India Avenue
Investment Management

FOREIGN INVESTMENT TO DRIVE GROWTH IN INDIA

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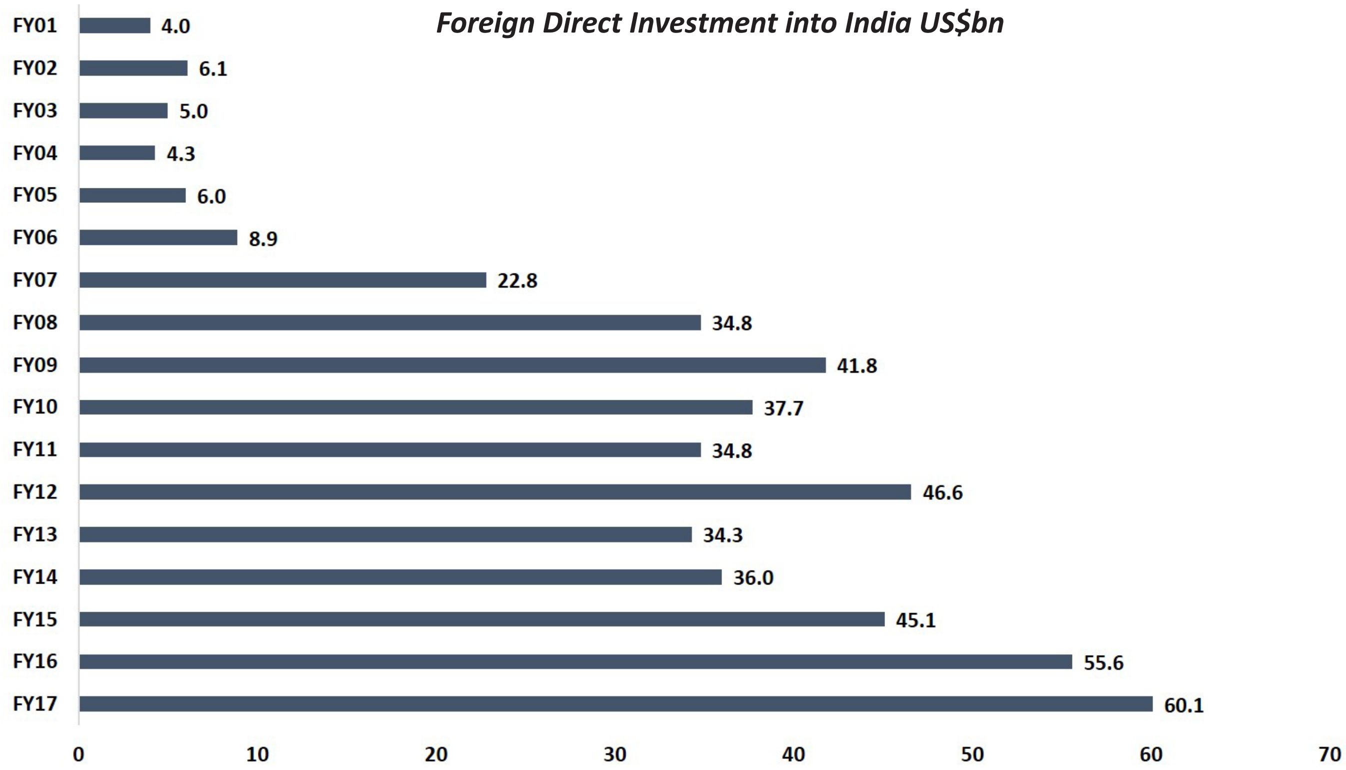
FOREIGN INVESTMENT IN INDIA TO DRIVE GROWTH AND EMPLOYMENT THROUGH "INVEST INDIA" CAMPAIGN

The Make in India campaign was launched on 25th September 2014 by the Modi Government as an initiative to encourage both national and multinational companies to manufacture their products in India. The major objective behind the initiative was to focus on job creation and skill enhancement across various sectors in the economy.

The Campaign is being led by the Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry, Government of India. The end objective of the program is to promote and foster economic growth in India through increasing utilisation of the countriy's young talent base and improving perception as a place to do business by eliminating bureaucratic processes and making governance more transparent, responsive and accountable.

According to Department of Industrial Policy and Promotion (DIPP), the total FDI investments India received during 1QFY18 (April-June 2017) stood at US$ 14.6bn. This is on top of the strong flows witnessed over the last 10 years, indicating that India, given its growth, is a highly attractive destination for capital.

Fig 1: FDI Flows FY00 – FY17[1]



The regions where flows have come from have been spread from tax favourable domiciles like Mauritius and Singapore (accounting for 50%) to Japan, UK, Netherlands, US, Germany, France, United Arab Emirates and Switzerland. Australia is nowhere to be seen with flows of less than US$1bn since the turn of the century. That's less than 0.3% of overall flows!

