



Foreign Direct Investment & Indian Economy Issues & Challenges

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ABSTRACT

Worldwide Non Resident Indians Business Tycoons are investing more & more FDI in India, Government requires to take strong foreign policy action & LUCRATIVE INCENTIVES CRISIL - Principle Economist panel suggests to Ministry of foreign affairs.

To attract more FDI Dept. of Industrial Policy & Promotion is taking steps like Permitting issuance of equity to overseas firms against imported capital goods & Machinery by taking strong policy actions.

According to Experts Government should further streamline FDI policies & make environment more investment friendly compared to other Asian countries to Attract more FDI making strong financially richer INDIA.

Sectors that attract FDI includes services of Financial & Non financial, services like Telecommunication, Housing, Real estate Construction activities, Power for 24hours etc. generating more output .

Keywords : FDI, India, Economy

India is moving on jet speed towards its Economic development. Crucial changes have occurred in today's economy which has changed business relationships between suppliers, clients & business firms in India & collaboration/merger from conglomerates of abroad.

One of the most notable features of Economic Globalization features of Economic Globalization for Indian Economy & Foreign Direct Investment (FDI) Importance Of FDI around the world increased viewing an engine of Economic growth & Development in various Industrial Agricultural, Tourism, Banking Industries & other business tycoon look upon it as PANACEA (Universal remedy) for all ills.

It's very important weighing costs & benefits of FDI has positive impact on country's economic development providing challenges competition world market. FDI has potential to generate New employment, Increasing productivity, Enhancing competitiveness with quality output in domestic industry / economy through transfer of technological & Administration skills, strengthening existing Infrastructure, improving export business earning valuable foreign exchange (FX) Contributing long term Economic development of world's developing countries like INDIA.

All countries have various levels of foreign relations development vide business & Export & import commodities like India is famous for Alphanso mangoes & Pakistan for Basmati Rice, for developing bilateral relations both countries should develop interests in people. All countries have various levels of developments seeking LEVERAGE FDI for future progress/ development of respective industries.

We in INDIA see FDI as quick development tool with proven financial assistance In various sectors, industries etc. Linearization policies of Indian Finance Minister Led to rapid growth in cash-in flows of FDI in recent

years based on benefits Associated with FDI developing countries. Compete fiercely (violently aggressive, eager for earning FX) valuable FDI. Governments of all states in India invites Foreign investors by providing financial & fiscal incentives, undertaking Corporate Restructuring & economic reforms inviting investors in private industries too Specially running in free trade zones of all states. In literature, there exists an agreed framework definition of foreign direct investment- it's an investment made to acquire lasting management interest (normally 10 to 20% voting stock) in Business Enterprises operating in a country Other than of Investor defined according to residency.

IMF- International Monetary Fund FDI is category of International investment That reflects objective of obtaining lasting interest by resident entity in country's Economy, in an enterprise resident in another economy. There is spread out from Central point in definitions of FDI as stated by IMF & used by RBI .

According to Balance of Payments manual of IMF FDI includes equity capital, reinvested earning of foreign companies, inter company debt transactions, short Terms & long term loans, financial leasing, trade credits, grants, bonds, Non cash Acquisitions of equity , Investment made by foreign venture capital investors.

The Concept of FDI includes following organizational bodies:

1. SUBSIDIARIES: In which Non resident Investor owns more than 50%.
2. ASSOCIATES: In which Non resident Investor owns between 10% & 50%
3. BRANCHES: Unincorporated enterprises wholly or jointly owned by Non-Resident investor.

The Foreign Exchange Management Act notifications issued by Ministry of Industry in association with RBI- Reserve Bank of India controls FDI in India. FDI is permitted through financial collaborations , joint ventures , Technical collaborations , Capital Markets

via Euro issues, & through private placements or preferential allotments. FDI for virtually all items/ activities can be brought in through automatic route. Under powers delegated to RBI & for remaining items through specific Government Approval accorded on recommendations of Foreign Investment Promotion Board (FIPB).

