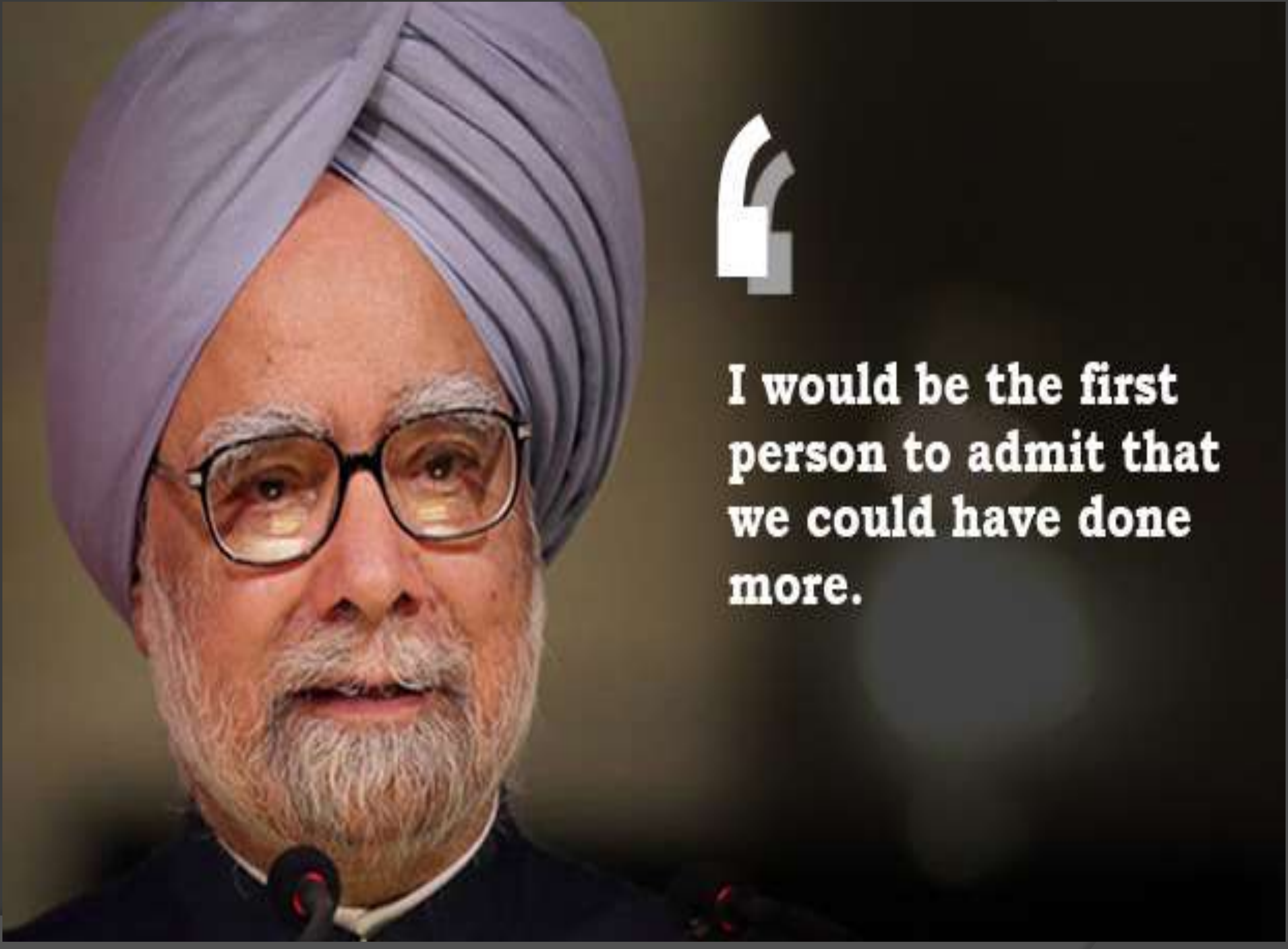
Promoting Foreign Investments into India

Rishab Mittal

35 years ago……


India during late 80's.....


