

PROBLEMS AND PROSPECTS OF FOREIGN DIRECT INVESTMENT IN INDIA IN PRESENT SCNERIO

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Received date: 27 March 2021

Revised date: 17 April 2021

Accepted date: 07 May 2021

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ABSTRACT

Capital is known to be business's life blood. Entities can have access to capital from multinational corporations based overseas. Either direct investment or portfolio investment could be foreign capital. Foreign Direct Investment consists of mergers and acquisitions in a foreign country, as well as the creation of new facilities or plants. Other than capital investors who make direct Investments are concerned with the development of leverage over company operations. Their technology is often passed to the host country by international organizations. This paper addresses Foreign Direct Investment issues and opportunities, trends and patterns, and the inflows into India.

KEYWORDS: Foreign Direct Investment (FDI), Inflow, Major sectors, Problems, Prospects, Trend.

INTRODUCTION

Foreign Direct Investment (FDI) is made by a person or by a foreign company in a company located in another country. Rather than financial investors make direct investments, the interest in gaining ownership of business operations is greater. Investors in international companies pass their investors on new technologies to the host nation. Foreign Direct Investment may be a horizontal type, vertical type, or conglomerate type. The Horizontal Foreign Direct Investment Investment in the case of an Investor will invest in the same kind of business or create the same kind of business abroad. A foreign corporation invests in FDI, not in the same form of sector but in different business activities. A multinational firm makes investments in unrelated business activities in the event of a conglomerate investment, which is entirely new to them.

REVIEW OF THE LITERATURE

For Patra, S. A research was conducted (2019) To determine the causality and linkage between urbanisation, GDP, and foreign direct investment in China and India, using secondary data from 1979 to 2012. The study emphasised the determinants and trends of FDI in China and India. The research concluded that a significant positive correlation exists in both China and India. Between urbanisation and the flow to a specific FDI region.

Pradhan, J. P. (2017), Conducted by emerging Indian and Chinese multinationals to assess the origin and growth of outward foreign direct investment. The locational determinants of such investments were observed by researchers. Following the implementation by the home country of economic openness policies, both Chinese and Indian OFDI flows were found to have surged.

OBJECTIVES OF THE STUDY

1. To research Foreign Direct Investment's challenges and prospects.
2. To investigate the patterns and developments of FDI over the past few years.
3. To examine the inflow of foreign investment into India.

RERESARCH METHODOLOGY

1. Design of Research: Descriptive & Analytical
2. Data sources: posts, books, blogs, published studies.

Who's able to use

Type	Condition
Business of Indians	Indian Companies can raise capital by the mode of accessing FDI.
Partnership Firm	On non repatriation basis: An NRI or PIO can invest in any proprietary firm other than firms dealing with agriculture, real estate and print media sector. Prior approval is needed from RBI for investing in firms on repatriation basis. To analyse FDI trends and innovations over the past few years.
Trusts	In trusts other than 'VCF' registered and regulated by SEBI and 'Investment Vehicle', FDI is not permitted.
LLPs	LLPs can access FDI under automatic route in those sectors where FDI is permitted at 100%.
Investment vehicle	SEBI-regulated investment vehicles may have access to foreign investment from a person residing outside India, including a Registered Foreign Portfolio Investor.
Start-up Companies	Start-ups can offer equity-related instruments or debt instruments to FVCI to receive foreign capital under the FEMA Regulation.
Other entities.	FDI is not permitted in resident entities other than those mentioned above.

(Source: In, 2017 Ministry of Trade and Industry, Government of India)

ANALYSIS OF FOREIGN DIRECT INVESTMENT (FDI)

Table No-1: Financial Year Wise FDI Inflows in India.

Year	FDI Inflows (In US \$ Million)
2000-01	4,029
2001-02	6,130
2002-03	5,035
2003-04	4,322
2004-05	6,051
2005-06	8,961
2006-07	22,826
2007-08	34,843
2008-09	41,873
2009-10	37,745
2010-11	34,847
2011-12	46,556
2012-13	34,298
2013-14	36,046
2014-15	45,148
2015-16	55,559
2016-17	60,082
2017-18	48,201
Total FDI Inflows	532,552

(Source: Consolidated FDI policy circular of 2017, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry,

Table No-2: Top Twenty Country-Wise Foreign Direct Investment Equity Inflows from April 2000 to December 2017.

