ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2017; 3(5): 723-727
www.allresearchjournal.com
Received: 13-03-2017
Accepted: 14-04-2017

Barkha Jamwal
Assistant Professor, College of Vocational Studies, University of Delhi, India

Correspondence
Barkha Jamwal
Assistant Professor, College of Vocational Studies, University of Delhi, India

India as a preferred investment destination

Barkha Jamwal

Abstract
India is one of the fastest growing economies of the world. India has retained its third position as the most preferred investment destination after US and China as per UNCTAD list of Investment Destinations and it could attract higher Foreign Direct Investment in the years to come. The Inherent advantages of the country along with the government initiatives taken from time to time are the main reasons of increasing foreign investments into the country. The Budget 2017 has set the momentum of increasing FDI and FPI inflows. The various government initiatives like, increasing FDI limits, Make in India campaign, Implementation of Goods and Service Tax, improving ease of doing business, increased tax holidays, reducing corporate tax rates, abolition of capital gain tax on conversion of preference to equity shares and abolition of Foreign Investment Promotion Board will drive the investment behaviour of foreigners in India. The major impediments to the growing investments in India are corruption, infrastructure, red-tapism and tedious rules and regulations that are to be followed. The government has been working upon reducing and eliminating all the barriers and facilitate smooth flow of investments into India.

Keywords: Investment destination, UNCTAD, FDI, FPI, ease of doing business, goods and service tax

Introduction

Competitive Advantage of India

Today, India is considered to be a wonderland for investments due to rapid globalization. India has a favorable business and administrative set up, it has abundance of skilled workforce, independent judicial set up, presence of well-established and vast financial system, lucrative policies for foreign investment, very well organized capital market and fast-changing spending habits of middle class Indians. It is because of all these inherent advantages and the government initiatives taken that investors prefer India as an investment destination over other countries like China. India also has a vast and well developed technical and management educational institutions which are of high international recognition. These institutions provide a vast resource of well-educated and English speaking population. The ministries of different industries also make attempts to formulate attractive policies and ease the rules and regulations for foreign investors. Also, ministry provides guidance to the investors from time to time with regard to structure and functioning of various departments and procedures. It is due to all of this that India attains a competitive advantage over other nations. The main reason for foreigners investing in India is that India has the proficiency of producing good quality products and services at lower costs. Hence it is seen that India is a land of holding several countries' accounts/businesses because they get value for money for each penny invested in India. (investinindia.com). According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows in India increased by 30% year on year during April-September 2016 to USD 21.6 Billion, showing that the government's efforts in improving ease of doing business and relaxing FDI norms came out to be fruitful. (www.ibef.org, 2017)

Objective of the Study

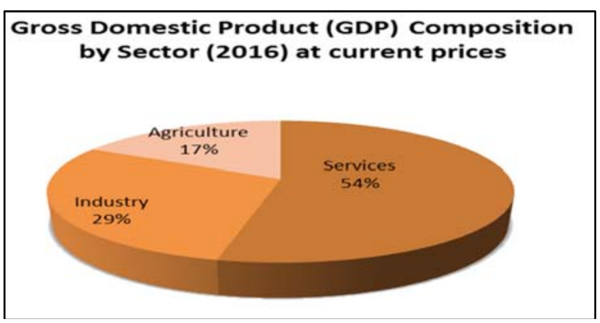
To analyze why India is considered as a preferred investment destination over other economies by studying various inherent advantages that India possess and government initiatives taken to make it an attractive destination for foreigners to land their money.

Research Methodology
The secondary data from various journals, newspaper articles and government sites is taken for the research purpose.

India's Inherent Advantages That Attract Foreign Investments
India is a perfect example of unity in diversity where people with different culture, religion, using different languages happily stay together. India has also transformed itself in the most efficient way to the foreign challenges and has created several opportunities for itself by responding to the international changes. With the population of over 1.33 billion people India is the second most populous country in the world. This population mainly comprise of youth which is the main driver for economy to grow with the help of young minds. With the opening up of economy in 1990s, India have been restructuring itself to respond to the requirements of international standards and gaining recognition worldwide by providing lucrative opportunities to the foreign players to invest in India. (www.ibef.org)

