

The Recipe to a Larger FDI

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As a student of Economics, I'm often left wondering how a country that proudly liberalized itself nearly three decades ago can still be a poor performer in the global investment market. Why Indian companies still struggle to compete with their globally established counterparts and whether this investment failure should be credited to strong anti-global sentiments among our policy makers or an unfavorable market environment in general?

In the first week of 2018, the Government in a landmark policy decision allowed 100% FDI in *Single Brand Retail* through the Automatic route. This was previously 49% and 51% through the Government route (on approvals by the FIPB, DEA and the MoF). In its second landmark decision, the local sourcing cap of 30% was eased allowing investors a pass for the first five years. Further, the need to introduce "cutting edge technology" to be allowed 100% investment has been relaxed, too.

Due credit has been given to the NDA for its many implications on the domestic market. It is predicted to boost consumption, particularly given our rising population, disposable income and middle income families.

However analysts aren't considering the flip side to this hasty move. High initial costs and large promotional spending by the newly induced brands will reduce profit margins inspite of a large consumer base. But more importantly the domestic markets will suffer and fail to create jobs because of the unequal playing field. This "survival of the fittest" scenario might ultimately lead to local brands being wiped out.

Tariffs and FDI limits, when it comes to a company's interest in India aren't the main barriers. Border relations and internal causes prove to be the primary hindrances. A large consumer base can only spark so much interest when pitted against the poor infrastructure our country has, high transactional costs and inefficient logistics.

The overall business environment although better with our rise to the 103rd position from 133rd in the Ease of doing Business ranking, is still abysmal. Therefore as a country and as policy makers of the world's biggest democracy there are a number of things we can do to improve the same, such as:

- a) Establishing a market environment attractive to FDI. It is interesting to note that inspite government efforts, India still has a Trade-Openness ranking of 145, behind even Kyrgyzstan.
- b) Implementing a taxation system that is much more effective and transparent with encouraging taxation rates. This, I think, is one of the most important aspects to improving low investor confidence and the ongoing GST policy fluctuations only worsen that as demonstrated by the SENSEX and NIFTY.
- c) To try and lower transactional costs that investors deal with, should they choose to enter the Indian market.

Thus, alongside opening up the economy, our policymakers need to ensure that the Indian market is one that is favorable to invest in. Internalizing the needed change with better infrastructure and lower promised costs will only enhance investor confidence and attract the large flow of FDI we desire.