Sl No	Name Of The Country	FDI Inflows (In Rs Crores)	Percentage Inflows
1	Mauritius	671,733.79	33.97
2	Singapore	374,434.38	17.34
3	Japan	150,399.40	7.32
4	UK	130,198.81	6.88
5	Netherlands	132,529.46	6.27
6	USA	121,773.91	6.00
7	Germany	58,566.93	2.91
8	Cyprus	48,872.11	2.58
9	France	33,584.90	1.68
10	UAE	30,242.97	1.45
11	Switzerland	22,446.48	1.13
12	Hongkong	17,647.16	0.83

13	Spain	14,061.82	0.70
14	Cayman Islands	14,688.56	0.70
15	Italy	14,238.21	0.70
16	South Korea	14,427.20	0.70
17	Luxembourg	14,809.41	0.66
18	China	11,003.20	0.48
19	Sweden	7,472.92	0.39
20	British Virginia	7,443.31	0.37

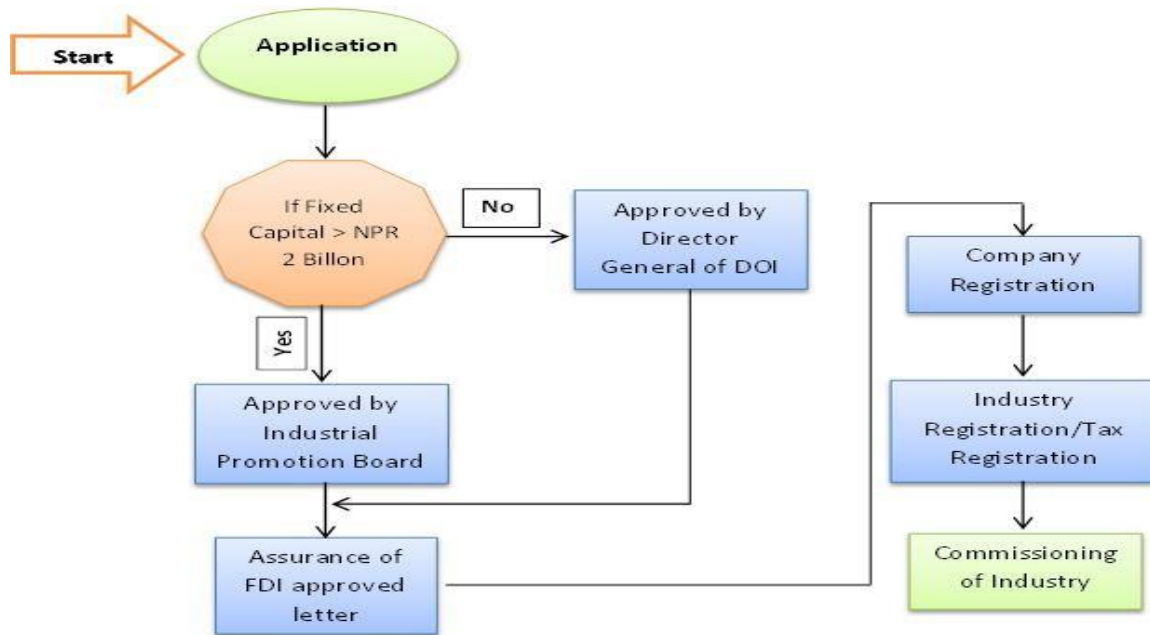
(Source: In, 2017 Ministry of Commerce and Industry, Department of Industrial Policy and Promotion

DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN INDIA

More Foreign Direct Investment (FDI) in India inflows than an additional volatile economy can be earned by a nation that has a stable economic situation with strong and sustained growth rates. Valuations, interest rates, inflation rates, etc. are the factors that affect economic stability and growth. Value rates, industrial output and interest rates are also expected to have an absolute effect on FDI flows, and the rate of inflation would also have an absolute or negative impact. In attracting foreign direct investment from abroad, market size plays a very significant role. Market size is calculated according to volume. Market size tends to affect inflows, as Associate in Nursing's exaggerated consumer base implies additional prosperity opportunities and also the real reality that people's purchasing power has also been greatly affected by rampant growth, moving to many

levels higher than what it was before economic growth.

