Research Paper

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A Study on attractiveness of India as an Investment destination in global market

Economics

KEYWORDS : India, Foreign direct Investment, Investment destination

Kali Charan Modak	Assistant Professor, IBMR, IPS Academy,Indore
Gagan Bhati	Assistant Professor, IBMR, IPS Academy,Indore

ABSTRACT

World second highest population, robust domestic demand, high purchasing power, economic liberalization cheap labor attracts foreign investment in India. Cost competitiveness and epic pool of talent makes India as one of the most preferred destination for FDI. We are able to attract FDI in India but we are unable to maintain that FDI for a long time, because of the problem faced by investors in India. In this paper we try to analyze the various factors which affect the image of India as a preferred investment destination in global economy.

Introduction:

With the population of more than 1.2 billion, India is world largest democracy. Over the past decade Indian economy is showing impressive growth. India has now emerged as a global player with the world fourth largest economy in purchasing power parity terms (The World Bank India overview, 2012). The Economic indicators which are also considered to be the mirrors of economic scenario show the real picture of the development of a country like India. Accordingly, Foreign Direct Investment (FDI) can be termed in this regard and it can represent India as one of the developing indicators in terms of development structure. To smoothly run the wheel of economy of a developing country like India Foreign Direct Investment (FDI) is considered to be one of the important determinants which can help enhance the economic growth. Today India is changing and is becoming the land of opportunities. In current scenario global economy is facing the problem of financial crises but Indian economy is facing the problem of confidence crises because of the policy paralysis. India will have to work hard to maintain the position as an investment destination. Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector.

Factors affecting attractiveness of India as an Investment destination:

I. Time it takes to register a company- In India's booming startup sector, where nearly two companies are launched every day, starting up is proving to be the easy part but still it takes maximum time to register a company in India (3-30 days or more) while in Singapore it takes only 15 minutes and in Mauritius and Delaware (US) it takes 1 day and 10-30 days respectively.

II. Capital gain tax- In India Capital gain tax where shareholders are taxed on their equity is too high (10%-30%) for equity held for less than 1 year, 20% for more than 1 year. On the other hand the same is very less in Singapore (0%), Mauritius (0%) and Delaware (0-20%)

III. Corporate tax and Indirect tax- There are 16 different direct and indirect taxes each in India that amount to 33.99% as opposed to a onetime 17% tax in Singapore, or 8.7% in Delaware in United states and 0-15% in Mauritius.

IV. Weak Intellectual Property Laws- Weak IP laws are concerned with Technology companies. India's position in protection of Intellectual property is very poor, Companies feel safer to register their IP in USA then India. Although the cost are ten times more than India, A Patent filled in US is more valuable.

V. Poor IP Score-A 2013 report by the US Chamber of Commerce ranks India last among 25 countries surveyed with regard to protection of intellectual property. IP score of India is very low (6.95/30) in comparison to Singapore (25.12/30) and Delaware in US (28.52/30). Mauritius was not included in the survey.

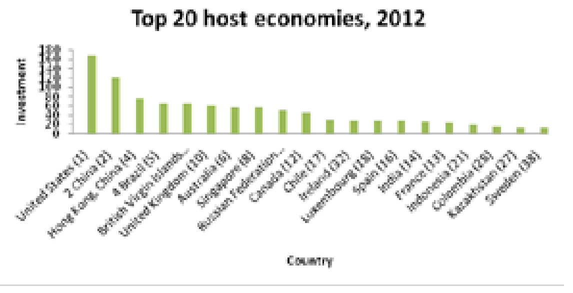
VI. Rank in global competitiveness report- India's Rank in global competitiveness report is 96 while Singapore-1, Mauritius-42 and Delaware in United States got 36 rank.

VII. Cumbersome paper work - India's cumbersome paperwork have been a drag for the companies more interested in boosting business in India. This is especially true for technology startups that create intellectual property.

VIII. RBI Regulations for Credit Card payment- In India Companies are stymied by a RBI mandate-meant to protect credit card user-that prevent companies from debiting money without the customer approving every transaction.

TABLE 1: Comparison Table of Tax and Registration across Four Startup Hotspots

	India	Singapore	Mauritius	Delaware, US
Time it takes to register a company	3-30 days or more	15 minutes	1 day	10-30 days
Capital gain tax, where shareholders are taxed on their equity	10%-30% for equity held for less than 1 year, 20% for more than 1 year	0%	0%	0-20%
Corporation tax rate	33.90% for domestic companies	17%	0-15%	8.7%
IP Score by: Global Intellectual property Center	6.95/30	25.12 /30	Not included in survey	28.52 /30
Rank in Global Competitiveness Report	96	1	42	36



Source: UNCTAD FDI-TNC-GVC Information System, FDI database (www.unctad.org/fdistatistics).

