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ORIGINAL ARTICLE

Foreign Direct Investment In India

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Abstract:

Economic reform programmecreate a essential radical changes which was required to encourage Indian companies to integrate India with global market .FDI become an important source of private external finance.

KEYWORD:

Foreign, Investment, Fdi, Economic.

INTRODUCTION:

In order to globalize an economy, four vital facets, namely, resources, sophisticated technology, managerial skills and innovative marketing techniques are required which ultimately ask for liberalization. When the economic reform programme was introduced in 1991, India has emerged as a principal host and source in the region and investment scenario has been moving upwards. It has become essential due too radical changes which have taken place world over. There is a remarkable change in the GPD & GDS. The capital market has very active and fIIs, foreign investment banks and asset management companies have shown increasing interest in investing in India, But this concept has taken ground very late in India. It was required to encourage Indian companies to become global with a view to integrate India with global market.

OBJECTIVE OF THE STUDY:

1.The main objective of the study is to know about the sector in which industries invest our money in FDI.
2.To identify factors which inhibit higher FDI flows and suggest remedial steps.
3. To examine policy reforms towards mergers and acquisition for attracting FDI .
4. To suggest changes in institutional apparatus and organizations ,both in Centre and States ,for attracting the FDI flows.

TRENDS IN FDI FLOWS -

FDI has become an important source of private external finance for those economies where domestic capital market is not highly developed or not capable to fulfil the increasing needs of funds of different sectors of economy in globalization.

When India's new economic liberation policy started in the economy, there has been an enormous increase in the FDI inflows from the newly emerged, Investing nations.

USA's share among total agreements in about 20.5% followed by Germany, US, Japan, Netherlands, Italy etc. It is significant to take the notice of some of the new countries are also making investment in India. This is because of economic reforms in India and the inspiration from the government through liberalization and globalization policies which attract various foreign countries to invest in India.

India & China are the giants of the developing world in 2002. China was the largest recipient of FDI in the world, Surpassing even the US. India is ranked first in South Asia. China attracted almost ten

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times more FDI than India in 2002, accounting for 4.3% of its GDP while India's FDI accounted for 1.1% of its GDP.

It is very clear that the countries dominating the FDI in India are USA, Japan, Germany, South Korea and the Netherlands. The annual share of USA in India's total FDI is 20% Mauritius tops the list of investors with 31% share in total investment inflow in India.

From the geographical distribution of FDI These investments are concentrated in a few developed regions of India.e.g.in

Maharastra state is the most dominated destination of FDI followed by Karnataka, Tamilnadu& Gujarat during April 1991 to Nov 1999. The emergence of IT Industry in most of the dominating states is the reason for concentration of FDI.

Sector wise analysis of foreign investment approval
No. 1 Foreign Investment Inflows(U$$ Million)

Item	2000-01	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (P)	2010-11 (P)	2011-12 (P)	2011-12 (P) Apr-may	2012-13 (P) Apr-may
A. Net Foreign Direct Investment (i -II)	3270	3812	3033	7693	15891	22343	17965	11305	22006	5146	3199
i. Direct Investment to India (i.a. – i.b)	4029	5986	8900	22739	34727	41707	33108	27829	32955	6855	4304
I.a. Gross Inflows/Gross Investment	41029	6051	8961	22826	34843	41873	37745	34847	46553	9894	5360
(i+ii+iii)	2400	3778	5975	16481	26864	32066	27146	22250	35854	7687	3326
i. Equity (a+b+c+d+e)	1456	1062	1126	2156	2298	5400	3481	1945	3046	758	380
a. Government (SIA/FIPB)	454	1258	2233	7151	17127	21332	18987	12994	20427	6371	2266
b. RBI	67	-	-	-	-	-	-	-	-	-	-
C. NRI	362	930	2181	6278	5148	4632	3148	6437	11360	405	538
d. Acquisition of shares *	61	528	435	896	2291	702	1540	874	1021	153	142
e. Equity capital of unincorporated bodies	1350	1904	2760	5828	7679	9030	8668	11939	8205	1239	1522
#	279	369	226	517	300	777	1931	658	2494	967	512
ii. Reinvested earnings +	-	65	61	87	116	166	4637	7018	13598	3039	1056
iii. Other capital ++	-	5	61	87	108	166	4241	6514	13018	2817	724
I. b. Repatriation/Disinvestment (i+ii)	-	-	-	-	8	-	396	504	580	222	332
i. Equity	759	2174	5867	15046	18836	19364	15143	16524	10950	1709	1105
ii. Other capital											
II. Foreign Direct Investment by India	414	1672	3982	13368	16899	13283	10609	10537	6387	961	736
(a+b+c-d)	340	248	1092	1076	1084	1084	1084	1084	1208	201	202
a. Equity capital	75	289	1009	1366	3330	6100	4188	7465	5810	816	1032
b. Reinvested Earnings	70	35	216	764	2477	1103	738	2562	2455	269	865
c. Other Capital	2590	9291	11492	6947	27434	-14032	32396	30292	17171	1822	-1380
d. Repatriation / Disinvestment	831	613	2552	3776	6645	1162	3328	2049	597	230	-
B. Net Portfolio Investment (a+b+c -d)	1847	8686	9926	3225	20328	-15017	29048	29422	16813	1731	-1294
a. Gdrs/Adrs ##	82	16	14	2	298	-	-	-	-	-	-
b. FIIs **	170	24	-	56	-163	177	-20	1179	239	139	86
c. Offshore funds and others											
d Portfolio investment by India											
Total (A + B)	**5860**	**13103**	**15525**	**14640**	**43325**	**8311**	**50361**	**41597**	**39177**	**6968**	**1819**

