Chapter

CAN MAKE IN INDIA MAKE INDIA FDI FRIENDLY?

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Introduction

The phrase "Make in India" drove the brand of government initiatives to soaring heights and making strenuous efforts to convert the subliminal thoughts of Foreign Direct Investors into aggressive plans of foraying investments into Indian manufacturing sector. Indian Government has adapted structural adjustment measures way back in the early nineties and started to roll out a red carpet to the Foreign Direct Investments (FDIs), as it robustly felt that, chronic economic syndromes like feeble foreign exchange reserves, capital account deficiency and unemployment issues can be fixed with the aid of foreign capital. This belief has been strongly carried ahead by the policy makers irrespective of the political dichotomy and designed government plans and programmes to enthrall FDIs into the country. Indeed, the idea of pooling foreign capital to meet domestic requirements has been a practice long in use throughout the capitalistic economies and held its sway on all the key parameters despite the cavils of protectionists. But, FDI policies in India are quite different from other peer economies as they were ought to be meticulously chalked out without deviating from the mixed economic matrix. This is one of the core reasons why the inflow of foreign direct investments into Indian economy is not very healthy comparing to its counterparts. Though there has been a substantial increase in the flow of FDIs in the past ten years, the lion share of it is channelized into service sector which yields highly volatile dividends and confines only to the intangible value chain of economy. Rather, there is a dire need to promote capital formation in the tangible manufacturing sector having potential to sustain the synergies of FDIs in long run. Investments made in manufacturing sector not only prop up lasting productive resources but also shows trickledown effect in the form of industrial ancillarization. This fact is well contemplated by the present government and unveiled its flagship programme "Make in India "to attract investments from all the corners of the globe and to promote Indian brands abroad. But, how far this programme is different from earlier policies and how effectively it can address the concerns of FDIs particularly those surfacing on the red tape of manufacturing sector determines its caliber of pooling and retaining Foreign Direct Investors, which led to the narration of this article titled "Can Make in India Make India FDI Friendly"

Review of Literature

Singh (2005)[1] has identified in his report that most of the foreign direct investment policies launched by Indian government are entangled with political dogmatism which was at paramount between 1991 and 2005 during which liberalization measures were implemented on fast tract basis. He also wrote that protectionism was granted unduly for manufacturing sector in the early stage of reforms which led to the slowdown of investments and capital formation in real sector of the country.

Banga (2013)[2] has drawn a conclusion from his study that it is not altogether possible to rule out the positive impact of government policies and agreements towards the foreign direct investments. Government is rather vested with the task of striking a balance between the domestic strategic interests and foreign investments in the due course of which there has been a lassitude of aggressive elements in pooling foreign investments into manufacturing sector.

Kathuriya (2012)[3] has identified in his paper that there are spillover effects of foreign direct investments on Indian manufacturing sector showing a robust performance and growth in the post liberalization period. He has very meticulously stressed a point that there is a dire need to design an integrated policy to pool foreign direct investments into manufacturing sector and carried ahead irrespective of the political differences.

Chakrobarthy (2013)[4] has interpreted in his paper that FDIs in Indian manufacturing sector have falsified the notion that small manufacturing units will become prejudicial in long run. In other words, small manufacturing firms will be benefited from FDIs in the form of contract manufacturers and ancillary units. He took Indian automobile sector and proved the positive correlation existing between FDIs and the rate of ancillarization in manufacturing segments.

Gaps in Literature

It is traced from the review of literature that Foreign Direct Investments into manufacturing sector have got multiple facets projecting both pros and cons in same proportion and drew ultimately that foreign capital aid cannot be set aside by any government. but, one of the major gaps found from the review is that no attempt has been made to integrate FDIs of manufacturing sector to a unified policy framework like Make in India. This gap is proposed to be filled partially with the following objectives.

Objectives of the Study

- To analyze the trends of FDIs flown into Indian Manufacturing sector.
- To analyze the tenets of Make in India Programme.

- To compare the provisions of Make in India Programme with the earlier FDI policy of manufacturing sector.

Research Methodology

This paper is constructed totally with the help of secondary data of FDIs available with the Department of Industrial Policy and Promotion. I.e., the time series data of FDIs shall be plotted on a linier trend line to draw the interpretations. However, the second and third objectives of this paper are accomplished by conducting a comparative study of theoretical tenets.

Period of the study

This paper considers the time period of five years to collect the secondary data of FDIs into manufacturing sector from April 2009 to March 2014 which is fairly sufficient to generalize the macro level interpretations and also covers one full cycle of foreign direct investment policy of the contemporary time period.

Data Analysis

FDI Trends in India

The data pertaining to the selected time period has been ramified into percentages on the basis of sectoral investments to draw a trend line of FDIs. This helps us understanding the proportion of investments made into manufacturing sector which is the core target of Make in India Programme.

Table 1: FDI trends in Percentages

year	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Manufacturing	17.6	19.2	21.0	22.9	32.1
Services	56.9	41.2	45.1	32.8	30.1
Construction	15.5	22.4	18.6	26.6	17.6
Others	9.9	17.2	15.2	17.7	20.1
total	100	100	100	100	100

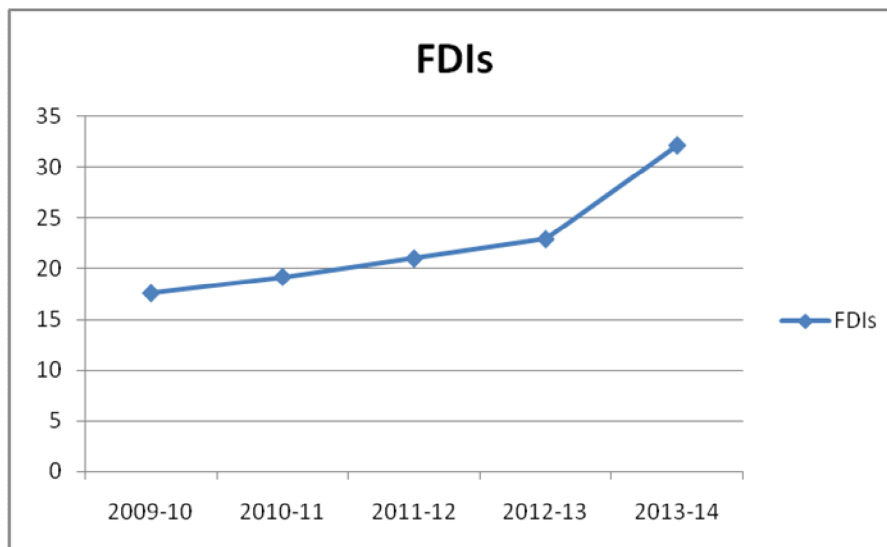
Source: RBI Database

It can be seen from table 1 that FDIs into manufacturing sector have been consistently increasing which stood at only 17.6 percent in 2009 and grew to 32.1 percent in 2014. It implies that there is nearly 100 percent increase in foreign direct investments made into manufacturing sector in the past five years which is certainly a celebrating notice to the proponents of Make in India programme. But the grim fact is that manufacturing sector could not attract FDIs as

aggressively as service sector except in 2013-14 though there has been a continuous decline of FDIs in service sector during the selected time period.

Nevertheless, FDIs in manufacturing sector have been increased continuously; its share in total inflows is still unhealthy. It can be seen from table 1 that FDI percentage of manufacturing sector has not crosses even one third of total value in any of the time lags during the selected period of study, where as FDIs in service sector stood at one half of the total inflow continuously for two years. This lacuna is supposed to be filled by the Make in Indi programme.

Graph 1 FDIs in Manufacturing Sector



Graph 1 also makes it clear that the trend of foreign direct investments into manufacturing sector during the selected time period has shown positive movement across the time line and represented a linear line for the first two years and an exponential trend between 2012 and 2014.

Make in India Programme

Make in India programme is the brain child of the Prime Minister of India which envelops twenty five sectors for providing a single window clearance to foreign direct investments into the notified projects which not only augments the process of value chain but also promotes ancillary manufacturing units. The flagship programme of Make in India is DMIC i.e. Delhi Mumbai Industrial Corridor covering the dedicated freight rail corridor of 1483 KM along which the government has identified twenty four cities to be developed as manufacturing hubs with the aid of FDIs. There are few such other projects still under contemplation for promoting FDIs into manufacturing sector.

Table 2: Comparative study of Make in India with Earlier FDI policies

Make in India	Earlier FDI provisions
Automatic approval in 25 sectors	Automatic approval only in 15 sectors
Single window clearance for all DIP notified projects	Single window clearance was granted only in the sectors where 100 percent FDI is allowed
Excise duty is exempted for ten years in all the projects undertaken through Make in India Channel.	No duty exemptions were allowed except in few environmental and power generating projects.
No restrictions on the quantum of capital brought by the FDIs within the specified percentage.	Quantum restrictions were imposed on the capital flows though the inflow is within the specified percentage.
Formation of subsidiaries is subjected to automatic approval.	Formation of subsidiaries is subjected to DIPB approvals.

Conclusion

It is feasible to draw a conclusion on the merits of data analyzed in this paper that Make in India is turnaround measure initiated by the government to support the ailing manufacturing sector with huge capital supply. Unlike the volatility of service sector led growth, manufacturing sector results in more sustainability which shall not be far from reality when foreign direct investments are forayed into Indian manufacturing units beneath the brand of Make in India.

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Chapter

2

RECENT DEVELOPMENTS IN FOREIGN DIRECT INVESTMENT IN INDIA

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Introduction

Foreign Direct Investment (FDI) in India is growing rapidly. Foreign Direct Investment is an integral part of an open and effective international economic system and a major catalyst to development. FDI is highly beneficial for a country apart from bestowing economic benefits. It contributes to international trade integration and helps to create a more competitive business environment and enhances enterprise development. The government of India has put in place a liberal and transparent FDI policy. In the post liberalization era, a number of initiatives have been taken to attract FDI in several sectors. Today, the FDI policy in India is widely reckoned to be among the most liberal in the emerging economies and FDI up to 100 per cent is allowed under the automatic route in most sectors and activities.

Vast investment potential exists in sectors such as biotechnology, retail, real estate, roads and highways, power, telecommunications, civil aviation, special economic zones, healthcare among others. These investments are encouraged by the facts that India has a large pool of skilled and competitive manpower, huge research and development base, government support and conducive policies, growth in the Indian domestic market owing to higher disposable incomes, abundant natural resources required to set up industries, etc.

Foreign Direct Investment in India

India's foreign trade policy has been formulated with a view to invite and encourages FDI in India. The process of regulation and approval has been substantially liberalized. The Reserve Bank of India has prescribed the administrative and compliance aspects of FDI. The FDI policy rationalization and liberalization measures taken by the government have resulted in increased inflows of FDI over the years. The FDI inflows in India over a period are presented in Table -1. Foreign investments add a great deal to India's economy. The continuous inflow of foreign direct investment, which is now allowed across several industries, clearly shows the faith that overseas investors have in the country's economy.

Table 1 clearly indicates that the total FDI inflows into India in the period April 2000–August 2014 touched US$ 341,357 million. Total FDI inflows into India during the period April-August 2014-15 were US$ 17,445 million. Since 2006-07 the FDI inflows improved drastically and it is high during the year 2011-12 with an amount of US $ 46,556.

Table 1: Foreign Direct Investment inflows in India

(Amount US $ million)

S. No.	Financial Year	FOREIGN DIRECT INVESTMENT (FDI)					Investment by FII's
		Equity		Re-invested earnings	Other capital	Total FDI Flows	
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies				
1.	2000-01	2,339	61	1,350	279	4,029	1,847
2.	2001-02	3,904	191	1,645	390	6,130	1,505
3.	2002-03	2,574	190	1,833	438	5,035	377
4.	2003-04	2,197	32	1,460	633	4,322	10,918
5.	2004-05	3,250	528	1,904	369	6,051	8,686
6.	2005-06	5,540	435	2,760	226	8,961	9,926
7.	2006-07	15,585	896	5,828	517	22,826	3,225
8.	2007-08	24,573	2,291	7,679	300	34,843	20,328
9.	2008-09	31,364	702	9,030	777	41,873	(-) 15,017
10.	2009-10	25,606	1,540	8,668	1,931	37,745	29,048
11.	2010-11	21,376	874	11,939	658	34,847	29,422
12.	2011-12	34,833	1,022	8,206	2,495	46,556	16,812
13.	2012-13	21,825	1,059	9,880	1,534	34,298	27,582
14	2013-14	24,299	984	9,047	2,066	36,396	5,010
15.	2014-15 (Apr-Aug, 14)	12,014	375	3,451	1,605	17,445	-
CUMULATIVE TOTAL		**231,279**	**11,180**	**84,680**	**14,218**	**341,357**	**149,663**

Source: RBI Bulletin, October 2014.

Share of FDI by different Nations in India

The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defence, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. The same year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment. The FDI in India by different Nations is presented in Table 2.

The Table 2 clearly shows that Mauritius led the share of top investing countries by FDI equity inflows into India with US$ 3,934 million during April-August FY15, followed by Singapore (US$ 1,892 million), the Netherlands (US$ 1,562 million) and Japan (US$ 897 million). The cumulative FDI inflows indicate that out of the total inflows 36 per cent is from Mauritius followed by Singapore, UK, Japan and Netherlands with 12, 9, 8 and 6 per cents respectively. USA has only 5 per cent share in Indian FDI inflows whereas Switzerland share is 1 per cent.

Table 2: Share of Top Investing Countries FDI in India

Rs. In Crores (US $ in million)

Rank	Country	2012-13	2013-14	2014-15 (Apr-Aug, 14)	Cumulative Inflows (April '00-Aug'14)	%age to total Inflows (in terms of US $)
1.	Mauritius	51,654 (9,497)	29,360 (4,859)	23,542 (3,934)	394,027 (82,459)	36%
2.	Singapore	12,594 (2,308)	35,625 (5,985)	11,332 (1,892)	137,139 (27,337)	12%
3.	U.K.	5,797 (1,080)	20,426 (3,215)	4,930 (827)	105,815 (21,591)	9%
4.	Japan	12,243 (2,237)	10,550 (1,718)	5,377 (897)	86,021 (17,165)	8%
5.	Netherlands	10,054 (1,856)	13,920 (2,270)	9,379 (1,562)	65,677 (12,797)	6%
6.	U.S.A	3,033 (557)	4,807 (806)	2,367 (394)	58,097 (12,321)	5%
7.	Cyprus	2,658 (490)	3,401 (557)	1,693 (283)	37,422 (7,729)	3%
8.	Germany	4,684 (860)	6,093 (1,038)	2,262 (377)	33,868 (6,895)	3%
9.	France	3,487 (646)	1,842 (305)	1,158 (192)	19,864 (4,070)	2%
10.	Switzerland	987 (180)	2,084 (341)	687 (114)	13,835 (2,822)	1%
TOTAL FDI INFLOWS from all countries		121,907 (22,423)	147,518 (24,299)	71,976 (12,014)	1,116,406 (229,716)	-

Source: Fact Sheet on FDI, Dept. of Industries & Promotion, GOI, New Delhi.

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Sector wise FDI inflows in India

The top 10 sectors attracting highest FDI into India are Services Sector, Construction Development: Townships, Housing, Built-Up Infrastructure, Telecommunications, Computer Software & Hardware, Drugs & Pharmaceuticals, Automobile Industry, Chemicals, Power, Metallurgical Industries, Hotel & Tourism. The sector wise FDI inflows in India are presented in Table 3.

Table 3: Sector wise Highest FDI Inflows in India

Rs. In Crores (US $ in million)

Rank	Sector	2012-13	2013-14	2014-15 (Apr-Aug, 14)	Cumulative Inflows (April '00-August'14)	% age to total Inflows (In terms of US$)
1.	Services Sector	26,306 (4,833)	13,294 (2,225)	6,521 (1,086)	192,091 (40,546)	18%
2.	Construction Development: Townships, Housing, Built-Up Infrastructure	7,248 (1,332)	7,508 (1,226)	2,666 (446)	111,223 (23,752)	10%
3.	Telecommunications (Radio Paging, Cellular Mobile, Basic Telephone Services)	1,654 (304)	7,987 (1,307)	13,902 (2,336)	80,621 (16,499)	7%
4.	Computer Software & Hardware	2,656 (486)	6,896 (1,126)	2,244 (374)	61,914 (13,191)	6%
5.	Drugs & Pharmaceuticals	6,011 (1,123)	7,191 (1,279)	5,373 (903)	61,443 (12,500)	5%
6.	Automobile Industry	8,384 (1,537)	9,027 (1,5157)	1,848 (308)	50,044 (10,120)	4%
7.	Chemicals (Other Than Fertilizers)	1,596 (292)	4,738 (878)	2,418 (403)	47,652 (10,070)	4%
8.	Power	2,923 (536)	6,519 (1,066)	2,210 (369)	44,866 (9,269)	4%
9.	Metallurgical Industries	7,878 (1,466)	3,436 (568)	1,162 (193)	39,412 (8,268)	4%
10.	Hotel & Tourism	17,777 (3,259)	2,949 (486)	1,937 (323)	38,146 (7,441)	3%

Source: Fact Sheet on FDI, Dept. of Industries & Promotion, GOI, New Delhi.

From the Table 3 it is very clear that the telecom sector (US$ 2,336 million) attracted the highest FDI equity inflows in the period April–August 2014, followed by the services (US$ 1,086 million) and drugs & pharmaceuticals (US$ 903 million) sectors. The services sector occupies 18 per cent of the total FDI inflows followed by construction, telecom and computers with 10, 7 and 6 per cent respectively. In terms of Rupees drugs and pharmaceuticals occupy 3rd place with an amount of Rs.5,373 crore during the year 2014-15. It's share is around 5 per cent of total FDI. Power and tourism are the new sectors which are going to attract more FDIs in the coming years.

In addition to FDI, Foreign Institutional Investment (FII) is also flowing into India. Qualified foreign entities (other than those predominantly owned by non resident Indians) seeking to undertake portfolio investments in India are regarded as Foreign Institutional Investors (FIIs). Eligible institutional investors that can register as FIIs include asset management companies, pension funds, mutual funds, banks, investment trusts, nominee companies, incorporated/ institutional portfolio managers, power of attorney holders, university funds, endowment foundations, charitable trusts and charitable societies.

Government of India recognizes the key role of Foreign Direct Investment in economic development not only as an addition to domestic capital but also as an important

source of technology and global best practices. The Government of India has put in place a liberal and transparent FDI policy.

Recent developments in FDI

US-based Nike has made a proposal to the Department of Industrial Policy and Promotion (DIPP) to set up fully-owned stores in India. Nike is one of the world's largest suppliers of athletic shoes and apparel globally, with a market capitalization of US$ 68 billion.

US-based Milacron LIc plans to invest US$ 30 million in the next three years in its India operations – Ferromatik Milacron India Pvt Ltd (FMI), as per president and CEO, Mr Thomas Goeke. FMI manufactures plastic moulding machines at its plants in Ahmedabad in Gujarat and Coimbatore in Tamil Nadu.

The Foreign Investment Promotion Board (FIPB) has approved a proposal from InterGlobe Aviation, the company that runs IndiGo, to reclassify shareholding of promoter Rakesh Gangwal as Non-Resident Indian (NRI) from FDI at present. This move enables the airline to have access to fresh FDI.

Norway's Telenor Group plans to invest an additional Rs. 780 crore (US$ 127.47 million) to increase its ownership in Indian subsidiary Uninor to 100 per cent; Telenor currently owns a 74 per cent stake in Uninor.

Japan's Suzuki Motor Corporation (SMC), the parent company of Maruti Suzuki, will spend Rs. 18,500 crore (US$ 3.02 billion) to establish a new factory in Gujarat. SMC plans to establish a 100 per cent subsidiary, Suzuki Motor Gujarat (SMG), to manufacture cars on a strictly no-loss, no-profit basis for Maruti Suzuki.

US-based Leapfrog Investment has bought a minority stake in Chennai-based financial services provider IFMR Capital Finance for US$ 29 million. This marks Leapfrog's third investment in India, after having earlier backed insurance distribution firm Mahindra Insurance Brokers and Shriram CCL.

Government Initiatives to attract FDI

India’s cabinet has cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the move does not allow foreign firms to operate trains, it allows them to do other things such as create the network and supply trains for bullet trains etc. Based on the recommendations of the FIPB in its 207th meeting held on July 4, 2014, the government approved 14 proposals of FDI amounting to about Rs 1,528.38 crore (US$ 249.78 million).

Additionally, based on the recommendations of the FIPB in its meeting held on June 11, 2014, the government approved 19 proposals of FDI amounting to about Rs 2,326.72 crore (US$ 380.25 million). The Union Cabinet has cleared a bill to raise the foreign investment ceiling in private insurance companies from 26 per cent to 49 per cent, with the proviso that the management and control of the companies must be with Indians.

The Reserve Bank of India (RBI) has allowed a number of foreign investors to invest, on repatriation basis, in non-convertible/ redeemable preference shares or debentures which are issued by Indian companies and are listed on established stock exchanges in the country. In an effort to bring in more investments into debt and equity markets, the RBI has established a framework for investments which allows foreign portfolio investors (FPIs) to take part in

open offers, buyback of securities and disinvestment of shares by the Central or state governments.

Foreign investment inflows are expected to increase by more than two times and cross the US$ 60 billion mark in FY15 as foreign investors start gaining confidence in India's new government, as per an industry study. "Riding on huge expectations from the incoming Modi government, global investors are gung ho on the Indian economy which is expected to witness over 100 per cent increase in foreign investment inflows – both FDI and FIIs – to above US$ 60 billion in the current financial year, as against US$ 29 billion during 2013-14," according to the study.

India will require around US $1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This requires support in terms of FDI. The year 2013 saw foreign investment pour into sectors such as automobiles, computer software and hardware, construction development, power, services, and telecommunications, among others.

Conclusion

India will attract the highest-ever inflow of FDI in the current fiscal on the back of a slew of policy reforms announced by the new government. It can be noted that the new government has undertaken a slew of measures, including upping the FDI in defence and insurance sectors to 49 per cent and also having a clause to make it 100 per cent in some cases, and allowing foreign investment in railways in all areas excluding operations, among others. These measures have been complimented with high profile state visits like Prime Minister Narendra Modi's trips to Japan and the US, where a strong pitch for attracting investments have been made. The government has also initiated campaigns like the high decibel 'Make in India' initiative which is directed towards making the country a manufacturing base, which will also involve attracting higher FDI.

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Chapter 3

KAUTILYA'S ARTHASHASTRA – FOREIGN DIRECT INVESTMENT

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Arthashastra

The *'Arthashastra'* is an ancient literary compilation which mainly focuses on aspects related to politics, economics, and strategy. The *Arthashastra* was written way back in 300 BC by the renowned genius *Kautilya (Chanakya). Kautilya* considered trade the third pillar of economic activity. The *Arthashastra* is one of the ancient India's leading contributions to topics such as social welfare and ethics in economics. *Kautilya* categorically had laid down the duties of Minister of Commerce who is the watch dog of the commodity markets. The Minister of Commerce would enforce and arbitrate issues with the intent of achieving a fair trade situation for consumers. The various aspects controlled by the minister include pricing, popularity assessments, distribution channels, and market segmentation of consumable goods and commodities. This minister was vital in achieving a market where only fair profits can be availed and in ensuring the constant availability of goods in tumultuous supply and demand cycles. The Arthasastra prohibited trade guilds, black marketing and unfair trade practices and Kautilya emphasizes on the negative impacts such doings could have on the well being of an economy. Severe punishments are suggested for perpetrators of such crime. In Arthashastra, stress has been given both on fraud prevention as well as fraud detection. Kautilya had listed several ways by which public funds are misappropriated. Some of these frauds relevant in today's corporate environment are as follows:

(a) Intentional falsification (of date): Showing a later date than the one on which income was received or showing an earlier date than the one on which expenditure was incurred.
(b) Intentional misrepresentation (of income received or expense incurred):
(i). Revenue due on a given date is allowed to be collected at a later date for a consideration.

(ii). Revenue not due till later is collected earlier by force or deceit but credited on due date.

(iii). Revenue paid by one is credited in the name of another for a consideration.

(iv). Revenue for treasury realized in the capacity of a collector is misappropriated by an individual by force or deceit.

(c). Discrepancies (arising out of willful fraud) in, personally supervised work, account heads, labour and overhead charges, work measurement.

Kautilya appears to mistrust traders believing them to be thieves, with a propensity to form cartels to fix prices and make excessive profits as also to deal in stolen property. He prescribed heavy fines for discouraging such offences by traders and with a view to consumer protection. Further, the law on dealings among private merchants included
(a) Selling on agency basis
(b) Revocation of contracts between traders
(c) Traders traveling together and pooling their goods

Kautilya admitted that some degree of corruption would always exist, and cannot be scrutinized perfectly, "It is possible to mark the movements of birds flying high up in the sky; but not so is it possible to ascertain the movement of government servants of hidden purpose". He therefore recommends strictest punishment, both material and corporal, as a disincentive to cheat.

Foreign Direct Investment

The controlling ownership in a business enterprise established in a country by an organization belonging to another country is termed as 'Foreign Direct Investment (FDI), which involves mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans. FDI is defined as the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. The term 'Horizontal FDI' is used arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI. The Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country is termed as 'Platform FDI'. On the other hand, when firms perform value-adding activities stage by stage in a vertical fashion in a host country, then it is considered that the phenomenon of 'Vertical FDI' took place in those firms. The Foreign Direct investor enjoys voting power of an enterprise in an economy by means of the following methods,

- Can incorporate a wholly owned subsidiary or company anywhere
- Can acquire shares in an associated enterprise
- Can participate in an equity joint venture with another investor or enterprise

The Foreign Direct Investment fetches the following incentives,

- Rebate in corporate tax and individual income tax and tax holidays
- preferential tariffs, special economic zones, EPZ – Export Processing Zones
- Bonded warehouses, Maquiladoras (It is a manufacturing operation in a free trade zone (FTZ), where factories import material and equipment on a duty-free and tariff-free basis for assembly, processing, or manufacturing and then export the assembled, processed and/or manufactured products, sometimes back to the raw materials' country of origin).

- investment financial subsidies, free land or land subsidies,
- soft loan or loan guarantees
- R&D support, derogation from regulations.

An increase in FDI may be attributed to improved economic growth due to the influx of capital and increased tax revenues for the host country. These countries in turn try to channel FDI investment into new infrastructure and other projects to boost development. The Foreign Direct Investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. In India the Foreign Investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), by then finance minister Manmohan Singh. The 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. The leading sources of FDI were Mauritius, Singapore, US and UK.

Kautilya's Arthashastra – Foreign Direct Investment

In **Arthashastra, Kautilya** encouraged Foreign Direct Investment through 'International trade', accordingly he suggests that foreign relations should be pruned and strengthened through healthy trade considerations. He further advises King to go for out sourcing to get the services of foreigners with technological expertise, for the economic development of the in the kingdom.

Kautilya considered importing of products which are either locally not available or which can be procured at a lesser cost from a foreign country. He strongly advocated that importing of certain selected products would have greater impact on the betterment of wealth of Kingdom. He believed that international trade would help in the prosperity of both importer and exporter.

Kautilya imposed heavy state regulations of trade, with a concern over the just and fare price of the commodities. He levied heavy taxes on foreign commodities used for luxury. On the other hand he imposed only nominal tax over the commodities of common consumption. He supported the use of tariffs, import/export duties, so as to increase the revenue of the kingdom. He encouraged the creation of trade missions with an intention to promote international trade for the mutual benefit and development.

