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Fdi issues and challenges

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Abstract

Foreign direct investment (FDI) is direct investment into production or business in a country by a 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 (FDI) is an integral part of an open and effective international economic system, which acts as a major catalyst in the development of a country. SWOT analysis is one of an analysis of strengths, weaknesses, opportunities and threats of FDI are made under the following information. And this also formulates the significance of FDI for developing countries in bridging the gap between the saving and investment. Subsequently, while FDI flows to advanced countries continued to decline, FDI flows too many of the Latin American and Asian countries witnessed strong rebound during 2010 on the back of improved corporate profitability and some improvement in M&A activities.

Keywords: Foreign direct investment (FDI)

1. Introduction

Foreign Direct Investment (FDI) as defined in Dictionary of Economics is investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. In short FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. Foreign direct investment is distinguished from portfolio foreign investment, a passive investment in the securities of another country such as public stocks and bonds, by the element of "control". According to the Financial Times, Standard definitions of control use the internationally agreed 10 percent threshold of voting shares, but this is a grey area as often a smaller block of shares will give control in widely held companies. Moreover, control of technology, management, even crucial inputs can confer de facto control. The origin of the investment does not impact the definition as an FDI, i.e., the investment may be made either "inorganically" by buying a company in the target country or "organically" by expanding operations of an existing business in that country.

Objective

- The main objective is to analyze the current scenario in India
- To investigate the controversial views of the Indian trade of various investments.
- To evaluate the likely challenges and threats of FDI in India.
- To know the requirement of amount of foreign investment by India, for its economic Development
- To know the significance of FDI for developing countries in bridging the gap between the saving and investment.

Importance and Barriers to FDI

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and

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development resources. The local population may be able to benefit from the employment opportunities created by new businesses.

Table 1: showing the Routes of Foreign Investment Inflow

Routes of Foreign Investment Inflow	
Direct Investment	Indirect Investment
(a) Government (b) RBI (c) NRI (d) Acquisition of shares (e) Equity capital (f) Unincorporated bodies	(a) GDRs/ADRs (b) FIIs (c) off-shore funds and others

SWOT Analysis of Foreign Direct Investment

SWOT analysis is one of the primary steps in strategic management. It contains an analysis of strengths, weaknesses, opportunities and threats. The strength and weaknesses of the FDI shows the present.

(a) Strength

- (i) Fast growing economy.
- (ii) Young and dynamic manpower. . A large young working population with median age of 25 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organized sectors.
- (iii) Highest shop density in the world. Customers will have access to greater variety of international quality branded goods.

- (iv) Employment opportunities both direct and indirect have been increased. Farmers get better prices for their products through improvement of value added food chain.

(b) Weaknesses

- (i) Low capital investment
- (ii) Will mainly cater to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns.
- (iii) Retail chain is yet too settled down with proper merchandise mix for the mall outlets.
- (iv) Small size outlets are also one of the weaknesses in the India, 96% of the outlets are lesser than 500 sq. ft.
- (v) Lack of trained & educated force.
- (vi) Lack of competition.
- (vii) More prices as compared to specialized shops.

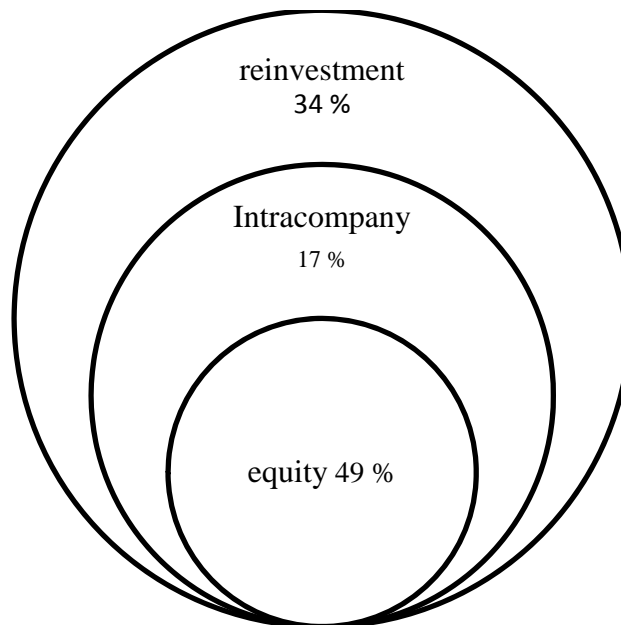
(c) Opportunities

- (i) Global strategy giant take India as key market.
- (ii) FDI can become one of the largest industries in terms of numbers of employees and establishments.
- (iii) Rural marketing is still unexploited Indian market. It will enhance the financial condition of farmers.

