International Journal of Research in IT and Management (IJRIM)
Available online at: http://euroasiapub.org
Vol. 9 *Issue* 1, January - 2019
RESEARCHERID THOMSON REUTERS
ISSN(o): 2231-4334 | ISSN(p): 2349-6517 | Impact Factor: 6.505

Role of FDI in Indian Infrastructure Sector

Dr. VarshaThakre
Associate Professor
AnnasahebGundewar College,
GundewarMarg, Chhaoni,Katol Road,
Nagpur

Abstract :

Infrastructure is also an asset class that inclines to be less volatile than equities over the long term and provides a higher yield. As a result of this some companies and individuals from other countries like to invest in infrastructure funds for their defensive characteristics, such as funds involved in transportation or water infrastructure. FDI plays a vital role in the infrastructure sector in India.

Keywords : FDI, Infrastructure, Development

Introduction :

The past three decades have observed noteworthy growth in global diversification by multinational corporations. From 1980 to 2007, FDI inflows globally rose by approximately 14% in real terms while real GDP growth and exports augmented annually merely at 3.2% and 7.3% respectively. What is interesting to note is that substantial share of these inflows have taken place in developing countries, especially the BRIC economies. Throughout 2000 and 2006, FDI inflows into BRIC economies grew annually at 41.3% in comparison to 24.1% in US, which is the single biggest recipient of FDI, and 22.7% in the EU, which is the biggest regional destination. Consequently, the inward flow of FDI in the BRIC countries enhanced from 8% to 13% of the global stock of FDI. Since MNCs pursue FDI to create shareholder value by diversifying internationally (Fatemi. 1984. Lins and Servaes, 1999 and Denis et al. 2002), the localization of FDI to a few countries displays a confusing aspect of this phenomenon.

International Journal of Research in IT and Management (IJRIM)
Available online at: http://euroasiapub.org
Vol. 9 *Issue* 1, January - 2019
ISSN(o): 2231-4334 | ISSN(p): 2349-6517 | Impact Factor: 6.505

India has re-emerged as one of the fastest growing economies across the globe. India's growth especially in manufacturing and services has strengthened the sentiments, both within and outside the country. With an increase in investment and sound macroeconomic fundamentals, the future outlook for India is quite distinct from others. Moreover, what is encouraging is that in this process of development, India has not only actively enhanced public investment in infrastructure but also involved private sector in order to provide impetus to the infrastructural growth.

Projection states that India is going to grow at an average 9 percent per annum in next few years. Accompanying this growth will be an increase in demand for infrastructure services. The infrastructure investment has gone up in the past few years, driven by government initiatives and private participation, but that demands further acceleration in the near future. In order to address the growing demand for infrastructure, government is actively pursuing PPPs to bridge the infrastructure deficiency in the country. Numerous measures have been initiated in past recent years to encourage PPPs in sectors like power, ports, highways, airports, tourism and urban infrastructure.

According to Reserve Bank of India, infrastructure covers the following: Power, Telecommunications, Railways, Roads including bridges, Sea port and airport, Industrial parks, Urban infrastructure (water supply, sanitation and sewage projects), Mining, exploration and refining, and Cold storage and cold room facility, including for farm level pre-cooling for preservation of storage of agricultural and allied produce, marine products and meat.

FDI :

Though India has not sound infrastructure facilities, but due to some factors such as strong regulatory systems, strict laws, skilled human capital, large market size, and many other abundant natural resources, a lot of foreign countries prefer India for invests their capital. According to World Investment Report (2010) India is the fifth largest receiver of FDI across the world and second largest country amongst all the developing economies [2]. Indian government has such guidelines for foreign investors which increases their faith to invest more funds in India. Still India has some barriers which obstruct to collect more foreign investment such as poor infrastructure, unemployment, large population, instable government, unhelpful political environment, limited and restricted foreign policy and heavy corporate taxes; these are the major barriers for attracting FDI into the country. To remove all these barriers and obstacles, a government should to modify the sector cap and include more sectors under automatic routes. Further, Indian government should to invest huge funds for the development of infrastructure sectors and make some more policies regarding to increase the faith of foreign investors.

