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A Study to Analyze FDI Inflow to India

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Abstract *Foreign Direct Investment (FDI) is an investment that is directly made into production and services in a country by a company situated in another country, either by buying a company or by expanding business in that country. In order to bridge the gap between domestic saving and investment FDI plays a very important role in overall capital formation. The objective of the current study is to analyze FDI inflows in India from 1991 to 2016, and to make predictions for next 5 years using least square method. Further inflows were studied on the basis of top countries investing in India, top sectors in which the investments are received. It was found that Mauritius alone contributed 33% of total FDI inflows to India. Mauritius and Singapore both collectively account for around 50% of the total inflows to India, subsequently the reasons for that were analyzed. The top sectors receiving FDI are Services, Construction development, Computer software, Telecommunications, Automobile, Drugs and Pharmaceuticals, Trading, Chemicals, Power and Hotel and Tourism. Finally the inflows in India were compared to inflows made to other BRIC countries. After studying the inflows to all the BRIC countries, reasons for low inflows to India were analyzed. In the end some policy changes were recommended so that India could attract higher FDI inflows. To fund infrastructure growth in sectors such as highways, ports and airways higher FDI flows would be required.*

Keywords: *BRIC countries, capital, FDI, investment, infrastructure.*

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I. Introduction

An important cog in the wheel of fortune of a country, capital formation manifests itself as a serious determinant of economic growth. The whole talk of FDI just cannot be downplayed in view of domestic investments bringing supplements to the required capital stock of the economy. The fact of the matter is that in order to bridge the gap between domestic saving and investment FDI plays a very important role in overall capital formation. FDI is treated as a non-debt-creating source of additional external finances at the macro-level. FDI is expected to augment output, skill levels, employment technology, and cohesion with other sectors and regions of the host economy at the micro level. An investment that is directly made into production and services of a country by a company situated in another country, either by buying a company or by expanding business in that country is termed as Foreign Direct Investment (FDI). An investment which is made to acquire a long-lasting interest (normally 10% of voting rights) in a business venture operating in a country other than that of the investor is called Foreign direct investment. Broadly classifying, FDI can be divided into two forms: “greenfield” investment, also known as “mortar and brick” investment, and merger and acquisition (M&A), which necessitates the acquisition of existing interest rather than new investment. Ownership of less than 10% is considered as portfolio investment. Apart from the above, capital transfer between parent company and its subsidiaries and reinvesting of earnings and loans also encompasses FDI.

To further put things into perspective, total FDI includes a) Foreign direct investment- which includes the share of investment in equity through SIA / FIPB, RBI, NRI, shares acquired by NRIs belonging to Indian companies, equity capital of unincorporated bodies and other capital. and b) Foreign portfolio investment-which consists of Global Depository Receipts (GDR), American Depository Receipts (ADR), Foreign Institutional Investors (FIIs), offshore funds and others.

FDI for all practical reasons introduces modern technologies, transfers knowledge, skill, provides access to export markets along with investment and managerial expertise. More importantly it is the gateway to earn the most sought-after foreign exchange to help reduce the deficit of balance of trade. The local firms are compelled to improve their technology, quality and management when foreign enterprises compete with them. Treated as an important mechanism for channelizing transfer of capital and technology, FDI - by virtue of such a perception – is a factor (read force) to be reckoned with as far as promoting economic growth in host country.

FDI inflows started pouring into Indian shores long back in 1991-92 with an eye on bringing in unison the real savings of the country and the needed investment. The portfolio investments by Foreign Institutional Investors, loans by foreign banks and foreign direct investments helped in revoking the gap between needed investment and the real savings of the country. Out of the three mentioned above, India has a special liking for and in fact, holds the maximum foreign funds in the form of Foreign Direct Investments. According to UN report 2012, India emerges as the third most favored investment destination following China and the US. FDI being regarded as the major driving force for the development and growth of a country, the present study analyzes the FDI inflows to the country.