I would be the first person to admit that we could have done more.

Evolution of Foreign Direct Investment

The economic liberalization in India refers to ongoing economic reforms in India that started on 24 July 1991.

As a result of this requirement, the government of P. V. Narasimha Rao and his finance minister Manmohan Singh started breakthrough reforms, which included opening for international trade and investment, deregulation, initiation of privatization, tax reforms, and inflation-controlling measures.

In 1991, after India faced a balance of payments crisis, it had to pledge 20 tons of gold to Union Bank of Switzerland and 47 tons to Bank of England as part of a bailout deal with the International Monetary Fund (IMF).

India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale.

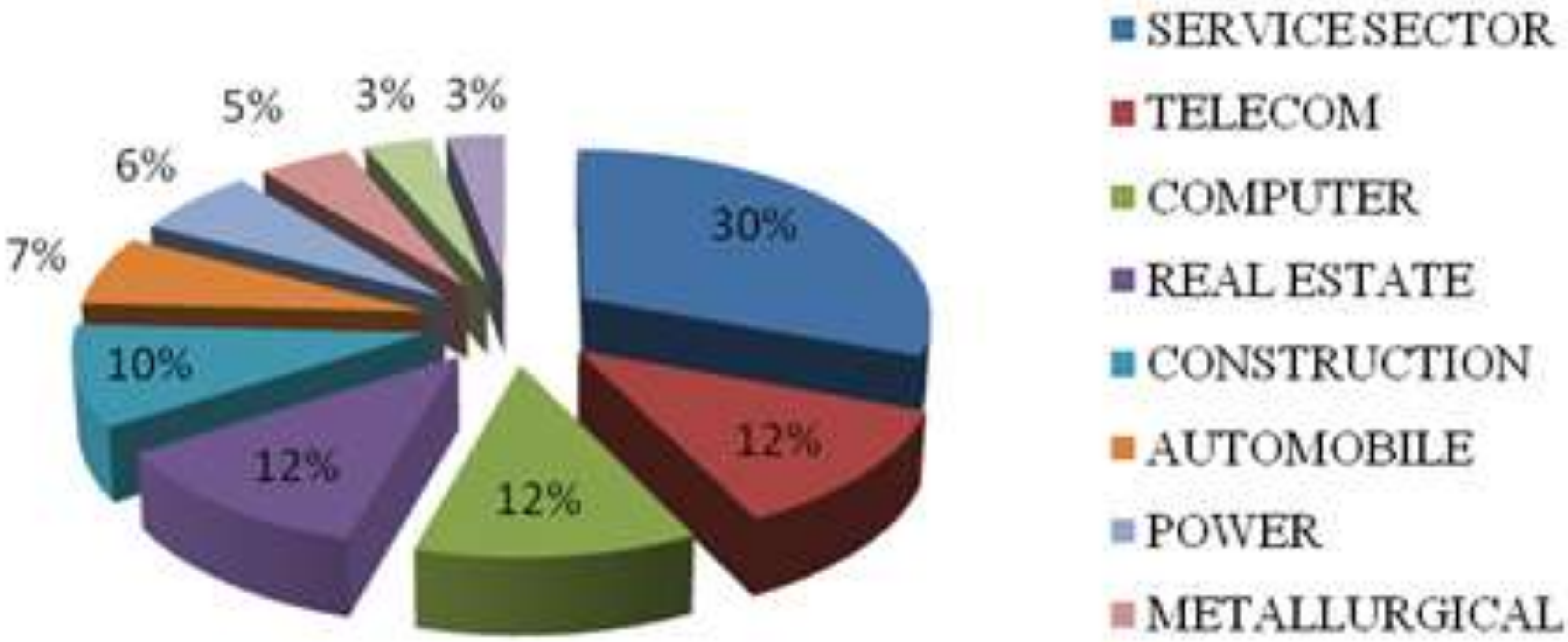
Meaning of Foreign Direct Investment

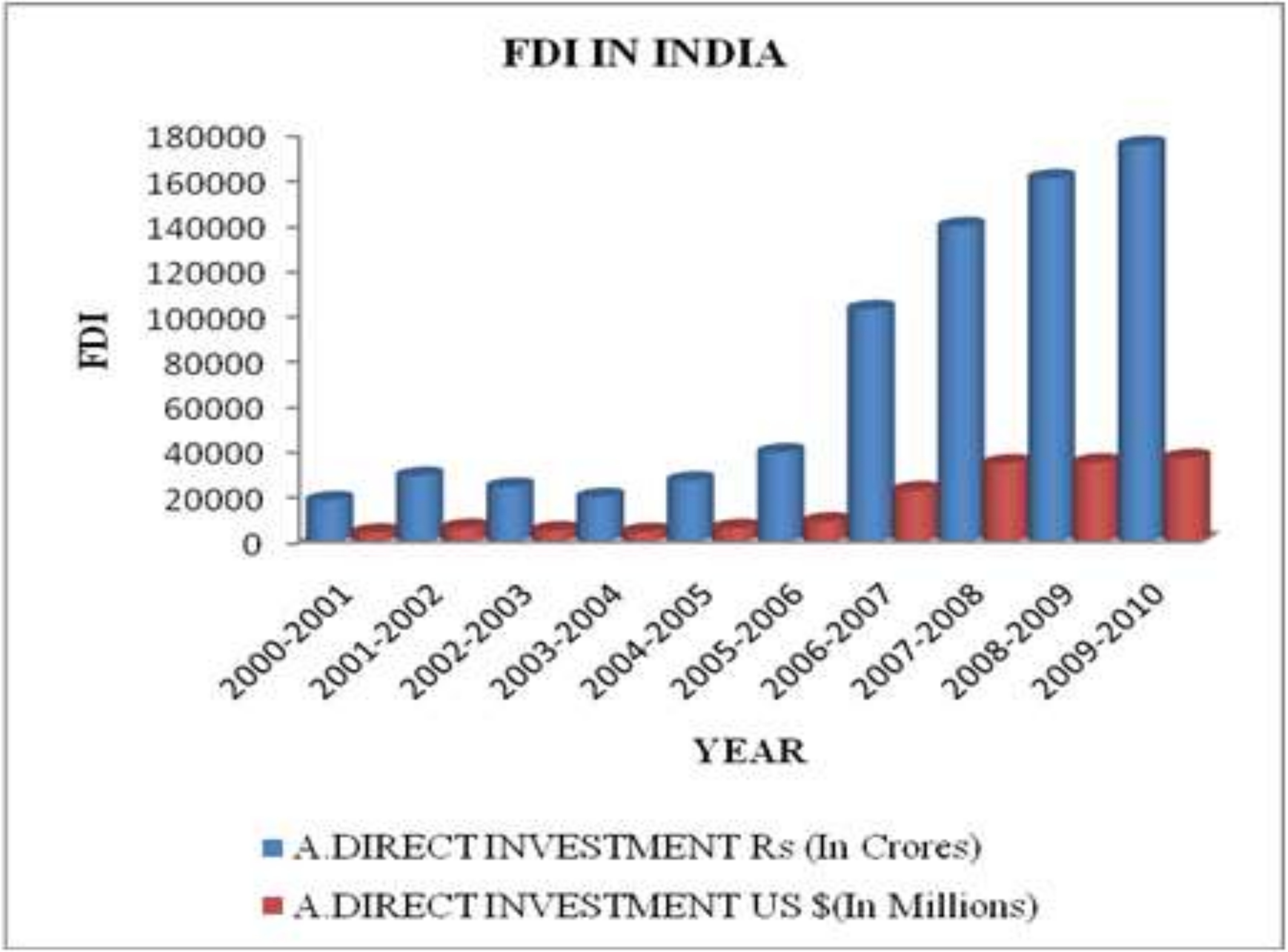
An investment made by a company or entity based in one country, into a company or entity based in another country.

