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INDIAN ECONOMY AND FOREIGN DIRECT INVESTMENT

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ABSTRACT

Recently whole of India came into action on the issue of foreign direct investment (FDI) in multi brand retail sector and there is huge protest all over the country against FDI. The Central Government headed towards even instability a bit.

Keyword: FDI

INTRODUCTION

What is FDI?

Foreign direct investment (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, reinvestment of earnings ,other long term capital, and short-term capital as shown in 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. A recent UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2011.

India receives the maximum investment from countries like Mauritius, USA, UK Singapore, the Netherlands and Japan.

Government of India policies for FDI

Government of India recognizes the key role of Foreign Direct Investment (FDI) in economic development not only as an addition to domestic capital but also as important sources of technology and global best practices. The Government of India has put in place a liberal and transparent FDI policy.

Since the beginning of economic reforms in 1991, major reform initiatives have been taken in the fields of investment, trade, financial sector, Exchange control simplification of procedures, enactment of competition and amendments in the intellectual property rights laws, etc. India provides a liberal, attractive and investor friendly investment climate. India has among the most liberal and transparent policies on FDI among the emerging economies.

Steps taken by the Government of India to raise FDI

Important Policy initiatives taken in the recent past include raising FDI equity limit in domestic airlines sector to 49% and placing it under the automatic route; allowing FDI up to 100% under the automatic route for the development of townships, housings, builtup infrastructure and construction development of projects; procedural simplification for approval of proposals for new joint ventures, technology collaborations with existing joint ventures, technology transfer /trade marks agreement in India and transfer of shares from existing Indian companies.

In a major policy reform, the government on March, 2011 announced flexibility for Indian companies to raise overseas capital but plugged the breaching sectoral caps. Under the new norms, Indian companies have been allowed to issue equity against import of capital goods and liberalise conditions for seeking foreign investment for production and development of seeds. The facility of conversion of capital goods import into equity was earlier available for companies raising external commercial borrowings (ECBs). The government, as per the third consolidated FDI policy circular—a ready reckoner on foreign investment-related regulations—also removed the restrictive condition of obtaining prior approval of Indian companies for making investments in the 'same field'. The new FDI policy allow 100 percent FDI I development and production of seeds and planting material, floriculture, horticulture, ad cultivation of vegetables and mushrooms under controlled conditions.

In a recent move the RBI by amending the foreign Exchange management Regulations, the RBI said its prior permission would not be necessary where the company whose shares were being transferred was engaged in any financial service.

The RBI permission had also been done away with for transfer of shares between residents and non-residents in cases where the Foreign Investment Promotion Board (FIPB) had already given its clearances and the SEBI guidelines are met. The steps had been taken as a measure to further libralise and rationalize the procedures and policies governing foreign direct investment in India.

Recent Initiatives

The Central Government on April 1, 2011, unveiled a major policy reform allowing flexibility for Indian companies to raise funds from abroad. At the same time, it plugged the loopholes for backdoor FDI entry breaching sectoral caps. The new circular issued by the Department of Industrial policy and promotion (DIPP) states that under the new norms, Indian companies have been allowed to issue equity against import of capital goods and liberalize conditions for seeking foreign investment for production and development of Agriculture seeds. The facility of conversion of capital goods import into equity was earlier available for companies raising external commercial borrowings (ECBs).

The Centre also announced allowing 100 per cent foreign direct Investment (FDI) in the agriculture sector, including seeds , plantation , horticulture and cultivation of vegetables. 100 per cent FDI has been now allowed in development and production of seeds and planning material, horticulture, floriculture, and cultivation of vegetables and mushrooms under controlled conditions and services related to agro and allied sectors have been brought under the 100 per cent FDI norm. Similarly, the tea sector has also been brought under the 100 per cent FDI norm. The DIPP has imposed certain conditions for companies dealing with development of transgenic seeds and vegetables wanting to take the 100 per cent FDI

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route. Under the 100 per cent FDI in tea sector. It demands compulsory divestment of 26 per cent equity of the company in favour of an Indian partner/ Indian public within a period of five years prior to approval of the State Government concerned in case of any future land use change.

The Union cabinet on September 14 cleared the proposal of foreign direct investment (FDI) for 51 per cent in the multi-brand retail chains and 49 percent in Aviation power exchange industry.

Conditions put forward for investors in the proposal for the multi-brand retails. The proposal makes a clear stand that investors looking ahead for investments will have to take the permission in form of approvals from the foreign Investment Promotion Board.

