Foreign Direct Venture in Market Atmosphere

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Abstract

This paper examines spillover effects of the activities of multinational firms and Foreign direct investment (FDI). Such effects are most likely to be found in host countries, where the operations of foreign multinationals may influence local firms in the Multinational Corporations (MNCs) own industry as well as firms in other industries. However, there is no comprehensive evidence on the exact nature or magnitude of these effects, although it is suggested that host country spillovers vary systematically between countries and industries. In particular, the positive effects of foreign investment are likely to increase with the level of local capability and competition. The spillovers to the home countries by MNCs are often more difficult to identify, for various reasons. Earlier studies suggest that the effects are generally positive, but the increasing international division of labor within multinationals complicates the analysis. The impact on the home country is likely to depend on what activities these firms concentrate at home. Now FDI has increased in retail trading sectors and insurance and Gross Domestic Product (GDP) has increased in market condition

KEYWORDS: FDI, GDP, Growth Rate, Government expenditure, MNC, BRICS.

Introduction

With a Gross Domestic Product (GDP) growth of almost 7 percent, India is one of the most promising and fastest-growing economies in the world. But despite the huge potential of the country, the performance of Multinational Corporations (MNCs) in India has been decidedly mixed. Many MNCs which have succeeded remarkably elsewhere in the world have yet to make a significant impact in India. The market entry and penetration strategies that have worked so well for these companies in other countries have been for less successful in India. Many MNCs have struggled to understand Indian customers and come up with suitable products and services. At the same time, some MNCs have done pretty well for themselves. Why have some MNCs done so well where others have failed? This article is an attempt to provide an intuitive explanation of what determines success in the Indian market place.

GDP GROWTH RATE

The Indian economy is passing through a difficult phase caused by several unfavorable domestic and external developments; Domestic output and Demand conditions were adversely affected by poor performance in agriculture in the past two years. The global economy experienced an overall deceleration and recorded an output growth of 2.4% during the past year the performance in the first quarter of the financial year is5.8% and secondquarteris6.1%.

Tax GDP ratio

Country	Tax/GDP ratio
Australia	30.5
Canada	33.4
China	17.0
France	46.1
Germany	40.6
India	17.7
Italy	42.6
Japan	27.4
New Zealand	36.5
United kingdom	39.0
United states	28.2

Source: Wikipedia

GOVERNMENT EXPENDITURE AND SERVICES (YEAR –ON –YEAR GROWTH)

	2010-11				2011-12				2012-13				2013-14				2014-15			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP at factors cost	7.9	7.7	5.8	5.9	6.3	8.6	7.3	9.4	8.5	7.6	8.2	9.2	8.0	6.7	6.1	5.3	5.5	5.3	4.5	NA
Services	10	9.8	9.5	8.4	7.7	7.5	10.0	7.3	8.5	10.1	9.5	8.6	9.3	8.5	8.7	7.5	7.4	7.1	6.0	NA
GFEC	-0.2	2.2	56.6	21.5	15.3	30.5	2.5	2.1	6.7	6.4	1.9	4.9	4.9	7.2	4.7	4.1	8.3	8.0	1.9	NA

Source: RBI Macro Economic Monetary Development and CSO

EXPORT AND IMPORT

India's Export and Import in the year 2006-07 was to the extent of 32,572 and 38,362 million respectively. Many Indian companies have started becoming respectable players in the International scene. Agriculture exports account for about 13 to 18% of total annual of annual export of the country. In 2005-06 Agricultural products valued at more than US $ 6million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice),oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the country's total agricultural exports.

India clearly lags in globalization. Number of countries has a clear lead among them China, large part of east and far east Asia and Eastern Europe. Over the past decade FDI flows into India have averaged around 0.5% of GDP against 5% for China 5.5% for Brazil. Whereas FDI inflows into China now exceeds US $ 50 billion annually. It is only US $ 4billion in the case of India Considering global trade – India's share of world merchandise exports increased from .05% to .07% over the past 20 years. Over the same period China's share has tripled to almost 4%. India's share of global trade is similar to that of the Philippines and economy 6 times smaller according to IMF estimates. India under traders by 70-80 percent is given its size, proximity to markets and labor cost advantages.

Exports Rate of Change

Year	%
2006-07	22.1
2007-08	15.0
2008-09	27.9
2009-10	21.6
2010-11	25.3
2011-12	14.7
2012-13	28.2
2013-14	(13.7)

Source: economic survey 2014-15

It is interesting to note the remark made Governor of RBI. Despite all the talk, we are now where ever close being globalised in terms of any commonly used indicator of globalization. In fact we are one of the least globalised among the major countries however we look it as AmartyaSen and many other have pointed out that India, as a geographical, politico-cultural it has been interacting with the outside world throughout history and still continues to do so. It has to adapt, assimilate and contribute. This goes without saying even as we move into what is called a globalised world which is distinguished from previous eras from by faster travel and communication, greater trade linkages, denting of political and economic sovereignty and greater acceptance of democracy as a way of life.

