



ORIGINAL RESEARCH PAPER

Economics

FOREIGN DIRECT INVESTMENT IN INDIAN RAILWAYS – AN ANALYSIS

KEY WORDS: FDI, Indian Railways, Transportation, Cross-Border Investment, Economic Development

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ABSTRACT

Apart from being a critical driver of economic growth, Foreign Direct Investment (FDI) is a major non-debt financial resource for the economic development of India. FDI means investment made into business of a country by a company in another country. In other words, FDI is basically a cross-border investment which is made by the resident of an economy in an enterprise in another economy. Now-a-days, in India, the railways transport attracts FDI in the name of development. This paper intends to discuss about the FDI inflow into India in the railways transport sector. The paper is based on secondary information gathered from different sources.

1.0. Introduction

In 2015 India has emerged as the number one FDI destination. According to reports published by Financial Times data services, first half of 2015 showed India having been attracted for FDI. Every year the Government of India (GOI), for regulating foreign investment, releases a consolidated FDI policy on March 31. The policy enumerates the rules and procedures in respect of FDI in India. The FDI policy is governed by the provisions of Foreign Exchange Management Act (FEMA) 1999. The FEMA entails the provisions relating to the modes of investments in India.

REGULATORY OUTLOOK

Foreign companies investing in India through the Government route having prior approval from Foreign Investment Promotion Board (FIPB) do not require any further clearance from the RBI for receiving inward remittance and issue of shares to the foreign investors. The companies are required to notify the concerned regional office of the RBI of receipt of inward remittances within 30 days of such receipts and within 30 days of issues of share to the foreign investors or Non-Resident Indians.

FDI is an investment in a business by an investor from a foreign country, so that the foreign investor has control owning 10 per cent or more of the business - benchmark definition of FDI over the company purchased.

INTRODUCTION TO INDIAN RAILWAYS

Indian Railways (IR) started its 53 km journey between Mumbai and Thane on April 16, 1853 and is today one of the largest railway network in the world. The railway network invariably referred to as the 'Life Line of the Indian Economy' is spread over 1,17,997 km covering 6906 stations. And now India has the world's fourth largest rail network and also the second largest under single management operating more than 19,000 trains every day. It has 2,29,381 wagons, 59,713 coaches and 8,417 locomotives, and 16 railway zones in India. Indian Railways is carrying about 22 million passengers every day and 923 million tonnes of freight a year. Modernization of Railways infrastructure is a priority. Rail budget 2015-16 has projected an investment plan of 8,56,020 crore in the next five years, and FDI can play a very crucial role. Modernization of railways can be a significant engine of inclusive growth and development for the country and can potentially contribute an additional 15 to 20 per cent to GDP.

1.1. REVIEW OF LITERATURE

A brief review of studies is carried out in the following passages.

A study carried out by Raghavendra Jha (2009) on Recent

Trends in FDI Flow in India, found that FDI flows to India have not been commensurate with her economic potential and performance. The GOI revised its computation of FDI figures in line with the best international practices, which had led to a substantial improvement in FDI figures.

A paper entitled Foreign Direct Investment in India by Shaline Aggarwal et. al. (2012), concluded that FDI has helped to raise the output, productivity and employment in some sectors especially in service sector.

Sanghamitra Samal and D. Venkatrama Raju (2013), in their paper on, A Study of Foreign Direct Investment on Manufacturing Industry in India : An Emerging Economic Opportunity of GDP Growth and Challenges, concluded that FDI occurs when a business invests in a foreign country by either acquiring a foreign business that it controls or starting business in the foreign country.

A study conducted by K.S. Vataliya and Bhanuben N. Parmar (2013), on An Article on Foreign Capital and FDI, found that in recent years, the bulk of the foreign direct investment is being found on sector of infrastructure, telecommunication, IT, computer hardware, software and hospitality services.

In an interesting article on An Analytical Study of FDI in India, Abhishek Vijayakumar Vyas (2015) argued that there had been a sea change in India's approach to foreign investment from the early 1990s, when it began structural economic reforms in about almost all the sectors of the economy.

Jasmeet Kaur (2014), in a paper on FDI and Sustainable Development: Lessons to Draw for India concluded that FDI inflows in absolute as well as in growth terms do not have positive relationship with growth indicators.

1.2. OBJECTIVES OF THE STUDY

The present study has been undertaken with the following objectives:

1. To know about the trends in FDI inflow in India.
2. To analyze the issues of FDI in Indian Railways.

1.3. PAPER SCHEME

The present paper is based on secondary sources of information gathered from journal articles and relevant websites. In the paper a brief review of studies has been made. Statistical information as regards the FDI inflows during 2016-17 and 2017-18 has also been provided, particularly in the paper an analysis of FDI inflows in the IR has been the focus.

1.4. ANALYSIS AND INTERPRETATION

FDI is also one of the major monetary sources for economic development in India. Foreign companies invest directly in fast growing private Indian businesses to take benefits of cheaper wages and changing business environment in India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India, which subsequently generated more than one crore jobs. According to the Financial Times, in 2015 India overtook China and the US as the top destination for the FDI. Table 1 gives data as regards the FDI inflows into India during 2018-19.