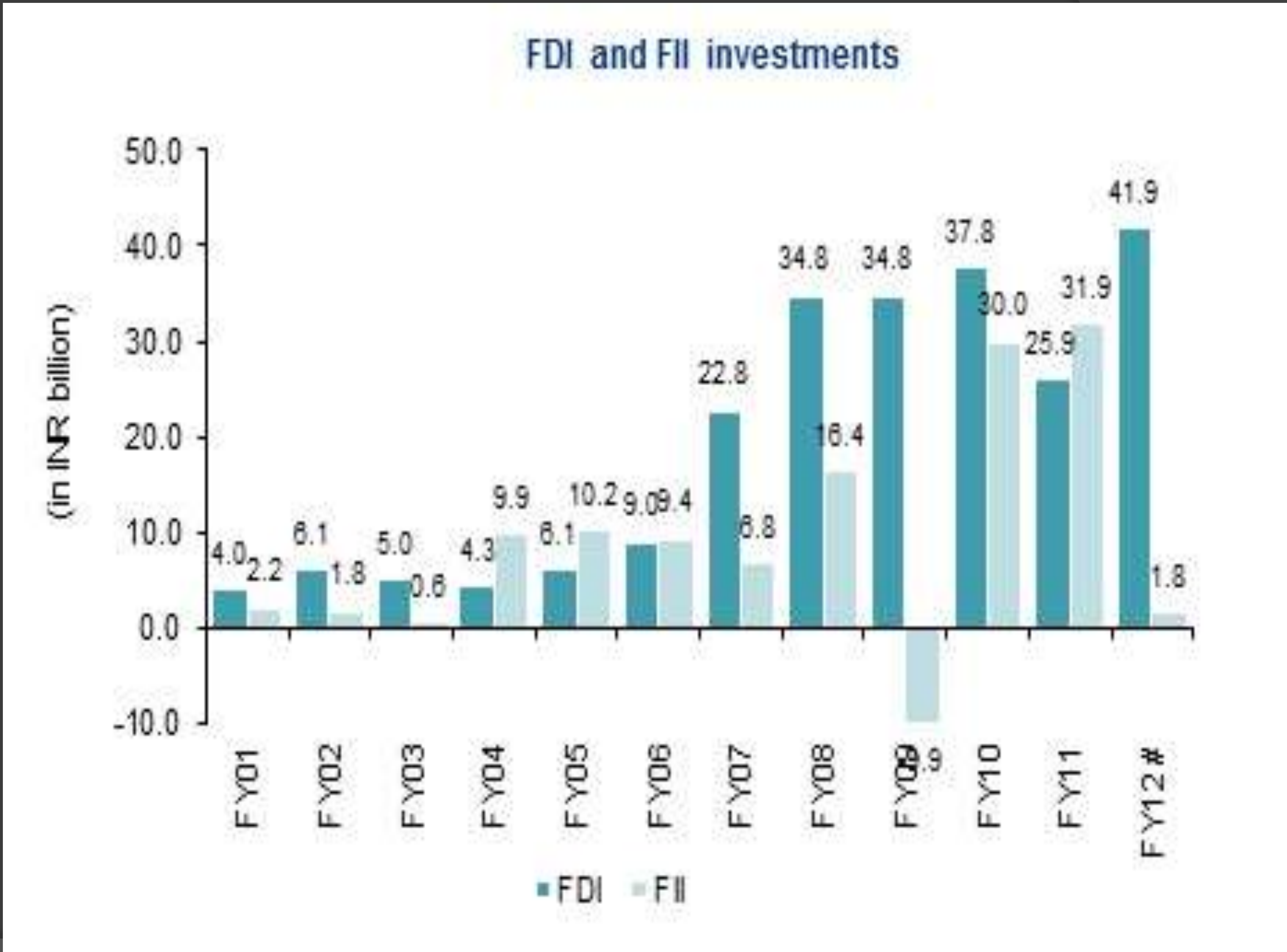
Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.

