The role of FDI in Indian Economy

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Abstract
India is primarily an agricultural country. The importance of agriculture in Indian economy is evident. Agriculture is the largest and the most important industry in India, nearly 75 percent of the people depend on agriculture either directly or indirectly for their living. Agriculture is a predominant sector, which provides employment in the rural areas. The female population constitutes nearly half of the total population of our country. Agriculture still constitutes the main sources of livelihood and work for most people in Asia, Africa and Latin America, what is less known is the fact that a very large proportion of this work is done by women, particularly in Asia and Africa. The population of India as per 2001 census is 104 crores of which 33 crores are female which roughly crores to 48 percent. The percentage contribution of women in agriculture is higher than men as most of the key operation at farm is done by them. According to the recent studies 50-59 percent of all agricultural activities is carried out by women and produce 44 percent of world food. Women play a significant and crucial role in Agricultural development and allied fields including in the main crop production. It is a fact long asked for granted but also long ignored, by land large they have remained as “invisible workers” studies on women in agriculture conducted in India and other developing and under developed countries all point to the fact that women contribute for more to agriculture production that has generally been acknowledged. Recognition of their crucial role in agriculture not obscure the fact that farm women continue to be concerned with their primary functions as wives, mothers and home makers. The patriarchal system of family life, which has been in vogue since time immemorial has regulated women to the background.

Keywords: Agri farmers & Farmers problems

Introduction
The Foreign Direct Investment means “cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy. FDI is also described as “investment into the business of a country by a company in another country”. Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country”. Such investments can take place for many reasons, including to take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

Role of FDI in Developing Countries;
(a) Domestic capital is inadequate for purpose of economic growth;
(b) Foreign capital is usually essential, at least as a temporary measure, during the period when the capital market is in the process of development;
(c) Foreign capital usually brings it with other scarce productive factors like technical know how, business expertise and knowledge

Procedure of FDI in an Indian company:
An Indian company may receive Foreign Direct Investment under the two routes as given under
i. Automatic Route
FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time

ii. Government Route
FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance.

Authorities Dealing With Foreign Investment:
(a) Foreign Investment Promotion Board (popularly known as FIPB) : The Board is responsible for expeditious clearance of FDI proposals and review of the implementation of cleared proposals. It also undertake investment promotion activities and issue and review general and sectoral policy guidelines;
(b) Secretariat for Industrial Assistance (SIA) : It acts as a gateway to industrial investment in India and assists the entrepreneurs and investors in setting up projects. SIA also liaison with other government bodies to ensure necessary clearances;
(c) **Foreign Investment Implementation Authority (FIIA):** The authority works for quick implementation of FDI approvals and resolution of operational difficulties faced by foreign investors;

(d) **Investment Commission**

(e) **Project Approval Board**

(f) **Reserve Bank of India**

**Instruments of FDI in an Indian company:**
Foreign investment is reckoned as FDI only if the investment is made in equity shares, fully and mandatorily convertible preference shares and fully and mandatorily convertible debentures with the pricing being decided upfront as a figure or based on the formula that is decided upfront. Any foreign investment into an instrument issued by an Indian company which: gives an option to the investor to convert or not to convert it into equity or does not involve upfront pricing of the instruments a date would be reckoned as ECB and would have to comply with the ECB guidelines. The FDI policy provides that the price/ conversion formula of convertible capital instruments should be determined upfront at the time of issue of the instruments. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the extant FEMA regulations [the DCF method of valuation for the unlisted companies and valuation in terms of SEBI (ICDR) Regulations, for the listed companies].

**Scope of FDI in Indian markets:**
India is the 3rd largest economy of the world in terms of purchasing power parity and thus looks attractive to the world for FDI. Even Government of India, has been trying hard to do away with the FDI caps for majority of the sectors, but there are still critical areas like retailing and insurance where there is lot of opposition from local Indians / Indian companies.

