Journal of Advances and Scholarly Researches in Allied Education

Vol. VIII, Issue No. XV, July-2014, ISSN 2230-7540

FOREIGN DIRECT INVESTMENT IN INDIA

AN INTERNATIONALLY INDEXED PEER REVIEWED & REFEREED JOURNAL

Journal of Advances and Scholarly Researches in Allied Education
Vol. VIII, Issue No. XV, July-2014, ISSN 2230-7540

Foreign Direct Investment in India

Rinki Miglani[1] Sunita Devi[2]

[1]Assistant Professor in I.B (P.G) College Panipat

[2]Faculty of Commerce

Abstract – A Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route. The objective of this paper tries to study the need of FDI in India, to exhibit the sector-wise position of FDI's in India, to rank the sectors based upon highest FDI inflows and Share of top investing countries in India's FDI and problems of FDI in India. The results show that Mauritius is the country that has invested highly in India followed by Singapore, Japan, and USA and so on.

Keywords: Foreign direct investment

- X -

INTRODUCTION

A Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. It helps in bridging the gap between the available resources or funds and the required resources or funds. . In India, FDI is considered as a developmental tool, which helps in achieving self-reliance in various sectors and in overall development of the economy. IT Provide not only the source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities.FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The 'home' countries want to take the advantage of the vast markets opened by industrial growth. On the other hand the 'host countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. There are many businesses or individuals who would earn their lively hood through the foreign investments. FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. An Indian company may 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 94

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, Ministry of Finance.

FDI is not permitted 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.

- Lottery Business
- Gambling and Betting
- Business of Chit Fund

REVIEW OF LITERATURE:

- **Huang, Yasheng; Tang, Heiwai:** The paper builds on the idea that economic reforms in China were designed to attract foreign direct investment (FDI), while the opposite happened in India. We empirically examine how these different reform approaches affect foreign-invested enterprises' (FIE) and domestic firms' perceptions about the host country's business environment. Using World Bank survey data, we find that FIEs in India perceive more obstacles to business operations and development relative to domestic firms, especially on issues related to government regulations and legal institutions. On the contrary, FIEs in China find government officials more helpful in promoting business development and perceive legal and financial constraints similar to their domestic counterparts. These differences in perceptions between firm ownership types are consistent with the underlying diverging approaches of FDI policies adopted by the two largest developing nations.

- **Sanjo,Yasuo:** The paper analyzes tax competition for foreign direct investment with country risk using a two-country model with different market sizes. We show that the trade-off between country size as a locational advantage and country risk as a locational disadvantage affects the location choice of a foreign firm. Given the circumstance in which the foreign firm faces the same circumstance in which the foreign firm faces the same probabilities of country risk in both potential host countries when deciding investment location, our analysis shows that if the market size of the high-risk country is sufficiently large relative to the low-risk country, the foreign firm benefits from choosing the high-risk larger country even if the host country's government imposes a lump-sum tax. Given the situation in which the foreign firm faces different probabilities of country risk in each host country, our results show that the important matter forth foreign firm is whether the host country is high-cost or low-cost, rather than whether the host country is high-risk.

- **Nunnenkamp, Peter; Mukim Megha:** We assess the location choices of 6020 foreign investors at the level of Indian districts. Employing conditional logit models, we find that clustering of Foreign Direct Investment (FDI) is driven strongly by herding among investors from both, the same and other countries of origin. However, the behaviour of Nonresident Indians (NRIs) and German investors is strikingly different.

- **Tieli, Fu Miao; Fu Xiaolan:** This article explores the paths of regional technology development in a large open developing economy. Findings from the research based on Chinese data suggest a differentiated approach to regional technology development. In technologically advanced regions, indigenous R&D plays a more important role than learning-by-doing while in backward regions the latter becomes more important. Interregional technology transfer is found to have a more significant impact on regional technology development than Foreign Direct Investment (FDI) and its effect intensifies when the technology level of the recipient region is close to the technological frontier. R&D plays a key role in both the assimilation of foreign technologies in advanced regions and the assimilation of interregional technology transfer; learning-by-doing only affects the latter.

OBJECTIVE OF STUDY

1. To understand the need for FDI in India.

2. To study the various determinants affecting FDI in India.

3. To exhibit the sector-wise position and rank of FDI's in India.

4. To analyze the share of top investing countries in India's FDI

5. To study the problems of FDI in India.

RESEARCH METHODOLOGY

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites. The study is based on the time period from 2011-2014.

Researcher used the Secondary data:

- Various websites
- Research paper relates with FDI
- Books and magazines related to FDI inflows relate with different sector.

NEED FOR FDI IN INDIA

Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has in a lot of ways enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic attention, and address the various problems that continue to challenge the country."The reason why India needs FDI is obvious," said Dinesh Kanabar, the deputy chief executive of KPMG in India. India needs "resources to fund the various developmental needs," which the country does not have itself.

