IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Current Situation of FDI in India

Dr. Avinash Kumar
Assistant Professor
University Department of Commerce & Business Management
Ranchi University, Ranchi

Abstract

Globalization and liberalization brings lots of new innovative products to the world, Foreign Direct investment is one among this, also there are number of different forms of FDI is available currently. An Indian company may receive FDI either through automatic route or government route. Foreign capital refers to the investment of capital by a foreign government, institution, private individual and international organization in the productive activities of a country. It is a direct investment into production in a country by a company located in another country or by expending operation of an existing business in that country. Simply putting the money of your country which is functioning in some other country is FDI. If we invest this way then we are a foreign investor. FDI plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access of new technology, products, skills and financing for a host country, which receives the investment. Recently world economy is passing through the global crisis. India is not free from its effect. India is also suffering from inflection and economic crisis. To overcome this situation and make to economy speedy, Indian Government has decided to do economic reforms, as a result, Indian government has taken steps in this direction and make free FDI in some sectors like retail, broad casting, airline etc. Indian government has increased limits of foreign investment in such sectors. Government of India allowed FDI in different sectors of Indian economy.

Keywords: economic development, dynamic growth, economic reform

Introduction

The Economic Survey 2009-10 said that outlook for India's trade sector in 2010 has brightened with prospects of recovery in world output and trade volumes. The World Bank has forecast real GDP growth rates of 2.7% and 7.5% for the world and India respectively for 2010 and growth in world trade volume of 4.3% and 6.2% in 2010 and 2011, respectively. The International Monetary Fund (IMF) projections are a tad better than the World Bank estimates, with projections of output growth for the world and India at 3.9% and 77% respectively. The world trade volume growth projections are also higher at 5.8% and 6.3% in 2010 and 2011 respectively. This is a remarkable improvement compared to the fall in world trade volumes by 12.3% in 2009.

Following are the main highlights of Indian economy in 2009 10 After two successive months of slow down in the 2010-11 (August and September), the Index of Industrial Production (IIP) rose sharply in October 2010. The overall growth in IIP was 10.8 per cent during the month as compared to 10.1 per cent in October 2009 The highest growth has been coming from manufacturing sector followed by electricity and mining. Core infrastructure sectors grew by 70 per cent in October 2010 as compared to the growth of 3.9 per cent in October 2009. The October growth has been recorded as the highest so far in the current fiscal 201011. Except the sectors like petroleum refinery and coal, all major infrastructure industries have displayed much improvement in output expansion during the month. The headline inflation has somewhat eased in October 2010. On y-o-y basis WPI growth remained high, but the monthly trend of inflation revealed decline in the month of October 2010 compared to the recorded inflation in the previous month. WPI growth under three major heads namely primary articles, fuel & power and manufactured products eased a bit in October compared to September 2010 In RBI's assessment, the current rate of inflation is still well above the comfort zone. Food inflation continues to remain a matter of concern on account of rising prices of vegetables in the recent months The broad money supply in the economy expanded by 8 4 percent calculated October over April 2010-11 The net bank credit to the commercial sector was also observed to grow well during the period, only bank's Investments in government and other approved securities experienced setback in October 2010 compared to better growth seen in the same month of 2009. The fiscal performance of Central government during October 2010 continued to accomplish higher revenue growth vis-a-vis the expenditure growth during the month. Consequently, the fiscal deficit has narrowed down during April to October in 2010 -11 as compared to the previous fiscal. India's cumulative merchandise exports during April to October in 2010-11 were valued at USD 121.4 billion which was substantially higher than USD 95 6 billion during the same period of 2009-10. The aggregate trade deficit magnified to the level of USD 72.8 billion during April to October in 2010-11 as against the amount of USD 58.3 billion during the same period of 2009-10. India saw greater volume of foreign capital inflows in the recent months. In October 2010, total foreign investment witnessed almost a six fold increase from the level observed during October 2009. The capital surge is continued driven by FII flows. According to planning commission, the inflow would not destabilize the economy as India's large current account deficit can absorb capital flows to some extent.

