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IMPACT OF FDI ON THE INDIAN POLICIES

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ABSTRACT

Foreign direct investment (FDI) is direct investment by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country.

Foreign Direct Investment (FDI) inflow into the core sectors is assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It implies that FDI can have positive effects on a host economy's development effort. As a whole, Foreign direct investments have become the major economic driver of Globalization in recent times.

India is a country that has been able to restore investor confidence in its markets, even during the toughest of times. Increase in capital inflows, foreign direct investments (FDI) and overseas entities' participation reflect the fact that Indian markets have fared well in recent times.

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.

As per the data, the sectors which attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI.

In this research paper we have discussed about Behaviour of FDI in the duration of last 12 years.

A) INTRODUCTION

Foreign Investment in India or more precisely Foreign Direct Investment (FDI) in India is one of the most talked about issues in the entire world economy in recent times. Rated among the top emerging nations, India's liberalization policies are paying rich dividends to the economy as a whole.

Foreign direct investment (FDI) is direct investment by a company in production located in another country either by buying a company in the country or by expanding operations of an existing business in the country.

Foreign Direct Investment (FDI) is defined as "investment made to acquire lasting interest in enterprises operating outside of the economy of the investor." The FDI relationship, consists of a parent enterprise and a foreign affiliate which together form a Trans-National Corporation (TNC).

The fast and steadily growing economy of India in majority of its sectors, has made India one of the most famous and popular destinations in the whole world, for Foreign Direct Investment. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions**,** have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment.

Foreign Direct Investment (FDI) inflow into the core sectors is assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It implies that FDI can have positive effects on a host economy’s development effort. As a whole, Foreign direct investments have become the major economic driver of globalisation in recent times.

Foreign direct investment is done for many reasons including to take advantage of cheaper wages in the country, special investment privileges such as tax exemptions offered by the country as an incentive for investment or to gain tariff-free access to the markets of the country or the region. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

As a part of the national accounts of a country FDI refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements.

FDIs are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal or mining industries.

FDI IN INDIA

India is a country that has been able to restore investor confidence in its markets, even during the toughest of times. Increase in capital inflows, foreign direct investments (FDI) and overseas entities' participation reflect the fact that Indian markets have fared well in recent times. Moreover, foreign companies are viewing the South-Asian nation as a strategic hub for their operations and investments owing to investor-friendly policy environment, positive eco-system and huge potential for growth.

According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment.

B) OBJECTIVES

- ✓ To study the Impact of FDI on Indian Economy
- ✓ To study the growth of FDI in Indian Economy
- ✓ To study the Foreign direct investors in Indian Economy

C) LITERATURE REVIEW

John Andreas32 (2004) in his work "The Effects of FDI Inflows on Host Country Economic Growth" discusses the potential of FDI inflows to affect host country economic growth. The paper argues that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. Performing both cross – section and panel data analysis on a dataset covering 90 countries during the period 1980 to 2002, the empirical part of the paper finds indications that FDI inflows enhance economic Growth in developing economies but not in developed economies.

This paper has assumed that the direction of causality goes from inflow of FDI to host country economic growth. However, economic growth could itself cause an increase in FDI inflows. Economic growth increases the size of the host country market and strengthens the incentives for market seeking FDI. This could result in a situation where FDI and economic growth are mutually supporting. However, for the ease of most of the developing economies growth is unlikely to result in market – seeking FDI due to the low income levels. Therefore, causality is primarily expected to run from FDI inflows to economic growth for these economies.

D) RESEARCH METHODOLOGY

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.

Starting from a baseline of less than $1 billion in 1990, a recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors which attracted higher inflows were services,

telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, the US and the UK were among the leading sources of FDI.

IMPACT OF FDI

Foreign Direct Investment (FDI) inflow into the core sectors is assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It implies that FDI can have positive effects on a host economy's development effort. On this line, it has been argued that FDI can bring the technological diffusion to the sectors through knowledge spillover and enhances a faster rate of growth of output via increased labour productivity in India. There were also few evidences demonstrate that there is a long-run relationship between Gross Domestic Product, FDI and export in India. In fact, many countries like India have offered incentives to encourage FDI to their economies. India is also opened up its economy and allowed MNEs in the core sectors such as Power and Fuels, Electrical Equipments, Transport, Chemicals, Food Processing, Metallurgical, Drugs and Pharmaceuticals, Textiles, and Industrial Machinery as a part of reform process started in the beginning of 1990s.

