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**FOREIGN DIRECT INVESTMENT (FDI) OPPORTUNITIES
AND CHALLENGES IN INDIA**

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ABSTRACT

The purpose of this paper is to know the foreign direct investment and how it benefits in such a way that it can bring tremendous change in all over countries. Foreign direct investment (FDI) is a major strategic economic booster to Indian Developing Economy. The Financial Sectors reforms of the early 1990's brought about a complete overhaul of the Indian Foreign Direct Investment, which was hitherto a highly regulated and administered sector. The main purpose of the study is to find out the impact of FDI on economic growth in India.

Keywords: FDI, Indian Economy, Portfolio Investment

INTRODUCTION

With the growth of Urbanization and development of the Indian Society, Foreign Direct Investment (FDI) is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas commercial financial entities based on financial inclusion. There is significant scope to drive Indian Economy's financial inclusion in India, special areas as civil aviation, Insurance, defense and weapon logy, Health and Education, Infrastructure etc. Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to portfolio investment which is a passive investment in the securities of another country such as stocks and bonds.

As a part of the national accounts of a country, and in regard to the GDP equation $Y=C+I+G+(X-M)$ [Consumption + Domestic investment + Government spending +(eXports - iMports)], I is investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor.

OBJECTIVE

To Understand the Concept of Foreign Direct Investment
To Examine the Strategic impact of FDI on Indian Economy
To aware challenges, current issues related to Foreign Direct Investment to the Indian Economy.

RESEARCH METHODOLOGY

For the purpose of research paper the data and information are used from Secondary Source. Therefore data is collected from Text books, articles, Official Websites, Internet and Journals

Limitations of the study

The Research Information covers only the FDI related factors

Forms

Foreign direct investment incentives may take the following forms:

1. Low corporate tax and individual income tax rates
2. Tax holidays
3. Other types of tax concessions
4. Preferential tariffs
5. Special economic zones
6. EPZ – Export Processing Zones
7. Bonded Warehouses
8. Investment financial subsidies
9. Other types of tax concessions
10. Preferential tariffs
11. Special economic zones
12. EPZ – Export Processing Zones
13. Bonded Warehouses

Derogation from regulations (usually for very large projects foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance Minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times.^{[12][13]} India disallowed overseas corporate bodies (OCB) to invest in India.^[14] India imposes cap on equity holding by foreign investors in various sectors, current FDI limit in aviation sector is maximum 49%.

HISTORY OF FOREIGN DIRECT INVESTMENT (FDI) IN INDIA

Foreign direct investments (FDI) are a major driving force behind the growth of Indian financial markets. Post liberalization in 1990s, the country is being viewed as a strategic destination by foreign majors to park their investments and benefit from the economic growth. In India, FDI is considered as a developmental tool, which can help in achieving self-reliance in various sectors of the economy. With the announcement of Industrial Policy in 1991, huge incentives and concessions were granted.

Retail Sector: Opportunities and Challenges

India is a growing country which has large space for consumer as well as capital goods. India's abundant and diversified natural resources, its sound economic policy, good market conditions and highly skilled human resources, make it a proper destination for foreign direct investments

India remains the world's third most attractive destination for investment by transnational corporations (TNCs) during 2013-15, stated a recent survey by UNCTAD. The country was ranked after china and the US in the survey based on responses of 159 companies. As per the recent survey done by the United National Conference on Trade and Development (UNCTAD), India will emerge as the third largest recipient of foreign direct investment (FDI) for the three-year period ending 2012 (World Investment Report 2010). As per the study, the sectors which attracted highest FDI were services, telecommunications, construction activities, and computer software and hardware. In 1991, India liberalized its highly regulated FDI regime. Along with the virtual abolition of the industrial licensing system, controls over foreign trade and FDI were considerably relaxed. The reforms did result in increased inflows of FDI during the post reform period. The volume of FDI in India is relatively low compared with that in most other developing countries.

Firstly, FDI norms were further liberalized after September 2012 in sectors like civil aviation, power exchanges and retail. The Ministry of Finance has also suggested modifications in FDI caps for various sectors, including tea, media, natural gas and petroleum.

Secondly, it will increase surplus to small and medium farmers. Low income consumers on the demand side and small and medium scale farmers on supply side are less cohesively organized in influencing government policies than wholesalers, middlemen, and Indian large retailers. Indian large retailers (such as the newly entrenched interests like the Reliance fresh) may block the entry of foreign players with short-term calculations of their interests. However, they can benefit from externalities arising out of the entry of foreign players if the foreign players invest significant resources in developing the supply chain and improve the know-how of large number of vendors. This took place in the case of the automobile sector. Some of the wholesalers and small Kirana stores adopted innovative practices in procuring and selling goods in response to competition from the large retailers which will improve the overall organization of the markets. The main losers would be the middlemen rather than small traders. Small traders retain the advantage of low overhead costs and take advantage of geographic distribution and density of consumers. Any technological and organizational changes have disruptive effects - some losers in the short run and larger number of gainers in the long run. As the presence of large retailers increases, government tax revenues will increase which can be used to compensate the losers. The main role of government is to establish and implement effective and autonomous regulatory institutions- restraining anti-competitive conduct by firms, labour and environmental regulation. The government has to make credible commitments of its policies.

1. **Resource challenge:** India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US\$ 150 billion. This is the first step to overcome challenges facing larger FDI.
2. **Equity challenge:** India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth.
3. **Political Challenge:** The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the Foreign countries investing in India. This would increase the reforms in the FDI area of the country.
4. **Federal Challenge:** Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the

implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

5. India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

FDI in “Single-Brand” Retail

FDI in single-brand retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand. For Adidas to sell products under the Reebok brand, which it owns, separate government permission is required and (if permission is granted) Reebok products must then be sold in separate retail outlets.

Up to 100% in Single Brand Retail Trading

By only one non-resident entity whether owner or the brand or otherwise 30% domestic sourcing requirement eased to preferable sourcing rather compulsory Further clarification on FDI companies that cannot engage in B2C e-commerce.

FDI in “Multi-Brand” Retail Up to 51% in Multi-Brand Retail Trading

1. At least US\$100m as equity into Indian company.
2. At least 50% of the total FDI is to be invested in back end infrastructure within 3 years.
3. At least 30% of the value of procurement of processed product shall be sourced from Indian “Small Industries”.
4. Fresh agricultural produce is permitted to be sold unbranded.
5. Indian states have been given the discretion to accept or refuse to implement FDI. More than 8 states have already given their consent.
6. Retail outlets can be set up in cities having a population of at least 1 million

CONCLUSION

Foreign investments are fuel Indian financial markets in a big way. India is major player in FDI market. The global financial crisis began to affect India from early 2009 through a withdrawal of capital from India’s financial markets. This is shown in India’s balance of payments as a substantial decline in net capital inflows. This is seen from a large outflow of portfolio investment (as equity disinvestment by foreign institutional investors); and lower external commercial borrowings, short-term trade credit, and short-term bank borrowings.

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc.

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