(d) Threats

- (i) Jobs in the manufacturing sector will be lost.
- (ii) Started roadside bargains.
- (iii) Work will be done by Indians and profits will go to foreigners.

Image Showing FDI – Distribution in India



(Source: The Economic times, 7 November 2014)

Major Issues of FDI Inflows in India

In addition to India’s poor performance in terms of competitiveness, quality of Infrastructure, and skills and productivity of labor, there are several other factors that Make India a far less attractive ground for direct investment than the potential she has. Given that India has a huge domestic market and a fast growing one, there is every reason to believe that with continued reforms that improves institutions and

economic policies, and thereby create an environment conducive for private investment and economic Growth that substantially large volumes of FDI will flow to India.

Major Deterrents Below

1. Restrictive FDI regime
2. Lack of clear cut and transparent spectral policies for FDI
3. High tariff rates by international standards

- 4. Lack of decision-making authority with the state governments
- 5. Limited scale of export processing zones
- 6. No liberalization in exit barriers
- 7. Financial sector reforms
- 8. High corporate tax rates

Table 2: Showing the Percentage Limit of FDI in Different Sectors in India

Industry Sector	Percentage Of Limit
Insurance	26
Airlines	49
Hotel and Tourism	49
Tourism	74
Defense	26
Power	28
Petroleum	100
Trading	51
Tea	98

(Source: www.indianfdipolicy.com)



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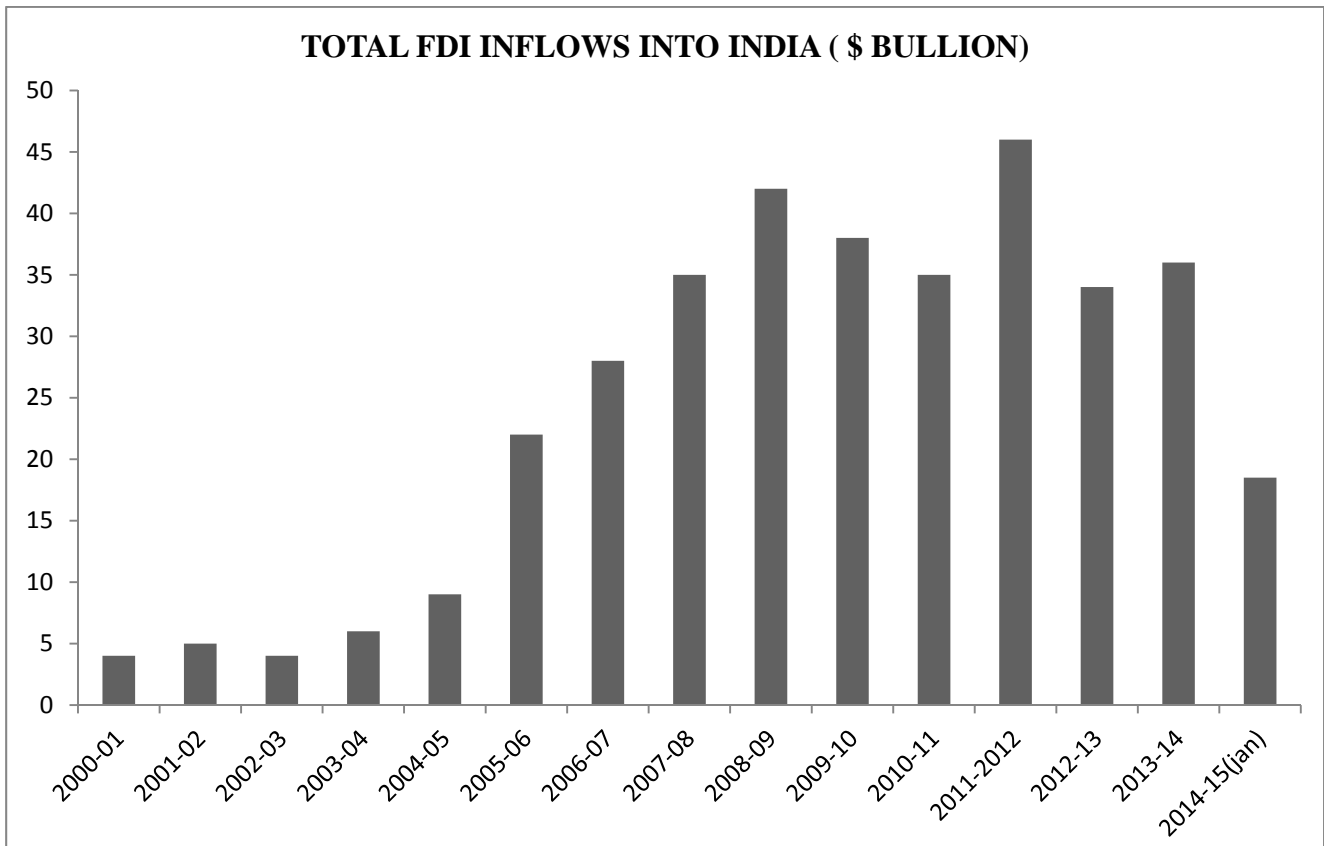
Chart Showing the Percentage Limit of FDI in Different Sectors in India