The salient features of Kautilya's 'Tax Policy' are as follows

- Tax should be convenient to pay.
- Tax pattern should be easy to calculate.
- The quantum of tax should be fair and justifiable.
- Tax collection process should be less expensive.
- Tax imposed should not inhibit economic growth and development.

In **Arthashastra, Kautilya** laid down specific duties of King's Minister for Commerce. He should be considerate towards the mariners and merchants who import foreign commodities. He should reduce trade tax for them. The foreigners who import merchandise should be exempted from being sued for debts unless they are in joint venture with local associations and partners. Minister of Commerce, while selling the King's merchandise should ascertain the margin of profit to the king's exchequer. He should gather information regarding the countries wherein maximum profit could be gained. Thus **Kautilya** advocated that the international trade should have its base on the principle of 'Comparative Advantage', so as to boost up the economy of both exporting and importing countries.

Conclusion:

The views on international trade involving Foreign Direct investment enunciated by **Kautilya** in his epic treatise **'Arthashastra'** are quite relevant to the present day trade transactions. His far sightedness regarding importance of conducting trade in accordance with the principle of comparative advantage, imports of a country are as important as its exports for promoting economic growth and reciprocal demand determines the value of commodities in international trade received Universal acclaim.

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Chapter

4

FOREIGN DIRECT INVESTMENT POLICY FRAMEWORK IN INDIA: CURRENT STATUS

M. MALLA REDDY

INTRODUCTION

Foreign Direct Investment plays an important role in the economic development of a country. FDI is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. India is one of the fastest growing economies since last few years and witnessed a large amount of foreign investment in various sector. India's rich and diversified resources, its sound economic policy, good market conditions and highly skilled human resources, make it proper destination for investment. According to the International Monetary Fund, FDI is defined as "Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor. The investor's purpose is being to have an effective voice in the management of the enterprise".

There are two types of FDI such as Greenfield Investment and Merger and Acquisition.

Greenfield Investment: A form of FDI where a parent company starts a new venture in a foreign country by constructing new factories and/or stores.

Mergers and Acquisition: It occurs when a transfer of existing assets from local firms takes place.

OBJECTIVES OF THE STUDY

1. To discuss the policy and regulatory framework towards Foreign Direct Investment in India.
2. To present the recent proposals made by the government towards Foreign Direct Investment Policy in different sectors.

DATA AND METHODOLOGY

This is an analytical and descriptive type of research in nature. This paper is purely based on the secondary data. The secondary data for the study has been collected from various sources such as Ministry of Commerce and Industry Reports, Department of Industrial Policy and Promotion(DIPP), SIA News Letter, Journals, Magazines, News papers, Bulletins, Circulars and Internet.

FDI POLICY FRAMEWORK IN INDIA

It is the intent and objective of the Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. Foreign Direct Investment, as distinguished from portfolio investment, has the connotation of establishing a lasting interest 'in an enterprise that is resident in an economy other than that of the investor. The Government has put in place a policy framework on Foreign Direct Investment which is transparent, predictable and easily comprehensible. The Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce & Industry, Government of India makes policy pronouncements on FDI through Press Notes/ Press Releases which are notified by the Reserve Bank of India as amendments to the Foreign Exchange Management (Transfer or Issue of Security by Persons Resident Outside India) Regulations, 2000 (FDI Policy Manual, 2014). This paper is an analysis of the legal requirements, policies and procedures for FDI in India and is helpful for the investors', lawyers, company secretaries and finance professionals.

ROUTES OF FOREIGN DIRECT INVESTMENT

AUTOMATIC ROUTE

FDI Policy permits FDI up to 100% from foreign/NRI investor without prior approval in most of the sectors including the services sector under automatic route. FDI in sectors/activities under automatic route does not require any prior approval either by the Government or the RBI. The investors are required to notify the concerned Regional office of RBI of receipt of inward remittances within 30 days of such receipt and will have to file the required documents with that office within 30 days after issue of shares to foreign investors.

The present Automatic Route allows Indian companies engaged in all industries except for certain select industries/sectors to issue shares to foreign investors up to 100% of their paid up capital in Indian companies. There are also some areas where though Automatic Route is available, foreign investors cannot invest beyond a certain percentage of the paid up capital of the Indian companies or where investment is subject to some other conditions.

Foreign investors have to however, keep in mind that they may invest freely under the Automatic Route described above but where such investment does not conform to policies of Government of India, a specific approval from Government must be sought. For example, there are Government guidelines on location of industrial units, or there are certain items like explosives or liquor that need an industrial license. If the Indian company does not conform to the locational guidelines nor needs an Industrial license then it cannot issue shares under the Automatic Route.

GOVERNMENT APPROVAL ROUTE

All activities which are not covered under the automatic route, prior Government approval for FDI/NRI shall be necessary. Areas/sectors/activities hitherto not open to FDI/NRI investment shall continue to be so unless otherwise decided and notified by Government. An investor can make an application for prior Government approval even when the proposed activity is under the automatic route. Application for proposals requiring prior Government's approval should be

submitted to FIPB in fresh Application. The application shall be filed online through FIPB portal. Plain paper applications carrying all relevant details are also accepted. No fee is payable. Generally foreign investment proposals received in the DEA (Department of Economic Affairs) are placed before the Foreign Investment Promotion Board (FIPB) within 15 days of receipt. The decision of the Government in all cases is usually conveyed by the DEA within 30 days.

PROHIBITED SECTORS FOR FDI IN INDIA

FDI is prohibited in:

(a) Lottery Business including Government /private lottery, online lotteries, etc.

(b) Gambling and betting including casinos etc.

(c) Chit funds

(d) Nidhi Company

(e) Trading in Transferable Development Rights (TDRs)

(f) Real Estate Business or Construction of Farm Houses

(g) Manufacturing of Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

(h) Activities / sectors not open to private sector investment e.g. Atomic Energy and Railway Transport (other than Mass Rapid Transport Systems).

Foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for Lottery Business and Gambling and Betting activities.

FDI PERMITTED SECTORS

In the following sectors/activities, FDI up to the limit indicated against each sector/activity is allowed, subject to applicable laws/ regulations; security and other conditionalities. In sectors/activities not listed below, FDI is permitted up to 100% on the automatic route, subject to applicable laws/ regulations; security and other conditionalities.

Table 1: Sector-wise Specific Limits of Foreign Direct Investment in India

Sl. No	Sectors	FDI Cap	Entry Route
1	A. Agriculture &Animal Husbandry	100%	Automatic
2	Tea Plantation	100%	Government
3	i) Mining and Exploration of metal and non-metal ores	100%	Automatic
	ii) Coal and Lignite a)Coal & Lignite mining for captive consumption by power projects, iron & steel and cement units and other eligible activities permitted	100%	Automatic

	b) Setting up coal processing plants	100%	Automatic
4	Mining and mineral separation of titanium bearing minerals and ores, its value addition and integrated activities	100%	Government
5	**Petroleum & Natural Gas:** **i)**Exploration activities of oil and natural gas fields	100%	Automatic
	ii)Petroleum refining by the Public Sector Undertakings (PSU), without any disinvestment or dilution of domestic equity in the existing PSUs.	49%	Automatic
6	**Manufacture** of items reserved for production in Micro and Small Enterprises (MSEs)	24%	Government
7	**Defence:** Defence Industry subject to Industrial license under the Industries (Development & Regulation) Act, 1951	26%	Government
Services Sector			
8	**Information Services**		
	Ai)Broadcasting Carriage Services a)Teleports b)Direct to Home (DTH); c)Cable Networks d)Mobile TV e)Head end-in-the Sky Broadcasting f)Service(HITS)	74%	Automatic up to 49% Government route beyond 49% and up to 74%
	ii)**Cable Networks**	49%	Automatic
	B. **Broadcasting Content Services** i) Terrestrial Broadcasting FM (FM Radio),	26%	Government
	ii) Up-linking of 'News & Current Affairs' TV Channels	26%	Government
	iii) Up-linking of Non-'News & Current Affairs' TV Channels/ Down-linking of TV Channels	100%	Government
9	**Print Media** i)Publishing of newspaper and periodicals dealing with news and current affairs	26%(FDI and investment by NRIs/PIOs/FII/FPI)	Government
	ii)Publication of Indian editions of foreign magazines dealing with news and current affairs	26% (FDI and investment by NRIs/PIOs/FII/FPI)	Government
	iii)Publishing/printing of scientific and technical magazines/specialty journals/	100%	Government

	periodicals		
	iv)Publication of facsimile edition of foreign newspapers	100%	Government
10	**Civil Aviation** **A) Airports** i) Greenfield projects	100%	Automatic
	ii) Existing projects	100%	Automatic up to 74% Government route beyond 74%
	B) **Air Transport Services** i) Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline	49% FDI (100% for NRIs)	Automatic
	ii) Non-Scheduled Air Transport Service	74% FDI (100% for NRIs)	Automatic up to 49% Government route beyond 49% and up to 74%
	iii) Helicopter services/seaplane services requiring DGCA approval	100%	Automatic
	C) **Other services under Civil Aviation sector** i) Ground Handling Services subject to sectoral regulations and security clearance	74% FDI (100% for NRIs)	Automatic up to 49% Government route beyond 49% and up to 74%
	ii) Maintenance and Repair organizations; flying training institutes; and technical training institutions.	100%	Automatic
11	**Courier services**	100%	Automatic
12	**Construction Development:** Townships, Housing, Built-up infrastructure	100%	Automatic
13	**Industrial Parks –** new and existing	100%	Automatic
14	**Satellites-** establishment and operation	74%	Government
15	**Private Security Agencies**	49 %	Government
16	**Telecom Services** **(**including Telecom Infrastructure Providers Category-I)	100%	Automatic up to 49% Government route beyond 49%
17	**Trading** **i)Cash & Carry** Wholesale Trading/Wholesale Trading (including sourcing from MSEs)	100%	Automatic
	B) E-commerce activities	100%	Automatic

	C) Single Brand product retail trading	100%	Automatic up to 49% Government route beyond 49%
	D) Multi Brand Retail Trading	51%	Government
18	**Financial Services** **A)Asset Reconstruction Companies**	100% of paid-up capital of ARC (FDI+FII/FPI)	Automatic up to 49% Government route beyond 49%
	B)Banking- **i)Private Sector**	74% including investment by FIIs/FPIs	Automatic up to 49% Government route beyond 49% and up to 74%
	ii)Banking- Public Sector	20% (FDI and Portfolio Investment)	Government
	C)Commodity Exchange [Investment by Registered FII/FPI under Portfolio Investment Scheme (PIS) will be limited to 23% and Investment under FDI Scheme limited to 26%]	49% (FDI + FII/FPI)	Automatic
	D)Credit Information Companies (CIC)	74%(FDI+FII/FPI)	Automatic
	E)Infrastructure Company in the Securities Market [FDI limit of 26 per cent and FII/FPI limit of 23 per cent of the paid-up capital]	49% (FDI + FII/FPI)	Automatic
	F)Insurance	26%(FDI+FII/FPI+NRI)	Automatic
	G)Non-Banking Finance Companies (NBFC)	100%	Automatic
19	**Pharmaceuticals** **i)** Greenfield **ii)**Brownfield	 100% 100%	 Automatic Government
20	**Power Exchanges**	49% (FDI+FII/FPI)	Automatic

Source: DIPP- FDI Policy Manual, 2014.

Table 1 portrays sector-wise specific limits of FDI in India according to new FDI Policy Manual released in April 2014. As the table discloses that FDI is permitted up to 100% in as many as 15 sectors, up to 74% in 2 sectors, up to 49% in almost 12 sectors and FDI up to 26% in only one sector of the Indian economy under Automatic Route. On the other hand, FDI is allowed up to 100% in 6 sectors, up to 74% in 7 sectors and FDI up to 26% in 5 sectors under Government Approval Route. On the whole, it can be concluded that in majority of the sectors i.e. 15 sectors a FDI is allowed up to 100% and in 12 sectors FDI is allowed up to 49% under Automatic Route. Under Government Approval Route, up to 100% FDI is allowed in 6 sectors and up to 74% in 7 sectors of the Indian economy.

LATEST PROPOSALS TOWARD FDI POLICY IN INDIA

Hike in Insurance FDI Limit from 26% to 49%

In a major reform initiative, the Cabinet Committee on Economic Affairs (CCEA) on 24th July, 2014, approved FDI cap hike in Insurance sector to 49 per cent from 26 per cent at present with a rider that the management control will remain in the hands of Indian Promoters. The move is expected to pave the way for inflow of about 25000 crore in foreign funds in the sector, according to market reports. A proposal to hike the FDI cap in Insurance sector was first mooted by the previous UPA government. It has been pending in the Rajya Sabha since 2008. Finance minister, Arun Jaitley, has also proposed to increase the foreign direct investment (FDI) limit to 49 per cent from the current level of 26 per cent. There is, however, a rider that management and control of the company will remain with the Indian partner. Once change in FDI cap for Insurance sector is approved by Parliament, it will have direct impact on the pension sector. Since Pension Act clearly prescribes that FDI limit would be at par with the insurance sector. This means FDI in pension will also be 49 per cent.

FDI cap raised to 100% for Railways, 49% for Defence projects:

The Union Cabinet cleared the proposal to set the composite cap for foreign investment in the Defence sector at 49 per cent, compared with the current 26 per cent foreign direct investment (FDI) ceiling. But the management control of companies receiving these investments must remain in the hands of Indians. Also, some railway operations and projects were allowed to receive up to 100 per cent FDI.

According to officials in the know of the developments, all proposals for FDI in the defence sector, even those for less than 26 per cent, will require approval from the Foreign Investment Promotion Board (FIPB); these clearances will be given on a case-to-case basis. This is believed to have been done keeping in mind "national security concerns, as it (defence) is a highly sensitive sector"

Table 2: FDI Earlier and New positions in Defence and Railway Sectors

OPENING UP
Defence Earlier position: • Up to 26% FDI allowed through the Foreign Investment Promotion Board (FIPB) route • Clearance from the Cabinet Committee on Security required for FDI beyond 26%; approval on a case-to-case basis **New position:** • Up to 49% FDI allowed after FIPB approval • Control has to be with Indian companies **Railway projects** **Earlier position:** • FDI prohibited **New position:** • Up to 100% FDI permitted in in some operations like freight corridor, high-speed train, port and mining connectivity projects through different modes • Up to 100% FDI allowed in most cases in rail projects like gauge conversion, construction of new lines, doubling of new lines and maintenance PPP projects

Source: DIPP- FDI Policy and CCEA proposals.

Prime Minister Narendra Modi launched the "Make in India" campaign on 25th September, 2014 at a high profile event in New Delhi. Unveiling the campaign logo, Modi said "FDI should be understood as 'First Develop India' along with investors to not just look at India as merely a market but also as an opportunity (The Hindu News Paper26, Sept. 2014). There is no denying that India is claiming a place on the global stage that Prime Minister Modi's much loved three Ds of Democracy, Demography and Demand might deserve.

CONCLUSION

Foreign Direct Investment plays an important role in the economic development of the country. It helps in transforming of financial resources, technology and innovative and improved management techniques along with raising productivity. There is no doubt that with liberalized policy initiatives by PM Narendra Modi will definitely bring huge investments from the foreign investors. In the recently launched "Make in India" programme, he made an impassioned plea to investors-both Indian and global to turn India into a global manufacturing hub. He promised fast track clearances and minimum red-tape to any serious investor looking to set up a manufacturing plant in India. This concludes that in majority of the sectors i.e. 15 sectors FDI is allowed up to 100% and in 12 sectors FDI is permitted up to 49% under Automatic Route. Under Government Approval Route, up to 100% FDI is allowed in 6 sectors and up to 74% in 7 sectors of the Indian economy. Some more FDI policy reforms are expected in the days to come with a view to attract more foreign investment in various sectors of the economy.

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Chapter 5

FOREIGN DIRECT INVESTMENT - CURRENT SCENARIO IN INDIA

DR. K. VEERACHARI

Introduction

The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over the last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2010 (29 countries in 1991) leaving US behind in the list of top investment destinations in the world in the UNCTAD WIP Report. India is placed quite well to attract investments and key reforms have been initiated at the macro level. Widespread liberalization and deregulation of financial markets, cross-border mergers and acquisitions (M&As), increasing role of investors willing to invest abroad, rapid advances in modern telecommunication and computer network – have all resulted in a huge upsurge of international capital flows in India, particularly private capital flows, as compared to official capital flows over the last two decades.

According to A.T.Kearney's Annual Global Retail Development Index (GRDI) for the year 2012, India has been placed at fifth rank (after Brazil, Chile, China and Uruguay) on the basis of retail investment attractiveness. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector.

Being encouraged by India's growing retail boom many multinational companies also started to enter India's retail market. According to the Investment Commission of India, the retail sector is expected to grow almost three times its current levels to $660 billion by 2015. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers, and suppliers. Opposition to liberalizing FDI in this sector raises concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

Objective of the Study and Methodology

The objective of the study is to investigate the controversial views of the various stakeholders and evaluate the current scenario of FDI in India. The study is based on comparative study and analytical logic developed through the understandings from various

research papers, reports, books, journals, newspapers and online data bases.

Indian Retail Sector: An Overview and Current Position

In 2004, The High Court of Delhi defined the term retail as a sale for final consumption in contrast to a sale for further sale or processing. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer. The share of organized retail varies widely from just one per cent in Pakistan and 4 per cent in India to 36 per cent in Brazil and 55 per cent in Malaysia Modern retail formats, such as hypermarkets, superstores, supermarkets, discount and convenience stores are widely present in the developed world, whereas such forms of retail outlets have only just begun to spread to developing countries in recent years. In developing countries, the retailing business continues to be dominated by family-run neighborhood shops and open markets. As a consequence, wholesalers and distributors who carry products from industrial suppliers and agricultural producers to the independent family-owned shops and open markets remain a critical part of the supply chain. Recent statistics states that though organized retail in India constituted a meager 4 percent of total retail in 2006, but it is expanding at a much faster pace of 45-50 percent per annum and has quadrupled it share to 16 percent by2011-12. The unorganized retail sector is also growing at about 10 percent per annum with sales rising from US $ 309 billion in 2006-07 to US $ 496 billion in 2011-12.

Different t*ypes of retailing in India*

(a) In Single Brand- Single brand implies that foreign companies would be allowed to sell goods sold internationally under a single brand. It implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required.

(b) In Multi Brand- FDI in Multi Brand retail means that a retail store with a foreign investment can sell multiple brands under one roof. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous kirana store. The approval for single and multi brand includes a set of riders for the foreign investors, aimed at ensuring that the foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics, at the same time facilitating integration of small retailers into the upgraded value chain.

Current Position of FDI Norms in Indian market

In 2010, the Indian retail market was valued at $435 billion of which the share of modern retail was 7 per cent. The sector is expected to grow to $535 billion by 2013 with the share of modern retail at 10 per cent. In 2007, India was ranked the 12th largest consumer market and it is expected to be the 5th -largest consumer market by 2025 after the US, Japan, China and the UK (McKinsey & Company 2007). In 2010, India attracted the largest number of new retailers among emerging and mature markets (CBRE 2011). According to study conducted by ICRIER,

total retail business in India will grow at 13% annually, from US $322 billion in 2006-07 to US $590 billion in 2011-12 and further US $1 trillion by 2016-17.

Being aware of the large market, growing consumerism and brand-consciousness and to provide a greater fillip to high economic growth, in 1997, the Indian retail sector witnessed the first footprints of FDI with 100% FDI being permitted in cash & carry wholesale trading under the government approval route, subsequently brought under the automatic route in 2006. Although a number of issues have been discussed in the Discussion Paper, the implications of the liberalization for Indian consumers have not been discussed. FDI inflows to India witnessed significant moderation in 2010-11 while other EMEs in Asia and Latin America received large inflows. This had raised concerns in the wake of widening current account deficit in India beyond the perceived sustainable level of 3.0 per cent of GDP during April-December 2010. This also assumes significance as FDI is generally known to be the most stable component of capital flows needed to finance the current account deficit. Moreover, it adds to investible resources, provides access to advanced technologies, assists in gaining production know-how and promotes exports.

Key Benefits

1. Improvement in Customer Satisfaction- Consumers in the organized retail will have the opportunity to select from a numbers of internationally famous brands with pleasant shopping environment, huge space for product display, maintenance of hygiene and better customer care. There is a large segment of the population which feels that there is a difference in the quality of the products sold to foreign retailers and the same products sold in the Indian market. There is an increasing tendency to pay for quality and ease and access to a "one-stop shop" which will have a wide range of different products.

2. Modernized technology and logistics- Improved technology in the sphere of processing, grading, handling and packaging of goods and further technical developments in areas like electronic weighing, billing, barcode scanning etc. could be a direct consequence of foreign companies opening retail shops in India,. Further, transportation facilities can get a boost, in the form of increased number of refrigerated vans and pre-cooling chambers which can help bring down wastage of goods.

3. **Increases Healthy Competition and check inflation-** Supporters of FDI argue that entry of the many multi-national corporations will obviously promise intensive competition between the different companies offering their brands in a particular product market and this will result in availability of many varieties, reduced prices, and convenient distribution of the marketing offers.

4. Capital Infusion- This would provide an opportunity for cash-deficient domestic retailers to bridge the gap between capital required and raised. In fact FDI is one of the major sources of investments for a developing country like India wherein it expects investments from Multinational companies to improve the countries growth rate, create jobs, share their expertise, back-end infrastructure and research and development .

Key Drawbacks

1. Domination of Organized Sector Retailers- FDI in single-brand retail will strengthen organized retail in the country. These organized retailers will tend to dominate the entire consumer market. It would lead to unfair competition and ultimately result in large-scale exit of domestic retailers, especially the small family managed outlets , stores will be compelled to close down.

2. Leads to Increase in Real Estate Cost- It is obvious that the foreign companies which enter into India to open up their malls and stores will certainly look for places in the heart of the cities. There shall be a war for place, initiated among such companies. It will result in increase in the cost of real estate in the cities that will eventually affect the interest of the ordinary people who desire to own their houses within the limit of the cities.

3. Change in lifestyle and Culture: Though FDI in Indian retail will indirectly or directly contribute for the enhancement of Tourism, Hospitality and few other Industries, the culture of the people in India will slowly be changed. The youth will easily imbibe certain negative aspects of foreign culture and lifestyles and develop inappropriate consumption pattern, not suited to our cultural environment.

4. Affect Self Competitive Strength- The Indian retail sector, particularly organized retail, is still under-developed and in a nascent stage and that, therefore the companies may not be able to compete with big global giants. If the existing firms collaborate with the global biggies they might have to give up at the global front by losing their self competitive strength.

Conclusion

It is concluded that with respect to the impact of entry by big-box stores such as Wal-Mart on retail employment and earnings, evidence from the United States is mixed. Using county-level data, a recent study finds that Wal-Mart entry increases retail employment in the year of entry while contrasting evidence indicates that each Wal-Mart worker replaces approximately 1.4 retail workers representing a 2.7 percent reduction in average retail employment. Apart from prices, the report states that small farmers come under severe pressure from supermarkets due to the latter's requirement for large volumes of each product, pushing farmers to grow single crops rather than the multiple produce they would usually grow to minimize risk. Supermarket chains routinely sell some products at lower than market prices, which appears to benefit consumers, but this puts pressure on small local stores and has an adverse impact on low-income and elderly consumers who rely on local shops. The Indian Government, however, recommends that retail firms source a percentage of manufactured products from the small and medium domestic enterprises. Moreover, expansion in the retail sector could also generate significant employment potential, especially among rural and semi-urban youth. So it is very difficult to predict the future of Indian retail sector. But the government of India must be cautious about the apprehensions raised by the critics and adequate measures must be taken so that the positive effects may outweigh the negative ones and the traditional retailers coexist even after big foreign retailers enter the market.

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Chapter

FDI IN INDIA
SPROUT OR INSECT FOR THE GROWTH OF HIGHER EDUCATION

MS. SHEETAL SONI & Dr. BHISHEK SONI

INTRODUCTION

India's economy has developed rapidly in the last decade, improving living standards and experiencing strong growth in such sectors of the economy as information and communication technology (ICT). Bearing in mind the benefit of 'Demographic Dividend', India has over 550 million people below the age of 25 years. According to Census figures, over 32 per cent of the 1.1 billion populations are between the age group 0-14. This means that the number of people in India needing primary and secondary education alone exceeds the entire population of the USA. Since these students will be seeking higher education in India over the next decade therefore it illustrates the absolute size of the Indian education market (Mathur, Ramola, & Bhatiya, 2012). According to Ernst & Young's report (2014), *40 million by 2020: preparing for a new paradigm in Indian higher education*, the higher education sector in India is anticipated to grow at 18% per annum until 2020. This is due to the service-driven model of the Indian economy and the growing demand for quality education. Furthermore, there are considerable opportunities in new niche sectors, such as vocational training, finishing schools and e-learning (Ernst & Young, 2014).

With the aim of increasing number of universities form 370 to 1500, government resource allocation is insufficient to meet these targets. Higher education of country needs long term objectives and a broad vision in tune with the projected future of the country and the world. This requires an emergence of huge fund to propel the young generations' potential. Thus Foreign Direct Investment (FDI) is considered as a positive approach towards growth of higher education in India. Government has allowed 100 percent FDI in education through automatic route. According to Ernst & Young's attractiveness survey (2014), India considered as a most attractive destination for the FDI because of its large domestic market, competitive labour cost and educated workforce. In adding up to this, efforts have been taking place to develop strong tie-ups between well-known foreign Universities and Indian universities in order to smooth the progress of larger academic exchange (Nishith Desai Associates, 2014). What might be alarming is that whether these foreign universities will cater to the needs of the Indian education system and would help to provide quality education or it would see this opportunity as an another investment options and tries to fetch benefit out of it.

Thus the objective of this paper is to analyze the present opportunities for FDI in Indian higher education and also present the prospective challenges that might Indian educational institutions will have to endure.

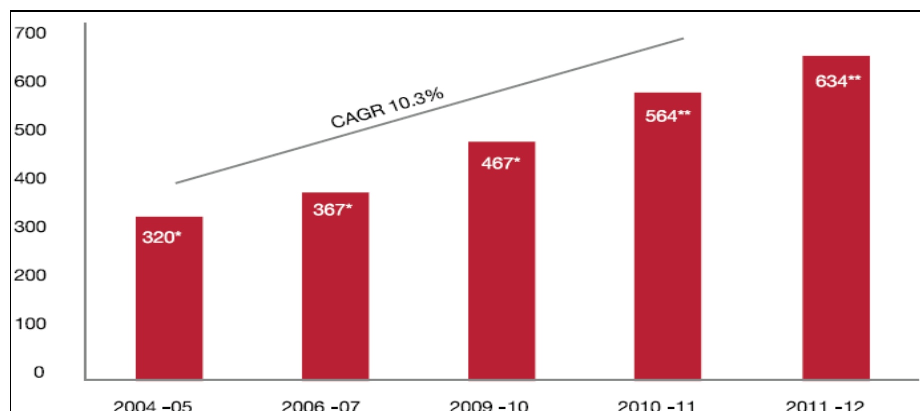
HIGHER EDUCATION: A ROAD MAP FOR KNOWLEDGE BASE ECONOMY

India being a developing economy is a part of global race of industrialization, corporatization, and free economy with private and foreign sector involvement, which is extended to education sector also. Higher education as prominent field for economic development appeared in attention in post LPG era in particular in last decade (Rahman & Pritam, 2014). Expansion for access, equity and excellence, formulation of state specific strategies, enhancing the significance of higher education through curriculum advancements, vocational courses, information technology, quality and importance of research, networking and distance education are some of the major policy initiatives of the higher education sector (Desouza & Pai, 2014).