In this context, it is imperative to assess the impact of FDI inflows in to these core sectors in India. It is also motivated by recent political developments in India following the opening of sectors like insurance and telecommunication with increased financial gap for the private players. In particular, the left parties, who are main coalition partner of the present government in India is not in favor of increased financial gap to the private players in the sectors of insurance and telecommunication and also disinvestment of public enterprises.

MEASURES TO PROMOTE FDI IN INDIA

India, post liberalization, has not only opened it's doors to foreign investors but also made investing easier for them by implementing the following measures:

- Foreign exchange controls have been eased on the account of trade.
- Companies can raise funds from overseas securities markets and now have considerable freedom to invest abroad for expanding global operations.
- Foreign investors can remit earnings from Indian operations.
- Foreign trade is largely free from regulations, and tariff levels have come down sharply in the last two years.
- While most Foreign Investments in India (up to 51 %) are allowed in most industries, foreign equity up to 100 % is encouraged in export-oriented units, depending on the merit of the proposal. In certain specified industries reserved for the small scale sector, foreign equity up to 24 % is being permitted now.

As the industry progresses, opportunities abound in India, which has the world's largest middle class population of over 300 million, is attracting foreign investors by assuring them good returns. The scope for foreign investment in India is unlimited. India offers to foreign investors a well balanced package of fiscal incentives for exports and industrial investments that includes:

- Complete tax exemptions.

- Investment incentives are offered by both the Central Government and the Government of the State in which the unit is located.
- India has tax treaties with 40 countries.

India Inc's increasing presence over the global canvas and Indian government's consistent support to the FDI space have facilitated remarkable developments and investments from overseas partners.

FOREIGN DIRECT INVESTORS

Foreign direct investments have become the major economic driver of globalisation in recent times. The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than $10 billion in the 1970s to a yearly average of less than $20 billion the 1980s.

From 1998 to 1999 itself, FDI grew from $179 billion to $208 billion and now comprise a large portion of global FDI.

FDI or foreign investment refers to the net inflows of investment to buy a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

A Department of Industrial Policy and Promotion fact sheet mentioned India's top 10 FDI generating countries.

RANK 1: MAURITIUS

INVESTMENT: RS 247,092 CRORE ($55,203 MILLION)

Topping the list of India's foreign direct investment ranking is this small island. India has a Double Taxation Avoidance Treaty with Mauritius, under which the corporates registered there can choose to pay taxes in the island nation.

Experts said companies prefer to route their investment through the famous Mauritius route because of as low as three per cent effective rate of corporate tax on the foreign companies incorporated there. The tax levied is no more than 3 per cent.

RANK 2: SINGAPORE

INVESTMENT: RS 58,090 CRORE ($13,070 MILLION)

Singapore invests its funds in telecommunications, services (usually offshoring), power, oil refinery, food processing, and electrical equipment. Singaporeans also have interest on transportation.

RANK 3: UNITED STATES OF AMERICA

INVESTMENT: RS 42,898 CRORE ($9,529 MILLION)

Most of the US companies or investments are placed in the areas of telecommunications, services (usually offshoring), power, oil refinery, food processing, and electrical equipment.

RANK 4: THE UNITED KINGDOM
INVESTMENT: RS 29,451 CRORE ($6,643 MILLION)

Besides long standing British companies in India such as ICI, Glaxo, GEC, Rolls Royce, British Aerospace, SmithKline Beecham, British Petroleum, British Airways , British American obacco, and Cadbury, the new major players include British Gas, National Power, National Grid, British Telecom, Shell International Petroleum Co., United Distillers, Trafalgar House, and other British Construction companies.

All British oil majors are present in the Indian oil sector.

Opening of the roads and ports sector in India has opened immense opportunities for construction and maritime equipment manufacturers.