Consolidated Foreign Direct Investment Policy of India

The Government of India released the new document on FDI policy on March 31, 2010 whereby this document now consolidates all existing regulations related to FDI contained in the Foreign Exchange Management Act (FEMA), RBI Circulars and various press notes issued at various points in time. The comprehensive policy document came into effect from April 1, 2010 and would be replaced every 6 months after incorporating the changes which have been effected during the said period. This is a good move considering that this would bring clarity in understanding the foreign investment rules among investors resulting ultimately in simplification of the policy. This is also expected to improve transparency and boost global investors' confidence. 100% FDI is permitted under the automatic route in most of the sectors while there are Sectoral caps in the case of Banking (74%), Insurance (26%), Telecom (49%), Aviation (74%) and Single brand retail (51%) etc. In certain sectors like Atomic Energy, Lottery, Gambling and Betting Multi Brand Retail, Nidhi company etc, FDI is not permitted. The Government is looking to allow FDI in media and also looking to amend the Press and

Registration of Books Act 1867 to facilitate the entry of foreign newspapers or Indian editions of foreign newspapers being printed. The present FDI limit is 26% under Government approval. Currently, 100% FDI is allowed in facsimile publication of foreign newspapers by an entity incorporated or registered in India. FDI in multi-brand retail is another sector where FDI is currently not permitted though the Government Says that the current retail infrastructure including the backend (from the farm to the store) needs to be strengthened. The entry of large Indian retail chains has in general been positive allowing farmers to get better prices for their produce and giving multiple Choices to the end user. Banking and Insurance sectors could also do with a hike in the FDI limits while this is being monitored after the global meltdown where some of the largest banks and financial institutions went bust. The Government might encourage investments by foreign insurance companies in health and weather (floods, famines) to farmers and rural residents and for banks to be set up in rural areas where this is a Greenfield project.

The flow of FDI in Indian service sector is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. This sector attracting a significant portion of total FDI in Indian economy and it has shown especially in the second decade (2000 - 2010) of economic reforms in India. Is this contribution of FDI in this sector is stimulating the economic growth or not, this knowledge thrust of research scholar create the interest in conducting this study.

Materials and Methods

The objective of our study is to analyze the current scenario in India, investigate the controversial views of the various stakeholders and evaluate the current scenario of FDI in India. The study is based on comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

Results and Discussions

The historical background of FDI in India can be traced back with the establishment of East India Company of Britain. British capital came to India during the colonial era of Britain in India. After Second World War, Japanese companies entered Indian market and enhanced their trade with India, yet U.K remained the most dominant investor in India. Further, after Independence issues relating to foreign capital operations of MNCs, gained attention of the policy makers Keeping in mind the national interests the policy makers designed the FDI policy which aims FDI as a medium for acquiring advanced technology and to mobilize foreign exchange resources. With time and as per economic and political regimes there have been changes in the FDI policy too. The industrial policy of 1965, allowed MNCs to venture through technical collaboration in India Therefore, the government adopted a liberal attitude by allowing more frequent equity participation to foreign enterprises, and to accept equity capital in technical collaborations But due to Significant outflow of foreign reserves in the form of remittances of dividends, profits, royalties etc, and the government has to adopt stringent foreign policy in 1970s During this period the government adopted a selective and highly restrictive foreign policy as far as foreign capital, type of FDI and ownerships of foreign companies was concerned.

Changes in FDI Policy (March 31, 2011)

To give a fillip to flagging foreign direct investment, the Department of Industrial Policy and Promotion has announced a slew of changes in its policies, including allowing overseas firms in existing joint ventures to operate simultaneously in the same business segments. Earlier overseas companies needed the prior approval of their Indian partners. The nodal agency has also classified companies into two categories:

1. Companies owned or controlled by foreign investors'

2. Companies owned and controlled by Indian investors'

Following are the changes in Indian FDI Policy

Foreign Companies need not get permission from their Indian joint venture partner they plan to set up new units in "Same Field of wish to partner with another Indian firm. Companies to prescribe a formula for transforming for convertible instruments (like debenture partially paid shares preferential shares among other), in to equity at market conversion Equity permitted to exchange import of capital goods, machinery and equipments.

FDI allowed in development and production of seeds and plantation material without stipulation like controlled conditions No changes in retail policy, FDI in multi brand retailing is remaining same.