Key Features of Economy: Demographics
- **Population:** 1,326,801,000: 1.33 bn
- **Population Growth Rate:** 1.58 per cent (June 2015)
- As per the World Bank, the Indian economy will likely grow at 7.6 per cent in 2016-17, followed by further advancement to 7.7 per cent in 2017-18 and 7.8 per cent in 2018-19. (www.ibef.org)
- **Gross Domestic Product:** India's per capita income rose from INR 86,879 in the preceding fiscal year to INR 93,293 in 2015-16 making it a rise of 7.4 per cent. (economictimes.indiatimes.com)

Composition by Sector: 2016 (statisticstimes.com)



- **Forex Reserves:** USD 375.274 billion (rbi.org.in, 2017)
- Skilled manpower available at cheaper cost. **Literacy:** 74.04 per cent (provisional data-2011 census)
- Large English speaking population

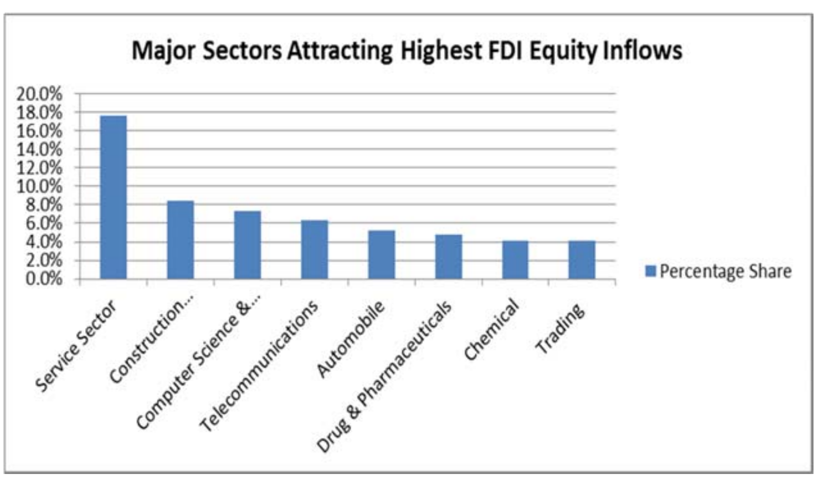
- **Demographic Dividend:** With 356 million 10-24 year-old, India has the world's largest youth population (unfpa.org). "250 million people will be joining India's workforce by 2030. As a big chunk of the population will shift into the working age group, the result of that will be an increase in disposable income and consumption. This is the most exciting aspect of India's demographic dividend." Sunil Devmurari, Country Manager, Euromonitor; October 2012
- With India continuing its current growth trend, the average income level may triple over the next two decades and can become the world's fifth largest consumer economy by the year 2025 (McKinsey & Company, 2007)

- **Land of huge natural resources:** Coal, iron ore, natural gas, diamonds, manganese, mica, bauxite, petroleum, rare earth elements, titanium ore, chromite, limestone.
- Fastest growing large economy in the world, overtaking China

- **Value of Exports:** India's exports grew by 4.7% t during the financial year 2016-2017 to $ 274.65 billion which is considered as the fastest pace in five years despite slowdown in the economy caused by demonetization. (Ahuja & Ray, 2017)

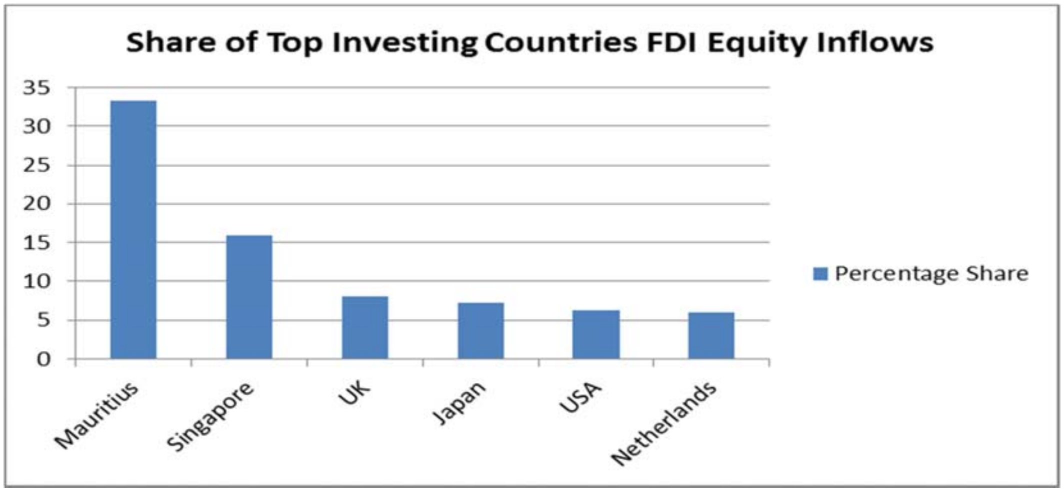
- **Export Partners:** US, Germany, UAE, Japan, Thailand, China, Indonesia and European Union. India is also capturing newer markets in Africa and Latin America.