II. Literature Review

Review of various literatures sizes up the positioning of FDI as an enabler of change. Whilst the jury is still out on whether or not FDI is boon or bane for economic growth and development of the host countries', there can be no denying the fact that it does provide an array of opportunities for the host nations. FDI has its own merits and demerits. Many scholars opine that developed nations may try to intrude into the sovereignty and integrity of host country through FDI. The host country may be left deprived of natural resources as in order to boost the profit margins; natural resources may be exploited at a faster rate by the foreign investor. It is generally feared that FDI poses a threat to the future of domestic industries. It is opined that overall social & economic development of the host country is pushed aside by the foreign investors whose main motive is only to earn profits. In this section various issues raised by different scholars on the subject have been investigated. It is an universally accepted fact that the host economy is benefitted by FDI inflows. UNCTAD (1999) stated that Transnational Corporations (TNCs) can enhance local development efforts by (i) pumping in more financial resources for development; (ii) uplifting export competitiveness; (iii) strengthening the skill base and generating employment; (iv) safeguarding the environment by fulfilling commitment towards social responsibility; and (v) augmenting technological capabilities through transfer, diffusion and generation.

Singh[1] in his attempt to study pre and post reform economic situation of the Indian economy, came up with an intriguing fact; that in the post reform period 15% deceleration in the growth rate was observed for a period of 5 years (1996 to 2002). The reasons could be attributed, partially to the slowdown of the reforms of Coalition governments.

Sahoo and Mathiyazhagam[2], in pursuit of finding the effects of FDI on GDP and exports, came up with the revelation that a positive correlation existed between FDI vis-a-vis exports and GDP. Contrary to above, the study by Hanson[3] reported weak evidence in favor of positive impact of FDI on the host countries. Jha[4] - in the Indian scheme of things - analyzed the recent trends of FDI inflows to India. He found that in accordance to India's economic potential and performance, FDI inflows are inadequate. A significant improvement in FDI figures was observed as the government revised its calculation of FDI figures in accordance with the best international practices.

Chaturvedi[5], in an elaborate and holistic attempt, analyzed the sector and country wise FDI inflow to India and came up with the fact that Mauritius, Singapore, USA and UK are keen to invest in India with service sector, computer hardware and telecommunication sectors receiving highest FDI inflows.

Nandi[6], in his novel attempt studied BRIC countries and their effects on the economies worldwide to investigate the past, present and future of FDI policies, came up with vital insights about the phenomenon.

Bose[7], in his earnest attempt to gauge the FDI trends in emerging economies of Asia, has done a descriptive and explorative research on the positive and negative effects for the foreign investors while they go in for direct investments in India and China.

Teli[8] did a longitudinal study about the actual inflows of FDI in India from a period of 1991- 2012 and predicted the flows upto 2015. The study concluded that FDI has positive impact on the related economic indicators on Indian economy.

III. Objective Of The Study

- To study FDI inflows and make prediction of FDI inflows in India from 2016- 17 to 2021-22.
- To study the FDI inflows to India from various countries.
- To analyze the top sectors receiving FDI.
- To compare FDI inflows to India with regards to other BRIC countries.

IV. Nature And Source Of Data

Secondary sources of data have been used for analysis in the present study. To that end, the relevant secondary data has been collected from reports of the Ministry of Commerce and Industry, Department of Industrial Promotion and Policy, Government of India, Centre for Monitoring Indian Economy, UNCTAD, Reserve Bank of India.

V. Current Scenario Of Foreign Direct Investment Inflows In India

Government of India has started many programs to attract FDI inflows to improve the Indian economy following the initiation of economic reforms in 1991. Promoting efficiency in production and increasing exports have always been the two key objective of promoting FDI in India and other developing countries.