Infrastructure Sector :

Infrastructure is the general term for the basic physical systems of a business, region, or nation. Examples of infrastructure include transportation systems, communication networks, sewage, water, and electric systems. These systems tend to be capital intensive and high-cost investments, and are vital to a country's economic development and prosperity.

Projects related to infrastructure improvements may be funded publicly, privately, or through public-private partnerships. In economic terms, infrastructure often involves the production of public goods or production processes that support natural monopolies.

- Infrastructure are the basic systems that undergird the structure of the economy.
- Examples of infrastructure include transportation facilities, telecommunications networks, and water supplies.
- Large scale infrastructure is usually produced by the public sector or publicly regulated monopolies, but at smaller scales infrastructure can often be produced by private firms or through local collective action.
- As an investment, infrastructure tends to be less volatile than some other asset classes and is sometimes sought as an investment.
- The term infrastructure first appeared in usage in the late 1880s. The word comes from French, with *infra-* meaning "below" and *structure* meaning "building."[1]

Infrastructure is the foundation upon which the structure of the economy is built, often times quite literally. In 1987, a panel of the U.S. National Research Council adopted the term "public works infrastructure" to refer to functional modes including highways, airports, telecommunications, and water supplies, as well as the combined systems that these elements comprise.

- Applicable to large- and small-scale organizational frameworks, infrastructure can include a variety of systems and structures as long as there are physical components required. For example, the electrical grid across a city, state or country is infrastructure based on the equipment involved and the intent to provide a service to the areas it supports. Similarly, the physical cabling and components making up the data network of a company operating within a specific location are also the infrastructure for the business in question, as they are necessary to support business operations.
- Because infrastructure very often involves the production of either public goods or goods that lend themselves to production by natural monopolies, it is very typical to see public financing, control, supervision, or regulation of infrastructure. This usually takes the form of direct government production or production by a closely regulated, legally sanctioned, and often subsidized monopoly. At smaller scales, infrastructure can also often take on the characteristics of club goods or goods most readily produced by localized monopolies, and can be provided within the context of a private firm producing infrastructure for use within the firm or provided by localized arrangements of formal or informal collective action.

Types of Infrastructure

Infrastructure can be put into several different types including:

Soft Infrastructure

These types of infrastructure make up institutions that help maintain the economy. These usually require human capital and help deliver certain services to the population. Examples

International Journal of Research in IT and Management (IJRIM)
Available online at: http://euroasiapub.org
Vol. 9 *Issue* 1, January - 2019
RESEARCHERID THOMSON REUTERS
ISSN(o): 2231-4334 | ISSN(p): 2349-6517 | Impact Factor: 6.505

include the healthcare system, financial institutions, governmental systems, law enforcement, and education systems.

Hard Infrastructure

These make up the physical systems that make it necessary to run a modern, industrialized nation. Examples include roads, highways, bridges, as well as the capital/assets needed to make them operational (transit buses, vehicles, oil rigs/refineries).

Critical Infrastructure

These are assets defined by a government as being essential to the functioning of a society and economy, such as facilities for shelter and heating, telecommunication, public health, agriculture, etc. In the United States, there are agencies responsible for these critical infrastructures, such as Homeland Security (for the government and emergency services), the Department of Energy, and the Department of Transportation.

Along with the aforementioned sectors, infrastructure includes waste disposal services, such as garbage pickup and local dumps. Certain administrative functions, often covered by various government agencies, are also considered part of the infrastructure. Educational and healthcare facilities may also be included, along with specific research and development functions and necessary training facilities.

Impact of FDI on Infrastructure Sector

Major infrastructure development demands a great amount of influx of investment capital. The policies of the Government of India emphasize investments in domestic infrastructure from both local and foreign private capital. The country is already an attractive destination for foreign investors. According to the World Investment Report of the UNCTAD, India was rated the second most attractive location after China for global FDI in 2007. Presently India has FDI of nearly US$21 per year, well below the targeted US$30 billion. In order to enhance FDI inflows, especially with an objective of catalyzing investment and increasing infrastructure, the Indian Government has initiated important policy reforms. For instance, it now allows 100% FDI under the automatic route for a broad range of sectors (please refer exhibit 1). For FDI in a few sectors, a prior approval is needed, which consumes roughly 6-8 weeks. As part of policy reforms, the Indian Government is continuously simplifying the approval route process, including establishing of many agencies to accelerate FDI approval. At this juncture it is important to undertake a brief discussion on various key sub sectors of infrastructure, i.e. Roads and highways, Power and Telecommunications. However, it does not mean the other sub-sectors of the infrastructure are of less significance but the mentioned three sub-sectors plays a pivotal role in providing fillip to the economic growth of a country.