Challenges of FDI in India

- Promote cartels and will create monopoly.
- Increase in the real estate prices.
- Marginalize domestic entrepreneurs.
- The financial strength of foreign players would displace the unorganized players.
- Absence of proper regulatory provisions and guidelines would induce unfair trade practices like Predatory pricing despite the above challenges there are certain other problem relating to foreign direct investment (FDI) in India is that it does not provide a level playing field to other players of the domestic and small sort.

FDI Flows to India in Recent Period

As stated above, global FDI flows moderated significantly since the eruption of global financial crisis in 2008, albeit with an uneven pattern across regions and countries. Though initially developing countries showed some resilience, crisis eventually spread through the trade, financial and confidence channels and FDI flows declined in both the advanced and developing economies during 2009. Subsequently, while FDI flows to advanced countries continued to decline, FDI flows too many of the Latin American and Asian countries witnessed strong rebound during 2010 on the back of improved corporate profitability and some improvement in M&A activities.



(Source-Department of Industry policy and Promotion, Government of India)
 Chart showing the Total FDI inflows into India (\$ Bullion)

Suggestion

- FDI in India would contain inflation by reducing wastage of farm output as 30% to 40% of the produce does not reach the end-consumer.
- In India, there is an opportunity to work all the way up to farmers in the back-end chain. Part of inflation is due to the fact that produces do not reach the end-consumer.
- Many of the foreign brands would come to India, if FDI is permitted which can be a blessing in disguise for the economy.
- India should focus on waste of output to increase the revenue of FDI.

Conclusion

Maximum global foreign investment’s flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. But foreign investor never adopts environment friendly technique to maximize their profit. India should welcome FDI with a talented pool of human resources by promoting institution imparting knowledge. Protection must be given to Indian small and medium players for their source of livelihood.

The Government must properly discuss the pros and cons of allowing 51% FDI and have a law in place to control unfair competition. We should welcome inflow of foreign investment in such way that it should be convenient and favorable for Indian economy and enable us to achieve our cherished goal like rapid economic development, removal of poverty, internal personal disparity in the development and making our Balance of Payment favorable.

FDI could therefore provide a boost to small-and medium enterprises. Moreover, expansion in FDI could also generate significant employment potential, especially among rural and semi-urban youth. But the government of India must be cautious about the apprehensions raised by the critics and adequate safeguards must be taken so that the positive effects may outweigh the negative ones and the traditional coexist even after big foreign players enter the market.

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