India – A Global Investment Destination

Background:

Young demographic profile coupled with unshackling of Indian economy is having tremendous effect on the Indian economic outlook. Today, India is perceived as the second most favourable investment destination. The global economic growth is becoming more and more dependant upon Asia f growth, in which India is playing an increasingly more important role.

Economic Reforms in India

2. With the announcement of the new industrial policy on July 24, 1991 the strategy of industrialization followed is an “outward looking’ one. All manufacturing activities, except a few (due to strategic, environmental reasons, etc.) are now open to competition and the entrepreneurs are free to make investment decisions based on their commercial judgment.

3. Major initiatives put forth as a part of the liberalization and globalization strategy since the early Nineties included virtual scrapping of the industrial licensing regime, reduction in the number of areas reserved for the public sector, amendment of the Monopolies and the Restrictive Trade Practices Act, launching of the privatisation programme, reduction in rates of both direct and indirect taxes and change over to market determined exchange rates. Over the years, there has been a steady liberalization of the exchange controls with full convertibility on current account transactions.

4. The policy on FDI has been progressively liberlaised since 1991. This includes opening of many new sectors to FDI, raising FDI equity caps in sectors already opened and procedural simplification. Today, the FDI policy in India is widely reckoned to be among the most liberal in the emerging economies and FDI up to 100% is allowed under the automatic route in most sectors and activities. FDI under the automatic route does not require approval of the Government and merely

involves intimating to the Reserve Bank of India with 30 days of inward remittances and filing of documents with in 30 days of issue of shares top foreign investors.

5. Along with the policies on inward FDI, the policies on outward investment are also liberlaised. Controls on inward FDI and external commercial borrowing by domestic firms have been eased and the emergence of world-class Indian corporate is being encouraged by the lifting of controls on outward investment. Indian corporate can now invest up to 200% of their net worth overseas under the automatic route. There has been a trend of increased overseas investments by Indian corporate. In 2004, India's outward investment exceeded US$2 billion.

6. Industrial Licensing has already been liberalized in India since 1991. Now entrepreneurs are free to set up industries. Opening of Companies has been made simple. With the introduction of IT in operations of registrars of Companies, it has been made possible to open a company even in a day. Registrations with tax authorities, local authorities and other are also were made IT friendly, thus resulting in lesser time taken. System re-engineering has been taken up in big way to make India an efficient place to do business.

7. The Indian customs tariff rates have been brought down. Peak customs tariff on non-agricultural products had been reduced from more than 150 % prior to reform era to 15 % as of now (2005-06). In India the Quantitative Restrictions on imports were almost fully phased out with effect from April 1, 2001 bringing India's trade policy in line with current international practice.

Bullish Indian Economy

8. The last decade has witnessed an annual average growth rate of around 6% per annum in India's GDP. As per the Estimates for the H1 of 2005-06, GDP (at factor cost at constant prices) grew by 8.1% as against 7.1% in the corresponding period last year. Manufacturing GDP grew by 10.2% in H1 of 2005-06 as compared

to 8.8% during the corresponding period last year. More importantly, India has been maintaining GDP growth of 6-8% year after year.

Global Investments in India

9. Total FDI into India since the onset of the liberalisation process is US$ 36.28 billion (up to November 2005). FDI inflows in 2004-05 has increased by over 42% from US$ 2.63 billion in 2003-04 to US$ 3.75 billion in 2004-05 (this represents only the equity capital component of FDI). During 2005-06 (April-November 2005), FDI inflows has been US$ 3.36 billion as compared to US$ 2.25 billion during the corresponding period for the previous year. The FDI inflows have registered an increase of 49% during the period April-November 2005 over the corresponding period of the previous year. The increase in FDI inflows during November 2005 (US$ 775 million) compared to November 2004(US$ 301.5 million) was 157%.

10. FDI reporting in India was capturing only the capital component provided by the investor. However, FDI, as per international practices of reporting, includes equity capital, reinvested earning and intra company loans. Government had undertaken an exercise for adoption of the international practice in compilation of FDI statistics. Based on the information so far collected, the RBI has revised the FDI inflow figures since 2001-02. According to the revised inflow figures, FDI was US$ 6.13 billion in 2001-02; US$ 5.04 billion in 2002-03; US$ 4.67 billion in 2003-04 and US$ 5.54 billion in 2004-05.

11. Foreign Institutional Investors have made beeline for India. Total Foreign Investment Inflows were US$ 14.4 billion in 2004-05. During April –September 2005 total investments were US $ 4.2 billion. The number of FIIs and country of their origin have also shown a healthy growth trend.

Industrial Performance

10. The year 2004-05 witnessed further industrial recovery. The industrial growth, measured in terms of Index of Industrial Production (IIP), increased from 2.7% in 20001-02 to 5.7% in 2002-03, 7.0% in 2003-04 and further to 8.4% in 2004-05. The robust industrial growth continues and the IIP has grown by 8.8% during the period April-November2005 over the corresponding period last year. Manufacturing

sector which accounts for almost 80% of IIP has registered a growth of 12.1% in this period. Capital goods sector has been growing at double digit levels for the past 3 years.

India's integration with the world economy can be gauged from the following indicators:

- Exports during April-November, 2005-2006 are valued at US $ 57056.83 million which is 16.07% higher than the level of US $ 49156.24 million during April-November, 2004-2005.
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- The manufacturing sector, accounting as it does for close to three-fourths of exports, has continued to fuel export growth. During the first three years of the Tenth Plan (2002-07) period, exports of manufactured goods registered 20% per annual growth in Dollar terms
- The engineering goods posted a remarkable growth in exports in excess of 30 percent per annum.
- India's openness, measured as a ratio of sum of exports and imports to GDP at factor cost at current prices, rose to 29.36% in 2004-05 from 18.28% in 1993-94.
- Five sectors viz. Gems & Jewellery, Textiles & Garments, Engineering Goods, Chemicals, Leather and Leather Goods account for over 75% of India's exports.
- The two trading blocks, United States and European Union, received more that 50% of exports from India.
- The outward orientation of the Indian economy had also grown during the 1990s. Exports as a percentage of GDP (at current prices at factor cost) had grown from 5.8% in 1990-1991 to 11.64% in 2003-04 and to 12.58% in 2004-05. Similarly, imports as a percentage of GDP increased from 8.8% to 14.25% in 2003-04 and to 16.78% in 2004-05.

Prospects

11. The A.T. Kearney in 'The FDI Confidence Index 2005' has ranked India as the 2nd most attractive investment destination. 'World Investment Report, 2005' has ranked India as 2nd most attractive investment destination among Transnational Corporations. India is also the most attractive location for "offshoring " of service activities as per 'A. T. Kearney Global services Location Index, 2005'.

Prospects

12. The World Investment Community particularly Foreign Institutional Investors have responded strongly to share the Indian growth story. The Government of India has started very large national programme for infrastructure modernization and creation. This has also resulted in unprecedented business prospects. Higher disposal income of ever increasing young population is also offering strong demand for consumer goods, which in turn fuels the manufacturing and services sectors. India has become a place to be.

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