Evolution of Indian Economy after 1990

CUMMULATIVE INFLOW




FDI IN INDIA
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
FDI
2000-2001
2001-2002
2002-2003
2003-2004
2004-2005
2005-2006
2006-2007
2007-2008
2008-2009
2009-2010
YEAR
A.DIRECT INVESTMENT Rs (In Crores)
A.DIRECT INVESTMENT US $(In Millions)


FDI and FII investments
(in INR billion)
50.0
40.0
30.0
20.0
10.0
0.0
-10.0
4.0
2.2
6.1
1.8
5.0
0.6
4.3
9.9
6.1
10.2
9.0
9.4
22.8
6.8
34.8
16.4
34.8
37.8
30.0
25.9
31.9
41.9
1.8
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
FY11
FY12#
FDI
FII

But Still.....

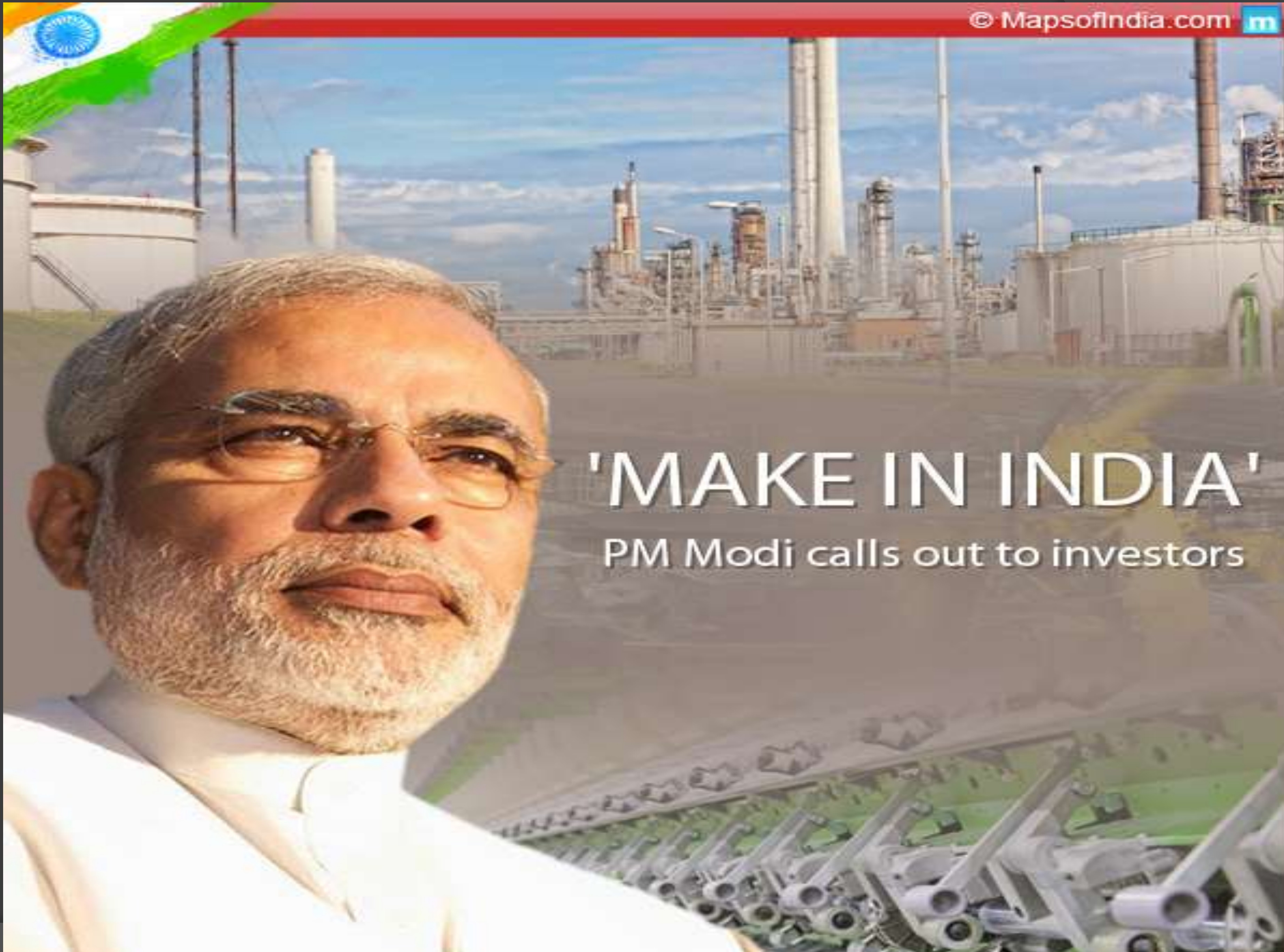
We are lacking behind

We again need a new vision

And so

We have a

"Man in Power"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'MAKE IN INDIA'
PM Modi calls out to investors

Come Make in India

Where are we now and where do we head to?

Make in India

Make for India

Make in India is an international marketing strategy, conceptualized by the Prime Minister of India, Narendra Modi on 25 September 2014 to attract investments from businesses around the world, and in the process, strengthen India’s manufacturing sector

The 'Make in India' also attempts to enforce the inflow of FDI in the country and improve services by partial privatization of loss-making government firms.

The campaign is completely under control of the Central Government of India.

The major objective behind this initiative is to focus upon the heavy industries and public enterprises while generating employment, empowering secondary and tertiary sector and utilizing the human resource present in India

सत्यमेव जयते

Government of India

Sectors requiring Central Government Approval

100%

- Tea Sector
- Pharmaceuticals
- Asset Reconstruction Company
- Facsimile edition of Newspaper
- Publishing scientific and technical magazines

74%

- Satellites
- Ground Handling Services
- Non-scheduled Air transport services
- Airports
- Teleports

26%

- Terrestrial Broadcasting
- Print Media
- Broad Casting content services

20%

- Public Sector Banking

Sectors with Caps

74%

- Credit Information Companies
- Private Sector Banking
- Ground Handling Services-Civil Activation
- Satellites-Establishment and Operation
- Air Transport Services

49%

- Petroleum refining by PSUs
- Cable Networks
- Private Security Agencies
- Commodity Exchanges
- Power Exchanges