1. NEW VENTURES: All foreign investments except the following fall under automatic ROUTE.

2. PROPOSALS requiring Industrial license including:

i. Items requiring an Industrial license under Industries Development & Regulations Act

ii. Foreign Investment being more than 24% in equity capital of units manufacturing items reserved for small sector, items requiring an Industrial license under Location policy notified by government.

iii. Proposals relating to acquisition of shares in an existing Indian partner for take over another company.

Approval can also be granted for existing companies proposing to induct foreign equity for expansion, for which additional requirements are:

i. Increase in equity level must result from the expansion of equity base of existing firm.

ii. Foreign exchange money to be remitted should be in foreign currency &

iii. Propose expansion programmed should be predominantly in sector/s under automatic route or require FIPB approval. And require board resolution of existing Indian company as well as consent letter from Indian partner. & foreign Collaborator must support proposal.

FDI In India

Foreign Investors interest in India's economy is more recent development thanks to Governments liberal policy innovated by Prime minister Rajiv Gandhi & brought Technocrat Sam Pitroda in Telecommunication Industry long back and future vision of foreign educated prime minister brought Indian People from Black & white television to colour & recently High definition Digital TVs.

Other Asian country like China has concentrated on Capital Intensive manufacturing & logistics. FDI flows in to India are mostly in IT & communication centers by sizable FDI cash in flows. Despite India's successful positioning as Business processing & IT outsourcing Hub, these activities often translate into Indian services exports via 3rd party transactions not FDI.

Despite attention to services outsourcing, two of sectors received large amounts Cash in Flow as FDI were Automobile manufacturing & Mining. FDI in to India will grow but remain Low in relation to size & potential of its economy. However few world's leading MNC's are taking active interest in India like Microsoft's Bill Gates, Cisco, AMD backed chip fabrication have proposed large multi years investments. India's poor infrastructure Road Net work, Sea & Air ports, Distribution Net works & particular power supply in Agriculture based country. Are major causes for concern & major barrier to investment. Most of services doubted in survey about rapid changes could be made solving infrastructure issues. Scope for improvements limited by State finance department. Combined deficit of Federal & State government are running around 10% of GDP.

FDI inflows in India grew strongly to US \$ 17.5 billion in 2006, two & half times US \$ 6.7 Billion in 2005 due to increased Merger & Acquisition activities, booming property. Market & increased ability of some investors to find ways. Political resistance to privatization, Inflexible labour laws & poor infrastructure will also restrict FDI cash in flows.

Determining Factor

India's skilled, English speaking educated skilled manpower/ work force has been a significant attraction of

FDI. Specially in IT sector, Caps on FDI in protected industries have been steadily lifted. In Oil industry Foreign Investment in Oil production & oil refining were abolished & in private banking limits were raised. Limit for some telecommunication industry like ISP- (Internet service providers) also raised. All basic Mobiles & value added telecom services moved up. However fuller liberalization of retail sector has been held up political opposition & some Sectors ie Agriculture remain off-limits to foreign investment. Approval process gradually simplified by Government and expanding various industries like tourism again earning FX. (Foreign Exchange)

Impact & Potential :

FDI has greatest impact on India's software industry & on IT enabled services. Call centers

& other forms of back office administration have started with important industries. Pharmaceuticals, telecoms & power sectors have also been influenced significantly by FDI.

India's potential (Capable of coming in Action, Usable Resources) to attract increased FDI Cash-inflows are vast although poor infrastructure, excessive bureaucracy & inter departmental wrangling (noisy argument/ dispute) will slow pace of opening in many sectors.