FOREIGN DIRECT INVESTMENT

Foreign direct investment is the acquisition of assets in a country by foreign entities for the purpose of control. FDI owes of at least 10% of a business. According to the Ministry of Commerce & Industry, "FDI is freely allowed in all sectors including the services sector, except a few sectors where the existing and notified sectoral policy does not permit FDI beyond a ceiling. FDI for virtually all items/activities can be brought in through the Automatic Route under powers delegated to the Reserve Bank of India (RBI), and for the remaining items/activities through Government approval. Government approvals are accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).Currently; foreign companies are only allowed to own 10% of a business in the retail sector. Prime Minister Manmohan Singh is trying to convince his coalition partners to open up FDI along the lines of what is allowed in other industries. FDI limits for other sectors are as follows:

- Banking - 74%
- Non-banking financial companies (stock broking, credit cards, financial consulting, etc.) - 100%
- Telecommunications - 74%
- Private petrol refining - 100%
- Construction development - 100%
- Coal & lignite - 74%
- Trading - 51%
- Electricity - 100%
- Pharmaceuticals - 100%

GDP IN BRICS 2015

Countries	(trillion)
China	8.25
Brazil	2.43
Russia	1.95
India	1.95
*South Africa	390.90
*in billion	IMFestimates

Source: BRICS countries and International Monetary Fund, Business Line March 28.2015.

Per Capita GDP in 2015

China	Brazil	Russia	India	South Africa
$6094	$12340	$13765	$7636	$390.90

Source: Business Line March 28.2015.

Source: BRICS countries and International Monetary Fund.

BRICS----- A Fact file

- ✓ **The BRICS countries make up 21% of global GDP.**
- ✓ **They have increased their share of global GDP 3 fold in the past 15 years.**
- ✓ **The BRICS are home to 43% of the world's population.**
- ✓ **The BRICS countries have combined foreign reserve of an estimated $4.4 trillio**

FDI Inflows in India

Developing countries like India need significant foreign inflows to achieve the required investment to accelerate economic growth and development.

Top 10 Investing Countries in India Table

(Rupees in Crores)

Si no	**Country**	**2014-2015**	**Percentage**
1	Mauritius	31855	44.91
2.	Singapore	7730	10.90
3.	Japan	7063	9.96
4.	Netherlands	5501	7.76
5.	USA	5353	7.55
6.	Cyprus	4171	5.88
7.	UK	3434	4.84
8.	France	3349	4.72
9.	UAE	1569	2.21
10	Germany	908	1.28
Total FDI Inflows		70933	100.0

Source: Department of industrial policy promotion, Ministry of Commerce and Industry, India

It is clear from table that the Mauritius has been placed number one location among the different investing countries in India registering Rs 31855 crores followed buy Singapore with Rs.7730 crores .It is also manifest from the Table that many countries have been showing interest in investing in India.

Top FDI Recipients

As per the UNCTAD world Investment Report 2010, India is projected to become the second most attractive destination for Foreign Direct Investment (FDI) during 2010-12

Rank	Country	FDI inflows during 2009,in million us$
1	USA	129883
2	China	95000
3	France	59628
4	HongKong	48449
5	UK	45676
6	Russian Federation	38722
7	Germany	35606
8	Saudi Arabia	35514

9	India	34613

Source: Rajya Sabha Starred Question

Foreign Direct Investment (FDI) –April –September2010

Sector	%age to total Inflows (in term of $)
Service	21%
Computer software, hardware	9%
Telecommunication	8%
Housing and real estate	7%
construction	7%
Power	4%
Automobile	4%
Metallyrgical industries	3%
Petroleum and natural	3%
chemicals	2%

Source; Department of industry policy promotion

Policies and developments in the rest of the world. This constrained the policy option available to the government which implies loss of policy autonomy to some extent, in decision-making at the national level.

FDI Policy in India:

FDI as defined in Dictionary of Economics (Graham Bannock et.al) is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new (Greenfield) site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time.

The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectoral policy/ sectoral equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).

The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board (FIPB) would be required.

FDI Policy with Regard to Retailing in India:

It will be prudent to look into Press Note 4 of 2006 issued by DIPP and consolidated FDI Policy issued in October 2010 which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route.
b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of 'Single Brand' products, subject to Press Note 3 (2006 Series)
c) FDI is not permitted in Multi Brand Retailing in India.

CONCLUSION

Recognizing the importance of FDI as an instrument of technology upgration, augmentation of foreign exchange resource as well as of globalation of the Indian economy, it is being activitvely sought in a wide range of industries with high priority, export oriented and infracturesector.FDI has become a key to develop the nation this has been recognized and implemented by many countries in the world .No nation escapes to develop on FDI for plenty of funds. The growth in FDI inflows into the country is spectacular and the reasons are not far to seek there is an outflow of Indian direct investment tookes countries in the world .as every coin has two focus, FDI is not an exceptional to it. By careful observation and to safeguard the national interest, by updating policies according urgent needs, nation can avoid age and evils of FDI inflows.

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