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Foreign Direct Investment in Infrastructure: A Tool for Developing India

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ABSTRACT: Infrastructure is the basic physical and organizational structure necessary for the operations of a society or enterprise or the services and facilities needed for an economy to function. Lack of infrastructure adversely affects the growth and development of other sectors also. Adequate infrastructure is needed not only to facilitate domestic investment but also to support the foreign investment. The physical infrastructure variables, communication, roads, rail efficiency and investment in energy influenced FDI over the period of study. However, human development variables, namely, wage rates and education level also affect FDI inflow in India. FDI in Infrastructure can improve the standard of living, generate increased employment opportunities, makes other sectors more effective and finally results in economic growth and prosperity. In 2001, foreign direct investment was allowed 100 percent in several industrial sectors, whereas currently, foreign direct investment is allowed 100 percent in almost all the infrastructure sector. Importantly, infrastructure investment should be considered as a means to an end, not an end in itself. The present paper studied about the shortcomings of foreign direct investment in Infrastructure sector in India and find out their solutions.

Keywords: Infrastructure, FDI, Economic Growth, Shortcomings and Future Requirements.

I. INTRODUCTION

Today India's economy is big and getting bigger. PricewaterhouseCoopers estimates that India will became the world's third largest economy by 2050. Liberalization of Government regulations and a deliberate planning on the part of the Indian government to promote Infrastructure sector is very critical. Infrastructure is generally a set of inter connected structural elements that provide the better framework supporting an entire structure of the country. The term has wide meanings in different fields, but most widely understood to refer roads, railways airports and utilities. Infrastructure is the basic physical and organizational structures necessary for the operations of a society or enterprise or the services and facilities needed for an economy to better function [1,2].

Efficient and widely infrastructure is necessary for countries economic growth. In recent years India is consistently increasing infrastructure spending. Indian government is trying hard for offering various incentives such as liberalization of FDI norms, tax-holidays to mobilize resources from domestic as well as foreign sources [1,4]. Currently 9% of GDP is spending in India's infrastructure which is required to increase further to sustain economic growth. During the past 10 years India's investment in infrastructure has made it second fastest growing economy of the world after china. Infrastructure sector covers hard infrastructure and soft infrastructure. Hard infrastructure includes transport infrastructure, energy infrastructure, water management infrastructure, communication infrastructure, solid waste management, and earth monitoring and measurement networks. Soft infrastructure includes governance infrastructure, economic infrastructure, social infrastructure, and recreational infrastructure. The Indian Government's success for present and future in infrastructure provision will be measured not by the quantum of funds invested, but on how infrastructure contributes to the achievement of India's better economic, social and environmental objectives. Hence Infrastructure sector plays an important role in the growth and development of Indian economy.

II. METHOLODGY

Objectives:

- To study about the role of FDI in Infrastructure development in India.
- To study the various obstacles which are impediments of FDI inflow in India's Infrastructure.
- To study the future requirements of FDI inflow in India's infrastructure.

Data sources: The data used for the study is mainly secondary data and has been collected from various journals, magazines, books and the internet.

Limitations of the study: The study mainly focuses on the FDI in the infrastructure sector and hence is restricted to the said sector only.

- The study is based on secondary data and hence it may be affected by the limitations inherited in the secondary data.

III. ENTRYSTRATEGIES FOR FDI IN INDIA

Foreign company must choose how it wishes to setup its operations in India.

LIAISON OFFICE | **BRANCH OFFICE** | **PROJECT OFFICE** | **LIMITED LIABILITY PARTNERSHIP**

PARTNERSHIP | **TRUST** | **COMPANY**

Liaison Office. Setting up alia is on office needs the first to permission of the Reserve Bank of India (RBI). A liaison office acts as a representative of the foreign company in India. However, a liaison office can not undertake any commercial activities and only to maintain it from the remittances received from its parent foreign company. It is an option usually preferred by foreign companies that wish to only examine the business opportunities in India initially and use the office as a channel for trading between customers and the head office of the company located outside India.

Branch office. The branch office of a foreign company in India must be setup with the prior to permission of the RBI. It is a representative of the parent foreign company in India and act as an agent of buying or selling in India. The branch office is permitted to remit surplus revenues to its foreign parent company subject to the relevant taxes. It is, however, limited to taking up specified activities.

Project office. Subject to certain conditions being fulfilled a foreign company may setup a project office in India under the automatic routes. The activities of a project office must be related to or incidental to the execution of the relevant project. A project office is allowed to operate a bank account in India and may remit surplus revenue from the project to the parent foreign company. Companies generally prefer to engage project offices in one-time to run key or installation projects.

Limited liability Partnership. The form of business entity is Limited Liability Partnership (LLP) which permits individual partners to shield the liabilities created by another partner's business decision. The Limited Liability Partnership Act, 2008 governs the LLP's in India. The LLP is a body corporate and exists as a legal person separate from its partners. The Limited Liability Partnership Act 2008, having 2 years of notification and after 5 months of issuing a discussion paper on allowing Foreign Direct Investment (FDI) in the Limited Liability Partnership (LLP), the Government of India, has approved the much awaited policy on FDI in Limited Liability Partnership. LLP allows 100% FDI in all sectors activities under the automatic route and no FDI-linked performance related conditions, subject to approval of government partnership [5].