India's road network of 3.34 million km make it the second largest in the world and so it offers immense opportunities for foreign direct investment. The government provides various incentives for private and foreign sector investment in the roads sector. Foreign direct investment to the extent of 100% under the automatic route is permitted for support services to land transport like operation of highway bridges, toll roads, and vehicular tunnels; services incidental to transport such as cargo handling; construction and maintenance of roads and highways offered on build-operate-transfer (BOT) basis, including collection of toll.

Highway-broadening projects qualify for the 10-year tax break under Section 80 IA of the Income Tax (IT) Act. Other policy measures for luring private investment are government to provide capital grant to the extent of 40% of project cost to increase viability on a case-tocase basis, 100% tax exemption for five years and 30% relief for next five years, which may be availed of in 20 years and concession period allowed up to 30 years. FDI in construction activities (including roads and highways) sector from April 2000 to July 2011 in India registered USD9.3 billion. This amounted to 6.4% of the total FDI inflows, according to the data released by Department of Industrial Policy and Promotion (DIPP), which frames the FDI policy and is part of the Ministry of Commerce & Industry.

With government opening the FDI doors (100%) in the roads sector, majority of the foreign investors in the Indian roads sector have constituted consortium with Indian companies to participate in the development of road projects in the country. Consequently, construction companies are now being rewarded with large order books and portfolios of BOT projects.

Conclusion :

FDI plays aimportant role in the development of infrastructure sectors. Both physical and social infrastructure services helps in economic development as well as raising the living standards, poverty elevation, employment generation, agriculture development and so on; hence, it is necessary to invest more funds in infrastructure sector. FDI directly or indirectly helps in expanding of economic development of a country. FDI provides huge funds as well as it takes technological skills & knowledge, modern technologies also which facilitates in strengthening infrastructure, generating employment opportunities, cumulative productivity, and raise the efficiency of human capital. Indian government has toexpand its infrastructure status and foreign investment policy to attract more FDI.

If India could capitalize on its vast resources, with an integration of its rural, urban and coastal areas, India would be well placed to increase the step of its economic growth to a great extent. The truth remains that any such integration will only be possible if there is a substantial improvement in the infrastructure. There is a great necessity for the improved rail, road, port, and electricity and telecommunication links. It is no secret that the Indian infrastructure holds great potential, not because of the serious need to bring Indian roads, ports and airports up to global standards but also because of the intense national interests in the sector. However, the silver lining is that in order to provide fillip to the infrastructure sector fresh annual budgets of the Indian Government supported by different State

Governments have providing due emphasis to the growth of the mentioned sector. Various infrastructure projects are being implemented on PPP model (public-private partnership).

References :

Ali, I., &Pernia, E. M. (2003). Infrastructure and Poverty Reduction—what is the Connection? ADB Working Paper, 1655-5260.

Anitha, R. (2012). Foreign Direct Investment and economic growth in India. International Journal of Marketing, Financial Services & Management Research, 1(8), 108-125.

Annual report of RBI 2014-15, Available at https://www.rbi.org.in/scripts/AnnualReportPublications.aspx ?Id=1029

Patra, A. K., &Acharya, A. (2011). Regional disparity, infrastructure development and economic growth: An inter-state analysis. Research and Practice in Social Sciences, 6 (2), 17-30.

Sriram, M. A Causal Nexus Between FDI and Economic Growth of India: An Empirical Study.

"Roads and Highways", http://www.investindia.gov.in/?q=roads-and-highways-sector Accessed on February 7th, 2014

https://www.krishisanskriti.org/vol_image/22Oct201505100259%20%20%20%20%20%20%20Anita%20Kumari%20%20%20%20%20%20%20%20%20%20%201287-1290.pdf

https://www.icsi.edu/media/portals/86/manorama/GIM%20JOURNAL.pdf

https://www.icsi.edu/media/portals/86/manorama/GIM%20JOURNAL.pdf

https://www.investopedia.com/terms/i/infrastructure.asp