Table- 1 Gross inflows of FDI in India from 1991 to 2016 (Amount in US$ Million)

Year	Foreign Direct Investments	Annual Growth Rate
1991-92	129	--
1992-93	315	144
1993-94	586	86
1994-95	1314	124
1995-96	2144	63
1996-97	2821	32
1997-98	3557	26
1998-99	2462	-31
1999-2000	2155	-12
2000-01	4031	87
2001-02	6130	52
2002-03	5095	-17
2003-04	4322	-15
2004-05	6052	40
2005-06	8962	48
2006-07	22862	155
2007-08	34844	52
2008-09	41903	20
2009-10	37746	-10
2010-11	36047	-5
2011-12	46552	29
2012-13	34298	-26
2013-14	36047	5
2014-15	45147	25
2015- 16(P)	55559	23

(Source- RBI bulletin[9], DIPP[10]), P- Provisional

Table no. 1 portrays gross inflows of FDI to India from 1991 to 2016. Showing a more profound roller-coaster trend, the FDI, which was only 129 US $ million in the year 1991, rose upto 3557 US $ million in 1997- 98, but then it declined to 2155 US $ million in the year 1999-2000.The said decline could be attributed to the East Asian crisis, which adversely affected capital flows to all emerging markets[11]. A bright spot was the year 2000-01, when the inflows were encouraging. There was a positive increase in the value of FDI inflows due to various reasons such as heavy demand of Indian consumers, liberalized government policy, communications facilities. The FDI inflows increased to 6130 US $ million in the year 2001-02 but again fell to US $ 5095 million in 2002- 03 and further to US $ 4322 million in 2003- 04. In the year 2004- 05 the inflows again raised to 6052 US $ million and further to 22862 US $ million in 2006- 07 showing the global investment trend to the developing countries. The latter period saw the recessionary slowdown and as such the inflows fell to 37746 US $ million. To counter this problem extra efforts were being made by all the host countries to magnetize the reduced quantum of available international capital. Even in the prevailing conditions India continued to fare better owing to its enormous domestic demand and investor-friendly policies. Further the inflows increased to 46552 US $ million in the year 2011-12, indicating the impact of economy liberalization and gradual opening up of the capital account. At a time when the general outlook on FDI was buoyant, the FDI inflows dipped again to 36047 US $ million in the year 2013-14. Various reasons have been cited for this downfall such as rise in corruption cases, unnecessary procedural delays, environmental related issues, and higher inflation rates during the period. Although the global prospect appears to have revamped in the recent past, the unfolding of issues such as debt crisis in the European region is believed to have an impact on the investor's point of view. In addition to this the issues prevailing domestically may also have an adverse affect on the long-term FDI flows to India. But in the year 2014-15 the FDI inflows once again rose to 45147 US$ million, and further to 55559 US$ million in the year 2015-16.

5.1 Prediction of FDI Inflows to India

The trend in FDI inflows for next 5 years i.e. 2017- 2021 has been predicted after studying the quantum of FDI inflows to India, from 1991- 2016. The estimation of FDI inflows to the country is approximated by using least square method. The equation of a straight line is as follows:

$$Y= a+bx$$

Where Y = dependent variable (FDI)

a = intercept
b = slope
x = independent variable (time)

