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Management

FOREIGN DIRECT INVESTMENT IN INFRASTRUCTURE SECTOR OF INDIA

KEY WORDS:

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Introduction

Traditionally, infrastructure was the exclusive province of the public sector, with large state-owned enterprises being responsible for investment and service delivery. Typically state-owned enterprises were costly and inefficient providers of infrastructure services in most developing countries in the mid of 1980 the governments around the world perused policies to involve the private sector in the delivery and financing of infrastructure services. FDI has expanded steadily over the past three decades. In today's global scenario the investor s are looking for alternate avenues, to invest their money with a few nation India is one of them by providing highly potential market and a low cost manufacturing. Companies, Industries, Organizations, Multi-national Conglomerates and potential investors sectors both in government and private sectors in the field of Infrastructure, Energy and Power, Oil and Gas, Telecommunications, Real Estate and Construction and Telecommunication. In the form of Mergers and Acquisitions, Joint Ventures, Collaborations, Capital Markets , Private Equity and so on. In developing countries, an essential requirement for economic growth and sustainable development is the provision of efficient, reliable and affordable infrastructure services, such as Power, Transport, Water and Sanitation and Telecommunication. India is still developing its attractiveness for strategic operations. The government is actively confronting unemployment, increasing public and private sector employment as well as increasing vocational training. In this chapter, the researcher has analyzed the Foreign Direct Investment in various segments in India.

Historical overview of the Foreign Direct Investment in India

The Foreign Direct Investment has been recognized as an important driver for economic growth and development. One of the most striking developments during the last two decades is the spectacular growth of the FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world has made the FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. In fact, the FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting the FDI, because they benefit a lot from such type of investment. The „home countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the host countries want to acquire technological and managerial skills and supplement domestic Savings and foreign exchange. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad- in their economic development, and developing nations have accepted the FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of the FDI around the globe.

The historical background of the FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After the Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet the UK remained the most dominant investor in India. Further, after Independence issues relating to foreign capital, operations of the MNCs, gained attention of the policy makers. Keeping in mind the national interests the policy makers designed the FDI policy which aimed the FDI as a medium for acquiring advanced technology and mobilizing foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed the MNCs to venture through technical collaboration in India. Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations. But due to Significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties etc, and the government had to adopt stringent foreign policy in 1970s. During this period, the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies were concerned.

Foreign Direct Investment in Infrastructure Sector of India

India infrastructure is quite developed and the transportation network of the country contributes towards its economic development. The transportation network of India consists of roadways, railways, shoreline shipping, airways etc. The transportation system of the nation is well-set and efficiently managed and is a key player in maintaining the financial development of the country. The overall span of roadways in the country is more than 44 lakh km and these roadways comprise both unmetalled and metalled roads. India houses one of the most extensive roadway transportation networks in the globe. The National Highways in India facilitate in 40 per cent of the carriage of commodities and transportation of commuters in the country.

The span of the railways network in the country is approximately 64,015 km. Electrification has been carried out to approximately 13,000 km. The railways in India transport more than 11 million commuters and 11 Lakh tonnes of freight on a daily basis. The shoreline of India is quite extensive. Approximately 90 per cent of the business activities on sea are managed by the important harbors in India like Mumbai, Kandla, Marmagao, Nhava Sheva, Tuticorin, Kochi, Vishakapatnam, Chennai, Haldia, Paradwip, Ennore, New Mangalore and Kolkata. The quickest mode to travel to any corner of the world is air travel. Domestic flights are offered by the private carriers and Indian Airlines. At the same time, the international flights are offered by Air India. The four major airports in India are Kolkata, Chennai, Delhi and Mumbai.

India took measures to liberalize its economy and encouraged the FDI in the country in 1991. There had been several measures to improve India's infrastructure. Traditionally a major portion of the infrastructure was owned and managed by the government. Recognizing that growth in infrastructure will be inhibited if the government of India has to rely only on state funds, it now involves the private sector in infrastructure development and marketing through agreements knows as concession agreements that grant private entities the right to build own and operate an infrastructure service and to receive revenues generated, though the ownership of assets vest with the government. Infrastructure includes major components such as basic building, institutions and facilities of other essential elements which are necessary to sustain economic growth. The up gradation of infrastructure has been strong by felt for effective implementation of projects through budgetary allocations, tariff policies, fiscal incentives, private sector participation and Public-Private Partnerships (PPPs). The Infrastructures sectors like Airports, Power, and Telecommunications, Roadways and Railway and the like constitute the infrastructure sector.