Energy, Telecom, IT's infrastructure along with insurance sectors are likely to be main magnets for FDI. Producers & assemblers of 4 wheelers/ cars & automotive components are also reevaluating India's potential, in Biotechnology firms. Establishment of special Economic zones in which 100% foreign ownership is allowed, in order to promote exports should attract increased FDI cash in flows in to export oriented units in free trade zones & else Where in country

Difficult Task/Challenges Ahead :

Despite of commendable progress, there is pressing requirement for continuing to work towards providing more attractive policy environment to attract FDI. India claims to have one of the most transparent & liberal FDI regimes best among developing countries, there still exist Over abundance (plethora) of rules, regulations & interpretations which requires to be corrected. United Nations Conference on Trade & Development (UNCTAD) confidence Index placed India on 82nd rank in terms of FDI potentiality & 112th rank in terms of performance. It can be interfered that despite of potentiality, performance is not satisfactory & challenges are still ahead of India. Approval procedure of FDI in India is time consuming compared to other asian countries. The biggest barrier at first is screening stage, because we don't get across effectively to decision making in "BOARD OF DIGNITORIES ROOM" level of corporate entities where a final decision is taken.

One of the most prominent hurdles in attracting FDI cash in flows to India is its stringent labor laws which discourages entry of Greenfield FDI because of fear that company concerned would not be possible to downsize labor strength. More over high rate of tariff barriers, Excessive Red carpet attitude & bureaucracy with barriers of perception pose challenge in realizing FDI inflows in India. Transport, Road, Power & Water- Basic availability continue to remain cause of concern for foreign investors.

Comparison Of FDI Inflows Of Financial Year 2009 & 2009-10.

Table-1 FDI Equity Inflows during Financial Year 2009-10.

Financial Year 2009-10 (April-March)	Amount Of FDI Inflows	
	(In Rs. Crore)	(In US \$ Million)
April 2009	11,708	2,339
May 2009	10,168	2,095
June 2009	12,335	2,582
July 2009	17,045	3,516
August 2009	15,796	3,268
September 2009	7,326	1,512
October 2009	10,895	2,332
200 9-10 (Up to October 2009)	85,273	17,644
200 8-09 (Up to October 2008)	80,395	18,708
% A Average growth over last year	(+106%	(-106 %

Note: Figures are provisional, subject to reconciliation with RBI, Mumbai.

Table-2 FDI Equity Inflows during calendar year 2009

	Amount of FDI Inflows	
	(In Rs. Crores)	(In US \$ million)
January 2009	13,346	2,733
2. February 2009	7,329	1,488
3 March - 2009	10,023	1,956
4. April - 2009	11,708	2,339
5 May - 2009	10,168	2,095
6 June - 2009	12,335	2,582
7. July- 2009	17,045	3,516
8 August- 2009	15,796	3,268
9 September 2009	7,326	1,512
10 October 2009	10,895	2,332
Year 2009 (Up to October 2009)	115,971	23,821
Year 2008 (Up to September 2008)	127,815	30,589
% age growth over last year	(-) 09 %	(-) 22 %

Note: Figures are provisional, subject to reconciliation with RBI, Mumbai.

Conclusion

Removing its long held restrictive Foreign investment policy, India sought to compete with successful Asian economies to get greater share of world's FDI. Ongoing initiatives such as further simplification of rules, improvement in Infrastructure are expected to provide necessary impetus to increase FDI in flows In future FDI Cash in flows depends on domestic economic conditions, world economic trends & strategies of Global investors. Government on its part, is fully committed to create strong economic fundamentals & an increasingly proactive FDI policy regime.

Arious Government & Non government/ private organizations report revealed India's potentiality as FDI destination, but performance is still poor. Prospects are Bright if some basic constraints (restriction/ self control) would overcome Although FDI is increasing, regional distribution of same is found more inequitable. To ensure more equitable regional distribution of such flows both central & state government Should take concerted strategy for improvement in infrastructure facilities & creation of sound economic & political environment..

Moreover state governments have to take attractive investment policy in line of Gujarat, Maharashtra & Karnataka to invest in less funds attracting states or regions. Political willingness seems major step Development of Infrastructure especially power & transport net work is an urgent need of time, since it is basic for Industrialization.. Bureaucratic hassles, corruption and long time consuming process should be reduced to attract more FDI inflows. After all more transparent invest system will benefit & secure future prospect of FDI inflow in bright moving towards Super power in 21st century is MERA BHARAT MAHAN- GREAT INDIA.

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