The normal equations are

$$\sum y = na + b\sum x$$
$$\sum xy = a\sum x + b\sum x^2$$

Figure 1

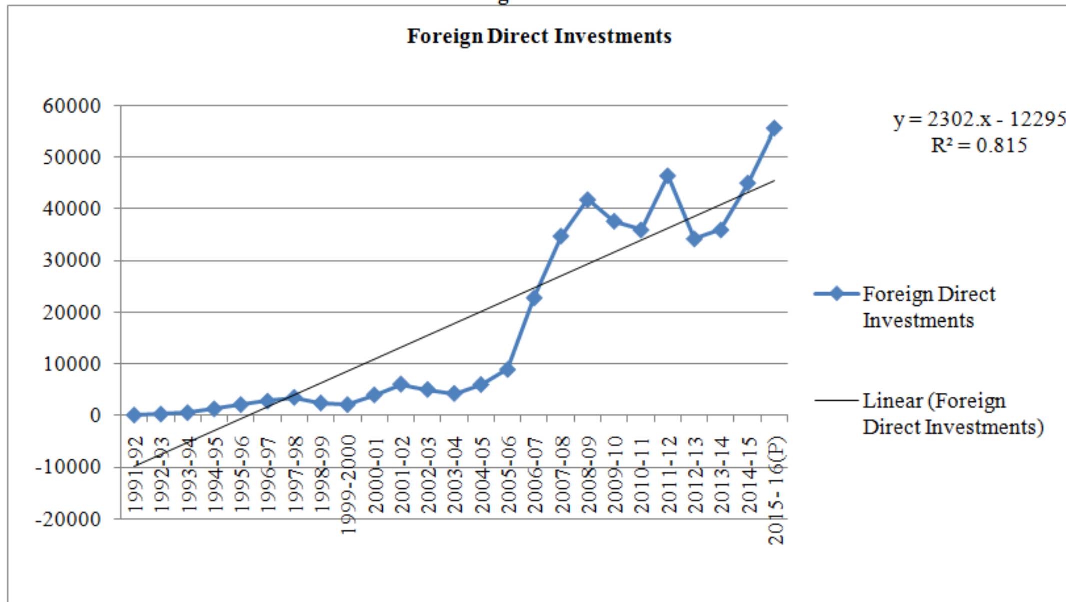


Table- 2 Projections of FDI inflows (Amount in US$ million)

Year	FDI Inflows
2016-17	47557
2017- 18	49854
2018- 19	52161
2019- 20	54463
2020- 21	56765

Table 2 shows the predicted FDI inflows from 2017- 2021. The predictions show a rising trend in the inflows.

VI. Top 10 Countries Providing FDI To India

Top 10 countries investing in India are given in Table- 3.

Table- 3 Country wise FDI Inflows- Top 10 Countries (Amount in US$ Millions)

Rank	Country	2014-15 (Apr-Mar)	2015-16 (Apr-Mar)	2015-16 (Apr-Sept 16)	Cumulative Inflows (Apr 00-Sept 16)	% age to Total Inflows
1	Mauritius	9,030	8,355	5850	101760	33
2	Singapore	6742	13692	4680	50560	16
3	U.K.	1447	898	964	24072	8
4	Japan	2084	2614	2795	23760	8
5	U.S.A.	1824	4192	1437	19380	6
6	Netherlands	3436	2643	1615	18929	6
7	Germany	1125	986	588	9217	3
8	Cyprus	598	508	381	8933	3
9	France	635	598	183	5294	2
10	U.A.E.	367	985	355	4385	1
Total FDI inflows from all countries		30931	40001	21624	310258	-

Source: FDI Statistics, DIPP[10]

Table-3 clearly indicates that a major share of 86% of FDI inflows is contributed by these ten countries while only 14% was contributed by rest of the world. It also depicts that the total amount of 22423 US $ millions of FDI was received from 113 countries including NRI investments during 2012-13. During this period

the India's outlook overseas had drastically been improving over the years. Owing to this, the list of countries which exuded confidence to invest in India gradually grew in number. Out of total FDI inflows to India, 33% of the investment is made by Mauritius, hence emerging as the dominant source of FDI. 16% of the total investment is made by Singapore and is the second dominant source of FDI inflows to India. However, UK backed the third position by contributing 8%, Japan is at fourth position which contributed 8% followed by U.S.A. who contributed 6%. Netherlands is at sixth position by contributing 6% of the total inflows followed by Germany with 3%, Cyprus with 3%, France with 2%, UAE with 1%.

From Table 3 we can see that **Mauritius and Singapore** both contribute almost 50% of total FDI inflows to India. The reason for this may be that they offer tailor made solutions in offshore banking and low tax rate, and robust privacy. On top of that they also have DOUBLE TAX AVOIDANCE AGREEMENT (DTAA) with India wherein profits made in India are not subject to any taxes here. Rather they pay their taxes in the respective country which is far below than the tax slabs in India[12].

