ISSN (Online) : 2348 - 2001

International Refereed Journal of Reviews and Research

Volume 5 Issue 5 September 2017

International Manuscript ID : 23482001V5I5092017-08

(Approved and Registered with Govt. of India)

Grey Areas for FDI Inflow in India

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Abstract

The economic growth of a nation depends upon the capital investment in the core sectors of the economy. The developing nations are struggling with crisis of capital to invest in their economies and India is also not exception to it. They need external financing to extend their economic activities. The Foreign Direct Investment (FDI) is major source of external financing for developing economies. India has a vast and fast growing economy of the world but like other developing countries India has also been facing the crisis of deficit of capital and it also need foreign investment the growth of its economy but there certain restraints which are hurdles for foreign investment in India. Political scenario of India, traditional rigid bureaucratic regime, the problem of terrorism and labour problems are certain restraints for the foreign investment in India.

Keywords: FDI, Globalisation, Liberalisation, Privatisation, FIBP, Capital, Equity

The end of cold war witnessed a new global order where whole world has shrink into a global village. The technological advancement and the means of communication have made whole world accessible to all. The political, economic and technological barriers are rapidly disappearing. In this new world order the developing economies especially like India has got ample opportunities for the development and growth of its emerging fast and vast economy.

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This changed scenario has opened new avenues for growth and extension of economic activities through integration of national economy with global economy. Developing economies got an opportunity to get economic assistance from the developed economies in form of capital investment and technology transfer. The major hurdle for economic growth in developing countries is non availability of capital and technology to exploit their natural resources which is the indicator of development for any country and India is also not exception to it. India is a rich country but Indians are poor because India has abundant natural resources but it lacked sufficient capital and technology to exploit these resources which is prerequisite for the growth of the nation. Foreign Direct Investment (FDI) can be considered a viable alternate for the economic growth for a nation. Developed economies directly invest in different sectors of developing economies and it gives a boost to the economy of developing nations. Foreign Direct Investment may be through two ways. Firstly the investment may be for creation of the production and foreign companies can create new assets and secondly foreign companies can invest in existing assets or can take over them. In India FDI can be invested in two types of sectors. They can collaborate with indigenous companies in the sectors where 100% foreign investment is restricted and secondly they can create their own assets with 100% investment.

FDI is the biggest source of external investment for any nation. It can be a great source of financing for the growth of economy. India has a vast and fast growing economy of the world but has restraints due to non-availability of capital to invest in different sectors for overall growth of economy. Foreign direct investment may prove to great boon to Indian economy because it is a non-debt capital flow and is a leading source of external financing. It will boost Indian economy not only by fulfilling the need of deficit capital but also will bring technological knowhow in industrial and other sectors. It will create competitiveness in Indian economy. Now, the major issue arises what is the prerequisite to make Indian economy attractive for foreign direct investment. Indian economy was closed one till 1991 because it was under the strict control of rigid bureaucratic regime and had multilayered

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hurdles for foreign companies to invest in India but after the economic reforms in 1991 many hurdles have been removed for foreign direct investment and Indian government has tried hard to make its economy attractive for foreign companies to invest in India through Globalisation, Liberalisation and privatisation but still there are certain grey areas for FDI inflow in India which need to be addressed to make Indian markets more attractive for Foreign Direct Investment. Overall it supplements domestic investment, much required for sustaining the high growth rate of the country. Many significant changes have been made in the FDI policy regime by the government since 1999 to ensure that Indian economy becomes an increasingly more attractive and investor-friendly for foreign companies.

After 1991 economic reforms Indian government has framed FDI policy to make its market more investor-friendly. Under the current policy, three broad categories have been categorised for foreign investment. Under the first there are certain core areas where foreign investors are not permitted to invest and this is called prohibited category. Under the second category the foreign investor has to collaborate with Indian company and they can invest up to a level and under third category the foreign investor are permitted to create their own assets by 100% investment. Recently NDA government opened controversial multi-brand sector for 100% equity to make market catchy for foreign investors. The foreign investors can get investment clearance through two means. The first one is automatic clearance; there are some sectors where foreign investors need not to take any prior permission and there are some core sectors where investors have to prior approval. In the later case the investors have to apply in Foreign Investment Approval Board (FIBP) for investment.

Although Indian government has been trying its best to make Indian market more attractive for foreign investors but the flow of FDI has been comparatively low in India in comparison to other developing countries. The political atmosphere in India is accountable for low flow of FDI in India. From last twenty five years India has been experiencing the coalitional governments. In this political atmosphere Government is not able to take any bold decision regarding the economy because parties of different ideologies come under umbrella to form government. During congress regime left parties were its major ally in formation of government and left parties are hesitant for opening and integrating of Indian economy with global economy especially the with capitalistic world. So in this situation congress led coalition could not achieve much in making Indian markets attractive for foreign investors. UPA government wanted to open multibrand sector for 100% equity but due to political pressures it could not achieve it. NDA government from 1999 to 2014 had political alliance with more than twenty political parties and couldn't take bold decision to reform Indian economy. It was only in 2014 when BJP led NDA got comfortable majority to take bold decision to make India more attractive for foreign investors. NDA government opened controversial multibrand sector for 100% equity and in addition to this government took interest to extend economic reforms like 'Make in India' and opened several other sectors for foreign investment and removed the procedural hindrances for foreign investment like making single window clearances more effective and digitalisation of the whole process.

