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From Indus Valley to Industry: India, A Harbor for Foreign Investments

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ABSTRACT

After years of contemplation and discussion, the world has finally come to the consensus that foreign investment is imperative for growth but with this growing consensus the world is left with a rather complex question - which is the best destination for an investor to invest in? The present paper aims to answer this question by discovering India as an advantageous land for foreign investors with special emphasis on foreign direct investment. For this, the paper cites eleven factors – geo-political location, human resource, economy, price of land, investment laws, international trade relations, infrastructure, natural resource, stability, technology, and contemporary situation and how India aces in many of them and how rapid progress is underway for some others.

Keywords: Investment, India, Economy, Ministry of Finance, Foreign Direct Investment

I. INTRODUCTION

India came into existence from one of the world's first civilizations, the Indus Valley Civilization. Known to be one of the most developed early civilizations, it spanned around the Indian peninsula, flourishing on the banks of the Indus River. Despite being one of the oldest world civilizations, the people of this civilization had started trading by producing not only goods that they primarily needed for their own family but also extra, hence practicing division of labor. They even created extensive maritime and road networks to trade with other parts of the world. Present India holds this lineage and has been growing ever since, especially in terms of agriculture, something that was and is important to drive the Indian economy further. The people of the Indus Valley civilization understood the importance of trading with not only the people around them but also of importing and exporting specialized goods from different corners of the world. Even the contemporary world holds this consensus on the division of labor and production, and India, carrying forward the heritage of its ancestors, has in contemporary times stood out as being one of the most favorable countries for foreign investment (FI). It is either high on the charts or is seeing rapid development for most of the 11 factors – geopolitical location, human resource, economy, cost of land, investment rules, international relations,

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infrastructure, natural resources, stability, technology, and contemporary factors, that play conclusive role in determining whether a country is a good place for FI.

II. GEOPOLITICAL LOCATION

Something which, *prima facie*, makes India profitable for FI, especially for businesses that supply their goods to several countries, is its geopolitical location. India has a long coastline and is one of the strongest countries in the Indian Ocean, which naturally facilitates trade and makes it profitable. Moreover, it has vital sea lanes crisscrossing it, like the Strait of Malacca, which is one of the most heavily travelled shipping channels in the world, also important trade choke points that facilitate trade for almost 80% of the world's seaborne oil. It connects the East with the West by connecting the Middle East, Africa, and Asia with the western world—Europe and America. As far as trade through land is considered, the country is situated amid the Middle East, Southeast Asia, and China and shares borders with 7 countries—China, Pakistan, Bangladesh, Bhutan, Nepal, Myanmar, and Afghanistan³.

III. HUMAN RESOURCE

India is also rich in both skilled and non-skilled human resource. It hosts one-fifth of the world's youth, with an average age of 29 years. Not only this, but the country has yet another population advantage, which is that it will create a demographic dividend with the number of people within the workforce outnumbering the people past the working age, especially when most countries in the world either have started or are about to start the process of becoming an old population with either high number of dependents in the country or lower birth rates. As a result, India not only becomes a country with a large population but also a country with a young, energetic population with lower number of dependents, hence having high disposable income, which in turn leads to creating both higher demand and an adequate workforce, thereby fulfilling two necessities required for the efficient working of a business organization⁴.

Moreover, Indians are known to be one of the most hard-working populations in the world, with long working hours and fewer demands for employee satisfaction activities, higher wages, and salary rates. Also, India's employment and labour laws are more lenient than many developed and developing countries in the world. All these factors add up to make it one of the best workforces in the world.

³Akhilesh Pillalamarri, *GEOGRAPHY AND INDIAN STRATEGY— THE DIPLOMAT* (2014), <https://thedi diplomat.com/2014/07/geography-and-indian-strategy/> (last visited Oct 11, 2022).

⁴Meryl, *One of the youngest populations in the world – India's most valuable asset - indbiz: Economic Diplomacy Division IndBiz* (2021), <https://indbiz.gov.in/one-of-the-youngest-populations-in-the-world-indias-most-valuable-asset/> (last visited Oct 11, 2022).