Mauritius hence becomes an excellent route to direct any investment in India, and hence it has a lion's share in our FDI. One way of looking at things could be the possible role of round tripping for the large share of inflows from Mauritius. Capital that leaves the country to be reinvested in the form of FDI by another country is called Round tripping i. e. money travels from India to Mauritius and then again back to India in the form of FDI. During 2015-16 there were apprehensions of impact of General Anti Avoidance Rules (GAAR) and possible re-negotiation of the tax avoidance treaty, FDI inflows from Mauritius dipped. GAAR seeks to check tax evasion by investors stashing their funds through tax havens. The India-Mauritius DTAA has been cancelled, and now any investment made after April 1, 2017 by Mauritius entities would face capital gain taxes in India. The new law also states that any entity to be treated as Mauritius entity will have to spend at least Mauritius$ 15 lakh in Mauritius every year. But still the cancelation of DTAA has not affected much as the people are confident that the govt. would further postpone it.

Though the total investment by Singapore ranks it at second position, but if we see the inflows in the year 2015- 16 which has doubled in comparison to the inflows of the previous year. The reason for this sudden increase could be attributed to the cancelation of DTAA with Mauritius. Before that also the reason for low inflows from Singapore despite of the DTAA Treaty was that it had both "objective" and "subjective" restrictions on who gets the benefits of the Treaty. The objective restriction is that the Singapore entity needs to spend Sing$ 200000 a year in Singapore- an amount that would easily deter the tax shoppers from creating such entities only for tax benefits. Subjective restriction is that any company can be disallowed if the tax authority feels that the particular entity was created only to get tax benefits.

VII. Analysis Of The Top 10 Sectors Receiving FDI Inflow

The percentage of FDI inflow to top 10 sectors in India during April 2000- Sept 2016 is presented in Table 4.

Table- 4 Sector wise FDI Inflows (amount in US$ Million)

Rank	Sector	2014-15 (Apr- Mar)	2015-16 (Apr- Mar)	2016-17 (Apr- Sept16)	Cumulative Inflows (Apr'00- Sept16)	% age to Total Inflows
1	Services sector	4443	6889	5288	56080	18
2	Construction Development: Townships, Housing	769	113	62	24250	8
3	Computer Software & Hardware	2296	5904	1032	22050	7
4	Telecommunications	2895	1324	2787	21169	7
5	Automobile Industry	2726	2527	729	15793	5
6	Drugs & Pharmaceuticals	1498	754	641	14490	5
7	Trading	2728	3854	1482	13354	4
8	Chemicals (other than fertilizers)	763	1470	532	12433	4
9	Power	707	869	559	11035	4
10	Hotel & Tourism	777	1333	523	9750	3

Source: DIPP Fact Sheet on FDI[10]

Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

An incisive sectoral analysis of FDI inflows reveals that most of the FDI has been made in the **service sector** including Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis. It is revealed further that the services sector - apart from being the largest dominant sector in India's GDP - has also received substantial foreign investment flows which led to increase in exports in addition to large scale employment.

An interesting add on to the analysis reveals that although the FDI Inflows to **construction development** sector is at the second number but there is a drastic fall in the inflows to this sector, the reason being time taken for land acquisition and clearances. The government in a reactionary move, annulled two major

norms pertaining to minimum built up area and capital requirement after experiencing a drastic fall in the inflows. To further magnify foreign investment, government simplified rules for foreign investors regarding exit and repatriation of their investments in the cash-starved sector. It was also decided to treat each phase of the project as a separate project for the purpose of FDI policy[13].

Taking a major share of the pie, the **computer software** industry emerged as one of the rapidly growing sectors of Indian economy. Notable FDI Inflows have been found in Computer Software and Hardware Industry from the year 2007-08. The key factors that augmented the FDI inflows to computer software and hardware in India were identified as Software Technology Parks, regulatory reforms by the Indian government, the growing Indian market and availability of skilled workforce[14]. The increase in FDI inflows is due to government driving forward reforms in IT and electronics sector through initiatives like Make in India and by creating favorable policies. The government is targeting zero imports by 2020 and so has embarked on several initiatives to promote manufacturing in the country.

The inflows to the **Telecommunication sector** doesn't present a cozy picture as it fell drastically in the year 2015-16 from US$ 2895 to US$ 1324 million. The silver lining, however comes by viewing the influx of inflows lined up for the next year. This happened after the huge investment made by Vodafone. Now this industry is moving towards 5G. The major boost to this industry has also been provided by the government's digital India move also. The telecom industry is considered to be one of the swiftly growing industries in India.