In addition to political atmosphere, areas like infrastructure, primary education, health and the fiscal situation dragged India down. Although economic reforms of 1991 reduced the control of rigid bureaucratic regime over Indian economy but still Indian bureaucracy is very rigid in terms of control over all walks of the life including economic life due to character of colonial legacy of Indian Bureaucracy. Foreign companies are still hesitant to invest in India because corruption and over-regulation still affect functioning of markets. In India, there are various problematic factors for doing business. Such situation creates stalemate and discourages foreign investors to invest in Indian business. Infrastructure is major component for economic growth for any nation. Poor infrastructural facilities are big hindrance for foreign investment in India. Foreign companies are hesitant to invest in India because of delays in shipping, power shortage, water shortages, poor transportation, poor road system, insufficient railways poor sanitary systems etc. These are certain adverse factors of infrastructure which undermine the foreign investment in India. Although India has huge human resource but the maximum strength is of unskilled manpower which can be employed

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in skilled sectors. The unskilled human resource is also a factor making foreign investors hesitant in investing India because if they will have to hire skilled manpower outside from India, it will be very costly affairs for these companies. This situation hampered local businesses and discouraged foreign investors.

Although the total power generated in India has continued to increase, yet there is significant shortage of power as per changing requirements. Today India is third largest energy consumer after the China and USA. However, these countries have the power generation capacity to meet the demand for electricity in order to exploit the optimal GDP level. India's electricity sector needs to boost investment to cope with demand, which has been growing at a significant pace fuelled by rapid population growth and continued high levels of economic growth. It is very common for towns and villages to face daily blackouts averaging more than 8 hours a day. Some 600 million Indians have no electricity at all. While 80 per cent of Indian villages have at least an electricity line, just 44 per cent of rural households have access to electricity. Transmission and distribution losses amount to around 20 per cent, because of an inefficient distribution system, handled mostly by cash-strapped state-run enterprises. Almost all of the electricity in India is produced by the public sector.

Although India generate huge Power and electricity but due to very large population, most of the power generation is consumed for domestic purposes and a huge amount of electricity is consumed for agricultural purposes because still agriculture is the major component of Indian economy. The power supply for industrial and other sector has huge shortage and many foreign companies have to rely on their own power generators which cost high to these companies. So the shortage of power and electricity supply is big hindrance in foreign investment.

India ranks very low in health sector. Health facilities are not only poor but also very expensive and deficient in character. The Indian government has not enough funds to invest in this sector. Due to poor health amenities foreign investors hesitate to invest in India because health amenities are very basic amenities for people working in these companies and these companies can neither afford to take health facilities outside from India or can create their own health facilities.

Although terrorism is a worldwide threat but India is most affected country. India has been facing this severe crisis of terrorism from a very long time. It has been facing domestic as well foreign terrorism on its land in different forms. Problem of insurgency is a kind terrorism which spurs violence. For a long time the Indian states have been burning from the violence of terrorism, problem of khalistan in Punjab, separatist demands from North-Eastern states and terrorist problems of Kashmir are clear manifestations of ugly face of violence in India. The problem of naxalism is itself a kind of terrorist activities by ultra left parties in India. So in such a gloomy situation of violence discourage the foreign investors to invest in India because peace is first foremost requisite for economic activities.

The labour industry in India is not very conducive to foreign investors especially in manufacturing sector. The working conditions in labour intensive sector are not properly managed in India. Most of the labour class in manufacturing sector are unskilled in nature. The labour rules and the vast labour trade unions do not suit to foreign investors that's they have not viewed India as a major manufacturing hub for labour-intensive exports. The mass strikes and demonstrations by labour union discourage to invest in such conditions. On the other hand labour in service sector prefers to serve in outside countries for better wages and foreign investors have to hire high cost labour in service sector which reduces their profit and that's why they are reluctant to invest in India.

So these are grey areas for FDI inflow in India and need of the hour is to address them to improve the situation and to make India more attractive to foreign investors and to make it competitive to compete in global market

The expansion of export sector is most important component for the growth of economy. To improve the trade deficit the attention should be focused on more and more investment in this sector but in India most of the foreign investment is in infrastructure, food item, capital goods, insurance and in luxury items and these items are mainly consumed at domestic level and there is need to diversify the foreign investment from these sectors to those items which are exported like textile, transport, leather goods etc. India should strengthen its manufacture sector because it will expand the exports. New avenues for FDI should be opened which will not only strengthen economic activities but will also enhance export to reduce trade deficit. India should make such sectors to make attractive for foreign investors and special incentives must provided to foreign investors to invest in desired sectors

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