International Journal of Humanities and Social Science Invention (IJHSSI)
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org ||Volume 5 Issue 6 || June. 2016 || PP. 93-97

Foreign Direct Investment in India Opportunities and Challenges

Dr. Rajesh Kumar
Associate professor Commerce Seth Phool Chand Bagla (PG) College Hathras UP

Abstract
Foreign direct investment (FDI) is rapidly replacing international trade as the dominant form of international economic exchange in today's global economy. Direct investments and portfolio investments are the two main types of financial investments. Control of the investment and a 10% - 25% ownership stake are required for a direct investment. If not, it's just a stock or bond in your portfolio. Comparing India's FDI policy to that of other large emerging market economies (EMEs) reveals that, while initially cautious, India's stance on attracting foreign investment has become more liberal over time, especially since the early 1990s. This is especially true when considering policy positions on expansion, making it simple to launch a business, making it possible to repatriate dividends and profits, and establishing rules on equity equity. During the first decade of this millennium, foreign direct investment (FDI) into the country increased by approximately five times as a result of the country's gradual liberalisation. The existing situation in India and the potential for foreign direct investment are the main topics of this research.
Key Words: *Foreign Direct Investment (FDI), Investment, MNCs*

I. Introduction

The term "foreign direct investment" (FDI) is used to describe investments made outside of a country when the investor does not have a say in the management of the investment. One common strategy is to establish a branch office, buy a stake in an existing company, or form a partnership in a foreign country. In most cases, it is common practise for investors to take a hands-on role in running subsidiaries. An investor's portfolio consists of stocks, bonds, and other foreign securities that he or she has an interest in buying. Specifically, investors in portfolio investments employ social capital to generate a return on investment, but they have no say in how that capital is deployed.

A long-term perspective is required when thinking about attracting foreign direct investment. This is due to the illiquid nature of such investments. Consequently, FDI decisions are influenced by things like political stability, government policy, industry, and the orientation of economic investment, while portfolio investments that may be liquidated quickly are more susceptible to short-term benefits. The volatility of a portfolio investor's assets is substantially higher than that of foreign direct investment. Those who invest directly in a business are held personally accountable for its marketing and management. Investors in a portfolio typically have no input into strategic decisions like hiring or marketing. Since the opening of the Indian economy in 1991, both foreign direct investment and portfolio investment have risen.

Foreign investment is something we strongly believe in and help facilitate for the economic success of many nations. There are three parts to FDI: social capital, retained earnings, and corporate loans. Foreign direct investment (FDI) is preferable to Official Development Assistance (ODA) in a number of ways, according to a World Bank assessment on developing countries.

While debt financing requires the provision of borrowed cash independent of the cost of the project, foreign direct investment (FDI) appears to be the only capital inflow that is strongly tied to GDP growth since 1970.

That FDI flows as a percentage of national investment (total capital formation) have been on the rise in the majority of industrialised and developing countries over the past few decades is evidence of the importance of FDI to economic growth. While rich nations receive the lion's share of foreign direct investment (FDI), poor nations receive only half as much of the GFCF as they do in FDI. Foreign direct investment has provided excellent job possibilities to many countries and may have other positive effects, such as the transfer of technology. As a result of its enormous amount of FDI and high savings rate, China has maintained a consistently high GDP growth rate.

Foreign direct investment (FDI) in India is recognised to encompass multiple pathways, not just supply routes. The Reserve Bank of India (RBI) offers a streamlined approval process for FDI inflows in India, which permits investments of up to 51% of a company's total equity.

• Large-scale projects with foreign investment of 51% or more receive full discretionary funding from us.
To buy stock (since 1991).
The Reserve Bank of India's (RBI) NRI initiative allows foreigners to invest in the countries

Commercial vehicles travelling from the outside (ADR/GDR route).
This should lead to (a) increased investment, (b) the launch of brand-new businesses and production facilities, (c) greater foreign ownership of existing firms, and (d) the consolidation of existing firms. Commercial enterprise and Manufacturing Establishment

Need of FDI:

Which nations do you seek to export IED? Businesses from all around the world invest overseas because they see a benefit in doing so. Foreign investment has traditionally been considered as a means by which a country can close the gap between its savings and currencies, government income, and the desired amount of these resources needed to achieve its national suppliers and its growth and development goals in terms of its talents. The value of people.

Multinational corporations play a key part in cumulative growth through the factories they construct. Many subsidiary businesses supplying data to the parent company are spinoffs of the foreign-founded industrial firms. The city's benefactors are not limited to a select few businesses.

Whole industries, like the steel industry, have room for improvement. Experts predict that for every US dollar of FDI, domestic investment will increase by 80 cents. Political efforts to lessen the threat of terrorism are often essential to attracting FDI. For instance, Chinese state-owned oil firms have attracted international investment to help reduce the country's reliance on private oil firms. The measure has the potential to reduce oil prices in China.

The nation is among the world's poorest, making it a prime candidate for foreign direct investment. Unfortunately, pervasive poverty persists despite the success of the Millennium Development Goals. Solution to the world's poverty problem. As a stopgap, wealthy nations and international organisations can help. There may be a long-term answer in the form of economic growth brought on by increasing investment.