There are presently 687 university comprises of Central (45), State (322), Deemed (128), and Private universities (192) (University Grant Commission Report, 2014). Higher Education in India consists of Diploma Courses, Bachelor's/Undergraduate Degrees, Master's/Post-graduate Degrees and Pre-doctoral/ Doctoral programs. It can also be largely categorized into technical and non-technical education. Technical Education as defined under the AICTE Act means programs of education, research and training in Engineering and Technology, Architecture, Town Planning, Management, Hotel Management and Catering Technology, Pharmacy and Applied Arts and Crafts. Non-Technical Education would, thus, refer to the courses, other than technical courses, such as Law, subjects related to Science, Commerce and Arts, etc (Nishith Desai Associates, 2014). There are various regulatory body legalized and formulated the process of Indian higher education system such as central and state government, UGC, and Ministry of Human Resource Development (MHRD). These governing bodies ensure planned development, facilitate access and grant for disadvantageous group, facilitate financial support, and encourage international collaborations. There are other regulatory body also such as NCERT (National Council of Educational Research and Training), AICTE (All India Council of Technical Education0, and SCERT (Department of Education and the State Council of Educational Research and Training), have important roles to play (Nishith Desai Associates, 2014).

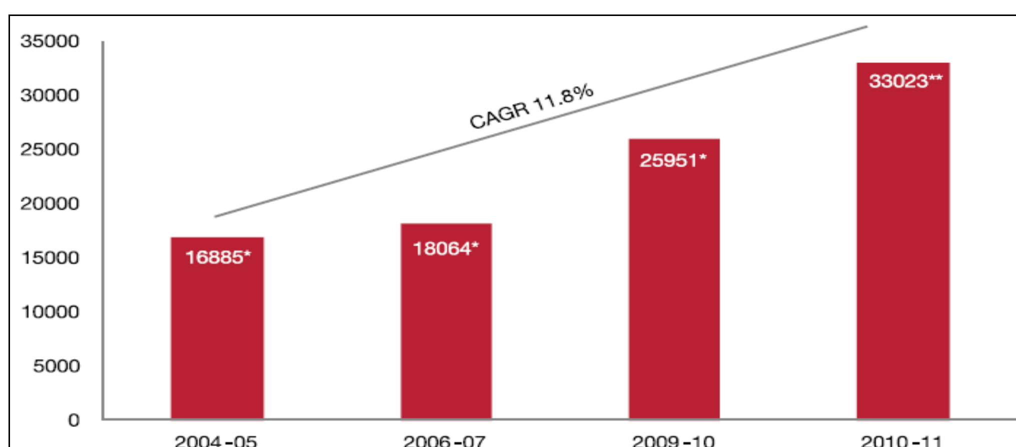
As shown in figure 1, number of Universities and University level Institutions facilitating higher education has increased enormously. It has recorded 10.3 percent compounded annual growth rate during the last decade and expected to grow ahead.

Figure 1 Growth in Number of Universities and University level Institutions



Source: *UGC report on HE in India Strategies during 11th plan (2007-2012) for Universities and Colleges, ** UGC Report on Higher Education at a Glance - February 2012.*

Figure 2 Growths in Number of Colleges



Source: *UGC report on HE in India Strategies during 11th plan (2007-2012) for Universities and Colleges, ** UGC Report on Higher Education at a Glance - February 2012.*

According to a report by University Grant Commission (2012), 11.8 percent compound annual growth rate has been reported for number of colleges in India. The figure shows a satisfactory move for Indian higher education system.

TWELFTH FIVE YEAR PLAN: POLICY AND ESTIMATED TARGETS FOR HIGHER EDUCATION

India has become a remarkable young country. According to Economic Survey 2011-12, the proportion of working age population (15-59 years) is likely to rise from around 58 per cent in 2001 to over 64 per cent by 2021 with the bulk of this increase likely to be in the relatively younger age group of 20-35 (Mathur & Soni, 2013). According to twelfth five year plan (2012-2017), in the near future China will have to surpass for deficiency of about 40

million highly skilled workers by 2020, whereas, India will be the largest individual provider to the global demographic evolution. Consequently, India can record a higher share of global knowledge based work, for example by increasing its exports of knowledge-intensive goods and services, provided centric focus on higher education and globally benchmarked quality.

The aim of Indian planning authorities is to gear up the country's gross enrolment ratio (GER) form 7.9 per cent (estimated target for 2011–12) to 25.2 per cent by 2017–18 and reach the target of 30 per cent GER by 2020–21. The target is established to make it in line with world average. About half of the Central Government's expenditure was incurred for higher education and the residual for elementary (39 percent) and secondary (12 percent) education (Twelfth Five Year Plan, 2012-2017). But the amount also remains diminutive bearing in mind the requisite of higher education for the growth of economy of India. Combining access with affordability and ensuring high-quality undergraduate and postgraduate education are essential for channelizing the potential of the country's 'demographic dividend' (Twelfth Five Year Plan, 2012-2017).

FDI: AN EYE ON INDIA

According to a report of Ernst & Young (2014), India is considered to be the most attractive country for foreign direct investment (FDI). The reasons behind the attractiveness are abundant availability of labours, local labour cost, rewarding domestic market, and skilled service workforce. Business and management education system and telecommunication infrastructure is also appreciated by foreign investors. Although china is considered as main competitor in terms of foreign investment as both the countries are growing with their own resources and attractive economy features. But India has got advantageous position in terms its 'demographic dividend'. India is also lagging behind to realize its FDI potential because of its operating environment and developing infrastructure. There is a need to enhance production, recuperating the taxation system, and easing FDI regulations (Ernst & Young, 2014).

FDI IN HIGHER EDUCATION: PRESENT OPPORTUNITIES

Due to India's service-driven model the higher education sector in India is anticipated to grow at 18% per annum until 2020. Around US$83.7b (INR4.5t) is allocated for education in the Government's 12th five-year plan. There is a new paradigm in higher education of India as a result of increasing demand for quality education (Ernst & Young, 2014). Foreign companies investing heavily to establish education and training institutes in the country, the future of this sector in the next few years seems bright. In the search of quality education, the current Five-Year Plan proposes to provide inclusive and qualitative expansion of higher education in India. Further, education sector has attracted foreign direct investments (FDI) worth USD 740.35 million during April 2000 to September 2013, according to the data released by the Department of Industrial Policy and Promotion (DIPP) (Nishith Desai Associates, 2014).

Foreign universities can get access to the young aspirants of the country with the help of various ways. Such as association with the Indian educational institutes for twining program where students will have the opportunity to study at country and overseas as well;

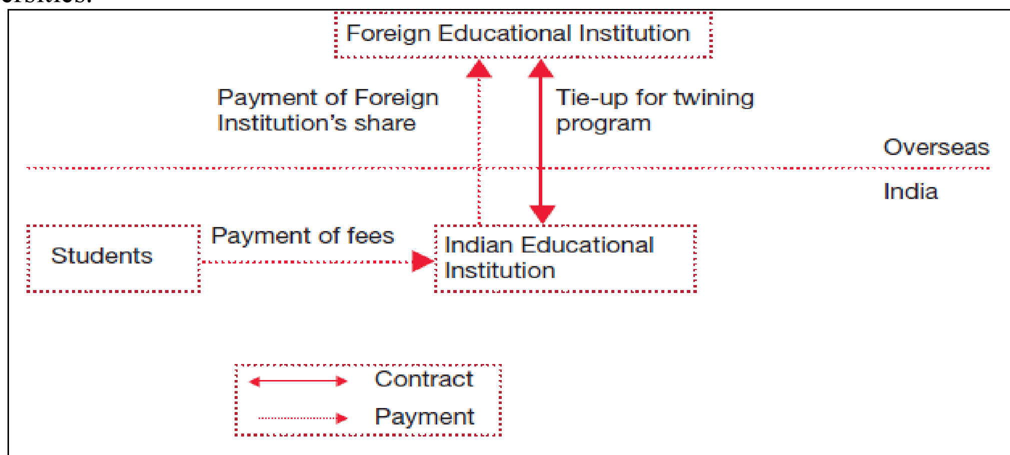
associations for rendering services like providing expertise, teaching faculty members, affiliation etc., tie-up for distance learning education, student-exchange programmes, faculty exchange programmes, and joint research programmes etc. This would help India to develop world-class research universities as well as have sophisticated teaching institutions to impart relevant vocational and enhanced skills in a timely manner to cope with the rapidly changing labour market needs. FDI in higher education would also ensure various employment opportunities by aiding the setting up of educational institutions across the India (Bahmaid, 2013). By allowing foreign universities and to establish campuses and provide degrees independently in India, would not only foster the education system and produce quality graduates but also result into plentiful accessibility of an educated workforce. Hence FDI in higher education would help country to enhance investment, capture the outflow of monetary and human capital, increase healthy competition among educational institutions, and most importantly create various employment prospects for the young generation of India.

FDI IN HIGHER EDUCATION: CHALLENGES

Indian higher education system is backed with the problems of scarcity of well-trained faculty, reduced infrastructure, and obsolete and unrelated curricula. The use of technology in higher education remains limited and standards of research and teaching at Indian universities are far below international standards with no Indian university featured in any of the rankings of the top 200 institutions globally. Thus seeing these problems 100 percent FDI in higher education would work as a sprout for the growth of Indian economy. It might give wings to fly young aspirants of India to educate and enrich themselves to the international standards. On the contrary, it might impose a number of challenges for Indian educational institutions as well. Few challenges are discussed below.

Faded Role of Indian University

According to PricewaterhouseCoopers' report (PWC, 2012), an observed model has been developed (Figure 4) that shows the role of Indian universities in existence of foreign universities.



Source: (*Pricewaterhouse Coopers Pvt. Ltd, 2012 India: Higher Education sector Opportunities for Foreign Universities)*

Figure 3 Observed Operating Model Used By Foreign Universities In Relation To Courses Offered In India

The model states the role of Indian universities as a mediator for collection of fees from Indian students and distributing the share to foreign institutions. Thus the observed model limits the role of Indian institutions. Few business houses run educational institutions for the purpose of earning profit, they would find collaborations with foreign university much beneficial because it would help them to attract many number of students, and fetching good amount of fee. A huge amount of Indian currency will be transferred to the foreign country that would be precarious for the developing India.

Struggle for Adaptations

Various Indian educational institutes would try to replicate the foreign-based institutions, pedagogical, curriculum, industry-interface activities, and academic research models, but might face several intricacies in adaptations because of the differences in the work culture system.

Preparing Students for Foreign Work Culture

With the collaboration to foreign universities in terms of various student exchange programmes, training, curriculum development, research programmes, and many more may result into adoption of foreign education system and learning their skills needed for their work culture and advancements. And this may also develop the mindset among students to work outside of the country; therefore, 'demographic dividend' of the country would prove their potential outside of the India. This does not seem good for the developing country like India where potential of youth is extremely requisite for its growth.

Commoditisation of Education

Foreign investment in any country doesn't aim for development but rather for profit motives. Therefore to earn profit foreign educational institutions would try to develop those courses that are in huge demand for profit considerations. To fetch many students, there might be chance of false advertisements and will charge exorbitantly hefty fees for courses (Narang & Jain, 2014).

Unhealthy Competition

FDI in higher education would result in to development of various educational institutions offering various courses in collaboration with the foreign institutions. Such development may give rise to unhealthy competition among institution in term of fetching maximum number of students by reduced fees. This reduced fee could result into cutting various other costs such as infrastructure, libraries, laboratories, payment of salary to teaching and non-teaching members. Hence, educational institutions will forgo the basic purpose of education i.e. quality of learning.

Chances of Mislead

Various foreign educational institutes may offer those courses that might not be accredited in their own country. There are also chances that foreign educational institute might get associated with unapproved domestic institutions, and distribute degrees. Strict

regulations control and lack of awareness among students might result in to bogus degrees. Thus this would turn out to be deceptive for the students of India.

Rely on Foreign Standards

Various domestic educational institutions without any association with the foreign educational institutions would be out of choice in such a competitive scenario. Further FDI in education would obstruct the development of indigenous and essential research within our university education (Narang & Jain, 2014).

Although there is a need for FDI for the growth of higher education, to meet the gap in the requisite of higher Education in India and its supply, but even when the foreign investment is allowed in higher education, it can be an addition to quality education only when strict accreditation and certification system is set up by Indian government regulatory body.

CONCLUSION

According to the world economic forum's global competitiveness index (2014-15), India is lagging behind in secondary and tertiary education enrolment, where it stands 106 and 87 respectively out of 144 countries. The figure shows that India is far below than average. Another frightening issue about the role of foreign universities is towards the non-enrolment of the poor and the under privileged section of the society. Thus the purpose is not to expand the number of education institutions or ever larger number of students, with the help of FDI, but about providing diverse choices of subjects, levels and institutions while ensuring a minimum standard of academic quality and providing the opportunity to pursue higher education to all sections of society, particularly the disadvantaged. There is a need for India to develop world-class research universities as well as have sophisticated teaching institutions to provide quality education and skills to cope with the rapidly changing labour market needs. However, considering the position of India higher education system and its quality, the need for foreign direct investment cannot be evaded.

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Chapter

IMPACT OF FDI ON HIGHER EDUCATION IN INDIA

DR. (MRS.) NAVDEEP KAUR

Introduction

The forces of globalization have introduced new discourses into almost all areas of the present knowledge society Globalization has created avenues for free, and borderless trade which in turn is demanding restructuring of education in tune with global economy. The concern about the quality of education is now extended to quantity all of a sudden. As the public resources are limited, the search for other national and international providers evident. With a recent upward trend in the National GDP, the stakeholders are ready to spend/invest on higher Education as they believe that higher education is the sure way of their upward mobility from low income to higher income group.

The demand for higher education in India has been sturdily increasing for years, especially for professionally related courses. Until recently higher education was seen as something that made valuable contributions for the economy and society. Universities were considered as places for learning, research and service to the society, and enjoyed significant degree of autonomy and considerable public support. All these are beginning to change. Concurrent with this development, the World Trade Organization (WTO) and its GATS (General Agreement on Trade in Services) declaration made the services, including education as tradable commodity.

Higher education is seen increasingly as a commercial product to be bought and sold like any other commodity, especially with the support of organizations such as WTO, which is attempting to encourage the import and export of higher education through legal arrangements. These trends would change the basic understanding of the role of the universities with alarming implications. The advent of multinational higher educational institutions is encouraging formal and informal links, often with commercial interests, among academic institutions globally. Some of them take advantage of the developments in Information and Communication Technology (ICT) for this purpose.

Innovations in ICT are providing many novel ways to deliver higher education. New types of providers such as international companies, for-profit institutions, and corporate universities are emerging for the purpose of delivering education across national borders. Some of them operate in the form of branch campuses, franchising and twinning arrangements. The commercial or profit motive is a reality today and is catching on with the private providers and in some cases with the public institutions as well.

Opening the Doors: Necessary Options

India is under need to open up its higher education sector to foreign providers and to end public subsidies, with adverse consequences for the quality and affordability of higher educational. The impact of opening up higher education services is shaped not by the WTO but by domestic factors, including the domestic education system in terms of quantity, quality, costs, infrastructure and finances. In this context, it has been suggested that opening up education services may not be misplaced (Powar, 2005).

India has encouraged Foreign Direct Investment (FDI) in many of the development sectors mainly for attracting foreign funds with incidental advantage of technology transfer, job opportunities and benefits to domestic firms and consumers. However, the implications of FDI in the educational sector require more than a casual treatment, since education is not a tradable commodity.

The implications of FDI in higher education are not simple as they have bearing not only in higher education per se, but also on the education sector and more broadly on the whole process of generation of knowledge. Development being dependent on knowledge, the implications of liberalization have far reaching consequences. In the era of globalization, nations cannot simply remain isolated. The pros and cons of liberalization need to be understood before any policy decision is taken.

An effective voice implies ability to influence the management and not absolute control. Thus FDI can be desegregated into components of equity capital, invested earnings and intra-firm loans. In the current wave of liberalization, there has been worldwide shift in the forms of foreign capital (Agarwal, 2007). Firstly, direct foreign investment through involving equity capital of an existing or new undertaking has been rising. Secondly, inter-government loans and loans from institutions have been declining and external commercial borrowings have been rising, implying a shift towards free market based system of attracting foreign capital. Thirdly, technical collaboration involving payments for technology is not a much favoured mode. Indian firms are apparently opting for equity linked technology transfer. Since the foreign education providers are coming in unregulated manner, an unregulated inflow of foreign capital particularly in education sector is a cause of great concern. It has therefore been felt that FDI in education must be guided by certain norms and control, as it is a sensitive sector and its implications should be examined before any FDI policy.

FDI in Education: Addressing various Issues

As a Source of Investment

Traditionally education has been considered to be non-tradable. The government has funded education through domestic resource mobilization. In higher education, 90's is the decade of falling percentage budgetary allocation on secondary, higher and technical education. The resource crunch in these sectors has adversely affected the public sector and promoted the private sector participation at almost all levels of education. To raise the participation rate for seven percent to 10 per cent targeted by the end of tenth plan and 15 per cent at the end of eleventh plan, is also an uphill task in view of impending financial shortage. FDI may be used as a source of investment at least in some selected sectors.

Quality Issue

Foreign institutions have been expected to bring quality programs with market orientation. Besides updated curricula, teaching-learning processes, and evaluation processes may be internalized within educational institution in India. They may also reap the benefits of improved managerial and organizational skills to run the institutions. FDI can also promote competitiveness in the education system as a whole.

Export opportunities

Since nations cannot remain isolated in this age of globalization, therefore, FDI policy should be linked to specific sectors and specific objectives. There lies a positive correlation between FDI and export. Allowing FDI in education might lead to export of Indian education abroad in which there are large potentials in South East Asia, Africa, Latin America and elsewhere. Education may, therefore, turn out to be net exporter and earner of foreign exchange.

FDI and GATS

GATS is directly not an investment agreement; rather it is a trade agreement in services that is multilateral and guided by minimum rules principles. Hence, institutional and legal inter linkages under GATS also necessitate the FDI gearing to fulfilling trade based needs arising from inter linkages.

On Roads of the Concept: Enlightening Frameworks

The recent focus on knowledge economy as a solution to the underdevelopment of the development world has given higher education extraordinary importance (Tilak, 2005). The absence of a long term policy perspective on higher education which should be coherent and clear seems to be lacking in a multitude of developing countries (Tilak, 2005). Though the attitude towards higher education and (for profit) private institutions seems to be changing, the introduction of a market philosophy in the education sector has lead to a culture shock for most people in developing countries (Tilak, 2004), and India does not seem to be an exception in this. An attempt has been made to capture all domestic private institutions collaborating with foreign partners in India (Bhushan, 2006), which indicates that there is a relatively small but growing trend towards foreign institutional partnerships in India. The arrangements seem to exist most often in the form of twinning programmes and programmatic collaboration (Bhushan, 2006). Further, within the line of the reasoning of the GATS, treating knowledge as a commodity that should be freely traded, has transformed the idea of education from a public good to a service of which profit can be made. This shift to profit making and market drive has lead to a new era of power and influence. Politics and extra educational events and processes all have an impact on education (Verger, 2008).

Indian Implications

In an ideal situation, in a world that is becoming more and more globalized and in the light of GATS, a situation would exist in which all partners would learn and benefit from each other, and in this manner improve all higher education system around the world while at the same time being competitive and thus ensuring innovations and improvements. This trend poses many opportunities but also challenges for Indian institutions, the higher education system, and for the Government and India in general that have to be addressed in a manner that ensures the best

possible gains for Indian students and Indian society as a whole. It has become clear that there are many opportunities and justified worries about involvement of foreign education providers coming into the country but India itself can benefit from the liberalization of the trade in services as well. It has very specific knowledge in areas such as ICT which it can use to start up its own institutions on foreign soil. It might be able to learn form the head start of foreign education providers in India and use the best practices adapted to the suitable context to expand their own activities abroad. Developing countries might see the signing of the GATS in the area of higher education as problematic but there are also possibilities arising, especially for a country like India with specific knowledge and skills to export. Though in India the number of students has expanded massively in the last decades and its higher education system is the largest in the world, funding by the government has not increased in line with this expansion. This has important implications for the higher education system in many ways, such as the possibilities for prospective students to enter the education market.

Interest of Foreign Universities in India

Top-notch foreign universities may desire to have a presence in India as the country moves to further liberalize and reform the higher education sector. More than 150 foreign education providers already have tie-ups in India. Most of the investment is expected to come from the state and the private sector, but there is growing significance being attached to the role of foreign universities as well.

The majority desire to enter the Indian education market either in collaborations with domestic institutions or through twining programmes where part of a course might be taught in India and part in the parent institution.

The establishment of National Commission of High Education and Research "NCHER" is also proposed by the Central Government, which will apply to all higher educational institution. The Commission may lay down its own procedures for the conduct of its business and exercise of its powers and functions. All foreign education providers will have to get accredited by the proposed National Accreditation Authority for quality control. Their entry will bring revolution in terms of quality. It will also have enormous impact on research and creation of Intellectual Property.

CONCLUSION

India is a key nation in debates surrounding internationalization of higher education. The country's large number of youg people, rapidly growing economy, and booming middle class make it a favourite source country among host countries hoping to recruit internationally mobile students. And though India currently only hosts a small number of international students, the country has the potential to host many more. Thus, India's importance in international student mobility is destined to growth.

Currently, foreign provision in India is small and peripheral. Many institutions are keenly watching developments in India related to the new law for foreign providers, and there is a great deal of enthusiasm among foreign universities. India is seen as a huge market with immense potential. Foreign providers can not only create additional capacity but also energize local institutions, both by example and through competition. Thus, opening Indian higher education to foreign competition will strengthen it and boost internationalization efforts.

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Chapter

ROLE OF FOREIGN DIRECT INVESTMENT IN INDIAN HIGHER EDUCATION

DR. GOPALA SUDARSHANAM

Introduction

The principal objective of education has been the development of the whole individual. The minimum level of education that was necessary to achieve this goal in the agrarian society was basic or primary and in the industrial age, secondary. In the present borderless information society, education needs to be able to respond to additional demands of a rapidly globalizing world by raising awareness of environment, peace, cultural and social diversity, increased competitiveness, and the concept of a global village (NCAER-2007). The education sector in India is one of the most illuminated sectors, which holds the key to social and economic development of the country (UGC-2001). But even after six decades of independence, the quality and quantity of education in India remains poor. When we compare the data of higher education in India with those of some developing countries like China or Malaysia we are lagging behind. The public investment per capita on higher education in India is USD 406 whereas USD 2700 and USD 3694 respectively of China and Malaysia. Even the GER for the age group 17-23 is only 7-8 percent compared to 31% in Philippines and 13% in China (Shilpa Kaura-2013).

Thus there is a copious gap in the requirement and supply of higher education in India. As all of this cannot be met by the domestic institutions, hence it is imperative to allow foreign investment in to this sector. Further greater number of private players venturing in to the education sector, growth of I.T sector, gigantic demand for skilled workforce, increase in internet based education methods and liberalization policy of the government have been immensely acting as motivating factors for FDI into Indian higher Education. Hence the researcher has made an attempt to make an observation over theoretical and numerical perspectives of FDI in Indian higher education.

Statement of the problem

Many researchers have made their own attempts to define the statement of the problem on higher education, globalization and relation with FDI. The present study has tried to examine the challenges and opportunities of the FDI in Indian higher education in the globalized scenario. Further researcher has also made an attempt to present the state of Indian University by touching subtle areas in the past.

Objectives of the study

1. To examine the challenges in higher education in globalized world and to have an glimpse on the present scenario of higher education in India.
2. To observe FDI inflows in Indian higher education.
3. To present favorable and unfavorable arguments for FDI in Indian Higher Education.

Scope of the study

This paper covers the lucid study of globalization, FDI and their impact on Indian higher education. It covers the definition and meaning of globalization & FDI. The paper throws light on the concern areas for different functionaries involved in designing state of higher education and attempts to find out base to over-come challenges of internationalization of higher education.

Methodology & Database:

Methodology is the scientific approach adopted for the preparation of any report, dissertation, thesis or a research paper. For the present paper and for the purpose of study data have been collected from secondary sources. Necessary secondary data on conceptual frame work and review of literature are collected from Journals, Magazines, Newsletters, News papers, Periodicals, Reference Books, and various other publications and reports.

Previous Studies:

Rahul Kumar & Esha (2014) in their paper "The role and impact of Foreign Direct Investment in development of Indian Education Sector" have encapsulated the FDI as important to flow in to Higher Education sector in order to transform Indian higher education in to world top league. The results of their paper holds that increase in FDI will have significant relationship with increase in employment & improvement in infrastructure. Pearly Jerry (2013) has attempted to discuss the possibilities of bringing quality, excellence and more opportunities of higher education in India through FDI route by his paper entitled "Foreign Direct Investment in the Education Sector in India". Shilpa Kaura (2013) in her article "FDI in Higher Education" has strongly opined that India requires more FDI in education Sector to meet its target doubling its Gross Enrollment Ratio (GER) by 2020. i. e 30% from its current GER 15%. She was also observed that FDI in higher education may facilitate several private universities, research houses and large corporate educational entities to set up their concerns in domestic country which in result are expected to provide significant benefits to Indian students seeking potential higher education.

Viney Suhag & Kavita Rani (2013) through their work on "FDI and higher Education in India" have advised for framing of a regulatory body which would combat with bad consequences of culture and autonomy of foreign education providers. They were also positively argued for FDI in education because foreign institutions could bring quality programs with market orientation, besides updated curricula, teaching- learning process and internalization of evaluation process. Brahm Sharma (2012): has emphasized FDI into higher education at national interest and that should attract foreign players to invest. International Finance Corporation (2011) had observed through its report entitled "Development through private Sector" that FDI will bring in more competition in the market with price reflecting true costs and quality improving. Spring. H. J (2009) said that FDI could promote competitiveness in the education system as a whole. Dr. Furgan Qamar (2004) in his paper "FDI in Higher Education: Issues, Implications and Strategies" stated as FDI in any field does not have an attached objective of fulfilling social agenda of the welfare state. It is guided by profit and market. This would result in commoditization of education and he was also described that as per past observations, most foreign institutes invest in technical courses which market needs rather than in quality education and research which is important for creating and developing human resource.

Higher Education Challenges in a Globalized World

Globalization is interdependence. Globalization is neither good nor bad. It is exactly what we do that decides the ethical decisions made in higher education from both a macro and micro approach that decides our course of actions. Just as universities purged their holdings that were found to support transnational crimes, we now must continue to review our policies and implementation of practices that impact the global humankind. Multiple voices must be present on our leadership teams to ensure all aspects are critically analyzed. The conflicting aspects of market forces and our fundamental mission to educate is our most pressing issue. Globalization is a growing challenge to higher education institutions worldwide since it brings not only opportunities but also concerns to higher institutions and universities. Duderstadt, Taggart and Weber (2008) go so far that they argue that there is a serious imbalance between educational need and educational capacity-many of our universities are in the wrong place, where populations are aging and perhaps even declining rather than young and growing, driving major population migration and all too frequently the clash of cultures and ethnicity (p. 274). They further argue that current estimates suggest that the number of students seeking university degrees will roughly double over the next two decades to as high as 250 million, with most of this growth in the developing world (p. 277). And, there is no doubt that higher education institutions, especially research universities, are among the main agents of global convergence.