IV. ECONOMY

India has had a growing economy since its opening after the adoption of the LPG (Liberalization, Privatization, and Globalization) policy. However, the country's growth was stalled for some time by the pandemic, but it is expected to soon revive itself and regain its pace by 2023, with the rejuvenation already starting. According to the IMF (International Monetary Fund), the economy will achieve a real GDP of 9.0% in 2022⁵. Moreover, despite the COVID-19 pandemic, India has maintained itself as one of the fastest-growing economies and will continue to do so in the coming years, at least till 2035. It has attracted a total FDI inflow of \$27.37 billion during the first four months of FY 2021–22, which is 62% higher as compared to the corresponding period of FY 2020–21 (\$16.92 billion). Furthermore, unlike many developed nations in the world, the country offers a highly diverse economy with various profitable, unexploited sectors for FI. Some of them being labour-intensive industries, renewable energy, pharmaceuticals, automobile, textile, and food processing⁶.

As stated above, the Indian economy had been on rise for a long time. However, it started to lose its vigor in FY2017 and maintained low growth rates till FY2020. However, during COVID-19, the Indian government, as popularly compared with its neighbor China, has been quite comprehensive and reactive, which has led to the World Bank estimating growth of around 8% in FY 2022 and thereafter stabilizing itself at around 7%⁷. Moreover, the country's ranking in the Ease of Doing Business has ameliorated from 142nd in 2015 to 63rd in 2020, which depicts the fast growth of the country and acts as an assurance to investors for the rapid improvement of the Indian economy in the coming years.

In the past few years, the country has gone through some very ambitious reforms and new policies that aim to improve FI in the country. The GST (Goods and Services Tax), although not highly welcomed by citizens, has, among its other goals, been able to reduce the tax complications in the country, making it a smoother process for investors worldwide. It has removed the various indirect state taxes, something that had demotivated foreign investors for a long time. Furthermore, the government also launched the "Make in India" campaign, under which it is committed in making India a manufacturing hub. With the introduction of this program, the government has taken significant steps to achieve its aim. It has introduced corporate law measures to ease the process of business in India; increased the budget for

⁵India and the IMF, IMF, <https://www.imf.org/en/Countries/IND#countrydata> (last visited Oct 11, 2022).

⁶FDI policy, FDI IN INDIA: FOREIGN DIRECT INVESTMENT POLICY OF INDIA | INVEST INDIA, <https://www.investindia.gov.in/foreign-direct-investment> (last visited Oct 11, 2022).

⁷GDP growth (annual %) - India, Data, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=IN> (last visited 2022).

infrastructure; opened most of the sectors for investment under the automatic route, etc. Therefore, India offers not only a stable but a fast-growing economy to prospective investors.

V. COST OF LAND

The next factor that plays a decisive role for many businesses is the cost of land in a given country. India, as opposed to many other nations, has high population density, creating scarcity of land. However, land, especially in rural areas, is quite cheaper than in most of the developed countries. Moreover, realizing the present situation, the government has launched some initiatives to ensure the availability of land and facilitate its purchase. One such initiative is the Indian Industrial Land Bank, which aims to aid investors by providing the necessary information regarding industrial land, infrastructure, connectivity, etc. It is a Geographic Information System database developed by DPIIT (Department for Promotion of Industry and Internal Trade).

VI. INVESTMENT RULES

The Ministry of Finance, accompanied by the Department of Industrial Policy & Promotion (DIPP), is the major institution that formulates policies regarding FI in India. FI in India is done through two channels, namely, automatic and government routes. Under the automatic route, investors do not need any prior approval from the government, whereas under the government route, prior approval is required. However, keeping in line with the government's ambition to become an investment hub, most of the sectors are made open to foreign investors under the automatic route (AR).

In a recent step to further attract FI, the government has made three bold amendments—

1. It allowed up to 74% FI in the defense sector through AR.
2. It allowed 100% FI in telecom services through AR.
3. It allowed up to 74% FI in insurance companies through AR⁸.

Not only has it opened most of the businesses under the automatic route but has also eased the process in the recent years. It has launched a single online platform known as the Foreign Investment Facilitation Portal (FIFP), which not only makes the process clearer by providing investors a single point of interface but also makes the procedure faster and corruption-free, thereby handling a hurdle that India has faced for a long time. Moreover, to aid investors, the government has also launched the Invest India initiative, which facilitates the process of

⁸ DEPARTMENT FOR PROMOTION OF INDUSTRY AND INTERNAL TRADE , CONSOLIDATED FDI POLICY 1–111.

investing in India and provides all the necessary assistance even after investment. Owing to its liberal policies, India is one of the only countries in the world where FDI increased even during the COVID era. It is a strong indicator of growth and of increased trust of investors in the country.

