FDI in India

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Background

- Why FDI ?

- **Policy**: Open → tight control → Liberal

  - Foreign Exchange Regulation Act (FERA) 1973 - ceiling of 40% in equity in Indian companies

- **Liberal policy**: initially allowed automatic approval system for priority industries in three slabs

Background

- FDI limits relaxed and more sectors added over the years
- FIPB established
- Replacement of FERA by FEMA in 1999
- Policies relating to foreign technology purchase and licensing liberalized
- Outward investments by Indian enterprises liberalized

Policy Framework

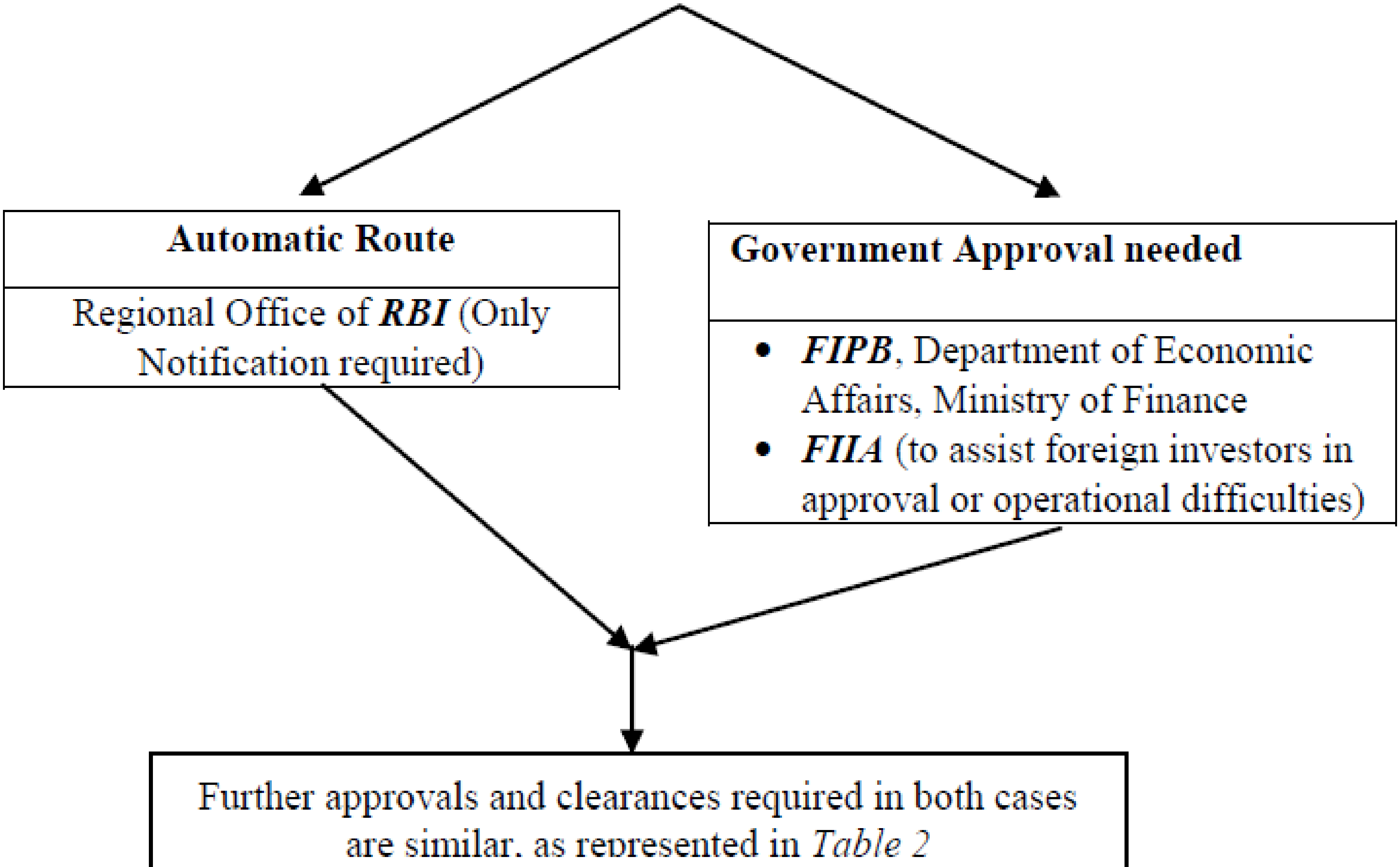
- Policy pronouncement: DIPP → notification: RBI as amendment to FEMA regulation 2000

