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FDI REFORMS AND CHALLENGES IN INDIA

KEY WORDS:

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ABSTRACT

Foreign District Investment (FDI), a critical driver of economic growth has been a major non-debt financial resources for the economic growth in India. Foreign Corporate houses invest in India to take advantage of wages and privileges of tax structure. The Government policy regime and robust business environment has insured to relaxing FDI norms across many sectors in India but in 2020 negative impact of corona virus (Covid-19) and deployment of army at LAC has changed the picture.

INTRODUCTION:

FDI inflows in India rose 13% in 2020 to record $49.97 billion compared to $44.36 billion in 2018-19 but now it has been warned that the impact of the **Covid-19** pandemic, lockdown and supply chain disruption and economic slowdown may hamper India's ability to attract FDI in 2020. Therefore FDI inflow may India may dip sharply in 2020.

Foreign direct investment (FDI) is an important Source of development of finance for developing countries like India and which contributes to productivity gains by providing new investment, better technology, management expertise and export markets. All developing countries and developed countries seek, Foreign direct investment (FDI) not only supplements domestic investment but act as source of foreign exchange and eases pressure on the balance of payments.

Importance of FDI:

Economic growth in any country depends upon the sustained growth of productive capacity, supported by saving and investment. FDI Which brings new technology and Knowledge alone with capital, in considered a good substitute for debt in developing economic like India for higher investment and there by growth. Indian governments realised that FDI is an important determinant of investment, economic growth and employment, and therefore acted as a facilitators since the 1990s. Some of the recent reforms such as foreign direct investment in retail, insurance, civil aviation, broadcasting services, etc. are welcome steps and will have significant returns to production via externalities and productivity spillovers through channels such as imitation, Competition, linkage, technology, transfers and training, Hence, FDI Can have substantial and sustainable growth impact on the host country's economy in the long-run through by learning by doing, competition, labour skills and linkage, augmenting domestic capital for exports, new products for exports, facilitating access to new and large foreign markets, and providing training for the local workforce and upgrading technical and management skills. Developing countries such as India can attain these objectives by improving and deepening the capabilities of domestic enterprises by attracting foreign direct investment into export activities.

As per UNCTAD. India's economy could prove the most resilient in South Asia and its large market will continue to attract market seeking investments to the country even as it expects a dramatic fall in global FDI and will attract FDI even in **Covid-19** crisis. The new economic policy of the early 1990s, triggered by the 1991 balance of payment crisis, aimed at creating, a conductive environment for foreign investors, initially by raising foreign equity caps in many sectors, diluting provisions of the foreign Exchange Regulation Act (FERA), and allowing automatic approvals. The 1991 reforms were a drastic change intended to attract FDI to modernise India's Intended base, improve export competitiveness, and integrate the Indian economy with the rest of the world.

Foreign direct investment during the post reform period emphasised attracting non-debt creating long-term capital flows to supplement domestic resources. FDI policy is new reviewed on a regular bases and changes in sectoral policy or sectoral equity caps are notified through press notes by the Secretariat for Industrial Assistance (DIPP).

Some most important FDI reforms are listed below.

- Privatisation of public sectors.
- Major institutions set up to promote and facilitate FDI inflows such as foreign Investment Promotion Board, and foreign Investment Implementation Authority.
- The low of trademarks and the Geographical Indications of Goods passed in 1999 to protect intellectual property rights.
- Abolition, of high local content requirements, dividend balancing requirements, and export obligation conditions except for 22consumer goods were subsequently withdrawn on in 2000.
- Reserve bank of India (RBI) introduced an automatic approval channel for hundred percent foreign equity in priority sectors. The automatic route has been extended up to 51 percent foreign equity in priority sectors.
- Automatic permission for high technological collaborations in priority sectors and removal of conditions related to technology, such as restrictions on FDI in low technology area.
- Industrial licensing has been abolished and many sectors opened for foreign participation, expect for a new industries on the ground of Strategic and environmental concern. After 2000, sectors marked for automatic approval of FDI were expanded to include most sectors, and foreign equity caps raised hundred percent.