Source-RBI Bulletin July 2012

Analysis of foreign investment proposals has been made sector wise to find out which sector of the Indian economy has attracted maximum foreign investments proposals and which sector has lost its performance.

The nation requires huge sums of FDI for the creation of productive assets and for the development of infrastructure in the nation. The actual inflows, in some cases are coming in theacquisition of the created local assets as well into the services sector which do not involve anyhuge expenses ofcapital. and a big ratio of the inflows that coming into the country are concentrated in some selected sectors from August 1991 to March 2000, around 80% of the approved FDI went into six sectors, namely fuels, telecom, metallurgical industry, transport, service sector and electrical equipment. The remaining 20% had to be shared by 30 odd industrial sectors.It is clear from that engineering electronics, equipments and chemical and allied services sector together accounted for nearly 54% the total.

FDI inflow in 1992-93.Besides, Finance, Services Sector, food and dairy and pharmaceuticals sectors.recorded significant improvement in FDI inflows during 1993-94. The vague fluctuations in inflows of FDI.into the various sectors continued in 1998-99 chemicals, engineering and allied, food and dairy sector had some positive increase in their inflows of FDI in 2000-2001.

CATEGORY WISE FLOW OF FOREIGN INVESTMENT.

Since the initiation of economic reforms, the most striking aspect is the change in the capital inflows from foreign currency borrowing and official assistance to direct investments by foreign investors. During 1975-82 consisted of about 82% of the worlds total capital flows and FDI and portfolio inflow were merely around 11% Now the FDI & investment constitute about 55% of the capital flows. In India too, there has been a steady rise in theinflow of both FDI and portfolio investments since 1991, though the latter has gone down in some recent years.

ROLE OF FOREIGN INVESTMENT IN INDIAN ECONOMIC DEVELOPMENT.

In 1991, the government started for reaching structural reforms in Indian economy. The reforms were intended to achieve a fundamental transformation in Indian economic structure, push up the growth process, and to integrate national economy with the global economic system. The economic development requires investment in some project relating to infrastructure development and basis industries etc in every developing country to accelerate economic developments. for this purpose the government has to initiate developments activities for which foreign capital is essential.

ADVANTAGES OF FDI :-

If India attracts huge FDI inflows then there will be following advantages:-

1)Increase investment level and thereby income and employment.
2)Increase tax revenue of government.
3)Facilitates transfer of technology.
4)Encourage managerial revolution through professional management .
5)Increase exports and reduce import requirements.
6)Increase competition and break domestic monopolies.
7)Improves quality and reduces cost of inputs.

FACTORS AFFECTING FDI

*Profitability: Attract where return on investment is higher.
*Cost of production : Encouraged by lower costs of production like raw material , labour.
*Economic Condition; Market potential, infrastructure, size of population, income level etc.
* Government policies: Policies like foreign investment, foreign collaboration, remittances, profits ,taxation, foreign exchange control, tariffs etc.
*Political factors : Political stability, nature of important political parties and relations with other countries.

MAJOR CHALLENGES AND STRATEGY TO PROMOTE FDI

India has failed to attract huge external inflows into the infrastructure sector due to lack of proper business quality infrastructural facilities in India and the overall political instability at the center is another determent for FDI.

