Foreign foreign direct investments are made in many

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ForeignDirect InvestmentForeign direct investment (FDI) is a type of an investment made by acompany or individual of a country interested in another country's business, inthe form of either having business operations or acquiring business assets inthe other country, such as ownership or controlling interest in a foreigncompany. Foreign direct investments are made in many different ways, like · Investor can open asubsidiary or associate company in a foreign country· Investor canacquire controlling interest in an existing foreign company · Merger or joint venture with a foreign company. According to theguidelines of Organization of Economic Cooperation and Development (OECD), the cusp for FDIthat establishes a controlling interest, is a minimum 10% ownership stake in aforeign-based company, typically represented for the investor acquiring 10% ormore of the ordinaryshares or voting shares of a foreign company. Though, in some instances the effectivecontrolling interest in a firm can be established with less than 10% of thecompany's voting shares. FDI is allowed through two different routesnamely, Automatic and the Government route.

In the government route, investments can be made only after the prior approval of the government. In the automatic route, prior approval of thegovernment is not needed by the foreign entities to invest. However, they haveto inform the RBI about the amount of investment within a given time periodFDI started in India in the year 1991 when India's economy was very lowand this is when Indian government introduced Liberalisation, Privatisation andGlobalisation. Thus, India opened its doors to Foreign Investments.

From 1991there are many changes made in FDI policy till now. The recent significantchanges are-:· FDI norms invarious sectors such as commodity exchanges, credit information, and aircraftmaintenance were relaxed.· 100% foreign directinvestments in Maintenance, Repair and Overhauling, (MRO) was allowed. · 100% FDI was permittedin mining of titanium bearing minerals. · There was a hike inthe ceilings on public sector oil refineries. · Foreign investorswere exempted from minimum capitalization and a three-year lock-in period· The present FDIregime in banking sector permits 49% FDI participation in the equity of acompany under the automatic route.

FDI above 49% is permitted throughgovernment approval on a case-to-case basis. · FDI in defenceand teleports have also been hiked to 100%· In pharmaceutical FDI of 74% is allowed under automatic route.· Foreign airlines have been allowed toinvest up to 49% under approval route in Air India· FIIs/FPIs have been allowed to investin Power Exchanges through primary market.· FDI in LLPs: TheErstwhile FDI Policy was silent with respect to conversion of an FDI fundedLimited Liability Partnership (LLP) into a company and vice versa. The New FDIPolicy allows conversion of an FDI funded LLP operating in sectors/activitieswhere (i) 100% FDI is allowed through the automatic route; and (ii) thereare no FDI linked performance conditions, into a company, under the automaticroute. Similarly, conversion of an FDI funded company operating insectors/activities where (i) 100% FDI is allowed through the automatic route; and (ii) there are no FDI linked performance conditions, into an LLP, ispermitted under the automatic route.· RBI also decidedto broaden non—resident centralised

treasuries of multinational companies tohedge the rupee (INR) risk on current account transactions of their Indiansubsidiaries.

“ This is expected to facilitate internationalisation of the rupeeby encouraging rupee invoicing of trade transactions while also encouragingnon—residents to hedge INR risks onshore,” it said. ImpactThese recent changesto India’s trading rules has opened the door for fund managers to increasetheir holdings of derivatives in the country, loosening restrictions that hadstifled trading. FDI has broughtbetter technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good forconsumers.

Changes have led to larger FDI inflows contributing to growth ofinvestment, income and employment. The following graph depicts FDI flow beforeand after policy changes. Trends for the period of last 3 years (2014-15 to2016-17)· The FDI equity inflow during the last three financial years is US$114. 41 billion. It shows an increase of 40% compared to previous period ofthree financial years (2011-12 to 2013-14) (US $ 81. 84 billion).· The overallmanufacturing sectors have witnessed a growth of 4% in comparison to previousthree financial years (i. e.

from US$ 48. 03 billion to US$ 50. 09 billion).· The total FDIinflow during last three years grew by 38%. Trends in the Financial Year 2016-17· The FDI equity inflow received during the F. Y. 2016-17 is US$ 43. 48billion.

It shows an increase of 9% compared to previous F. Y. 2015-16 (US $40. 00 billion). It is the highest ever for a particular financial year.· The FDI

equity inflow received through approval route during F. Y. 2016-17 amounts to US$ 5.

90 billion, which is 65% higher than the previous year(US $ 3. 57 billion).· The overallmanufacturing sectors have witnessed a tremendous growth of 52% in comparisonto previous F. Y. 2015-16 (i. e. from US$ 13. 35 billion to US$ 20.

