ORIGINAL RESEARCH PAPER

Commerce

FDI IN INDIA: AN ANALYTICAL STUDY

KEY WORDS:

Dr. Sanjeev Kumar

Asst. Prof. C. R College, Kishanpur, Samastipur, Bihar.

- **INTRODUCTION**

FDI plays a very important role in the development of the nation. Sometimes domestically available capital is inadequate for the purpose of overall development of the country. Foreign capital is seen as a way of filling in gaps between domestic savings and investment. India can attract much larger foreign investments than it has done in the past.

FDI is a type of investment in to an enterprises in a country by another enterprises located in another country by buying a company in the target country or by expanding operations of an existing business in that country. In the era of globalization FDI takes vital part in the development of both developing and developed countries.

FDI has been associated with improved economic growth and development in the host countries which has led to the emergence of global competition to attract FDI.

FDI plays a significant role in development of economy of India. Need of FDI depends on saving and investment rate in any country. Foreign Direct investment acts as a bridge to fulfill the gap between investment and saving. In the process of economic development foreign capital helps to cover the domestic saving constraint and provide access to the superior technology that promote efficiency and productivity of the existing production capacity and generate new production opportunity.

India's recorded GDP growth throughout the last decade has lifted millions out of poverty & made the country a favoured destination for foreign direct investment.

- **FDI inflow routes:** Indian company receive Foreign Direct Investment under the two routes as given under:

1. **Automatic Route:** FDI in sectors /activities to the extent permitted under the automatic route does not require any prior approval either of the Government or the Reserve Bank of India.
2. **Government Route:** FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, and Ministry of Finance.

- **FDI IN INDIA**

There has been a sea change in India's approach to foreign investment from the early 1990s when it began structural economic reforms about almost all the sectors of the economy.

a) Pre-Liberalisation Period:

Historically, India had followed an extremely careful and selective approach while formulating FDI policy in view of the governance of „import-substitution strategy of industrialisation. The regulatory framework was consolidated through the enactment of Foreign Exchange Regulation Act (FERA), 1973 wherein foreign equity holding in a joint venture was allowed only up to 40 per cent. Subsequently, various exemptions were extended to foreign companies engaged in export oriented businesses and high technology and high priority areas including allowing equity holdings of over 40 per cent. Moreover, drawing from successes of other country experiences in Asia, Government not only established special economic zones (SEZs) but also designed liberal policy and provided incentives for promoting FDI in these zones with a view to promote exports.

The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) provided for a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterised by de-licensing of some of the industrial rules and promotion of Indian manufacturing exports as well as emphasising on modernisation of industries through liberalised imports of capital goods and technology. This was supported by trade liberalisation measures in the form of tariff reduction and shifting of large number of items from import licensing to Open General Licensing (OGL).

b) Post-Liberalisation Period:

A major shift occurred when India embarked upon economic liberalisation and reforms program in 1991 aiming to raise its growth potential and integrating with the world economy. Industrial policy reforms slowly but surely removed restrictions on investment projects and business expansion on the one hand and allowed increased access to foreign technology and funding on the other. A series of measures that were directed towards liberalizing foreign investment are:

1) Introduction of dual route of approval of FDI–RBI s automatic route and Government's approval (SIA/FIPB) route.
2) Automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas as well as liberalisation of technology imports.
3) Permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100 per cent in high priorities sectors.
4) Hike in the foreign equity participation limits to 51 per cent for existing companies and liberalisation of the use of foreign "brands name".
5) Signing the Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign Investments.

These efforts were boosted by the enactment of Foreign Exchange Management Act (FEMA), 1999 [that replaced the Foreign Exchange Regulation Act (FERA), 1973] which was less stringent. In 1997, Indian Government allowed 100% FDI in cash and carry wholesale and FDI in single brand retailing was allowed 51% in June, 2006. After a long debate, further amendment was made in December, 2012 which led FDI to 100% in single brand retailing and 51% in multiple brand retailing.

- **CURRENT STATUS OF FDI IN INDIA**

As of June 2015, the Government of India allowed FDI in single and multi brand retailing along with the following conditions:-

1) Up to 100% FDI in single brand retail trading.

- By only one non-resident entity whether owner or the brand or otherwise.

- 30% domestic sourcing requirement eased to preferable sourcing rather than compulsory.
- Further clarification on FDI companies that cannot engage in B2C e-commerce.
- Products to be sold should be of a "single brand". Product should be sold under the same brand internationally.
- "Single brand" product retailing would cover only products, which are branded during manufacturing.

2) Up to 51% FDI in multi brand retail trading.

