FDI: AN OPENING GATEWAY TO “BRAND INDIA”

Pradeep Kumar

1Assistant Professor, Institute of Management Studies, Mahatma Gandhi Kashi Vidypith, Varanasi.

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Corresponding Author:

Pradeep Kumar,
D-Block, Varuna Garden,
Central Jail Road,
Varanasi-221002,
E-mail: pradeep_111@rediffmail.com
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BACKGROUND

The new government at centre has initiated the revival of a ‘Brand India’ theme and spurring economic rejuvenation through a slew of reforms and policy innovations for unveiling the vision of a strong, resurgent nation. The success of Brand India is concerned with the strength of five 'Ts'-tradition, talent, tourism, trade and technology. The Brand India strategy will focus of transferring India into a globally competitive manufacturing hub riding of “skill, scale and speed.” The plan is to setup world class investment industrial regions along the dedicated freight as well as industrial corridors throughout the country. The new government’s economic revival plans include bolstering infrastructure, increasing tax collection, rationalisation of the tax regime, easing procedures for attracting FDI, a single-window clearance. At the time of launching Brand India theme, the Indian economy was going through a difficult phase with GDP growth dipping to less than five per cent. Putting the Indian economy back on the track, it has been stressed to rein in inflation and fast-track growth by encouraging investments including through FDI and accelerating the creation of jobs. This paper is an attempt to explain that how Brand India strategy will be effective in opening the gate for FDI to accelerate the developmental effort and to analyse retrospect and prospect of FDI in India.

KEYWORDS

Brand India, FDI, Rejuvenation, Reforms, Infrastructure, Investments.


BACKGROUND

Apart from being a critical driver of economic growth, Foreign Direct Investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For a county where foreign investments are being made, it also means achieving technical know-how and generating employment. The Indian new government’s favourable policy regime and robust business environment have ensured that Foreign Capital keeps flowing into the country. The new government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges and stock exchanges among others.

Current Scenario

Foreign Direct Investment (FDI) in India has received a dramatic boost from the launch of the Make in India initiative according to the latest Economic Survey.

After the September 2014 launch of the initiative, which seeks to promote manufacturing and attract foreign investment, there was an almost 40% increase in FDI inflows from October 2014 to June 2015 over the year-ago period.

Under the programme, the government has awarded 56 defence manufacturing permits to private sector entities in the past one year after allowing 49% FDI in the defence sector in August 2014 compared with 47 granted in the preceding three years.

Entities from several countries such as Japan, China, France and South Korea announced their intention to invest in India in various industrial and infrastructure projects.

“The concept of Make in India has really succeeded as it added more employment. With this, India has now become a vibrant market for manufacturers. For the products that are made out of the initiative, we have a strong domestic market with increasing demand. I believe that infrastructure sector is where foreign investments can come in a big way,” said Dipankar Dasgupta, former professor of economics at the Indian Statistical Institute.

The major objectives behind the Make in India initiative are job creation and skill enhancement in 25 sectors of the economy including automobiles, aviation, biotechnology, chemicals, construction, defence manufacturing, electrical machinery, electronic systems and mining.

According to the Department of Industrial Policy and Promotion, FDI inflows under the approval route (Which requires prior government permission) increased by 87% during 2014-15 with an inflow of $2.22 billion. More than 90% of FDI was through the automatic route.

Also in 2014-15, foreign institutional investment rose by an unprecedented 717% to $40.92 billion.

A state-wise analysis of FDI inflows by the economic survey shows that Delhi, Haryana, Maharashtra, Karnataka, Tamil Nadu, Gujarat and Andhra Pradesh together attracted more than 70% of total FDI inflows to India during the last 15 years.

States with vast natural resources like Jharkhand, Bihar, Madhya Pradesh, Chhattisgarh and Odisha have lagged behind.

“To make the recently launched Make in India initiative a success, the states will have a critical role in facilitating FDI in different sectors,” the survey said.

Singapore, Mauritius, The Netherlands and the US account for the major share of FDI inflows into India. Out of FDI equity inflows of $24.8 billion during 2015-16 (April-November), more than 60% came from two geographically small countries-Singapore and Mauritius.
“These inflows need perhaps to be examined more closely to determine whether they constitute actual investment or are diversions from other sources to avail of tax benefits under the Double Tax Avoidance Agreement that these countries have with India,” the economic survey said.

**Track Record of FDI**
According to Department of Industrial Policy and Promotion, the total FDI inflows soared by 24.5% to US$ 44.9 billion during FY2015 as compared to US$ 36 billion in FY2014 FDI into India through the Foreign Investment promotion board route shop up by 20% to US$ 31.9 billion in the year 2015 as against US$ 25.3 billion in the previous year indicating that government’s effort to improve ease of doing business and relaxation in FDI norms is yielding results.

Data for FY2015 indicates that the increase in the FDI inflows was primarily driven by investments in infrastructure and services sector. Within infrastructure, oil and gas, mining and telecom witnessed higher FDI inflows whereas IT services and trading drove the services inflows. Most recently, the total FDI inflows for the month of September 2015 touched US$ 2.9 billion as compared to US$ 2.5 billion in the same period last year.

During FY2015, India received the maximum FDI equity inflows from Mauritius at US$ 9.03 billion followed by Singapore (US$ 6.74 billion), Netherlands (US$ 3.43 billion), Japan (US$ 2.08 billion) and the US (US$ 1.82 billion). Healthy inflow of foreign investments into the country helped India’s Balance of Payments (BoP) situation and stabilised the value of rupee.

FDI in India witnessed an increase of 13 per cent and reached US$ 16.63 billion during April-September, 2015 as compared to US$ 14.69 billion in the same period last year.