The new reforms of FDI are listed below.

- Allowing foreign airlines up to 49 percent FDI in the capital of Indian companies in the civil aviation sector operating, scheduled and non-scheduled air transport.
- Allowing 100 percent FDI ownership in single brand retail trading, and up to 51 percent FDI in multi brand retail trading.
- Increasing FDI equity from 49 percent to 74 percent in certain broadcasting sectors.
- Up to 49 percent limit in the insurance sector from current 26 percent to 49 percent.
- Increasing 49 Percent FDI in many sectors such as petroleum and natural gas, commodity and stock exchanges, power exchanges, asset reconstructions, single brand retail, and telecommunications.
- The defence sector will also be eligible for greater FDI under the recent changes while the standard cap for the sector remains 26 percent, according to a government press release.

- Further increase in the pension sector have been proposed and await parliamentary approval.

The above new FDI reforms will have implications in future. The increased FDI cap finance. This requirement and will bring better insurance product technological capabilities, awareness efforts and expertise and skills in underwriting, actuarial, claims management and data standard station to India.

Challenges of FDI.

In fact, FDI inflows to India have increased over last two decades, India still lags behind countries like China Singapore, and Brazil. FDI is flows to India are still concentrated in a few states because of unresolved issues and our country is get to receive FDI in flows to its full potential with all the benefits India has, there are still factors and issues that hinder foreign direct investment flow into India, including.

(a) Difficult bureaucratic controls and procedures to get the necessary clearances and approvals. First time investor in India are always sceptical about whether projects will progress from screening to operator, (b) lack of coordination between the centre and states, (c) FDI caps in many sectors where hundred percent FDI equity is not allowed for feasible investment projects (d) rigid and complicated labour laws, and (e) infrasture bottlenecks.

In this critical situation, a few reforms that are essential to sustain and increased FDI into India include the relaxation of ceilings foreign equity in many sectors which are as following.

i) Civilian goods used by the defence forces or dual use equipment used in the production of civilian goods.
ii) Public sector refineries and oil market.
iii) Banking.
iv) Small scale Industries.
v) Power generation, and
vi) The equity limit for FDI should be raised to 100percent for investment companies for infrastructure.

Hence India could attract a huge amount of FDI in real estate, provided the plethora of controls was removed and rules and regulations were properly designed, and clear. Any early decision on allowing 51 percent FDI in e-commerce would be useful. The Indian Government of present permits 100 percent FDI in only business-to-business e-commerce transactions in goods, putting more and more sectors under automatic route is certainly useful for more FDI relation.

Some of the necessary reforms need to address to set up appropriate institutions for better economic development in developing countries like India are such as a better such as a dispute resolution mechanism, independent regulatory authority, and special investment law; a uniform labour code; proper design and planning for SEZs; Increasing FDI caps in sectors with FDI potential and allowing more sectors under the automatic route; revisiting outdated laws; encouraging non-governmental facilitation services for foreign investors; and further trade reforms and reforms in public services to attract foreign investment.

CONCLUSION:

Foreign Direct Investment (FDI) in India is declining sharply in 2020 because of impact of the corona virus pandemic, lockdown and economic slowdown. India jumped from 12th position in 2018 to 9th position in 2019 among the world's largest for recipient. The United Nations Conference on Trade and Development (UNCTAD) has said that India jumped to ninth spot in 2019 on the list of global top FDI recipients from the twelfth spot in 2018. The Indian Government permits 100 percent FDI in business-to-business e-commerce transactions in goods. Putting more and more sector under automatic route is certainly useful for more FDI relation in future. So it may be say that India needs to address its back of adequate infrastructure, rigid labour laws, bureaucratic delays, and state level reforms to realise its foreign direct investment potential, it would made them competitive and positive outcome.

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