26 billion).· The total FDI inflow grew by 8%, i. e. US $ 60. 08 billion in 2016-17 incomparison to US $ 55. 56 billion of the previous year. It is the highest everfor a particular financial year.

Prior to this, the highest FDI inflow wasreported in the F. Y. (2015-16).· FDI has lowered the risk of individualinvestors. It has diversified their holdings outside of the country, industryor political system. Diversification always increases return without increasingrisk.· FDI offsets the volatility created by" hot money.

" As a result short-term lenders and currency traders are creatingan asset bubble. They invest lots ofmoney all at once, then sell their investments just as fast.· High competitiveness has increased ourefficiency thus increasing foreign bank entry across financial system. Declining cost and increasing productivity is seen in banking market afterforeign bank entry. Increase in FDI has increased the GDPwith a significant amount.

If we consider last 9 years GDP and FDI we can see apositive correlation of 0. 5052 between both which clearly depicts that increasein FDI has raised the

GDP of our country. GDP of India for last 9 years Increase in FDI has an effect onIndian stock market also.

If we analyse last 15 years data we can see acorrelation of 0. 867 with CNX Nifty and 0. 843 with NSE Sensex. We see a highrise in Sensex from the year 2016, there is a growth of 52. 1%. Sensex Trend in last 9 years Comparison with other countriesUSAIf we compare these statistics withthe FDI stats of US we can see that US is the largest recipient of global FDI. It had a FDI inflow of $2.

9 trillion on historical cost basis in 2014. Itsinflow in 2015 alone was $348 billion, compared to 2014 ($172 billion).·   Majority of US FDI comes fromeconomies like United Kingdom, Japan and Germany while for India it isMauritus, Singapore, Japan. Japan contributing just 7% of the total FDI inflow.

·   US has upheld an open investmentpolicy. Access to market has significantly affected the decisions ofmultinationals to locate in the US. On the other hand, if we look at India ithas recently changed its policies to 100% FDI limit in various sectors andafter this change India has rose to 9th position in total FDI inflows. ChinaSome of the best practices of Chinawere·   Encouragement to FDI has been anintegral part of the China's economic reform process. It has gradually openedup its economy for foreign businesses and has attracted large amount of directforeign investment.·   It changed its policies and increasedFDI flow by setting new regulations to permit joint ventures using foreigncapital and setting up Special Economic Zones (SEZs) and Open Cities. ·   Foreign jointventures

were provided with preferential tax treatment, hey provided thefreedom to import inputs such as materials and equipment, the right to retainand swap foreign exchange with each other, and simpler licensing procedures in1986.

Additional tax benefits were offered to export-oriented joint venturesand those employing advanced technology.· Priority was given to differentsectors like agriculture, basic raw materials, energy, telecommunications, transportation, and high-technology industries, and FDI projects which couldtake advantage of the rich natural resources and relatively low labour costs inthe central and northwest regions.· China's policies toward FDI have hadthree stages: gradual and limited opening, active promoting throughpreferential treatment, and promoting FDI in accordance with domesticindustrial objectives. These changes in policy priorities greatly affected theFDI inflows in China.· With these policies and an objectiveof moving from traditional agriculture to industrialisation FDI in has beenincreasing significantly. It has increased by 7.

9% year-on-year to CNY 877. 56billion in 2017. Challenges of implementing FDI in India· Earlier India had put a ceiling of 25%of FDI for small-scale industries while countries like China had floor ceilingof 25% which could go to 100%. FDI in TVE's have brought great technologicaladvancements and innovation of new products by contributing to 65% of China'sexport.

· Weak legal enforcement eroded thecompetitive edge of India for FDI. A stricter implementation of IntellectualProperty Rights (IPR) could have boosted confidence in investors to invest. Asa weak IPR makes the host country less reliable and attractive to invest.· Tax competition in FDI is

one of themajor problem as the investors compares tax burdens in different locationsacross countries which are demographically similar. India had high corporatetaxes (30% for domestic company and 40% for foreign company excluding surchargeand education cess).

This affected the flow of foreign direct investmentsignificantly. However, the corporate tax in other developing countries was muchlower than that in India. Hong Kong's corporate tax is at 16. 5%, Singapore's17% and Malaysia's 25% this has helped them attaining high FDI inflow. Alongside openingup of the FDI regime, steps have been taken to allow foreign portfolioinvestments(FPI) into the Indian stock market through the foreign institutionalinvestors. The objective was not only to unclog nondebt creating foreigncapital inflows but also to develop the stock market in India, lower the costof capital for Indian enterprises and indirectly improve corporate governancestructures. On their part, large Indian companies have been allowed to raisecapital directly from international capital markets through commercialborrowings and depository receipts having underlying Indian equity.

