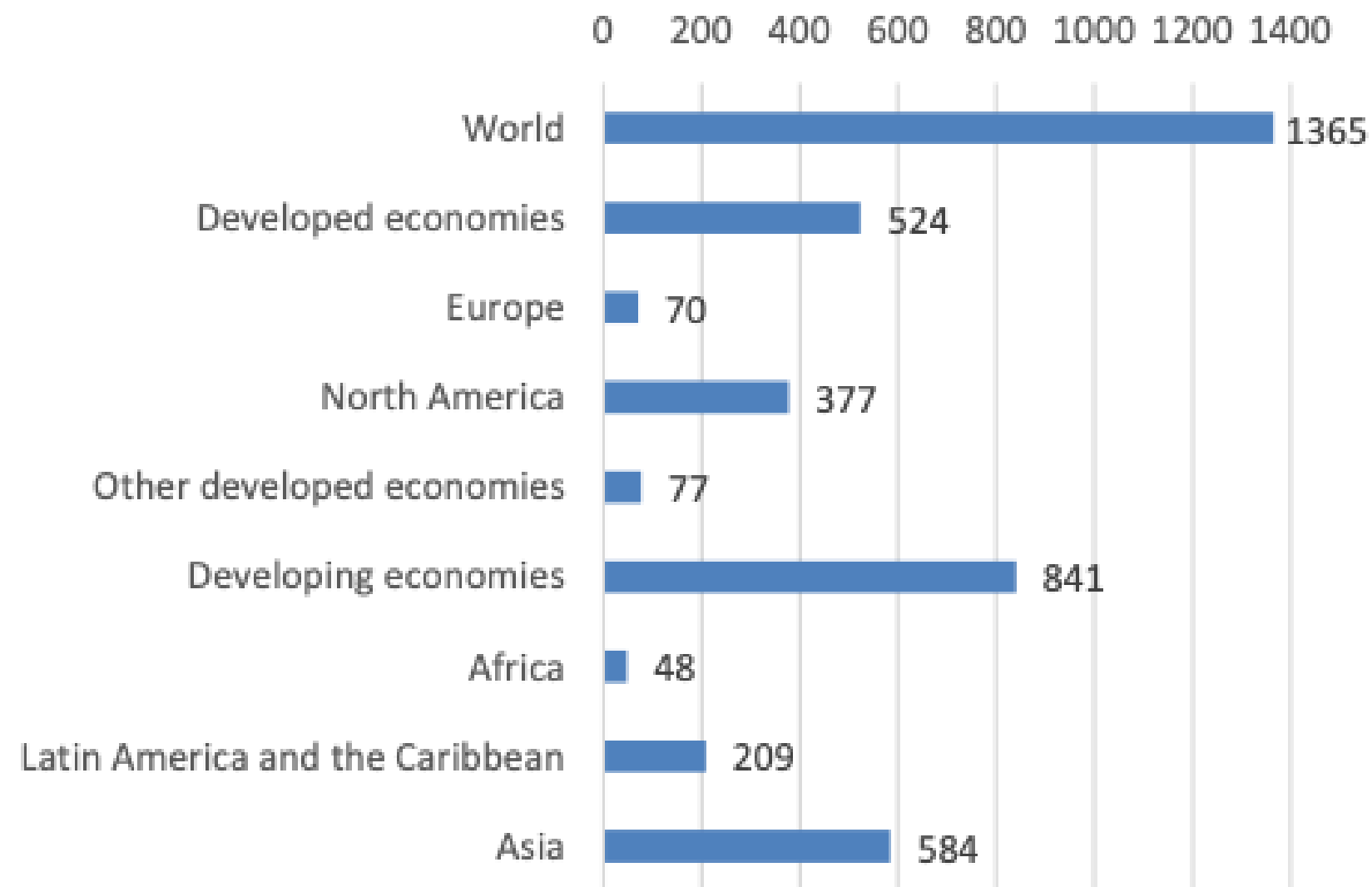
- FDI equity flows dropped 7.8% to \$ 9.5 billion from \$ 10.3 billion during the same quarter in FY 2022-23.
- Total FDI flows too dropped 7.8% against \$ 16.6 billion during the same quarter in FY 2022-23.
- Sequentially, FDI inflows dropped 12.8%.
- Maharashtra received the highest FDI worth \$ 7.9 billion against \$ 8 billion in the same quarter in FY 2022-23 followed by Karnataka bagging \$ 2.8 billion against \$ 5.3 billion a year ago.

During H1 FY 2023-24,

- FDI inflows dropped 24% y-o-y to \$ 20.5 billion in H1 FY 2023-24. o
- FDI inflows rose only in the month of September to \$ 4.08 billion against \$ 2.97 billion in the same month in FY 2022-23. Rest of the months saw a fall in investments.

Looking Towards 2024 Elections : A Look at Global Trends

Fig. 5. GLOBAL FDI, 2022-2023 (\$ Billion)



- Data by UNCTAD reveals that global FDI grew 3% in 2023
- However Developing countries saw a 9% decline in FDI, amounting to \$841 billion in 2023 while developing Asian countries faced a 12% decline.
- India witnessed 47% decline in FDI inflows

Ongoing Challenges for FDI : India's Protectionist Policies

- Despite the plethora of policies implemented to open the country to FDI, India still retains a protectionist image when it comes to FDI.
- Initiatives such as Make in India are a direct competition to the potential FDI inflows the country wishes to bring.
- Indian tariffs are among the highest in the world, currently at around 18%. This number is much higher than other countries in the region like China (7.5%), Vietnam (9.6%) and Bangladesh (14.1%).
- Indian trade policy is sometimes opaque and unpredictable.

Conclusion

From 2014 to 2024, India's FDI landscape has undergone transformative changes driven by political stability, proactive economic policies, and global economic dynamics.

The Modi-led government's strong electoral mandates enabled significant reforms aimed at improving the business environment and attracting foreign investments. Initiatives like Make in India, Digital India, the implementation of GST, and the liberalization of FDI norms have been crucial in reshaping India's investment climate.

Global factors, such as the US-China trade war and the COVID-19 pandemic, also impacted investment patterns, positioning India as a viable alternative for multinational companies seeking stable and promising markets.

However, as the 2024 elections approach, the picture becomes more mixed. While India's FDI prospects remain strong, the uncertainty surrounding the election outcomes could affect investor confidence. The future of ongoing reforms and strategic initiatives hinges on the electoral results, and potential shifts in policy direction may influence the FDI landscape.