UN Secretary-General Kofi Annan often fails to mention his special advisor, Jeffrey Sachs (Jeffrey Sachs). We have more global reach in the poor countries that need and less globalisation; globalisation is a form of brain drain; poorer countries feel that They do not see the influx of foreign investment; many poor countries of September 22, 2004 press conference that due to globalisation were not fulfilled. Foreign direct investment, Sachs noted, has emerged as one of the most important growth drivers for economies in transition.

FDI Opportunities in India:

Market liberalisation, rising incomes, and more discerning shoppers are driving retail transformations that will draw in more Indian and foreign firms. Over the next five years, the Indian retail industry is projected to grow from its current size of $300 billion to $500 billion, making it the world's second largest retail market behind China. However, there has been debate as of late regarding whether or not FDI in India is indeed "helpful."

There have been numerous surveys and studies performed to assess the effects of foreign direct investment (FDI) on the retail industry. Industrial Policy Promotion Agency's policy study (DIPP, 2010) states that attracting FDI from the retail sector will create a backward link between production and manufacturing, hence increasing national exports and exports.

Opening up India's retail sector to foreign direct investment (FDI) will improve product availability and pricing, says the World Bank. Multiple times, advocates for foreign direct investment in multi-brand retail have been met with opposition due to concerns about job losses, damage to established retailers, and an uptick in imports from low-cost countries like China. However, these same proponents have since discovered that technology transfer improves. The potential for higher-paying jobs and other benefits due to their increased visibility. The following are some of the most significant gains that have resulted from opening up the Indian retail sector to FDI.

Infusion of capital -

U.S. stores that are short on cash will be able to close the gap. Foreign direct investment (FDI) is a significant source of capital for emerging economies like India. We anticipate that the sponsorship of infrastructure and R&D in the host nations will be successful because of the investments made by multinational corporations, which will boost national growth, generate employment opportunities, and allow for the exchange of knowledge and expertise.

Promote healthy competition and inflation

To accomplish an easy deployment of significant insurance, price, and marketing proposals, proponents of FDI have promised intense competition among the numerous corporations that offer their brands in the market.

Improvement of the supply chain -

More streamlined operations; more equitable distribution of resources waste will be reduced as a result of the increased capacity and cutting-edge technologies that will be introduced (currently due to lack of storage facilities and logistics lack of investment is inefficient consequences in the food supply chain can lead to enormous waste).

Improve customer satisfaction

Improved customer management can be achieved through the display of tissues by providing a nice shopping environment, ample space, cleanliness, and a wide selection of well-known brands from around the world. Many in India believe that the quality of goods sold to international shops is lower than that of those sold domestically. Are you finding that the price of quality and ease of use keeps rising? Does it serve as a one-stop solution? There will be a wide selection of items available to you. The opening of the market has the potential to alter pricing and threaten the dominance of some Indian indigenous firms.

Improved technology and logistics -

Technology and retail in India's scoring, handling, and packaging sectors, such as reading barcodes, have benefited from the presence of international corporations staking a claim in the industry. Incorporating the right number and variety of refrigeration units in transportation facilities can also aid in lowering product waste.

Benefits for farmers -

It's possible that the advent of multi-brand retail will also promote the food and packaging industries. India is the world's second largest producer of fruits and vegetables, but the country's cold chain infrastructure is woefully inadequate. Large losses in quality and quantity of agricultural products and the waste of fruits and vegetables are common when farmers lack access to sufficient storage facilities. Supply chain infrastructure is now fragmented, but liberalisation can lead to a comprehensive overhaul of that system.

Using the technical and operational know-how of international merchants, we can fix the structural flaws. Furthermore, producers "farm to table cooperation I with merchants to assist minimise the vehicle;" (ii)the farmer gets a better price, and (iii)in the long run, both the farmers and the customers benefit from price stability and increased volume.

Creating more employment opportunities

Bringing in a foreign retailer to the Indian market has various benefits, including the creation of new jobs and the assurance of a high-quality product or service. It will help India locate better human resource jobs and raise the level of living in the developed world.

Foreign Direct Investment (FDI) in India:

According to Mr. P. Chidambaram, India's Finance Minister, "the Indian economy is capable of absorbing US$ 50 billion in foreign direct investment (FDI) every year." Investors from other countries (or "foreign direct investment," or "FDI") is an area of the economy that is heavily scrutinised and prioritised by government officials.

In 2012, the government eased restrictions on foreign direct investment (FDI) in a variety of areas, including supermarkets, department stores, commodities exchanges, power exchanges, broadcasting, NBFCs, and ARCs.

There were a number of dramatic changes, including the government's acceptance of foreign direct investment (FDI) of 51% in the department store sector and 49% in the airline industry. So that more foreign expertise could be brought into the broadcasting and ARCs industries, the FDI cap was increased from 49% to 74%. In addition to the commodity exchange, foreign institutional investors (FIIs) are permitted to invest up to 23% in power exchanges without obtaining a government licence.