As on Aug 2017, 111310 FIIs are registered. FIIs have played avery important role in building up India's forex reserves, which have enabled a host ofeconomic reforms. Secondly, FIIs are now important investors in the country's economicgrowth despite slow domestic outlook. FII strongly influence short-term marketmovements during bear markets. However, the correlation between market returnsand FII inflows has reduced during bull markets as other market participantsraise their involvement reducing the

influence of FIIs. Research by MorganStanley shows that there is correlation between foreign inflows and marketreturns.

Market return is high during bear and weakens with strengtheningequity prices due to an increment in the participation by other players. Exchange rate also has a significant impact on index volatilityThe Securities andExchange Board of India has increased the combined futures and options tradinglimit by removing some caps on contracts and on the market value of positionsheld. The changes mean an average increase in allowed holdings of 550 per centon futures contracts traded at venues operated by NSE.

The move hasboosted foreign investor sentiment toward India, which has recently been souredby uncertainties over the tax rules facing offshore firms. The change willenable global investors to raise exposure to Indian derivatives manifold asthey won't refrain from investing due to smaller limits," BREXITBrexit is associate abbreviation for" British exit," relatingthe UK's call during a St John's Eve, 2016 voteto depart the European Union (EU). The vote'sresult defied expectations and roiled internationalmarkets, inflicting the British pound to fall to itslowest level against the greenbackin thirty years. Impact· India exports toboth EU and UK, its exports to the UK have been around 3% of the total exportsand to the European Union are around 17% of total exports.

India's exports toboth UK and Europe have been on a downtrend in the past two years because of restraineddemand led by a frail and scattered recovery in the region. Post Brexit there arehigh chances of this trend being amplified for the coming years because of theprobable disturbances in currencies and

UK facing a further slowdown in growth. However, some safeguards are expected to be put in place to deal with thevolatility in currency in the UK.

· It is expectedthat this decision would impact the confidence level of the business and theinvestor community and there might be a temporary pause in outbound investmentsfrom India to the UK until we get more clarity on the working framework betweenthe EU and UK. However, after the recent policy changes the Government hasliberalised the FDI regime in the country and an increase in FDI inflows hasbeen noticed over the last two years. This trend is expected to continue.

Withthe policy changes in June 2016, India has opened up almost all sectors forforeign investors barring a very small negative list. India has once againstrengthened its position on the investment radar and the growth prospects inthe country remain strong. India is expected to get continued attention fromthe investors including investments from the UK.

UK is third largest investorin India and accounts for about 8. 0% of the total FDI inflows in the country. In fact, several British companies have exhibited interests in India postlaunch of the Make in India campaign.· Indiais one of the major Foreign Direct Investment (FDI) source for the UK as manyof the Indian firms have used it as a gateway to Europe. If UK moves out of EU, it might not be as attractive to Indian firms as before.

It is expected that theUK government would not like to miss out Indian investment and will thus try toattract Indian firms by offering more incentives such as tax breaks, easyregulations and opening up markets which would be an advantage for Indianmarket.· UK’s currency

hasbecome weaker so it is an advantage for us as exports would be cheaper.· There could be adecline in the demand of Indian goods as post Brexit there is a slowdown inUK’s growth.· In 2016, therupee gained 0.

9%, while the yuan, euro and pound lost 1. 1%, 1. 7% and 13. 2%, respectively, against the dollar. The rupee has become relatively strongervis-a-vis the dollar compared to the yuan by 2%, euro 2.

6%, and pound by over14%. That would adversely affect India’s export competitiveness inprice-elastic items such as textiles and clothing.· Due to weakeningof the pound and euro it would be expensive for European tourists to visitIndia and this would hurt India’s forex income from travel and tourism. In the financialyear 2016-17 after Brexit, imports from UK were Rs. 24, 583.

53 crores andexports were Rs. 57, 386. 98 crores. Total trade being 81, 970.

51 and tradebalance being 32, 803. 46. We can see a fall in trade balance in the graph below. It would take some time to know more pronouncedeffects of Brexit on India but , till date India has not been at a majoradvantage or disadvantage due to this policy of UK to get separated from EU.