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FOREIGN DIRECT INVESTMENT (FDI) – A BRIEF STUDY

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ABSTRACT

FDI is Foreign Direct Investment, which now days is a much talked about topic in common parlance, but still there exist a very thin veil which needs to be taken off so that a common man can understand what FDI is all about, and the things it has in her lap to offer them. An attempt is made in this regard to sum up as far as possible the latest trends and development in this regard.

KEYWORDS: *Foreign Direct Investment, Cheaper Wages, Economic Development, Tax Exemptions*

INTRODUCTION

Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of cheaper wages, special investment privileges like tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generation of employment.

The continuous inflow of FDI in India, which is now allowed across several industries, clearly shows the faith that overseas investors have in the country's economy.

The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others.

WHAT DOES FDI MEANS

Foreign Direct Investment as a very basic stage refers to cross-border investment made by a resident or an institution in one country in an enterprise in another country, with an ultimate objective of establishing a lasting interest in the investee country.

It can also be said as an investment in the business of a country by a company in another country. Majorly the investment is in the production facility either by buying a target company in the target country or by expanding operations of an existing business in that country. Such investments can take place for various reasons, including among others to take an advantage of low wages, special investment incentives (like tax exemptions) offered by the host country.

MOTIVE BEHIND FDI

a) Harness the underutilized resources of the target country;

b) Foreign capital is usually required, at least for a temporary period, when capital market is in a developing stage;

c) Domestic capital sometime is not sufficient for economic growth;

d) Foreign investment usually brings with it business expertise, technical advancement and knowledge, inventions etc.

BENEFITS OF FDI FOR THE HOST COUNTRY

a) Fresh capital is bought in the country which leads to capital formation;

b) New technology, management expertise, intellectual property are among others which FDI brings with itself;
c) Leads to increase in forex reserves of the country;
d) New avenues for employment are generated;
e) Production in the host country increases and further increases in the GDP of the economy;
f) Due to increased production economy of scale is achieved;
g) Exports of the country increases;
h) Tax revenues for the country increases;
i) Country gives various incentives for Exports.

DRAWBACKS OF FDI

a) Multinational corporates brings in with them huge technological advancement, which sometimes harms the labor intensive culture and industry in the host country;
b) Due to the heavy investment from abroad, there is a threat to small companies of being there elimination from the competition;
c) There is a possibility of less government interference in the functioning of these corporates, due to the agreements and international commitments, further to invite them government gives various benefits to them which ultimately lead to reduction of government control.
d) Fear of losing business to overseas companies;
e) There is a threat of creation of monopoly due to big giants entering in the local market and capturing the same;

RECENT UPDATES ON FDI IN INDIA

Government has raised the FDI cap in the second round of economic reforms, which are as follows:

a) In insurance sector FDI is raised to 49% from 26%;
b) In pension sector FDI of 26% has been approved;
a) In multi brand retail FDI upto 51% is now allowed (which is the main apple of discoed);
b) FDI norms has been relaxed for broadcasting and sectors;
c) In Broadcasting sector FDI has been increased upto 74% from previous 49%;
d) Allowed FDI in power exchanges;
e) FDI in single brand retail outlets has been increased fully allowed and the previous cap of 51% has been taken off.

VARIOUS MODES OF INVESTING IN INDIA THROUGH FDI CHANNEL

A business entity in India may receive FDI under the following two routes:

a) Automatic Route: Under the automatic route there is no need to take any approval from any department of the Government of India, nor from Reserve Bank of India. The sectors which fall under this category are those which are specified in the FDI Policy issued by the Government of Indai.at various intervals.

b) Government Route: The sectors and activities which are not covered under the automatic route needs a prior approval from the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance, Government of India.

In recent years India has come up as a most sought after location for FDI. There are many factors which supports this statement. Among many others following are some of the major factors which really help to substantiate this statement:

a) India being the 3rd largest economy of the world offers great deals in the segment FDI;
b) The relative reforms that India has gone through in 1990's makes it a hotspot for foreign multinationals;
c) The recent developments in FDI sectors by the Government of India, including removing the caps from various sectors has made India a heaven for foreign investments.

