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FOREIGN DIRECT INVESTMENT (FDI) IN INDIA- A CRITICAL STUDY

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ABSTRACT

The necessity for economic development arises as an automatic significance of globalization. Foreign direct investment plays a much significant role in the growth of the nation. Sometimes, the capital available in the country is inadequate for the general progress of the country. Foreign capital is realized as a method to fill the gaps between internal savings and investment. India can draw greatly larger foreign investment than it has in the past. This article tried to do an analysis of FDI in India and its impact on growth. It also emphases on the determinants, needs and bases of foreign direct investment. One of the economic features of globalization is the fact that investments growth in the form of foreign direct investment. In recent times, due to the worldwide recession, greatest countries have not been capable to get investments. India has also been capable to draw improved foreign direct investment than developed countries, even throughout the crisis period. Above all in recent years, FDIs in India have followed a positive growth rate.

KEYWORDS: *FDI, Growth Rate, Globalization, Indian Economy, Development, Global Management.*

Introduction

Economic development remains an urgent global need. Foreign direct investment is one of the measures of increasing economic globalization. Investments have always been a problem for developing economies, like India. The FDI offers numerous advantages, such as the opening of new technologies, innovative products and the expansion of new markets, job opportunities and the introduction of new skills, etc., which are reflected in the growth of any nation's income. Foreign direct investment is one of the measures of increasing economic globalization. Investments have always been a problem for developing economies, like India. The world has become globalized and all countries are liberalizing their policies to receive investments from countries that have abundant capital resources. Developing countries are focusing on new markets where abundant jobs, product reach and large profits are available. Therefore, foreign direct investment (FDI) has become a battlefield in emerging markets. The world has become globalized and all countries are liberalizing their policies to receive investments from countries that have abundant capital resources. Developing countries are focusing on new markets where abundant jobs, product reach and large profits are available. Therefore, foreign direct investment (FDI) has become a battlefield in emerging markets. The goal that allows FDI is to integrate and integrate national investments, achieve a higher level of economic development and provide opportunities for upward technological grading, as well as access to global management skills and practices.

Objectives

- To classify the several factors of FDI
- To recognize the requirement for FDI in India
- To analysis the FDI policy framework in India

Research Methodology

Quantitative and analytical research, secondary data used compiled by various websites and RBI reports, reports on FDIand reports from the Asian development bank.

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Review of Literature

The study conducted by:

Rajalakshmi K. &Ramachandran F, (2011), “Impact of FDI in India’s automobile sector with reference to passenger car segment.”The author has studied the flows of foreign investments through the automotive sector with particular reference to cars. The research methodology used for the analysis includes the use of ARIMA, coefficient, linear and composite model. The study period is from 1991 to 2011. This paper is an empirical study of FDI flows after the post-liberalization period. The author also examined the trend and composition of the flow of FDIand the effect of FDI on economic growth. The author has also identified the problems that India faces in the growth of FDI in the automotive sector through suggestions of political implications.

Dr. S N Babar and Dr. B V Khandare, (2012), “Structure of FDI in India during globalization period”. The study focuses primarily on changing the structure and direction of Indian FDI during the period of globalization. The study is conducted through the analysis of the benefits of the FDI for economic growth. The study was conducted through the oral analysis of the participation of FDI, as well as through the study of the flow rate of inflow of foreigners in India until 2010.

Devajit (2012) conducted the study to learn about the impact of foreign direct investment on the Indian economy and concluded that foreign direct investment (FDI) as a strategic investment component is needed in India for its sustained economic growth and development through job creation. Expansion of existing manufacturing industries, are related to short and long-term projects, in the fields of health, education, research and development.

Determinants of FDI

The determinant varies from one country to another due to its unique characteristics and opportunities for potential investors. Specifically, the determinants of FDI in India are:

- **Stable policies**

India’s stable economic and social policies have attracted investors across the border. Investors prefer countries that establish economic policies. If the government makes changes to the policies which will have an impact on the business. The company requires the use of a large amount of funds and any changes in the policy towards the investor will have a negative effect.

- **Economic Factors**

Several economic factors encourage incoming FDI. These include interest loans, tax exemptions, subsidies, subsidies and the removal of restrictions and limitations. The Indian government has granted many tax exemptions and subsidies to foreign investors that would help develop the economy.

- **Cheap and Skilled Labour**

In India there is ample work in terms of qualified and unqualified human resources. Foreign investors will take advantage of the difference in labour costs since we have low-cost and qualified jobs.

- **Availability of Natural Resources**

As in India, we have a large volume of natural resources like coal, iron ore, natural gas, etc. If natural resources are available, they can be used in production processes or for mining of foreign investors.

- **Basic Infrastructure**

Although India is a developing country, it has developed a special economic zone in which it has concentrated to build necessary infrastructure such as roads, cash transport and registered courier exit around the world, network information technology and communication, powers, financial institutions and legal system and other basic services that are essential for business success. A solid legal system and a modern infrastructure supports efficient distribution of goods and services in the host country.

- **Unexplored Markets**

In India there is a large margin for investors because there is a large part of the markets that have not been explored or have not been used. There is a huge potential customer market in India with a large group of middle-class income that would be the target group for new markets.

Need for FDI in India

Need for FDI in India As India is a rising country, funds has been one of the scarce means which are generally essential for fiscal growth. Capital is inadequate and there are several problems, such as health, poverty, employ, education, research and growth, technology obsolescence and worldwide rivalry. The movement of FDIin India from all over the world will help to acquire the funds at a lower cost, better technology, improved job creation and technology transfer, the possibility of more exchanges, connections and spills to national companies. The following topics are presented in favor of global capital.

