Outlook

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FDI growth story to "go well" in 2021 too

By Rajesh Rai New Delhi, Dec 23 (PTI) The high growth story of foreign direct investments into India will "go well" in the new year too as there is a growing interest among overseas investors about the country amid the government''s continuing reform measures to further improve the business climate.

With relaxed FDI norms, defence production will be among the areas that will be looked at for fresh overseas investments in the months ahead while easing compliance burden of businesses will be a priority area.

Irrespective of the global slowdown and the COVID-19 pandemic, FDI into India recorded a significant jump, according to Secretary in the Department for Promotion of Industry and Internal Trade (DPIIT) Guruprasad Mohapatra.

Facebook''s huge investment in Mukesh Ambani''s Jio Platform helped India receive around USD 43.5 billion FDI during the January-September 2020 period and going ahead, the bullish trend is expected to continue.

"There was a global slowdown. We also thought that the growth patterns of FDI in India, which was very very encouraging, might decline post-COVID. But the decline has not happened and the FDI continues to grow well and now the general revival is there in the economy. I do not have any anxieties now, it (FDI growth) should go well in 2021," Mohapatra told PTI.

In the wake of the COVID-19 pandemic, the government imposed a nationwide lockdown in late March to curb spreading of infections and the move had also severely impacted economic activities.

The government has relaxed FDI norms in sectors such as defence production and that is also one of the areas "which one will look forward to", Mohapatra said.

According to him, some big ticket investments will keep happening as "overall there is an interest in India''s growth story" particularly now because the worst part of the pandemic is over.

After taking a lot of steps to significantly improve the ease of doing business, Mohapatra said, now the government is working to reduce compliance burden of businesses.

"This is a priority of the government. Every compliance which is a burden needs to be removed and this includes de-criminalisation of civil wrongs," he emphasised.

In the World Bank''s Doing Business report released last year, India''s ranking improved 14 places to the 63rd position among 190 economies. The country was at the 77th spot in the previous year.

Among several areas, the government has relaxed FDI norms in coal mining, contract manufacturing, and single-brand retail trading.

The DPIIT is also looking at easing the norms in areas like AVGC (Animation, Visual Effects, Gaming and Comics).

Foreign direct investment equity inflows into India crossed the USD 500 billion milestone between April 2000 to September 2020, strengthening the country''s credentials as an investment destination.

About 29 per cent of the FDI came through the Mauritius route. It was followed by Singapore (21 per cent), the United States, the Netherlands, Japan (each 7 per cent) and the United Kingdom (6 per cent). The other big investors have been from Germany, Cyprus, France and Cayman Islands.

Since 2015-16, FDI inflows have been recording significant growth. In that fiscal, the country received FDI worth USD 40 billion, an increase of 35 per cent over the previous year.

In 2016-17, 2017-18, 2018-19 and 2019-20, FDI stood at USD 43.5 billion, USD 44.85 billion, USD 44.37 billion and USD 50 billion, respectively.

The key sectors which attracted the maximum FDI include services segment, computer software and hardware, telecommunications, trading, construction development, automobile, chemicals, and pharmaceuticals.

Although FDI is allowed through the automatic route in most of the sectors, in certain areas such as telecom, media, pharmaceuticals and insurance, government approval is a must for foreign investors.

Under the government approval route, a foreign investor has to take prior approval of the respective ministry or department whereas for the automatic route, an overseas investor is only required to inform the Reserve Bank of India (RBI) after an investment is made.

At present, FDI is prohibited in as many as nine sectors. They are lottery business, gambling and betting, chit funds, nidhi company, real estate business, and manufacturing of cigars, cheroots, cigarillos and cigarettes using tobacco.

In April this year, the government made prior approval mandatory for foreign investments from countries that share land border with India to curb "opportunistic takeovers" of domestic firms following the COVID-19 pandemic, a move which was aimed at restricting FDI from China.

Experts opined that the government would continue to ease FDI norms and investments into the country would record growth rates in 2021 too.

Pratibha Jain, Delhi Head and Partner at Nishith Desai Associates, said there is a global recognition of the Indian growth potential due to its young and large population, educated middle class, and also being the world''s second-largest Internet user base.

"All of these make India an undeniable candidate for investment by global investors," Jain said.

Rumki Majumdar, Economist at Deloitte India, said that strong FDI inflows into India in 2020 despite growth contraction due to the pandemic signals strong confidence among global investors.

"This trend will likely continue as we pencil in growth in double digits in fiscal year 2022 after a contraction in fiscal year 2021... High global liquidity and low bond yields will push global investors to seek alternate destinations for higher returns; India is likely to be one such destination," Majumdar said.

She also said that for India to realise its potential as the FDI destination in the coming years, what will be important is to keep the foot on the pedal and build on forward-looking initiatives through digitisation, identifying areas and strengths for indigenous production, and comprehensive and uniform policies across the nation.

Gunjan Shah, Partner (Private Equity, Merger and Acquisitions and General Corporate) at Shardul Amarchand Mangaldas, said, "I would expect the trend to continue in 2021, especially in the pharmaceuticals, retail and technology sector".

Shah, however, pointed out that some of the problems foreign investors currently face in investing in India is inconsistency in interpretation of laws, frequent changes to the laws and lack of coordinated approach among different regulators in the country.

"India can become a major foreign investment hub by solving some of these problems," Shah said.

FDI is important as India would require huge investments in the coming years to overhaul its infrastructure sector to boost growth. Healthy growth in foreign inflows helps maintain the balance of payments and the value of the rupee. PTI RR RAM

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