Research Paper

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Foreign Direct Investment

Finance

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ABSTRACT

FDI has a powerful impact not only upon the economy of the investor country, but also upon economic and social welfare of the host country. The role of FDI has increased considerably in recent years. In fact, FDI has become an important source of external finance for the developing countries as it not only fulfills the ever-increasing requirements of various sectors of the economy but also promotes growth, even more through spillovers of technology, improved innovative capacity, and gives them effective marketing links in highly competitive world markets. Thus, FDI has become an important mechanism for global economic integration. This paper focuses on top 5 investing countries in FDI equity inflows in India and top 5 sectors attracting FDI in India.

Introduction

The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective establishing a lasting interest in the investee economy FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country. Since the introduction of economic reforms programme in 1991, the investment scenario in India has been buoyant and moving upwards. The capital market has become very active and FIIs, foreign investment banks and asset management companies have shown increasing interest in investing in India.

The role of Foreign Direct Investment (FDI) in the upgradation of technology, skills and managerial capabilities is now well accepted. Additional investments, over and above the investments possible with the available domestic resources, help in providing much needed employment opportunities. Foreign Direct Investment continues to gain in importance as a form of international economic transaction and as an instrument of international economic integration. Since the launch of the economic reforms in 1991, India has been among the fastest growing countries in the World with the active participation of FDI in the economy. FDI has been seen as imperative to growing Indian economy and plays an importance role for Indian economy.

Foreign Direct Investment Policy

India's foreign investment policy has been formulated with a view to inviting and encouraging FDI into India. The process of regulation and approval has been substantially liberalised. FDI under automatic route is permitted in most activities/sectors, except a few where prior approval of the Government is required. Government of India welcomes FDI in all sectors where it is permitted, especially for development of infrastructure, technological upgradation of Indian industry through 'greenfield' investments and in projects having the potential of creating employment opportunities on a large scale. Investment for setting up Special Economic Zones (SEZs) and establishing manufacturing units are also welcomed.

Objectives of the Study

1. To know the importance of FDI in Indian Industries.
2. To know entry routes available for FDI in India.
3. To know FDI law practice in India
4. To know top 5 investing countries and top 5 sectors attracting FDI.

Statement of the Problem

FDI can be defined as a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company. Now, during the course of time, FDI has become a vital part in every country more particularly with the developing countries. This is because of the following reasons:

- Availability of cheap labour.
- Uninterrupted availability of raw material.
- Less production cost compared with other developed countries.
- Quick and easy market penetration.

Foreign Direct Investment (FDI) is permitted as under the following forms of investments

- Through financial collaborations.
- Through joint ventures and technical collaborations.
- Through capital markets via Euro issues.
- Through private placements or preferential allotments.

Forbidden Territories

FDI is strictly prohibited by the Indian Government in the following industrial sectors:

- Arms and ammunition.
- Atomic Energy.
- Railway Transport.
- Coal and lignite.
- Mining of iron, manganese, chrome, gypsum, sulphur, gold,
- diamonds, copper, zinc.

Foreign Investment through Global Depository Receipts

Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDR) with the help of Euro Issues. GDR investments are treated as FDI and are designated in dollars and are not subject to any ceilings on investment. An applicant company seeking Government's approval in this regard should have consistent track record for good performance (financial or otherwise) for a minimum period of 3 years. This condition would be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.

1. Clearance from Foreign Investment Promotion Board

A company engaged in the manufacture of items covered under Annex-III of the New Industrial Policy whose direct foreign investment after a proposed Euro issue is likely to exceed 51% or which is implementing a project not contained in Annex-III, would need to obtain prior FIPB clearance before seeking final approval from Ministry of Finance. But there is no restriction on the number of Euro-issue to be floated by a company or a group of companies in the financial year.

2. Use of Global Depository Receipts

The proceeds of the GDRs can be used for financing capital goods imports, capital expenditure including domestic purchase/installation of plant, equipment and building and investment in software development, prepayment or scheduled repayment of earlier external borrowings, and equity investment in JV/WOSs in India.

3. Restrictions

Any investment from a foreign firm into India requires the prior approval of the Government of India. Investment in stock markets and real estate will not be permitted. Companies may retain the proceeds abroad or may remit funds into India in anticipation of the use of funds for approved end uses.

