FDI in India on Slippery Ground? Protectionism, Populism to Blame

One of the key reasons for PM Modi’s convincing majority in 2014 was his promise of streamlining the regulatory framework involved with Foreign Direct Investment (FDI), so that India could emerge as one of the favoured destinations for FDI.

To be fair, the prime minister did frame certain policies like ‘Make in India’ and ‘Digital India’ to push forward this goal. He unveiled ‘Make in India’ a month after announcing it in his Independence Day speech in 2014.

Following its announcement and launch, this initiative was highlighted at all key international events like Automechanika 2015, India Pharma 2016 and others – even bilateral talks. The ‘Make in India’ programme was also the key message on ‘Brand India’, at the World Economic Forum at Davos 2015.

Also, some of the policies and announcements, like abolition of Foreign Investment Promotion Board (FIPB) to tackle red-tapism, removal of barriers automating approvals, and digitising licenses and procedures and liberalising FDI rules for fifteen sectors, did seem to be working for us. India actually registered a 35 percent rise in FDI inflow until 2016. So, what happened?

A Dip in FDI Since 2016

Since March 2016, there has been a drop in FDI. The financial year 2014-2015 saw an impeccable growth rate in FDI of 25 percent which is down to 2 percent in the present financial year. But the FDI inflows into India tell us a slightly varied story, with a gradual drop, despite big announcements. 2018-2019 especially has seen not so favourable figures in this regard. The FDI inflows dropped by about 7 percent, in comparison to the same period in the last financial year, with India attracting USD 33.5 billion in the nine months between April and December 2018, compared to USD 36 billion in the same period last year.

Sectors Which Have Suffered Due to Fall in FDI

There has been a major fall in sectors like telecommunication, pharma, computer software and service, construction and infrastructure. Major losses were seen in telecommunications and pharma, with the former seeing a drop of USD 3 billion compared to the previous year, and the latter seeing the biggest equity inflow loss of 81 percent. The only sectors which have seen a significant gain are services and chemicals. India revised its tax treaties with both Mauritius and Singapore, who are the top two contributors to India. After the revision of treaties, the FDI in equity from Singapore jumped by 41 percent, while that from Mauritius dropped by 55 percent, and at the same time, the FDI inflow to major cities like Mumbai, Bangalore and Chennai dropped, where as that of National Capital Region (NCR) and Hyderabad increased, mainly due to the state government’s policies. What is more important is that India has not been successful in drawing greater FDI from countries like Japan, China and South Korea. Despite tall promises, the reality has been different.

For example, companies like Dalian Wanda, China Fortunate Land Development (CFLD) and China Pacific Construction pledged to invest over USD 1.37 trillion in the country, in real-estate and infrastructure. But the majority of the projects announced under this have either been suspended or shelved. Dalian Wanda proposed an industrial park worth USD 10 billion in Haryana, but the Chinese commitment is far from manifesting. Even in the mobile device and components space, bigwigs such as Foxconn, which promised to build a manufacturing plant in Maharashtra worth USD 5 billion, that would generate 50,000 jobs, has also been shelved indefinitely.

Ease of Doing Business and Protectionism

Initially, India also started to do well in the Ease of Doing Business (EoDB) rankings, rising by 53 places to rank 77, with the aim of breaking through into the top 50, and appeared in the top 10 list of AT Kearney FDI confidence index from 2015-2017. But despite this initial push, coupled with marked slowdown in all sectors, India hasn’t found a spot in Kearney’s top 10 list in the past two years. This is mainly due to a policy shift, coupled with the lack of quality electricity and transportation infrastructure, which is de-incentivising FDI inflow. Even though India began optimistically in 2014, it has shifted towards protectionism and populism for electoral gains, coming especially in its e-commerce rules that brought about restrictive changes with regard to FDI. Also, despite PM Modi’s bold declaration in Davos, his government increased import duties – the highest in 30 years – further signalling protectionism, and policy uncertainty. Such changes have come at a time when India’s peers like Vietnam are offering tax holidays to investors, and chartering an investment friendly
environment. Due to policies like this, the FDI in Vietnam grew over 9 percent in the last year, as compared to India’s 2-3 percent, despite a 19 percent fall in global FDI according to UNCTAD.

**Increasing Competition**

So, India should really work on infrastructure and policy continuity without switching into a protectionist mode during elections, but on the whole, the FDI aspect looks well-thought out by all parties, with parties like the Congress even proposing complete national treatment and export-only zones to encourage FDI and domestic business alike. It is also important for India to make sure that the central government and states work together, and that cooperative federalism is more than a slogan. One of the key reasons for China’s economic success is the successful utilisation of its provinces in external outreach.

(Mahitha Lingala is a student at the OP Jindal Global University, Sonipat. Tridivesh Singh Maini is a New Delhi-based policy analyst associated with the OP Jindal Global University, Sonipat. This is an opinion piece, and the views expressed are the author’s own. The Quint neither endorses nor is responsible for them.)