A Non-Resident Indian (NRI) can invest in the capital of a firm or a proprietary concern in India on non-repatriation basis provided;

a. In any agricultural/plantation or real estate business or print media sector are not engaged by any firm or proprietary concern.

b. Amount invested shall not be eligible for repatriation outside India.

c. Amount is invested by inward remittance or out of NRE/FCNR (B)/NRO account maintained with Authorized Dealers / Authorized banks.

Partnership. A partnership relation between persons who have agreed to share the profits of a business carried on by all of them, or any of them acting for all of them. A partnership is not a legal entity independent of its partners.

A Non-Resident Indian (NRI) or a Person of Indian Origin (PIO) resident outside India can invest in the capital of a firm or a proprietary concern in India on non-repatriation basis provided;
Amount is invested by inward remittance or out of NRE/FCNR(B)/NRO account maintained with Authorized Dealers / Authorized banks.
a. The firm or proprietary concern is not engaged in any agricultural/plantation or real estate business or print media sector.
b. Amount invested shall not be eligible for repatriation outside India
Trust. A trust develops when one person (so called "trustee") holds legal title to property and also deals equally with the property, for the benefit of some other persons called beneficiaries. Like a partnership, a business trust is not regarded as a legal entity.
The trust does not incur rights or liabilities. Generally, the beneficiaries do not have rights against or incur liabilities to third parties because of the transactions or actions undertaken by the trustee in exercising its powers and carrying out its duties as a trustee. If the trustee of a business trust is a corporation, the participants may effectively limit their liability.
Company
1. Company can be incorporated under the Companies Act, 1956 through:
- Wholly Owned Subsidiaries or
- Joint Ventures.

2. A joint venture may entail the following advantages for a foreign investor:
- Available financial resource of the Indian partners
- Established contacts of the Indian partners which help smoothen the process of setting up operations
- Established distribution/marketing set up of the Indian partner;

3. Foreign equity in such Indian companies can be up to 100, subject to equity caps in respect of the area of activities under the FDI Policy.

IV. ROLE OF FDI IN INDIA'S INFRSTRUCTURAL DEVELOPMENT

The economic model followed by India after independence relied on import substitution and selective foreign capital inflow, both through Foreign Direct Investment (FDI) and the portfolio investment route. These changes fundamentally with the liberalization measures post-1990.Both portfolio and Foreign Direct Investment were not only allowed but also actively encouraged in India. The Foreign Investment Promotion Board (FIPB) was created to approve FDI proposals rapidly and in almost all the sectors, particularly in infrastructure sector. The Reserve Bank of India gives automatic approvals for investments. During the decade of the 1990s, the 'ceilings' on FDI in different sectors were progressively improved. In 2001, 100 per cent foreign investments were allowed in several industrial sectors. Currently, Foreign Direct Investment is allowed100 per cent in almost all the infrastructure sectors.

The role of Foreign Direct Investment in an Indian economy goes beyond simply easing financial constraints. FDI inflows are associated with different benefits such as market access, technology transfer and organizational skills. Consequently, there is an increasing and intense competition between most of the countries to increase the quantity of FDI inflows. Any successful policy for attracting FDI has to keep this competitive scenario in mind.
Sector wise development:
Electricity: Electricity or power generation plays an important role in the development of Indian economy. Indian government has liberalized its policies to allow 100% foreign direct investment in all segments of the power sector including power trading. During the period from 1990-91 to2011-12, power sector generated grew at the rate of 5.9 per cent per annum. The future development of the country will depend on the rate of growth of electricity generation capacity [10].
Railways: Indian railways provide the principal mode of transportation for fright and passengers. Indian railways are facing a severe financial crunch to the tune of Rs 30,000 crore every year. Now Indian government has decided to receive a major financial boost as 100% foreign direct investment (FDI) in railways for developing infrastructure and improving safety features.
Telecommunication: Today India's telecommunication network is big and getting bigger and now considered to be the best and second largest in the world after China. The total number of telephone subscribers in the country rise from 76.54 million in 2004 to 942.96 million at the end of June 2014. The rapid development of telecommunication sector was due to FDI inflow in India's infrastructure. This is one of the key sectors responsible for India's economic growth process [10].

Roads: In recent years Indian government has taken various measures to promote FDI participation in road development. India has the second largest road networks in the world as about 48.86 lakh kms in present. It comprises 92851 kms of national highways, 142687 kms of state highways and 464946 kms are other roads. The Government of India estimates around $ 90 billion plus investment over FY07 – FY12 to improve the country's road infrastructure [10].

Ports: At present, there are 12 major ports and 200 non-major ports along India's coastline. Major ports are directly responsibility of the Central Government and non- major ports are managed by State Governments. Government of India have decided to inflow foreign direct investment (FDI) up to 100% through automatic route is allowed for construction and maintenance of ports[10].

Construction: Construction sector has depicted a growth of 6.8% during 2008-2011. During FY12 the sector grew by 5.3% as against 8% in FY11. Yet with increase in road tending in FY12 construction activities are expected to get a boost [10].