- **Sustaining a great level of investment**

As entirely underdeveloped and developing countries wish to industrialize and develop, the level of investment must be substantially increased. Because of poverty and little GDP, savings are low. Therefore, it is necessary to bridge the difference between income and savings through foreign direct investment.

- **Technological gap**

In case of India we requirement technical assist from foreign sources for the provision of skilled services, training of Indian laborers and educational institutions, research and training in the field. It comes only from foreign private investments or foreign collaborations.

- **Exploitation of natural means**

In India we have plentiful natural means like coal, iron and steel, but to extract the means we need foreign collaboration.

- **Understanding the initial risk**

In developing countries, given that capital is a source of fear, the risk of investing in new businesses or industrialization projects is high. Therefore, foreign capital helps in these investments that require a high risk.

- **Development of basic economic infrastructure**

In current years, foreign financial institutions and the government of advanced countries have prepared substantial capital available to underdeveloped countries. FDI will contribute to the growth of the infrastructure by setting up diverse portions of the company in the country. There are distinctive economic regions that have been established by the government to improvise industrial growth.

- **Improvement in the balance of payments position**

The entry of FDIwill help to improve the balance of payments. Companies that believe that products produced in India will have a low cost, will produce the products and export them to other countries. This helps increase exports.

- **Foreign firm's helps in increasing the competition**

Foreign companies have always presented better technologies, processes and innovations than national companies. They develop a finalization in which national companies will have better performances to survive in the market.

FDI Policy Framework in India

The political regime is one of the key factors driving investment flows to a country. In addition to the underlying general rationalities, the ability of a nation to attract foreign investment depends essentially on its political regime, whether it is promoting or blocking foreign investment flows. This section reviews the Indian political structure of FDIs. There has been a radical change in India's approach to foreign investment since the early 1990s, when structural economic reforms have begun in almost all sectors of the economy.

Pre-Liberalization Period

Historically, India had followed an extremely careful and selective approach in the formulation of FDI policy in view of the governance of the "import substitution strategy" of industrialization. The regulatory framework was consolidated through the enactment of the law on exchange regulations (FERA) of 1973, in which the participation of foreign capital in a joint venture was allowed only up to 40%. Subsequently, several exemptions were granted to foreign companies that carry out export-oriented activities and high-tech and high-priority areas, including one that allows the holding of over 40%.

The announcements of Industrial Policy (1980 and 1982) and Technology Policy (1983) established a liberal attitude towards foreign investments in terms of changes in policy directions. The policy was characterized by the elimination of licenses for some of the industrial standards and by the promotion of India's manufacturing exports, as well as by the modernization of industries through the liberalization of imports of capital goods and technology. This was supported by the measures of trade liberalization in the form of reduced tariffs and the movement of a large number of items, from import licenses to Open General Licensing (OGL).

Post-Liberalization Period

There was a big change when India started a program of economic liberalization and reforms in 1991 with the aim of increasing its growth potential and integrating itself with the world economy. Industrial policy reforms have slowly removed restrictions on investment projects and trade expansion, on the one hand, and have allowed greater access to foreign technologies and funding on the other. A series of measures aimed at liberalizing foreign investments included:

- Introduction of the dual way of approval of the FDI-RBI automatic route and of the government approval route (SIA / FIPB).
- Automatic authorization for technological agreements in high-priority industries and the elimination of FDI restrictions in low-tech areas, as well as the liberalization of technology imports.
- Permit for non-resident Indians (NRIs) and corporate bodies abroad (OCB) to invest up to 100% in high priority sectors.
- Increase the limits of foreign capital participation to 51% for existing companies and the liberalization of the use of the foreign "brand".
- Sign the Multilateral Investment Guarantee Agency (MIGA) Convention for the Protection of Foreign Investment.

These efforts were guided by the promulgation of the Foreign Exchange Administration Act (FEMA) of 1999 [which replaced the Currency Exchange Act (FERA), 1973] which was less severe. In 1997, the Indian government granted 100% FDI in cash and wholesale and foreign direct investment in single-brand retail sales were allowed to 51% in June 2006. After a long debate, in December 2012 they were new amendments have been introduced that have led to 100% IED in the retail brand and 51% in multi-brand sales.

Conclusion

Economic development remains an urgent global need. The need for economic development arises as an automatic consequence of globalization. Although many countries have made a significant increase in their income over the last few years, large international disparities remain in the level of income between developed nations and developing nations. Underdeveloped and developing nations are still far from development. The income level of these nations is very low. To increase the income and living standards of people in these countries and enable them to use the fruits of miraculous scientific and technological progress in the agricultural industry, transport, communication, education, health services and other fields, there is a great need for great capital. Developing nations have two options to raise capital, first creating excess capital and the second is foreign capital. Foreign capital helps depressed economic people to implement their development programs. Foreign investments not only provide capital, but also involve management skills, technical knowledge, personnel and innovative ideas in the field of production, research and development of goods and services. The policy of foreign direct investment and the simplification of procedures are contributing significantly to attracting new capital flows to India. Recent policy changes have had positive effects on direct revenues abroad. These changes have increased the trust of the foreign company. Make in India is a new initiative for the economic development of our prime minister. Foreign direct investment can be useful for India.

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