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GLOBALISATION & FOREIGN DIRECT INVESTMENT IN INDIA

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INTRODUCTION

The role of foreign direct investment in enhancing economic growth is one of the current and contentious issues in the development. The industrial development of any country basically depends on the availability of capital. Because of lack of capital, particularly, underdeveloped and developing countries need more capital for their endurance and technology for competing with other countries. With an increasing pace of globalization that resulted partly from liberalization of trade and exchange rate regimes, the volume of FDI has increased throughout the world.

WHAT IS FDI?

An investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange.

According to the International Monetary Fund, foreign direct investment, commonly known as FDI, "... refers to an investment made to acquire lasting or long-term interest in enterprises operating outside of the economy of the investor." Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. The accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. That is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.

Foreign direct investment is done for many reasons including to take advantage of cheaper wages, and/or for special investment privileges such as tax exemptions offered by the country as an incentive to gain tariff-free access to the markets of the country or the region.

METHODS

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

RELEVANCE OF FDI FOR INDIA

The economy of India is the tenth largest in the world by nominal GDP and the third largest by purchasing power parity (PPP). The country is one of the G-20 major economies and a member of BRICS. On a per capita income basis, India ranked 140th by nominal GDP and 129th by GDP

(PPP) in 2011, according to the IMF *FDI* plays an important role in the development process of a country Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. India has among the most liberal and transparent policies on FDI among the emerging economies India's recently liberalised FDI policy permits up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and FDI.

GROWING EMPHASIS ON FDI

Foreign direct investment has been one of the defining characteristics of the world economy during the last two decades. Some developing economies have emerged as major recipients of FDI flows in recent years. The results indicate that foreign direct investment has marginally significant positive effect on economic growth. As the third-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI); India has strengths in information technology and other important areas such as auto components, apparels, chemicals, pharmaceuticals, jewellery and so on. Although India has always held promise for global investors, but its rigid FDI policies were significant hindrances in this context. However, as a result of a series of ambitious and positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned (projected) itself as one of the front-runners in Asia Pacific Region.

STATUS OF FDI IN INDIA

Foreign investment is announced by the government of India as FEMA (Foreign Exchange Management Act). It was introduced by Prime Minister Manmohan Singh when he was finance minister (1991). 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.

On 14 September 2012, Government of India allowed FDI in aviation up to 49%, in the broadcast sector up to 74%, in multi-brand retail up to 51% and in single-brand retail up to 100%. The choice of allowing FDI in multi-brand retail up to 51% has been left to each state

FINANCIAL YEAR-WISE FDI INFLOWS DATA:
AS PER INTERNATIONAL BEST PRACTICES:

(Data on FDI have been revised since 2000-01 with expended coverage to approach International Best Practices)

RETAIL SECTOR PERSPECTIVE

According to Indian Staffing Federation (ISF), an apex body of the flexi staffing industry in India, FDI in retail can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years. Foreign Direct Investment (FDI) in the retail sector will give a boost to organised retail and will have a positive impact on employment generation.

(Amount US$ million)

Sr. No	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII‟s Foreign Institutional Investors Fund (net)
		Equity		Re-invested earnings +	Other capital +	FDI FLOWS INTO INDIA		
		FIPB Route/ RBI‟s Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies #			Total FDI Flows	%age growth over previous year (in US$ terms)	
FINANCIAL YEARS 2000-2012								
1.	**2000-01**	2,339	61	1,350	279	**4,029**	-	**1,847**
2.	**2001-02**	3,904	191	1,645	390	**6,130**	**(+) 52 %**	**1,505**
3.	**2002-03**	2,574	190	1,833	438	**5,035**	**(-) 18 %**	**377**
4.	**2003-04**	2,197	32	1,460	633	**4,322**	**(-) 14 %**	**10,918**
5.	**2004-05**	3,250	528	1,904	369	**6,051**	**(+) 40 %**	**8,686**
6.	**2005-06**	5,540	435	2,760	226	**8,961**	**(+) 48 %**	**9,926**
7.	**2006-07**	15,585	896	5,828	517	**22,826**	**(+) 146 %**	**3,225**
8.	**2007-08**	24,573	2,291	7,679	292	**34,835**	**(+) 53 %**	**20,328**
9.	**2008-09**	31,364	702	9,032	776	41,874	**(+) 20 %**	**(-) 15,017**
10.	**2009-10 (P) (+)**	25,606	1,540	8,668	1,931	**37,745**	**(-) 08 %**	**29,048**
11.	**2010-11 (P) (+)**	21,376	874	11,939	658	**34,847**	**(+) 34 %**	**29,422**
12.	**2011-12 (P) (from April, 2011 to March, 2012)**	34,833	1,020	8,200	2,794	**46,847**	**-**	**16,813**
CUMULATIVE TOTAL (from April, 2000 to March, 2012		**173,141**	**8,760**	**62,298**	**9,303**	**253,502**	**-**	**117,078**

Source:

1. RBI‟s Bulletin May 2012 dt. 10.05.2012 (Table No. 44 – FOREIGN INVESTMENT INFLOWS).
2. „#‟ Figures for equity capital of unincorporated bodies for 2010-11 are estimates.
3. (P) All figures are provisional
4. "+" Data in respect of „Re-invested earnings‟ & „Other capital‟ for the years 2009- 10 , 2010-11 are estimated as average of previous two years.

5. RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006.
6. Monthly data on components of FDI as per expended coverage are not available. These data, therefore, are not comparable with FDI data for previous years.
7. Figures updated by RBI up to March, 2012.

GLOBAL OVERVIEW OF FOREIGN DIRECT INVESTMENT

According to history the United States was the leader in the FDI activity dating back as far as the end of World War II. 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. This growth has been facilitated by changes in regulations both in the home country and in the host country. 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 home country get a considerable financial footing in the host country. Even with this factor, host countries may welcome FDI because of the positive impact it has on the smaller economy.

The United Nations Conference on Trade and Development said that there was no significant growth of global FDI in 2010. In 2011 was $1,524 billion, in 2010 was $1,309 billion and in 2009 was $1,114 billion. The figure was 25 percent below the pre-crisis average between 2005 and 2007. According to "World Investment Report 2012″ conducted by UN Conference on Trade and Development (UNCTAD), global FDI is expected to increase at a slower rate in 2012 due to slower global economic growth, to $1.6 trillion, Xinhua reported.FDI inflows in the US in 2011 totaled $227 billion, marking a 15-percent increase. The 27-member European Union saw a surge by 32 percent to $421 billion. In China, the total FDI inflow reached $124 billion, increasing by 8 percent and in India, it stood at $67 billion, up by 31 percent. About 45 percent of the investment went to developing countries in 2011, representing an 11 percent increase to $684 billion, said the report..UNCTAD economists expect global FDI to increase to $1.8 trillion in 2013 and $1.9 trillion in 2014, though uncertainty for investors during this time period remains high.

CONCLUSION

The future of Indian economy is brighter because of its huge human resources, rapidly upcoming service sector, availability of large number of competent professionals, vast market for every product, increasing impact of consumerism, absence of controls and licenses, interest of foreign entrepreneurs in India and existence of four hundred million middle class people. The recent measure of the government of further liberising FDI policies may be useful in the manufacturing sector, it may lead to job losses in retail and the displacement of the traditional supply chain. The debate on the permission given by government on FDI in retail is still on and thus its benefits or drawbacks in India cannot be judged now.

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