Globalization breaks down barriers and connects institutions across the world making universities in every country visible to each other, facilitating knowledge flows, values on global learning, and creation of new opportunities for advanced graduates. The president of NYU, John Sexton developed the concept of "idea capitals" for research universities. Regarding the global spread of research universities, Sexton stated, "the evolving global dynamic will bring about the emergence of a set of world centers of intellectual, cultural, and educational strength; and recognition that research universities will be key to these "idea capitals" (cited in spring, 2009, pp. 107-108).

Present Scenario of Higher Education in India:

Higher Education in India has recorded impressive growth since independence. The country has created one of the biggest higher education systems in the world. As per MHRD-survey-2014, we have more than 768 Universities, institutions of higher learning and deemed universities, out of which 129 deemed to be universities, 51 institutions of national importance, 45 central universities, 318 state universities, 185 institutions established under state legislation act, 40 universities under the preview of MHRD and about 37,204 Colleges including about 300 plus Autonomous colleges and around 1.3 Million schools (MHRD-2014). This statistics states that the number of Universities has increased 38 times from 20 in 1950 to 768 in 2014. Similarly the number of Colleges also registered manifold increase of 74 times with just 500 in 1950 growing to 37,204 as on 31-03-2013 (MHRD-2014). Education System has increased fourteen-fold in terms of the number of universities and thirty three-fold in terms of the number of colleges, in comparison to the number at the time of Independence. At the beginning of the academic year 2012, the total number of students enrolled in the formal system of education in universities and colleges was 99.53 lakh- 64.97 lakh (19.3 per cent) in university departments and 86.57 lakh (86.97 per cent) in affiliated colleges and 4.37 lakhs teaching Faculty employed making India's system of higher education the second largest in the world. "To finance this expansion, the Government of India has consistently increased its share in the total expenditure on higher education—from 49.1 percent in 1950–51 to more than 90 percent today. It is significant that despite these impressive statistics the system caters to hardly 6 percent of the relevant age group, as compared to more than 80 per-cents in the developed countries." This is partly because the expansion has been offset by the growth of the population in the relevant age group.

Foreign Direct Investment:

FDI is direct investment into production or services in a country by a company in another country either by buying a company in the target country or by expanding its operations of an existing business/service in that country. FDI is also an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of foreign direct investor (OECD, 1996, IMF,1993). Foreign Direct Investment is a passive investment in the securities of another country such as stocks and bonds and also known as portfolio investment. It explains about the net inflows of investment to acquire a management interest and also management control and profit sharing as a part of the national accounts of a country. FDI usually refers to a measure of foreign ownership of productive assets, such as factories, mines and land. Perhaps increasing FDI can be used as one of the measures of growing economic globalization (Bahmaid, 2013). FDI is profitable both to the country receiving investments and the investors.

FDI Inflows in India (From 1948 -2010)

Year	Rupees in crores	Year	Rupees in crores
Up to 1948 Mid	256	Up to 1990 March	2705
Up to 1964 March	565.5	Up to 2000 March	18,486
Up to 1974 March	916	Up to 2010 March	1,23,378
Up to 1980 March	933.2		

Source: Kumar 1995: various issues of Secretary of Industrial Assistance Publications (SIA)

Source of FDI in India:

India has expanded the source of FDI in the period of reforms. There were only 15 countries investing in India, but by 2010 almost it has been raised to 128 countries (Economic Survey-2010). After liberalization of economy Malaysia, south korea, Mauritius and many more developing and developed countries predominantly appears on the list of major investors apart from UK, US, Japan, Germany, France and Italy. Following table gives the inflows of FDI from various countries to India.

Mauritius	USA	UK	Japan	Germany	Netherland	Cyprus	France	Switzerland	Singapore
39.9	8.8	6.1	3.4	2.0	4.4	2.1	1.5	1.1	7.2

Source: Economic Survey-2010, RBI Bulletin & Reports of Ministry of Commerce Secretary of Industrial Assistance Publications (SIA), amount is in Crores.

FDI in Indian Higher Education:

Major economic reforms were undertaken in India in the early 1990s. This led to the liberalization and deregulation of the Indian economy and also opened the country's markets to FDI. India is the second most FDI destination as per the survey by UNCTAD after china for transnational corporations during 2010-2012. The proposal for FDI in India gets their approval through two routes viz, RBI and Foreign Investment promotion Board (FIPB). FDI approvals in India have grown significantly in recent years. The government of India has vide press note 2 (2000 series) dated 11-2-2000 issued by the department of industrial policy and promotion, ministry of commerce and industry allowed 100% FDI in education sector under automatic route, subject to the sectoral rules or regulations as may be applicable. However, since a regulated educational institution must be 'Not for Profit entity', foreign investor seeking return does not invest directly in such regulated educational institutions. Further, once an institution become regulated the course curriculum and fee structure etc, is regulated by the government agencies. The foreign investment in 'Not for Profit entity' requires approval of the union government under Foreign Contribution Regulation Act 2010 (FCRA). As per FCRA, the foreign funds

should be utilized for the welfare purpose or activities in line with the objectives. Thus no profits can be distributed to the shareholders in any form whatsoever.

According to the department of Industrial Policy and Promotion (DIPP), FDI in Indian education sector stood at Rs. 1170.9 crore (USD 221.71 Millions) in the month of may 2012 the same was raised up to 4579.39 crore (USD 901.46 Millions) by October 2013. Further the government of India has allotted Rs. 52,057 crore during 2011-12 budget allocation (MHRD-2014 Survey). Huge investment in education sector come from Mauritius with 87.95% followed by Netherland 3.76%, USA 2.9% respectively. In India Bangalore received 80.14% of total FDI inflow followed by Delhi 6.45% and Mumbai 5.58% (SIA-2008). As far as technology transfer and financial collaborations are concerned, during 2004-08 2 technical (USA & Japan) and 112 financial collaborations are approved for education sector. Following table furnishes the FDI inflows in to Indian Education since 2000-01 to 2011-12.

FDI inflows in Indian Education

Sl.No	Year	FDI inflows (in Crores)	Sl.No	Year	FDI inflows (in Crores)
1	2000-2001	0	7	2006-2007	187.73
2	2001-2002	0	8	2007-2008	177.56
3	2002-2003	0	9	2008-2009	1033.36
4	2003-2004	0.88	10	2009-2010	300.50
5	2004-2005	8.76	11	2010-2011	173.24
6	2005-2006	13.75	12	2011-2012	155.79

Source: A wing of the Union Commerce & Industry Reports-2011-12.

Government Initiatives:

Some of the initiatives taken by the Government for the infrastructural development of the sector and to increase the business opportunity in education are as follows: For the year 2012-13, Rs 25,555 crore (US$ 4.63 billion) have been allotted for RTESSA (Right to Education – Sarva Shiksha Abhiyan) which represents an increase of 21.7 per cent over the previous year allotment in 2011-12. 6,000 schools have been proposed to be set up at block level as model schools in the Twelfth Five Year Plan (2012-17). Rs 3,124 crore (US$ 566.69 million) have been provided for the RMSA (Rashtriya Madhyamik Shiksha Abhiyan), which is an increase of 29 per cent over 2011-12. India and Republic of Korea have signed a memorandum of understanding (MOU) for Cooperation in the field of education. Prime Minister's fellowship scheme for doctoral research has been launched in New Delhi by Mr S Jaipal Reddy, Union Minister for Science and Technology, according to Confederation of Indian Industry (CII) The Ministry of Human Resource Development (MHRD) plans to set up ten community colleges in collaboration with the Government of Canada in 2012. The Government of India has decided to set up hundred community colleges this year. The Government of India plans to set up an Indian Institute of Agricultural Biotechnology at Ranchi with an investment of Rs 287.50 crore (US$ 52.15 million). The Institute will be a deemed university and will have different schools to import knowledge in genomics, bioinformatics, genetic engineering, nano biotechnology, diagnostics and prophylactics and basic and social sciences and commercialization. The Ministry of Human

Resource Development plans to set up ten community colleges in collaboration with the Government of Canada in 2012. The Government of India has decided to set up hundred community colleges this year. The Government of India also plans to set up an Indian Institute of Agricultural Biotechnology at Ranchi with investments of Rs 287.50 crore.

Arguments for the proposal for FDI in Higher Education:

There is a shortage of funds in higher education sector. And there are not many ways in which this investment in this sector can be increased domestically. Since a large number of students go abroad for their higher education, it is sensible to allow foreign universities to set up their campuses here, in India. This would help in arresting the outflow of monetary and human capital. Further, foreign higher educational institutes would create competition with the local institutes making them internationally competitive. Also FDI in education would create new institutes and infrastructure and generate employment. The huge tax revenue may be generated. FDI in higher education may conduce to surge our country from developing to developed stage.

Arguments against the proposal for FDI in Higher Education:

FDI in any field does not have an attached objective of fulfilling social agenda of the welfare state. It is guided by profit and market. This would result in commoditization of education. As per past observations, most foreign institutes invest in technical courses which market needs rather than in quality education and research which is important for creating and developing human resource. It has also been observed that only 2nd and 3rd tier universities are interested in setting up their campuses in the country.

Conclusion:

Higher Education is an engine of economic development in India, public funding by the government cannot keep pace with rapidly raising costs of higher education. The Indian higher education sector is having acute problem of increasing number of students and the deteriorating level of the quality in higher education besides more regulatory restriction on the un-recognized institutions. There is thus an urgent need to address the deficiencies facing our higher education sector. However, one sided response to it won't solve the problem. Government should allow foreign universities to invest in education sector but under strict regulation. It should shortlist the preferred universities for investment and then invites them to set campus in India. Low grade universities should not be allowed in the country. Moreover government should provide incentives to foreign universities to setup institutes in areas of research and academics, which is much needed in the country. Thus government needs to act with strictness and discretion in development of higher education.

A strict regime and governance is must for permitting Foreign Direct Investment in India in the education sector because it will lead to commercialization of education. Some of the areas which need to be governed are the quality, equitable opportunity and access, adherence to national policy and agenda, scholarships & free ships to be marginalized, financial disclosure norms, academic audits and norms of marketing. Within the parameter and framework of the government's policy and vigilance foreign direct investment will definitely benefit the larger masses of the nation.

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Chapter 9

ECONOMETRIC MODELLING OF FOREIGN INVESTMENT INFLOWS INTO INDIA

RATHEESH K & RAGHAVENDER RAJU G

Introduction

The hot money, the East Asian crisis and the fall of the Asian tigers, the 1994 Mexican crisis, and the collapse of the currency board peg of the Argentina in 2001.....and the list goes on!

These are the trending topics in the present day international economics, and all of them have a central theme and that is; the international investment flows and their macroeconomic effects. Foreign investment flows consists of the foreign direct investments (FDI) and foreign portfolio investments (FPI). "Foreign direct investment (FDI) refers to the net inflows of capital to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise functioning in an economy other than that of the investor's. It usually involves participation in management, joint-venture, transfer of technology and expertise." FPIs are the foreign investments in the financial markets and assets of a country. FDIs are more stable and of long term nature, whereas the FPIs are generally short term investments.

Capital account liberalisation has been one of the most controversial aspects of globalisation. Neo classical theory says that the developing economies would benefit from capital account liberalisation, because it helps them to bridge the unmet investment gap. The history of the present day developed countries shows that, they have depended heavily on the foreign capital for their growth process. Developing countries generally have high investment opportunity, but their national savings are too low to meet their investment gaps. Developed countries on the other hand have surplus of funds with less opportunities to invest. Thus it would be beneficial for both the surplus and deficit sectors to join hands and use the funds to meet the growth needs. Foreign investment improves the efficiency by bringing in increased competition, corporate accountability, technological advancements and international managerial and marketing skills. They also have spill over effects on the other sectors of the economy. The well documented effects of foreign investment flows are real exchange rate appreciation, reserve accumulation, monetary expansion, consumption boom, stock market boom as well as the impact on production and savings.

But on the other hand we have economists like Joseph Stiglitz, who oppose the idea of capital account liberalisation saying that it could lead to more volatility in output and consumption. The fact that gross flows are much higher than the net flows point to the inherent volatility and the herd mentality of the foreign investment flows especially the portfolio flows by foreign institutional investors.

It is in this backdrop that there is a need to study the determinants and macroeconomic effects of foreign investment flows (FINV) to India. Taking the cue from the 1991 balance of payment crisis, India had gradually opened up its economy with full convertibility in the current account and partial convertibility in the capital account. The exchange rate system was made flexible in the year 1992 and FDIs were allowed through automatic and discrete routes. Gradually, FIIs were given permission to invest in Indian stock and bond markets. The strong macroeconomic fundamentals of the country coupled with fiscal consolidation and stable external debt position attracted FINVs to India. From a mere Rs 13282 cr of net foreign investments in the year 1993-94, it had gone up to Rs.305067 cr by 2009-10. Net foreign investment flows was more than 5% of the GDP in the year 2009-10, which is more than what was required to fill the current account deficit, which was only around 3% of the GDP.

Now these foreign investment flows had strong impact on the macroeconomic variables like money supply, exchange rate, inflation, foreign exchange reserves and the interest rates. So it is very much essential to know the determinants and the macro economic effects of these foreign investment flows, so that appropriate policy measures can be taken to even out the negative impacts.

Objectives of the Study

1. To analyse the trends and composition of net foreign investment flows (FINV) to India.
2. To identify the determinants of the net foreign investment flows to India.
3. To analyse the effects of net foreign investment flows on the macroeconomic variables in India.

This study aims to look at the broad internal and global determinants of the foreign investment flows to India, by analysing the quarterly data. The scope of the study is extended further by including a study on the effects on the macro economic variables like exchange rate, money supply, price levels, and interest rates, using a VAR framework for the same period. We also try to arrive at broad policy implications from this study. The empirical tools used are OLS regression and the VAR models along with Impulse response function and Variance decomposition.

The Determinants of the Net Foreign Investment Flows into India

The determinants can be classified into Pull and Push factors. Pull factors are the internal factors specific to an economy; such as the local resources, economic reforms, financial depth, and stability and macroeconomic fundamentals in general. Push or external factors such as the world level of economic activity and key rates of return are also equally important determinants of cross country investment flows. So in this study an attempt is made to identify the various

determinants of net foreign investment flows to India. The variables taken and the respective notations are given below:

LnFINV -Log of the quarterly net foreign investment flows to India (FDI + FPI)

LnIIP -Log of the quarterly index of industrial production

LnBSE -Log of the quarterly BSE SENSEX index

LnEXR -Log of quarterly Rupee-US dollar nominal exchange rate

LnWPI -Log of quarterly Whole sale price index

ROI -Quarterly Call money rate

GRW -Differential GDP growth rate between India and USA

(Growth rate of India's GDP – Growth rate of USA GDP)

We have taken the Log transformation of the variables to avoid the problems associated with different units of measurement. Log transformation converts variables into percentage form. Individual coefficients of the variables now represent the elasticity. Interest rate and the differential growth rates are taken as such because they are already in percentages.

STATIONARITY TEST

Table 1: Unit Root Test

ADF test with trend and intercept				
Variables	**Level**	**Inference**	**1st difference**	**Inference**
LnFINV	-5.9033	Stationary	-	-
LnIIP	-4.230	Stationary	-	-
LnBSE	-1.764	**Non-stationary**	-5.414	Stationary
LnEXR	-1.872	**Non-stationary**	-4.3919	Stationary
LnWPI	-2.849	**Non-stationary**	-5.877	Stationary
ROI	-4.557	Stationary	-	-
GRW	-8.374	Stationary	-	-

Critical values (Mackinnon values): 1%: -4.53, 5%: -3.67, 10%: -3.27

Now from the above given results we infer that the variables such as net foreign investment flows, IIP, rate of interest, and differential growth rates are stationary at levels, whereas variables such as BSE index, Exchange Rate, and WPI are stationary only after taking the first difference.As a first step in the empirical study the Ordinary least Squares method is used here to find out the determinants of the net foreign investment flows to India by studying the quarterly data. Here the dependent variable is the net of FDI and FPI flows to India. The internal factors that could affect the capital flows to India are the IIP performance, BSE index movement, Exchange rate, Inflation as measured by the WPI, and the rate of interest which is a proxy for the return on investment in financial assets. Now coming to the external factors we have taken the differential GDP growth rate between India and USA, on the assumption that US GDP is a good proxy for the level of international economic activity.

Economic Relationships

Before going to the actual model we shall discuss the apriori relations between the variables as suggested by the economic theory.

FINV = f (BSE, IIP, ROI, INF, EXR, GRW)

(+) (+) (+) (-) (-) (+)

With these theoretical expectations we run the OLS model with the respective variables and the result is given below:

The Results from the Estimated Equation

LnFINV = -5.9155 + 2.2740*D(LnBSE) + 2.833*LnIIP(-1) – 8.7804*D (LnEXR (-1))

(-4.93) (4.84) (13.27) (-4.65)

+ 0.0438*ROI - 7.662*D(LnWPI(-2)) + 0.01600*GRW + 0.886*DUM

(1.73) (-1.70) (2.65) (6.74)

Adjusted R-squared = 0.889704 Durbin-Watson stat = 1.91

F-statistic = 59.77002 Prob (F-statistic) = 0.000000

Interpretation of the model

Firstly we look at the summary statistics of the model, we can see from the value of R-squared = 0.904842, and from the value of Adjusted R-squared = 0.889704, that around 90 per cent of variations in the dependent variable; net foreign investment flows is explained by the variations in the given explanatory variables. An Adjusted R-squared value of 0.889704 tells us that we need not worry about the loss of degrees of freedom and the model is a good fit. The F-statistic value of 59.77, which is high enough, tells that we can reject the null hypothesis that all the coefficients of the explanatory variables are simultaneously zero. Looking at the Durbin-Watson stat of 1.91, which is close to the ideal value of 2, we can say that autocorrelation is absent in this model.

Now we look at the relationship between the individual variables. Going by the t statistic value we find that all the explanatory variables are individually significant in determining the net foreign investment flows to the country. Since the model is in double log specification, the value of the coefficients of the individual variable will tell us what will be the change in the net foreign investment flows to India for one percentage change in the explanatory variables. Since some variables are taken in difference form to avoid non stationarity, the respective coefficients then measure the percentage change in the net foreign investment inflows for a given increase in the growth rate of the respective variables.

Coming to the estimated model we find that all the coefficients signs are as per the economic theory. Variables like IIP, BSE index, domestic interest rate, and the differential GDP growth rate are having a positive and significant relation with the net foreign investment flows to India. Also to be noted is the fact that IIP and exchange rate affect the dependent variable with one period lag and WPI affects the net FINV with a lag of two periods. It shows that economic agents take time for adjustments and also the data frequency in the study is quarterly, hence the lags are justified.

IIP which is a proxy for the economic activity of India has a positive coefficient of 2.83, which means for a given one percentage increase in the IIP (economic activity) the net foreign investment flows to India will increase by 2.83% and similarly for a given 1% increase in the SENSEX leads to a 2.27% increase in the net foreign investment flows to India. And finally similar increase in the domestic interest rate also brings in more net foreign investment flows because it implies a higher return for the investor. The interesting fact in this model is the sign of the coefficient of the variable differential GDP growth rate (0.016), which turns out to be positive. Now what it implies is that when the differential GDP growth rate increases; that is when the economic activity in US slows down and also our economy is on a growth trajectory then there will be inflow of foreign capital in the form of FDI and FPIs to the Indian financial sector.

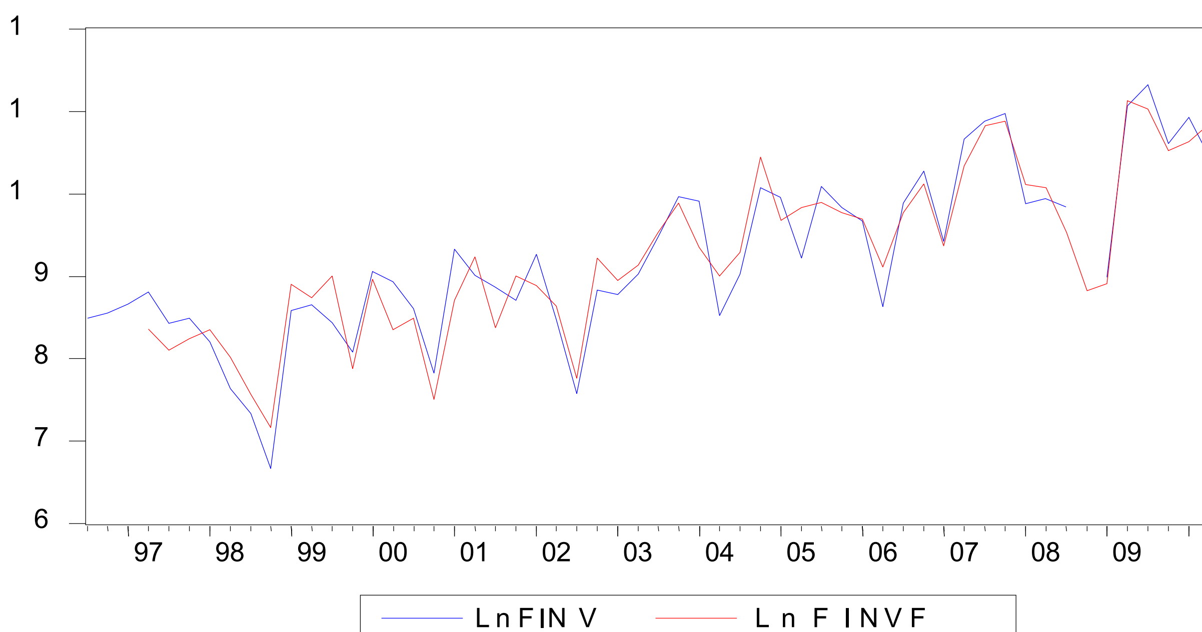
The exchange rate and the inflation are negatively related to the net foreign investment flows. We see that for 1% depreciation in the nominal rupee-dollar exchange rate, the net foreign investment flows to India decreases by a staggering 8.78% and close on heels with the exchange rate, we have inflation wherein 1% increase in the WPI makes the net flows to decrease by7.66%. What this implies is that foreign investors see nominal depreciation and domestic inflation as a threat to their profitability and avoid risks by pulling out their capital from the country. But this can have a cyclical effect, because capital outflows leads to further depreciation of the currency and cost push inflation and given the magnitude and herd mentality of these capital flows it can result in a vicious circle for the victim country.

Another thing which needs to be explained in explicit terms is the inclusion of the dummy variable in the model to account for the impact of various qualitative and structural changes. Since it is a quarterly data it is difficult to exactly time the introduction of dummies. Positive dummies for the periods 2001 Q2, 2004 Q4 are mainly due to the sudden capital surge that occurred due the onset of second generation reforms, increased domestic demand and the cyclical nature of the capital flows.

Whereas we had to give negative dummies for the periods 98 Q4, 99 Q4, 00 Q4, 02 Q3, 06 Q2, 07 Q1 due to the adverse impacts of the East Asian crisis, resulting global slowdown and which led to fall in capital flows to developing countries due to the increased risk perception among the investors. we see that the model is having a negative intercept term, which though has no economic meaning can be interpreted as the net foreign investment flows when all the explanatory variables are zero, that is when there is no return at all there will be a capital outflow from the country. This is just a mechanical interpretation.

Now we look at the forecasting ability of the model by doing an in sample forecasting.

In Sample Forecasting



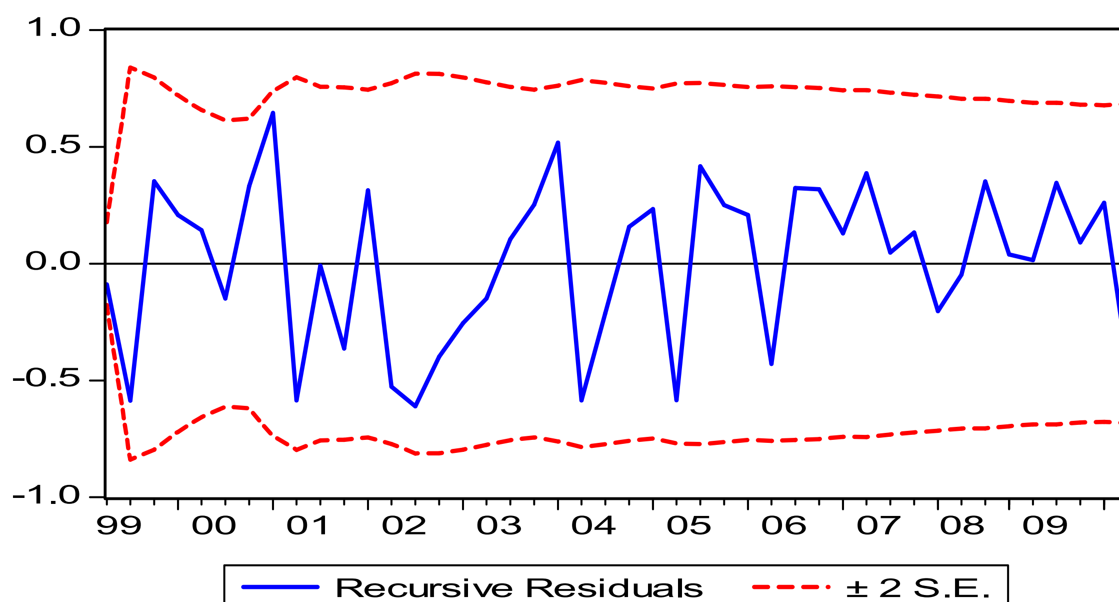
Source:_Authors Own Calculation

The forecasting ability of a model can be known by looking at the Root Mean Square Error and at the Theil Inequality Coefficient. The above model has a RMSE of 0.3138 which indicates that the model has good forecasting ability. TIC coefficient is a relative measure of the forecasting ability of the model and it should lie between 0 and 1. In this case the TIC coefficient is 0.0168 which is close to zero indicating that there is no systematic tendency to under or overestimate the actual data. The diagram below shows that the forecasted values (LnFINVF) are very close to the actual values (LnFINV).

Stability Test

The parameters of a good model have to be stable across various subsets of the given data and this is tested using the stability test. In OLS estimation this is done by looking at the recursive residuals. The graph given below plots the recursive residuals for the estimated OLS regression about the zero line, along with the plus and minus two standard error bands. For the model to be stable the residuals have to stay well within the standard error band and which is easily the case in the above estimated OLS regression. Hence we see that by all criterions, the estimated OLS model is doing a good job.

Figure 2: Stability Test



Source: Authors Own Calculation

Conclusions and Policy Implications

The study gains its relevance from the fact that in a financially integrated world, cross country capital movements can make or unmake the economic history of the countries. Foreign investment flows are important in meeting the unmet investment gaps of the developing countries. But at the same time the volatility in these flows especially the HOT MONEY of the foreign institutional investors can have the harmful effects of consumption booms, real estate bubbles and the inevitable financial crisis. The net capital flows to India increased tremendously after the partial liberalisation of the capital account and the net investment flows as percentage of the net capital flows had an exponential growth from 1.4% to 101% during 1990-91 to 2009-10. Thus there was a clear shift from official flows to private flows, and a compositional shift from debt flows to equity flows. More recently short term portfolio flows began to dominate the long term FDIs.

Applying the OLS method for the quarterly data, we have tried to identify the significant determinants of the FINV. The variables used are net FINV, IIP, BSE, nominal exchange rate (EXR), WPI, interest rate (ROI), and differential growth rate (GRW). The OLS model turned out to be good fit with a high adjusted R^2 value of 0.88. Looking at individual variables, we found that BSE, IIP, ROI, and GRW are having a positive impact on the net FINV flows to India. This is in accordance with the economic theory, because BSE and IIP indicate the level of economic activity in a country and they can boost the international investor's confidence in India. ROI represents the domestic rate of return and the GRW having a positive sign implies that when rest of the world is facing an economic slowdown and India is doing well, then investors bring in their capital to India. We also see that EXR and WPI is having a negative relation with the net FINV, for a 1% increase in these variables individually, the net FINV declines by almost 8%.