Import substitution is the obstacle for export promotion is another reason discouraging the foreign investments in India. So the foreign investments did not develop in the country FDI companies are basically catering to the domestic markets because of the high protection and profitability of domestic sales. To promote FDI flows to the country and to enhance their export intensity, India needs a consistent, coherent and comprehensive long-term export promotion strategy. And also FDI companies have to create brand image for the goods produced in India by improving the quality of goods as well as the quality of labelling and packaging. These measures would not only improve the quality of Indian products but also reduce the outflow foreign exchange from the country. Foreign investors are interested to enter such ventures which have export potential. for this purpose, the development of proper transport facilities and modernization of ports is essential. So India should adopt and implement concepts like export processing zones, free trade zone, and special economic zones which provide free market environment to achieve export promotion objective. The government should identity highly competitive sectors of economy to ascertain export growth areas in the continuously evolving dynamic world.

LIMITATIONS OF FDI:-

1)Flow to high profit areas rather than main concern areas
2)Through their power and flexibility ,MNC can undermine economic autonomy and control.
3)Sometimes interferes in the national politics.
4)Sometimes engage in unfair and unethical trade practices.
5)Sometimes result in minimizing/ eliminating competition and create monopolies or oligopolistic structures.

Why FDI in India ?

Following are the reasons why India is the right place to invest. It has

1)One of the largest economies in the world.
2)strategic locative access to the vast domestic and south Asian market.
3)Skilled manpower and professional managers one available at competitive cost.
4)One of the largest manufacturing sectors in the world, spanning almost all areas of manufacturing activities.
5)One of the largest pools of scientists engineers, technical and managers in the world.
6) Long history of market economy infrastructure.
7)Rich base of mineral and agriculture resource.
8)Well developed R & D infrastructure and technical and marketing services.
9)A sophisticated legal and accounting system
10)A large and rapidly growing consumer market.
11)Sophisticated financial sector.
12)Rupee is convertible on current account at market determined rate.
13)A long history of stable parliamentary democracy.
14)Free and full repatriation of capital, technical fee, royalty and dividends.
15)Well balanced package of fiscal incentives.
16)Policy environment that provides freedom of entry, investment, location, choice of technology, production, import and export.

100% FDI Permitted in India
*Engineering &Manufacturing sectors.
*Roads &Highways ,Ports and Harbors.
*Industrial model towns / industrial parks.
*Hotels & Tourism.
*Pollution control and Management.
* Advertising & Film industry.
* Power generation (hydro-electric , coal/ lignite, oil or gas based)
*Information Technology including E-Commerce.
Barriers for FDI in Indian market
Tariff and tax structure
In India, there is complicated tax and tariff structure. This complicated tax structure makes the image of India bad in terms of foreign investors.

BUREAUCRACY

The attitude of government personnel and bureaucrats is one of the major hurdles on the path of FDI coming over to India. Many a times, due to this attitude there is delay in decision making.

CORRUPTION

One of the major issues in India is corruption. This is one of the biggest drawbacks which becomes the obstacle on the path of FDI coming over to India.

INFRASTRUCTURE

This is one of the greatest drawbacks in India. In India, the condition of communication, transportation and power supply is poor. Due to poor infrastructure in the country, operations of business houses are greatly affected. So, the foreign companies are not attracted to India.s

CONCLUSION:

There has been substantial improvement in the inflows of FDI to India . However, keeping in view the parameters of the global FDI supply position and the need of India in terms of further FDI ,there are certain aspects need to considered for sustaining the flow of FDI to India .The current institutional system does not provide a mechanism for aggressive marketing of India as an FDI location.The Indian investment center due to the lack of overseas office is not in position to promote India abroad. It is now desirable to develop a mechanism , which will have the provide sector as an integral partner. Second alternative models may be analyzed and develop to identify the best mechanism suited to India needs.

Therefore, a conducive business environment is required to attract FDI flow by providing better infrastructure ,hassle-free government procedures and most importantly ,a degree of autonomy and freedom in various decision –making processes.

Thus we conclude that,

- The result of all these efforts are encouraging ; the inflow of foreign capital has been steadily rising year to year so that FDI is better than FII.
- Investors based in many countries have taken advantage of the India –Mauritius bilateral tax treaty to set up holding companies in Mauritius which subsequently invest in India ,thus reducing their tax obligations .
- By industry ,the largest destinations for FDI are electrical equipments(including computer software and electronics), services ,telecommunication and transportation.

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