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FOREIGN DIRECT INVESTMENT- ISSUES

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ABSTRACT

The New Economic Policy announced by the Government in 1991 has made many structural adjustments. The principles of protectionism have been thrown in the air. As a result, the FDI has come into force. India is the center of attraction for the rest of the countries to make investment. FDI is a value addition to the dumping yard.

KEYWORDS :Economic Policy , structural adjustments, principles of protectionism , global FDI inflows .

INTRODUCTION :

FDI inflows to India remained sluggish, when global FDI inflows to emerging market economies had recovered in 2010-11, despite sound domestic economic performance ahead of global recovery. The recent tour of PM Narnedra Modi to Japan assured huge inflow of FDI. He said to the investors, "there will not red-tapism in India but there will be red carpet to welcome to the FIIs." If this is not a dream, definitely FDIs flows like water to India.

A perusal of India's FDI vis-à-vis other major Emerging Market Economies reveals that though India's approach towards foreign investment has been relatively conservative to begin with, it progressively started catching up with the more liberated policy stance of other EMEs from the early 1990s onwards interalia, in terms of wider access to different sectors of the economy, ease of starting business, repatriation of dividend and profit relaxations regarding norms for owning equity.

OBJECTIVES:

The paper intends to achieve the following:
- To understand FDI.
- To examine the flow of FDI sector wise to India.
- To analyze the issues.

•To offer useful suggestions.

FDI is defined as a company from one country making a physical investment into building a factory in another country. The overwhelming majority of FDI is made in the form of fixtures, machinery, equipment and buildings.

FDI investment refers to the net inflows of investment to acquire a lasting management interest (10% of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is treated as important mechanism for channelizing transfer of capital and technology. MNCs consider FDI a magic stick to reorganize their production activities across borders in accordance with their corporate strategies and the competitive advantage of host countries.

FDI POLICY IN INDIA:

FDI is governed by the FDI policy announced by Government of India and the provisions of the Foreign Exchange Management Act (FEMA) 1999. The Ministry of Commerce and Industry, GoI is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in the sectoral/policy equity capital. The foreign investors are free to invest in India, except few sectors/activities where prior approval from the RBI or Foreign Investment Promotion Board would be required.

A major shift occurred when India embarked upon economic liberalization and reforms programmes in 1991 aiming to raise its growth potentials and integrating with world economy. A series of measures that were directed towards liberalizing foreign investment included:

- Introduction of dual route of approval of FDI.
- RBI's automatic route and Govt approval (SIA/FIPB) route.
- Automatic permission for technology agreements.
- Permission to NRIs and OCBs to invest up to 100 per cent in high priority sectors.
- Hike in foreign equity participation.
- Signing the convention of multilateral investment guarantee agency for protection of foreign investment.

Table 1: Sector wise distribution of FDI equity flows during 2005-2008

Sector	2005	2006	2007	2008
Manufacturing	41.4	17.4	18.7	20.4
Finance	11.7	19.8	18.1	19.8
Construction & Real Estate	3.1	11.5	17.4	19.9
Other Services	11.3	20.2	10.7	13.5
IT & ITES	21.2	17.3	15.2	5.3
Telecommunications	3.6	3.4	6.7	7.8
Energy	1.4	2.3	3.7	6.2
Trading	0.7	0.8	3.6	2.1
Mining	0.2	0.0	2.7	0.2
Agriculture	0.2	0.0	0.8	0.0
Unclassified	5.2	2.4	2.5	5.0
Total inflow	**100**	**100**	**100**	**100**

Source: www.rbi.org

It is observed from table 1 that the FDI inflow to energy sector is on increasing. There has positive development if there should be an occurrence of development and land segment. It is apparent from table that the stream of FDI to administration division is critical.

Table 2: Share of Investing Top countries

Rank	Country	2010-11	2011-12	2012-13
1	Mauritius	6987	9942	1439
2	UK	755	9257	418
3	Singapore	1705	5257	403
4	Japan	1562	2972	350
5	Germany	200	1622	259
6	Cyprus	913	1587	203
7	Netherland	1213	1409	543
8	USA	1170	1115	146
9	France	734	663	62
10	UAE	341	353	58

Source: GoI, Ministry of Commerce & Industry

ISSUES OF FDI:

No consensus among the parties:

The gathering in the force proposes permitting FDI. The same is contradicted by alternate gatherings. Lack of consensus among the political parties is major hurdle for flow of FDI into India. FIIs will be reluctant towards investment.

Lack of infrastructural facilities:

The poor quality of infrastructure does not attract the investors. If travel is started on roads of India, it will be a break dance to the traveler. Aviation industry is not so much developed. There is no power supply for 24 X 7.

Red-tapism:

There is no nexus between the planners and bureaucrats. The policies of FDI are not implemented properly. There is unnecessary delay in sanction of project proposals. In Karnataka state, Global Investors Meet was held in 2008. Many projects were given accord. Around 200 proposals were considered with the expected investment 16000 crores but according to a report of Govt, not even 1000 crores invested. Arsaler-Mittal's proposal is now shifting from Bellary.

No consistency policy:

As and when there is change in Govt, there is change in FDI policy. This has impact on the flow of FDI in our country. This affects the market for FDI in India. This will not assure a congenial environment to the investors. Political parties have no place for FDI in their manifesto. The policy framed by them may not focus on FDI.

No Time bounding:

A proposal submitted by a company to govt for permission requires a lot of time for green signal. There is no time bound implementation of FDI policy. This demotivates the investors to make investment in our country.

No consensus with farmers:

Sometimes, the govt may provide for the FDI investment which may affect the lives of farmers. At the time of sanctioning permission, the govt will not consult the farmers for allotting the fertile lands. This leads to agitations by the farmers and further leads to delay of commencement of business.

SUGGESTIONS:

- The govt should pre decide price for acquisition of fertile and barren lands.
- The govt should concrete policies in order to attract the FDI.
- The time frame work is to be framed to implement the FDI proposals.
- The govt should allow FDI in the basic infrastructural developments such as railways, airways and roadways.
- It has to supplement the growth of agriculture and allied sectors.
- The govt should hold meeting with farmers before it conducts the Global Investors Meet.
- A separate ministry is to setup in the center and state cabinets.

CONCLUSION:

The govt should frame such FDI policy which shall develop the growth of the economy but not at the cost of its indigenous. The bilateral agreements are to be made with likeminded countries. If the dream of PM Modi "Sabi ki saath, sabaki vikas" to come true, a stringent FDI policies are to be framed and implemented.

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