- Regulatory Framework: Acts, Regulations, Press Notes, Press Releases, Clarifications etc

- Consolidated FDI Policy: announced on 28^{th} Aug 2017

- Welcoming FDI in virtually all sectors except:
  - Lottery business
  - Gambling and betting
  - Chit funds
  - Nidhi firms
  - Tobacco products
  - Real estate business
  - Sectors not open to pvt. investment: Atomic energy, Railway operations

Pathways for New FDI Projects



Business Registration Process

(Same for both the routes)

Company Formation

Obtaining approval for the proposed name of the Company from the Registrar of Companies

Drawing up the Memorandum and Articles of Association

Getting the appropriate persons to subscribe to the Memorandum (a minimum of 7 for a public company and 2 for a private company

Submitting papers for Registration & Payment of Registration Fee to the Registrar of Companies

Receipt of Certificate of Incorporation

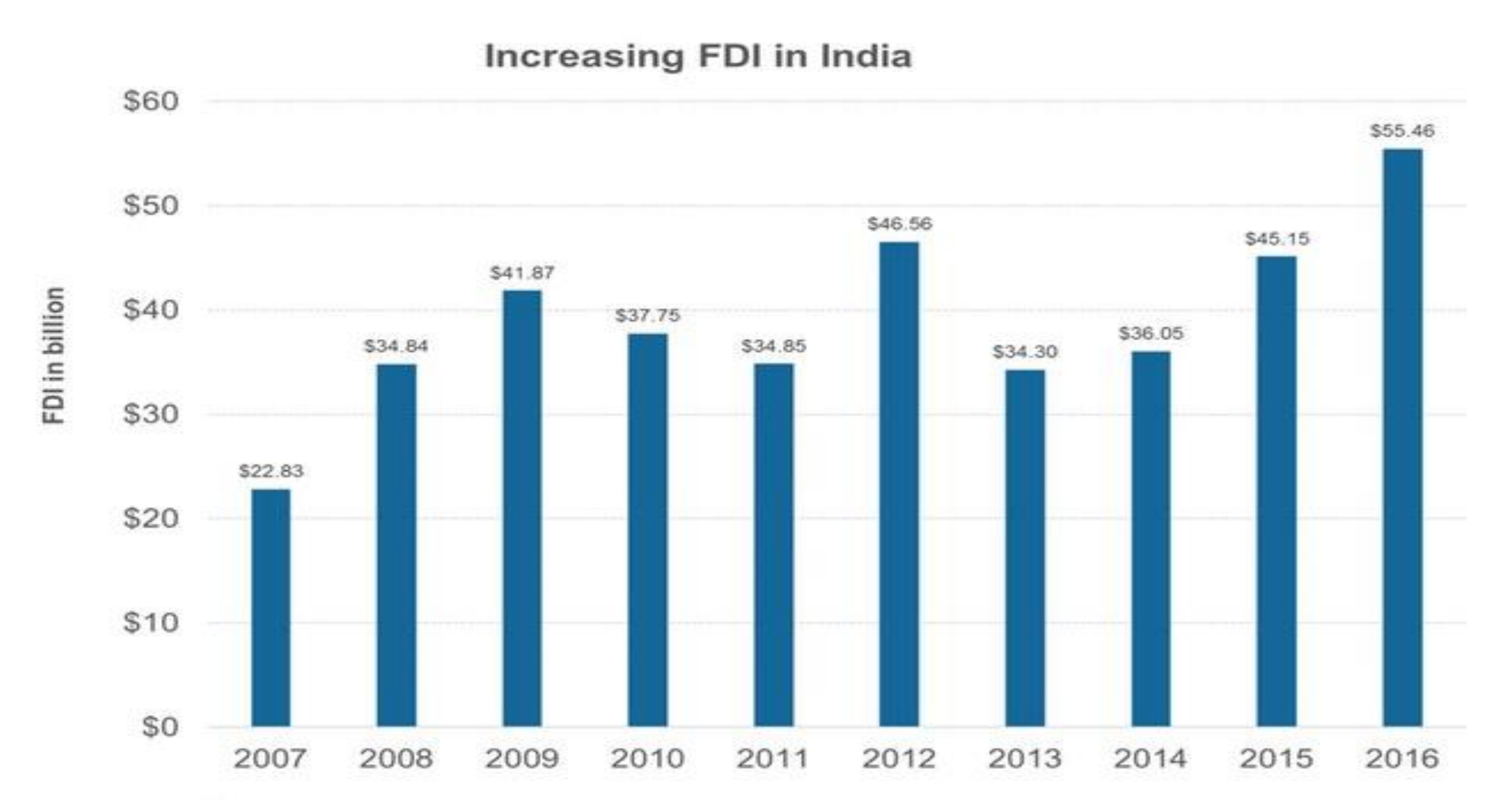
Obtain a certificate of commencement of business from the Registrar of Companies in case of a public limited Company

