



Foreign Direct Investment in J&K

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ABSTRACT

The study focuses on foreign direct investment (FDI) and its importance to the economy of J&K. Recognizing that FDI, notwithstanding the type can contribute to economic growth and development most countries including India and our state J&K are constantly working to attract it and hence its demand has become highly competitive. However FDI does not go without negative effects such as conflicts between host and investor country and the creation of damaging competition to local firms. The negative effect could be minimized if policies and strategies for the promotion and attraction of FDI are part of, and integrated into general economic development and economic reform policies, and not seen in isolation. Although India has implemented strategies to attract more FDI's, a refinement of some of these policies is needed if the state is to be successful in this regard.

KEYWORDS: Foreign Direct Investment; multinationals; balance of payment; FDI models; foreign inflows.

INTRODUCTION**Concept**

Foreign Direct Investment (FDI) ordinarily occurs when an entity, usually a corporation, from one state, the home state, makes a physical investment in another state, the host state. Typically, such investment involves building a factory and investing in machinery, equipment, and related corporate assets. FDI is distinguished from foreign indirect investment consisting primarily of portfolio investments by foreign entities in local companies. These investments are "indirect" because portfolio investments ordinarily do not entail control of the local investment. At the outset, it is important to note that FDI does not ensure economic growth. Actually, economic studies suggest that, as far as developing states are concerned, FDI has not accounted for accelerated economic growth. It is equally true, however, that FDI can promote growth; much will depend on the state in issue, the nature of FDI, the manner of its use, and the regulations imposed on it. The volume of global FDI had expanded geometrically in recent decades, only to contract in 2009. For example, the total annual global flow of FDI rose from \$55 billion in 1985 to \$315 billion in 1995.

TYPES OF FDI

The potential benefits of FDI, especially for developing countries, have been well documented in the literature. Multinational enterprises (MNEs) are a source of capital, employment, technology, management skills and international distribution networks, among many other things. However, it has also been argued that these benefits vary according to the characteristics of different types of FDI and that some types of FDI are better than others. This has led, perhaps naturally enough, to arguments advocating the promotion of FDI that is, in one way or another, 'better'. This development is important to the extent that it implies that some types of FDI are more deserving of incentives than others. Furthermore, there is growing recognition of the potentially negative implications associated with the growing use of financial and fiscal incentives in policy competition for FDI (OECD, 2001), such that any argument in favor of concentrating incentives on certain types of FDI deserves careful consideration. The various methods to enter into foreign direct investment business are:

1. Export oriented investment

Export oriented investment is an instrumental tool to strengthen the export competitiveness particularly in the knowledge-based industries. There are many reasons for this competition. In general FDI brings in a 'bundle of intangible assets' such as new technology, skill, marketing know-how and management which are relatively scarce in developing countries but are indispensable for export performance.

2. Green field investment

A form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. In addition to building new facilities, most parent companies also create new long-term jobs in the foreign country by hiring new employees. Green field investments occur when multinational corporations enter into developing countries to build new factories and/or stores.

3. Government initiated investment

A government - initiated FDI is a subsidized investment set by the host country, to enhance employment, shorten disparities within the recipient country's regions, as well as lowering the balance of payment deficit (UNCTAD).

4. Acquisition and Merger

Merger and Acquisitions (M&A), which refers to the transfer of ownership of a local productive activity and assets from a domestic to a foreign entity (United Nations, 1998). Profits of M&A are kept in the host country to finance future projects instead of being recorded in the home country

5. Market seeking investment

The market seeking investment which aims at either penetrating new market or maintaining existing one. FDI of this kind may also be employed as defensive strategy, it is argued that business are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one.

Foreign direct investment in India

Starting from a baseline of less than \$1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Based on UNCTAD data FDI flows were \$10.4 billion, a drop of 43% from the first half of the last year. India disallowed overseas corporate bodies (OCB) to invest in India. On 14 September 2012, Govt. of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi brand retail up to 51% and in single brand retail up to 100%. The choice of allowing FDI in multi-brand retail up to 51% has been left to each state. In its supply chain sector, the government of India had already approved 100% FDI for developing cold chain.

Table-1.1
FDI INFLOWS IN INDIA
(from 1948-2010)

Amount of FDI In crores	Mid 1948	March 1964	March 1974	March 1980	March 1990	March 2000	March 2010
	256	565.5	916	933.2	2705	18486	1,23,378

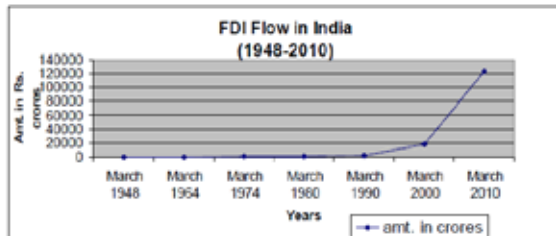
Source: Kumar¹⁹ 1995, various issues of SIA Publication.

Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. The foreign equity cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector. There is a considerable decrease in the tariff rates on various importable goods.

Table –1.1 shows FDI inflows in India from 1948 – 2010. FDI inflows during 1991-92 to March 2010 in India increased manifold as compared to during mid 1948 to March 1990 (Chart-1.1).

percentage of FDI inflows is vested with few major countries. Mauritius, USA, UK, Japan, Singapore, Netherlands constitute 66 percent of the entire FDI inflows to India. FDI inflows are welcomed in 63 sectors in 2008 as compared to 16 sectors in 1991.

Chart – 1.1



Source: Kumar 1995, various issues of SLA Publication.

REVIEW OF LITERATURE

Iyare Sunday O, Bhaumik Pradip K, Banik Arindam²⁸ (2004), in their work "Explaining FDI Inflows to India, China and the Caribbean: An Extended Neighborhood Approach" find out that FDI flows are generally believed to be influenced by economic indicators like market size, export intensity, institutions, etc, irrespective of the source and destination countries. The study shows that the neighborhood concepts are widely applicable in different contexts particularly for China and India, and partly in the case of the Caribbean. There are significant common factors in explaining FDI inflows in select regions. While a substantial fraction of FDI inflows may be explained by select economic variables, country – specific factors and the idiosyncratic component account for more of the investment inflows in Europe, China, and India. Andersen P.S and Hainaut P.3 (2004) in their paper "Foreign Direct Investment and Employment in the Industrial Countries" point out that while looking for evidence regarding a possible relationship between foreign direct investment and employment, in particular between outflows and employment in the source countries in response to outflows.

OBJECTIVES OF THE STUDY

The study covers the following objectives:

1. To assess the determinants of FDI inflows in the state.
2. To evaluate the impact of FDI on the Economy of the state.

RESEARCH METHODOLOGY

Data Collection

This study is based on secondary data. The required data have been collected from various search engines available on internet, other relevant data were obtained from the District Industries centers of J&K.

NEED OF THE STUDY

It is apparent from the above discussion that FDI is a predominant and vital factor in influencing the contemporary process of economic development of the state. The study attempts to analyze the important dimensions of FDI in J&K. The study works out the trends and patterns, main determinants and investment flows to J&K. The study also examines the role of FDI on economic growth within the state of J&K. FDI which led to second generation of economic reforms in India in first decade of this century. However there is a considerable change in the attitude of both the developing and developed countries towards FDI. They both consider FDI as the most suitable form of external finance. Increase in competition for FDI inflows particularly among the developing nations. The shift of the power center from the western countries to the Asia sub – continent is yet another reason to take up this study.

FINDINGS

Our state may not require increased FDI because of the structure and composition of its manufacturing, service sectors and her endowments of human capital. The requirements of managerial and organizational skills of the industries here are much lower than that of labor intensive industries such as those in Gujrat, Mumbai etc. India has a large pool of well – Trained engineers and scientists capable of adapting and restructuring imported know – how to suit local factor and product market

condition all of these factors promote effective spillovers of technology and know- how from foreign firms to locally own firms. The optimum level of FDI, which generates substantial spillovers, enhances learning on the job, and contributes to the growth of productivity, which is likely to be much lower in Jammu & Kashmir than in other developing cities including Madhya Pradesh, UP, Bihar, Punjab.

This study reveals that the indigenous private corporate sector is the major source of investments. The state is not only cost – effective but also hot destination for R&D activities. The study also finds out that R&D as a significant determining factor for FDI inflows for most of the industries in state. There is a wide scope of heavy industry's to be introduced within the state through FDI, which has to be channelized in the form of import-export promotion for penetration in the new markets. To sum up, it can be said that large domestic market, cheap labor, human capital, are the main determinants of FDI inflows to India as well as J&K, however, its stringent labor laws, poor quality infrastructure, centralize decision making processes, and a very limited numbers of opportunities which makes J&K an unattractive investment location.