Foreign direct investments in India are approved through two routes

1. Automatic approval by Reserve Bank of India

Investments in high-priority industries or for trading companies primarily engaged in exporting are given almost automatic approval by the Reserve Bank of India (RBI). The RBI accords automatic approval within a period of two weeks (subject to compliance of norms) to all proposals and permits foreign equity up to 24%; 50%; 51%; 74% and 100% is allowed depending on the category of industries and the sectoral caps applicable. The lists are comprehensive and cover most industries of interest to foreign companies.

2. The FIPB Route – Processing of non-automatic approval cases

Foreign Investment Promotion Board (FIPB) which approves all other cases where the parameters of automatic approval are not met. Normal processing time is 4 to 6 weeks. Its approach is liberal for all sectors and all types of proposals, and rejections are few. It is not necessary for foreign investors to have a local partner, even when the foreign investor wishes to hold less than the entire equity of the company. The portion of the equity not proposed to be held by the foreign investor can be offered to the public.

FDI Law Practice India

At present, the most lucrative business sectors for FDI in India are, Infrastructure (Power, Steel, Railways, etc.); Telecommunications; Hospitality sector; Education; Retail; Real Estate; Retail sector, Petroleum and Petroleum Products; Biotechnology; Alternative Energy, etc. The foreign direct investment in Indian business sectors can easily be made in a variety of ways, through the Governmental and Automatic Routes. However, the Joint Ventures are the most popular and preferred forms of making investment in Indian industry. Global Jurix can help well-rounded the foreign investors of all class and categories for getting highly lucrative and secure FDI in India, through providing the following legal services reliably and economically:

- Company Formation and Company Law services
- Establishment of Joint ventures
- Corporate and Commercial Law services
- For making all mandatory Compliances
- Drafting all requisite Contracts, Agreements, and other Documents
- Setting up Subsidiaries
- Tax Planning
- Project Finance
- Dispute Resolution
- Private Equity

TABLE-1
SHARE OF TOP 5 INVESTING COUNTRIES---FDI EQUITY INFLOWS IN INDIA

Ranks	Country	2009-10 (April- March)	2010-11 (April- March)	2011-12 (April- March)	Cumulative inflows (April 2000 -Jan 012)	% to total inflows(in terms of US $)
1.	Mauritius	49,633 (10,376)	31,855 (6,987)	41,621 (8,919)	284,381 (63,146)	39%
2.	Singapore	11,295 (2,379)	7,730 (1,705)	20,020 (4,307)	72,896 (16,203)	10%
3.	Japan	5,670 (1,183)	7,063 (1,562)	13,007 (2,754)	56,769 (12,095)	8%
4.	U.S.A	9,230 (1,943)	5,353 (1,170)	4,338 (913)	46,880 (10,362)	6%
5.	U.K	3,094 (657)	3,434 (755)	12,484 (2,750)	41,916 (9,389)	6%

The Table-1 shows the country-wise distribution of FDI equity inflows in India. The study reveals Mauritius (39%), Singapore (10%), Japan (8%), U.S.A (6%) and U.K. (6%).

TABLE-2
TOP 5 SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS IN INDIA

Ranks	Sectors	2009-10 (April- March)	2010-11 (April- March)	2011-12 (April- March)	2012-13 (April- Aug)	Cumulative inflows (April 2000- Aug 2012)	% to total inflows (in terms of US $)
1.	Services Sector	19,945] (4,176)	15,053 (3,296)	24,656 (5,216)	12,480 (2,280)	158,252 (34,633)	19%
2.	Construction Activities	13,469 (2,852)	4,979 (1,103)	15,236 (3,141)	3265 (601)	97028 (21,340)	12%
3.	Telecomm unication	12,270 (2,539)	7,542 (1,665)	9,012 (1,997)	111 (20)	57,188 (12,572)	7%
4.	Computer Software & Hardware	4,127 (872)	3,551 (780)	3,804 (796)	1,032 (188)	51,149 (11,393)	6%
5.	Drugs & Pharma-ceuticals	1,006 (213)	961 (209)	14,605 (3,232)	2,572 (487)	45,440 (9,682)	5%

The Table-2 shows top 5 sectors attracting highest FDI equity inflows in India were service sector at first place with 19%, construction activities with 12%, Telecommunication with 7%, Computer software and hardware with 6% and Drugs and Pharmaceuticals with 5%.

Conclusion

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. India has been ranked at the second place in global foreign direct investments in 2010 and will continue to remain among the top five attractive destinations for international investors during 2010-12 periods. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms. But the current institutional system does not provide a mechanism for aggressive marketing of India as an FDI location. Therefore a favorable business environment is required to attract FDI flow by providing hassle-free government procedures and most importantly, a degree of autonomy and freedom in various decision making process

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