Furthermore, as stated in the previous literature, trade openness is also considered to be one of all the main determinants of FDI; many FDIs are home-bound for export and should also include the importation of complementary, intermediate and capital goods. Therefore, trade openness is typically anticipated to be a positive and relevant FDI determinant. Trade openness, measured as a share of the gross domestic product, is the addition of goods and services to exports and imports. Furthermore, the number of domestic investments is determined by the amount of FDI inflows to different sectors. Real rates and inflation affect the influx of foreign investment, particularly direct investment. The economic stability of an economy is mainly lived by real rate partners in nursing inflation.



PROBLEMS OF FOREIGN DIRECT INVESTMENT

Reduction of national spending and domestic growth
Investors interested in foreign investment are entirely based on the investment prospects present in the foreign sector. The growth of the home nation is adversely affected by

Negative effects on the host nation

In terms of losing power to domestic investors, attracting foreign capital can have a huge effect on the host nation.

Increased Cost

International Direct Investment is much more expensive from the point of view of consumers than the sale of goods and services.

Monopolistic effect

Companies investing money in the host nation will emerge as giant entities and have an impact on market competition.

Reduction of national strength

It is noted that the assignment of too much control to a foreign MNC would generate problems with sovereignty in the host nation.

PROSPECTS OF FOREIGN DIRECT INVESTMENT

Generation of job possibilities

The establishment of companies and development wings in the host market helps generate new opportunities for jobs.

Efficient leadership

Global capital companies obtain management experience from foreign countries as part of foreign capital companies,

which would further increase their competitiveness.

Inflow of cash from commodity exports

In more than two continents, multinational firms work. The export of goods and services to other countries helps to raise capital inflows.

Transfer of technology from home country to host country

Foreign businesses own the new technology. The move to the cost country of such technologies helps to manufacture products in a cost-effective manner.

Table No-3: Top Twenty Sector –Wise Foreign Direct Investment Inflows from 1st April 2000 To December 2017.

SL No	NAME OF THE SECTOR	FDI INFLOWS (In Rs Crores)	Percentage inflows
1	Services Sector	346,387.14	17.42
2	Telecommunications	169,427.61	8.17
3	Technology & Hardware for Computers	170,034.91	8.10
4	Development of construction: townships, housing, infrastructure and building-development projects	117,092.19	6.71
5	Automobile Industry	103,420.86	5.00
6	Trading	99,206.83	4.48
7	Drugs & Pharmaceuticals	81,481.55	4.24
8	Chemicals (Other Than Fertilizers)	76,278.87	3.92
9	Power	68,998.78	3.52
10	Construction Activities	76,719.84	3.36
11	Hotel & Tourism	60,700.58	2.96
12	Metallurgical Industries	54,559.84	2.87
13	Food Processing Companies	50,431.98	2.27
14	Information & Broadcasting (Including Electronic Media)	40,215.45	1.92
15	Electrical Equipment's	39,527.26	1.90
16	Petroleum & Natural Gas Company	34,008.49	1.87
17	Non-Conventional Energy companies	36,445.90	1.70
18	Cement And Gypsum Products Industries.	29,095.87	1.43
19	Health and Hospital & Diagnostic Centres	28,963.60	1.36
20	Industrial Machinery	26,383.28	1.28

Source: FDI Statistics

CONCLUSION

International capital plays a critical role in a country's economic growth. India is able to raise foreign capital from many countries, Various types of Foreign Direct Investment in India include joint projects, participation in the management activities of a foreign company, the transfer of technology and the provision of expertise from India to other countries. In the growth of almost all sectors in our country, foreign capital plays a vital role. It further increases the competitive potential of a foreign corporation, promotes the growth of infrastructure and generates multiple opportunities for jobs in the host.

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