TABLE 1 FDI ENQUIRY INFLOWS (MONTH-WISE) DURING THE FINANCIAL YEAR 2018-19

Financial Year 2018-19 (April-March)	Amount Of FDI Equity Inflows	
	(in Crore)	Percentage change over the previous month
(01)	(02)	(03)
April 2018	35,104	(-)
May 2018	30,479	-0.13
June 2018	19,597	-0.35
July 2018	19,025	-0.02
August 2018	17,441	-0.08
September 2018	33,472	0.91
October 2018	34,595	0.03
November 2018	12,495	0.63
December 2018	31,056	1.48
2018-19 (form April, 2018 to December, 2018)	233,263	
2017-18 (form April, 2017 to December, 2017)	231,457	0.00
% Change Over Last Year	5.64	

The above Table depicts the trends in FDI inflows into India from April 2018 to March 2019. The data prove that in the month of April 2018 the FDI inflow stood at 35,104 crore which has decreased by (-) 0.13 per cent during May 2018. In June and July 2018 there was a negative trend (-) 0.35 and (-) 0.02 per cent in the FDI inflows its continue August 2018 (-) 0.08. From September to December 2018 the FDI inflow showed varying trends, being positive in 2018. At the end of the financial year, April 2018, FDI inflow increased slowly by 1.48 per cent, compared to the previous month. From the financial year 2017-18 to the financial year 2018-19, the FDI inflow increased from 233,263 crore to 231,457 crore.

1.4.1. USES OF FDI

FDI helped India to attain a financial stability and economic growth with the help of investment in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for outing the domestic inflows. After liberalization of trade policies in India, there has been a positive GDP growth rate in Indian economy. FDI helps in developing the economy by generating employment to the unemployed, generating revenues in the form of tax and income, financial stability to government, development of domestic firm for the requirements of raw materials, tools, business infrastructure and support for financial system.

1.4.2. FOREIGN DIRECT INVESTMENT IN INDIAN RAILWAYS

Indian Railways serve a major percentage of the Indian sub-continent by fulfilling the increasing transportation requirements and plays a crucial role in India's surge in the international market as a key player. The current Central Government headed by Shri. Narendra Modi has taken various steps towards achieving better railway facilities and augmenting existing ones in terms of the ability with which

railways can efficiently manage the need of freight and passenger carriage, by means of implementing Indian Railways, which is facing a severe cash crunch to the tune of 30,000 crore every year, received a major financial boost as cent per cent FDI is now allowed for developing infrastructure and improving safety features. The Railway Board and a Cabinet Panel has identified 16 key areas when the FDI can be used. They are: Central Mumbai, Western Mumbai, Northern Delhi, Eastern Kolkata, Southern Chennai, East Central, East Coast Bhubaneswar, North Central Allahabad, North Eastern Gorakhpur, North East Frontier Guwahati, North Western Jaipur, South Central Secunderabad, South East Central Bilaspur, South Eastern Kolkata, South Western Hubballi and West Central Jabalpur.

1.4.3. FDI POLICY IN INDIAN RAILWAYS

FDI under automatic route is permitted cent per cent for the following:

- Construction, operation and maintenance of suburban corridor projects through PPP,
- High speed train projects,
- Dedicated freight corridors,
- Railway electrification,
- Signaling systems,
- Freight terminals,
- Passenger terminals,
- Infrastructure in industrial parks pertaining to railway line/siding including electrified railways lines and connectivity to main railway line,
- Mass Rapid Transport System (MRTS).

The FDI investment has been utilised for manufacturing of Rolling stock (Coaches and Wagons including its parts), Signalling Equipment and Locomotives, Diesel and Electric parts of locomotives.

The Ministry of Railways has signed Memorandum of Understanding (MoU) with China, France, Spain, South Korea, Japan, United Kingdom, Russia and Germany for co-operation in the area of High Speed Railways. A Memorandum of Co-operation has been signed with the Government of Japan for Mumbai-Ahmedabad High Speed Rail (MAHSR) project which includes transfer of technology and Make in India.

Some foreign Governments and the Indian Railways have shown keen interest in the station redevelopment programme. These include French Railway, Korean Railway, Government of Federal Republic of Germany, China and United Kingdom.

Table 2 below provides information about FDI inflow in Indian Railways from 2014-15 to 2017-18.

TABLE 2 FDI INFLOW IN INDIAN RAILWAYS FROM 2014-15 TO 2017-18.

Year	Value (Million US Dollars)
(01)	(02)
2014-15	129.73
	-
2015-16	73.99 (-0.42)
2016-17	87.57 (0.18)
2017-18	98.54 (0.12)
Percentage increase over 2014-15	-0.24

1.5. SUGGESTIONS

Based on the above, following suggestions may be made:

1. There is a need to reform the railways in terms of policy action and organization and make concerted effort to attract meaningful private investment.

2. In India, need for the more investment on high speed train and electrification on rail route.
3. Railway department should taking effective steps for rail safety and cleanliness.
4. Promotion of new technologies in railways transport sector may be suggested.
5. There is a need for green field investment in the railways sector.

1.6. CONCLUSION

Railways have been the engine of economic, technical growth and development in India. Indian Railways have undertaken various initiatives to provide impetus to the Make-in-India programme and also to encourage investment on railway infrastructure through investor-friendly policies. Indian Railways have also taken up port connectivity on priority through the Public Private Partnership (PPP).

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