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A study on foreign direct investment in India

Dr.T.Vijayalakshmi.
Assistant Professor/ MBA
K.S.R. college of Engineering
Email.id:mpssenthilviji@gmail.com
S.Sivaganesh.
I-MBA
K.S.R. College of Engineering
Email id:ssiva1997@gmail.com
B.Ashok Kumar.
I-MBA
K.S.R. College of Engineering
Email id:ashokrao2027@gmail.com

Abstract:

Foreign direct investment plays an important role in the economic development of the country. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route. The paper tries to study the need of FDI in India, to exhibit the sector-wise & year-wise analysis of FDI's in India, to rank the sectors based upon highest FDI inflows. The results show that Mauritius is the country that has invested highly in India followed by Singapore, Japan, and USA and so on. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2010 to 2015.

Introduction:

FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. There are many businesses or individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Alongside opening up of the FDI regime, steps were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors.

Meaning of Foreign Direct Investment:

According to the IMF and OECD definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The "lasting interest" implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises4 , both incorporated and unincorporated. It should be noted that capital transactions which do not give rise to any settlement, e.g. an interchange of shares.

Objectives of the Study:

- To study the various factors affect FDI in retail sector in India.
- To study the threats for small retailers due to entry of foreign retailers
- To study the challenges to the retail industry in India.
- To analyze the retail operation system in India.
- To study the significance of FDI for developing countries in bridging the gap between the saving and Investment.

- To analyse the trends of FDI & FIIs in the recent past in developing country like India after economic reforms.
- To study the impact of FDI & FIIs in improving the quality and availability of goods has been beyond doubt.
- To know the requirement of amount of foreign investment by India, for its economic Development
- The main objective is to analyze the current scenario in India
- To investigate the controversial views of the Indian trade of various investments.
- To evaluate the likely challenges and threats of FDI in India.
- To know the requirement of amount of foreign investment by India, for its economic.
- Development To know the significance of FDI for developing countries in bridging the gap between the saving and investment.

The Scope of Foreign Direct Investment in India:

The foreign direct investment into India is a process for facilitating people to invest in India. If you are really interested in doing business in India with the help of foreign capital then make sure that you are investing in the right source and you can do this in a number of ways. Even when India was going through tough times, it was still a good financial breeding ground for all foreign investors. They have never felt the pressure as their genre of investment has always been unleashed for the purpose of ushering more capital within the country.

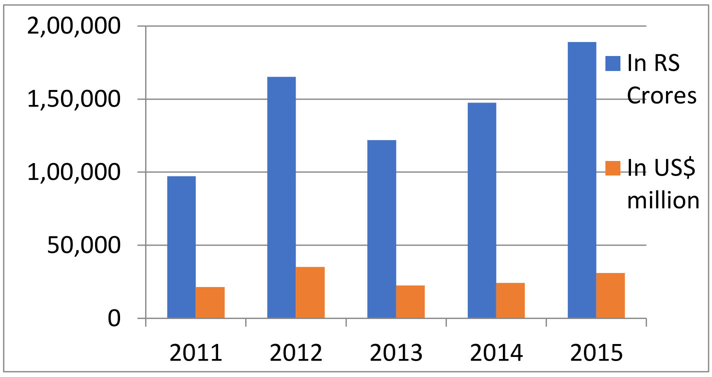
There have been several Indian infrastructures who may have suffered in the field of production and manufacturing due to lack of essential capital. However, a good way for them to survive is by offering FDI equity to companies or individuals who would be interested in making huge capital investments.

Foreign direct investment in India is done in several ways. Investment can take place through effective financial collaborations. In this case the common interest is the yearly financial turn over and to make this work out two or more companies come in association and they share much in contributing towards a common financial consensus. The effort has to be there from both the ends, from the part of the investor and also from the part of the collaborator. When collaborating, you can keep the leadership factors aside and think about a healthy togetherness contributing towards a bigger financial platform.

As a way towards **FDI equity** is also a joint venture and a technical collaboration. Once the company delivers the plan of taking things technically ahead then other can contribute in a different way. It is more technical and less of financial collaboration.

