FOREIGN DIRECT INVESTMENT OPPORTUNITIES IN INDIA

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1. Introduction

There are plenty of reasons for why India is a good destination for foreign direct investment. India has a high spendable income, emerging middle class, low cost competitive workforce; investment friendly policies and progressive reform process all contributing towards India being an appropriate choice for investors.

- Following relax economic reforms in the late 1980s and early 1990s, India is now one of the world's rapid growing economies, as well as the second most crowded.
- Faster growth is increasing and India now a leading world importer of vegetable oils and pulses.
- Despite a rich and extensive agricultural resource base and rising producer subsidies, farm sector investment and growth have remained sluggish, creating pressure for reform of domestic agricultural policies.
- It has been difficult to achieve consensus on the reform agenda, but measures to increase market orientation, improve marketing efficiency, promoting use of technology, and strengthening incentives for private investment are increasing.
- India has GDP of 1,367.216 Billion USD as for 2010 growing @ over 9% annually.
- India has a stable political environment and responsive administrative set up.
- Well established judiciary to enforce the law.
- Land of rich natural resources and different climatic conditions.
- India's growth will start to overtake China's within three to five years and thus it will become the fastest large economy with 9-10% growth over the next 20-25 years (Morgan Stanley).
- India has been continuously introducing investor friendly policies and incentive based schemes.
- India has received a total of US$ 25.9 billion of FDI in 2009-10 which makes it second favorite for FDI.
- Investment rate forecast is to be 37% in 2010-11 and 38.4% in 2011-12 while Domestic Savings rate is forecasted to be 34% in 2010-11 and 36% in 2011-12.
- India's economy will grow fivefold in the next 20 years according to McKinsey.
- Cost competitiveness due to low labor costs.
- Total labor force of almost530 million.
- Large pool of skilled manpower and strong knowledge base with large English speaking population.
- The amount of population in the working age group (15-59 years) is expected to increase from approximately 58% in 2001 to more than 64% by 2021.
- There is huge untapped market potential.
- Simplification and rationalization of direct and indirect tax structures.
• Decrease in import tariffs.
• Complies with WTO regulations.
• Strong and dynamic banking and financial institutions.

2. Indian Economy

Indian economy has shifted to a high growth economy in previous few years. It is showing very good and stable growth in these years and is expected to rise in the future.

3. Agriculture Sector

Agriculture sector has shown growth of 4.4 per cent. The growth rate estimates of GDP in quarter 2 are based on the projected production of fruits and vegetables, other crops, livestock, forestry and fishery, which have grown in the range of 3-4 per cent.

According to the Ministry of Agriculture of India, production of rice, coarse cereals, pulses and oilseeds is expected to grow by 5.9%, 19.4%, 39.3% and 10.3% respectively during the Kharif season of 2010-11.

4. Manufacturing sector

Manufacturing sector has grown by 9.8 per cent during the second quarter (July-September) as compared to 8.4 per cent during the same period last year. Construction grew by 8.8 per cent compared to 8.3 per cent. Mining and quarrying sector grew by 8.0 per cent.

5. Services Sector

Among services, financial, insurance and real estate services grown by 8.3 per cent, while community, social and personal services growth was at 7.3 per cent.

In the transport and communication sectors, the production of commercial vehicles, cargo handled at major ports, cargo handled by the civil aviation, passengers handled by the civil aviation and the total stock of telephone connections grown at rates of 4.5%, 0.5%, 25.3%, 12.2% and 38.7%, respectively in Q2 of 2010-11 over Q2 of previous year.

6. India: An Attractive Destination for FDI

India has been growing very fast for last few years and it has shown impressive development since then. India’s economy has grown by many times since last few decades and it has become a very attractive destination for FDI.

There is much reason for India's viability as a destination for foreign investment. All above-mentioned variables including disposable incomes, emerging middle class, low cost competitive workforce, investment friendly policies and progressive reform process all contribute towards India being an appropriate choice for investors and businessmen.
The government of India has put in place a transparent FDI policy. Many initiatives have been taken to attract FDI in several sectors. Opening of many new sectors to FDI, raising FDI equity caps in sectors already opened and procedural simplification are major steps towards increasing FDI. Today, the FDI policy in India is widely imagined to be among the most liberal in the emerging economies and FDI up to 100% is allowed under the automatic route in most sectors.

The Indian Government is committed to provide both private and public companies a very favorable environment to encourage FDI. Government has highly liberalized the foreign investment regime over the last decade. Today, FDI is allowed in almost all sectors except for a few sensitive areas such as defense. Also, FDI is allowed in number of sectors under the automatic route, except a few, for which approval from the Foreign Investment Promotion Board (FIPB) is required. India's foreign trade policies have been designed with a view to invite and encourage FDI in India. The process of regulation and approval has been highly liberalized. The Reserve Bank of India has arranged the governmental and obedience aspects of FDI.

The FDI policy rationalization and liberalization measures taken by the Government have resulted in increased inflows of FDI over last few years. During the financial year 2010-11 (April 2010-October 2010), FDI worth US$ 12.39 billion was attracted in India. Cumulative amount of FDI from August 1991 to October 2010 recorded in India is equivalent to US$ 139.29 billion.