Some of the major economic sectors where India can attract investment are as follows:-

- a) Telecommunications
- b) Apparels
- c) Information Technology
- d) Pharma
- e) Auto parts
- f) Jewelry
- g) Chemicals

In last few years, certainly foreign investments have shown upward trends but the strict FDI policies have put hurdles in the growth in this sector. India is however set to become one of the major recipients of FDI in the Asia-Pacific region because of the economic reforms for increasing foreign investment and the deregulation of this important sector. India has technical expertise and skilled managers and a growing middle class market of more than 300 million and this represents an attractive market.

FDI is prohibited under the Government Route as well as the Automatic Route in the following sectors:

- a) Atomic Energy
- b) Lottery Business
- c) Gambling and Betting
- d) Business of Chit Fund
- e) Nidhi Company
- f) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
- g) Housing and Real Estate business (except development of townships, construction of residential / commercial premises, roads or bridges to the extent specified in notification)
- h) Trading in Transferable Development Rights (TDRs).
- i) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.

**Major benefits of FDI:**

- a) Improves for ex position of the country:
- b) Employment generation and increase in production:
- c) Help in capital formation by bringing fresh capital:
- d) Helps in transfer of new technologies, management skills, intellectual property:
- e) Increases competition within the local market and this brings higher efficiencies
- f) Helps in increasing exports:
- g) Increases tax revenues

**Limits for FDI in different Sectors:**

(A) **26% FDI is permitted in;**

- (i) Defense (In July 2013, there has been no change in FDI limit but higher investment may be considered in state of the art technology production by CCS)
- (ii) Newspaper and media
- (iii)Pension sector (allowed in October 2012 as per cabinet decision) (iv)Courier Services (through automatic route)
- (v) Tea Plantation (upto 49% through automatic route; 49-100% through FIPB route)

(B) **49% FDI is permitted in:**

- a. Banking
- b. Cable network
- c. DTH
- d. Infrastructure investment
- e. Telecom
Background and Recent Developments for FDI in Retail Sector

As part of the economic liberalization process set in place by the Industrial Policy of 1991, the Indian government has opened the retail sector to FDI slowly through a series of steps.

(1) 1995: World Trade Organization’s (WTO) General Agreement on Trade in Services, which includes both wholesale and retailing services, came into effect.

(2) 1997: FDI in cash and carry (wholesale) with 100% rights allowed under the government approval route.

(3) 2006: FDI in cash and carry (wholesale) was brought under automatic approval route; up to 51% investment in single brand retail outlet permitted.

(4) 2011: 100% FDI in Single Brand Retail allowed.

(5) 2012: On Sept. 13, Government approved the allowance of 51 percent foreign investment in multi-brand retail, [It also relaxed FDI norms for civil aviation and broadcasting sectors].

(6) 2012 – October: In the second round of economic reforms, the government cleared amendments to raise the FDI cap.

(C) 51% is Permitted in:

(i) Multi-Brand Retail (Since September 2012) (ii) Petrol-pipelines

(D) 74% FDI is permitted in:

a. Atomic minerals
b. Science Magazines /Journals
c. Petro marketing
d. Coal and Lignite mines
e. Credit information companies (raised from 49% to 74% in July, 2013)

(E) 100% FDI is permitted in:

a. Single Brand Retail (100% FDI allowed in single brand retail; 49% through automatic route; 49-100% through FIPB)
b. Advertisement
c. Airports
d. Cold-storage
e. BPO/Call centres
f. E-commerce
g. Energy (except atomic)
h. export trading house
i. Films
j. Hotel, tourism
k. Metro train
l. Mines (gold, silver)
m. Petroleum exploration
n. Pharmaceuticals
o. Pollution control
p. Postal service
q. Roads, highways, ports.
r. Township
s. Wholesale trading	i) Telecom (raised from 74% to 100% in July, 2013 by GoI)

u. Asset Reconstruction Companies (increased from 74% to 100 in July, 2013. Out of this upto 49% will be under automatic route)
Total Inflows of FDI in India from 2011-2014;