- **Major Sectors Attracting Highest FDI Equity Inflows:** Service Sector (17.6%) attracts highest share of FDI inflows into India followed by Construction (8.4%) and Computer Software, Hardware (7.3%) as in March 2016.



(dipp.nic.in)

- **Share of Top Investing Countries FDI Equity Inflows:** Mauritius contributes highest FDI share of 33.24% followed by Singapore 15.9% and UK 8.01%. The total share by Mauritius, Singapore, UK, Japan (7.27%), USA (6.22%) and Netherlands (6%) came out to be 76.64%. (as in March 2016).



(www.ibef.org)

Government's Recent Initiatives to Boost Foreign Investment: FDI and FII

- Government of India approved 100% FDI in financial services performed by Non-Banking Financial Institutions (NBFCs) that will most likely attract more foreign capital in the country.
- National Highways Authority of India (NHAI) has planned to offer risk cover to foreign players who will be willing to invest in National highways of India. This cover would be related to design default, sub-standard quality of construction.
- To facilitate Make in India Programme and encourage foreign investment in India, Union Cabinet has approved to provide Permanent Residency Status to foreign investors provided they invest atleast INR 10 crore within 18 months or INR 25 crore in 36 months.
- Although 100% FDI is permitted in Infrastructure and Construction sector, the government has amended FDI policy for Construction Development Sector by easing exit policy, area restriction rules and reducing minimum capitalisation.
- To tackle deteriorating asset quality of banks in India, Department of Industrial Policy and Promotion allowed 100% FDI under automatic route in Asset Reconstruction Companies.
- For helping PepsiCo and Biocon in setting up their new production facilities in Karnataka, the Government of Karnataka has approved investment proposals worth INR 2,211 crore in the state.
- Govt. of India has raised FDI limit from 26% to 49% under automatic route in Insurance sector. The government has also raised FDI limit in railway infrastructure to 100%, but does not include operations related to this field. The FDI in railways does not allow the foreign players to invest in operations of trains but can invest in areas that help in creating network and supplying trains.
- In order to increase the Foreign Portfolio Investment in the economy, the Government of India has been planning on increasing the India's weight in MSCI Emerging Market Index.
- The start-ups can now borrow, through External Commercial Borrowings, up to USD 3 million per financial year, as per RBI.
- With relaxed norms for registered FPIs in India, they can now operate through International Financial Services Centre (IFSC), as per SEBI, without any additional documentation and prior approval process.
- Investments worth INR 82,905 crore across 141 memorandum of understanding (MOU) and business agreements were attracted because of Maritime India Summit 2016, which was held in Mumbai.
- SEBI has permitted FPIs to invest in Real Estate Investment Trusts (REITs), Alternative Investment Funds (AIFs), Infrastructure Investment Trusts (InvITs), and are also given permission to acquire corporate bonds under default.
- Since the Indian government relaxed restrictions on foreign investors, People's Bank of China has for the first time, invested USD 500 million in Indian Bonds. (www.ibef.org, 2017)

Some of the Major Recent Foreign Investments in India

- Flipkart has raised $1.4 billion from eBay, Microsoft, Tencent, and will acquire eBay India as a part of $ 1.4Billion deal.
- World Bank's International Finance Corp (IFC) and IFC Global Infrastructure Fund, has invested USD 125 million, in Hero Future Energies, which is the renewable energy arm of the Hero Group
- The World Bank Board has approved World Bank Group to provide US$ 1 billion for India's solar energy projects and to help India to increase the power generation capacity with the cleaner and renewable energy resources. The project will provide finance to the Indian Renewable Energy Development Agency Limited (IREDA), which will further provide sub-loans to selected states to invest in solar parks that are included in the Ministry of New and Renewable Energy's (MNRE) Solar Park Scheme. (worldbank.org, 2017)
- The consortium of investors led by Goldman Sachs agreed to invest USD 220 million in Essel Highways

which is the infrastructure arm of Essel Group. This could be one of the biggest Private Equity transactions in this sector. (www.ibef.org, 2017)

