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"Foreign Direct Investment in India: A Development Approach"

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There is hardly any sector that has been not touched by FDI (Foreign Direct Investment). FDI is related to modernization, technical innovation, International brands and quality slandered brought by MNC's (Multi National Companies) in the native country. MNC's and FDI have acquired renewed significance after the initiate by the Indian government after 1991, that initiate is a gradual process of change of economic policies relating to investments by foreign countries in India.

FDI refers to capital inflows from abroad that invest in the production capacity, service sector of the economy and are "usually preferred over other forms of external finance because they are not debt and creating non volatile and their returns depends on the performance of the project financed by the investors. FDI also facilitate international trade and transfer of knowledge, skills and technology". [1]

FDI has proved to be source of an economic development, modernization, employment gradation, technology transfer, human capital promotion and also contributes to international imports and exports trade, creating competitive business environment which helps to develop productivity increase with improved efficiency of resources. Thus, FDI has proved to be a tool for India to solve economic crises created by license raj system. Critics to the liberalization process called FDI as 'opening of flood gates ideas'.

Evolutionary change:

India's liberalization decision of 1991was accrued as a revolutionary status in the history of India's development. Economic survey of 1991 concluded that domestic investment is bound to remain minor. At that time the focus was on self reliant model and government intended to reform only to the extent as was absolutely essential to arrest the balance of payment crisis and revert to status-co.

During the first five year of the new policy, it has brought dramatic increasing investment activity. Still, there was no clear understanding or formation of mechanism for development or its future role in the economic sector of the country. As the policy reforms was not peculated to the grass root level of the State Government the actual benefits to the new industrial investment brought by FDI were not translated into real investment, employment and production. In case of FDI the role of state Government is critical because resources for production such as land, water, power roads and distribution comes under the permission of the State Government that limits FDI's progress.

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By the year of 1996-97 FDI turn was slowly picking-up and understanding towards investment was channelized through Foreign Investment Promotion Council (FIPC) and Foreign Investment Promotion Board (FIPB) and boards made more transparent. The list of eligible industries for automatic approval of up to 51% foreign equity was expanded in 1998-99. BJP Government changed its previous trance and admitted that 'the country cannot do without FDI', because besides capitals stock it brings new technology, new market practices and most importantly employment'. This trend of FDI was resulted in further policy formation and there was wide spread acceptance among all the political party line. [2]

Governance and policy for FDI:

Presently, Government of India established FDI policy and continuously modifying and amending it, in the interest of the country that resulted in acquiring second rank among the top three global investment destinations, That also proves India has tremendous potential for investment; FDI has produced positive impact in the form of FDI inflows supplementing domestic capital, upgradation of technology and improving skills of existing companies. It also helps to establish new companies to contribute economic growth of Indian economy.

According to the policy led down in 2013, the Government of India relaxed FDI norms in several sectors, including telecom, defense, PSU oil refineries, power sector and stock exchanges, among others. Government of India's FDI relaxation was greeted and many Government and MNC's entered in Indian market. Some of the notable FDI proposals are listed below.

In retail, UK-based Tesco submitted its application to initially invest US$ 110 million to start a supermarket chain in collaboration with Tata Group's Trent. In civil aviation, Malaysia-based Air Asia and Singapore Airlines teamed up with Tata Group to launch two new airline services. Also, Abu Dhabi-based Etihad picked up a 24 per cent stake in Jet Airways that was worth over Rs.2,000 crore. India has received total foreign investment of US$ 306.88 billion since 2000 with 94 per cent of the amount coming during the last nine years. In the period 1999–2004, India received US$ 19.52 billion of foreign investment. In the period 2004–09, foreign investment in the country touched US$ 114.55 billion, further increasing to US$ 172.82 billion between 2009–September, 2013. In the year of 2012–13, India attracted FDI worth US$ 22.42 billion. Tourism, pharmaceuticals, services, chemicals and construction were among the biggest beneficiaries. The January–November period in 2013 witnessed mergers and acquisitions deals worth US $ 26.76 billion in India, according to a survey by tax advisory firm Grant Thornton. All, these figures show a healthy investment trend that is boosting Indian economy.

Presently, country like New Zealand is looking to establish an office in Mumbai to broaden its education footprint in India. It plans to set up an education promotion and market development role. There was an increase of more than 10 per cent in student visas issued to Indian nationals in 2013, making India among the fastest growing student market for New Zealand, U.S.A., U.K., Germany and France are also interested in entering education sector, but Government of India, has still some reservations about foreign universities opening of shops in India.