SECTORS ATTRACTING HIGHEST FDI EQUITY INFLOWS IN INDIA

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<tbody>
<tr>
<td>1</td>
<td>SERVICES SECTOR **</td>
<td>24,586</td>
<td>26,300</td>
<td>10,660</td>
<td>182,965</td>
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<td>2</td>
<td>CONSTRUCTION DEVELOPMENT:</td>
<td>5,219</td>
<td>4,833</td>
<td>1,800</td>
<td>39,029</td>
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<td>TOWNSHIPS, HOUSING, BUILT-UP, INFRASTRUCTURE</td>
<td></td>
<td>1,169</td>
<td>(966)</td>
<td>(23,047)</td>
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<td>3</td>
<td>TELECOMMUNICATIONS:</td>
<td>3,312</td>
<td>1,654</td>
<td>1,000</td>
<td>50,706</td>
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<td></td>
<td>Radio Paging, Cellular Mobile, Basic Telephone Services</td>
<td></td>
<td>(1,320)</td>
<td>(966)</td>
<td>(23,047)</td>
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<tr>
<td>4</td>
<td>COMPUTER SOFTWARE &amp; HARDWARE</td>
<td>3,304</td>
<td>2,656</td>
<td>6,230</td>
<td>59,796</td>
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<td>5</td>
<td>DRUGS &amp; PHARMACEUTICALS</td>
<td>14,005</td>
<td>9,011</td>
<td>7,125</td>
<td>50,005</td>
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<tr>
<td>6</td>
<td>CHEMICALS (OTHER THAN FERTILIZERS)</td>
<td>2,323</td>
<td>(1,521)</td>
<td>(1,269)</td>
<td>(13,711)</td>
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<td>7</td>
<td>AUTOMOBILE INDUSTRY</td>
<td>4,347</td>
<td>5,342</td>
<td>6,144</td>
<td>45,314</td>
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<td>8</td>
<td>POWER</td>
<td>3,879</td>
<td>2,923</td>
<td>4,281</td>
<td>40,410</td>
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<tr>
<td>9</td>
<td>METALLURGICAL INDUSTRIES</td>
<td>1,786</td>
<td>1,466</td>
<td>1,605</td>
<td>17,935</td>
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<td>10</td>
<td>HOTEL &amp; TOURISM</td>
<td>4,754</td>
<td>17,777</td>
<td>2,305</td>
<td>35,566</td>
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** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

Foreign Direct Investment Flows to India: Country wise (only 5 countries)

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<tr>
<td>Total FDI</td>
<td>23,473</td>
<td>18286</td>
<td>16,054</td>
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<tr>
<td>Country wise-Inf flows</td>
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<tr>
<td>U.S.A.</td>
<td>994</td>
<td>478</td>
<td>617</td>
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<tr>
<td>Japan</td>
<td>2,089</td>
<td>1,340</td>
<td>1,795</td>
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<tr>
<td>United Kingdom</td>
<td>1,760</td>
<td>1,022</td>
<td>1,11</td>
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<tr>
<td>UAE</td>
<td>346</td>
<td>173</td>
<td>239</td>
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<tr>
<td>Singapore</td>
<td>3,306</td>
<td>1,605</td>
<td>4,415</td>
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Foreign Direct Investment Flows to India: Industry wise (only 5 Industries) (US $ million)
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<tr>
<td>Manufacture</td>
<td>9,337</td>
<td>6,528</td>
<td>6,381</td>
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<tr>
<td>Construction</td>
<td>2,634</td>
<td>1,319</td>
<td>1,276</td>
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<tr>
<td>Financial Services</td>
<td>2,603</td>
<td>2,760</td>
<td>1,026</td>
</tr>
<tr>
<td>Retail &amp; Wholesale Trade</td>
<td>567</td>
<td>551</td>
<td>1,139</td>
</tr>
<tr>
<td>Education, Research &amp; Development</td>
<td>103</td>
<td>150</td>
<td>107</td>
</tr>
</tbody>
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![Year 2011-2012 Amount (US $ million) Graph](chart1.png)

![Year 2012-13P Amount (US $ million) Graph](chart2.png)
Bibliography
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