Project report on fdi in india

Business

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Meerut has under gone a research project on " Analytical Study Of Foreign Direct Investment in India " And submitted a report based on the same as a mandatory requirement for obtaining the degree of Master of Business Administration from Uttar Pradesh Technical University, I extend my sincere thanks to all those who helped me in the completion of this project. Without their undying help and guidance, this project would not be what it is.

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Objective of the study Research methodology Conclusion Recommendations & suggestions Limitations of research Bibliography Annexure 7 Introduction Introduction and overview What is Foreign Direct Investment ? Meaning: 8
These three letters stand for foreign direct investment.

The simplest explanation of FDI would be a direct investment by a corporation in a commercial venture in another country. A key to separating this action from involvement in other ventures in a foreign country is that the business enterprise operates completely outside the economy of the corporation's home country.

The investing corporation must control 10 percent or more of the voting power of the new venture. According to history the United States was the

leader in the FDI activity dating back as far as the end of World War II. Businesses from other nations have taken up the flag of FDI, including many who were not in a financial position to do so just a few years ago. The practice has grown significantly in the last couple of decades, to the point that FDI has generated quite a bit of opposition from groups such as labor unions.

These organizations have expressed concern that investing at such a level in another country eliminates jobs.

Legislation was introduced in the early 1970s that would have put an end to the tax incentives of FDI. But members of the Nixon administration, Congress and business interests rallied to make sure that this attack on their expansion plans was not successful. One key to understanding FDI is to get a mental picture of the global scale of corporations able to make such investment. A carefully planned FDI can provide a huge new market for the company, perhaps introducing products and services to an area where they have never been available.

Not only that, but such an investment may also be more profitable if construction costs and labor costs are less in the host country. The definition of FDI originally meant that the investing corporation gained a significant number of shares (10 percent or more) of the new venture. In recent years, however, companies have been able to make a foreign direct investment that is actually long-term management control as opposed to direct investment in buildings and equipment. FDI growth has been a key factor in

the “ international” nature of business that many are familiar with in the 21st century.

This growth has been facilitated by changes in regulations both in the originating country and in the country where the new installation is to be built. Corporations from some of the countries that lead the world’s economy have found fertile soil for FDI in nations where commercial development was limited, if it existed at all.

The dollars invested in such developing-country projects increased 40 times over in less than 30 years. The financial strength of the investing corporations has sometimes meant failure for smaller competitors in the target country.

One of the reasons is that foreign direct investment in buildings and equipment still accounts for a vast majority of FDI activity. Corporations from the originating country gain a significant financial foothold in the host country. Even with this factor, host countries may welcome FDI because of the positive impact it has on the smaller economy. 9 Foreign direct investment (FDI) is a measure of foreign ownership of productive assets, such as factories, mines and land.

Increasing foreign investment can be used as one measure of growing economic globalization.

Figure below shows net inflows of foreign direct investment as a percentage of gross domestic product (GDP). The largest flows of foreign investment occur between the industrialized countries (North America, Western Europe

and Japan). But flows to non-industrialized countries are increasing sharply. Foreign direct investment (FDI) refers to long term participation by country A into country B. It usually involves participation in management, joint-venture, transfer of technology and expertise.

There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) . Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (‘‘ direct investor”) in an entity resident in an economy other than that of the investor (‘‘ direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence on the management of the enterprise.

Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. • Foreign Direct Investment – when a firm invests directly in production or other facilities, over which it has effective control, in a foreign country.

Manufacturing FDI requires the establishment of production facilities. Service FDI requires building service facilities or an investment foothold via capital contributions or building office facilities. Foreign subsidiaries – overseas units or entities.

An MNE has and/or creates monopolistic advantages that enable it to operate subsidiaries abroad more profitably than local competitors. Monopolistic Advantage comes from: – Superior knowledge – production

technologies, managerial skills, industrial organization, knowledge of product. Economies of scale – through horizontal or vertical FDI – Internationalization Theory • • When external markets for supplies, production, or distribution fails to provide efficiency, companies can invest FDI to create their own supply, production, or distribution streams.

Avoid search and negotiating costs Avoid costs of moral hazard (hidden detrimental action by external partners) Avoid cost of violated contracts and litigation Capture economies of interdependent activities Avoid government intervention Control supplies Control market outlets Better apply cross-subsidization, predatory pricing and transfer pricing Definition Foreign direct investment is that investment, which is made to serve the business interests of the investor in a company, which is in a different nation distinct from the investor's country of origin.

A parent business enterprise and its foreign affiliate are the two sides of the FDI relationship. Together they comprise an MNC. The parent enterprise through its foreign direct investment effort seeks to exercise substantial control over the foreign affiliate company. ' Control' as defined by the UN, is ownership of greater than or equal to 10% of ordinary shares or access to voting rights in an incorporated firm.

For an unincorporated firm one needs to consider an equivalent criterion. Ownership share amounting to less than that stated above is termed as portfolio investment and is not categorized as FDI.

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of

foreign assets into domestic structures, equipment, and organizations. It does not include foreign investment into the stock markets. Foreign direct investment is thought to be 12 more useful to a country than investments in the equity of its companies because equity investments are potentially " hot money" which can leave at the first sign of trouble, whereas FDI is durable and generally useful whether things go well or badly.

FDI or Foreign Direct Investment is any form of investment that earns interest in enterprises which function outside of the domestic territory of the investor. FDIs require a business relationship between a parent company and its foreign subsidiary. Foreign direct business relationships give rise to multinational corporations. For an investment to be regarded as an FDI, the parent firm needs to have at least 10% of the ordinary shares of its foreign affiliates. The investing firm may also qualify for an FDI if it owns voting power in a business enterprise operating in a foreign country.

History In the years after the Second World War global FDI was dominated by the United States, as much of the world recovered from the destruction brought by the conflict. The US accounted for around three-quarters of new FDI (including reinvested profits) between 1945 and 1960. Since that time FDI has spread to become a truly global phenomenon, no longer the exclusive preserve of OECD countries. FDI has grown in importance in the global economy with FDI stocks now constituting over 20 percent of global GDP.

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Foreign Direct investor 13 A foreign direct investor is an individual, an incorporated or unincorporated public or privateenterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which has a direct investment enterprise – that is, a subsidiary, associate or branch – operating in a country other than the country or countries of residence of the foreign direct investor or investors. 14 Types of Foreign Direct Investment: An Overview

FDIs can be broadly classified into two types: 1 Outward FDIs 2 Inward FDIs This classification is based on the types of restrictions imposed, and the various prerequisites required for these investments.

Outward FDI: An outward-bound FDI is backed by the government against all types of associated risks. This form of FDI is subject to tax incentives as well as disincentives of various forms. Risk coverage provided to the domestic industries and subsidies granted to the local firms stand in the way of outward FDIs, which are also known as ‘ direct investments abroad. Inward FDIs: Different economic factors encourage inward FDIs. These include interest loans, tax breaks, grants, subsidies, and the removal of restrictions

and limitations. Factors detrimental to the growth of FDIs include necessities of differential performance and limitations related with ownership patterns.

Other categorizations of FDI 15 Other categorizations of FDI exist as well. Vertical Foreign Direct Investment takes place when a multinational corporation owns some shares of a foreign enterprise, which supplies input for it or uses the output produced by the MNC.