- **Expertise and know-how**

Foreign investors don't just bring money and jobs; they provide the building blocks for industries whose development in India lags far. Now $8.5 billion, 12 million metric tones a year steel plant. It would have grown the country's technology and efficiency in existing steel capacity by more than 10%. Improved fuel efficiency in the steel industry, meanwhile, would also help to lower India's oil imports

- **Infrastructure**

Indian infrastructure needs about $1 trillion in investment, the government estimates, most of which it can't fund itself.

- **Falling value in rupee.**

India's rupee hit a record low and fall nearly 5% more in coming weeks, said by economist and traders in the Economic Times this week. This currencies could quash the government's plans to raise money by selling private companies and further squeeze profits at Indian companies that rely on imports. It could also hike inflation and threaten growth further.

- **High current account deficit**

IN the past current account deficit was reached at 6.7% of GDP, "A deficit is not such a bad thing when a country is growing and requires imports to fuel growth—India believes it is comfortable with a CAD which is about 2.5% of the GDP. Anything more is a reason for concern." But now the deficit will remain at around 4% until 2015.

DETERMINANTS OF FDI:

The determinant varies from one country to another due to their unique characteristics and opportunities for the potential investors. In specific the determinants of FDI in India are:

Stable Policies: India stable economic and socio policies have attracted investors across border. Investors prefer countries which stable economic policies. If the government makes changes in policies which will have effect on the business. The business requires a lot of funds to be deployed and any change in policy against the investor will have a negative effect.

Economic Policies: Different economic factors encourage inward FDI. These include interest loans, tax breaks, grants, subsidies and the removal of restrictions and limitation. The government of India has given many tax exemption and subsidies to the foreign investors who would help in developing the economy.

Cheap and skilled labour: There is abundant labour available in India in terms of skilled and unskilled human resources. Foreign investors will take advantage of the difference in the cost of labour as we have cheap and skilled labourers. Example: Foreign firms have invested in BPO's in India which require skilled labour and we have been providing the same.

Basic Infrastructure: India though is a developing country, it has infrastructure such as roads, effective transportation and registered carrier departure worldwide, Information and communication network/technology, powers, financial institutions, and legal system and other basic amenities which are must for the success of the business. A sound legal system and modern infrastructure supporting an efficient distribution of goods and services in the host country.

Unexplored market: In India there is large scope for the investors because there is a large section of markets have not explored or unutilized. In India there is enormous potential customer market with large middle class income group who would be target group for new markets. Example: BPO was one sector where the investors had large scope exploring the markets where the service was provided with just a call, with almost customer satisfaction.

Availability of natural resources: As we that India has large volume of natural resources such as coal, iron ore, Natural gas etc. If natural resources are available they can be used in production process or for extraction of mines.

SECTOR WISE POSITION OF FDI

Present Position: Foreign Direct Investment (FDI), in retail trade, is prohibited except in single brand product retail trading, in which FDI, up to 51% is permitted.

Revised Position: The Government of India has reviewed the extant policy on FDI and decided that FDI, upto 100%, under the government approval route, would be permitted in Single-Brand Product Retail Trading.

Services sector: In recent years Services sector puts the economy on a proper gliding path by contributing 55 percent to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Among the subsectors of services sector, financial services attract 10.2 percent of total FDI inflows followed by banking services (2.22 percent), insurance (1.6 percent) and non- financial services (1.62 percent). In India, Mumbai (with 33.77 percent) and Delhi (with 16 percent) are the two most attractive locations which receives heavy investment in services sector.

VARIOUS SERVICE SECTORS

- **FDI in Hotel & Tourism sector in India:** 100% FDI is permissible in the sector on the automatic route. The term hotels include restaurants, beach resorts, and other tourist complexes providing accommodation and/or catering and food facilities to tourists. Tourism related industry include travel agencies, tour operating agencies and tourist transport operating agencies, units providing facilities for cultural, adventure and wild life experience to tourists, surface, air and water transport facilities to tourists, leisure, entertainment, amusement, sports, and health units for tourists and Convention/Seminar units and organizations.

- **Non-Banking Financial Companies (NBFC):** 49% FDI is allowed from all sources on the automatic route subject to guidelines issued from RBI from time to time.

- **FDI in Insurance sector in India:** FDI up to 26% in the Insurance sector is allowed on the automatic route subject to obtaining license from Insurance Regulatory & Development Authority (IRDA)

- **FDI in Telecommunication sector:** In basic, cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49% subject to licensing and security requirements and adherence by the companies (who are investing and the companies in which investment is being made) to the license conditions for foreign equity cap and lock- in period for transfer and addition of equity and other license provisions.

- **FDI in Power Sector in India:** Up to 100% FDI allowed in respect of projects relating to electricity generation, transmission and distribution, other than atomic reactor power plants. There is no limit on the project cost and quantum of foreign direct investment.

- **Construction Sector:** Construction Activities sector received US$ 4.9 bn of the total FDI inflows. Mauritius is the major investment country in India. New Delhi and Mumbai are the most preferred locations for construction activities in India.