Foreign Direct Investment for Development and Growth

The Foreign Direct Investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. Yet, the benefits of the FDI do not accrue automatically and evenly across countries, sectors and local communities. National policies and the international investment architecture have been evolved for attracting the FDI to a larger number of developing countries and for reaping the full benefits of the FDI for development. The challenges primarily address host countries, which need to establish a transparent, broad and effective enabling policy environment for investment and to build the human and institutional capacities to implement them.

Developing countries, emerging economies and countries in transition have come increasingly to see the FDI as a source of economic development and modernization, income growth and employment. Countries have liberalized their FDI regimes and pursued other policies to attract investment. They have addressed the issue of how best to pursue domestic policies to maximize the benefits of foreign presence in the domestic economy. The FDI influences growth by raising total factor productivity and, more generally, the efficiency of resource use in the recipient economy. This works through three channels: the linkages between the FDI and foreign trade flows, the spill overs and other externalities vis-à-vis the host country business sector, and the direct impact on structural factors in the host economy.

Investment Opportunities

The Government of India has always been quite forthcoming when it comes to the upgradation of infrastructure. There has been a strong focus on assuring effective implementation of associated projects though budgetary allocations, tariff policies, fiscal incentives, private sector participation and Public-Private Partnerships (PPPs). The Planning Commission has projected that investment in infrastructure would almost double at US$ 1,025 billion in the Twelfth Five Year Plan (2012-17), compared to US$ 514 billion in the Eleventh Plan. Of the US$ 1,025 billion, 50 per cent is expected to come from private sector, whose investment has been 36 per cent in the Eleventh Plan. According to investment banking company Goldman Sachs, India's infrastructure sector will require US$ 1.7 trillion investment in the next 10 years. With a view to streamlining and simplifying the appraisal and approval process for the Public Private Partnership (PPP) projects, a Public Private Partnership Appraisal Committee (PPPAC) has been constituted under the Chairmanship of Secretary, Department of Economic Affairs and Secretaries of Planning Commission, Department of Expenditure, Department of Legal Affairs and the Administrative Department concerned as its members. The project proposals are appraised by the Planning Commission and approved by the PPPAC.

Further, India needs to spend US$ 1.2 trillion by 2030 to meet the projected demand of its cities, according to a McKinsey Global Institute Report. The Indian Government has envisaged The Indian Railways Vision 2020 which aims to tackle infrastructure obstacles and deliver best services while building capacity. Infrastructure PE funds investing in India can choose from sub-sectors such as power, telecom, roads and ports. The Preqin report records that 74 per cent of India focused funds will invest in Greenfield projects, 84 per cent in brownfield assets and 42 per cent will buy out the stakes of other PE funds.

Investment Policy in India

The following are the investment policies in India.

1. The FDI up to 100 per cent under the automatic route is allowed in the power sector. Accordingly, any foreign power company can enter power sector through the FDI route

2. The FDI up to 100 per cent under the automatic route is permitted in exploration activities of oil and natural gas fields, infrastructure related to marketing of petroleum products, actual trading and marketing of petroleum products, petroleum product pipelines, natural gas/LNG pipelines, market study and formulation and Petroleum refining in the private sector. This will be subject to the existing sectoral policy and regulatory framework in the oil marketing sector and the policy of the Government on private participation in exploration of oil and the discovered fields of national oil companies

3. The FDI up to 49 per cent is permitted under the Government route in petroleum refining by the Public Sector Undertakings (PSU). This should not involve any divestment or dilution of domestic equity in the existing PSUs

4. The FDI up to 100 per cent under the automatic route is allowed both in setting up new ones and in established industrial parks.

According to the Finance Minister, the investment in the sector during the Twelfth Five-Year Plan will go up to Rs 50 lakh crore (US$ 997.3 billion), about half of which is expected from the private sector. Further, to attract private investment, more sectors like irrigation, oil and gas storage facilities and telecommunication have been made eligible for viability gap funding under the scheme support to the PPP in Infrastructure. To ensure faster implementation of major planned projects, the Government has announced a single-window clearance mechanism under the Cabinet secretary for review and issue of clearances associated with major projects. The clearance board, to be set up on similar lines of the Foreign Investment Promotion Board (FIPB), would act as a problem-resolver and investment tracker for projects over Rs 1,000 crore (US$ 184.16 million) and will include representatives from the ministries of home, defence, environment and forests, commerce, coal, department of space and other infrastructure and energy-related ministries and departments.

Conclusion

Foreign Direct Investment in India in infrastructure owned by private participation in public infrastructures has given a new impetus. Several infrastructure services and projects are governed by concession agreements or contracts between the government and/or public authorities and private entities. The government of India has always been quite forthcoming to the up gradation of infrastructure. There must be strong implementation of associated projects through budgetary allocations, tariff policies, fiscal incentives, private investment sector participation and Public-Private Partnerships (PPPs). Construction projects which have received the maximum FDI include housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, city and regional level infrastructure.

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