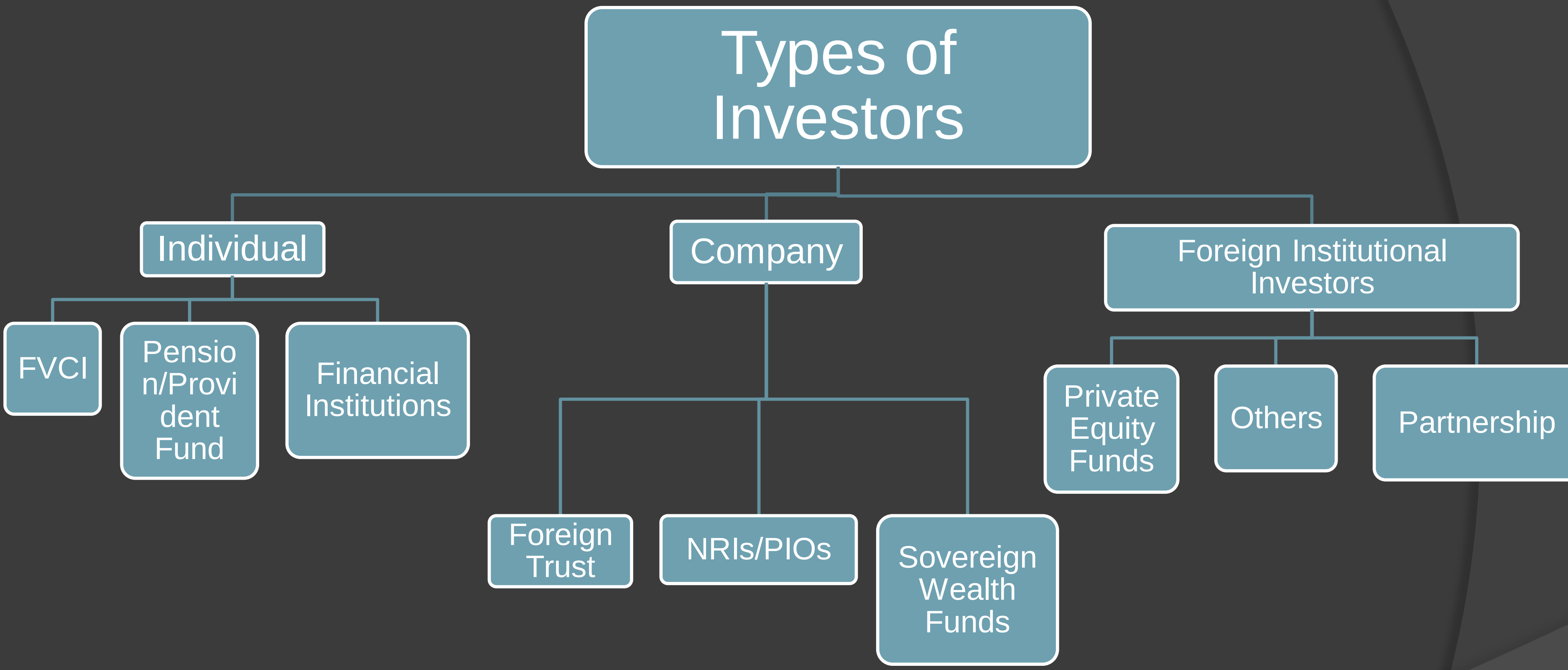
26%

- Broadcasting Content Services
- Print Media dealing with news and current affairs
- Insurance and Sub Activities

20%

- Public Sector Banking

Types of Investors


Types of Investors
Individual
Company
Foreign Institutional Investors
FVCI
Pension/Provident Fund
Financial Institutions
Foreign Trust
NRIs/PIOs
Sovereign Wealth Funds
Private Equity Funds
Others
Partnership

