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Foreign Direct Investment (FDI) in India

KEYWORDS FDI, Liberalisation

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ABSTRACT *The process of economic reforms initiated in 1991 seems irreversible. FDI in India is increasing but not at the expected rate. Even today FDI investors perceive a high degree of uncertainty in India. This includes political and administrative uncertainty, legal delays and bureaucratic delays. These loopholes need to be removed. Govt is slowly and surely withdrawing as a controller and allowing private competition and market forces to guide investment decisions. Simplification and modernisation of laws, rules and regulations, eliminations of controls and bans, introduction of modern and professional regulatory systems and other policy reforms will result in greater flow of domestic investment and FDI*

I-Introduction:

The globalisation of financial markets means gains for private capital, which can now flow around the world in search of the highest returns. Foreign investment is coming to developing countries to exploit their and locational advantages in surviving and prospering in the global market in the age of hyper competition. The key attractions for capital holders are good infrastructure, reliable and skilled workforce, guarantees of their right to repatriate both income and capital, social and political stability, a tradition of prudent fiscal management and deep link with global market.

India has started the game of attracting capital in recent years. Countries of the world particularly developing economies are competing with each other to attract foreign capital as it has many advantages. Foreign capital investment provides: a supplement to domestic savings, access to the latest technology and management techniques, the possibility of improving asset utilisation through better knowledge and skills, stimulate domestic competition resulting in cost and quality improvement, access to international markets, inflow of foreign currency to redress the trade deficit and ensures productivity and profitability. India needs FDI not just to support infrastructure, but even more urgently to become part of the global network of production. Realizing the importance of FDI in economic development the study was planned with the following objectives.

1- To find out the sectors attracting highest FDI inflows in India
2- To know the sources of FDI in India.
3- To know the reasons for low FDI in India

The paper was prepared collecting information from secondary data. Various books, journals, research reports of individual researchers and govt. have been referred. The study analyses briefly the various aspects of FDI in India identifying various areas for further research studies in future course of time.

II- Sectors Attracting Highest FDI Inflows in India:

Since the inception of planning in 1951 till 1980 India followed a preventive policy regime in regard to foreign investment. Since 1991, the govt introduced liberalisation and economic reforms programme with a view to achieve rapid and substantial economic growth.

Table-1: Share of Top Five Sectors Attracting Highest FDI Inflows in India (April 2000 to February 2008)

Sr. No.	Sector	FDI Inflows (US$ Million)
1	Services Sector	11,934 (22.42)
2	Computer Software and Hardware	7,241 (14.03)
3	Telecommunications	3,778 (7.23)
4	Construction Activities	2,947 (5.49)
5	Housing and Real Estate	2,324 (4.21)

Source: Bhasin (2008)

In terms of the industries attracting FDI, the most important sectors are services sector, electrical equipments, construction, telecom and real estate. These five sectors account for more than 50 percent of FDI inflows. Since 1991 India's demand for infrastructure services is not met as investment is long-term and amount of investment required is very high. Whereas consumer durable sector has quick yielding and withdrawal is easy.

III-Sources of FDI in India:

Table-2: Sources of FDI in India (1979-2005)

Country	(FDI in %)
Mauritius	35.2
USA	16.45
Japan	6.85
Netherlands	6.35
UK	6.3
Germany	4.45
Singapore	3.07
Switzerland	2.05
NRIs	1.34
Canada	0.35
Australia	0.5
Others	17.09
Total	100

Source: Siddharthan (2010)

The share of India in FDI flows is meagre. In spite of the fact that India is a strategic location with access to a vast domestic and South Asian market, its share in world's total flow of direct investment to developing countries in 2004 was US$ 5.34 billion out of US$233.23 billion. China re-

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mains on top as an FDI destination attracting more than half of the total FDI flows to developing Asian economies. Table shows that Mauritius was the largest investor in India during the entire period. One of the important reasons for the dominance of Mauritius is the double taxation treaty between the two countries which favours routing investment through this country. The effects of reforms on trade and investment relations with the USA in recent times have been profound. Now USA is the largest investor and also largest trading partner.

IV-Reasons for Low FDI in India:

1-Image and Attitude: Though the 1991 economic reforms welcomed foreign capital, it does not seem so far to be really evident in our overall attitude. Besides, the "Made in India" label is not conceived by the world as synonymous with quality. Our promotional effort is quite often of a general nature and not corporate specific. MNCs do not understand the diversity and the multi-plural nature of the Indian society and the different stakeholders in this country. On the other hand China is viewed as more business oriented with faster decision-making and FDI friendly policies.

2-Policy Framework: Most of the problems for investors arise because of domestic policy its rules and procedures and not the FDI policy. India has one of the most transparent and liberal FDI regimes among the emerging and developing economies. The differential treatment is limited to a very few areas. The entry rules are clear and well defined. But the domestic policy framework affects all investment, whether the investor is Indian or foreigner. These hurdles for FDI are laws, regulatory system and govt. monopolies. The outdated Food Price Order (FPO) and Prevention of Food Adulteration Act is major hurdle for FDI in food processing. The Essential Commodities Act adds to the difficult by making the procurement, storage and transport of agricultural product subject to many vagaries. Similarly labour laws discourage the entry of green field FDI because of the fear that it would not be possible to downsize if and when there is a downturn in the business. The Urban Land Ceiling Acts and Rent Control Acts in states are serious constraints on the entire real estate sector. All these have adverse impact on FDI investors.

3-Procedures: according to Boston Consulting Group, investors find it frustrating to navigate through the tangles of bureaucratic controls and procedures leading to loss of investors' confidence despite promises of considerable market.

4-Quality of Infrastructure: Poor infrastructure affects the productivity of the economy as a whole. It reduces the comparative advantage of industries that are more intensive in the use of such infrastructure. Poor infrastructure has a greater effect on export production than on production for the domestic market. Inadequate and poor quality roads, railroads, and ports raise export costs of global competitors.

5-State Obstacles: taxes levied on transportation of goods from state to state like octroi and entry tax adversely affect the economic environment of export production. At the local level issues like land acquisition, land use change, power connection, building plan approval are sources of delay in project implementation.

6-Legal Delay: Though India's legal system is considered by many legal experts to be superior to other emerging economies it is often found in practice to be an obstacle to investment.

V-Conclusion:

The process of economic reforms initiated in 1991 seems irreversible. FDI in India is increasing but not at the expected rate. Even today FDI investors perceive a high degree of uncertainty in India. This includes political and administrative uncertainty, legal delays and bureaucratic delays. These loopholes need to be removed. Govt is slowly and surely withdrawing as a controller and allowing private competition and market forces to guide investment decisions. Simplification and modernisation of laws, rules and regulations, eliminations of controls and bans, introduction of modern and professional regulatory systems and other policy reforms will result in greater flow of domestic investment and FDI.

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