The foreign direct investment in india

The economy of India is the third largest in the world as measured by purchasing power parity (PPP), with a gross domestic product (GDP) of US $3. 611 trillion. When measured in USD exchange-rate terms, it is the tenth largest in the world, with a GDP of US $800. 8 billion (2006). Is the second fastest growing major economy in the world, with a GDP growth rate of 8. 9% at the end of the first quarter of 2006-2007? However, India's huge population results in a per capita income of $3, 300 at PPP and $714 at nominal. The economy is diverse and encompasses agriculture, handicrafts, textile, manufacturing, and a multitude of services. Although two-thirds of the Indian workforce still earns their livelihood directly or indirectly through agriculture, services are a growing sector and are playing an increasingly important role of India's economy. The advent of the digital age, and the large number of young and educated populace fluent in English, is gradually transforming India as an important ' back office' destination for global companies for the outsourcing of their customer services and technical support. India is a major exporter of highly-skilled workers in software and financial services, and software engineering.

India followed a socialist-inspired approach for most of its independent history, with strict government control over private sector participation, foreign trade, and foreign direct investment. However, since the early 1990s, India has gradually opened up its markets through economic reforms by reducing government controls on foreign trade and investment. The privatization of publicly owned industries and the opening up of certain sectors to private and foreign interests has proceeded slowly amid political debate.

India faces a burgeoning population and the challenge of reducing economic and social inequality. Poverty remains a serious problem, although it has declined significantly since independence, mainly due to the green revolution and economic reforms. FDI up to 100% is allowed under the automatic route in all activities/sectors except the following which will require approval of the Government: Activities/items that require an Industrial License; Proposals in which the foreign collaborator has a previous/existing venture/tie up in India FDI in India includes, FDI inflows as well as FDI outflow from India. Also FDI foreign direct investment and FII

Foreign institutional investors are a separate case study while preparing a report on FDI and economic growth in India. FDI and FII in India have registered growth in terms of both FDI flows in India and outflow from India. The FDI statistics and data are evident of the emergence of India as both a potential investment market and investing country. FDI has helped the Indian economy grow, and the government continues to encourage more investments of this sort – but with $5. 3 billion in FDI India gets less than 10% of the FDI of China. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. FDI in India has – in a lot of ways – enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that may have needed economic attention, and address the various problems that continue to challenge the country.

India has continually sought to attract FDI from the world’s major investors. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage FDI and present a favorable scenario for investors. FDI investments are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through Euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal & lignite or mining industries. A number of projects have been announced in areas such as electricity generation, distribution and transmission, as well as the development of roads and highways, with opportunities for foreign investors. The Indian national government also provided permission to FDI s to provide up to 100% of the financing required for the construction of bridges and tunnels, but with a limit on foreign equity of INR 1, 500crores, approximately $352. 5m. Currently, FDI is allowed in financial services, including the growing credit card business. These services include the non-banking financial services sector. Foreign investors can buy up to 40% of the equity in private banks, although there is condition that stipulates that these banks must be multilateral financial organizations. Up to 45% of the shares of companies in the global mobile personal communication by satellite services GMPCSS) sector can also be purchased. By 2004, India received $5. 3 billion in FDI, big growth compared to previous years, but less than 10% of the $60. 6 billion that flowed into China. Why does India, with a stable democracy and a smoother approval process, lag so far behind China in FDI amounts? Although the Chinese approval process is complex, it includes both national and regional approval in the same process. Federal democracy is perversely an impediment for

India. Local authorities are not part of the approvals process and have their own rights, and this often leads to projects getting bogged down in red tape and bureaucracy.

India actually receives less than half the FDI that the federal government approves.

Sovereign Risk India is an effervescent parliamentary democracy since its political freedom from British rule more than 50 years ago. The country does not face any real threat of a serious revolutionary movement which might lead to a collapse of state machinery. Sovereign risk in India is hence nil for both “ foreign direct investment” and “ foreign portfolio investment.” Many

Industrial and Business houses have restrained themselves from investing in the North-Eastern part of the country due to unstable conditions. Nonetheless investing in these parts is lucrative due to the rich mineral reserves here and high level of literacy. Kashmir on the northern tip is a militancy affected area and hence investment in the state of Kashmir are restricted by law Investment Risks in India

Political Risk

India has enjoyed successive years of elected representative government at the Union as well as federal level.