Korean South-East Power Company (KOSEP), has signed an initial agreement with Jinbhuvish Group, Mumbai, for technical support for its Rs 3,450-crore (US$ 549.31 million) project in Maharashtra. India and UAE have agreed to promote collaboration in renewable energy, focusing in the areas of wind power and solar energy. Luxury watch brand Jaeger-LeCoultre from Switzerland has filed for a 100 per cent single brand application to enter the Indian retail market. France's Lactalis, the biggest dairy products group in the world, will most likely buy out Hyderabad-based Tirumala Milk Products for US $275--300 million, according to sources. [4]

Recently Indian government has agreed to five FDI proposals amounting to Rs 1133.41 crore (US$ 180.16 million) approximately, then November 13, 2013, Government had approved 12 proposals of FDI amounting to Rs 821.63 crore (US$ 130.73 million) approximately. The FIPB has also approved Swedish clothing major Hennes & Mauritz (H&M) AB's proposal to open 50 stores across India. With the investment of Rs 720 crore (US$ 114.61 million). Planning Commission of India planed for estimate US$ 1 trillion during the 12th five-year plan towards infrastructure sector for roads, airports and ports. The government is also in the process of liberalising FDI norms in construction activities and railways, which could bring in investments to meet the target.[5]

The government is also relaxing FDI norms in other sectors, mainly in retail, health and education presently. FDI in multi-brand retail has been allowed up to 51 per cent. The minimum requirement for the FDI is US$ 100 million, of which at least 50 per cent must be invested in 'backend infrastructure' within three years. FDI limit in single-brand retail has been increased to 100 per cent; 49 per cent will be under the automatic route and the rest through the FIPB route.

Government of India has given boost to the foreign inflows into the Indian market, by increasing the foreign direct investment (FDI) limit in the telecom sector and asset reconstruction firms. Government has

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opened its gates to foreign investors in 13 sectors including petrol and natural gas, insurance and defense production industries.

Recently some amendments have been taken place in Indian FDI policy 2013, opening of number of key business sectors to additional foreign investment with easy procedure to obtain approval. The revised sectorial cap is tabulated for ready reference. [6]

Advantages of FDI:-

Improve forex position of the country; that strengthens countries economy.

Employment generation and increase in production; resulting unemployment and increase in supply of ggods. FDI help in capital formation by bringing fresh capital; with these foreign investors will take more interest in successful management of the company, they started. It will help in transfer of new technologies, management skills, and intellectual property. This will help in human development.

Increases competition within the local market and this brings higher efficiencies. International brands and quality products will be available.

Helps in increasing exports and Increases tax revenues Government's tracery will be flooded with taxes, collect from MNC's and collection can be utilized for future development.

Disadvantages of FDI

Domestic companies fear that they may lose their ownership to overseas company Small enterprises fear that they may not compete with world class large companies and may ultimately be edged out of business.

Large giant MNC's will try to monopolies the market and take over the highly profitable sectors.

Foreign companies will invest more in automatic machinery and intellectual property than in wages of the local people and also employment potential will be reduced.

Government has less control over the functioning of such companies as they usually work as wholly owned subsidiary of an overseas company.

Though, patent, dividends paid to foreign nationals by MNC, more Indian currency will be taken out of country.

Gandhiji's self reliance model will remain a far away destination.

Conclusion:

While it is accepted that the government was under compulsion to liberalize cautiously, the understanding of foreign investment was lacking. It was because of the submissive nature of the govt. that harnesses scope of FDI inflow. A sectoral analysis reveals that while FDI shows a gradual increase and has become a staple for success for India, the progress is hollow (Annexure 1 and 2). The Telecommunications and power sector are the reasons for the success of Infrastructure. This is a throwback to 1991 when Infrastructure reforms were not attempted as the sector was performing in the positive. FDI has become a game of numbers where the justification for growth and progress is the money that flows in and not the specific problems plaguing the individual sub sectors. Political parties (Congress, BJP, CPI (M)) have changed their stance when in power and when in opposition and opposition (as well as public debate) is driven by partisan considerations rather that and effort to assess the merit of the policies. This is evident is the public posturing of Hindu right, left and centrist political parties like the Congress. The growing recognition of the importance of FDI resulted in a substantive policy package but and also the delegation of the same to a set of eminently dispensable bodies. This is indicative of a mood of promotion counterbalanced by a clear deference of responsibility. In the comparative studies the notion of Infrastructure as a sector has undergone a definitional change. FDI in the sector is held up primarily by two sub sectors (telecommunications and Power) and is not evenly distributed. The three major industrial houses (CII, ASSOCHAM, FICCI), World Bank and the Planning Commission have similar recommendations for FDI and yet despite their concurrence, a comprehensive policy in this respect is still to be formulated after 15 years of India's economic reforms. The worship of FDI by the business class of India doesn't have any resemblance with the falling rate of industrial growth and shifting of the labor class to a white collar technocrat section based on outsourcing. The Swadeshi alternative has receded in public policy debate.[7]

Thus the impact of the reforms in India on the policy environment for Foreign Direct Investment presents a mixed picture. The industrial reforms have gone shady, they are supplemented by more infrastructure reforms and increase in service sector rather than any significant industrial growth which is a critical missing link.

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