Foreign direct investment in India is not permissible in all industrial sectors as it is not allowed in the domain of arms and ammunition. You cannot invest in the field of atomic energy. You cannot invest anything related to railway and transport and you cannot even put your money in the field of coal and lignite. It is even not permissible to invest money in matters of metal mining. Thus, keeping aside these domains you still have a huge scope for investment.

Foreign Direct Investment Inflows :



Foreign Direct Investments/ developments in INDIA:

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US$ 770 million).

Some of the recent significant FDI announcements are as follows:

- Kellogg Co, world's largest cereal maker, is making large investments in manufacturing and plans to set up its first Research and Development (R&D) facility in India at Taloja, near Mumbai.
- The Government of Karnataka has signed an agreement with the Taiwan Electrical and Electronic Manufacturers Association for the purpose of creating a Taiwanese electronic manufacturing cluster near the Bengaluru airport, with an investment expectation of Rs 3,200 crore (US$ 500 million).
- Posco Korea, the multinational Korean steel company, has signed an agreement with Shree Uttam Steel and Power (part of Uttam Galva Group) to set up a steel plant at Satarda in Maharashtra.
- Foxconn has signed a Memorandum of Understanding (MoU) with Maharashtra state government to invest US$ 5 billion over the next three years for setting up a manufacturing unit between Mumbai and Pune.
- Global giants such as Bombardier, Hyundai-ROTEM, TALGO and CAF have queued up to manufacture semi high-speed train sets in India, which will be used for faster inter-city travel.
- Germany-based ThyssenKrupp group is aiming to double its revenue from India to US$ 1 billion in next three-four years while the group's elevator unit, ThyssenKrupp Elevator, plans to invest EUR 44 million (US$ 50.5 million) to set up a manufacturing plant in Chakan, Pune.

- Swedish home furnishing brand Ikea has made a long-term plan of opening 25 stores in India by making an investment worth Rs 12,500 crore (US$ 1.9 billion).
- Google plans to invest Rs 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.
- Warburg Pincus, a US based Private Equity (PE) firm, has planned to invest Rs 850 crore (US$ 132.8 million) in Ecom Express – an India based logistics solutions provider.
- Gap Inc., a US based retail chain, opened its first store in Delhi and plans to open 40 more stores in the next 4–5 years which will be spread across the top 10 cities in India.
- Dalian Wanda Group, one of China's largest real estate firms, has planned to invest US$ 10 billion in India in the next 10 years which will be used to construct retail properties and industrial townships.

Growth of Foreign Direct Investment:

The growth in FDI has been significant after the launch of Make in India initiatives in September 2014, with 48 percent increase in FDI equity inflows during October 2014 to April 2015 over the corresponding period last year. In 2014-15, country witnessed unprecedented growth of 717 percent, to US $ 40.92 billion of Investment by Foreign Institutional Investors (FIIs). The FDI inflow under the approval route saw a growth of 87% during 2014-15 with inflow of US$ 2.22 billion despite more sectors having been liberalized during this period and with more than 90 percent of FDI being on automatic route. These indicators showcases remarkable pace of approval being accorded by the government and confidence of investors in the resurgent India.

The increased inflow of Foreign Direct Investment (FDI) in India especially in a climate of contracting worldwide investments indicates the faith that overseas investors have imposed in the country's economy and the reforms initiated by the Government towards ease of doing business. The Make in India initiatives of the Government and its outreach to all investors have made a positive investment climate for India which is evidenced in the results for the last financial year especially the second half.

The FDI inflow during the financial year 2014-15 was spread across the sectors evidencing the fact of positive eco-system of investment opportunities which India is now providing- Services Sector (US$ 3.2 billion), Telecommunication (US$2.8 billion), Trading (US$ 2.7 billion), Automobile Industry (US$ 2.5 billion), Computer Software & Hardware (US$ 2.2 billion), Drugs & Pharmaceuticals (US$1.5 billion) and Construction (Infra) activities (US$ 0.75 billion).