RANK 5: THE NETHERLANDS

INVESTMENT: RS 25,799 CRORE ($5,739 MILLION)

The Dutch investments in India are in the agro industries, logistics, water management, information technology, health, financial services and renewable energy.

The focus of the Netherlands' investment would be in sectors that are in demand in India and in which the Dutch have world-class technology.

= KEY STATISTICS

- ✓ FDI in 2010 was $24.2 billion, a significant decrease from both 2008 and 2009. Foreign direct investment in August 2010 dipped by about 60% to approx. $34 billion, the lowest in 2010 fiscal, industry department data released showed.

- ✓ In the first two months of 2010–11 fiscal, FDI inflow into India was at an all-time high of $7.78 billion up 77% from $4.4 billion during the corresponding period in the previous year.

- ✓ FDI inflows rose by 36 per cent to US$ 23.69 billion during January-October 2011, while the cumulative amount of FDI equity inflows from April 2000 to October 2011 stood at US$ 226.05 billion, according to the latest data released by the Department of Industrial Policy and Promotion (DIPP).

- ✓ The services (including financial and non-financial) sectors attracted highest FDI equity inflows during April-October 2011-12 at US$ 3.43 billion.

- ✓ India received maximum FDI from countries like Mauritius, Singapore, and the US at US$ 61.2 billion, US$ 15.2 billion and US$ 10 billion, respectively, during April 2000-October 2011.

FOREIGN DIRECT INVESTOR COMPANIES

- ✓ Global consultancy firm Ernst & Young (E&Y) has stated that the value of mergers and acquisition (M&A) deals involving Indian companies aggregated to US$ 34.4 billion in 2011 involving 806 transactions. There were 177 outbound deals with an aggregate disclosed value of US$ 8.8 billion in 2011; forming 25.6 per cent of the total M&A pie.

- ✓ Adani Enterprises' acquisition of Abbot Point Coal Terminal in Australia (US$ 2 billion) and the GVK Group's purchase of Australia-based Hancock Coal's Queensland coal assets (US$ 1.3 billion) were among the biggest outbound deals recorded in 2011.

- ✓ According to the weekly statistical supplement of the Reserve Bank of India (RBI), India's foreign exchange reserves (forex) stood at US$ 293.54 billion for the week ended January 6, 2012. Foreign currency assets aggregated to US$ 259.80 billion and the value of gold reserves stood at US$ 26.62 billion for the week. The value of special drawing rights (SDRs) was calculated at US$ 4.41 billion, and India's reserves with the International Monetary Fund (IMF) came out to be US$$ 2.69 billion.

IMPORTANT DEVELOPMENTS

The government of India is continuously working towards increasing FDI flows into the country. FDI rose by an impressive 56 per cent to US$ 2.53 billion in November 2011. The cumulative flows of for April-November 2011 aggregated to US$ 22.83 billion, exceeding the total FDI of US$ 19.43 billion for 2010-11 fiscal.

Recently, the Government has approved 20 FDI proposals worth Rs 1,935.24 crore (US$ 384.5 million). The approved major investments, that were consulted with Foreign Investment Promotion Board (FIPB) as well, are enlisted below:

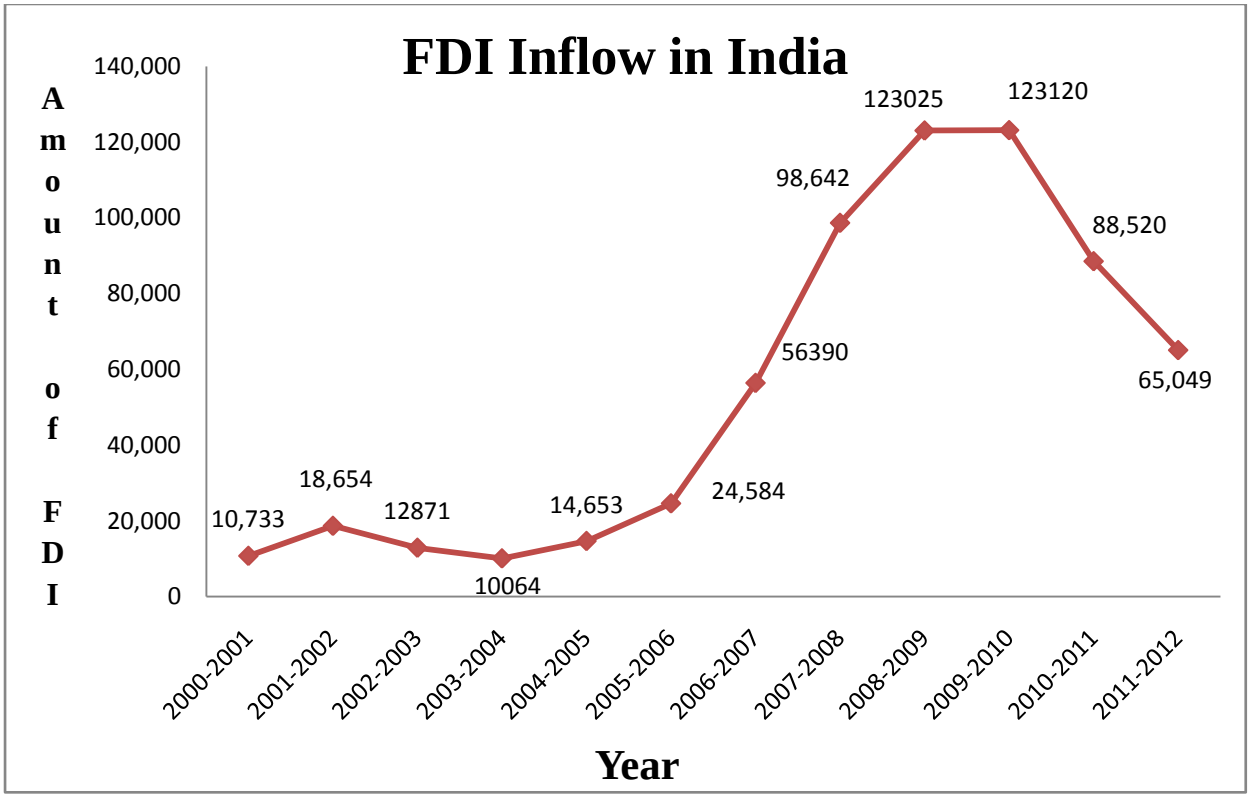
DIPP'S – FINANCIAL YEAR-WISE FDI EQUITY INFLOWS			
Year	**Amount of FDI (In crores)**	**Year**	**Amount of FDI (In crores)**
2000-2001	10,733	2006-2007	56,390
2001-2002	18,654	2007-2008	98,642
2002-2003	12,871	2008-2009	123,025
2003-2004	10,064	2009-2010	123,120

2004-2005	14,653	2010-2011	88,520
2005-2006	24,584	2011-2012	65,049

E) FINDINGS

With strong governmental support, FDI has helped the Indian economy grow tremendously. But with $34 billion in FDI in 2007, India gets only about 25% of the FDI in China.

In 2006-07, India's FDI touched Rs. 56390 crores up 425.3% against Rs. 10,733 crores in 2000-01 and the country's foreign exchange reserves touched a new high of Rs. 123,120 crores in 2009-10. But it again came down to Rs. 88,520 crores in year 2010-11 and in continuation Rs.65,049 in year 2011-12. As a result of India's economic reforms, the country's annual growth rate has averaged 27.73% during 1992-93 to 2002-03.



F) Conclusion

Foreign Direct Investment (FDI) inflow into the core sectors is assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It implies that FDI can have positive effects on a host economy's development effort. FDI has helped to raise the output, productivity and export in some sectors. Therefore, in the eve of India's plan for further opening up of the economy, it is advisable to open up the export oriented sectors and a higher growth of the economy could be achieved through the growth of these sectors.

The government of India is continuously working towards increasing FDI flows into the country, But it came down to Rs. 88,520 crores in year 2010-11 and in continuation Rs.65,049 in year

2011-12. Hence government of india should continue to take effect measures to promote FDI inflows in India with some other dimensions.

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