Thus the policy implication from this study is that if India wishes to attract more foreign investment flows to meet the unmet investment gap, the crucial step is to strengthen the macroeconomic fundamentals such as a robust growth, stable stock markets, low inflation, less volatile exchange rate. Capital flows occur either due to Pull or Push factors, but we see that in India's case it is the internal factor which has a greater impact on the net FINV.

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Chapter 10

FDI INFLOW TO INDIA: SOME REGIONAL DISPARITIES

S. TULASI RAM

Introduction

In this globalized world every country is not self-sufficient in resources. They have to maintain foreign reserves for payments. Companies in developing countries not sufficient to acquire funds and even poor technology mostly opt for strategic business partner. In this era most of developing countries revised their policies to get investments by foreign companies. Foreign Direct Investment is one way to get foreign currency/capital.In India industrial policy contains FDI's policy also. Key three pillar policy was Liberalization, Privatization& Globalization (LPG) introduced in 1991 to boost economic growth of the country; however it also raises some other issues called regional disparities. Greater part of FDI was concentrating in economically advanced states. There are no doubt that FDI's increased job opportunities that have major effect on income levels.

OBJECTIVES OF RESEARCH

- To know regional flow of distribution of FDI in India.
- To identify top and bottom states in attracting FDI's
- Factors causing FDI inflow among states.

METHODOLOGY OF RESEARCH

Data is collected from secondary resources like they were collected from RBI's documents, Department of Industrial policies and Promotion, World Bank doing business statistics.

FORMS OF FDI

A foreign company planning to set up business operations in India may: Incorporate a company under the Companies Act, 1956, as a Joint Venture or a Wholly Owned Subsidiary.

Set up a Liaison Office / Representative Office or a Project Office or a Branch Office of the foreign company which can undertake activities permitted under the Foreign Exchange

Management (Establishment in India of Branch Office or Other Place of Business) Regulations, 2000.An Indian company may receive Foreign Direct Investment under the two routes as given under:

i. Automatic Route

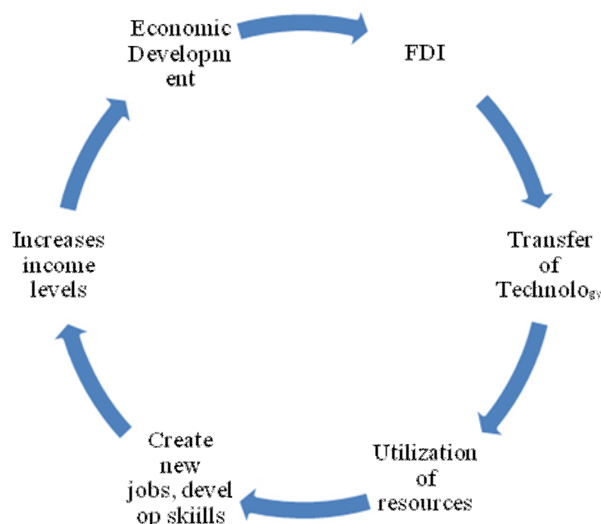
FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/sectors up to 100%.

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. Application can be made in Form FC-IL, which can be downloaded from http://www.dipp.gov.in. Plain paper applications carrying all relevant details are also accepted. Without any fee.

The Indian company having received FDI either under the Automatic route or the Government route is required to comply with provisions of the FDI policy.

ADVANTAGES WITH FDI



Disadvantages of FDI

- If affected negatively and Local labour policies not adapted by foreign companies.
- Local companies may face threat from foreign enterprises, particularly small industries.
- Effects on balance of payments.

CHALLENGES BEING FACED BY FDI'S IN INDIA

- Procedural delays, tax regimes, labor laws, transportation of employees, power supply.
- Environment impact, lack of skilled workers, absence of supply chain.

Table 1: FDI equity inflow in India destination wise

S.No	RBI's Regional office	States Covered	2012-13	2013-14	2014-15 (Apr-Aug)	Cumulative inflows (Apr-'00-aug-'14)	% (age to total inflows in US $)
1	Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	47,359 (8,716)	20,595 (3,420)	15,390 (2,567)	32,9478 (69,324)	30
2	New Delhi	Delhi, part of UP & Haryana	17,490 (3,222)	38,190 (6,242)	10,266 (1,173)	217,037 (44,248)	19
3	Chennai	Tamil nadu& Pondicherry	15,252 (2,807)	12,595 (2,116)	6,102 (1,109)	71,508 (14,215)	6
4	Bangalore	Karnataka	5,553 (1,023)	11,422 (1892)	2,607 (434)	63,474 (13,111)	6
5	Ahmadabad	Gujarat	2,676 (493)	5282 (860)	1,665 (277)	46,047 (9,408)	4
6	Hyderabad	Andhra Pradesh, Telangana	6,290 (1,159)	4024 (678)	4,570 (762)	45,484 (9,408)	4
7	Kolkata	West Bengal, Sikkm, Andaman nicobar,	2,319 (424)	2659 (436)	460 (77)	13,624 (2,819)	1
8	Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh ,	255 (47)	562 (91)	200 (33)	6,327 (1,325)	0.6
9	Jaipur	Rajasthan	714 (132)	233 (38)	3,138 (525)	6,696 (1,248)	0.5
10	Bhopal	Madhya Pradesh, Chhattisgarh,	1,208 (220)	708 (119)	600 (100)	6,095 (1,215)	0.5
11	Kochi	Kerala, Lakshadweep	390 (72)	411 (70)	240 (40)	4,972 (1,021)	0.4
12	Panaji	Goa	47 (9)	103 (17)	54 (9)	3,711 (797)	0.4
13	Kanpur	Uttar Pradesh, Uttaranchal,	167 (31)	150 (25)	200 (33)	1,965 (406)	0.2
14	Bhubaneswar	Orissa	285 (52)	288 (48)	51 (8)	1,956 (397)	0.2
15	Guwahati	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	27 (5)	4 (0.6)	9 (1)	361 (80)	0
16	Patna	Bihar, Jharkhand,	41 (8)	9 (1)	48 (8)	247 (47)	0
17	Jammu	Jammu & Kashmir	0 (0)	1 (0.2)	25 (4)	26 (4)	0
18	Region not indicated		21,833 (4,004)	50,283 (8,245)	26,351 (4,402)	296,867 (60,142)	26.19
Sub total			121,907 (22,424)	147,518 (24,299)	71,976 (12,014)	1,115,873 (229,595)	100.00

Source: http://dipp.nic.in/English/Publications/FDI_Statistics/2014/india_FDI_august2014.pdf

Figure 1: Flow of FDI in Top 6 states

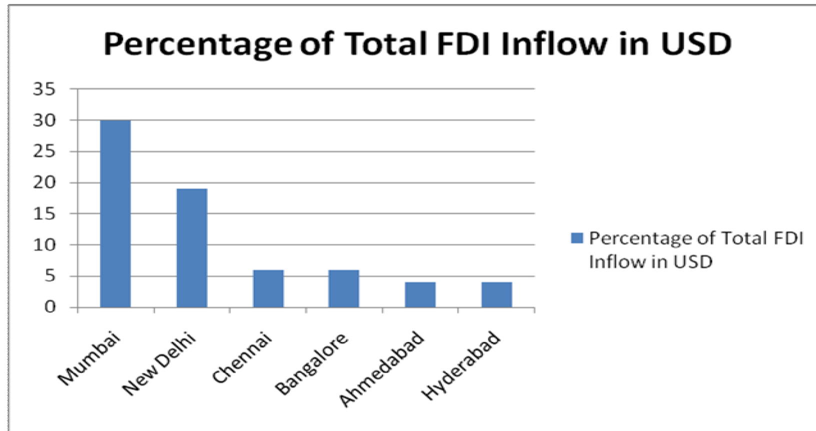


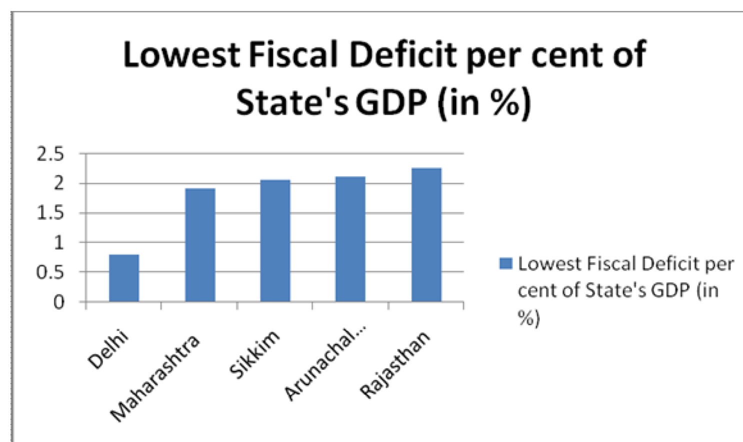
Table 2: Net state domestic product of various states

States	GDP for 2011-12	States	GDP for 2011-12
Maharashtra	N.A	Goa	10.65
Delhi	11.34	Uttar Pradesh	6.23
Gujarat	N.A	Orissa	7.18
Tamilnadu	9.39	North Eastern *	6.356*
Karnataka	6.44	Bihar	13.38
AP(i.e AP&TS)	6.81	Jammu Kashmir	6.78

Source:http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/004T_SHE130914L.pdf

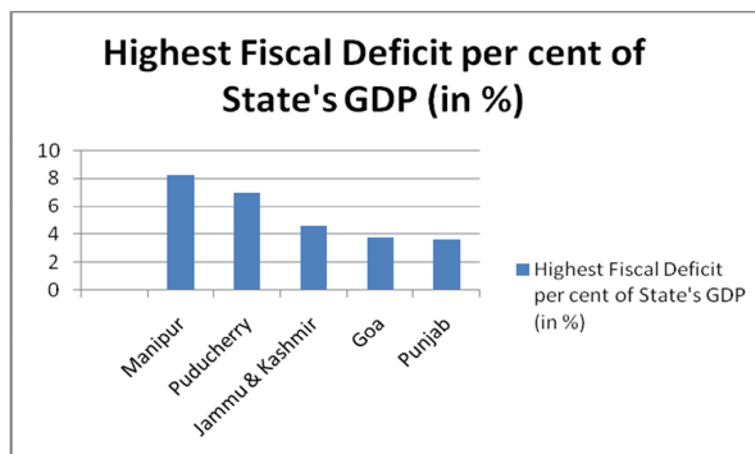
Findings of above table states that attracting high FDI is also having high NSDP and states with lowest attracting FDI also are low in their GDP.

Figure 2: Top 5 states in lowest Fiscal deficit for the year 2011-12



Source:http://unidow.com/india%20home%20eng/statewise_gdp.html

Figure 3: States with Highest fiscal deficit for the year 2011-12



CONCLUSION

It is identified that states financial performance good and have been attracting more FDI, whereas some states those financial performance was not good they are unable to attract FDI inflow. Government of India has to take necessary steps to reduce imbalances in between these states, than only balance of growth in economy will be initiated.

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Chapter

11

FOREIGN DIRECT INVESTMENT – A BOON OR BANE FOR INDIAN MANUFACTURERS AND CONSUMERS

M. MILCAH PAUL

Introduction

The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over the last few years and an attractive investment climate making a positive impact on the inflow. Foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country.There is a close linkage between economic development, rise in per capita income, growing consumerism, proliferation of branded products and retail modernisation. With high economic growth, per capita income increases; this, in turn, leads to a shift in consumption pattern from necessity items to discretionary consumption. Furthermore, as the economy liberalises and globalises, various international brands enter the domestic market. Consumer awareness increases and consumers tend to experiment with different international brands. The explosion of brands leads to increase in retail space. Thus, retail modernisation is a part of the development process. Retail modernisation in India portrays a similar story. Hence the retail policy of FDI was encouraged by Indian Government and was introduced in 2006.

The FDI policy allows 51 per cent FDI in a retail enterprise with the following conditions: (a) only single-brand products can be sold (i.e., the sale of multiple brands by a foreign retailer, even if produced by the same manufacturer, is not allowed), (b) products should be sold under the same brand internationally, (c) the retail would only cover products that are branded during manufacturing and (d) any addition to product categories would require fresh approval from the government. India is probably the only country in the world that has a brand-based retail FDI policy. This policy assumes that Indian consumers are brand conscious, have knowledge of foreign brands, and want access to foreign brands in the Indian market. As a result of this policy, several foreign retailers including Giorgio Armani (Italy), Louis Vuitton (France) Rino Greggio (Argentina), Signature Kitchens (Malaysia) and Crocs Inc. (USA) have entered the Indian market.

The foreign direct investor or a company may acquire voting power of an enterprise in an economy through any of the following methods: by incorporating a wholly owned subsidiary or company anywhere, by acquiring shares in an associated enterprise, through a merger or an acquisition of an unrelated enterprise or participating in an equity joint venture with another investor or enterprise.

Review of Literature

Sharma Reetu and Khurana Nikita (2013) in their study on the sector-wise distribution of FDI inflow to know about which has concerned with the chief share, used a data from 1991-92 to 2011-2012 (post-liberalization period). This paper also discussed the various problems about the foreign direct investment and suggests the some recommendations for the same. In this study found that, Indian economy is mostly based on agriculture. So, there is a most important scope of agriculture services. Therefore, the foreign direct investment in this sector should be encouraged.

The Economic Survey of 2010-11 mentioned that a phased opening of FDI in multi-brand retail is likely to benefit the consumers, but did not state the exact benefits. In July 2011, a committee of cabinet secretaries supported 51 per cent FDI in multi-brand retailstating that it will help to set up the supply chain and reduce inflation. The implications of liberalisation of FDI in retail on Indian consumers have largely been ignored in these policy debates.

Objectives of the Study

- To study the present situation, issues and challenges of FDI in India.
- To study the positive and negative effects of FDI on Indian manufacturers and consumers.

Present Scenario of FDI in India

As the fourth largest economy in the world in PPP terms India is a preferred destination for FDI during 2000-10 the country attracted $ 178 billion as FDI .The FDI scenario in India is currently witnessing a gradual shift with liberalized reforms over last few years and an attractive investment climate making a positive impact on the inflow. With a steady increase in volume of FDI, India has attracted more than 90 countries till 2010 (29 countries in 1991) across the globe to invest in India making it up stage US in the list of top investment destinations in the world in the UNCTAD WIP Report. The spectacular and unprecedented growth of FDI in the global economic landscape over the last two decades has made it an integral part of the development strategy of both the developed and developing nations. It acts as a major catalyst in the development of a country through up-gradation of technology, managerial skills and capabilities in various sectors.

Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers. Opposition parties have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development. Private equity (PE) firms upped their investments in India Inc by a hefty 42 per cent to US$ 5.4 billion through 197 deals during the first half of 2013; major deal being the US$ 1.2 billion-Bharti Airtel deal, according to a report by EY India (formerly Ernst & Young).

Advantages of FDI for Manufacturers and Consumers

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development. The sector-wise inflow of FDI into various sectors in India reflects the sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries.

Foreign investment would bring associated advantages of technology transfer, marketing expertise, introduction of modern managerial techniques and new possibilities for promotion of exports. The government will therefore welcome foreign investment which is in the interest of the country's industrial development. FDI is considered to be the most attractive type of capital flow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. Foreign investments mean both foreign portfolio investments and FDI. FDI brings better technology and management, access to marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Advantages of FDI are as follows:

- FDI will generate employment in the country it invests
- It could benefit farmers by eliminating middlemen
- FDI gives consumers a wide variety of products to choose from at reasonable prices
- It can improve food distribution systems
- FDI can bring in better quality and standard products
- FDI can increase the standard of living through its goods and services
- It could raise the bar among other domestic companies in the same sector
- It contributes to the health of the economy

DISADVANTAGES OF FDI FOR MANUFACTURERS AND CONSUMERS

The unorganised market provides the second largest employment opportunities to 3.95 million people (first being the agricultural sector). It is argued that opening the retail sector will have an impact on sales in the unorganised sector. As a result of this, employment provided by the unorganised sector will be affected. It is reasoned that by reducing the number of intermediaries, organised retailing will lead to some job displacement.

It is said that FDI might provide employment opportunities, but it is argued that it cannot provide employment opportunities to semi-illiterate people. This argument gains more importance because in India, large numbers of semi-illiterate people are present.

There is a fear that allowing FDI would result in lowering of prices, as FDI will bring in good technology, supply chain etc. If prices are lowered, then it will lower the margin of unorganised players also. As a result of this, the unorganised market will be affected. This in turn will have an impact on the employment opportunities provided by the unorganised market.

FDI will drain out the country's share of revenue to foreign countries, which may cause negative impact on India's economy. The domestic organised retail sector might not be competitive enough to tackle international players might not only resulting in loss of market share for them but in closure of their units.

There is a possibility of small business owners and workers from other functional areas, as lot of people are involved in unorganised retail business, may lose their jobs.Supermarkets will establish their monopoly in the Indian market. Due to supermarkets fine tuning and higher accessibility they will be able to buy goods at lower prices and therefore will be able to sell at lower prices to consumers. This will result in closing of many small retailers.

Though Government has stipulated that 30% procurement should be from Indian sources, this may get diluted over the years. The remaining 70% procurement from cheaper countries will make the people run towards that stuff and the 30% supply from Indian small industries will have their own death, unable to compete with low price Chinese goods and this causes lot of problems to manufacturers and consumers as they have to spend hefty amount to purchase any kind of products.

CONCLUSION

The paper found out that FDI and GDP have close relationship with each other. FDI as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development etc. Government should design the FDI policy such a way where FDI inflow can be utilized as means of increasing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. FDI can help to raise the output, productivity and export at the sectorial level of the Indian economy. However, it can observed the result of sectorial level output, productivity and export is minimal due to the low flow of FDI into India both at the macro level as well as at the sectorial level. Therefore for further opening up of the Indian economy, it is advisable to open up the export oriented sectors and higher growth of the economy could be achieved through the growth of these sectors. In post globalised era, there is a need to realize the positive impact of FDI but after 23 years we are still not able to eliminate poverty, eliminate unemployment and economic inequality. So FDI is not having a significant impact on these areas. And on the other hand we also have two sides of a coin; FDI will also have its pros and cons for both manufacturers and consumers.

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Chapter

12

DETERMINANTS OF FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA: AN ECONOMETRIC ANALYSIS

ARAVIND SAI S & RAGHAVENDER RAJU G

Introduction

There have been enormous changes in the amounts and the pattern of capital flows to emerging economies in the 1980's and the 1990's. After 1991 reforms India has been able to attract lot more FDI's than before. There are two major reasons for the growing interest in Foreign Direct Investment (FDI) in the last two decades of the 21st century. First, the impact of FDI's on the domestic economy is increasing tremendously so there has been an increasing interest among the policy makers to attract more of these investments. Second, the importance these FDI's were well understood by the states and striving hard to strengthen their determinants to attract more FDI's. The states which are well equipped with basic infrastructure, good governance, and political stability are able to attract lot of FDI's than the others do. This has caused an imbalance between the states. Foreign Direct Investment (FDI) in the contemporary world is viewed as a major stimulus to economic growth because of its ability to deal with two major obstacles, namely, shortages of financial resources and technology and skills. Given the potential role FDI can accelerate growth and other benefits with it, for this many countries are taking steps to improve the principal determinants influencing the locational choices of foreign investors.

Investor interest clearly has reached a tipping point as returns on foreign investment are bullish and the fundamentals of the Indian economy remain strong. The current scenario of Indian economy has been characterized by optimistic growth and strong macro-economic fundamentals, particularly with tangible progress towards fiscal consolidation and a strong balance of payments position. The growth in the India Economy GDP is likely to remain strong driven by booming investment. The government's five-year plan to 2011-12 has an ambitious target of 9% average annual growth. Most Indian economists expect at least 8% over the next five years. To boost sustainable growth, India needs to clear the path ahead rather than risk running an economy beyond its safe maximum speed. India needs a continuous investment flows to keep the economy on a sustained note. As we know that foreign investment played a significant role in India. India has potential to attract $50 billion FDI in the next five years. Current flows of FDI into India are worth just 0.8 per cent of GDP. If India is ready to open all modern sectors of the economy to well-regulated competition and lifting restrictions on Foreign Direct Investment will increase FDI by at least 1.6 per cent of GDP within the next five years. Now, we will look at the various policies adopted by India since 1991 to attract these FDI's.

Foreign Direct Investment Policy since 1991

Foreign direct investment policy of the government of India has been gradually liberalized. As early as in the year 1948 and 1956 (two industrial policy resolutions) government policy clearly reflected the need to supplement foreign capital and technology for rapid economic growth. The core objective of the foreign capital policy was that the control of industrial undertaking should remain in the Indian hands. However, the government had granted permission in certain cases for allowing establishment of exclusive foreign enterprises. Foreign capital was preferred in specific areas which bring in new technology and establish joint ventures with Indian partners. Government also granted tax concessions to foreign enterprises and streamlined industrial licensing procedures to accord early approvals for foreign collaborations. In the case of 100 per cent export of output, foreigners were allowed to establish industrial units. It needs to be noted here that under the Foreign Exchange Regulation Act (FERA) 1974 only up to 40 per cent of the equity holding of the foreign firms were permitted. Foreign investment was permitted under designated industries along with restrictions in terms of local content clauses, export obligations, promotion of R&D and prohibition by law the use of foreign brands (Hybrid domestic brands were promoted such as Ford Escort and Hero Honda).

It needs to be pointed out here that the restrictions have been flouted frequently and relaxations were also granted. This process has culminated into gradual liberalization of government policy towards foreign capital. It is reflected in continuous increase in the number of approvals granted. During the period 1961-1971, the number of foreign collaborations approved was 2475 which were increased to 3041 during the period 1971-1980. There was dramatic increase in the foreign collaboration approvals during the period 1981-1990 (7436 collaborations were approved). This policy enabled to build domestic technological capability in many branches of industry but generally considered very restrictive. It has been widely accepted that protection of domestic industry for a longer period of time resulted into high cost production structure along with poor quality.

Foreign direct investment policy announced by the government of India in July 1991 was regarded as a dramatic departure from the earlier restrictive and discretionary policy towards foreign capital. The FDI policy of 1991 proposed to achieve objective of efficient and competitive world class Indian industry. Foreign investment was seen as a source of scarce resource, technology and managerial and marketing skills. The major feature of policy regarding foreign investment up to 51 per cent of equity holding was too permitted. Automatic approvals were also allowed to foreign investment up to 51 per cent equity in 34 industries as well as to foreign technology agreements in high priority industries.

The Foreign Investment Promotion Board (FIPB) was set up to speedily process applications for approvals of the cases which were not covered under the automatic route. Laws were amended to provide foreign firms the equivalent status as the domestic ones. Government of India, however, put in place the regulatory mechanism to repatriate payments of dividends through Reserve Bank of India so that outflows are balanced through export earnings during stipulated period of time. Further liberalization measures with regard to foreign investment were taken during 1992-93. The dividend balance conditions were revoked except in the case of consumer goods industries. Non Resident Indian (NRI) and Overseas Corporate Bodies (OCB) were permitted in high priority industries to invest up to 100 per cent equity along with repatriation of capital and income. Apart from expansion of the area of operation for FDI in many new economic activities, the existing companies were also allowed to increase equity participation up to 51 per cent along with disinvestment of equity.

Foreign direct investment policy has been changed frequently since 1991 to make it more transparent and attractive to the foreign investors. FDI up to 100 per cent is allowed under automatic route for all sectors/activities except activities that attract industrial licensing, proposals where foreign investors had an existing joint venture in same field, proposals for acquisition of shares in an existing Indian company in the financial sector and those activities where automatic route is not available. The only sectors/activities where FDI is not permitted are agriculture and plantations excluding tea plantations, real estate business (excluding development of townships, housing, built up infrastructure and construction development projects-NRI/OCB investment is allowed for the real estate business), retail trade, lottery, security services and atomic energy. Government has simplified procedure, rules and regulations on a regular basis since 1991 to make Indian economic environment foreign investor friendly.

Attempt has been made through FDI policy to make India the hub of global foreign investment as well as in economic activities. Graphically, we can see the impact of 1991 policy on FDI inflows and also on portfolio investment.

Table 1: Foreign Investments into India (1990-2014)

YEAR	FDI (In US $ Millions)	FPI (In US $ Millions)	TOTAL (In US $ Millions)
1990-91	97	6	103
1991-92	129	4	133
1992-93	315	244	559
1993-94	586	3567	4153
1994-95	1314	3824	5138
1995-96	2144	2748	4892
1996-97	2821	3312	6133
1997-98	3557	1828	5385
1998-99	2462	-61	2401
1999-00	2155	3026	5181
2000-01	4029	2760	6789
2001-02	4095	2021	8151
2002-03	2764	979	6014
2003-04	2229	11377	15699
2004-05	6051	9291	13003
2005-06	9697	12492	16261
2006-07	22826	6947	14640
2007-08	34843	27434	43325
2008-09	41873	-14032	8311
2009-10	37745	32396	50361
2010-11	34847	30292	41597
2011-12	46553	17171	39177
2012-13	34298	26891	46710
2013-14	36046	4822	26385

Source: Handbook of Statistics on The Indian Economy: 20013-2014

Figure 1
Sources of FDI into India

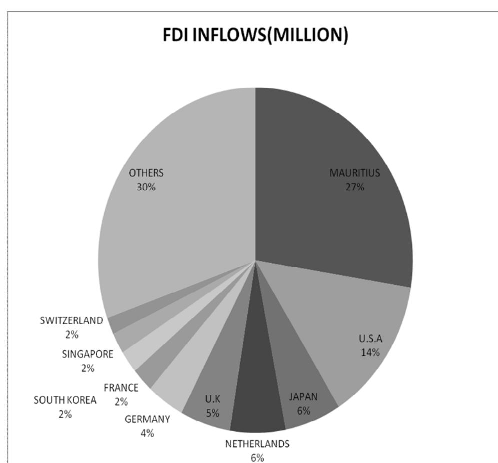
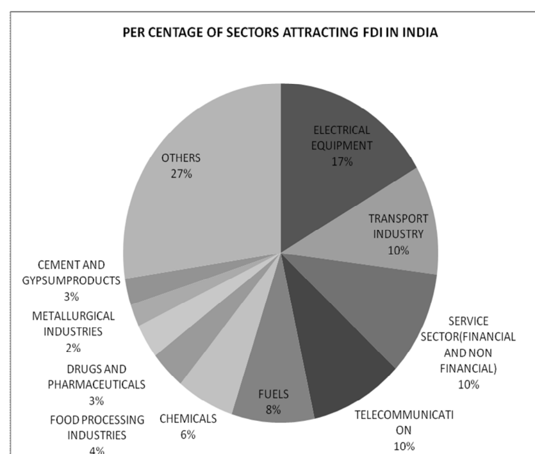


Figure 2
Sectors Attracting FDI in India



After discussing about the sources of FDI into the country we need to look at sectors/activities wise FDI inflows and their respective shares. This has been done in a brief note and an overview has been given in table 4. The most attractive sector for FDI is the electrical equipment. The relative share of FDI in this industry was 16.62 per cent. Transport industry accounts for 10.39 per cent of FDI. These two industries alone cover more than one-fourth of the total FDI which clearly shows the high degree of concentration FDI in a few activities. Financial and nonfinancial services were also quite important where foreign investment has poured in. This share is nearly10 per cent. Fourth and fifth place goes to telecommunication and fuels where foreign investors have shown substantial interest and their respective shares are 9.6 per cent and 8.49 per cent respectively. Rest of the economic activities has relative shares which lie between less than six per cent to more than two per cent of the FDI.