India suffered political instability for a few years in the sense there was no single party which won clear majority and hence it led to the formation of coalition governments. However, political stability has firmly returned since the general elections in 1999, with strong and healthy coalition governments emerging. Nonetheless, political instability did not change

India’s bright economic course though it delayed certain decisions relating to the economy. Economic liberalization which mostly interested foreign investors has been accepted as essential by all political parties including the Communist Party of

India Though there is bleak chances of political instability in the future, even if such a situation arises the economic policy of

India would hardly be affected… Being a strong democratic nation the chances of an army coup or foreign dictatorship are minimal. Hence, political risk in

India is practically absent.

Commercial Risk

Commercial risk exists in any business ventures of a country. Not each and every product or service is profitably accepted in the market. Hence it is advisable to study the demand /supply condition for a particular product or service before making any major investment.

In India one can avail the facilities of a large number of market research firms in exchange for a professional fee to study the state of demand / supply for any product. Asti is, entering the consumer market involves some kind of gamble and hence involves commercial risk

Risk Due To Terrorism

In the recent past, India has witnessed several terrorist attacks on its soil which could have a negative impact on investor confidence. Not only business environment and return on investment, but also the overall security conditions in a nation have an effect on FDI’s. Though some of the financial experts think otherwise. They believe the negative impact of terrorist attacks would be a short term phenomenon. In the long run, it is the micro and macro economic conditions of the Indian economy that would decide the flow of foreign investment and in this regard India would continue to be a favorable investmentdestination.

FDI Policy in India

Foreign Direct Investment Policy

FDI policy is reviewed on an ongoing basis and measures for its further liberalization are taken. Change in sect oral policy/sect oral equity cap is notified from time to time through Press Notes by the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy announcement by SIA are subsequently notified by RBI under Femoral Press Notes are available at the website of Department of Industrial Policy &Promotion. FDI Policy permits FDI up to 100 % from foreign/NRI investor without prior approval in most of the sectors including the services sector under automatic route. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI. The investors are required to notify the Regional office concerned of RBI of receipt of inward remittances within 30 days of such receipt and will have to file the required documents with that office within 30 days after issue of shares to foreign investors. The Foreign direct investment scheme and strategy depends on the respective FDI norms and policies in India. The FDI policy of India has imposed certain foreign direct investment regulations as per the FDI theory of the Government of India. These include FDI limits in India for example:

Foreign direct investment in India in infrastructure development projects excluding arms and ammunitions, atomic energy sector, railways system, extraction of coal and lignite and mining industry is allowed up to 100% equity participation with the capping amount as Rs. 1500 cores.

FDI figures in equity contribution in the finance sector cannot exceed more than40% in banking services including credit card operations and in insurance sector only in joint ventures with local insurance companies.

FDI limit of maximum 49% in telecom industry especially in the GSM services

Government Approvals for Foreign Companies Doing Business in India

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India or Investment Routes for Investing in India, Entry Strategies for Foreign Investors India’s foreign trade policy has been formulated with a view to invite and encourage FDI in India. The Reserve Bank of India has prescribed the administrative and compliance aspects of FDI. A foreign company planning to set up business operations in India has the following options:

Investment under automatic route; and

Investment through prior approval of Government.

Procedure under automatic route

FDI in sectors/activities to the extent permitted under automatic route does not require any prior approval either by the Government or RBI. The investors are only required to notify the Regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors. List of activities or items for which automatic route for foreign investment is not available, include the following:

Banking

NBFC’s Activities in Financial Services Sector

Civil Aviation

Petroleum

including Exploration/Refinery/Marketing

Housing & Real Estate Development Sector for

Investment from Persons other than NRIs/OCBs.

Venture Capital Fund and Venture Capital Company

Investing Companies in Infrastructure & Service Sector

Atomic Energy & Related Projects

Defense and Strategic

Industries

Agriculture (Including Plantation)

Print Media

Broadcasting

Postal Services