- The Ford Motor Company announced an investment of INR 1,300 crore (USD 189 million) to build a Technology and Development centre in Chennai. It will be regarded as a R&D base which will work on tailoring its products as per Indian market requirements. This centre will be developed till 2019 and is expected to provide employment to 3000 skilled workers.
- JW Marriott plans to operate 100 hotels in India by the year end and will continue its momentum in coming years. As per Tina Edmundson, Global Brand Officer of Marriott International, India is an important market for their global growth strategy where they have second most number of rooms and properties after China. (forbesindia.com, 2017)
- Apple Inc opened its first development centre in Hyderabad, India. It is expected to employ over 4000 people and will deal in digital maps and navigation services.
- Panasonic India has invested INR 115 crore to set up a manufacturing plant in Jhajjar, Haryana in order to produce refrigerators locally. Also it is set to invest over INR 150 crore on expansion of capacities across different segments in the Financial Year 2018.
- The US soft Drink major, PepsiCo, announced that it will be investing INR 500 crore to set up a juice concentrate and soft drink (citrus) production plant in Pathankot, Punjab. (timesofindia.indiatimes.com, 2017)

What Budget 2017 Had In Store for Foreign Investments

- **Abolition of FIPB:** The Budget 2017 abolished the Foreign Investment Promotion Board (FIPB), which was formed in early 1990s post liberalisation of the country. FIPB's major role was to oversee the investments coming in through Prior Approval Route into India. In 2016 about 90% of the sectors have been brought under automatic approval route thus eliminating the need for getting prior approval from FIPB. With the abolition of FIPB, it will be easier for foreign nationals to set up small scale business, the lengthy approval process and delays in approval process will be reduced.
- **Reduced Corporate Tax rate**: To make India's practices in line with International Best Practices, the Government in Budget 2017, reduced the tax rate from 30% to 25% for Start-ups and Small and Medium Enterprises whose turnover is not more than INR 50 crore. This benefit is however available only to domestic companies and foreign companies (the companies which do not have any Indian subsidiary), other forms of businesses (LLP, HUFs and Partnership) cannot avail the benefit of reduced rate.
- **Tax Holidays:** The Finance Minister in the Budget 2017, announced that the entities approved under Start-up India and incorporated post 31st March 2016, can avail a three year tax holiday in the first seven years, instead of first five years which was provided earlier. This was done because most of the start-ups begin to make profits after 4-5 years of its incorporation. (taxmantra.com, 2017)
- **Goods & Service Tax (GST):** The implementation of GST in July 2017 is said to attract more FDI into the country due to tax transparency and ease of doing business in India. This will further increase the tax compliance and will create a trustworthy bond between the corporates and Indian Government. For a country like India to grow, it needs FDI inflows and with GST coming down the lane, Indian economy will be integrated and considered as One Single Economy. The GST will be imposed based on destination of goods and services delivery, thus the system will have fewer documentation and paper work at intermediate levels. Bad practices like fraud, corruption, delays, red-tapism, and bribery will be obstructed to large extent. This will help India to gain international and worldwide recognition as a reliable trading partner. (gstreadyindia.com, 2017)
- **No capital gain tax on conversion of preference shares to equity shares:** Earlier conversion of preference shares into equity was considered as a transfer and hence it attracted capital gain tax. The exemption of conversion of preference shares into equity from tax is a big relief to Start up Investors, Private Equity and Venture Capital firms who prefer to invest in convertible preference shares. This is a very commendable step by government as it will amplify the investment in start-ups. (financialexpress.com, 2017)