VII. INTERNATIONAL RELATIONS

A nation's relationship with other countries also deeply influences its FI. A country with healthy trade relations has more to offer than a country with tight borders. India, over a period of time, has developed various trade relations and is in the process of boosting these and many others. These agreements not only protect foreign investors from any arbitrary action by the domestic government but also provide them with further opportunities. India has signed trade agreements with various countries, which include 11 Free Trade Agreements (FTA), and is in the process of negotiating trade agreements with various developed and developing countries like the United Kingdom, UAE, Russia, and Australia.

India has over the years maintained a favorable image among its various trade partners for its transparent and liberal policies, easy approachability, and political and economic stability, which indicate the trust that foreign governments have in India. With its international image, India is one of the best countries to invest in⁹. Therefore, in a nutshell, India has a lot to offer for both domestic and foreign investors in terms of its international trade and diplomatic channels.

VIII. INFRASTRUCTURE

Infrastructure is the next important factor that binds and holds different essential factors, hence playing a major role. Infrastructure is sub-divided into seven factors: transport, communication, finance, energy, irrigation, education, and health, apart from technology¹⁰. India has developed all the seven factors rapidly, thus boosting the country's economy and making it a favorable and profitable destination for both national and international investment. However, India still lacks this factor as compared to the standards of many developed countries in the world, especially land transportation. The government of India, realizing the need and potential of this factor, has introduced various projects that aim to improve this system even more. One of the most important initiatives is the Pradhan Mantri Gatishakti plan, an initiative that aims at the holistic improvement of infrastructure in the country. Some other significant projects are:

⁹Melissa Cyrill, Updates on India's ftas and other trade engagements in 2022 India Briefing News (2022), <https://www.india-briefing.com/news/india-fta-bilateral-uk-uae-australia-others-status-update-2022-23513.html/> (last visited Oct 11, 2022).

¹⁰<https://www.ibef.org/economy/investments>

Bharatmala Pariyojana, which aims to build 66,100 km of economic corridors, coastal and border roads, and the expressway to boost the highway network¹¹, Jawaharlal Nehru National Urban Renewal Mission, Pradhan Mantri Gram Sadak Yojana (Prime Minister's rural road program), Golden Quadrilateral program, improved public-private coordination in railways, national Maritime Development program, and programs to increase the sector's capacity and efficiency for greater private sector participation. Also, large parts of the NHDP and NMDP are to be executed through a public-private partnership¹². All these projects in themselves offer large opportunities for investment. Therefore, not only will the improvement plan for this sector benefit investors from various industries, but it will also create opportunities for prospective investors in the field. India has marked rapid development, especially in terms of energy – it has climbed from 137th to 22nd rank in just 5 years in the World Bank's Ease of Doing Business report – 'Getting electricity'.

IX. NATURAL RESOURCES

Natural resource is one such factor that is either naturally present or absent in a country. It cannot be developed by a nation. However, its usage and conservation lie in the hands of the country's government. India has abundant natural resource. It produces almost 90 different minerals. It is the world's second largest steel producer, third largest coal producer, fourth largest iron producer, and also has the fifth largest reserve of bauxite in the world. It is also rich in non-mineral resources like limestone. Moreover, due to the average presence of forest and vegetation in the country, it also has a sufficient amount of these resources. In the past few years, that country has also paid attention to its production of renewable energy. At present, it ranks third in EY's Renewable Energy Country Attractiveness Index. Therefore, in short, the country has abundant natural resource offerings for investors. However, without proper usage of these resources, they will deplete at a very rapid rate. Hence, it is important for the government to ensure their adequate usage.

X. STABILITY

Investment, in general, is quite dependent on the political, economic, and diplomatic stability of a country, in that offering a safe and stable working environment for investors. Additionally, stability becomes even more important for foreign investors as they are new to the working environment, and existence of such uncertainties makes it even more difficult for them to

¹¹Roadways in India - road industry, Network, projects & FDI, ROADWAYS IN INDIA - ROAD INDUSTRY, NETWORK, PROJECTS & FDI (2022), <https://www.investindia.gov.in/sector/roads-highways> (last visited Oct 11, 2022).