FDI issues and Policy Recommendation

India is striving hard to achieve a growth rate of 10%. Improving Me level of productivity can be instrumental in achieving this target as growth rate is positively related to rates of return. The available data on FDI reveals that India's volume of FDI has increase largely due to Merger and Acquisitions (M&As) rather than large Greenfield's projects. M&As not necessarily imply infusion of new capital into a country if it is through reinvested earnings and intra-company loans Business friendly environment must be created on priority to attract large Greenfields projects. Regulations should be simplified so that realization ratio is improved (Percentage of FDI approvals to actual flows) To maximize the benefits of FDI persistently India should also focus on developing human capital and technology.

India has failed to evolve as inward FDI manufacturing destination which is sweetest of all sources of FDA Manufacturing investment has potentiality to develop ancillary industries also There is a wide spread under employment in agriculture Manufacturing sector has greater scope of low end labour intensive manufacturing jobs for unskilled population when compared with service sector It is widely reported in large number of studies that India lags behind in terms of business environment (ranked 72 of 82 countries by EIU, 2007) which is not conducive for doing business. These factors are acute labour market rigidities, lack of world class ports, airports, road and on an average 6-7 hours of power cuts Other problems are that of norms of registering property, protection of investors, excessive bureaucracy, lack of rationale tax structure, competition rules and time taken in enforcing contracts (1420 days with a cost average cost of two fifth of claim). The issues of geographical disparities of FDI in India need to address on priority. India is a federal country consisting of States and Union Territories States are also partners in the economic reforms. Many states are making serious efforts to simplify regulations for setting up and operating the industrial units. In order to attract foreign investors in their states, many of them are offering packages in the form of tax rebates, capital and interest subsidies, reduced power tariff, etc However, efforts by many state governments are still not encouraging. Even the state like West Bengal which was once called Manchester of India attracts only 1.2% of FDI inflow in the country. West Bengal, Bihar, Jharkhand, Chhattisgarh are endowed with rich minerals but due to lack of proper initiatives by governments of these states, they fail to attract FDI India is striving hard to achieve a growth rate of 10%. Improving the level of productivity can be instrumental in achieving this target as growth rate is positively related to rates of return. The available data on FDI reveals that India's volume of FDI has increase largely due to Merger and Acquisitions (M&As) rather than large Greenfields projects M&As not necessarily imply infusion of new capital into a country if it is through reinvested earnings and intra company loans Business friendly environment must be created on priority to attract large Greenfields projects, Regulations should be simplified so that realization ratio is improved (Percentage of FDI approvals to actual flows). To maximize the benefits of FDI persistently India should also focus on developing human capital and technology Mauritius contributes about 44% of FDI inflow in the country. Such a high level of FDI contributed by a low tax country like Mauritius indicates that all is not well. Mauritius has agreement with India on avoidance of double taxation. There are likely chances that many MNCs may be first dummy companies in Mauritius before investing in India. This is not good for financial stability of the country and is also a reason for loss to state exchequers FDI can be instrumental in developing rural economy. There is abundance opportunity in Greenfield Projects. But the issue of land acquisition and steps taken to protect local interests by the various state governments are not encouraging MOU Arecelor-Mittal controversy is one of the best examples of such disputes. India has a huge pool of working population. However, due to poor quality primary education and higher there is still an acute shortage of talent. This factor has negative repercussion on domestic and foreign business. FDI in Education Sector is less than 1%. Given the status of primary and higher education in the country, FDI in this sector must be encouraged. However, appropriate measure must be taken to ensure quality The issues of commercialization of education, regional gap and structural gap have to be addressed on priority Indian economy is largely agriculture based. There is plenty of scope in food processing, agriculture services and agriculture machinery FDI in this sector should be encouraged. The issue of food security, interest of small farmers and marginal farmers need cannot be ignored for the sake of mobilization of foreign funds for development. India has a well developed equity market but does not have a well developed debt market Steps should be taken to improve the depth and liquidity of debt market as many companies may prefer leveraged investment rather than investing their own cash. Looking for debt funds in their own country invites exchange rate risk. In order to improve technological competitiveness of India FDI into R&D should be promoted Various issues pending relating to Intellectual Property Rights, Copy Rights and Patents need to be addressed on priority Special package can be also instrumental in mobilizing FDI in R&D.