V. SHORTCOMMINGS OF FDI INFLOW IN INDIA'S INFRASTRUCTURE DEVELOPMENT

There are some major shortcomings faced by India in Attracting FDI for infrastructure Development:-

Debt: There are many institutional channels for debt financing, but some of them are not working fully and efficiently. Corporate Bond market is not active enough and Banks have not been encouraged to lend to infrastructure sector.

Corruption: Corruption is one of the prime reasons that remain responsible for keeping out the valuable FDI from the country. In a study conducted on the annual corruption perception index (CPI), India's score 2.7 has same for two consecutive years. Pakistan improved from 2.3 to 2.6 in the same year and China from 3.1 to 3.5.Higher the score, less the corruption and less the score, higher corrupt is the country.

Tax Benefits: India is trying hard to attract FDI by offering a lot of sops to the investors; it is not enough when we compare it to our competitors in the region. Apart from that, corporate India have charged very high direct tax burden of 40 to 45 per cent while most of the East Asian countries have it in the range of 15 to 30 per cent. The only reason is that much-hyped SEZs (Special Economic Zones), which were conceived with the idea of offering tax benefits and world-class infrastructure, have not yet taken shape.

Political instability: Most and important shortcoming is political instability, they are adversely affect the direct inflow of FDI in India such as mismanagement and oppression by the different companies in India, which affect the image of the country and also dispirited the prospective investors, who are very much aware about safety and constant return on their investment.

VI. FUTURE REQUIREMENTS

The growth of others sectors of the economy is now mostly dependent of the growth and investments in infrastructure sector and which in turn demands the requirement of FDI in the sector. This will become possible only if all the others sectors of the economy can be supported with the basic infrastructure. The following positive steps have taken the government can make the infrastructure more lucrative for foreign participation:

1. Developing a strong legal and regulatory framework:

Before inviting for FDI participation developing a strong legal and regulatory framework is the requirement in the foundation stage. Significant capital requirements, a long investment time line and the fixed nature of assets make infrastructural investments unique. Beyond the existence of commercial opportunities in the host country markets, foreign infrastructural investments require a better and stable policy framework supported by the rule of law. Before committing funds to projects, companies consider whether laws and contracts are likely to be properly enforced; responsibilities and rights are properly well defined.

(a) Develop a strategic infrastructure plan identifying key needs: The identification of important infrastructural projects should be informed by the Government's socio-economic development objectives. The commercial viability of the project is always an important consideration, but cost sharing can also be used to ensure the construction of less profitable projects based on future requirement and public interest. Long term planning by the Indian Government allows it to improve better co-ordinate infrastructural developments and optimize the FDI impact [6].

(b) **Capacity and skills to regulate FDI**: Inviting TNC's to provide infrastructural services often puts more pressure on central authorities than a State- sponsored plan. Understanding the economic, financial, legal, and political aspects of the infrastructural sector is needed to perform demanding planning, negotiation and regulatory functions. The existing Government Departments and agencies must be needed to meet the challenge and undertake the rights and responsibility [6, 7].

(c) **Create a pipeline for pre-assumed, commercially attractive projects that can be actively promoted**: The identification of infrastructural projects then eligible for private involvement, there are a number of preparatory steps that the Indian government can take to reduce the risks which the foreign investors is facing particularly in the case of green field investments. Completing necessary feasibility study on environmental, economical and social impacts will completely reduce the risk of the foreign investor to a greater extend and improve the confidence of foreign investors in investing [7,8].
(c) **Open the bidding stage to as many investors as possible**: It is better to have a competitive bidding process. A highly competitive bidding stage increases the better benefits accruing to the infrastructural users in specific and the economy as a whole also. It's important that the process is transparent and favoritism to be avoided.
(d) **Single Window System**: A single window system can reduce the slow process and make the life easy, comfortable and better for any entrepreneur including a foreign entrepreneur. The current start uptime required for all the major projects is crossing more than a year. This can be reduced only by single window system without diluting the process and rules.

VII. CONCLUSION

Provision of quality and efficient infrastructure services is essential to realize the potential development of Indian economy. Indian government's first priority is therefore increasing to the challenge of managing and maintaining the rapid growth of Indian economy through investment in infrastructure sector, among others. Apart from various regulatory measures and policies, the presence of adequate infrastructure (physical and human) provides a supportive environment to foreign investors.

The eleventh five year plan emphasized the need for removing infrastructural bottlenecks for the future growth and development of Indian economy. It is therefore, proposed an investment of US$500 billion in infrastructure sector through a mix of public and private sectors to reduce deficits identified in the infrastructure sector [3]. FDI in the sector can improve the better standard of living, generate increased employment opportunities, makes others sectors more effective and ultimately results in economic growth and prosperity. A transparent, clear and accessible regulatory system supported by a state run independent monitoring system for project implementation can help in attracting FDI and meeting infrastructure requirements. Lastly, at the macroeconomic level, availability of adequate and better infrastructure encourages the domestic investment environment along with reaping the benefits of growth promoting effect of FDI inflows in India.

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