TREND AND CHALLENGES OF FOREIGN DIRECT INVESTMENT IN INDIA: IN PRESENT SCENARIO

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ABSTRACT

Foreign capital has been assigned a significant role. Indian Foreign Investment policy has been formulated with a view to inviting and encouraging FDI into India. Equity capital and Reinvested Earning and other capital consisting short term and long term borrowing are three main categories of FDI. The role of Foreign Direct Investment in the up gradation of technology, skills and managerial capabilities is now acknowledged. Under the automatic route with some exception FDI up to 100 is allowed in most sectors/areas. The present study has focused on the trend and challenges of FDI in India during 2000-01 to 2017-18(up to oct.2017)

Keyword: BOP, FDI, MNC, RBI

I INTRODUCTION:

Foreign Direct Investment is an investment made by a foreign company in a home country. The foreign company may invest either by opening its branch or by having a subsidiary in home country. Profit is the prime motive of such an investment. It may be in form of a royalty and dividend payments. In the Planned economy of India, Foreign capital has been assigned a significant role, although it has been changing over time. The "Make In India" initiated was launched in September, 2014 to increase of FDI inflow. Indian Foreign Investment policy has been formulated with a view to inviting and encouraging FDI into India. Foreign investors do not require the prior approval of the government to invest in sector under automatic route. Within a prescribed period they have to inform the Reserve bank of India about the investment. In Government Route investment can be made after obtaining approval of the government. These are prohibited sectors like lottery business, Gambling and Betting, Chit funds, Nidhi Company, Real Estate business, Manufacturing of cigars and tobacco and sector not open to private sector like Atomic Energy and Railway operations for FDI as per FDI Policy August, 2017.

II.OBJECTIVES OF THE STUDY

- To know the need of FDI in India in present scenario.
- To Access the trends of Foreign Direct Investment in India.
- To Access the challenges due to FDI.

III. RESEARCH METHODOLOGY

The present study is based on Secondary data. The data has been collected from Ministry of Commerce and Industry, Department of Industrial Promotion and Policy Government of India, Reserve Bank of India, and World Investment Report and from Books available in library. The time period of the study has been taken from 2000 -2017. For presentation table is used and for analysis absolute figures and percentage tools are used

IV. CATEGORIES OF FOREIGN DIRECT INVESTMENT

- Equity Capital: It is the value of the Multinational Corporations investment in shares of an enterprise in a foreign country. An Equity capital stake of 10 percent or more is normally considered a threshold for the control of assets.

- Reinvested Earnings: These are the multinational National Companies shares of affiliate earning not distributed as dividends or remitted to the MNCs. Such retained profits by affiliates are unspecified to be reinvested in the affiliate.

- Other Capital: It refers to short term or long-term borrowing and lending of funds between the MNCs and the affiliate.

V. NEED OF FOREIGN DIRECT INVESTMENT

- Low Capital Formation: In a developing country, the domestic capital formation is found to be very low and due to inadequacy of the available capital. It is difficult to achieve rapid economic growth. Therefore, It is necessary to invite the foreign capital to supplement the domestic resources.
- Need for high level of investment: Capital formation in a country is possible only through industrialization and industrialization is possible only when there is high level of investment. There is gap emerges between saving and investment. This gap has to be filled up through foreign capital.
- Development of Basic Economic Infrastructure: Domestic Capital of the underdeveloped countries is generally found to be inadequate to build up the economic infrastructure on its own. These countries require assistance of foreign capital.
- Exploitation of Productive Resources: A number of countries have huge mineral wealth but lacks in exploitation of these resources due backwardness in technical skill and expertise. Therefore, the need of foreign aid arises to exploit these resources.
- Making Balance of Payment favourable: The Balance of payment is favourable when exports are more than imports. In underdeveloped countries have much larger imports than their exports. As a result, the balance of payment generally turns adverse. In this context, foreign capital offers a short run solution to this problem.
- Backwardness in Technology: Due to backwardness of the technology, the need for importing technology arises. This type of problem also can be sort out with Foreign capital.

TABLE 1 : TREND OF FOREIGN DIRECT INVESTMENT

(Amount US$ Million)

Financial Year	FDI flow into India	%age Growth over previous Year
2000-01	4,029	
2001-02	6,130	52
2002-03	5,035	18
2003-04	4,322	14
2004-05	6,051	40
2005-06	8,961	48
2006-07	22,826	155
2007-08	34,843	53
2008-09	41,873	20
2009-10	37,745	10
2010-11	34,847	8
2011-12	46,556	34
2012-13	34,298	26
2013-14	36,046	5
2014-15	45,148	25
2015-16	55,559	23
2016-17	60,220	8
2017-18(oct,2017)	37,607	
Total	522,096	