From the above chart we can analyze that United States comes number one in top 20 host country in term of investment. India ranks on fourteenth rank in top 20 host country in term of investment.

Literature Review:

Kumar Gajendran Lenin, Karthika S (2010) concluded that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country.

Agarwal and Khan (2011) stated that 1% increase in FDI would result in 0.07%increase in GDP of China and 0.02% increase in GDP of India. We also found that China's growth is more affected by FDI, than India's growth.

R. anitha (2012) Analyzed that FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. The huge market size, availability of highly skilled human resources, sound economic policy, abundant and diversified natural resources all these factors enable India to attract FDI. Further, it was found that even though there has been increased flow of FDI into the country during the post liberalization period, the global share of FDI in India is very less when it is compared to other developing countries. To overcome this situation, the Government should revise the sectoral cap and bring more sectors under the automatic route. Further, India should sign the agreement of Double Taxation treaties with other countries in order to increase bilateral trade. Therefore, there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy.

Jasbir Singh, Ms. Sumita Chadha, Dr. Anupama Sharma (2012) Analyzed that International Economic Integration plays a vital role in Economic Development of any country. Foreign Direct Investment is one and only major instrument of attracting International Economic Integration in any economy. It serves as a link between investment and saving. Many developing countries like India are facing the deficit of savings. This problem can be solved with the help of Foreign Direct Investment. These investments met the financial requirement for building up the basic and essential infrastructure industries of priority sector. He concluded his research with We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

Alak Kumar Saha (2012) Discussed that The Economic indicators which are also considered to be the mirrors of economic scenario show the real picture of the development of a country like Bangladesh. Accordingly, Foreign Direct Investment (FDI) can be termed in this regard and it can represent Bangladesh as one of the developing indicators in terms of development structure. The research was focused the position of FDI in Bangladesh along with its problems and remedies.

Alka Golani (2013) stated that as the fourth largest economy in the world in PPP terms India is a preferred destination for FDI during 2000-10 the country attracted $ 178 billion as FDI .The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive Investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2010 (29 countries in 1991) across the globe to invest in India making it up stage US in the list of top investment destinations in the world in the UNCTAD WIP Report. She conclude that a recent study finds that Wal-Mart entry increases retail employment in the year of entry while contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 percent reduction in average retail employment. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector. But the government of India must be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

Objectives:

1. To Study various factors affecting the attractiveness of India as an Investment destination.
2. To make a comparative analysis of India and other countries as an Investment destination.

Research Methodology:

This is a descriptive study followed by empirical calculation. This study is based on secondary data and the data has been collected from CMIE data base. We have studied the significance of India as a potential investment destination. Statistical technique like multiple regression method and percentage analysis was used for purpose for analyzing the data.

Selection of variables

The study applies the multiple regression method to find out whether the variables influence the flow of the FDI in to the country. After thorough analysis of the different combination of the variables, the present study includes the following macroeconomic indicators: Gross Domestic Product at Factor Cost (GDP), Coal Production (COAL), and Wages paid (WAGE), Electricity generated (ELEC), Inflation (INFL), Deficit in Balance of Payment (DEFICIT) and Trade Openness (OPEN), as independent variables which influence the flow of FDI into the country. These macroeconomic indicators are considered as the pull factors of FDI inflows in the country. Thus, the principal determinants of FDI inflows are put in the equation as follows:

$$FDIt = a + \beta_1 GDPt + \beta_2 COALt + \beta_3 WAGEt + \beta_4 ELECt + \beta_5 INFLt + \beta_6 DEFICITt + \beta_7 OPENt + e$$

Where,

FDI = Foreign Direct Investment net inflows measured as BOP current Rs. in crores