Though service sector is one of the major sources of mobilizing FDI to India, plenty of scope exists. Still we find the financial inclusion is missing Large part of population still doesn't have bank accounts, insurance of any kind, underinsurance etc. These problems could be addressed by making service sector more competitive.

Current Challenges and Improvement Areas

As explained above, India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until these areas are honed to perfection, India will not become the number one place for FDL Some of the key areas are listed below:

a) Political risk: Amongst the top items is the political instability of the country On one hand the fact that India is the world's largest democracy does add a sense of pride and security, but the hard reality is that there is insurmountable instability present. Just the fact that the past two governments have been based on coalitions between a few parties is reason enough to be skeptical Moreover, each certain new government has policies which are different from the ruling government and if there is frequent change in government, this will lead to changes in policy and increased uncertainty. Just take the example of the last elections in 2004, where by a sudden change of event the Indian National Congress was able to come into power by forming a coalition government by soliciting the vast majority of the poor people of the country, surprising the incumbent government which was relying heavily on a fast growing economy, increased privatization and a thriving middle class.

b) Bureaucracy: Another very important factor that affects India's competitiveness on the world standing is the Bureaucracy Particularly in the FDI process the Indian Government has already invested a lot of time and effort but there is still a lot of room for improvement in the identification approval and implementation process e.g. creating more centers for assistance, more user friendly processes, effective use of technology, being as clear as possible leaving no room for interpretation assisting in identifying new areas for investment etc.

c) Security risk: Another important factor that needs to be handled with care and worked upon is the ever present security risk. This risk includes the geopolitical risk with Pakistan and the ongoing dispute over the Kashmir issue which on numerous occasions has brought these two countries armed with nuclear weapons to the brink of war. The other security risks would include incidences of domestic terrorism, not only in the Kashmir valley but also in Assam, Manipur and Nagaland where numerous separatists group operate.

d) Cost advantage: One of the attractions of India is the lower cost advantage as compared to most western economies. The Indian Government would have to work on creating an atmosphere where this advantage can be maintained else it might result in India not seem as attractive. One of the key drivers would be to try and control inflation because if there is increased level of inflation then there would be increased costs and reduced returns Other factors which would act in similar respects would be increased tax incentives and reduced tariffs.

e) Intellectual Property (IP) Rights & Piracy: With the increased instances of Piracy around the world and the extreme importance placed by investors on maintaining their IP rights, this is definitely an area which needs improvement in India. India has begun instilling intellectual property rules and regulations into the country but there is still a long road ahead.

Key Drawbacks

1. Domination of Organized Sector Retailers FDI in single-brand retail will Strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets stores will be compelled to close down.

2. Leads to Increase in Real Estate Cost-It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

3. Change in lifestyle and Culture. Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

Economic Growth 2014-15

The growth rate of Gross Domestic Product (GDP) at constant (2011-12) market prices increased from 51 per cent in 2012-13 to 6 9 per cent in 2013-14 and further to 73 per cent in 2014-15 (Provisional Estimates) The growth in Gross Value Added (GVA) at basic prices for agriculture & allied sectors, industry sector and services sector has been estimated at 0.2 per cent 6 1 per cent and 102 per cent respectively in 2014-15, as compared to the corresponding rates of 3.7 per cent, 45 per cent and 9.1 per cent respectively in 2013-14.

Overall industrial growth was 2.8 percent in the year 2014-15 as compared to contraction of 0 1 percent in 2013-14 Eight core infrastructure industries grew by 3.5 percent in 2014-15, lesser than 4 2 percent registered in 2013-14.

As per the 4th Advance Estimates for 2014-15, production of total foodgrains during 2014-15 is estimated at 252.68 million tonnes which is lower than 265.04 million tonnes recorded in 2013-14.

Gross fixed capital formation as a percentage of GDP declined from 31.4 per cent in 2012-13 to 29.7 per cent in 2013-14 to 28.7 per cent in 2014-15.

Wholesale Price Index(WPI) inflation for all commodities in the year 201415. declined sharply to 2 per cent, as compared to an average of 6.0 per cent during 2013-14.

