Research Paper Economics

F.d.i. Reforms in India

Jaspreet Kaur | Dept. of Economics Khalsa College, Garhdiwala

ABSTRACT

Foreign direct investment, well known as FDI, is investment done directly in productive, manufacturing or business activities by a company or any financial institution of one country into other country. It provides an inflow of foreign capital and funds into host country it can also provide a source of new technologies, capital, skills, product and help in economic development. Foreign direct investment can be done by a company into another country by expanding the existing business or by buying the company in that country in which direct investment is to be done. FDI can be done by

1) Incorporating a wholly owned subsidiary or company anywhere.
2) Acquiring shares in an associated enterprise,.
3) Through a merger.
4) Participating in joint venture.

Foreign direct investment plays important role in economic development of a country. Therefore all developing countries seek FDI not only as a supplement to domestic investment but as a source of foreign exchange and to ease pressure on balance of payment. Considering the economic benefits of FDI, India has adopted a set of economic reforms since early 1990's. This paper throws light on those FDI reforms which were introduced time to time to enhance FDI.

KEYWORDS

Economic growth in any country depends upon the sustained growth of productive capacity, supported by savings and investment. FDI, which brings new technology and knowledge along with capital, is considered as a good substitute for debt in developing countries for higher level of investment and growth. FDI is an addition to the host country's capital stock, which is beneficial in production. When there is increase in capital stock, productive capacity also increases along with growth. Foreign investment may lead to increasing return to production. By increasing productivity through many ways such as imitation, competition, linkage, technology transfers and training. Therefore FDI has substantial and sustainable growth impact on the host country. Growth also takes place due to linkage effect. There may arise new opportunities for local firms to increase productivity and profitability through the provision of machinery, technology training, managerial skills and finance. It also creates demand for new inputs (backward linkage), increasing the marginal productivity of an investment in those inputs. In addition, demand for local inputs such as labour and suppliers create local demand of domestically produced goods and services. This also increases domestic investment.

FDI is also helpful in easing the access to foreign market including local enterprises in production chain. It is helpful in improving the host country's export, competitiveness and volume of export.

FDI reforms In 1990's :

After independence till 1990's policies related to FDI were without any consistent direction. NEP in 1990's aimed at creating a conducive environment for foreign investors. Economic reforms undertaken since 1991 have influenced both India's industrial policy and its external relations. These reforms of 1991 were big twist in policy approach which was changed to attract FDI to modernize India's industrial base and to improve export competitiveness.

In the past, during the period of reforms, a number of controls were dismissed in area of industrial policy e.g. de-licensing, removal of MRTP constraints, and opening areas for private sector which were earlier reserved for public sector. Import quotas were removed (fully in 2001), foreign investment was liberalized and restrictions on financial transactions were eased, FERA was removed. Further FDI policy is now reviewed regularly and changes are also made time to time. FDI can enter in most of the sectors under automatic approval route except for few sectors. These restrictions have to be imposed due to some security reasons and for encouraging domestic investment. Main FDI reforms are listed below:

1. Industrial licencing has been abolished and many sectors were opened for private sector and foreign participation also.
2. Conditions related to technology were also removed such as restrictions on direct investment in low technology areas. There is provision for automatic permission for high technology agreements.
3. Reserve Bank of India (RBI) has introduced an automatic approval process for 100 percent foreign investment in priority sectors.
4. FERA (Foreign exchange Regulation Act) was replaced with much liberal Act FEMA (Foreign Exchange management Act) in 1999.
5. There is removal of high local content requirement and export obligation conditions except for 22 consumer goods. Conditions on 22 consumer goods were subsequently withdrawn in 2000.
6. Major institutions are set up such as foreign investment promotion Board (FIPB), Foreign Investment implementation Authority (FIIA) and Secretariat for Industrial Assistance (SIA) to promote and help inflow of capital/FDI.
7. Privatization of Public Sector was done.
8. Many bilateral investment and double tax avoidance agreements were signed to help foreign investors. These types of agreements are signed with nearly 69 countries.
9. Tax concessions and subsidies were also offered by Center and State Governments to attract foreign investors.
10. Institutions are also established to help FDI project at State Level also.

Recent FDI Reforms :-

In past few years many steps have been taken by Govt. to increase direct investment in many sectors.

1. 100 percent foreign direct investments is allowed in single brand retail trading and up to 51 percent FDI in mul-

ti-brand retail trading.
2. Foreign airlines are allowed up to 49 percent direct investment in Indian companies.
3. FDI increased from 49 percent to 74 percent in some broadcasting sectors.
4. FDI in power exchange registered under electricity regulatory commission regulation 2010 is allowed 49 percent.
5. In insurance sector FDI Cap is raised from 26 percent to 49 percent.
6. In Tele-Communication sector, FDI is 100 percent by FIPB (Foreign Investment Promotion Board Approval).
7. In several sectors such as petroleum and natural gas, power exchanges, stock-exchanges etc. foreign investment up to 49 percent may be made under automatic route, which does not require approval from RBI or Govt. of India.
8. India's Cabinet has cleared a proposal which allows 100 percent FDI in railway infrastructure excluding operations. Though the initiative does not allow foreign firms to operate trains. It allows them to do other things such as creating the network and supply of bullet trains etc.
9. India also raise cap on foreign investment in insurance sector to 49% from 26%.
10. The Govt. has notified easier FDI rules for construction sector, where 100% FDI is permitted. It also allow overseas investors to exit a project even before its completion. 100 percent FDI will permitted under automatic route in completed projects for operating and management of township, malls and business centres.

There reforms of FDI policy since 1991 has resulted in remarkable increase in foreign capital inflows to India, Foreign direct investment was less than one billion US$ in 1990-91, now reaches 3,23,912 million US$ during April 2000 to March 2014. Total FDI inflows into India during financial year 2013-14 were 36, 396 million US$. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps in establishing new companies.

All of these contribute to growth of Indian Economy. FDI has helped to raise the output, productivity and employment in some sectors. Service sector in India is generating the employment options for skilled workers. On the other hand banking and insurance sector have been providing the strength to India economy. So all these FDI reforms are helpful in increasing the investment and growth of Indian economy. So all these are very important steps, taken in right direction.

REFERENCES

1. S.K. Das, "FDI and India's Economic Growth", World focus, October 2012. | 2. Provaka Sahoo, "FDI In India, Steps in Right direction", Yojana, December 2013. | 3. Vinay and Kalpana, "FDI inflows in India ; A cursary look, The economic challenger, September 2013. | 4. Kisholoy Roy, "FDI in Retail : Dissecting the reality", Economic challenger, March 2013. | 5. www.icsi.edu | 6. www.cc.iift.ac.in | 7. www.ripublication.com | 8. dipp.nic.in