Since the Indian economy is flourishing and vibrant in comparison to its global peers, the country's FDI landscape offers a wealth of chances to foreign investors thanks to the government's substantial reforms and initiatives.

Ernst & Young, a worldwide firm, notes that India's favourable demographics and economic potential make the country a "attractive" destination for M&A activity in a wide range of industries, including consumer products and pharmaceuticals.

Key Statistics

The latest data from the Department of Industrial Policy and Promotion shows that India received FDI totaling US$30.82 billion between April 2012 and January 2013, with FDI equity inflows in January 2013 being US$2.16 billion (DIPP). In the first ten months of 2012-13, FDI was concentrated in the services sector ($4.66 billion), the construction sector ($1.21 billion), the pharmaceuticals and healthcare industries ($1 billion), the hospitality and tourism industry ($3.19 billion), the metals and mining sector ($1.38 billion), and the automotive sector ($895 million).

The DIPP data showed that throughout the period, significant FDI came from a number of countries, including Mauritius ($8.17 billion), Singapore ($1.82 billion), the United Kingdom ($1.05 billion), Japan ($1.69 billion), and the Netherlands ($1.52 billion).

According to Thomson Reuters' India M&A First Quarter 2013 Review, the total value of merger and acquisition deals in India reached $4.5 billion in the quarter ending in March 2013. Meanwhile, during the first three months of 2013, data from Four-S Services shows that there were 90 private equity (PE) agreements worth a total of US$ 1.04 billion.

According to figures issued by the Central Bank of India, India's foreign exchange (forex) reserves were at US$ 292.64 billion as of the week ending March 29, 2013. According to the Reserve Bank of India's weekly statistics supplement, the value of foreign currency assets (FCA) - the largest component of the forexreserves - was at US$ 259.72 billion as of the end of the previous week (RBI).

Important Developments:

A total of Rs 2, 609 crore (about US$ 478.47 million) in proposed foreign direct investments (FDIs) have been approved by the Indian government after consultation with the Foreign Investment Promotion Board (FIPB). Among these was a plan by Decathlon Sports India to bring in foreign stock worth Rs 700 crore (US$ 128.37 million) so that it can expand into single-brand retail. The largest proposal that was approved was by Claris OtsukaLtd of Ahmedabad, which wanted to combine its commercial investments into a new JV with FDI of Rs 1,050 crore (US$ 192.56 million).

Similarly, the board approved Glynwed Pipe Systems's (Mumbai) plan to receive Rs 800 crore (US$ 146.74 million) in foreign investment for making downstream investments. Other proposals that were given the go-ahead include those from Fossil India and Le Creuset Trading to set up single brand retail stores as a wholly-owned subsidiary (WoS) of a foreign company and Promod S.A.S. of France to induct foreign equity worth Rs 29.69 crore (US$ 5.45 million) into an Indian JV company engaged in single brand retail trading.

Mitsubishi, a Japanese company, and ETA Group, based in Dubai, have launched a joint venture called Mitsubishi Elevators ETA India Pvt Ltd to produce, distribute, install, and repair elevators for high-end buildings in India. While the company had previously targeted the luxury commercial segment in India, it has decided to expand its operations to include the residential market in Tier 2 and Tier 3 towns.

The French business community is increasingly interested in investing in India's defence, space, urban development, and infrastructure sectors.

Current Position of FDI in Indian Retail

The government of India has gradually opened up the retail sector to foreign direct investment (FDI) as part of the economic liberalisation process established under the Industrial Policy of 1991.

The General Agreement on Trade in Services (GATS) was implemented in 1995 by the World Trade Organization (WTO). This agreement included the retail and wholesale exchange of services.

• Under the government approval method, FDI in cash and carry (wholesale) was permitted at 100% in 1997.

• In 2006, the government allowed foreign direct investment (FDI) of up to 51% in single-brand retail, and it introduced an automatic path for FDI in the cash-and-carry sector.

• In 2011, the government authorised 100% FDI in single-brand retail, and 51% FDI in multi-brand retail, with few restrictions.

The recommendations of FDI policy in multi brand retail are:

o At least half of all FDI must go toward supporting infrastructure.

o They'll buy at least 30% of their supplies and products from regional vendors.

o Foreign direct investment (FDI) of at least $100 million is essential for the multi-brand retail sector.

It is permissible to open a store in a city if its population is over a million.

If India wants to remain a member of the World Trade Organization (WTO), it must open up its retail sector to foreign direct investment (FDI), including in multi-brand stores. India couldn't outright forbid FDI; at most, it might stall the process. Therefore, India needs to devise enough strategies so that its benefits outweigh its risks. For foreign investment in multi-brand retail to be successful, it must boost both domestic retail sales and exports, and this in turn will necessitate stronger backward connections between the manufacturing and retail sectors. At least half of retail outlet positions can be set aside for youngsters from rural areas, and a certain percentage of FDI can be required to be spent on the development of back-end infrastructure, logistics, or agro-processing facilities.

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