According to the data released by Grant Thornton India, the total Merger and Acquisitions (M& A) and Private Equity (PE) deals in the month of August 2015 were valued at US$ 2.6 billion (151 deals), which is 62 per cent higher in volume as compared to August 2014.

**Investments/Developtments**
Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs. 5,000 crore (US$ 770 million).
Some of the recent significant FDI announcements are as follows:

- Japan has won the right to construct India’s first bullet train while offering a loan of US$ 8.11 billion to India for the same.
- Chinese mobile handset maker, Coolpad Group Limited has committed US$ 300 million for setting up a Research and Development (R and D) Centre and its own assembly line in India by 2017.
- Amazon India expanded its logistics footprint three times to more than 2,100 cities and towns in 2015 as Amazon.com invested more than US$ 700 million in its India operations since July 2014.
- Indian Railways has issued a Letter of Award (LoA) to US-based General Electric (GE) for a Rs. 14,656 crore (US$ 2.2 billion) diesel locomotive factory project at Marhowra, and to French transport major Alstom for Rs 20,000 crore (US$ 3 billion) electric locomotive project in Madhepura, Bihar.
- Kellogg Co, world’s largest cereal maker is making large investments in manufacturing and plans to set up its first Research and Development (R and D) Facility in India at Taloja near Mumbai.
- The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport with an investment expectation of Rs 3,200 crore (US$ 500 million).
- Posco Korea, the multinational Korean steel company has signed an agreement with Shree Uttam Steel and Power (part of Uttam Galva Group) to set up a steel plant at Satarda in Maharashtra.
- Foxconn has signed a Memorandum of Understanding (MoU) with Maharashtra State Government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.
- Global giants such as Bombardier, Hyundai ROTEM, TALGO and CAF have queued up to manufacture semi-high-speed train sets in India, which will be used for faster intercity travel.
- Germany-based ThyssenKrupp group is aiming to double its revenue from India to US$ 1 billion in next three-four years while the group’s elevator unit, ThyssenKrupp Elevator, plans to invest EUR 44 million (US$ 50.5 million) to set up a manufacturing plant in Chakan, Pune.
- Swedish home furnishing brand IKEA has made a long-term plan of opening 25 stores in India by making an investment worth Rs. 12,500 crore (US$ 1.9 billion).
- Google plans to invest Rs. 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad, which will be focused on three key areas - Google Education, Google Fiber broadband services and Street view.
- Warburg Pincus, a US based Private Equity (PE) firm has planned to invest Rs. 850 crore (US$ 132.8 million) in Ecom Express - an India-based logistics solutions provider.

**Government Initiatives**
The Government of India has amended the FDI policy regarding Construction Development Sector. The amended policy includes easing of area restriction norms, reduction of minimum capitalisation and easy exit from project. Further, in order to provide boost to low-cost affordable housing, it has indicated that conditions of area restriction and minimum capitalisation will not apply to cases committing 30 per cent of the project cost towards affordable housing.

The Government of India has recently relaxed Foreign Direct Investment (FDI) policy in 15 sectors such as raising the foreign investment limit for some sectors, easing the conditions for others and putting many on the automatic route for approval. The sectors that benefited from the relaxation include defence, real estate, private banking, civil aviation, single brand retail and news broadcasting. The new rules provide for easier exit from investment in the construction sector while foreign investment limit in defence and airlines was allowed up to 49 per cent through the automatic route. Banks were allowed fungible FDI investment up to 74 per cent.

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which means that FDI investment in private banks can rise to this limit.

The Government of India recently relaxed the FDI policy norms for Non-Resident Indians (NRIs). Under this, the non-repatriatable investments made by the Persons of Indian Origin (PIOs), Overseas Citizens of India (OCI) and NRIs will be treated as domestic investments and will not be subject to FDI caps.

The government has also raised FDI cap in insurance from 26 per cent to 49 per cent through a notification issued by the DIPP. The limit is composite in nature as it includes foreign investment in the form of foreign portfolio investment, foreign institutional investment, qualified foreign investment, foreign venture capital investment and non-resident investment.

The Cabinet Committee on Economic Affairs (CCEA) has raised the threshold for foreign direct investment requiring its approval to Rs. 3,000 crore (US$ 469 million) from the present Rs. 1,200 crore (US$ 187 million). This decision is expected to expedite the approval process and result in increased foreign investment inflow.

India’s cabinet cleared a proposal, which allows 100 per cent FDI in railway infrastructure excluding operations. Though, the initiative does not allow foreign firms to operate trains, it allows them to invest in areas such as creating the network and supplying trains for bullet trains, etc.

India is likely to grant Most Favored Nation (MFN) treatment to 15 countries that are in talks regarding an agreement on the Regional Comprehensive Economic Partnership (RCEP), which would result in significant easing of investment rules for these countries.

The Government of India plans to further simplify rules for Foreign Direct Investment (FDI) such as increasing FDI investment limits in sectors and include more sectors in the automatic approval route to attract more investments in the country.

Road Ahead
According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, India acquired ninth slot in the top 10 countries attracting highest FDI in 2014 as compared to 15th position last year. The report also mentioned that the FDI inflows to India are likely to exhibit an upward trend in 2015 on account of economic recovery. India also jumped 16 notches to 55 among 140 countries in the World Economic Forum’s Global Competitiveness Index that ranks countries on the basis of parameters such as institutions, macroeconomic environment, education, market size and infrastructure among others.

India will require around US$ 1 trillion in the 12th Five-Year Plan (2012-17) to fund infrastructure growth covering sectors such as highways, ports and airways. This would require support from FDI flows. During 2014, foreign investment was witnessed in sectors such as services, telecommunications, computer software and hardware, construction development, power, trading and automobile among others.

REFERENCES