Past few years have witnessed immense growth of the FDI inflows in **automobile industry.** Increased level of disposable income and introduction of tailor made finance schemes with easy repayment options are the two main factors to which the increase in demand for cars and other vehicles can be attributed. The foreign car manufacturers also help in increasing the options available to the buyer. The major step taken to make India a global automotive hub was the announcement of 'Automotive Mission Plan' for the period of 2006-2016. The aim of the plan is to make India turn out to be the favorable destination for designing and manufacturing of automobiles and its components, with output attaining a mark of US$ 145 billion and generating further employment to 25 million people by 2016[15].

The Indian **pharmaceutical industry** has also grown albeit, from different contributing factors as incentives provided by the government and investment by foreign firms in the industry. Skilled labor, huge population and a sturdy production base in the pharmaceutical industry[16] help in enticing FDI into India. Weak patent regime, price control and rigid labor laws are identified as the main factors that forced majority of the global pharmaceutical firms to outsource a large part of their production and not invest much in R&D in India. The government on its part has gone all ballistic with liberalization of policies for the industry so that more foreign capital could be attracted.

The inflow to the **Trading sector** is increasing every year. Now with government allowing 100% in food processing, the inflows to this sector are likely to increase further.

The increased FDI inflows helped **chemical industry** grow, develop and expand in India which in turn enhanced the product quality produced by the industry.

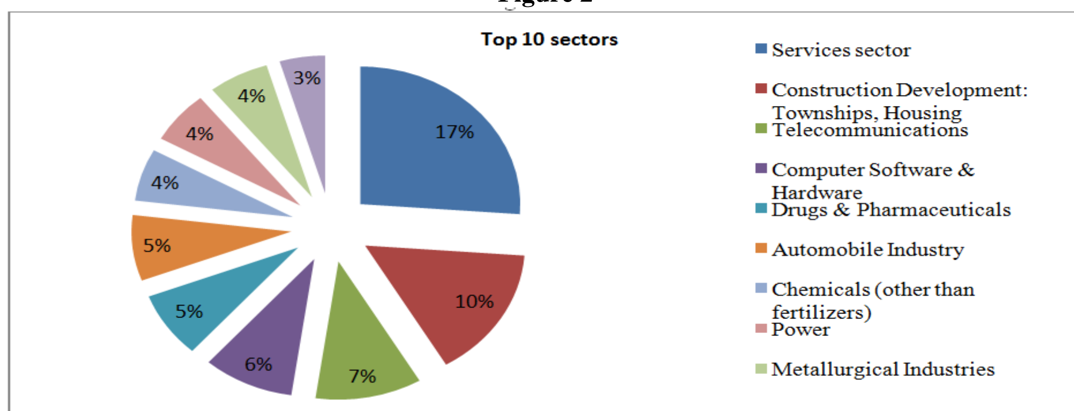
The **power sector** in India has grown significantly and now assumes utmost significance in infrastructure. Owing to its large market size and returns on invested capital, power sector of India has enormous investment potential, also as it is the elementary requirement for various sectors like residential, commercial, industrial, agricultural, and institutional. A look at India's development and with it the improved lifestyle, makes a case for an escalation of demand for energy in coming times.

The sectors based on renewable sources of energy have witnessed an immense growth in the past few years.

Massive upsurge in the hotel industry has been witnessed with respect to occupancy ratios and average room rates in India leading to flourishing growth in the **tourism industry**. Tourism presents itself as the industry to look out for. Huge investment has been made into the industry by large scale global chains like the Hilton, Accor, Marriott International, Cabana Hotels, Premier Travel Inn (PTI) and InterContinental Hotels. In comparison to any other sector of the economy, the sector is capable of generating more jobs per million rupees of investment and providing employment to a wide range of job seekers, even in the far flung parts of the country**.** World Travel & Tourism Council (WTTC) also highlighted this sector's employment-generation potential, envisaging India's travel and tourism sector to be the second-largest employer in the world, capable of generating employment for 40,37,000 people, directly or indirectly, by 2019[17].