Changes in Business Regulation

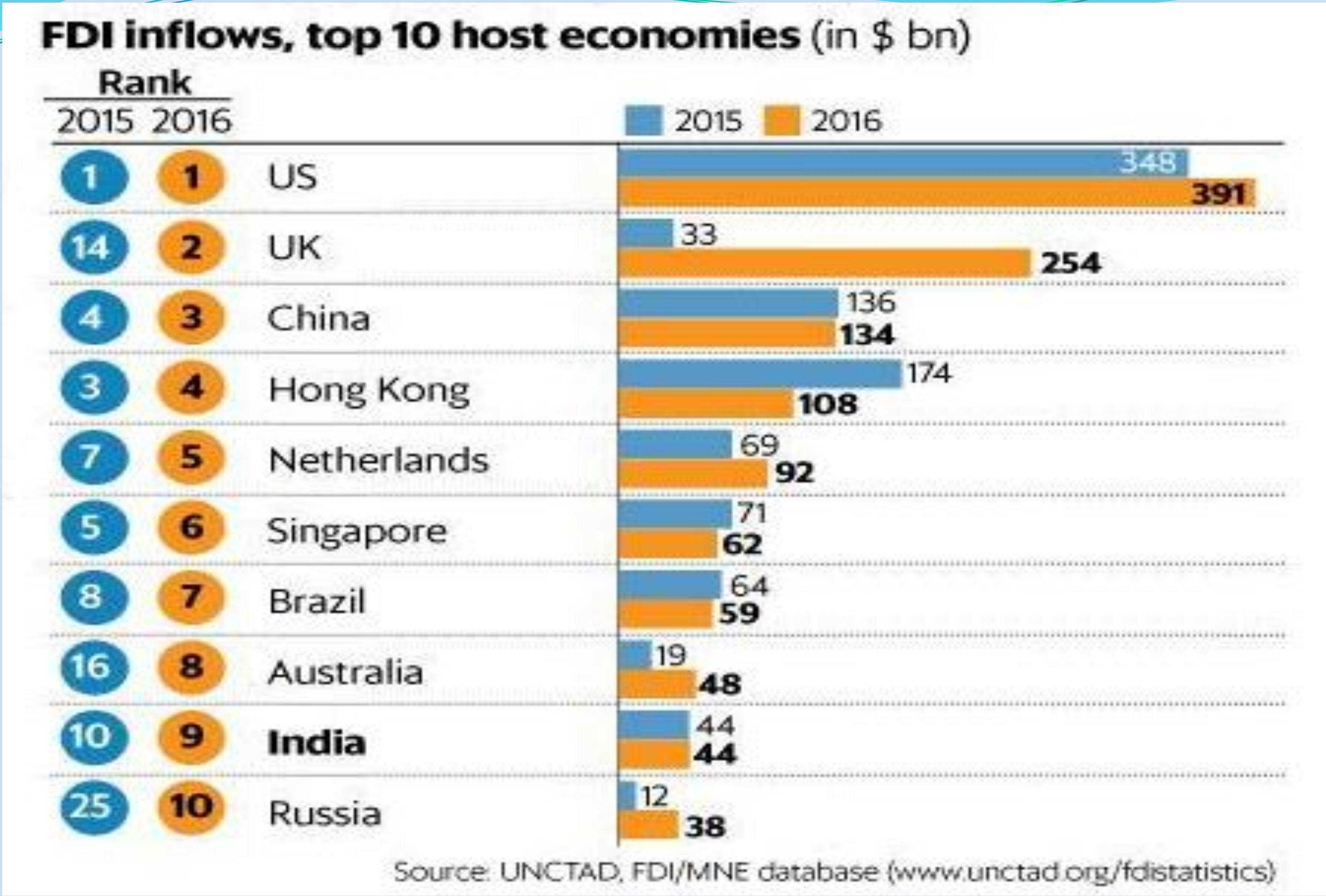
- Industrial licensing requirements mostly eliminated
- Areas reserved for public sector opened to private sector participation
- Tax rates rationalized and tax laws simplified
- Double tax avoidance agreement with various countries
- Incentives provided for new investments in infrastructure, power distribution, industrial parks or special economic zones (SEZ) etc
- FDI policy being liberalised continuously
- **Liberalisation of approvals needed from state governments –** Actual implementation

