Analytical Study on Foreign Direct Investment in India

Shashank Shastri
Vedavati Bhat

2nd Semester M.Com, Govt First Grade College& Post Graduate Studies, Kumta Uttara Kannada District – 581343.
2nd Semester M.Com, Govt First Grade College& Post Graduate Studies, Kumta Uttara Kannada District – 581343.

Abstract

Foreign direct investment (FDI) is direct investment made by a firm or individual in one country into business interests located in another country. It is done for many reason including to take advantage of cheaper wages in country special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or region. It is a passive investment insecurity of another country such as stocks, bonds and also known as portfolio investment. This paper attempted to make an analysis of FDI in India and its impact on growth. And analyze both advantages and disadvantages of FDI in India. The objective of the study is to understand the needs, sources, reasons for FDI in India. And analyze how the FDI takes important role in development of economy. We used secondary data which is available on the internet to reach our study objective because of short span of time. This study gives some information about how the FDI take major role in conversion of developing country in to developed country.

Key Words: Foreign Direct Investment, Growth of Indian Economy and Government Initiatives.

Introduction

Foreign direct investment is one of the measures of growing economic globalization. Investment has always been an issue for the developing economies such as India. It was introduced in the year 1991 under Foreign Exchange Management Act (FEMA), by then finance minister Dr. Manmohan Singh. South Asian countries such as china have implemented open door policies during 1980's but India liberalized its policies in 1991. Before pre-liberalization India followed conservative policies to protect the indigenous investors and industrialist. It started with a baseline of $1 billion in 1990. ... India in 1997 allowed foreign direct investment (FDI) in cash and carry wholesale. In India, foreign direct investment policy is regulated under the Foreign Exchange Management Act, 2000 governed by the Reserve Bank of India. Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company. Foreign direct investments are commonly made in open economies that offer a skilled workforce and above-average growth prospects for the investor. The telecommunications sector constituted for the largest part in foreign direct investment equity inflows in India with an overall amount of 6.14 billion U.S. dollars for FY 2018. Mauritius remained the largest source of FDI in India (21.8 per cent share at market price) followed by the USA, the UK, Singapore and Japan. 1991 the government has focused on liberalization of policies to welcome foreign direct investments. These investments have been a key driver for accelerating the economic growth through technology transfer, employment generation, and improved access to managerial expertise, global capital, product markets and distribution network. FDI in India has enabled to achieve a certain degree of financial stability; growth and development to sustain and compete in the global economy.

Need of the Study

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 spill over's to domestic firms. The following arguments are advanced in favour of foreign capital.

- Sustaining a high level of investment
- Technological gap
- Exploitation of natural resources

- Understanding the initial risk
- Foreign firm's helps in increasing the competition

Objectives

1. To understand the need for FDI in India.
2. To analyze the role of FDI in development of economy.
3. To find out the relationship between foreign direct investment and economic growth.

Research Methodology

This research is a descriptive study in nature. The secondary data was collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry etc.

Analysis and Discussion

Impact on Indian Economy

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. Forward and back ward linkages are

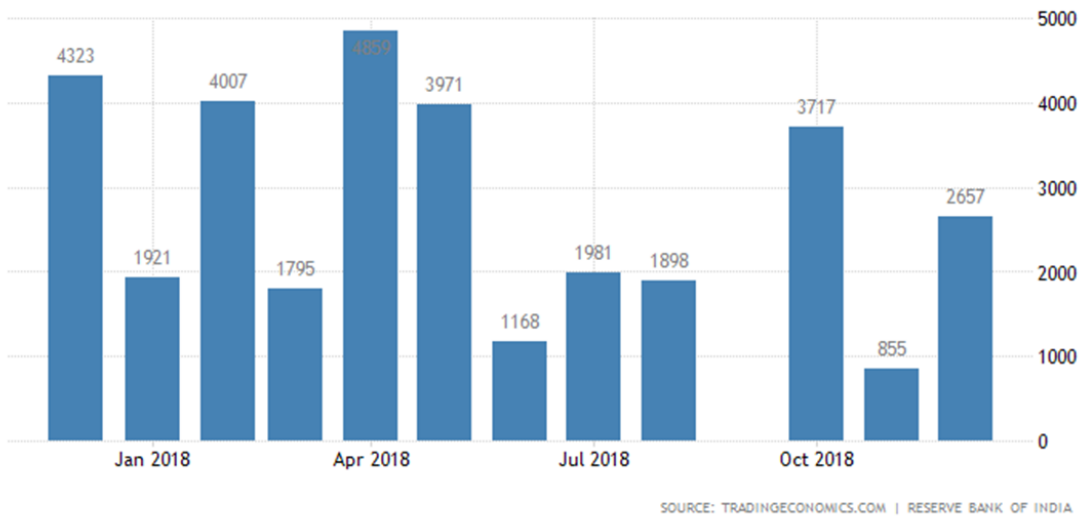
Developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. There are many businesses or Individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm.