Top Seven Destinations of FDI In India

The performance of India depends on performance of its constituent states. The tenth five-year plan. The tenth five year plan (2002-2007), or the first time, specifies targets of overall and by broad sector, the growth rate for each state to be consistent with the national target of growth rate at 8 percent per annum. Following economic reforms, the states are now empowered with increased autonomy in many key areas such as infrastructure. Slowly but surely there is increasing realization mong the states that they can shape their own destiny. This prompted the governments at the sub-national level to initiate measures to attract more financial resources into the states including FDI. After this episode most of the states are making serious efforts for simplifying the rules and procedures for setting up and operating the industrial units. Single window system is now in existence in most of the states for granting approval for setting up industrial units. Moreover, with a view to attract foreign investors in their states, many of them are offering incentive packages in the form of various tax concessions, capital and interest subsidies, reduced power tariff, etc. There are very few analytical studies on the inter-state comparison within the country. Being the top most receivers of FDI's both China and India are facing this imbalance at the state levels in attracting FDI's. The reasons for some some states to attract more FDI than other's is the

transparency at the state level, and also various determinants followed by these states to attract FDI's.

Table 2 :Top Seven States according to FDI approvals

State	Amount Approved Million $	Share In Per Cent
Maharashtra	9640.37	14.82
Delhi	8445.36	12.19
Tamil Nadu	5895.99	09.05
Karnataka	4837.22	07.63
Gujarat	3278.24	04.98
Andhra Pradesh	3055.12	04.65
Madhya Pradesh	2520.93	03.70
Others	87652.93	42.98

Source: Indiastat.com

Some of the determinants are like good governance, good infrastructure, political stability etc. but in India states like Bihar are facing the problem of instability both politically as well as governance also so the investment scenario in this kind of states is negligible. The other negative determinants which are curbing the investment scenario are like labour conflicts, corruption etc.

Empirical Findings

The main purpose of this section is to empirically find the determinants of FDI into India. Here we understand the relationship between FDI and other macro economic variables by using various econometric techniques like OLS-ESTIMATION.

UNIT-ROOT TEST

The Augmented Dickey-Fuller Test has been carried out to check for stationarity. Testing for stationarity involves checking whether; the mean and variance are constant over time.

Table 3: Results of Unit Root Test

Variab le	Leve l	Inference	1st Difference	Inference
FDI	-5.14	Stationary		
IIP	-11.55	Stationary		
INT*	-7.40	Stationary		
BSE*	-0.87	Non Stationary	-4.10	Stationary
INF*	-3.40	Non Stationary	-9.39	Stationary
TB*	-3.38	Non Stationary	-17.29	Stationary
EXC*	-0.76	Non Stationary	-10.75	Stationary

1% Critical Value = -4.01, 5% Critical Value = -3.43, 10% Critical Value = -3.14

The ADF test statistic accepts the hypothesis of nonstationarity at their levels at 1% critical value. FDI, IIP and Interest rate (INT) are stationary at levels, integrated of order zero [I (0)]. Whereas, BSE, EXC, INF and TB are stationary at first difference viz., integrated of order one [I (1)].

In order to analyze the reasons for the FDI inflows and outflows with respect to India, it is very important to know that the factors which will mainly influence the FDI flows of our country or even for any country. Hence, it is very important to be selective in identifying the variables which will significantly affect the FDI flows, more importantly with respect to our country. It is theoretically well known that there are many variables which will impact the FDI flows, but for simplicity only the important variables like BSE SENSEX, INFLATION, IIP, INT, EXC, and TRADE BALANCES are taken. Hence, FDI is taken as the dependent variable and is regressed on the independent variables mentioned above. It is very important to mention that all the variables taken for regression have undergone the test for stationary, if the variables are not stationary; they were made stationary by differencing the series of the respective variables as given in the above table.

In the above table we have shown three different equations. We have taken FDI as a dependent variable and the explanatory variables are BSE, IIP, INF, EXC, TB and INT. Here, before we interpret the results we should understand the relationship among the dependent and the independent variables. Here, IIP is a proxy for the GDP/ economic activity of the economy. As per the economic theory, the positive growth rate in the country would lead to higher level of investment. BSE and FDI have a positive relation, as BSE represents performance of the companies would decide the investment into the country. Higher the volatility lesser will be the investment and vice-versa. Trade balance, inflation, nominal exchange rate have a negative relation with FDI.

Table 4: Estimated Regression Equations: Dependent Variable FDI

VARIABLE	EQUATON-1	EQUATION-2	EQUATION-3
Constant	-954.94 (-6.860088)	-849.92 (-5.08956)	-868..2236 (-4.798440)
IIP	12.21161 (9.111237)	6.342585 (7.995527)	5.954467 (7.552581)
BSE*	-0.083976 (-0.714056)	0.079521 (1.347102)	0.278033 (3.638294)
TB*	0.053028 (0.739988)	0.118236 (2.816983)	-0.111548 (-2.529658)
INF*	70.56539 (1.014294)	7.002009 (0.168461)	-75.92071 (-1.938460)
EXC*	105.9506 (1.171488)	19.65669 (0.350903)	-111.2296 (-2.185961)
INT*	30.10760 (2.415766)	6.342585 (1.331234)	16.76089 (1.975459)
DUM1	-	3418.441	3387.581
R^2	0.40766	0.790887	0.821856
D-W statistic	1.09	1.500024	1.6179
No of observations	153	153	146

NOTE: In the table the bracketed values are the t-values; (*) Represents the lagged values.

In the above three equations IIP is very significant which means the decision of the investor would depend on the growth of the economy. In the first equation R^2 is very low. All the variables also are not behaving according to the norms of the economic theory. Except for IIP and INT all the variables are having insignificant t-values. The D-W statistic is very low which means there is an autocorrelation problem in the model. Therefore, to improve the model we introduced lags into it. For example higher the inflation lesser will be the investment. But inflation in this case will take some time to influence FDI so it is suggested to take lags appropriately. In this way after considering all the parameters into the account equation-3 has been considered as a best estimated equation. In this equation all the variables have signs appropriate to the theory. All the variables have significant t-statistic and also the equation is good fit for it has the good R^2, which shows 82% of the model is explained by the explanatory variables. The D-W statistic is also significant which means the model is not troubled by the autocorrelation problem. Hence, the model is said to be best fit.

CONCLUSIONS

Most developing countries have low saving rates and hence low investment rates. Foreign direct investment is viewed as a major stimulus to economic growth in developing countries due its ability to deal with two major obstacles, namely, shortages of financial resources, technology and skill resources, and has thus made it the centre of attention for policy-makers in developing countries. The importance of these FDI's are well understood by the Indian states and they are creating an atmosphere to attract more of these flows. This study has been confined to only Top seven 7 states in India. To find the determinants of FDI into India it is necessary to understand the relationship between FDI and other macro economic variables for which various econometric techniques have been considered.

To analyse the determinants of FDI into India we build the economic model where we took FDI has our dependent variable and the explanatory variables are BSE, IIP, INT, INF, EXC and Trade balance. Our results show that IIP has more impact on FDI than any other variable. The other variables which are the most significant are BSE, INT, and TB and to look at the dynamics part of it we built the VAR model. To examine about the Causal relationship between the variables in the short run we considered Granger Causality Tests. The empirical results suggest that IIP has a bigger role in attracting FDI into India. IIP is a proxy for GDP so higher the growth rate higher will be the FDI's.

While the central government has greatly improved the environment for FDI, state governments have more to do. Of course, it will be impossible to substantially improve whole country's attractiveness for FDI. For backward states especially, the strategy to maximize growth through regional development must dominate. State governments can now take more initiatives for economic development than ever before. The policy message is that in order to promote economic development and improve local investment climate commitment of the respective state governments to economic and social development is a must. The degree of reform mindedness of the respective states matters a lot in the Indian context. Huge fiscal imbalances are not conducive to growth. States with weak investment climates tend to become concentrations of poverty. So it is essential strengthen the investment climate (both private and foreign) throughout the country, rather than just in the wealthier states. Improvement in basic infrastructural facilities like power, roads, communications, internet, is a pre-condition to attract private investment. Public intervention is essential for higher levels of investment in socio-economic services and development of infrastructure in backward states. Public investment measures in various developmental activities by both central and state governments can facilitate both domestic and foreign investment in less developed regions.

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Chapter

13

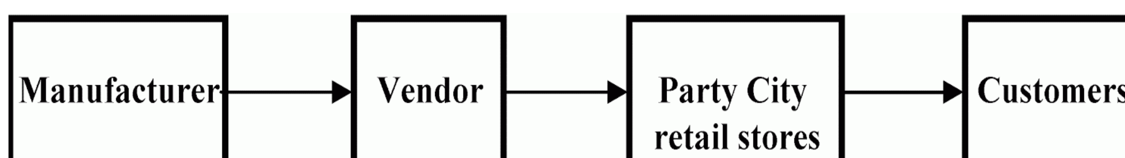
AN ANALYTICAL STUDY OF RETAIL SCENARIO WITH REFERENCE TO FOREIGN DIRECT INVESTMENT IN INDIA

DR. ABHISHEK SONI & MS. SHEETAL SONI

INTRODUCTION

The term “Retail” means sale of goods or commodities in small number directly to the consumers. Retailing can be defined as a distribution channel function, where a retailer buys the products from supplying firms or manufacture the products by them and sells these products directly to consumers. “Retailing is said to encompass the business activities involved in selling goods and services to consumers for their personal, family or household use” (Berman & Evans).

Retail consists of sale of goods and services from individuals or businesses to the end-user. A retailer earns profit by purchasing large quantities of goods and services either from manufacturers directly or through a wholesale and he is a part of an integrated system called the supply chain.



Source: (Madaan, 2013)

Retail stores serve as communication hubs for customers, commonly known as the Point of Sale (POS) or the Point of Purchase (POP), retail stores transmit information to the customers through advertisements and displays. (Vedamani, 2012)

The Indian retail industry has experienced high growth over the last decade with a noticeable shift towards organized retailing formats. The industry is moving towards a modern concept of retailing. The size of India's retail market was estimated at US$ 435 billion in 2010. Of this, US$ 414 billion (95% of the market) was traditional retail and US$ 21 billion (5% of the market) was organized retail. India's retail market is expected to grow at 7% over the next 10 years, reaching a size of US$ 850 billion by 2020. Traditional retail is expected to grow at 5% and reach a size of US$ 650 billion (76%), while organized retail is expected to grow at 25% and reach a size of US$ 200 billion by 2020.

Table 1: Global Retail Sales Growth by Volume (%pa)

Region	2009	2010	2011	2012	2013	2014
Asia and Australasia	5.6	6.5	6	6.5	6.3	6.6
Economies in transition*	-6.2	3.8	4.5	5.2	5.6	5.4
Latin America	-1.3	5.2	4	5.1	5.8	6.6
Middle East & North America	3.7	3.1	3.6	3.2	3.6	4
North America	-4.6	2.1	1.2	1.5	2.7	2.6
Western Europe	-1.9	-0.5	0.2	0.8	1.1	1
World	**-0.4**	**3.5**	**3.2**	**3.7**	**4.2**	**4.4**

Source: (Pradhan, 2013)

The US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011, has ranked India as the fourth most attractive nation for retail investment, among 30 emerging markets. As India's retail industry is aggressively expanding itself, great demand for real estate is being created. For instance, Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

Indian retail industry is one of the rising sector with lots of growth potential. According to investment commission of India, the retail sector is expected to grow to tenfolds. India is fast emerging attractive destination for FDI. According to the FDI Confidence Index prepared by A T Kearney, India ranks second in FDI attractiveness ranking, the first being China. Developing countries, emerging economies and countries in transition increasingly see foreign direct investment (FDI) as a source of economic development, modernization and employment generation and have liberalized their FDI regimes to attract investment.

Literature Review

Many studies have been undertaken in India for the booming retail sector. Apart from this, one can get exposed to literature of retail sector through newspapers, business journals and many research organizations in India. Some of them are quoted in this analysis. According to an article in Business Standard on the findings of "India Ratings" related to future prospects of Indian Retail Sector, presents 'Negative Outlook' for the retail sector and says that in the year 2013, luxury segment would be a worst hit. According to the report, the major factor for sales growth in 2012 was discount offers by retailers and the trend is likely to continue in 2013. The agency expects that a sustained reduction in consumer price inflation, coupled with rise in wages may restore the discretionary spending of consumers and liberalized policy of FDI in multi-brand retail could have a positive impact on the retail sector. (Indian Ratings, 2013)

In a report by Corporate Catalyst India, focuses on segment analysis of Indian retail market, key players and profiles of key players, business models for making an entry in Indian markets and opportunities and challenges in retailing. Expressing experts opinion, the report

states that in future, the retail industry in India will be a major employment generator. It further says that the market share of organized modern retail being just over 4 per cent of the total retail industry in 2009, it leaves a huge untapped opportunity. Fashion retailing, which commands a large chunk of the organized retail business in India, has indeed been responsible for single handedly driving the business of retail in India. (Corporate Catalyst India, 2009)

According to a report by Delloite titled "Indian Retail Market Opening more doors" (2013) which is mainly focused on government policy towards multi-brand retailing and its evolution, implications and political landscape with respect to new India's FDI policy. The report states that various policy conditions for FDI in multi-brand retail makes apparel and grocery two most favorable segments. Multi-brand specialty retail segment such as Beauty & Wellness and Consumer Electronics are still in their budding stage. Their current market size also may not hold big potential for foreign retailers. (Indian Retail Market: Embracing a New Trajectory, 2011)

In a report published by PricewaterhouseCoopers (2011) which is a multinational service professional firm focuses on the main drivers, trends and issues in the retail sector of India. It shows a summary of the key tax and regulatory issues, discussion on the benefits of modern trade, factors for succeeding in the Indian retail market. The report states that large size of Indian retail market, low organized retail penetration, strong GDP growth, increasing personal incomes, large number of aspiring consumers make India as an exciting and dynamic retail destination.

It further states that the Indian retail market is evolving rapidly, becoming more competitive and retailers understand the importance of meeting consumer demands. In such a competitive environment, the main driver of competitive advantage will be supply chain specialization. (Winning in India's Retail Sector, Factors for Success, 2011)

Objectives of the Study

- To analyze the current structure and do the segment analysis of the Indian Retail sector with respect of FDI
- To understand the impact of FDI in Retail on Stakeholders
- To understand and analyze the challenges of Retail sector in India

Methodology

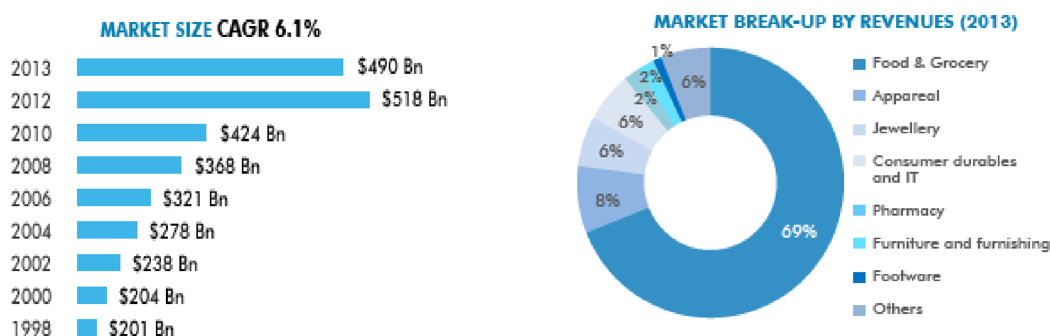
The current study is based on secondary data and information published in various periodicals, reports published by different research agencies and organizations of Government of India. In this study, an attempt has been made to examine the changes in the size and structure of Indian retail market over last few years and this analysis would be helpful to understand the future changes in the Indian retail market and the implications of recent policy changes adopted by Government of India towards FDI.

Retail Structure & Segment Analysis

In India, Retailing is said to be one of the pillars of its economy which stands for 14 to 15% of its GDP. The retail market in India is estimated to be 500 billion US$ and is said to be one of the top five retail markets in the world by economic value. As of 2013, India's retailing industry was essentially owner manned small shops. Large format like convenience stores and supermarkets accounts for near about 4% of the industry in 2010 which were present only in

large urban centers. The Indian retail and logistics industry employs 40 million which is near about 3.3 Indian populations.

In 1997, India allowed Foreign Direct Investment (FDI) in Cash and Carry wholesale. Then it was all done after the approval of government. This approval system was made relaxed in 2006 with an automatic permission. In 2013, the Indian retail sector was estimated at US$ 520 billion and was among the largest employers in the country. By 2018, the Indian retail sector is likely to grow at a compound annual growth rate (CAGR) of 13 per cent to reach US$ 950 billion. Food and grocery is the largest category within the retail sector with 60 per cent share followed by the apparel and mobile segment.



Adopted from: India Brand Equity Foundation (Sep. 2014), Media Reports, Press Releases, Deloitte report, Department of Industrial Policy and Promotion website, Union Budget 2014-15

Organized retail, which stand for seven per cent of total retail in 2011-12 is estimated to grow at a CAGR of 24 % and attain 10.2 % share of total retail by the year 2016-17, according to a study titled 'FDI in Retail: Advantage Farmers' conducted by an industrial body. India has about one million online retailers - small and large - which sell their products through various e-commerce portals. Presently, these online retailers have started to use the medium of online mobile apps to increase their reach to the customers. Several e-commerce firms - Myntra, Flipkart, Jabong, etc., have launched their own mobile apps. Flipkart plans to use their US$ 1 billion funds raised to acquire companies in mobile applications. (Indian Brand Equity Foundation, 2014)

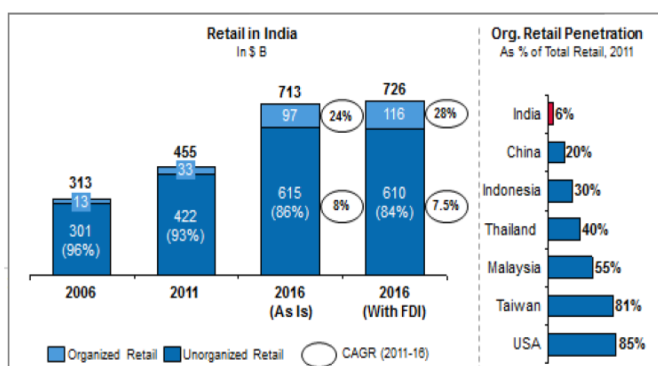
The Government of India has taken several initiatives to boost the Indian retail sector. For instance, the Ministry of Labour, Government of India has recently signed a MoU with Flipkart to provide short-term training to its new employees through its skill development initiative. The changes in FDI norms along with the relaxation of certain regulations by the government are also seen as positive moves to attract more foreign investments and enhance foreign trade. The government has allowed 100 per cent FDI in Single-Brand Retail Trading (SBRT) and 51 per cent FDI in Multi-Brand Retail Trading (MBRT).

In the Union Budget 2014-15, the Government of India announced a reduction in the excise duty from 12 per cent to six per cent on footwear with retail price exceeding Rs 500 (US$ 8.17) per pair but not exceeding Rs 1,000 (US$ 16.34) per pair. The Government of India has also proposed the Goods and Services Tax (GST). Once implemented it will simplify the supply chain and bring down prices. This will help to boost the Indian retail

sector. It has also formulated specific regulations for foreign investors; for instance, global chains planning to set up cold storages and warehouses in India will now need to invest only 50 per cent of the initial compulsory investment of US$ 100 million.

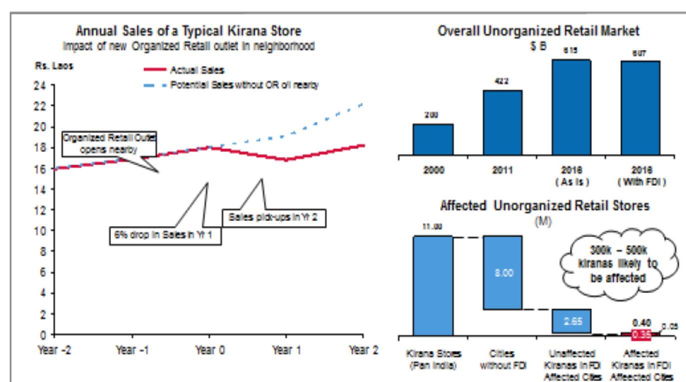
FDI in Retail and Stakeholders

India's retail sector is expected to see significant growth. Within this, organized retail is expected to grow rapidly, which is further accelerated by the recent opening up of FDI. From a growth rate of about 24 % over last five years, organized retail is expected to accelerate to 28-30 %. (Booz&Company, September 2012)



Unorganized retail will still see a much larger growth in absolute value terms, while organized retail is expected to grow by about 80 billion $ over the next 4 years, unorganized retail will grow about 190 billion.

For unorganized retail, at a store level there can be some short term loss of sales for stores in locality of new organized retail outlets but overall market will continue to grow significantly. (Booz&Company, September 2012)



Initiatives taken by Indian Government to Encourage Foreign Investment in Retail

The Government of India has made the Indian retail sector highly attractive for foreign investors such as Person of Indian Origin (PIOs) and Non Resident Indians (NRIs) with key initiatives such as:

- Government of India has introduced an important economic reform under which 51% FDI will be allowed in Multi Brand Retail Trading (MBRT) and 100% FDI will be permitted in Single Brand Retail Trading.
- The DIPP has considered relaxing some sourcing norms for foreign retailers to set up their retail stores in India as some retail giants such as IKEA has been constantly asking for relaxation on mandatory conditions.
- The Union Ministry of Finance in India has also granted a relief of US$ 3 billion to software industry by introducing single TDS on the place of multi-level structure of TDS. Now onwards, the TDS would be deducted by first distributor, one who has bought packaged software from a developer.

- Previously, foreign chains had to source at least 30% of their products at local level. Under the new reform, government has retained the 30% sourcing requirement but it can be met over the period of 5 years initially and after that it has to be met on yearly basis.
- Global chains will need to invest only 50% of the initial compulsory investment out of $100 million in establishing the warehouses and cold storages in India. Apart from this, half of the overall investment done by foreign retail players in India has to be in developing back end infrastructure.
- The new policy also permitted global retailers to acquire from small and medium businesses which have initial investment in plant & machinery of not more than $2 million up from the earlier limit of $1 million in order to make sure that small Indian organizations will benefit from the arrival of foreign firms.
- Apart from this, all these organizations can continue to supply even if they cross the investment cap of $2 million during later stages. This will help foreign retailers to maintain stable supply chain in India.

Challenges in Indian Retail Sector

Achieving profitable growth and inventory management seem to be the top concerns of a retail industry. Organized retailers in India have experienced rapid growth over the last decade. However, this growth has been achieved at a significant cost. Despite considerable investment of time and capital during this gestation period, the returns from the business are a concern. Going forward, the organized retail sector is expected to grow at significant rate of 19-20% p.a. given that it is critical that the business starts generating positive cash flows and is self sustaining. (Mishra, 2014)

Inventory management is a top concern. This is largely driven by the vagaries in the Indian supply chain such as low fill rates, long lead times and ordering cycles and lack of process orientation. These result in high inventory holding, low turns and high investment in stocks.

Revenue enhancement is also one of the major concerns for retail sector in India. The focus is on improving productivity from the existing resources such as space, people etc. Retailers are focusing on levers of customer service and talent retention to improve their productivity. Retailers are continuing their efforts to keep store costs in check. Some cost rationalization initiatives adopted by leading retailers are:

a) Revenue-sharing agreements to protect the downside on rent,

b) Increasing use of power-saving equipment/ fit-outs to save utilities cost,

c) Staffing promoters and contract employees to reduce manpower costs etc.

Conclusion

Corporate India and leading Indian organized retail players have come out in strong support of the FDI policy of India. For serious global retail players waiting in the wings with India aspirations and this is clearly the opportunistic time to consider an India entry. While there is no debate on the timing or the opportunity, the potential foreign retailers need to develop a deep understanding of the Indian market and its challenges and to draw up a robust entry strategy. There exist multiple challenges which need to be overcome in Indian Market.

All these challenges combined with the policy of 51% FDI limit (at least for multi brand retail) strongly points to identifying and knot up with the right partners. Ultimately it is strategy combined with patience, localization, innovation and smart execution which will segregate the winners from the also-rans.

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Chapter

14

GRANGER CAUSALITY BETWEEN FDI AND MANUFACTURING EXPORTS IN INDIA

PARMESHWAR M.HONRAO

Introduction

During the seventies, debt constituted the large part of capital flow to the developing world with the wave of liberalization and economic reforms, the situation is changed in most countries 1970 onwards the surge in capital flows of the developing countries is largely in terms of foreign investment rather than borrowings. The gross domestic product (GDP) of India grew at 8.6% per annum in 2010/11, and targets of 8.2% and 9% per annum were set for 2011/12 and the Twelfth Five-year Plan, respectively, on support of FDI inflows. the impact of FDI on the dynamics of growth measured by GDP in the recipient country. 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.

In a global economy today FDI is becoming more important than trade as a mode of international economic activities. Explosion of growth in FDI over the 1990's, especially in the India as developing country. Increasing manufactured exports of India is widely recognized as an important endeavor, as promote productivity and economic growth through diversification of exports away from commodities and agriculture

Role of FDI in India's Manufacturing Sector

Modi Govt. decided High-value exports under the Industrial Policy and Promotion is also pushing for 100% Foreign Direct Investment (FDI) in the sector. Though Federation of Indian Export Organizations is pitching for a target of 2019, the commerce ministry feels this will be an "unreasonable" objective if manufacturing sectors. Manufacturing holds a key position in the Indian economy, accounting for nearly 15.4 per cent of real GDP in FY12 and employing about 12.0 per cent of India's labour force. Growth in the sector has been strong, outpacing overall GDP growth over the past few years. For example, while real GDP expanded at a CAGR of 8.4 per cent over FY05-FY12, growth in the manufacturing sector was higher at around 8.5 per cent over the same period. Consequently, its share in the economy has increased during this time – to 15.4 per cent from 15.3 per cent. (IBEF).

Manufacturing Export Trends

During FY11, the total manufacturing exports stood at USD 168.1 billion, higher than the FY10 figure of USD 115.2 billion. Of the total value, engineering goods accounted for the highest share (40.4 per cent) followed by gems and jewellery (24.3 per cent) and chemical and related products (17.2 per cent). Another notable contributor is textiles with a share of 13.9 per cent. The top most industry in terms of FDI inflows was drugs and pharmaceuticals with $9.8 bn. inflows and it accounted for as much as 17 per cent of the inflows into the manufacturing sector. A chemical (other than fertilizers) which in fact covers a wide range of products comes next. Automobiles sector which has attracted many new entrants is the next important manufacturing industry in terms of the FDI inflows followed by metallurgical industries.

This paper is to specifically examine the relationship between FDI net inflows (BoP, current US$). and Manufacturing exports in the Indian economy, given the increasing importance of both Foreign direct investment and Manufacturing exports during the first, second generation Reforms and liberalization, post liberalization period of 1975 to 2012.Relationship between MFE and FDI is complicated and depends largely on the types of trade and FDI being considered. It is the Indian governments and development agencies must know about the success of past policy and future development strategies.