¹²World Bank Person, India Transportation World Bank (2012), <https://www.worldbank.org/en/news/feature/2011/09/23/india-transportation> (last visited Oct 11, 2022).

manage their investment. India, being a democracy, has had the political advantage of constant scrutiny, which prevents the government from taking any arbitrary decisions, thus protecting the rights of investors and others. Also, it has a federal system of government where all the administrative powers are divided between central and state governments, and both are supreme within their respective spheres. The federal system ensures political stability in the country as powers are divided and mentioned in the various lists of the constitution.

In contemporary view, Prime Minister (PM) Narendra Modi is currently serving his second term, which means that the central leadership has been stable for quite some time now. Although due to the presence of various parties in different states, there cannot be complete political stability in India.

India has diplomatic relations with 201 countries in the world and also maintains strategic relations with around 30 countries/supranational entities. It has maintained an image of a sensitive democracy that values human rights and freedom over the years. India is one such country that has also maintained relations with rival countries like Israel-Palestine, USA-Russia, and USA-Iran. It has cordial relations with most of the world's countries, barring a very few countries like Pakistan and China.

India has emerged to be one of the fastest-growing economies. However, during the pandemic, the economy contracted like the other economies of the world. India's gross domestic product (GDP) at current prices stood at Rs. 51.23 lakh crore (US \$694.93 billion) in the first quarter of FY22, as per the provisional estimates of gross domestic product for the first quarter of 2021–22. The economy is supposed to be on track within the next few years. Also, according to the Centre for Economics and Business Research, it will become the world's third-largest economy by 2031¹³.

XI. TECHNOLOGY

Technology has grown at an alacritous rate, not only as a factor for FI in India but also as an individual sector. During the last few years, the technology sector in India has arisen as one of the strongest in the world. Artificial intelligence, big data, data science, etc. are some of the big sectors that have started to flourish in the country and offer profitable investment opportunities for prospective investors. The government has been structurally supporting this sector. Recently, it brought in significantly important and new sectors like machine learning, artificial intelligence, and similar others under legal supervision by proposing to introduce it in social

¹³India to become 3rd largest economy in 2031, says CEBR, CEBR (2022), <https://cebr.com/reports/india-to-become-3rd-largest-economy-in-2031-says-cebr/> (last visited Oct 11, 2022).

transformation, inclusion, and empowerment programs in the country, as well as in agriculture, healthcare, and education. Moreover, in FY2020, the government included telehealth within its regulatory framework. The sector shone even more because it was one of the first sectors to adapt to the post-COVID era and to the changes in the working sector. Furthermore, technology is one of the very few sectors that bloomed during COVID. The country at present ranks third among the most attractive destinations for technology transactions in the world¹⁴. Moreover, the government's focus on non-conventional modes of energy, newer and more developed ways of agriculture, and vast research-based initiatives expand the markets multifold for investors.

India as a nation has always had an edge in service sector due to its professionally skilled workforce, but this edge is now sharpening with time. According to a government report, India's cost competitiveness in providing IT services is 3–4 times more cost-effective than the United States. Furthermore, India has emerged as the preferred destination for Global Capability Sectors (GCCs). According to a survey by the government of India, around 50% of the world's GCC's are located in India¹⁵.

XII. CONTEMPORARY FACTORS

As we know, the business environment is highly dynamic, and this dynamism creates both opportunities and threats for an organization. Similarly, a country's economy, which is influenced by various contemporary situations, creates both opportunities and threats. Below, I have mentioned some opportunities that have been created for India due to the current world situation and which, if capitalized on, will help it boost the economy.

With the growing tensions in US-China relations, ambiguous policies, and the increasingly arbitrary authoritarian actions of the Chinese government, various companies located in China are showing interest in relocating to India, a golden opportunity for the country. This process was sped even more owing to Covid which acted as a catalyst. For example, South Korean company Samsung and various automobile companies were greatly affected during the COVID pandemic due to a shortage in chip supply and now want to expand or relocate themselves. According to Lloyd's Register Marine & University of Strathclyde, Glasgow, "Centre of global maritime trade is to move from the Pacific to the Indian Ocean Region. India and China will be the largest manufacturing hubs of the world by 2030."¹⁶ This will help increase India's presence

¹⁴Science & Technology in India: Achievements, Research & Development: IBEF, India Brand Equity Foundation (2022), <https://www.ibef.org/industry/science-and-technology.aspx> (last visited Oct 11, 2022).