Conclusion

The world has become globalised, borderless and interlinked in all aspects; be it import export market, investments, tourism, consultancy etc. The global marketplace is dynamic, complex and yet interlinked and interdependent. Each nation and economy is different in various aspects like technological advancements, culture, demographics, and politics. Due to the increased interdependency of the countries on each other there has been increase in foreign direct investment, exports, foreign portfolio investment etc. among the countries around the world. Various factors determine the nature of investment in the economy, like the country's macroeconomic stability, exchange rate stability, population demographics, growth rate of the economy, political stability, ease of doing business and corruption in the country to name a few. India has huge reservoir of natural resources and has huge English speaking skilled population that attracts foreign investors. In World Bank 2017 ease of doing business ranking, India stood at 130th place from 190 countries, which is one rank better than 2016 rankings, but still a lot needs to be done to improve this ranking. Also as per transparency corruption index, India's score improved from 38 in 2015 to 40 in 2016 (where zero implies highly corrupt, and 100 implies clean economy). The list was topped by New Zealand and Denmark in which India stood at 79th place. India has been going strong bearing all the crises and crashes wing to its conservative economy. According to Ernst & Young's (EYs) Global Capital Confidence Barometer (CCB) - Technology report, India ranks third among the most attractive investment destinations for technology transactions in the world. As per the budget 2017, India is expected to be an attractive FDI destination for foreign players. Even though Trump's policies which are "anti-job creation outside US" may lead to fall in Investment from US into India, it is equally possible that UK and European Investors might turn their focus to India post Brexit. India's unique Demographic Dividend is also one of the driving factors that attract foreign investments. With the Make in India there has been a dramatic boost in FDIs flowing into India. For any country that wishes to attract foreign investment, it must have a well-developed, stable banking and financial system along with the stable government/political set up and good infrastructure as these are the key drivers to attract investment.

Reference

1. financialexpress.com. 2017, Retrieved from http://www.financialexpress.com/money/conversion-of-preference-shares-into-equity-exempted-from-tax/535170/
2. forbesindia.com. 2017, Retrieved from http://www.forbesindia.com/article/special/marriott-to-operate-100-hotels-in-india-by-year-end/46107/1
3. gstreadyindia.com. 2017, Retrieved from http://www.gstreadyindia.com/gst-implementation-attract-foreign-direct-investment/
4. livemint.com. 2017, Retrieved from http://www.livemint.com/Industry/ojMubG063EH2d31Oe322BN/World-Banks-IFC-invests-125-million-in-Hero-Group-renewabl.html
5. rbi.org.in. 2017, Retrieved from Reseve Bank of India.
6. taxmantra.com. 2017. Retrieved from https://taxmantra.com/what-does-indian-union-budget-2017-mean-for-foreign-investors/
7. timesofindia.indiatimes.com. 2017. Retrieved from http://timesofindia.indiatimes.com/city/chandigarh/pepsi-to-set-up-rs-500-cr-citrus-plant-in-pathankot/articleshow/58617822.cms
8. worldbank.org. 2017, Retrieved from http://www.worldbank.org/en/news/press-release/2017/03/30/world-bank-board-approves-usd100-million-large-scale-solar-parks-india
9. www.ibef.org. 2017,
10. Ahuja SK, Ray RK. 2017, hindustantimes.com. Retrieved from http://www.hindustantimes.com/business-news/india-exports-grow-fastest-in-5-years-in-2016-17-despite-demonetisation/story-FwIp98TvrquZqDLe5SxXfI.html
11. dipp.nic.in. (n.d.). Retrieved from http://dipp.nic.in/English/Publications/FDI_Statistics/2016/FDI_FactSheet_April_Sep_2016.pdf
12. economictimes.indiatimes.com. (n.d.). Retrieved from http://economictimes.indiatimes.com/news/economy/indicators/indias-per-capita-income-rises-7-4-to-rs-93293/articleshow/52524152.cms
13. investinindia.com. (n.d.). Retrieved from http://investinindia.com/competitive-advantage-india
14. McKinsey, Company. The Bird of Gold: The Rise of India's Consumer Market, 2007.
15. statisticstimes.com. (n.d.). Retrieved from http://statisticstimes.com/economy/sectorwise-gdp-contribution-of-india.php
16. unfpa.org. (n.d.). Retrieved from https://www.unfpa.org/sites/default/files/pub-pdf/EN-SWOP14-Report_FINAL-web.pdf
17. www.ibef.org. (n.d.). Retrieved from https://www.ibef.org/archives/detail/b3ZlcnZpZXcmMzc1MzMmNTgz