Varying trend was observed after analyzing the sector-wise inflow of FDI to India indicating impetus to quality maintenance, growth and development of Indian Industries. Besides operational efficiency, managerial efficiency, employment opportunities and infrastructure development, technology transfer has been viewed as one of the significant change.

Figure 2



According to United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2015, India ranked ninth among the top 10 countries receiving highest FDI in 2014 in comparison to 15th position the previous year. The report states, amongst others, FDI inflows to India would manifest a rising trend due to economic recovery. Among 140 countries, India ranks 55 in the World Economic Forum's Global Competitiveness Index that ranks countries on the basis of parameters such as institutions, macroeconomic environment, education, market size and infrastructure among others. To fund infrastructure growth covering sectors such as highways, ports and airways[18], India would require funds to the tune of US$ 1 trillion in the 12th Five-Year Plan (2012–17).

VIII. FDI Inflows To BRIC Countries

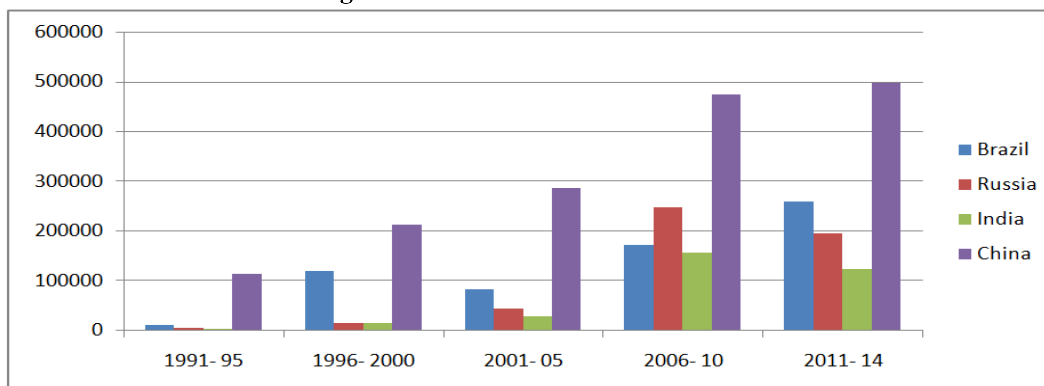
The world has, for all the good reasons, witnessed a marked change with respect to geopolitics, economics and production distribution. For reasons galore, Brazil, Russia, India and China (BRIC) emerge as major economies that played a major role in the world economy as producers of goods and services. BRIC countries have the common attribute of huge population which in turn led to larger capital inflows owing to their large potential consumer market. Despite having any trade or integrated economic union BRIC countries are indexed as emerging economies. Tough competition among the countries forced them to relax their norms pertaining to entry regulations, taxes, environmental clearances, and stipulations on working conditions to attract higher FDI inflows. Goldman Sachs anticipated, India and China to emerge as major global suppliers in the field of manufactured goods and services whereas Brazil and Russia to govern raw materials supply. The amount of FDI received by BRIC countries from year 1991- 2014 has been given in table 5.

Table 5- FDI Inflows to BRIC countries (Amount in US $ Millions)

Year	Brazil	Russia	India	China
1991- 95	11009	5128	3984	114177
1996- 2000	119998	16228	14533	213480
2001- 05	82403	45119	28829	286162
2006- 10	172920	248003	155831	474282
2011- 14	258423	195849	123002	497476

Source: UNCTAD[19]

Figure 3 FDI inflows to BRIC countries



From Fig. 3 it is clear that India lags far behind all other three countries in attracting FDI. The major reasons for India not being able to attract higher FDI are discussed below:

Weak infrastructure: Blame it on the infrastructural bottlenecks and suddenly all the hoopla surrounding FDI inflows goes into a tizzy. Lack of infrastructure remains to be a major cause of worry in India. India is not able to compete with other emerging markets in terms of ports, roads, skills sets, etc. Poor transport links, inadequate power supply, poor roads, frequent power cuts, delays in ports, water and sewerage problems etc are the major problems through which India is undergoing even after six decades of planned economic development. Shortage of warehousing and cold storage facilities are the main reasons for 40% of the fruits and vegetables to be perished before reaching the markets. In the World Competitiveness Index for 2015-16[20], India is ranked 55 amongst 140 countries in terms of infrastructure, far behind China which is ranked at 28.