- At least 100 million US$ must be invested into Indian company.
- At least 50% of the total FDI is to be invested in back end infrastructure within 3 years.
- At least 30% of the value of procurement of processed product shall be sourced from Indian small industry.
- Fresh agriculture produce is permitted to be sold unbranded.
- Indian states have been given the discretion to accept of refuse the implementation of FDI.
- Retail outlets can be set up in cities having population of at least 1 million.
- Application needs to be approved by two levels at Department of Industrial Policy and Promotion and Foreign Investment Promotion Board.

FDI plays a major role in the dynamic growth of the service sector. The service sector in India has tremendous growth potential and as a result it attracts huge FDI.

The Computer Software and Hardware enjoy the permission of 100% FDI under automatic route.

The limit of FDI in Telecom sector was increased from 49% to 74%. FDI up to 49% is permissible under automatic route but FDI in the licensee company/Indian promoters including their holding companies shall require approval of FIPB.

- **PROBLEMS FOR FDI FLOW TO INDIA**

India seems to be suffering from a host of self-imposed restrictions and problems regarding opening its markets completely too global investors by implementing full scale economic reforms. Some of the major impediments for India's poor performance in the area of FDI are: political instability, poor infrastructure, confusing tax and tariff policies, Draconian labour laws, well entrenched corruption and governmental regulations.

- **Infrastructure**

It is cited as a major hurdle for FDI inflows into India. This bottleneck in the form of poor infrastructure discourages foreign investors in investing in India. India's age old and biggest infrastructure problem is the supply of electricity. Power cuts are considered as a common problem and many industries are forced to close their business.

- **Labor laws**

Large firms in India are not allowed to retrench or layoff any workers, or close down the unit without the permission of the state government. These laws protect the workers and thwart legitimate attempts to restructure business. To retrench unnecessary workers, firms require approval from both employees and state governments-approval that is rarely given. Further, Trade Unions extort huge sums from companies through over-generous voluntary retirement schemes.

- **So Much Corruption**

Corruption is found in nearly every public service, from defense to distribution of subsidized food to the poor people, to the generation and transmission of electric power. The combination of legal hurdles, lack of institutional reforms, bureaucratic decision-making and the allegations of corruption at the top have turned foreign investors away from India.

- **Lack of decision making**

The reform process of liberalizing the economy is concentrated mainly in the Centre and the State Governments are not given much power. In most key infrastructure areas, the central government remains in control. Brazil, China, and Russia are examples where regional governments take the lead in pushing reforms and prompting further actions by the central government.

- **Limited export processing zones**

India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale; the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones. India which established its first Export Processing Zone (EPZ) in 1965 has failed to develop the zones when compared to China which took initiative for establishment only in 1980.

- **High corporate tax**

Corporate tax rates in East Asia are generally in the range of 15 to 30 percent, compared with a rate of 48 percent for foreign companies in India. High corporate tax rate is definitely a major disincentive to foreign corporate investment in India.

- **Political instability**

There were too many anomalies on the government side during past two decades and they are still affecting the direct inflow of FDI in India such as mismanagement and oppression by the different company, which affect the image of the country and also deject the prospective investor, who is very much conscious about safety and constant return on their investment.

- **CONCLUSION**

As India is a developing country, capital has been one of the scare resources that are usually required for economic development. Capital is limited and there are many issues such as Health, poverty, employment, education, research and development, technology obsolesce, global competition.

The flow of FDI in India from across the world will help in acquiring the funds at cheaper cost, better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms. The following arguments are advanced in favour of foreign capital.

As all the under-developed and the developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level to investment substantially. Due to poverty and low GDP the saving are low. Therefore there is a need to fill the gap between income and savings through foreign direct investments.

In Indian scenario we need technical assistance from foreign source for provision if expert services, training of Indian personnel and educational, research and training institutions in the industry. It only comes through private foreign investment or foreign collaborations.

In India we have abundant natural resources such as coal, iron and steel but to extract the resources we require foreign collaboration.

In developing countries as capital is a scare resource, the risk of investments in new ventures or projects for industrialization is high. Therefore foreign capital helps in these investments which require high risk.

In the recent years foreign financial institutions and government of advanced countries have made substantial capital available to the under developed countries. FDI will help in developing the infrastructure by establishing firm's different parts of the country.

There are special economic zones which have been developed by government for improvising the industrial growth.

The inflow FDI will help in improving the balance of payment. Firms which feel that the goods produced in India will have a low cost, will produce the goods and export the same to other country. This helps in increasing the exports.

Foreign firms have always come up with better technology, process, and innovations comparing with the domestic firms. They develop a completion in which the domestic firms will perform better it survive in the market.