India’s welcome mat out for foreign investors

But investing not for the faint of heart

Umesh Kumar

At the Ministry of Commerce & Industry, the Global Executive Forum was given a presentation by Umesh Kumar, Joint Secretary to the Government of India, and two of his associates. Forum member Earl L. Wright provided the information for this report. Wright is president/chief executive officer of AMG National Trust Bank, a nationally chartered, non-depository trust bank headquartered in Denver with regional banks in Chicago, New York and Philadelphia.

An airport strike was in progress at the time the Global Executive Forum met with Umesh Kumar, joint secretary to the Government of India at the Ministry of Commerce and Industry. “The initial focus of the meeting was on infrastructure issues, particularly the airports, highways, courts, railway system,” reports Earl Wright.

In discussing the airport strike, “Kumar pointed out that 60 percent of the unionized airport workers would have new jobs under the privatized airports (see sidebar below).” That leaves 40 percent who would be cut loose and “there is a concern, obviously, for those who may not find new jobs.

This is a transition going on in the Indian economy” as government seeks solutions to its infrastructure problems. Organized labor does not enjoy a dominant position in India. “In the ‘New India’ only 10 percent of the labor force is unionized.”

Wright was a bit surprised by a comment Kumar made. “He said that it didn’t really matter whether the government in power was left or right. What mattered was that free enterprise was the trend in India.”

In support of free enterprise, “the government wants to entice foreign direct investment, recognizing that the FDI they currently seek is mostly for infrastructure development and building industry within the country.”

Changes to the laws make investing in India more appealing, says Wright. “Foreigners can repatriate 100 percent of profits; there are no taxes on capital gains and no taxes on dividends; there is much more flexibility regarding ownership, up to 100 percent in the country’s priority investment areas.

“But it should be noted that much of this has to be agreed upon or approved by the government. So significant negotiation needs to occur. It should also be noted that opening a business or making a business presence known in India requires licensing and approval by a government agency.

“The size of capital investments that are needed in India and the fact that the retail sector is still difficult for foreign investors to enter or is still protected by the Indian government, lead me to believe that only major world players would have an opportunity to make substantial investments in India.

“The large sums of money that are required and the developing nature of the country will not allow the faint of heart or those who would be risking a great deal of their company capital to come into India and try to profit in India’s growth and infrastructure creation.”

Currently, says Wright, “25 percent of foreign investment in India comes from the United States, the largest single investor. With offshore investments added, it is probably as high as 38 percent from US sources. Most of the investors have been major US companies, some of which have been in India a decade or two before the 1991 reforms that opened the economy. Seventy-five percent of current FDI has been in the private sector and not associated with government projects.”
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Human capital is also essential to the country’s growth. “The government recognizes the importance of continuing to produce a highly skilled population. Some citizens will probably seek an advanced education in Western Europe or the US. The hope is that they will return to India to help enhance the knowledge base of the country.”

**Energy**

Growth has outpaced India’s ability to provide fuel for industrial and civilian needs. Of the 2.32 million bbl/day of oil that India consumes, “60 percent is imported,” says Wright. But a considerable amount of oil might be lying untapped under rich Indian soil. “They haven’t had the technological skill set to do exploration, but they are now allocating large blocks of Indian land to be drilled by various oil companies.”

International pipelines also are being utilized. “There is a pipeline coming into the country from Iran and other Middle East locations and also from central Asian locations.”

The reality is that oil from Iran could stop flowing at a moment’s notice due to political uncertainty in that country. “The government of India is very nervous about counting on Iran as an uninterrupted source of energy,” says Wright.

The fourth largest coal reserves in the world are in India and coal is used in some of India’s power plants. However, the coal is not of high quality as it contains 30 percent ash, nor have mining operations been sufficient to meet the demand. Last year they imported more than 13 million tons despite efforts to step up mining.

“Nuclear energy is an integral part of the solution and an important factor in the country’s economic future,” says Wright.

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**Privatization of airports triggers strike**

India’s two largest airports, Delhi and Mumbai, will be modernized as a result of a contract signed by the government to lease the airports to two private companies.

The contract, signed earlier this year, calls for the airports to be run as joint ventures between the private companies and the government, which retains a 26 percent stake (BBC News) in each operation.

Serving 19 million passengers a year, the Delhi and Mumbai airports account for nearly 65 percent of the country’s international traffic. Construction of new terminals and passenger facilities will greatly alleviate the overstressed conditions and bring the facilities into the 21st century.

Trade unions and India’s communist parties oppose the plan. Fearful they would lose their jobs, thousands of airport workers in February staged a four day strike to protest the government’s action. They returned to work only after receiving assurances from the aviation minister that their interests would be kept in mind. But no promises were made or guarantees offered.