The inflation as per the Consumer Price Index(CPI) (Combined) declined from 9.5 per cent in 2013-14 to 6.0 per cent in 2014-15.

Understanding Indian Economy

Indian economy stands today as one of the influential and attractive economy. The liberalization move by the Indian Government in 1990s has given a boost to the Indian economy and put her into a fast track economic growth route. With the beginning of the new millennium, India was considered as an emerging super power. In 2009, Indian GDP based on purchasing power parity (PPP) stood at USD 3.5 trillion making it the fourth largest economy. India's service industry accounts for 62 5% of the GDP while the industrial sector contributes 20% to the GDP. The agricultural sector which was the back bone of Indian economy post-independence took a back seat in 21st century and contributed only 17.5% to the GDP India growth rate has been an average of 7% since 1997 and has maintained a growth rate above 5% even in times of global recession. The Information Technology and IT outsourcing services has been the biggest contributor to India's growth. India's per capital income (PPP) is not too attractive and stands at USD 4542. India currently accounts for 1.5% of the total Indian trade as per WTO, 2007 publications Services Sector contribution to the Indian Economy The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounts for around 53 8% in 2005. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950 Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990-1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP. The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP Recent trends in Indian service sector By services sector we mean the tertiary sector, which is the largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP) in India. The service sector comprises trade, hotels and restaurants, transport, storage, communication financing, insurance real estate and business services, community services (public administration and defense) and other services This sector provides services of final consumption nature as well as intermediate nature, the latter accounting for a major share Substantial parts of services such as transport and communications are in the form of intermediate inputs for production of other goods and services.

Performance of Service Sector

The performance table of services sector gives figures of the annual growth rates of GDP at factor cost and the services sector and its three constituent categories from 2001-02 onwards - that is the growth rates recorded by the three components of services:

A. Trade, hotel, transport and communication,
B. Financing, insurance, real estate and
C. Community, social and personal services.

Thus, shows the growth of the service sector The service sector had higher aggregate rates of growth than that observed in GDP Trade hotels, transport and communications' segment has continuously registered higher growth rates than the other two segments of service Community, social and personal services segment has witnessed relatively lower rates of growth among the three segments.

Conclusion

Foreign Direct Investment as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs expansion of existing manufacturing industries, education and research and development etc Government should design the FDI policy such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states so that they can attract FDI inflows at their own level. FDI can help to raise the output, production and export at the sectored level of the Indian economy. It is advisable to open up the export oriented sectors and higher growth of economy could be achieved through the growth of these sectors.

Keeping in mind the humble beginning of India and the stage at which it is right now goes to show how much potential is present in this country and if the Indian government works on the areas for improvement mentioned above and continues to support and assist the encouragement of FDI into India, there is no stopping India into becoming the number one destination for FDI in the world, far beyond China.

References

1. From crisis to recovery, India's experience with economic reforms of 1990's, KG Sahadevan, http://ganga.iml. ac in/-devan/ecolib-sajm pdf.
2. Pohit Dr Sanjib and Subramaniam Shalini, Investment policy in India - performance and perceptions, CUTS Centre for Competition, Investment & Economic Regulation, 2002.
3. Reserve bank of India website.
4. World Development Indicators database, World Bank. http://www.worldbank.org/ data/quickreference/quickref.html.
5. UNCTAD, FDI Database On-Line.
6. http://www.randstad.com/the-world-ofwork/employment-rises-in-indias-servicesector?c=4374.
7. www.indiabudget.nic.in
8. http://www.sethassociates com/policy.. on_foreign_direct_investment.

9. www.unctad.org
10. http://www.sebi.gov.in/Index jsp?contentDisp=FII Trends.
11. http://dipp.nic.in/
12. www.indiaonestop.com/economy-macroissues html
13. http://planningcommission nic in/data/ datatable/Data0910/tab32.pdf.
14. http://dipp.nic.in/fdi_statistics/india_fdi_ index.html
15. http://www.startbizindia in/india_fdi_trend. Php
16. http://planningcommission.gov.in/
17. http://finmin.nic.in/capital_market/capital_ market.asp