Review of Literature:

Table 1: A Brief summary of recent studies.

Author(s) and year	**Variable used**	**Country, coverage, and method**	**Findings**
Ruba Abu Shihab,et.al. march 2014 (1)	exports, economic growth, the causal relationship, GDP,	Jordan; period from 2000-2012.Granger methodology, determine the direction of the relationship	Evidence of uni-directional causality between export and economic growth in Jordan and the direction of causality runs strictly from economic growth to exports.
N.J.saleena,b 2013 **(2)**	Service export,Information technology, capital stock, GDP	India: time series data 2004-2009 Dickey-Fuller (ADF) Test, the Ordinary Least Square (OLS) Method and Granger Casualty Test	FDI has positively influenced the growth of services export in the Indian economy, after the liberalization period. During the post liberalization period, export is largely driven by information and communication technology
Sarbapriya Ray,2012 **(3)**	FDI; Economic Growth; India; cointegration; granger causality.	India; annual. Data for the period, 1990-91 to 2010-11,the cointegration approach and error correction	FDI has not contributed much to the economic growth in India for the time period 1990-91-2010-11,

		modeling technique.	
Mete Feridun 2011 **(4)**	*economic growth, GDP per capita and foreign direct investment*	Singapore: annual data 1976 – 2002 vector auto regression (VAR	Unidirectional causality running from FDI to GDP.
G.Jayachandran, 2010 **(5)**	Foreign Direct Investment, Exports, Imports.	India; annual data (1970-2007); mean square error (MSE)	There is no reciprocal causality relationship between these variables in India. The directions of causality relationship is from exports to growth rate and there is no causality relationship from growth rate to Exports and the direction of causality relationship is from FDIs to growth rate.
Babatunde, 2009 **(6)**	Merchandise exports, REER, average tariff rate, exchange rate, and imports of raw material	Sub-Saharan Africa; annual data (1980–2005); panel-fixed effect and random effect	REER stimulates exports
Yongkul Won **2008** **(7)**	FDI, Exports, and GDP, ANIEs	Korea, Taiwan, Singapore, Malaysia, Philippines and Thailand. panel data from 1981 to 2005, panel VAR models	Stronger unidirectional causality from GDP to FDI in the first generation case Korea, Taiwan, Singapor.FDI is generally attracted to the high income countries.
Wong, 2008 **(8)**	GDP per capita, exports, private consumption, government consumption, and investment	ASEAN 5; annual data (1960–1996); error correction, Granger causality	(i) A long-run relationship exists between variables (ii) Bidirectional Granger causality between exports and GDP; private consumption and GDP per capita
Ranjan Kumar Dash and Chandan Sharma **2007** **(9)**	FDI, Trade, Causality, Toda-Yamamoto test, Linear Decomposition. JEL classification	Toda and Yamamoto Amatory in [1995] for the period 1996Q4 to 2007Q4 Vector Autoregression (VAR) model applying	the linear feedback between export and FDI (67 per cent) can be accounted for by Granger-causality from FDI flows to export (46per cent)

		Ganger non-causality tes	and from export to FDI (21 per cent).
F. S. T. Hsiao and M. C. W. Hsiao, 2006 **(10)**	Real FDI inflows, real GDP per capita, and real exports	China, Korea, Hong Kong, Singapore, Taiwan, Malaysia, Thailand, and the Philippines; annual data (1986–2004); panel VAR	Bidirectional causality between exports and GDP
Chandana Chakraborty **2006** **(11)**	foreign direct investment, economic reform, growth effects,	India: 1995-1999 panel cointegration framework	FDI in India are largely restricted to the manufacturing sector

Objectives:

The objective of the paper is to study the relationship between FDI and manufacturing sector in Indian context.

Hypothesis:

1) is uni-directional causality between FDI and Manufacturing export $= H_0$
2) there is no unidirectional causality between the two variables $= H_1$

   That means
   - Manufacturing export do not cause FDI
   - FDI does not cause Manufacturing export

Methodology and Data:

This study is based on secondary data. The data has been collected from the World Development Indicators and World Development Reports published by the World Bank for the period of 1975-2012 periods has used for the empirical analysis. Manufactures export has determined % of merchandise export and Foreign direct investment has determined to net inflows (BoP, current US$). Manufactures export symbolizing and direct foreign investment has been defined in terms of the variables of MFE and FDI.The study analyzes the relationship between Manufacturing Export and FDI in India.

The effect of FDI on Manufacturing Export will be estimated in the analysis by using the model below

$$X=\alpha+\beta+\varepsilon \qquad \ldots\ldots\ldots\ldots\; 1.$$

$$\text{MFE} = \alpha + \beta FDI$$

Conventional unit root tests such as the ADF. Whether the variables include unit-root or not will be tested as in the test of time series analysis Stationary of data will be analyzed with the help of the equation below.

$$\Delta yt = \beta 1_{yt-1} \quad + \beta 2 \Delta y_{t-1} + \beta 3 \Delta y_{t-2} + \beta 4 + \beta 5_t \qquad \text{.............................. 2.}$$

To test for causality between MFE and FDI, we shall estimate the following regression equations: That Y Granger-causes X. If Y causes X and X does not cause Y, it is said that unidirectional causality exists from Y to X.

$$y_t = \alpha_1 + \sum_{i=1}^{n} \beta_i x_{t-i} + \sum_{j=1}^{m} \gamma_j y_{t-i} + \varepsilon_t \qquad \text{............. (3)}$$

$$x_t = \alpha_2 + \sum_{i=1}^{n} \theta_i x_{t-i} + \sum_{j=1}^{m} \delta_j y_{t-i} + \varepsilon_{t-1} \qquad \text{............. (4)}$$

If the F statistic is greater than a certain critical value for an F distribution, then we reject the null hypothesis that Y does not Granger-cause X (equation (1)), which means Y Granger-causes X.

Results and Discussion:

Table 2: Granger Causality Tests

Pairwise Granger Causality Tests			
Date: 20/11/14 Time: 21:42			
Sample: 1975 2012			
Lags: 1			
Null Hypothesis:	Obs	F-Statistic	Prob.
MFE does not Granger Cause FDI	37	0.27720	0.6020
FDI does not Granger Cause MFE		0.36612	0.5491

The results of the Granger causality tests of the model are shown in above table No.1The table also shows the tests used to choose the lag lengths. The joint F-statistic value in equation 1 is 0.27720 with the probability value 0.6020.

From this we reject the null hypothesis of MFE does not granger cause FDI. Also the joint F-value on MFE from equation 2 is 0.36612 with the probability value 0.5491. So we can reject the alternative hypothesis at 5% level of significance. That is MFE Granger causes FDI.The results in Table provide a convincing evidence of a unidirectional causality running from MFE to FDI for India at the 5% level of significance.

Figure 1: unidirectional causality

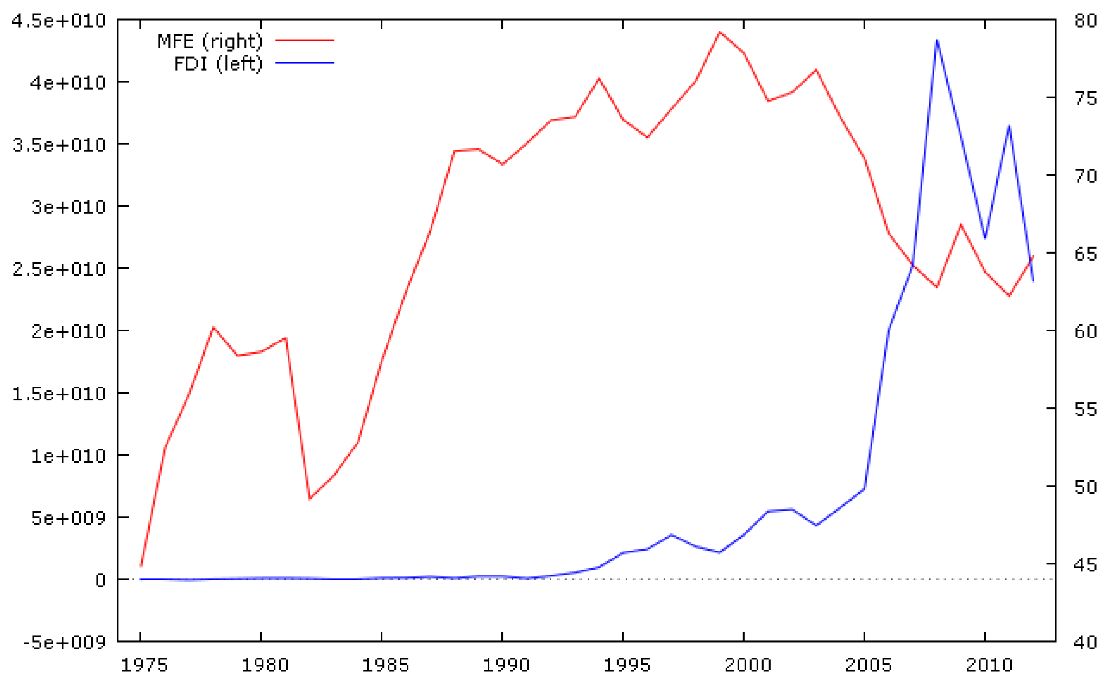

Table No.3 Model estimation

Dependent Variable: MFE

Method: Least Squares

Date: 20/11/14 Time: 22:30

Sample: 1975 2012

Included observations: 38

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI	-4.46E-12	1.26E-10	-0.035452	0.9719
C	66.21295	1.714904	38.61029	0.0000

R-squared	0.000035	Mean dependent var	66.18240
Adjusted R-squared	-0.027742	S.D. dependent var	9.015679
S.E. of regression	9.139880	Akaike info criterion	7.314367
Sum squared resid	3007.346	Schwarz criterion	7.400556
Log likelihood	-136.9730	Hannan-Quinn criter.	7.345033
F-statistic	0.001257	Durbin-Watson stat	0.140613
Prob(F-statistic)	0.971915		

Change of FDI of 1% in period t-1 would affect the annual MFE Manufacturing Export for –4.46 % in period t. The significance of gained results can be seen in the fact that FDI is the cause of change of MFE and not that MFE is the cause of change in FDI.

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Table 4: ADF Test

Null Hypothesis: FDI has a unit root
Exogenous: Constant
Lag Length: 4 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		6.994575	1.0000
Test critical values:	1% level	-3.646342	
	5% level	-2.954021	
	10% level	-2.615817	

*MacKinnon (1996) one-sided p-values.
Augmented Dickey-Fuller Test Equation
Dependent Variable: D(FDI)
Method: Least Squares
Date: 20/11/14 Time: 22:40
Sample (adjusted): 1980 2012
Included observations: 33 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
FDI(-1)	1.720015	0.245907	6.994575	0.0000
D(FDI(-1))	-2.241770	0.318828	-7.031282	0.0000
D(FDI(-2))	-0.877777	0.184841	-4.748834	0.0001
D(FDI(-3))	-2.296289	0.373835	-6.142525	0.0000
D(FDI(-4))	-4.385051	0.553223	-7.926375	0.0000
C	-1.39E+08	6.20E+08	-0.224865	0.8238

R-squared	0.738052	Mean dependent var	7.26E+08
Adjusted R-squared	0.689544	S.D. dependent var	5.26E+09
S.E. of regression	2.93E+09	Akaike info criterion	46.59887
Sum squared resid	2.32E+20	Schwarz criterion	46.87096
Log likelihood	-762.8813	Hannan-Quinn criter.	46.69042
F-statistic	15.21482	Durbin-Watson stat	1.770005
Prob(F-statistic)	0.000000		

The analysis of the first differenced variables shows that the ADF test statistics for all the variables are less than the critical values at 5% levels. The optimal lags for the ADF tests were selected based on optimizing Akaike’s information Criteria AIC, using a range of lags. Augmented Dickey-Fuller unit root test in levels and in first Differences of Log (FDI) in terms with an intercept, with an intercept and trend and with no intercept or trend.

Table 5: unit root

Null Hypothesis: MFE has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=9)

		t-Statistic	Prob.*
Augmented Dickey-Fuller test statistic		-1.810683	0.3695
Test critical values:	1% level	-3.626784	
	5% level	-2.945842	
	10% level	-2.611531	

*MacKinnon (1996) one-sided p-values.

Augmented Dickey-Fuller Test Equation
Dependent Variable: D(MFE)
Method: Least Squares
Date: 20/11/14 Time: 22:45
Sample (adjusted): 1977 2012
Included observations: 36 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
MFE(-1)	-0.110226	0.060876	-1.810683	0.0793
D(MFE(-1))	0.224208	0.151502	1.479900	0.1484
C	7.598686	4.101474	1.852672	0.0729

R-squared	0.144729	Mean dependent var	0.342184
Adjusted R-squared	0.092895	S.D. dependent var	3.218337
S.E. of regression	3.065210	Akaike info criterion	5.157765
Sum squared resid	310.0520	Schwarz criterion	5.289725
Log likelihood	-89.83977	Hannan-Quinn criter.	5.203822
F-statistic	2.792139	Durbin-Watson stat	2.016688
Prob(F-statistic)	0.075807		

Test of a unit root with differentiation. The Differentiated series has no unit root. P-value is 0.0793, which is less than 5%, which leads to rejections of null hypothesis about the existence of the unit root. The unit root results (Table 5) suggest that both series are stationary in first difference and thus integrated of lag1. Having found series exhibiting unit root in levels, the model is tested for the long run relationship between variables.

CONCLUSION:

This paper is an attempted to find the direction of the causal relationship between MFE and FDI in India. Also the study provides some insights into the relationship between FDI and Manufacturing Export in the examination of manufacturing exports.

The Granger causality test was found appropriate applied by using the ADF technique. The empirical results indicate a virtuous procedure of development for India; more FDI into Manufacturing Sector leads to more export, in this sense, inflows FDI at economy level in India can be regarded as efficiency seeking, which increases the manufacturing export. The causation from FDI to India's manufacturing export may also reflect FDI policy, which encourages foreign-invested firms to export.

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Chapter 15

ROLE OF FDI IN BANKING SECTOR IN INDIA

K. ANANDA KUMAR & M.RAMBABU

Introduction

The Indian banking system is significantly different from those prevalent in other countries due to its unique geographic, social and economic characteristics. India has a large population, different cultures in different parts of the country and also disparities in income. Also in India the population spread among rural and urban areas is also skewed in the favour of urban areas. All these features reflect in the size and structure of the Indian banking system. Further in order to fulfill the needs to the government policy it has been subjected to various nationalization schemes at different times. RBI credit policies form the guidelines for banks in India. Since they had to satisfy the domestic obligations, the banks have so far been confined within the Indian borders. Banking in India originated in the last decades of the 18th century. The first banks were The General Bank of India, which started in 1786, and Bank of Hindustan, which started in 1770; both are now defunct. The oldest bank in existence in India is the State Bank of India, which originated in the Bank of Calcutta in June 1806, which almost immediately became the Bank of Bengal. This was one of the three presidency banks, the other two being the Bank of Bombay and the Bank of Madras, all three of which were established under charters from the British East India Company. For many years the Presidency banks acted as quasi- central banks, as did their successors. The three banks merged in 1921 to form the Imperial Bank of India, which, upon India's independence, became the State Bank of India in 1955.

In the early 1990s, the then Narasimha Rao government embarked on a policy of liberalization, licensing a small number of private banks. These came to be known as New Generation tech-savvy banks, and included Global Trust Bank (the first of such new generation banks to be set up),which later amalgamated with Oriental Bank of Commerce, UTI Bank(since renamed Axis Bank), ICICI Bank and HDFC Bank. This move, along with the rapid growth in the economy of India, revitalized the banking sector in India, which has seen rapid growth with strong contribution from all the three sectors of banks, namely, government banks, private banks and foreign banks.

Foreign Direct Investment permitted in Indian Private Banks for 74 percent under the automatic route whereas in Nationalized banks permitted only 20 percent.

The banking system in India is significantly different from that of other Asian nations because of the country's unique geographic, social, and economic characteristics. India has a large population and land size, a diverse culture, and extreme disparities in income, which are marked among its regions. There are high levels of illiteracy among a large percentage of its population but, at the same time, the country has a large reservoir of managerial and technologically advanced talents. Between about 30 and 35 percent of the population resides

in metro and urban cities and the rest is spread in several semi-urban and rural centers. The country's economic policy framework combines socialistic and capitalistic features with a heavy bias towards public sector investment. India has followed the path of growth-led exports rather than the "export-led growth" of other Asian economies, with emphasis on self-reliance through import substitution

Objectives of the study:

- To study the growth of banking sector in India
- To evaluate the guidelines for investment in banking sector.
- To find the benefits of F.D.I. in banking sector.

Methodology:

The present study is based on secondary data published by various agencies and organizations. Necessary data is collected from journals, magazines, periodicals and various other publications.

Review of Literature

Laghane.K.B (2007), LPG sponsored FDI model's impact on the foreign banks and Indian bank's profitability is positive. He also stated that FDI must be considered in poverty reduction, unemployment reduction and primary education and priority sector of banking. Due to LPG, Indian banks going global and many global banks setting up shops in India, the Indian banking system is set to involve into a totally new level it will help the banking system grow in strengths going into future.

Singh Arjun and Singh Narender (2011), states that FDI is a tool for economic growth through its strengthens of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. They also analysis the significance of the FDI inflows in Indian service sectors since 1991 and relating the growth of the service sector FDI in generation of employment in terms of skilled and unskilled.

Post liberalisation

Reforms were introduced in the banking sector to strength Indian banks and make them internationally competitive and banks to play a vital role in the economic development of the country. The banking sector was opened up for private participation and the entry of new private banks increased competition. The efficiency of the banking sector improved as suggested by indicators such as gradual in cost of intermediation and decline in non-performing loans. Efficiency in the banking sector was driven by improved technology and competition.

Financial sector has undergone rapid transformation during post liberalisation this got transparency and accountability in the financial markets which results in greater inflow of investments from FII's into the capital markets.

Trends in Banking

With FDI investments of up to 49 per cent of equity and supported by substantial FII investments, foreign banks can control nearly the entire equity of taken over private sector banks. If this is the intention of the Government/RBI, then what happens to branch restrictions applicable to foreign banks? We may then witness a dual policy of foreign banks with

branches not being allowed to open new branches, while foreign banks controlling private sector banks being allowed to operate all over the country.

In case foreign banks convert their branch operations in India into a subsidiary, then in the normal course the new legal entity should be treated as a domestic company and not a foreign company. In addition to the issue of differential taxation, would such a conversion enable more freedom in geographical expansion?

The scheduled commercial banks operating in India are classified into public sector banks, old private sector banks, new private sector banks and foreign banks. In the last few years, the new private sector banks have outperformed the other three groups. Between 1995-96 and 1999-2000, the share in assets of public sector banks fell from 84.5 to 80.2 per cent, while the share of foreign banks during the same period fell from 7.9 to 7.5 per cent. The share of the old private sector banks rose modestly from 6.2 to 7 per cent during the same period, while the new private sector banks increased their share from 1.4 to 5.3 per cent. The main disadvantage that the foreign banks face is the restriction on branch expansion imposed by the RBI.

FDI in Banking in India

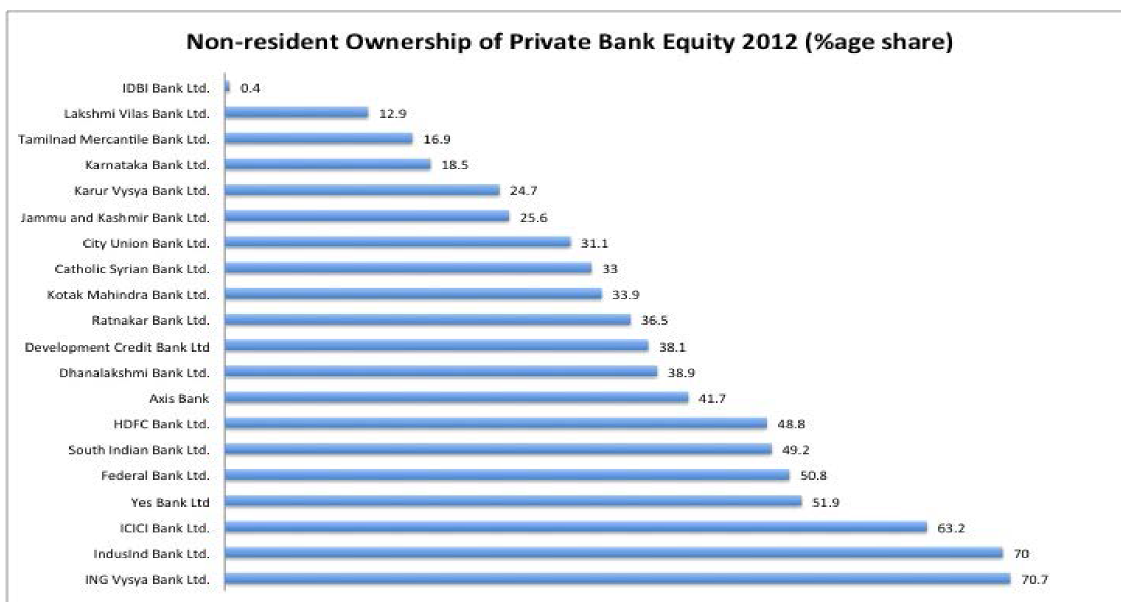
Due to adamant decision of P M and congress party about their advancing their programme of financial liberalisation, allowing FDI in banking sector led to strike by the banking employees.

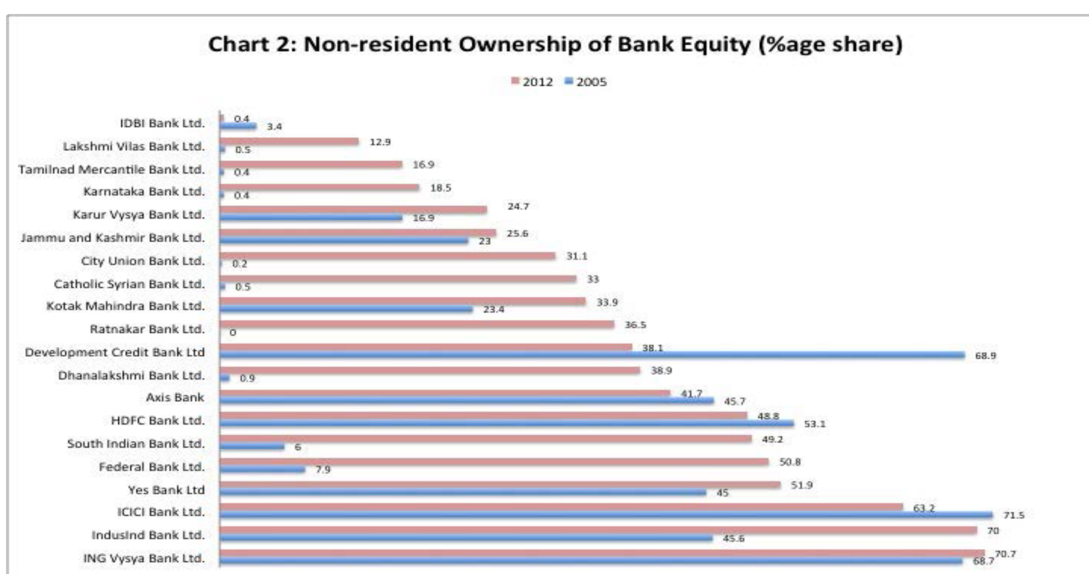
The additional point which also supported for raising voice against FDI in banking sector is, beside permitting the entry and consolidation of new private banks, the govt. on 05-03-04 announced a set of decisions with reference to FDI in the banking sector, which relaxed the capital on foreign equity in Indian banks to 20% in the case of public sector banks and 74% in the case of private banks. This was an additional permission to foreign banks to operate in the country through wholly owned subsidies to increasingly relaxed rules.

After keeping the above problem in mind, the RBI decided to retain the stipulation under the banking regulation act, section 12(2) that in the case of private banks the maximum voting rights per shareholder will be 10% of the total voting rights (1% of the public banks). The 10% of ceiling on equity ownership by single foreign entry was partly geared to aligning ownership guidelines with the rule of voting rights. The response to this form liberalisation advocated was that the whole exercise was pointless in a much as the ceiling on single investor ownership and voting rights would deter foreign investors.

The evidence shows that this expectation has turned out to be completely false as chart 1 shows, the shares of foreign investors in private bank equity exceeds 50% in five banks and stands at between a third and a half in another eight.

Chart 2 shows that in a number of instances the share of foreign equality has increased between 2005 and 2012.





The implication of this is clear. The problem with well-performing private banks is not that it is different to attract FDI. The problem is that current rules do not allow entry of those whose intent is to exercise control over a local bank with an adequate share holding and equivalent voting rights.

Hence, if the need is to allow foreign equity infusion to meet prudential requirements such as the Basel norms, that is still possible. What is not allowed is the entry of single foreign investor seeking to establish or acquire domestic private banks with a controlling stake and voting rights.

Guidelines for investment in banking sector

- FDI limits in banking sector of India were increased with the aim to bring in more FDI inflows in the country along with the incorporation of advanced technology and management practices
- FDI in the banking sector is allowed under the automatic route in India
- FDI and portfolio investment in the public or nationalised banks in India are subject to limit of 20% in totality.
- The limits of FDI in the banking sector has been increased to 74% of the paid up capital of bank
- This ceiling is also applicable to the investors in SBI and its associated banks
- The objective was to make the Indian banking sector more competitive.
- The RBI of India governs the investment matters in the banking sector.

Benefits of FDI in Banking sector in India

- Offers financial stability in the banking sector in India
- Transfer of technology from overseas countries to the domestic markets
- Assure better capitalization
- Ensure better and improved risk management in the banking sector

Problem faced by Indian banking sector

- Instability in financial decisions
- Lack of innovativeness in financial products or schemes
- Technical developments happening across various foreign markets
- Non-performing areas or properties
- Poor marketing strategies
- Changing financial market conditions
- Inefficiency in management

Conclusion

The banking industry in India has witnessed many changes since the early 1990s. Initially the Government contributed substantially to the equity of a large number of public sector banks in order to improve their capital adequacy levels. Then the Government sought to change the structure of the Indian banking industry by granting licences to a new generation of private sector banks. This step has been quite successful, as these banks have introduced the latest technology to differentiate themselves, opened ATMs and branches at a rapid pace and successfully weaned away customers from other banks.

Indian banking sector is proving itself since 1786 till date with the guidelines of RBI and Government of India. Indian banking system has also proved during global economic crisis with its strong policies and procedures without affecting Indian financial system.

This research concludes that since India is a developing country and the people who are working in non-government organisations have less social security after their retirement. To

encourage the saving habits among them our banking sectors are introducing various schemes. The capital raising capacity in India is very and less to take the Indian banking sector to worldwide we require investment from abroad. RBI should make such policies that FDI should not over ride the regulations of RBI and should result in the growth of Indian economy.

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Chapter

16

IMPACT OF FOREIGN DIRECT INVESTMENT IN INDIA: A SPECIAL REFERENCE TO HOUSING SECTOR

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INTRODUCTION

In the present global scenario, India has been considered as the most promising and fast growing economy in the world. Indian economy had experienced major policy changes in early 1990s. The new economic reforms popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, trade as well as financial sector aimed at making the economy more efficient. Globalization has many meanings depending on the context. In context to India, this implies opening up the economy to Foreign Direct Investment by providing facilities to foreign companies to invest in different fields of economic activity in India, removing constraints and obstacles to the entry of MNCs in India. Allowing Indian companies to enter in to foreign collaborations and also encouraging them to set up joint ventures abroad, carrying out massive import liberalization programmes by switching over from quantitative restrictions to tariffs and import duties, therefore globalization has been identified with the policy reforms of 1991 in India.