SOURCE: RESERVE BANK OF INDIA, WWW.RBI.ORG

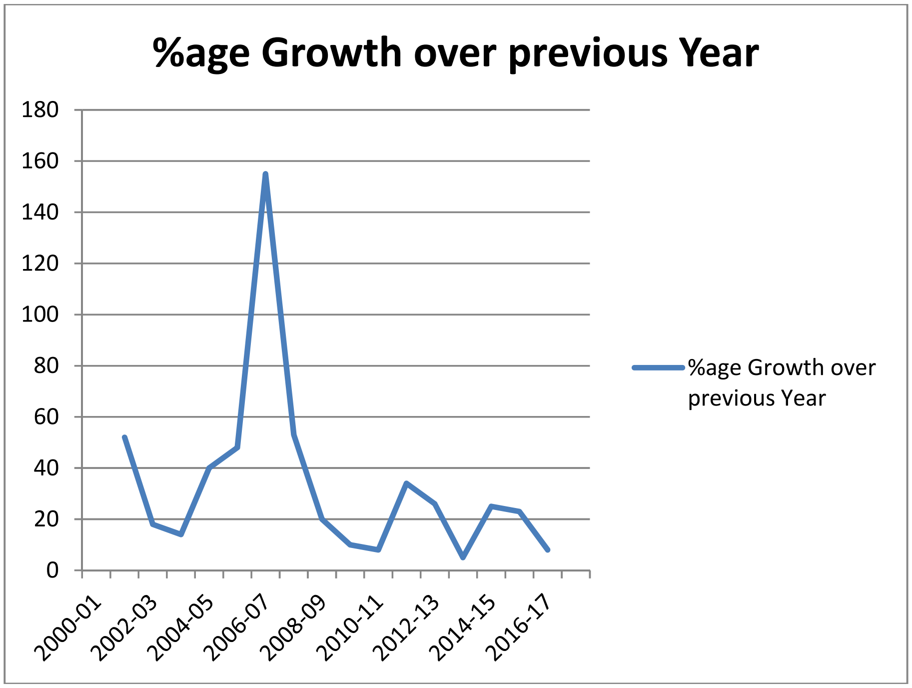

Figure: Foreign Direct Investment from 2001-2017

After analyzing the above data and figures it has been observed that in absolute figure FDI is increasing year by year and in the year2000-01 FDI inflow in India, it was 4029 US$ million that has increased 60220 US $ million in the year 2016-17. But in relative figure, it was 52 % that has increased 155 % in the year 2006-07. After that there has been fluctuating in FDI.

TABLE 2: FOREIGN DIRECT INVESTMENT Sector Wise Limit (Cap)

Sector	%FDI Limit (Cap)	Entry Route
Agriculture & Animal Husbandry	100	Automatic
Plantation Sector	100	Automatic
Mining	100	Automatic
Petroleum & Natural Gas	100	Automatic
Defence	100	Automatic up to 49% Government Beyond 49% wherever it is likely to result in access to modern technology
Broadcasting Carriage Services	100	Automatics
Print Media	26	Government
Civil Aviation – Airports Green Field Projects & Existing Projects	100	Automatic
Civil Aviation • Non-Scheduled Air Transport Service • Helicopter services/seaplane services requiring DGCA approval	100	Automatic

Construction Development: Townships, Housing, Built-up Infrastructure	100	Automatic
Industrial Parks (new & existing)	100	Automatic
Satellites- establishment and operation, subject to the sectoral guidelines of Department of Space/ISRO	100	Government
Telecom Services	100	Automatic up to 49% Above 49% under Government route
Cash & Carry Wholesale Trading	100	Automatic
Multi Brand Retail Trading	51	Government
Railway Infrastructure	100	Automatic
Banking- Private Sector	74	Automatic up to 49 and Beyond 49- 74 Government route
Banking- Public Sector	20	Government
Insurance	49	Automatic
Pension Sector	49	Automatic

Source: Department of Industrial Policy and Promotions, FDI Policy, 2017

VI. CHALLENGS DUE TO FOREIGN DIRECT INVESTMENT:

- Payment of dividend and Interest: if the excessive foreign capital is used, then burden will have to borne by our economy in the form of dividend and interest payments.
- Caters the Needs of Upper-Middle and Affluent Classes: Foreign Direct investment is neglecting the wage goods sector and catering the needs of upper-middle and affluent classes. They are creating a new consumer culture of coals, ice-creams, processed foods and durable consumer goods only.
- Bad impact on local Initiative: Excessive reliance on foreign technology may have a bad effect on the domestic initiative. But this objection is relevant only where indigenous skills are adequately developed.
- Political consideration: Foreign private investment cannot be regarded as a purely economic phenomenon there are political considerations also. It also seeks to safeguard its own interest to prosper and to dominate wherever possible, like the domestic sector.
- Increased Number of MNCs: The MNCs, after being allowed to enter Indian market, are rapidly increasing their shareholding in Indian companies and are thus swallowing them. Thus, the process of Indianisation of the corporate sector initiated by Jawarhar lal Nehru has been reversed. This has caused serious setback to domestic industry.
- Negative Effect on the Balance of Payment: Foreign investment sometimes have unfavourable impact on the balance of payment position of a country, as a large portion of the income of the host country drains as dividend and royalty.

VII CONCLUSION

Foreign capital has been assigned a significant role. Indian Foreign Investment policy has been formulated with a view to inviting and encouraging FDI into India. Equity capital and Reinvested Earning and other capital consisting short term and long term borrowing are three main categories of FDI. The role of Foreign Direct Investment in the up gradation of technology, skills and managerial capabilities is now acknowledged. Under the automatic route with some exception FDI up to 100 is allowed in most sectors/areas and some sectors there is no permission of FDI.

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