Complicated tax structure: Deeply ensconced in the literature and in practice is the fact that to have greater impact on investments in any country stability and transparency in tax regime along with clarity in tax laws would be the main motivational factors. Taking cognizance of the aforesaid, the taxation per se should be simplified. In spite of several steps taken by the government to ease it India, however presents a picture where the taxation policies remain intrinsically complex. Various tax disputes related to cross border transactions involving big MNCs have been witnessed by India in the recent years. Foreign companies in India are taxed at a rate of 40% whereas in most of the nations corporate tax rates are levied in the range of 15 to 25%. A corporate tax rate of 25% along with tax holidays for qualified tax payers is charged in China on foreign companies. India's complicated indirect tax regime enforces number of taxes such as central sales tax, VAT, service tax, central excise duty, octroi etc. inflicts lot of inconvenience to the tax payers.

Restrictive labor laws: Not helping India's cause are the rigorous and inflexible labor laws and over- regulated labor market; the laws for which India is ill famous all over the world. To ensure that the interests of labor covering different aspects namely fixation and revision of wages, worker's health and safety, mode of payment of wages, payment of compensation in the event of industrial accident, provision of social security such as provident fund, gratuity, insurance etc to be protected large number of laws has been formulated by the Indian government. Owing to rigid rules with respect to overtime and financial obligation on the employer upon worker retrenchment, India has evolved as a highly inflexible economy.

Bureaucracy, regulations and corruption: A dampener on the spirits is another fact that a major handicap for India is bureaucracy, red tapism and corruption resulting in delays in obtaining licenses, approvals and permits. As per the doing business report[21], India is ranked at 130 out of 189 countries. To drive home the said point, India is plagued by procedural delays that hinder the FDI inflows into the country. Generally the time taken for registration of a new company is few days in most developed and developing markets which is much longer in India i.e. 4 to 8 weeks. Pendent FDI approvals are prevalent in India that many times impels the investor to withdraw. In comparison to other nations, FDI directives still remain to be restrictive in nature despite being various liberalization measures undertaken by the government. India becomes a less preferred investment destination due to uncertain and frequently changing government policies, inefficient administrative, overlapping jurisdictions and excessive governance which sometimes lead to inflated transaction costs for companies.

India, for all the talk of doing well in attracting FDI inflows, is still punching below its weight. A resurgent Indian government has wizened to the requirements and has initiated several reforms thus making FDI regulations more lucrative by raising the FDI cap in various sectors, opening many new sectors for FDI and by adopting automatic approval route for some sectors. While the above can be touted as measures in the right direction, the FDI numbers flatter to deceive. In comparison to developing economies like China and Brazil, FDI inflows to India are much lesser. In spite of having an inherent advantage in terms of lower labor cost and huge domestic markets, countries like Indonesia, Vietnam and Philippines emerge as low cost economies, which would make India lose its advantage. According to Global Competitive Report[20] of 2015-16, India holds 55th position out of 148 countries, far behind other developing economies like Malaysia (rank 18), China (rank 28), Thailand (rank 32), Indonesia (rank 37), Turkey (rank 51). Hence it is a high time for India to introduce second generation of reforms that could facilitate FDI inflows.

- Improvement in labor laws;
- Liberalization of FDI policies;
- Introduction of Goods Sales Tax (GST) to eliminate multiple taxes;
- Cutting down corporate tax rates;
- Axing down the bureaucratic hindrances;
- Do away with complex regulatory procedures;
- Development of world class infrastructure facilities.

It is expected that India would be able to attract larger FDI inflows in the years to come only by implementing the aforementioned reforms.

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