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FOREIGN DIRECT INVESTMENT REFORMS AND CHALLENGES

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ABSTRACT :
Foreign District Investment (FDI), a critical driver of economic growth has been a major non-debt financial resources for the economic growth in India. Foreign Corporate houses invest in India to take advantage of wages and privileges of tax structure. The Government policy regime and robust business environment has insured to relaxing FDI norms across many sectors in India. After globalization, like all other countries India also allowed FDI in various sectors including banking. FDIs have been playing an important role in promoting economic growth, triggering technological transfer and creating employment opportunities. Increased economic growth reduces poverty and raises the living standards. FDI refers to capital inflows from abroad that are invested in to enhance the production.

capacity of the economy. In the rapidly changing economic environment, Foreign Direct Investment (FDI) is used as the stimulus for growth in the most of developing countries including India

KEY WORDS: *Automatic route, Domestic Market, FDI, MNCs.*

INTRODUCTION

Foreign direct investment (FDI) is an important Source of development of finance for developing countries like India and which contributes to productivity gains by providing new investment, better technology, management expertise and export markets. All developing countries and developed countries seek, Foreign direct investment (FDI) not only supplements domestic investment but act as source of foreign exchange and eases pressure on the balance of payments.

Economic growth in any country depends upon the sustained growth of productive capacity, supported by saving and investment. FDI Which brings new technology and Knowledge alone with capital, in considered a good substitute for debt in developing economic like India for higher investment and there by growth. Indian governments realised that FDI is an important determinant of investment, economic growth and employment, and therefore acted as a facilitators since the 1990s. Some of the recent reforms such as foreign direct investment in retail, insurance, civil aviation, broadcasting services, etc. are welcome steps and will have significant returns to production via externalities and productivity spillovers through channels such as imitation, Competition, linkage, technology, transfers and training, Hence, FDI Can have substantial and sustainable growth impact on the host country's economy in the long-run through by learning by doing, competition, labour skills and linkage, augmenting domestic capital for exports, new products for exports, facilitating access to new and large foreign markets, and providing training for the local workforce and upgrading technical and management skills. Developing countries such as India can attain these objectives by improving and deepening the capabilities of domestic enterprises by attracting foreign direct investment into export activities.

As per UNCTAD India's economy could prove the most resilient in South Asia and its large market will continue to attract market seeking investments to the country even as it expects a dramatic fall in global FDI. The new economic policy of the early 1990s, triggered by the 1991 balance of payment crisis, aimed at creating, a conductive environment for foreign investors, initially by raising foreign equity caps in many sectors, diluting provisions of the foreign Exchange Regulation Act (FERA), and allowing automatic approvals. The 1991 reforms were a drastic change intended to attract FDI to modernise India's Intended base, improve export competitiveness, and integrate the Indian economy with the rest of the world.

Foreign direct investment during the post reform period emphasised attracting non-debt creating long-term capital flows to supplement domestic resources. FDI policy is new reviewed on a regular bases and changes in sectoral policy or sectoral equity caps are notified through press notes by the Secretariat for Industrial Assistance (DIPP).

SOME MOST IMPORTANT FDI REFORMS ARE LISTED BELOW.

- Privatisation of public sectors.
- Major institutions set up to promote and facilitate FDI inflows such as foreign Investment Promotion Board, and foreign Investment Implementation Authority.
- The low of trademarks and the Geographical Indications of Goods passed in 1999 to protect intellectual property rights.
- Abolition, of high local content requirements, dividend balancing requirements, and export obligation conditions except for 22consumer goods were subsequently withdrawn on in 2000.
- Reserve bank of India (RBI) introduced an automatic approval channel for hundred percent foreign equity in priority sectors. The automatic route has been extended up to 51 percent foreign equity in priority sectors.
- Automatic permission for high technological collaborations in priority sectors and removal of conditions related to technology, such as restrictions on FDI in low technology area.
- Industrial licensing has been abolished and many sectors opened for foreign participation, expect for a new industries on the ground of Strategic and environmental concern. After 2000, sectors marked for automatic approval of FDI were expanded to include most sectors, and foreign equity caps raised hundred percent.

THE NEW REFORMS OF FDI ARE LISTED BELOW.

- Allowing foreign airlines up to 49 percent FDI in the capital of Indian companies in the civil aviation sector operating, scheduled and non-scheduled air transport.
- Allowing 100 percent FDI ownership in single brand retail trading, and up to 51 percent FDI in multi brand retail trading.
- Increasing FDI equity from 49 percent to 74 percent in certain broadcasting sectors.
- Up to 49 percent limit in the insurance sector from current 26 percent to 49 percent.
- Increasing 49 Percent FDI in many sectors such as petroleum and natural gas, commodity and stock exchanges, power exchanges, asset reconstructions, single brand retail, and telecommunications.

- The defence sector will also be eligible for greater FDI under the recent changes while the standard cap for the sector remains 26 percent, according to a government press release.
- Further increase in the pension sector have been proposed and await parliamentary approval.

The above new FDI reforms will have implications in future. The increased FDI cap finance. This requirement and will bring better insurance product technological capabilities, awareness efforts and expertise and skills in underwriting, actuarial, claims management and data standard station to India.