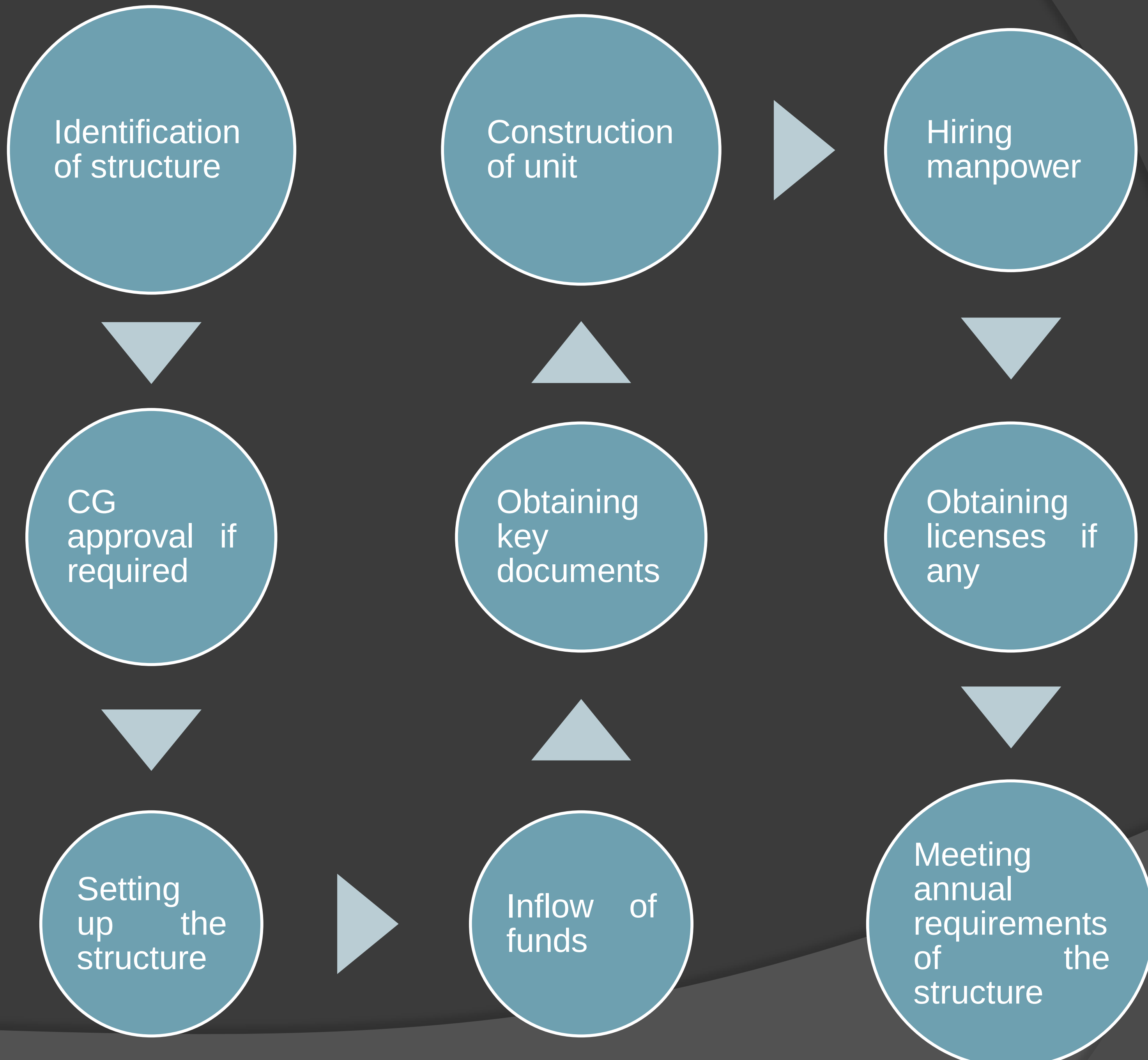
Sectors with restrictions

- Lottery Business
- Real Estate Agents
- Gambling and Betting including casinos

- Chit funds
- Manufacturing of Cigars, Tobacco or Tobacco substitutes
- Nidhi Company(borrowing from and lending to members)

- Trading in Transferable Development Rights
- Sectors not open for private investments
- Services like legal, book keeping, accounting and auditing

Steps involved in Investments


Identification of structure
CG approval if required
Setting up the structure
Inflow of funds
Obtaining key documents
Construction of unit
Hiring manpower
Obtaining licenses if any
Meeting annual requirements of the structure

Entry Structures

Incorporating a Company in India

- Can be private or public limited Co.
- Both wholly and jointly ventures are allowed
- Private Co. requires minimum 2 shareholders

Limited Liability Partnership

- Allowed under Govt. rules in sector which has 100% FDI allowed under automatic route and without any conditions

Sole Propertiorship

- Under RBI approval
- RBI decides in consultation with Govt. of India

Extension of Foreign Entity

- Liaison office, Branch office or Project office
- Offices undertake only the activities specified by RBI
- Approvals are granted under the government and RBI route
- Automatic route is always available to BO/PO meeting certain conditions

Other Structures

- Foreign Investment in other structures like NPO are also subject to Foreign Contribution Regulation Act(FCRA)

Advantages of Foreign Direct Investment

It stimulates the economic development of the country in which the investment is made.

The equipment and facilities provided by the investor can increase the productivity of the workforce in the target country.

It enables resource transfer, and other exchanges of knowledge whereby different countries are given access to new skills and technologies

It usually creates jobs and increase employment in the target country.

Disadvantages of Foreign Direct Investment

F.D.I. can sometimes hinder domestic investment, as it focuses resources elsewhere.

The rules governing foreign direct investment and exchange rates may negatively affect the investing country.

Foreign direct investment may be capital-intensive from the investor's point of view, and therefore sometimes high-risk or economically non-viable.

Foreign direct investment sometimes affects exchange rates which is beneficial to one country and detrimental to other.