The sectors attracting the most attention include Services (Financial, Banking, Insurance, Outsourcing, R&D and Tech) at 18% of flows. Other sectors attracting interest include Computer Software & Hardware (8%), Construction Development (7%), Telecommunications (7%), Automobiles (5%).

While reforms in India play a significant part in building investor confidence, the Government has developed a long-term strategy to encourage FDI. Behind this strategy sits an investment promotion agency (Invest India) in which the Federal Government and 11 States of the 29 together have a 49% stake. The rest is equally divided among three industry bodies. Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce and Industry (FICCI) and Nasscom are all partners in this private body with a mission to increase FDI investment into India.

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[1]India Brand Equity (IBEF) – FDI Fact Sheet June 2017

Reference: Shantanu Nadan Sharma, ET Bureau (22/10/17), "Invest India: The inside story of a unique industry-government collaboration to attract FDI into India"

This was followed by recruitment of several young Indian professionals from multinational companies abroad, many of whom took a 30 – 70% cut in their pay to join the organisation and contribute in building a new India. The team grew from 10 in 2014 to more than 100 in 2017 and include professionals from prestigious Indian business schools like IIM, internationally recognised business school, Oxford and multinational firms like Goldman Sachs have joined Invest India with a vision to build a new country and FDI is now just a stepping stone towards its realisation.

According to the Institute, between October 2014 and September 2017 it has brought in foreign investments worth US$7.4bn leading to 94,312 jobs. A further US$83bn remains in the pipeline from 571 companies. Companies being pursued (to invest amounts greater than US$1bn) include the likes of Peugeot, Kia Motors, Ikea, Wanda, Airbus H&M and Chinese energy and housing company Sany.

An example of the presence of Make in India include Danish wind turbine maker Vestas has set up a Gujarat blade factory project for which factory permits were granted in just 22 days, given the role Invest India played in handholding the project. The factory was built in 15 months with power available within 6 months on site. That's not the India we are used to hearing about!

Currently the top opportunities in India appear to be areas like Food Processing, Automobiles, Electronics, Energy and Waste Management and Chemicals, with fast growing, progressive States in India, the most likely to attract capital. The Government also continues to liberalise the FDI ownership rules for sectors such as Defence, Construction and Broadcasting. This should substantially increase the engagement between Indian companies and their counterparts globally.

Recently both Walmart and Amazon have announced plans to for India. Walmart plans to open 50 new cash and carry stores over the next 3-4 years across two populous states, creating 40,000 jobs. Amazon is entering Indian food retailing by investing US$515m over 5 years. Softbank is also planning to invest its new US$100bn tech fund in markets leaders across segments in India. Additionally, infrastructure development is occurring with India joining hands with strategic global partners like Japan and Germany. This should also provide significant job growth over the next 5 years.

The FDI policy has been reviewed recently and incorporates reduction in the level of bureaucracy, increasing competence, facilitation of start-up funding and relaxing in norms and foreign ownership levels allowing more iconic investors like Apple and Tesla to reconsider India. This should lead to a continued flow of foreign capital to India resulting in greater job creation, infrastructure development and increasing growth opportunities.

Fig 2: Ease of Doing Business for India

India's Preformance in World Bank's 'Ease of Doing Business' Report

Indicator (Ranking)	2017	2018
Starting a business	155	156
Dealing with construction permits	185	181
Getting electricity	26	29
Registering property	138	154
Getting credit	44	29
Protecting minority investors	13	4
Paying taxes	172	119
Trading across borders	143	146
Enforcing contracts	172	164
Resolving insolvency	136	103
Overall Ranking	**130**	**100**

WORLD BANK

The Government's efforts have led to India's "Ease of Doing Business" ranking dropping from 130 to 100 out of 190 countries. India made significant progress in "Getting Credit", "Protecting Minority Investors", "Paying Taxes" and "Resolving Insolvency" – driven by reforms like GST, Demonetisation and a new Bankruptcy Code[2]. Over the next two years the focus is to drive this ranking to a point where global corporates see India as a more conducive place to do business, thus creating greater opportunities for employment, growth and middle-class wealth.

Australia can play a greater role when it comes to FDI in India. So far companies investing have been relatively minimal (BHP, RIO, Macquarie, Leighton etc). Thus far the focus has been on agriculture and mining, services, manufacturing and construction, finance and tourism. However, opportunities going forward also exist in innovation, R&D, education and learning. This will create differentiated growth industries for Australia in the future.

[2]World Bank Report on Easing of Doing Business

Reference: Shantanu Nadan Sharma, ET Bureau (22/10/17), "Invest India: The inside story of a unique industry-government collaboration to attract FDI into India"

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