FDI Trends

- Highest rise across the globe: 85.1% growth - $ 25.1 billion in 2007 to $ 46.5 billion in 2008
- Top investing countries: USA and ***tax heavens***
- India: most attractive emerging market for investment in 2017018 - (EMPEA)
- Private investments in India: expected to grow by 8.8% in 2018-19 to overtake private consumption growth of 7.4% - (World Bank)
- FDI important for the Make in India front



- maximum FDI attracting sectors (2016) : services, computer hardware & software, telecom, automobiles, and trading
- Top investors (2-16): Mauritius followed by Singapore, UK, Japan, Netherlands, USA


FDI inflows, top 10 host economies (in $ bn)
Rank
2015 2016
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1 1 US 348 391
14 2 UK 33 254
4 3 China 136 134
3 4 Hong Kong 174 108
7 5 Netherlands 69 92
5 6 Singapore 71 62
8 7 Brazil 64 59
16 8 Australia 19 48
10 9 India 44 44
25 10 Russia 12 38
Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics)

Concerns

- Attractive destination but failed to attract FDI inflows according to potential
- Big gap between FDI approved and actual investment received
- High concentration of FDI in some states
- Time consuming approval system

Doing Business Ranking

Topics	DB 2015	DB 2015 (Revised)	DB 2016	DB 2016 (Revised)	DB 2017
Overall rank	142	134	130	131	130
Distance to Frontier (gap B/W India and global best practice)	52.67	-	54.68	53.93	55.27

Topics	DB 2015 Rank	DB 2016 Rank	DB 2017 Rank
Getting Electricity	137	70	26
Enforcing Contracts	186	178	172
Starting a Business	158	155	155
Registering Property	121	138	138
Resolving Insolvency	137	136	136
Construction Permits	184	183	185
Getting Credit	36	42	44
Protecting Minority Investors	7	8	13
Paying Taxes	156	157	172
Trading Across Borders	126	133	143

Conclusion

- Potential: huge and fast-growing consumer market and ever-increasing middle class

- Significant Improvement in macroeconomic fundamentals

  - Macro-Vulnerability Index (MVI) = Inflation Rate + Fiscal Deficit + Current Account Deficit (CAD)

  - 2012 – MVI: 22.4% - highest among relevant economies

  - Now –MVI reduced to < 14% - lower than several other countries

Conclusion

- Rational Investor Ratings Index (RIRI) = Growth Rate – (1/3) MVI - among the highest

- More can be achieved through reforms :
  - strengthening institutions
  - improving economic policies
  - easing administrative hurdles
  - creating an environment conducive for private investment

Thank You

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