Government amended the FDI policy to further enable a positive investment climate and sync it with the vision and focus areas of the present Government such as affordable housing, smart cities, financial inclusion and reforms in railway infrastructure. The Construction Development Sector was allowed easy exit norms with rationalized area restrictions and due emphasis on affordable housing. The FDI cap in insurance and pension sector has been raised to 49 per cent. 100 per cent FDI has been allowed in railway infrastructure (excluding operations) and also in the medical devices sector. Further the definition of NRI was expanded to include OCI cardholders as well as PIO cardholders. NRIs investment under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident Outside India) Regulations will be deemed to be domestic investment made by residents, thereby giving flexibility to NRIs to invest in India.

Concerns about Opening up Indian Retail to FDI:

A number of concerns have been raised about opening up the retail sector for FDI in India. The first concern is the potential impact of large foreign firms on employment. Following agriculture, in 2007-2008, the retail sector is the second largest employer in India (National Sample Survey Organization, 64th round).5 Retail trade employed 7.2% of the total workforce which translates to 33.1 million jobs (DIPP Report, 2010). Moreover, the share of retail employment has risen significantly when compared to its share in 1993-1994. The pattern holds for both males and females, in rural, and in urban areas.

Benefits of FDI and Competition in Organized Retail in India:

The changing structure and scale of retail can critically impact several industries in the short term– the retail industry itself, manufacturing, and real-estate, to name a few. And in the long term, spill-over effects can be felt in other industries. The growth of retailing has the potential to impact the performance of interlinked sectors such as manufacturing of consumer goods and agriculture-based industries.

We begin by discussing the potential benefits of allowing entry by large foreign discount retail chains on lowering inflation, improving distribution and warehousing technologies. We do so by comparing findings from US studies that examine the effects of Wal-Mart and other large chains entering the US retail sector and the upheaval in the retail landscape brought about in the US beginning in the early 1990s. The section concludes by describing a couple of policy recommendations made in the Indian Government's recent discussion paper on opening up the retail sector with a view to protecting domestic firms and increasing employment in the retail sector.

Challenges of FDI in India:

- Promote cartels and will create monopoly
- Increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory provisions and guidelines would induce unfair trade practices like Predatory pricing despite the above challenges there are certain other problem relating to foreign direct investment (FDI) in India is that it does not provide a level playing field to other players of the domestic and small sort.

FDI Flows to India in Recent Period:

As stated above, global FDI flows moderated significantly since the eruption of global financial crisis in 2008, albeit with an uneven pattern across regions and countries. Though initially developing countries showed some resilience, crisis eventually spread through the trade, financial and confidence channels and FDI flows declined in both the advanced and developing economies during 2009. Subsequently, while FDI flows to advanced countries continued to decline, FDI flows too many of the Latin American and Asian countries witnessed strong rebound during 2010 on the back of improved corporate profitability and some improvement in M&A activities.

Suggestion:

- FDI in India would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer.
- In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer.
- Many of the foreign brands would come to India, if FDI is permitted which can be a blessing in disguise for the economy.
- India should focus on waste of output to increase the revenue of FDI.

Conclusions:

In this paper we argue that the potential benefits from allowing large retailers to enter the Indian retail market may outweigh the costs. Evidence from the United States suggests that FDI in organized retail could help tackle inflation, particularly with wholesale prices. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce. Creating better linkages between demand and supply also has the potential to improve the price signals that farmers receive and by eliminating both waste and middlemen also increase the fraction of the final sales prices that is paid to farmers. An added benefit of improved distribution and warehousing channels may also come from enhanced exports. India's experience between 1990-2010, particularly in the telecommunications and IT industries, showcases the various benefits of opening the door to large-scale investments in these sectors. Arguably, it is now the turn of retail.

- ✓ FDI is a key driver of economic growth and development
- ✓ Governments actively attract FDI because of a potential for spillovers to domestic firms
- ✓ Theory supports the idea of spillovers
- ✓ Evidence in support of spillovers is limited; need for more research using proper data and techniques
- ✓ General policies seem more appropriate than specific policies aimed at particular investments .

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