Following are the acceptable modes for the receipt of FDI in India, as per the guidelines issued by the Government of India

An Indian company issuing shares /convertible debentures under FDI Scheme to a person resident outside India shall receive the amount of consideration required to be paid for such shares /convertible debentures by:

a) Inward remittance through normal banking channels.
b) Debit to NRE / FCNR account of a person concerned maintained with an AD category I bank.
c) Conversion of royalty / lump sum / technical knowhow fee due for payment or conversion of ECB shall be treated as consideration for issue of shares.
d) Conversion of import payables / pre incorporation expenses / share swap can be

treated as consideration for issue of shares with the approval of FIPB.

e) Debit to non-interest bearing Escrow account in Indian Rupees in India which is opened with the approval from AD Category – I bank and is maintained with the AD Category I bank on behalf of residents and non-residents towards payment of share purchase consideration.

If the shares or convertible debentures are not issued within 180 days from the date of receipt of the inward remittance or date of debit to NRE / FCNR (B) / Escrow account, the amount shall be refunded. Further, Reserve Bank may on an application made to it and for sufficient reasons permit an Indian Company to refund / allot shares for the amount of consideration received towards issue of security if such amount is outstanding beyond the period of 180 days from the date of receipt

Following are some of the most attractive sectors in India for FDI:-

a) Telecommunications
b) Apparels
c) Information Technology
d) Pharma
e) Auto parts
f) Jewelry
g) Chemicals

FDI in India is prohibited in the following sectors both under the Government as well as the Automatic Route:-

a) Atomic Energy
b) Lottery Business
c) Gambling and Betting
d) Business of Chit Fund
e) Nidhi Company
f) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations) (c.f. Notification No. FEMA 94/2003-RB dated June 18, 2003).
g) Housing and Real Estate business (except development of townships, construction of residen-tial/commercial premises, roads or bridges to the extent specified in Notification No. FEMA 136/2005-RB dated July 19, 2005).
h) Trading in Transferable Development Rights (TDRs).
i) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

Recent developments in Retail sector for FDI in India, which certainly is the most debatable among the whole lot in political circles. With effect of the liberalization policy set out in the Industrial Policy of 1991, the government of India has slowly opened up the FDI in retail sector through a series of steps and initiatives. Among many others, following sums up the most significant of them all:

1. 1995: World Trade Organization's (WTO) General Agreement on Trade in Services, included both wholesale and retailing services, for FDI, came into effect;
2. 1997: 100% rights are allowed for FDI in cash and carry (wholesale) segment under the government approval route;
3. 2006 : FDI in cash and carry (wholesale) was brought under automatic approval route and Upto 51% FDI is allowed in single brand retail outlet, subject to Press Note 3 (2006 series)
4. 2011: FDI in Single Brand Retail is fully (100%) allowed;
5. 2013: Government of India allowed 51% FDI in multi-brand retail, furthermore it has also relaxed FDI norms for civil aviation and broadcasting sectors;
6. 2015: On May 2015, In the consolidated FDI policy document released by the government of India, FDI in multi brand retail has been retained as 51%.

With the FDI, there is a need of specific establishment of certain institutions and authorities to monitor the same. Government of India has following authorities which deals with all the matters related to FDI:

a) **Foreign Investment Promotion Board (popularly known as FIPB)**: The Board is responsible for expeditious clearance of FDI proposals and review of the implementation of cleared proposals. It also undertakes investment promotion activities and issue and review general and sectoral policy guidelines;

b) **Secretariat for Industrial Assistance (SIA)**: It acts as a gateway to industrial investment in India and assists the entrepreneurs and investors in setting up projects. SIA also liaison with other government bodies to ensure necessary clearances;

c) **Foreign Investment Implementation Authority (FIIA):**

The authority works for quick implementation of FDI approvals and resolution of operational difficulties faced by foreign investors;

d) **Investment Commission**;

e) **Project Approval Board**;

f) **Reserve Bank of India.**

Table-1, Share of top investing countries in FDI equity inflows (April 2000 – May 2015):

S. No.	Country	Percentage to total Inflows (In terms of Us $)	Amount in Rs Crores (US$ in million) Cumulative Inflow
1	Mauritius	35%	436,319
2	Singapore	14%	185,549
3	UK	9%	109,100
4	Japan	7%	95,265
5	Netherlands	6%	80,964
6	USA	6%	70,357
7	Germany	3%	41,735
8	Cyprus	3%	39,498
9	France	2%	23,182
10	UAE	1%	15,410
	Total FDI Inflows From All Countries		**1,280,721**

CONCLUSION

After having gone through the brief study that is presented above, it can rightly be said that India has come really far in FDI, but there are somethings that still that needs to be done so as to make India a real heaven for Foreign Investment.

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