Foreign Direct Investment - Challenges and Opportunities

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Abstract

Foreign Direct Investment is Direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operation in that country. The role of FDI in accelerating economic growth is by way of infusion of capital, technology and modern management practice. FDI is benefited in major sector such as manufacturing retailing, telecommunication, aviation, etc. For steady boom all these sector and to eliminate the inflation; proper investment polices and legal framework should be preferred while welcoming FDI in India.

KEYWORDS - FDI, Challenges and Opportunities, Investment Policies

Introduction :

Since the early 1990 the Indian economy was opened up its door for liberalization and reforms program aiming to raise its growth potential and integrating with the world economy by implementing the new Industrial policy in 1991.

India has emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment. Today by financial year 2013, it has been seen that the Indian government has made the very much relaxation of rules and regulations that had been levied on the FID in India. Because of which various Indian market sector have experienced a recent progress and boom.

The huge private sector and grater middle class population provides Indian a key place in international competition. According to new economic policy foreign investment are greatly essential for India to become regularly competent in international trade.

Foreign Direct Investment :

Foreign Direct Investment is Direct investment into production in a country by a company in another country, either by buying a company in the target country or by expanding operation in that country. promotion of FDI forms an integral part of industrial policy. The role of FDI in accelerating economic growth is by way of infusion of capital, technology and modern management practice. FDI is seen as an important sources of non-debt inflows, and is increasingly being sought as a vehicle for technology flows and as a means of attaining competitive efficiency by creating a meaning network of global interconnection. FDI plays a vital role in the economy because it does not only provide opportunities to host countries to enhance their economic development but also opens new vistas to countries to optimize their earning by employing their ideal resources.

Objectives :

1) To study the important and problems of FDI.

2) To study the FDI flow sin various sector in Indian Economy.

FDI Inflows in certain Important Sectors :

1) **Manufacturing & Constriction sector**-Manufacturing sector has a lion's share of FDI to Indian. As per the data given by RBI, manufacturing and construction these tow sector have been the largest recipients of FDI in financially year 2012, followed by financially services and power generation and distribution. Now, India's goal is to increase the share of manufacturing in the economy from 16 percent to 25 percent by 2022.

2) **Banking Sector**-In the private banking sector of India, FDI is allowed up to a maximum limit of 74% of the paid of capital of the bank. On the other hand, FID in public or nationalized banks in India are subjected to a limit of 20% in totality. At all times, at least 26% of the paid up capital will have to be held by residents.

3) **Automotive Sector** :The automotive sector in India attracted 78 FDI deals during 2011,a Increase of 28% in comparison to the year 2010. Although the sector made up 8% of total FDI projects in India is created most jobs. India is now the world's seventh largest passenger vehicle manufacture and the second largest medium and heavy commercial vehicles and 2-wheelers market. Better and diversified products due to the competition effects add' to consumer welfare.

4) **Technology Sector**-The FDI in the technology sector in Indian has a major impact on the Indian economy. The industry has grown from us$4 billion in 1998 to more than us$80 billion in 2011, employing directly and indirectly more than 10 million people Through outsourcing the services, domestic and international companies have leveraged India's value proposition to enhance their competitiveness in the global market.

5) **Health & Medical Services-**India is aspiring to become a global powerhouse, and there is active focus on improving the health of the nation. The Government permits 100% FDI for health & medical services under the automatic rout. Thus, medical services are likely to play an important role in taking healthcare to remote under penetrated areas.

6) **Power**-The Government of India has taken a number of initiatives to promote the sector. The market's concern over future energy price rises is expected to boost interest in power saving technologies. This will likely to support the country's goal of 15% of green electricity by 2020. Power generation and distribution is the second largest sector contributing its share of FDI to India by financial year 2013.

7) **Retail &Consumer Products**-The consumer product sector made up 10% of total FDI projects in India and created over 28400 jobs in 2011. Investors in this sector are interested in accessing India's rapidly growing middle class, which is increasingly able to afford consumer products. In particular, investors have observed growth in the packaged food and beverages sector.