Investment of minimum $100 million is a must for any foreign investor planning to invest in India, out of which 50% of the investment should be made in creation of backend infrastructure. Back-end investment means investments that are made in quality control, warehouse creation, cold storage, design improvement, manufacturing, processing and packaging.

The investors will have to get 30% of the production of their total products by the small-scale industries.

The proposal also clears that the agriculture produce like pulses, flowers, fruits, vegetables, poultry item, Fishery , meat and others can be unbranded.

Investors can invest in the 51 cities with a minimum population of 10 lakhs people as per the census presented in the year 2011, for making investment in the aviation sector.

This will help in making equity invasion for the aviation companies seeking financial support at the time when maximum of the domestic airlines are passing through a phase of losses.

Investors who are functional in airline business can own equity of 49 percent directly or indirectly in the Indian Aviation Companies.

FDI in power Exchange will be guided via

49 percent of FDI in power trading exchanges will be taken care of as per the regulation laid down by SEBI and Central Electricity Regulatory omission (power market regulations)2010.

The commerce minister stated that Foreign Institutional Investors cannot exceed a limit of 26 percent investments and the paid up capital will be restricted to 23 percent.

FII can be permitted under automatic routes whereas; the FDI will be scrutinized under the route approved by the government.

The generation of electricity, poer transmission and distribution along with trading will be done in accordance to the provisions of the Electricity Act 2003.

The current policy allows FDI up to 100 percent in power sector (atomic energy is an exception).

For different economic sections of India

Economy: Help in reversal of the economic slowdown, attract the investments of billions of dollars from foreign market and spin jobs to a greater extent.

Kirana stores: Will lower down the selling price, because they will purchase the supplies from deep down retailers.

Retailers: Can sell their equity up to 51% to the global leaders.

Farmers: they can sell their produce directly at higher prices and the presence of middle man will end.

Sates: Decision to allow the retail giants or prohibit lies in the hands of states.

Common Man: A chance to gain big discount with many options to shop.

UPA government: Got a chance to wash away the blames of policy paralysis.

Advantages of FDI

- FDI provides capital which is usually missing in the target country. Long term capital is suitable for economic development.
- Foreign investors are able to finance their investments projects better and often cheaper.
- Foreign corporations create new workplaces.
- FDI bring new technologies that are usually not available in the target country.
- Foreign corporations provide better access to foreign markets.
- Foreign corporations bring new know-how and managerial skills into the target country.
- Foreign corporations can help to change the economic structure of the target country.
- Foreign corporations improve the business environment of the target country.
- Foreign corporations bring new "clean" technologies that help to improve the environmental conditions.
- Foreign corporations usually help increase the level of wages in the target economy.
- Foreign corporations usually have positive effects on the trade balance.

Disadvantages of FDI

- Foreign corporations may buy a local company in order to shut it down (and gain monopoly for example)
- "Crowing out" effect: We can see this effect if the foreign corporations target domestic market and domestic corporations are not able to compete with these corporations.
- Foreign corporations may cut working positions(privatization deals or M & A transactions)
- Foreign corporations have a tendency to use their usual supplier which can lead to increased imports(no problem if the production is export driven)
- Repatriation of the profits can be stressful on the balance of payments.

- The high growth of wages in foreign corporations can influence a similar growth in the domestic corporations which are not able to cover this growth with the growth of productivity.
- Missing tax revenues: If the foreign corporations receive tax holidays or similar provisions.
- The emergence of a dual economy: The economy will contain a developed foreign sector and an underdeveloped domestic sector.

CONCLUSION

There are two main views regarding how FDI in retail will affect the common people in India and in both of them deregulation is the major issue. The advocates of FDI in retail believe that when the economically affluent have concessions it will leat to greater investments and economic progress which will turn help the ones below them. In India, we have 11 shops per 1000 people. India has 1.2 crore shops, which gives employment to about 4 crore people. It is argued that FDI will bring new technology to India and it will bring proper refrigeration technology so that wastage of food/grains can be stopped. Why can't our government build storages for refrigeration of food? Is it ok to open our country's gates for foreign giants just because of this reason? Why we are not passing 'Food Security Bill', which is still in the parliament? If government is not capable of building a supply chain and infrastructure, we can open this field for Indian entrepreneurs. Today, when the American President is requesting their citizens to buy goods from small retailers, we are inviting them to our country. These companies have ruined their own country and we are expecting that they will save our farmers and food. We are expecting that they will give new technology and will invest in India to help our poor fellows. This is bull. Argument that only foreign companies can create the supply chain for farm produce is totally illogical. International retail players have no role in building roads or generating power. They are only required to create storage facilities and cold chains. This could be done by government of India also.

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