¹⁵It-BPM industry in India - market size, opportunities, FDI, IT-BPM Industry in India - Market Size, Opportunities, FDI (2022), <https://www.investindia.gov.in/sector/it-bpm> (last visited Oct 11, 2022).

¹⁶Reasons: Why foreign investors should invest in India, REASONS: WHY FOREIGN INVESTORS SHOULD INVEST IN INDIA, <https://www.investindia.gov.in/why-india> (last visited Oct 11, 2022).

in maritime trade and will also prove to be cost-effective for investors who have manufacturing companies in India and want to export their goods to various countries.

Recent developments have attracted the world's attention to environmental issues and the need for renewable energy. India is one of the leading countries in this sector. The government of India has continuously encouraged the sector and continues to provide policy support, which if further pursued can emerge out to be a very strong sector, especially with the increasing world emphasis on renewable energy.

Covid created yet another opportunity for India by companies wanting to decentralize global value chains and move to local production for local consumption. Countries face complications due to the extreme concentration of value chains. It hindered manufacturing and supply which in turn led to severe losses for multinationals, which ultimately harmed the economies especially during covid. As a result, various companies want to expand their network, and India offers the opportunity to be a great manufacturing hub with the benefits of its large working population, growing consumer base, and government support. The government of India wants to amplify manufacturing business and FI, both of which help investors in terms of more liberal policies and laws.

The Indian economy is highly profitable and advantageous, especially for South Asian countries like Japan and South Korea that specialize in automobile and smartphone industry. With the launch of the 'Make in India' program, the Japanese automobile industry in India, which accounts for a majority share of the country's automobile industry, has greatly benefited as the government promotes manufacturing within India and also lays down attractive schemes for foreign investors. As per the Japan Bank for International Cooperation, India is an attractive automobile market with not only a great consumer base and a cheap, qualified workforce but also attractive government schemes. Moreover, with the launch of the new Emission Regulation (Bharat Stage 6) 2020, Japanese companies in India are moving towards the manufacturing and sale of environment-friendly vehicles, which is still a new concept in the country and has a large prospective market that is supposed to grow in the coming years¹⁷.

XIII. CONCLUSION

The world can be divided into three types of economies: one that is extremely developed and hence extremely costly in terms of labor, land, and other resources required to operate a

¹⁷Sugimoto, Untied loan to State Bank of India supporting domestic production and sales of Japanese automobile manufacturers in India Untied Loan to State Bank of India | JBIC Japan Bank for International Cooperation (2020), <https://www.jbic.go.jp/en/information/press/press-2020/1028-013919.html> (last visited Oct 11, 2022).

business; They are also generally already quite exploited and have clear dominating players, and hence are not very profitable for new ventures to invest in. Whereas on the other hand, are the quite underdeveloped economies, which although are not exploited and have cheap resources, are so raw that it is difficult to function there as they lack basic infrastructure like proper transportation network. The best economy to invest in is an amalgamation of these economies; i.e., an economy that is developed enough to have proper resources but is not so developed that its resources are either burnt up or are very costly. India is one such country that perfectly fits this parameter and excels in many others, thus making it a profitable choice for investors worldwide. It is a blend of all the important features required for the smooth and profitable functioning of a business, accompanied by the assurance of rapid growth. Additionally, the features that still do not match the world standards are improving, and along with their growth, they offer profitable opportunities for investors. The country has made remarkable progress over the years and continues to show positive signs of growth in the coming years. The fact that it is not among the most developed economies works in its favor. Human resources are cheaper than in the high-income developed countries. Furthermore, since the economy is developing, there are more and more diverse opportunities for investors worldwide. Also, since the economy is not one of the most developed economies, the government is working hard to promote investors and industries in India, unlike in the developed economies, which thereby leads to lenient corporate taxes, industrial rules, regulations, subsidies, etc. Moreover, India's geopolitical location favors both businesses in the country and exports from the country. All these factors signal towards India being a profitable and worthwhile destination for foreign investors. The country has held onto its origins of trading and is in the process of developing itself to be a business hub, thus moving towards again becoming a business leader as it was during the times of the Indus Valley Civilization.