GDP = Gross Domestic Product at Factor Cost measured Rs. in crores

COAL = Coal Production measured in Million tonnes

WAGE = Total emoluments paid to the workers measured in terms of Rs. in crores

ELEC = Electricity Generated measured in billion Kwh

INFL = Inflation measured in terms of percentages

DEFICIT = Deficit in Balance of Payment position measured in

OPEN = Trade Openness i.e., sum of Exports + Imports divided by GDP {(Ex+Im) /

GDP} measured in terms of Rs. in crores

T = time frame

TABLE 2: result of multiple regression determining FDI inflows

Variables	Un standardized		Standardized Coefficient	t value	SE
	Coefficient	SE			
FDI Inflow (FDII)	150.25	-320.05		4.75	0.001**
GDP at Factor Cost (GDP)	0.801	0.082	8.21	7.232	0.000**
Coal Production (COAL)	-738.5	201.7	-0.816	-0.976	0.515*
Wages paid (WAGE)	2.362	1.382	0.332	6.649	0.024*
Electricity generated (ELEC)	-294.93	225.4	7.85	12.46	0.001**
Deficit in BOP (DEFICIT)	-0.873	0.223	-0.81	-0.331	0.048*
Inflation (INFL)	-3220.114	824	-0.289	-8.663	0.008**
Trade Openness (OPEN)	-1894.677	756.64	0.069	3.65	0.143*

*** denotes significance at 5% level**
**** denotes significance at 1% level**

Multiple R value = 0.998

R Square value = 0.996

F - Value = 520.281

Durbin – Watson test value = 3.051

The Multivariate Regression was applied to find how the institutional factors influencing the flow of FDI into India. The Regression result as in table 2 shows that the calculated F value is 520.281 which is greater than the table value of 161.15 at 1 % level of significance. Since the calculated value is greater than the table value the hypothesis is rejected. Hence, it is inferred that the above variables have influenced the flow of FDI in India. Further the estimated results are analyzed by using the relevant econometric techniques viz. coefficient of determination, standard error, f- ratio, t- statistics, Durbin Watson (D-W statistics) etc. The multiple correlation coefficients which measure the degree of relationship between the independent values are 0.998 and they indicate that the relationship between the independent variables is quite strong and positive. The Coefficient of Determination R-square measures the goodness-of-fit of the estimated Sample Regression Plane (SRP) in terms of the proportion of the variation in the dependent variables explained by the fitted sample regression equation. Thus, the value of R square is 0.996 means that nearly 99.6 percent of the variation in adjustment is explained by the estimated SRP. In order to take care of autocorrelation problem, the Durbin – Watson (D-W statistics) test is used. The D-W Statistic is found to be 3.051, which confirm that there is no autocorrelation problem in the analysis.

The multiple regression equation fitted for the analysis is
4.75 (FDII) = (7.232 GDP) + (-0.976 COAL) + (6.649 WAGE) + (12.46 ELEC) + (-0.331 DEFICIT) + (8.663 INFL) + (3.65 OPEN)

Interpretation
One percent increase in GDP causes 8.21 percentage increase in FDI inflows in India. The positive relationship between GDP and FDI has to be read in conjunction with India's objective to achieve a higher growth rate. There is a negative relationship between Coal production and FDI in India. There is a positive relationship between Wages paid and FDI. One percent increase in Wages paid causes 0.332 percentage increase in FDI inflows in India. There is a positive relationship between Electricity generated and FDI. One percent increase in Electricity generated causes 7.85 percentage increase in FDI inflows in India. There is a negative relationship between Deficit in BOP and FDI. One percent increase in Deficit in BOP causes 0.81 percentage decrease in FDI inflows in India. There is a negative relationship between Inflation and FDI. One percent increase in Inflation causes 0.289 percentage decrease in FDI inflows in India. There is a positive relationship between Trade Openness and FDI. One percent increase in Trade Openness 0.069 percentage increase in FDI inflows in India.

Suggestion:
Government must support the FDI inflows as a high value sector for the nation's long-term good. That can be done through certain steps like Government should simplify tax procedure so that additional burden can be reduced on Enterprises willing to open their venture in India. Registering a company is massive Procedure which involved longer time in comparison to other destinations so that it should be cut down. Few steps should be taken in order to decrease corporate income tax-33.9% for domestic companies on the other hand capital gain tax and Indirect tax should also be decreased. Improvement should be done in higher education landscape in the country. Cut down the red tape involve in starting and closing business. Intellectual property laws should be strengthening to foster the growth of large enterprises and business houses. Cumbersome paper work and tiresome process of starting a venture are also biggest challenges in the same manner.

Conclusion:
On the basis of study we draw conclusion that maximum global foreign investment's flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. But foreign investor never adopts environment friendly technique to maximize their profit. These investments met the financial requirement for building up the basic and essential infrastructure industries of priority sector. We should provide the better environment for attracting the foreign investment through direct as well as indirect methods. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

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