- **Roads, Highways, Ports:** FDI up to 100% under automatic route is permitted in projects for construction and maintenance of roads, highways, vehicular bridges, toll roads, vehicular tunnels, ports.

Education sector: Education sector attracts foreign investors in the present decade and registered rise in FDI inflows from 2005. Mauritius remains top on the chart of investing countries investing in education sector. Bangalore received highest percentage of 80.14% of FDI inflows in India.

Share of top investing countries in India's FDI

SHARE OF TOP INVESTING COUNTRIES IN INDIA'S FDI EQUITY INFLOWS

Amount Rupees in crores (US $ in million)

Rank	Country	2011-12 (April - March)	2012-13 (April - March)	2013-14 (April '13- January '14)	Cumulative Inflows (April '00- January '14)	%age to total Inflows (in terms of US $)
1	MAURITIUS	46,710	51,654	24,762	3,65,887	37%
		(9,942)	(9,497)	(4,113)	(77,779)	
2	SINGAPORE	24,712	12,594	21,521	1,11,703	11%
		(5,257)	(2,308)	(3,678)	(23,139)	
3	U.K.	36,428	5,797	20,249	1,00,708	10%
		(7,874)	(1,080)	(3,187)	(20,735)	
4	JAPAN	14,089	12,243	6,173	76,268	7%
		(2,972)	(2,237)	(1,009)	(15,559)	
5	U.S.A.	5,347	3,033	4,280	55,203	6%
		(1,115)	(557)	(721)	(11,842)	
6	NETHERLANDS	6,698	10,054	10,376	52,754	5%
		(1,409)	(1,856)	(1,700)	(10,665)	
7	CYPRUS	7,722	2,658	2,835	35,163	3%
		(1,587)	(490)	(464)	(7,353)	
8	GERMANY	7,452	4,684	4,920	30,432	3%
		(1,622)	(860)	(849)	(6,330)	
9	FRANCE	3,110	3,487	1,737	18,602	2%
		(663)	(646)	(288)	(3,861)	
10	U.A.E.	1,728	987	1,406	12,713	1%
		(353)	(180)	(230)	(2,652)	
TOTAL FDI INFLOWS FROM ALL COUNTRIES	Rs. in Crores	1,65,146	1,21,907	1,13,401	10,10,314	-
	(US$ in Million)	(35,121)	(22,423)	(18,749)	(2,12,152)	

Data presented as on January 2014
Source: http://dipp.nic.in

Jhunjhunwala's
jhunjhunwalas.tumblr.com

PROBLEMS AFFECTING FDI IN INDIA

1. **LACK OF ADEQUATE INFRASTRUCTURE:** A major hurdle for FDI inflows in India due to lack of adequate infrastructure. Poor infrastructure discourages foreign investors in investing in India. India's 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.

2. **STRICT LABOR LAWS:** Today 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. To retrench unnecessary workers, firms require approval from the government. These hard and strict rules discourage the FDI inflow in India because the large firms have to follow these rules.

3. **CORRUPTION:** Corruption implies secrecy and illegality, the misuse of public power for private benefit and can take various forms across different economic activities. Corruption can affect FDI directly by tarnishing the perception of a country's stability and quality of an investment potential. Foreign investors perceive corruption as an impediment to investing in the host country.

4. **HIGH CORPORATE TAX RATES:** 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.

5. INDECISIVE GOVERNMENT AND POLITICAL INSTABILITY: Political instability discourage FDI due to mismanagement and oppression by the different company, which affect the image of the country and also deject the prospective investor, who are very much conscious about safety and constant return on their investment.

CONCLUSION:

It can be observed from the above analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system in country. So, we can conclude that FDI is always helps to create employment in the country and also support the small scale industries also and helps country to put an impression on the world wide level through liberalization and globalization.

REFERENCES:

- Huang Yasheng, Tang Heiwai, FDI Policies in China and India, the World Economy, 35.
- Sanjo Yasuo, Country Risk, Country Size, and Tax Competition for Foreign Direct Investment International Review of Economics & Finance Vol.: 21, No.: 1, January 2012.
- Nunnenkamp Peter, Mukim Megha, The Clustering of FDI in India: The Importance of Peer Effects, Applied Economics Letters Vol.: 19, No.: 8, 2012
- Tieli and Fu Miao and Fu Xiaolan, Regional technology development path in an open developing economy: evidence from China.
- http://www.ijcem.org/papers092012/ijcem_092012_18.pdf
- http://qz.com/107132/how-badly-does-india-need-foreign-investment-anyway/
- http://priyensavla.wordpress.com/2014/04/12/share-of-top-10-investing-countries-via-foreign-direct-investments-fdi-in-india/
- http://www.indianmba.com/Faculty_Column/FC1533/fc1533.html
- http://indianresearchjournals.com/pdf/IJMFSMR/2012/August/8.pdf