FDI and Economic Growth:

Since the critical face of Indian economy the government of India with the help of World Bank and IMF introduced the macro-economic stabilization and structural adjustment program. As a result of these reforms India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment.

FDI RATES IN THE YEAR 2018

Foreign Direct Investment in India increased by 2657 USD Million in December of 2018. Foreign Direct Investment in India averaged 1333.66 USD Million from 1995 until 2018, reaching an all-time high of 8579 USD Million in August of 2017 and a record low of -1336 USD Million in November of 2017.



Advantages of Foreign Direct Investments in India:

1. Promotion of investment in key areas
2. New technologies

3. Increase in Capital inflow
4. Increase in Exports
5. Promotion of Employment opportunities
6. Promotion of financial services

Disadvantages of Foreign Direct Investment

1. Hindrance to Domestic Investment.
2. Risk from Political Changes.
3. Negative Influence on Exchange Rates.
4. Higher Costs
5. Negative Impact on the Country's Investment.

Key Changes in FDI Policy of India in Year 2018 on January 10, 2018

The Indian Cabinet gave its approval to a number of major amendments to the Foreign Direct Investment (FDI) Policy of India, to further liberalise and simplify the same. This is to increase the ease of doing business in the country, and continue to attract much needed foreign capital to fuel India's growth.

On 10thJanuary, 2018, the Union Cabinet chaired by the Prime Minister Shri Narendra Modi, has given its approval to a number of amendments in the FDI Policy. Intended to liberalize and simplify the FDI policy so as to provide ease of doing business in the country leading to larger FDI inflows contributing to growth of investment, income, employment, and continue to attract much needed foreign capital to fuel India's growth. **Major changes in FDI policy in 2017-2018 are as follows:**

1. 100% FDI under Automatic Route for Single Brand Retail Trading

It has now been decided to permit 100% FDI under automatic route for SBRT. It has been decided to permit single brand retail trading entity to set off its incremental sourcing of goods from India for global operations during initial 5 years, beginning 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India.

2. 100% FDI under Automatic Route in Construction Development

It has been decided to clarify that real estate broking service does not amount to real estate business and is therefore, eligible for 100% FDI under automatic route.

3. Foreign Airlines Allowed Investing Up To 49% under Approval Route in Air India

As per the extant policy, foreign airlines are allowed to invest under Government approval route in the capital of Indian companies operating scheduled and non-scheduled air transport services, up to the limit of 49% of their paid up capital.

4. Single Brand Retail Trading (SBRT)

The latest amendment has brought sweeping changes in FDI norms for SBRT, thereby enticing significant foreign brands into India's promising retail space. The current FDI Policy on SBRT allows 49% FDI under the automatic route, and FDI beyond that and up to 100% through the Government approval route.

Government Initiatives

As of February 2019, the Government of India is working on a road map to achieve its goal of US$ 100 worth of FDI inflows. In February 2019, the billion Government of India released the Draft National e-Commerce Policy which encourages FDI in the marketplace model of e-commerce. Further, it states that the FDI policy for e-commerce sector has been developed to ensure a level playing field for all participants.

"Due to a stable and predictable regulatory regime, a growing economy and strong fundamentals, India could attract massive amount of foreign direct investment during the last five years, as much as USD 239 billion worth received as FDI. This period also witnessed a rapid liberalization of the FDI policy allowing most FDI to come through the automatic route," The main sectors that receive the maximum foreign inflows include services, computer software and hardware, telecommunications, trading, construction, automobile, and power. The top sources of FDI include Mauritius, Singapore, Netherlands, the US and Japan.

Conclusion

Foreign Direct Investment as strategic componen of investment is needed by ndia for its sustained economic growth and development through creation of jobs expansion of existing manufacturing industries, education and research and development e. t. c. It is advise able to open up the export oriented sector and higher growth of economy could be achieved through the growth of his sectors.It can be summed up by saying that to attract fdi, India should use its advantages such as large domestic market, abundant supply of trained and low - wage labour, vast pool of technical professional, second largest nation, e.t.c.Finally we can conclude that the MNC companies have to adopt the fdi policis for economic growth.

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