

FDI in India

Context

According to UN, India is the 9th largest recipient of FDI in 2019, will continue to attract investments.

What it is

A foreign direct investment (FDI) is an investment in the form of a controlling ownership in a business in one country by an entity based in another country

It is thus distinguished from a foreign portfolio investment by a notion of direct control.

Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations, and intra company loans"

Political Stability" A stable Government is an essential prerequisite for any investment. The investor should not have any fear of take over by the government. This will enable him to go for expansion.

Wages rates: A major incentive for a multinational to invest abroad is to outsource labour-intensive production to countries with lower wages.

Labor skill: multinationals will invest in those countries with a combination of low wages, but high labour productivity and skills

Tax rates: Large multinationals, such as Apple, Google and Microsoft have sought to invest in countries with lower corporation tax rates.

Infrastructure: A country may have low labour costs, but if there is then high transport costs and poor infrastructure such as in sub-sahara region then it will not be very attractive for FDI.

Size of local market: the size of the population, spending capacity and scope for economic growth will be important for attracting investment.

Commodities: this has been a major reason for the growth in FDI within Africa - often by Chinese firms looking for a secure supply of commodities.

Access to free trade areas: A significant factor for firms investing in Europe is access to EU Single Market, which is a free trade area but also has very low non-tariff barriers.

India have large middle class base with high capability of spending which can lure the companies to invest in India

Young and skilled labor force: for sufficiently long time companies can get supply of skilled and young labor as currently 47% of India's population is young.

Ease of doing business: India's ranking in ease of doing business is continuously rising and it is becoming easy for companies to do business in India

High return on investment: India is one of the fastest growing economy in the world and return on investment is quite high in India.

Willingness of government to attract the companies by announcing tax incentives, cheaper availability of land, fast clearance, relaxing FDI norms etc.

Stable government: peaceful environment and political stability is prerequisite for doing business and India provides a stable government and secure environment

India is top exporter of services to the world and have advantage over others in this area

Challenges in Attracting FDI

Rigid labor laws create hurdles in hiring and firing of labor which deter investments by MNCs in India

Frequent power outage in India, makes India less favorable destination for investors.

Logistic cost in India is way too high in India. India ranked 44 in logistic performance index 2018

Transportation takes much more time in India as compared to other country.

Railways in India have saturated while Indian ports have constantly been outperformed by many Asian countries.

Bureaucratic procedures and corruption continue to make India less attractive for investors.

Acquiring land to build a plant, remains difficult. India has slipped 10 places in the latest annual Global Competitiveness Index compiled by Geneva-based World Economic Forum (WEF).

Government increased FDI in defence manufacturing under the automatic route from 49 per cent to 74 per cent.

Government permitted non-resident Indians (NRIs) to acquire up to 100 per cent stake in Air India.

Government permitted 26 per cent FDI in digital sectors.

Government permitted 100 per cent FDI under the automatic route in coal mining for open sale (as well as in developing allied infrastructure like washeries).

100 per cent FDI is permitted in insurance intermediaries.

India announced tat it will consider specific requests on changes to labor laws suitable to companies

Government is also considering to postpone the tax on digital transaction as requested by e-commerce companies.

India approved \$ 1.7 billion worth of investments to make bulk drugs and medical devices

India offers land twice Luxembourg's size (A total area of 461,589 hectares) to firms leaving China to attract these companies

Uttar Pradesh is also developing an online system for land allotment for all industrial and commercial purposes.

India is taking steps to improve ease of doing business

India needs to give clear guarantee that it will not introduce any tax retrospectively.

Monetize the land owned by public sector companies which could be used to develop sites for industrial clusters.

Government should refrain from frequent policy twisting as it deter investment due to policy uncertainty.

Improving infrastructure from transport systems to the power sector to reduce logistic cost and power outage.

Over-hauling school and college curriculum to impart market relevant skill to youth.

Red tapism, corruption and bureaucratic hurdles need to be minimized.

India should reduce the procedural requirement and time taken to obtain the permission for establishing companies

India should reform the labor laws on priority basis so that companies find it attractive.

Way forward

Factors affecting FDI

Opportunities in India