Is India missing the FDI bus?

Most people agree that India needs FDI (Foreign Direct Investment). India needs FDI to shore up weak infrastructure, she needs FDI to access new technology and business practices, she needs FDI to create wealth for entrepreneurs for reinvestment. India needs FDI to provide world class products to its citizens, she needs FDI because current level of savings cannot fund future growth, she needs FDI to have a key seat in a future global world. The most important FDI reason of all is 'job creation'. India needs to create 100 million meaningful jobs this decade in the manufacturing and services sectors.

According to fDi intelligence, Global FDI in 2012 was $565 billion, down by a third versus $850 billion in 2012. This FDI funded around12, 000 projects globally of which 2345 projects were in BRIC countries and 700 were in India. The number of projects in BRIC countries has declined since the 2008 peak of 3190 projects. Most of this $ 565 Billion went to large economies and $100 billion went to the BRIC countries. This investment created about 10 million direct and indirect jobs globally. One new global job needs $60,000 of investment. Forty-six countries account for 80 % of world GDP and attracted 70 % of all FDI between 2010 and 2012.

Multinational firms invest in a country for a few reasons:1. Attractiveness of the domestic market. 2. Access to market. 3. Ease of doing Business. 4. Access to land, utilites, Financial Incentives like Tax breaks, exports benefits 5. Intellectual property protection 6. The cost of talent and the availability of a talent pool 7. Fair Institutions 8. Governance and stability and 9. Experience of current investors.

Lets see how India stacks up on these parameters. India is one of the top domestic markets in the world and will be so for many decades to come. The Indian Middle class spend is expected to be $ 3.9 Trillion in 2020 and $12.8 Trillion in 2030. India has given access to companies in most industries. India should not be

arrogant because of the size of the domestic market. The opposite is true.

Investors like to deal with fair,humble, accessible, effective rule based governments. India is ranked No 132 out of 200 countries in ' ease of doing business'. Land and utilities are a challenge to manage. India offers financial incentives through SEZ s etc., but the incentive refunds take too long for the average investor. India has an attractive talent pool, but a pool hinged on lower costs. China and India risk losing investment to lower cost labor countries like Bangladesh, Sri Lanka and Vietnam. Most investors are happy with a free media and have an excellent image of the Indian judiciary; their worry is the time legal settlements take in India. The investing world sees the current Indian climate as 'challenged' because of governance, regulation and perceived inconsistency. And sadly, current investors are not willing advocates of further investment in India.

The arguments against FDI tend to revolve around protecting home grown companies, about loss of jobs due to increased automation and perceived loss of control over new multinationals, especially in crucial sectors of safety and infrastructure.

There is a feeling that more reforms will help attract FDI into India. Reforms are basic and necessary, but not sufficient to attract FDI. One needs to think of attracting investment looking at India's strengths and watching what peer countries like China are doing and what the next wave of investment destinations like Bangladesh, Vietnam, Nigeria, Indonesia could be doing.

FDI and tax are inversely correlated, a country attracts higher investment if it is offers lower tax rates. The interpretation of tax to be paid and the current list of tax cases in India are not helping India's cause in attracting FDI. The government needs taxes to balance its books; it also needs to create jobs for a stable, strike free, revolution free, inclusive society.

India created 77 million jobs between 1990 and 2000 and 60 million jobs between 2000 and 2010.Total FDI inflow between 2000 and 2010 was $158 billion according to the Department of Industrial policy and Promotion. So, we need $2633 of FDI to create one job in India. So, to create 100 million jobs this decade, India needs to attract about $263 billion, something we haven't attracted cumulatively since reforms began in 1991!

In the three years 2010-2013, India has attracted $78 billion, effectively at the run rate required to attract $263 billion this decade. We cannot afford to slip up now, as the asking rate will be steep later on. Rationally, India has not missed the bus if we look at statistics, but emotionally, in sentiment terms, we seem to be missing the bus.