7. Sectors with large FDI inflows in India

During 2010-11 (April 2010-October 2010), services sector attracted 21 per cent of the total FDI equity inflows to India, while computer software and hardware was second largest with 9 percent share during the same period. Telecommunications was the third highest sector with 8 percent of total FDI inflows followed by housing and real estate and construction activities which had 7 percent share each.

8. Indian States and Union Territories

The country houses 28 states and 7 union territories. These have diverse investment opportunities and natural resources in them. These are further supported by technological and infrastructure advancements and supportive government policies. There has emerged a competition among states to attract investment in their states and this has proved to be beneficial for the potential investor.

9. Sectoral Opportunities

Vast investment potential exists in sectors such as biotechnology, retail, real estate, roads and highways, power, telecommunications, civil aviation, special economic zones, healthcare.

10. Success Stories
Overseas are looking at India as having big market potential and many of these multinationals have expanded their business to India and have got great success. India has witnessed a number of success stories by both foreign companies and locals. Global players such as Daimler Chrysler, General Motors, Ford, LG, Samsung, Sony, Amway, Tupperware, Pepsi, McDonald's, IBM, Oracle, Microsoft, Aviva, Nortel, Nokia and others have benefited from their expansion in India.

The reform process initiated during the late eighties and early nineties have begun to show their impact and India is taking huge leaps in growth and development. However, recognizing that there is still much to do, Indian policy makers are moving towards betterment.

11. World Bank Report
India’s ranking in Doing Business 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>Doing Business 2011</th>
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<tbody>
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<td>Ease of Doing Business</td>
<td>134</td>
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<tr>
<td>Starting a Business</td>
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<td>Dealing with Construction Permits</td>
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<td>Closing a Business</td>
<td>134</td>
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12. Nominal GDP History and Comparison

(As Reported by IMF World Economic Outlook)
This figure shows the history of Nominal GDP of India on yearly basis. Circles represent the point of GDP and population of the country in a year. It can be clearly seen that from last few years GDP is increasing at very fast rate and it is continuously speeding up.
13. Doing Business in India Cultural Perspective

India is a very diversified and complex country and it is not to completely understand its culture and operate accordingly. Foreign investors have to be very careful in handling matters of culture and religion because Indians are generally very sensitive in this matter.

13.1 Language

Different states in India each have different official languages. Like Hindi, Bengali, Telugu, Marathi, Tamil, Urdu and Gujarati etc. Hindi is the official language of India. However, English is the language of international commerce.

13.2 Hierarchy

With its roots in Hinduism and the caste system, Indian society operates within a structure of strict hierarchy that defines people's roles, status and social order and same applies to business as well. Top managers are not expected to take part in the work which is usually carried out by peons or subordinates.

13.3 Doing Business - Meeting and Greeting

When doing business in India, meeting etiquette requires a handshake. However, Indians themselves use the namaste or Salam which is their religious requirement.

When addressing an Indian whom you know personally, always use the appropriate formal title, whether Professor, Doctor, Mr, Mrs or if you do not know their names then Sir or Madam will be ok.

When doing business in India, business cards are exchanged at the first meeting. Right hand should be used for giving and taking.

13.4 Doing Business - Building Relationships

Doing business in India involves building relationships. Indians only deal favorably with those they know and trust - even at the expense of profitable deals.

13.5 Doing Business - Meetings and Negotiations

Meetings should be arranged in advance. This should be done in writing and confirmed by phone. Avoid meetings on national holidays such as Independence Day, Diwali or either of the two Eids.

Punctuality is expected, although being few minutes late will not have big consequences. Flexibility is high and family responsibilities are preferred upon business so last minute cancellations are possible.
Negotiations can be slow if trust has not yet been established. Decisions are always made at the highest level. Indians like to use intuition in decision making so only statistics are not enough.

Criticisms and disagreements should be expressed only in most political language. Indian society avoids saying "no". Listen carefully to Indians' responses to your questions. If terms such as "We'll see", "I will try" are in use then the chances are that they are saying 'no'.

14. Conclusion

India is a fast growing country and has very much of new opportunities in it. It is aimed to become the fastest growing economy of world and it has already a very large economy and growth is second to only China. India has well established political government and has stable economy which is very positive indicators for someone thinking about investing in India. It has very large population which serves to be large consumer base. Looking at these variables one can see India as a very big opportunity for starting a business. Computer software and hardware industries are fastest growing in India and receive most part of FDI too.

One should have prime focus on these when starting business in India;

- India is one of the most diverse countries in the world and therefore all generalizations about Indian culture are to be dealt cautiously. Each client should be researched thoroughly before entering into any negotiations;
- In India there is a high value placed on relationship building so it should be primarily focused. Another important thing;
- Both society and business are extremely hierarchical and many Indians find it very difficult to work in a non-hierarchical structure;
- Do not expect too much initiative from assistants, contractors etc. Plan in great detail and explain exactly what you want to do and others to do;
- Be prepared for meetings to start and finish late and for interruptions to occur occasionally;
- Indians are reluctant to say “No” directly so seek clarification of agreements because an answer seeming as yes can mean no;
- Try to be sensitive to local religious gatherings.
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