Trends and patterns of FDI flows at Sectoral level of Indian Economy:

1. Infrastructure Sector: Infrastructure sector received 28.6 percent of total FDI inflows from 2000 to 2008. Initially, the inflows were low but there is a sharp rise in FDI inflows from 2005 onwards. Among the subsectors of Infrastructure sector, telecommunications received the highest percentage (8 percent) of FDI inflows. Other major subsectors of infrastructure sectors are construction activities (6.15 percent), real estate (5.78 percent) and power (3.16 percent). FDI inflows in Infrastructure sector during 2000 to 2008 are IDEA, Cellule Ltd., Bhaik Infotel P. Ltd., Dabhol power Company Ltd., and Aircel Ltd.
2. Services sector: In recent years Services sector puts the economy on a proper gliding path by contributing 55 percent to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Services sector received an investment of 19.2 bn from 1991 to 2008. Among the subsectors of services sector, financial services attract 10.2 percent of total FDI inflows followed by banking services (2.22 percent), insurance (1.6 percent) and non- financial services (1.62 percent).
3. Trading sector: Trading sector received 1.67 percent of the total FDI inflows from 1991-2008. The sector shows a trailing pattern upto 2005 but there is an exponential rise in inflows from 2006 onwards. Trading sector received 1130 (1111 numbers of financial collaborations and 20 numbers of technical collaborations) numbers of foreign collaborations during 1991-2008. Major investment in this sector came from Mauritius (24.69 percent), Japan (14.81 percent) and Cayman Island (14.6 percent) respectively during 2000-2008.
4. Consultancy Sector: Consultancy sector received 1.14% of total FDI inflows during 2000 to 2008. Among the subsectors of consultancy sector management services received highest amount of FDI inflows apart from marketing and design and engineering services. Mauritius invest heavily (37%) in the consultancy sector.
5. Education sector: Education sector attracts foreign investors in the present decade and received a whopping 308.28 million of FDI inflows during 2004- 2008. It registered a steep rise in FDI inflows from 2005. Mauritius remains top on the chart of investing countries investing in education sector. Bangalore received highest percentage of 80.14% of FDI inflows in India.
6. Housing and Real Estate Sector: Housing and Real Estate sector received 5.78% of total FDI inflows in India upto 2008. Major investment (61.96%) in this sector came from Mauritius. New Delhi and Mumbai are the two top cities which received highest percentage of (34.7% and 29.8%) FDI inflows. Housing sector shows an exponentially increasing trend after 2005.
7. Construction Activities Sector: Construction Activities sector received US\$ 4.9 bn of the total FDI inflows. Mauritius is the major investment country in India. New Delhi and Mumbai are the most preferred locations for construction activities in India.

Thus by looking at the pattern of the sectoral trend above one can easily make out if metropolitan cities can attract FDI's and thus improves their economic status then the government of our state must do so as to activate the process of FDI within J&K.

CONCLUSIONS

The above review of literature helps in identifying the research issues and gaps for the present study. The foregoing review of empirical litera-

ture confirms/highlights the following facts:

- Institutional infrastructure and development are the main determinants of FDI inflows in every transition economies. Institutional environment (comprising both institutional strategies and policies of organizations relating to these institutions) plays critical role in reducing the transaction costs of both domestic and cross border business activity.
- FDI plays a crucial role in employment generation/ preservation in every economy.
- It is found that bigger diversity of types of FDI lead to more diverse types of spillovers and skill transfers which proves more favorable for the host economy.
- It is also found that apart from market size, exports, infrastructure facilities, institutions, source and destination countries, the concept of neighborhood and extended neighborhood is also gaining importance especially in Europe, China and India.
- The inflows of aggregate FDI to developing countries.
- Studies on role of FDI in emerging economies shows that general institutional framework, effectiveness of public sector administration and the availability of infrastructural facilities enhance FDI inflows to these nations. FDI also enhance the chances of developing internationally competitive business clusters

- It is observed that countries pursuing export – led growth strategies reaps enormous benefits from FDI.
- The main determinants of FDI in developing countries are inflation, infrastructural facilities, debts, burden, exchange rate, FDI spillovers, stable political environment etc.
- It is found that firms in cluster gain significantly from FDI in their region, within industry and across other industries in the region.
- It is also observed that FDI have both short – run and long – run effect on the economy. So, regulatory FDI guidelines must be formulated in order to protect developing economies from the consequences of FDI flows.

SUGGESTION

So from all above it is clear that if the concept of foreign direct investment is introduced within our state, the crises which the economy of J&K is facing will surely come to an end. By introducing FDI through Export oriented investment or Market development investment or Government initiated investment or Acquisition and Merger or by Green field investment by parts can make remarkable change in the states economy, not only this the problem of the unemployment within the state will also get a solution up to a wider extent.

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