8) **Telecommunication**-The government has allowed 100% FDI through automatic route for manufacturing of telecom equipment's. Foreign enquiry of 74% (49% under automatic route) permitted for telecom services-basic, cellular mobile, paging, and value added services .FDI helps in attracting large amount of foreign capital, advances technology and market competitiveness which result in better services for the customer.

9) **Broadcasting**- The government of India announced the FDI limit in direct-to-home (DTH),cable networks and teleports to 74% & in News and Current Affairs TV Channels /FM Radio to 26%.It is a welcome step for the sector as it will lead to technological improvement in India.

10) **Aviation Sector**-The government allow 49%investment by foreign airlines in the aviation sector. This decision is intended to revive investor's confidence, revive downward trend growth and provided the much needed momentum to the economy. These measures would boost both foreign and domestic investor's confidence.

11) **Retail Sector**-The government has announced 100%FDI in single-brand retailing and in multi-brand retail up to the level of 51%.But there is restriction that the companies must source 30% of their products and material from Indian companies which will encourage manufacturing joint ventures in the country. Retail sector would help in reaping the benefits of organized supply chain and reduction in wastage in terms of better prices to both farmers and consumer.

However, India's FDI inflows declined nearly 19 percent US$1.10 billion in December 2013, due to global economic uncertainties. The sector which received large FDI in flows during the nine month of this fiscal year include services, hotel and tourism, metallurgical, constriction and automobiles.

- Multinational companies as from the rest of the world. it is because of good reputation that they can raise funds from International Financial Institution.
- FDI enters in India via ventures which are exclusively MNCs or foreign companies; it raises competition in India by bringing in superior technology at lower cost.

Challenges :

1) FDI eliminates to the small producers from international and national level competition. Domestic small independent stores will be compelled to close. This will lead to massive job loss as most of the operations in big stores like WALMART are highly automated requiring less work force.

2) Big foreign can knock-out competition; they can afford to lower prices in initial stages, become monopoly and then raise prices later.

3) Indian does not need foreign retailers as they can satisfy the whole domestic demand.

4) At the end of FY 2012 FDI inflows declined and manufacturing sector is one which pulled down India's GDP growth .The government is offering incentives, like exemption from capital gains tax and a liberalized labour and environment norms to promote these zones. It proposes to create 100 million jobs by 2020.

5) MNCS can bring in inappropriate capital intensive technologies and stimulate inappropriate production patterns which may be harmful for India.

6) India is having greater number of middleclass population which can be moved as valuable resources. Our education system, infrastructure facility mostly in the rural regions has to be strong for India's overall economic growth.

7) Problem of employment in rural is not adequately solved. India has to create the valuable education system, qualitative infrastructure, adequate and satisfactory wage system.

8) Problem of centralization of FDI projects is occurring in India. Foreign investors prefer only facilitated areas for the establishment of their ventures therefore the projects are centralized in a particular area.

9) FDI favors only urban regions for the investment and neglect rural & backward regions. For that permission should be given to those foreign investors who will ready to invest both in urban as well as in rural regions of India.

10) FDI is not the only way of foreigner's investment in various sector of India, but regional industrial development and equilibrium should be achieved through policies and structure.

11) Some economists, corporate researchers suggested that, India's regulatory policies in terms of procedural delays. Complex rules and regulations related to land acquisition legal requirements and environmental obligations might have played a role in holding the investors back from investing into India.

Conclusion:

Foreign inflows are considered to be important fuel for any country's economic engine. India has taken several initiatives in terms of Government policies, liberal reforms and investor-friendly business environment, to attract FDI into the country. India also remains on course on it’s policy of encouraging capital flows in a cautions manner.

FDI is benefited in major sector such as manufacturing retailing, telecommunication, aviation, etc. For steady boom all these sector and to eliminate the inflation; proper investment polices and legal framework should be preferred while welcoming FDI in India.

To compete in international trade, to survive domestic business, to upgrade old technology and primarily to increase number of employments FDI plays a vital role in Indian economy.

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