CHALLENGES OF FDI AND INDIA:

In fact, FDI inflows to India have increased over last two decades, India still lags behind countries like China Singapore, and Brazil. FDI is flows to India are still concentrated in a few states because of unresolved issues and our country is get to receive FDI in flows to its full potential with all the benefits India has, there are still factors and issues that hinder foreign direct investment flow into India, including:

a) Difficult bureaucratic controls and procedures to get the necessary clearances and approvals. First time investor in India are always sceptical about whether projects will progress from screening to operator,
b) Lack of coordination between the centre and states,
c) FDI caps in many sectors where hundred percent FDI equity is not allowed for feasible investment projects
d) Rigid and complicated labour laws, and
e) Infrastructure bottlenecks.

In this critical situation, a few reforms that are essential to sustain and increased FDI into India include the relaxation of ceilings foreign equity in many sectors which are as following.

i) Civilian goods used by the defence forces or dual use equipment used in the production of civilian goods.
ii) Public sector refineries and oil market.
iii) Banking.
iv) Small scale Industries.
v) Power generation, and
vi) The equity limit for FDI should be raised to 100percent for investment companies for infrastructure.

Hence India could attract a huge amount of FDI in real estate, provided the plethora of controls was removed and rules and regulations were properly designed, and clear. Any early decision on allowing 51 percent FDI in e-commerce would be useful. The Indian Government of present permits 100 percent FDI in only business-to-business e-commerce transactions in goods, putting more and more sectors under automatic route is certainly useful for more FDI relation.

Some of the necessary reforms need to address to set up appropriate institutions for better economic development in developing countries like India are such as a better such as a dispute resolution mechanism, independent regulatory authority, and special investment law; a uniform labour code; proper design and planning for SEZs; Increasing FDI caps in sectors with FDI potential and allowing more sectors under the automatic route; revisiting outdated laws; encouraging non-governmental facilitation services for foreign investors; and further trade reforms and reforms in public services to attract foreign investment.

FDI is the dispersal and optimisation of resources packages like human, financial knowledge, physical and reputational resources. The motivational factor such as natural resources, market resources, strategic resources influenced MNCs to perform many activities in the host countries. The Government of India is very keen in simplifying FDI Rules with an ultimate aim to attract more investors with no problems. Despite India offering a large domestic market, rule of law, low labour costs and a well working democracy, its performance in attracting FDI flows has been not very good. Restrictive FDI regime, high import tariffs, stringent labour laws, poor infra structure, Centralised decision-making and limited scale of export processing zones making India a unattractive investment dissention. FDI in India has grown significantly following the implementation of recent GOI initiatives, including the GOIs high profile "Make in India" Campaign and the continuing liberalisation of the FDI regime across a wide range of sectors. The reforms have boosted India's image as preferred destination for foreign investment.

KEY REFORMS:

Some of the recently introduced key reforms to India's FDI Policy are started below:

1. Defence: Defence is the one of the key sectors, where FDI limits have been liberalised up to 49% FDI is now permitted under the automatic route, and up to 100% FDI permitted under the approval route. The manufactures of Arms Act, 1959 is now expressly permitted and included under the revised limits for this sector.
2. Broadcasting: up to 100% FDI is now permitted under the automatic route in Teleports, Cable Networks, Mobile TV and Sky broadcasting services (against 49% under the automatic route. The liberalisation of the sector is designed to provide the cash strapped cable industry with the investment needed to speed up their digitalisation efforts.
3. Civil Aviation: FDI in airport projects, both Greenfield and brown field is now permitted up to 100% under the automatic route. FDI in air transportation is now permitted up to 100%.
4. Pharmaceuticals: FDI limit for Greenfield projects stands at 100% under the automatic route.

FDI gives a win-win situation to host and home countries. In fact both the countries are directly concerned in inviting more and more FDI, as they benefit a los from these type of investments. They home countries have the advantage of the vast market opened by industrialisation. On the other side the host countries are having the advantage of acquire technological and managerial skills and domestic savings and foreign exchange.

The first Prime Minister of India Pt. Jawahar Lal Nehru considered foreign investment as necessary not only to supplement domestic capital but also to secure scientific, technical and industrial knowledge and capital equipment. Therefore FDI flow is always welcomed in India in order to enhance over all development.

CONCLUSION:

Foreign Direct Investment (FDI) in India is declining sharply in 2020 because of impact of the corona virus pandemic, lockdown and economic slowdown. India jumped from 12th position in 2018 to 9th position in 2019 among the world's largest for recipient. The United Nations Conference on Trade and Development (UNCTAD) has said that India jumped to ninth spot in 2019 on the list of global top FDI recipients from the twelfth spot in 2018. The Indian Government permits 100 percent FDI in business-to-business e-commerce transactions in goods. Putting more and more sector under automatic route is certainly useful for more FDI relation in future. So it may be say that India needs to address its back of adequate infrastructure, rigid labour laws, bureaucratic delays, and state level reforms to realise its foreign direct investment potential, it would made them competitive and positive outcome.

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