India has continually sought to attract FDI from the world's major investors. Indian national government announced a number of reforms designed to encourage FDI and present a favorable scenario for investors.

It can be observed from the above table that, the maximum growth rate recorded in the year 2006 - 07 with 186.96 percent growth over the previous year amounting Rs. 70, 630 crores. Owing to 100 percent FDI allowed in many industrial sectors and an automatic approval was accorded. As a result, the highest growth rate of FDI inflows was registered during the year 2006 and 2007 in India. This is the most favoured year in respect of FDI inflow.

The trend of FDI inflow in India has presented in the following tables.

Table 1: Year - wise FDI inflows to India and its Growth Rate in Percentage

Year	Inflow (Rs. in Crores)	Growth %
2000 - 01	12, 646	--
2001 - 02	19, 361	53.11
2002 - 03	14, 932	-29.66
2003 - 04	12, 117	-18.85
2004 - 05	17, 138	41.44
2005 - 06	24, 613	43.61
2006 - 07	70, 630	186.96
2007 - 08	98, 664	39.69
2008 - 09	1, 23, 025	24.70
2009 - 10	1, 23, 378	0.30
2010 - 11	74, 695	-39.18
2011 - 12	1, 17, 365	57.13
2012 - 13	1, 00, 628	-14.27

Source: RBI's Bulletin, Oct - 2013

Sector - wise inflow of FDI

The investment channels of FDI in India reveal that only 10 sectors fully made of the FDI in the country as mentioned in the below table.

Table 2: Sectors Attracting Highest FDI Equity Inflows (Rs. in Crores)

Sl.No	Sectors	2008-09	2009-10	2010-11	2011-12	2012-13	Cumulative inflows	% in Total
1	Manufacture	4,777	5,133	4,793	9,337	6,528	30,568	30.01
2	Financial Services	4,430	2,206	1,353	2,603	2,760	13,352	13.10
3	Construction	2,237	3,516	1,599	2,634	1,319	11,305	11.10
4	Electricity and Energy Generation,	669	1,877	1,338	1,395	1,653	6,932	6.81
5	Communication Services	2,067	1,852	1,228	1,458	092	6,697	6.67
6	Restaurants & Hotels	343	671	218	870	3,129	5,231	5.14
7	Real Estate Services	1,886	2,191	444	340	197	5,058	4.97
8	Business Services	643	1,554	569	1,590	643	4,999	4.91
9	Computer Services	1,647	866	843	736	247	4,339	4.27
10	Miscellaneous Services	1,458	888	509	801	552	4,208	4.13

Source: RBI's Bulletin, Oct – 2013

The major share of FDI went to the Manufacture Sector, representing 30.01 per cent of the total FDI inflow amounting to 30,568 million dollars, followed by Financial Services, Construction, Electricity, Communication Services, Restaurants & Hotels, Real Estate Services, Business Services, Computer Services and Miscellanies Services.

Objectives of the Study

1. To analyze the flows of FDI's in Housing Sector
2. To analyze the Performance and Profitability of FDI's in India for Housing Sector in comparison with the other sectors.
3. To study the impact of FDI's on Economic Growth in India.
4. To examine the Challenges and Improvement areas for FDI in India

Methodology

The study is an empirical investigation based mainly on the secondary data. The trends of the FDI's in real estate sector are compared with the other sectors in India. The FDI inflow data from 2000-2013 has been considered. This data is used to assess the impact of FDI's in India and economic growth achieved through FDI flows. It would be of interest to mention a few methodological issues involved in the present study. The secondary data are collected from annual publications of the NHB, RBI and other unpublished sources. Further, simple statistical tools and techniques such as percentages and averages are used in the study.

FDIs in the Housing Sector

The real estate sector is a critical sector of our economy. It has a huge multiplier effect on the economy and therefore, is a big driver of economic growth. It is the second-largest employment-generating sector after agriculture, growing at a rate of about 20 per cent per annum. This sector has been contributing about 5 – 6 per cent to India's GDP, not only does it generate a high level of direct employment, but it also stimulates the demand in over 250 ancillary industries such as cement, steel, paint, brick, building materials, consumer durables and so on. The Indian real estate industry has been on a roller coaster ride since 2005. Consequent to the government's policy to allow Foreign Direct Investment (FDI) in this sector, there was a boom in investment and developmental activities. This sector not only witnessed the entry of many new domestic realty players but also the arrival of many foreign real estate investment companies including private equity funds, pension funds and development companies entered the sector lured by the high returns on investments.

The real estate sector has been riding through many highs and lows since then. The industry achieved new heights during 2007 and early 2008, characterized by a growth in demand, substantial development and increased foreign investments. However, by mid 2008, the effects of the global economic slowdown were evident here too, and the industry took a 'U' turn. FDI inflow into real estate dropped significantly and what had emerged as one of the most promising markets for foreign investments experienced a downturn. In the present global scenario, India has been considered as the most promising and fast growing economy in the world. Due to the liberalized rules for Foreign Direct Investment (FDI's), in India the real estate has been the attractive investment proposal for both the domestic as well as foreign investors and which has

enhanced the economy of the country. Foreign direct investment (FDI's) in India's booming real estate and housing market jumped 80 times between 2005 and 2010.Figures show that in 2005, FDIs in real estate was a mere Rs 171 crores. That soared to Rs 13,586 crores in 2009-10.

Table 3: Housing and Real Estate FDI's in India

Years	Rupees in Crores	% of FDI's
2005-2006	171	0.42
2006-2007	2,121	5.27
2007-2008	8,749	21.77
2008-2009	12,621	31.40
2009-2010	13,586	33.49
2010-2011	2,957	7.35

Source: RBI's Bulletin, Oct - 2013

The year 2010 saw the Indian real estate sector spring back into action after the gloom and recessionary pressures experienced in the aftermath of the global downturn. The focus on 'Affordable Housing' helped the sector tide over the financial crunch it had witnessed. There is no doubt that the sector holds huge potential to attract FDI in its various segments. However, the progress is possible only with the joint efforts of both the industry and the Government. On the one hand, the industry should work towards increased transparency, clear land titles, improved delivery and project execution, while on the other hand the Government must provide fiscal incentives to developers to build low cost and affordable housing for the masses and also review the existing FDI guidelines for investment and development in Indian real estate in order to increase the flow of foreign capital into the sector.

Impact of FDI in India

FDI has a major impact over the host Country due to its direct involvement with the host`s economy and also generates new growth centres within or around the city. It also connects the host region to the outside world and enhances the globalization of the region or area. The impacts are categorized into four parts: (1) Economic (2) Social impacts (3) Impact over the Development (4) Impact over the quality of life.

Economic Impacts

Rapid economic growth in the investment region, the skilled labour force in an economy will benefit from the higher wages, as unskilled workers may be forced out of the labour market. So the gap between poor and rich is becoming bigger. Due to the varied potentials of the region/ area to attract FDI causes uneven distribution of FDI flow and results into regional economic inequalities. Competitive environment is developed by the MNC's in the local market with their

cheap, latest, standardized products which are developed with precision and with latest technologies. These MNC's have large supply chain of raw materials and funds from various parts of the world. To sustain in the market the local suppliers/manufacturers or the retailers has to compete with the MNC's strategies and products. The FDI has majorly influenced the organized retailing in India as compared to unorganized retailing. Big retail stores and groups have converted into big showrooms and retail chains similar to western concept of retailing.

Social Impacts

Due to the MNE`s investments in the region causes the formation of a new middle class / high-level professional workforce that occupies white-collar jobs and characterized by a shared education, lifestyle, consumption patterns and occupations. Social polarization in the society is becoming stronger as changes in the absolute and relative size of different income groups over time. (Directly inferred through the structure of the high-income lifestyles of those employed in the service sector (e.g. high income residential and commercial gentrification)

Impact over the Development

Emergence of new retail and wholesale, new building typology is being introduced in the cities with large building footprints and building interface (Malls, Hyper Markets). To compete with upcoming foreign brands and retail chains the native big retailers have also stepped into the branding and started retail chains e.g. More, Vishal Mega-Mart, Reliance group and decreasing unorganized retail stores (Kirana Shops, Hawkers). Huge ware house type blocks are introduced in the cities to house Multi-brand retail and wholesale stores e.g. Wal-Mart. To attract the new middle class of the city and the foreign visitors cloned spaces are evolved in the city. e.g. McDonald, Dominos, US Pizzas, Levis Store, Electronic Stores, Vehicle Showrooms.

Impact over the Quality of Life

Change in the preferred mode of Transportation, there is major Shift towards private mode from public mode i.e. more dependency on the private cars and two wheelers. Public transport develops in the focused area with MNE investment. Example: BRTS, METRO, MMTS, etc. Infrastructure and streetscape are developed to match the world class standards to attract a safe and standardized environment. To provide safe and secure environment to the MNE, the Security of the areas are improved and is on first preference of the governing authority.

CURRENT CHALLENGES AND IMPROVEMENT AREAS

India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until, these areas are honed to perfection, India will not become the number one place for FDI. India is focusing on maximizing political and social stability along with a regulatory environment. In spite of the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

Resource challenge

India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas.

The focus is to increase infrastructure, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

Equity Challenge

India is definitely developing in a much faster pace now than before but inspite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones. Thus, fostering social equality and at the same time, a balanced economic growth is needed.

Political Challenge

The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like Banking and Insurance. So, there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

Federal Challenge

Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important.

India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

GOVERNMENT REGULATIONS AND CHANGES REQUIRED

The Government of India vide Press Note No. 2 of 2005, permitted FDI up to 100%, under the 'automatic route' in townships, and housing, built-up infrastructure and construction development projects. The main reason for opening up the real estate sector to 100% FDI was to bridge the huge shortage of housing in the country and to attract new technologies in the housing sector. The original FDI guidelines issued vide the above press note attracted large amounts of foreign funds to the Indian real estate sector. However, subsequent amendments to the FDI policy relating to real estate have created unwanted apprehensions and confusion in the minds of global investors thereby affecting FDI inflows adversely.

Further, lack of consistency in rules relating to development of SEZs, increased monitoring of the sector by regulatory agencies, tightening of rules for lending to the real estate sector and increase of key rates by the RBI several times during the last one year, have arrested the growth of the sector. There is a need to streamline government policies and introduce reforms to boost the real estate sector.

CONCLUSION

India has huge potential to attract large foreign investments into real estate. With real estate reaching a point of saturation in developed countries and the demand and prices falling, global real estate players are looking at emerging economies such as India for tapping opportunities in real estate. Indian real estate will stay attractive due to its strong economic fundamentals and demographic factors. Moreover, there is a high level of global uncertainty looming over the developed and developing nations of the world. While developed economies are still struggling to regain their growth momentum, developing countries including India and China are expected to grow at a reasonably high rate. Investments in Indian real estate will fetch higher returns for investors as compared to other global markets. In the coming years, the opportunities in the real estate sector will attract more global players to India and hence will help the industry to mature, become more transparent, improve management and adopt advanced construction techniques.

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Chapter

17

FOREIGN DIRECT INVESTMENT (FDI) EQUITY INFLOWS IN INDIA

DR. E. KAMALAKARA, DR. K. MADDILETI & MR. B. ARUN KUMAR

Introduction

Foreign direct investment plays an important role in the economic development of the country. It helps in transferring of financial resources, technology and innovative and improved management techniques along with raising productivity. An Indian company may receive Foreign Direct Investment either through automatic route or government route. The paper tries to study the need of FDI in India, to exhibit the year-wise analysis of FDI's equity inflows in India. It also shows that there has been a tremendous increase in FDI inflow in India during the year 2000 to 2014.

Definition of 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. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

Importance of FDI

FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system.

Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty

eradication. There are many businesses or individuals who would earn their lively hood through the foreign investments. There are legal and financial consultants who also guide in the early stage of establishment of firm. Foreign investments mean both foreign portfolio investments and foreign direct investments (FDI). FDI brings better technology and management, marketing networks and offers competition, the latter helping Indian companies improve, quite apart from being good for consumers. Alongside opening up of the FDI regime, steps were taken to allow foreign portfolio investments into the Indian stock market through the mechanism of foreign institutional investors. The objective was not only to facilitate non-debt creating foreign capital inflows but also to develop the stock market in India, lower the cost of capital for Indian enterprises and indirectly improve corporate governance structures. On their part, large Indian companies have been allowed to raise capital directly from international capital markets through commercial borrowings and depository receipts having underlying Indian equity. Thus the country adopted a two-pronged strategy: one to attract FDI which is associated with multiple attendant benefits of technology, access to export markets, skills, management techniques, etc. and two to encourage portfolio capital flows which ease the financing constraints of Indian enterprises.

Objectives of the study

- To understand the Foreign Direct Investment
- To execute the importance of FDI in India
- To analyse the FDI equity inflows in India

Investopedia Explains 'Foreign Direct Investment - FDI'

The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. 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. An example of foreign direct investment would be an American company taking a majority stake in a company in China. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile.

Table 1 shows as per DIPP’s FDI data base equity capital component only. The foreign direct investment flow in India the total Rs. 1108624 crores up to July 2014. This table clearly shows that, the highest inflows in 2011-12 and immediate follows 2013-14, 2008-09, 2009-10, 2012-13, 2007-08, 2010-11 and 2006-07 respectively. There is a little differentiation seen in between Rs. 10733 to Rs. 24584 crores respectively.

Table 1: Foreign Direct Investment inflow in India

S.No	Financial Year	Amount of FDI Inflows	
		In Rs. Crores	In US$ million
1	2000-01	10733	2463
2	2001-02	18654	4065
3	2002-03	12871	2705
4	2003-04	10064	2188
5	2004-05	14653	3219
6	2005-06	24584	5540
7	2006-07	56390	12492
8	2007-08	98642	24575
9	2008-09	142829	31396
10	2009-10	123120	25834
11	2010-11	97320	21383
12	2011-12	165146	35121
13	2012-13	124907	22423
14	2013-14	147518	24299
15	2014 -15 (upto August 2014)	64193	10736
Cumulative total		1108624	228439

Table 2 : Trends in India's Overseas Direct Investment (US$bn)

S.No	Financial Year	Overseas Direct Investment
1	2001-02	1.0
2	2002-03	1.8
3	2003-04	1.6
4	2004-05	2.0
5	2005-06	7.8
6	2006-07	13.2
7	2007-08	18.4
8	2008-09	16.3
9	2009-10	12.3
10	2010-11	16.4
11	2011-12	30.9
12	2012-13	26.87
13	2013-14	23.72

Source: data derived from RBI data base, and Exim Bank Research

Table 2 clearly shows that, the overseas direct investment in outside of the country from the data available, high amount invested in foreign countries in 2011-12 financial year US$ 30.9 billion, followed by 2012-13 (US$26.87 billion), 2013-14 (US$23.72 billion), 2007-08 (US$18.4 billions), 2010-11 (US$12.3 billion), and 2005-06 (US$7.8 billion) respectively. Remaining financial years indicates as all the same amount with little differences.

The table concludes that in all financial years India has been receiving high amount compare to the overseas direct investment.

Table 3: FDI Equity inflows in India

Amount Rupees in crores (US$ in million)

S.No	RBI's Regional Office	20012-13	2013-14	2014-15 (up to July, 2014)	Cumulative inflows (April 2000 –July 2014	% age to total inflows (in terms of US$)
1	Mumbai	47359 (8716)	20595 (3420)	14077 (2351)	328166 (69108)	30
2	New Delhi	17490 (3222)	38190 (6242)	9503 (1587)	216274 (44123)	19
3	Chennai	15252 (2807)	12595 (2116)	5612 (938)	71017 (14135)	6
4	Bangalore	5553 (1023)	11422 (1892)	2427 (405)	63294 (13081)	6
5	Ahmadabad	2676 (493)	5282 (860)	1246 (209)	45627 (9719)	4
6	Hyderabad	6290 (1159)	4024 (678)	4245 (709)	45160 (9355)	4
7	Kolkata	2319 (424)	2659 (436)	421 (70)	13584 (2812)	1
8	Chandigarh	255 (47)	562 (91)	100 (17)	6227 (1309)	0.6
9	Jaipur	714 (132)	233 (38)	3065 (513)	6623 (1236)	0.5
10	Bhopal	1208 (220)	708 (119)	600 (100)	6095 (1215)	0.5
11	Kochi	390 (72)	411 (70)	161 (27)	4893 (1008)	0.4
12	Panaji	47 (9)	103 (17)	53 (9)	3710 (797)	0.4
13	Kanpur	167 (31)	150 (25)	200 (33)	1965 (406)	0.2
14	Bhubaneshwer	285 (52)	288 (48)	20 (3)	1926 (392)	0.2
15	Guwahati	27 (5)	4 (0.6)	0 (0)	352 (79)	0
16	Patna	41 (8)	9 (1)	48 (8)	247 (47)	0
17	Jammu	0 (0)	9 (1)	48 (8)	247 (47)	0
18	Region Not Indicated	21833 (4004)	50283 (8245)	22390 (3752)	292906 (58442)	26.06
19	RBI's NRI Schemes (From 2000 To 2002)	0 (0)	0 (0)	0 (0)	533 (121)	
Grand Total		121907 (22424)	147518 (24299)	64193 (10736)	1108624 (228438)	

Source: RBI bulletin

Table 3 clearly shows foreign direct investment (FDI) equity inflows received by RBI's regional offices in India. It is evident that, 30 per cent of the total foreign direct investment has

received by Mumbai. Under this region covers like, Maharastra, Dadra & Nagar Haveli, and Daman &Diu states. It is the highest percentage received in total FDI. In the second place is the other region i.e., 26.06 per cent of the FDI. In third palce occupy received the FDI is New Delhi under this RBI's regional offices like Delhi, Part of UP and Haryna states. The RBI's regional offices like Chennai and Bangalore are receiving only 6 per cent of these two regions in the total FDI under this two region cover the State of Tamil Nadu, Pondicherry and Karnataka. The state Gujarat under the Ahmadabad, Andhra Pradesh state under the Hyderabad regions office are receiving only four per cent of each region in the total FDI. Remaining all the regions are receiving the FDI equity inflow range in between 0-1 per cent under the regions of states.

Table 4 presents year wise Foreign Direct Investment inflows in India and this data on FDI have been received since 2000-01 with expended coverage to approach international best practices.

The table shows that, from 2000-01 to 2005-06 the RBI's automatic route in between US$ 2338 million – US$5540 respectively. It is little change in the above financial year and remaining financial years also there is no major change in the flow of funds.

About the reinvested earnings indicate the US$1380 in 2000-01 financial years in India and high amount is invested in the 2010-1. Nearly tenfold has been increased where the initial stage amounts and total cumulative amount (from 2000 to July 2014) US$ 83984 millions in India.

Other capital point of view US$2495 million are highest indicate tin the 2011-12 financial year, 2066 in 2013-14, 1931 in 2009-10, 1534 in 2012-13, 777 in 2008-09 and remaining financial year there is a little differences respectively.

Under the foreign institutional investors fund (net) total investment US$ 149663. In India, except 2008-09 financial year is a negative aspect. In the financial years 2009-10 and 2010-11 the amount invested by FII's of US$29048 and 29422 respectively.

Table 4 Financial Year-Wise FDI Inflows Data: As Per International Best Practices

(Amount US$ million)

S. No	Financial year (April –March)	ForeignDirect Investment (FDI)						**Investment by FII's Institutional Investors Fund (net)**
		Equity		Re-investment earnings	Other capital	FDI INFLOWS INTO INDIA		
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity capital of unincorporated bodies#			**Total FDI Inflows**	%age growth over previous year (in US$terms)	
FINANCIAL YEAR 2000-01 TO 2014-15 (UP TO JULY, 2014)								
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	300	34,843	**(+) 53 %**	**20,328**
9.	**2008-09**	31,364	702	9,030	777	41,873	**(+) 20 %**	**(-) 15,017**
10.	**2009-10 (P) (+)**	25,606	1,540	8,668	1,931	**37,745**	**(-) 10 %**	**29,048**
11.	**2010-11 (P) (+)**	21,376	874	11,939	658	**34,847**	**(-) 08 %**	**29,422**
12.	**2011-12 (P)**	34,833	1,022	8,206	2,495	**46,556**	**(+) 34 %**	**16,812**
13.	**2012-13 (P)**	**21,825**	**1,059**	**9,880**	**1,534**	**34,298**	(-) 26%	**27,582**
14	**2013-14 (P)**	**24,299**	**984**	**9,047**	**2,066**	**36,396**	**(+) 6%**	**5,010**
15.	**2014-15 (Apr - Aug, 2014)**	**12,014**	**375**	**3,451**	**1,605**	**17,445**	**-**	**-**
CUMULATIVE TOTAL (from April, 2000 to August, 2014)		**231,279**	**11,180**	**84,680**	**14,218**	**341,357**	**-**	**149,663**

Source: ***(i) RBI's Bulletin October, 2014 dt. 10.10.2014 (Table No. 34 – FOREIGN INVESTMENT INFLOWS).***
(ii) Inflows under the acquisition of shares in March, 2011, August, 2011 & October, 2011, include net FDI on account of transfer of participating interest from Reliance Industries Ltd. to BP Exploration (Alpha). (iii) RBI had included Swap of Shares of US$ 3.1 billion under equity components during December 2006. (iv) 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. (v) Figures updated by RBI up to August, 2014.
'#' Figures for equity capital of unincorporated bodies for 2010-11 are estimates. (P) All figures are provisional
"+" Data in respect of 'Re-invested earnings' & other capital for the year 2009-10, 2010-11,2012-13,2013-14 and 2014-15 are estimated as average of previous two years.

Conclusion

It can be observed from the above analysis that at all dimensions of the Indian economy, FDI has helped to raise the economic status and social responsibility for improvement of output, productivity and employment in some sectors. It covers all RBI's regions receiving FDI equity inflows in India and utilization of fund successfully. On the other side banking and insurance sector help in providing the strength to the Indian economic condition and develop the foreign exchange system of country. FDI and ODI also indicate and help to create employment in the country and support the small scale industries also and help country to put an impression on the world wide level through liberalization and globalization.

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Chapter

18

EMERGING PARADIGM OF FDI IN RETAIL SECTOR IN INDIA

DR. K. JAYALAKSHMI,

Introduction

Retail Industry, Contributes between 14-15% to 20% of India's GDP, the contributes 8% to total employment. The Indian retail market is estimated to be us $ 450 billion and one of the top five retail markets in the world be economic value. India is one of the fastest – growing retail markets in the world, and is projected to reach $ 1.3 trillion by 2020. India's retailing industry mostly consists of the local mom and pop store, owner manned shops and street vendors. As our economy is growing and targeting 10% development rate, there is a great need of concentration on underdeveloped and potentially viable sector i.e. retail sector, agriculture etc. retailing in India is the largest private sector and second to agriculture in employment. India has highest retail outlet density – Around 1.5 retail crore retail out lets. The cumulative FDI inflows in single brand retail trading, during April 2000 to June 2011, Stood at 69.26 million USD.

Studies like the Master Card worldwide Index of consumer confidence have ranked Indian consumers as some of the most confident in the world. The more confident the consumers are about the strength of the economy, their personal finances, their career growth, etc. The ore they tend to increase their consumption, purchase non-essential products, experiment with products, brands, categories etc. Besides, the country's rural population of 700 million presents an opportunity for retail and consumer companies that cannot be ignored. The current estimated value of the Indian retail sector is about 500 billion USD and is pegged to reach 1.3 trillion USD by 2020. The Indian retail sector is expected to grow at a CAGR of 15 to 20%.

Objectives of the Study

The following are the main objectives of this paper relevant to the current market.

1. To examine the FDI Policies & Procedure towards retail industry.
2. To examine the benefits & recent development for FDI in Retail Sector.
3. To study the key role of FDI inflows in retail Industry.

Methodology of the Study

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, Media reports, Company Websites, etc.

Division of Retail Industry

Retailing is the largest private industry in India. It is mainly divided into:

1) Organized and, 2) Unorganized Retailing.

1. Organized Retailing:- Refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses.
2. Unorganized Retailing:- On the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner manned general stores, convenience stores, hand cart and payment vendors, etc.

Table - 1

Country	Share of Organized retail to total retail
US	85%
UK	80%
Malaysia	55%
Thailand	40%
China	20%
South Korea	15%
Indonesia	25%
Philippines	35%
India	5%

Source: RBI Reports

All Major players such as wal-mart, Tesco, sainbury and others are keen to enter the retail market. “A.K. Kearney” ranked India 5th out of 30 most attractive retail markets in terms of investment. Recently government has taken certain action to liberalize the retail market in India.

Existing FDI Policy Frame work in India

Foreign Direct Investment Means “Investment in to the business in another country”. Foreign Investment in India is governed by the FDI Policy announced by the Government of India and the Provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve bank of India (RBI) in this regard has issued a notification which contains the Foreign Exchange Management. India has open arms policy for regulating FDI in the country, under the current FDI policy, foreign Investment is permitted virtually all sectors without government approval, except for a few sectors Strategic importance (Such as Banking, Defense, Media, Telecom) where the policy prescribes equity caps are certain conditions obtaining prior approval from the governments.

Procedure for Receiving Foreign Direct Investment

An Indian company may receive Foreign Direct Investment given under:

1. Automatic Route: FDI is allowed under the automatic route without FDI is allowed under the automatic route without Government or the Reserve bank of India in all activities consolidated FDI Policy, issued by the Government of India.
2. Government Route: FDI in activities not covered under the automatic route and Government which are considered by the Foreign investment Department of Economic Affairs, Ministry Finance.

The FDI Policy is framed by the Department of Industrial Policy and Promotion (DIPP). The ministry of commerce and Industries and implemented by the Reserve Bank of India (RBI) for cases falling under the automatic route (That is not requiring prior government approval), while for cases falling under the government routs Approval is granted by the Foreign Investment Promotion Board (FIPB) which includes representative of various central government ministry and grant Approval on a case-by-case basis.

The specific guidelines for FDI with regard to the conduct of trading activities.

a. FDI up to 100% for cash and carry whole sale trading and export trading allowed under the automatic route.
b. FDI up to 100% single brand Retail, 49% through automatic route, 49-100% through FIPB (December -2011).
c. FDI up to 51% is permitted in Multi brand Retail (Since September 2012).

The Major Benefits of FDI

a). Improves forex 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 in local market and this brings higher efficiencies, f) Helps in increasing exports, g) Increases tax revenues.

Factors Emerging the Organized Retail Sector Include the Following.

- Higher incomes driving the purchase of essential and non-essential product.
- Evolving consumption patterns of Indian customers.
- New Technology and life style trends creating replacement demand.
- Increase in rural income as well as urbanization.
- Increase in easy access to credit and consumer awareness
- Growth of modern trade format across urban, Tier I, Tier II and tier III cities and towns.
- Rapid urbanization and growing trend towards nuclear families.

Table – 2: Key Players in the Indian Retail Market are as follows.

Pantaloon Retail Ltd (Future Group Venture)	Over to million sqft retails spread over 35 cities with 65 stores and 21 factory out lets.
Shoppers Stop (K.Raheja Group Venture)	Over 3.21 Million Sqft of retails space spread over 23 cities with 51 Stores.
Spencers Retail (Par of RP-SCR Group)	Retail foot age of close to 1 million Sqft across 45 cities with 200 stores.
Life Style Retail (Land Mark Group Venture)	Approximately 15 life style and 8 home center stores.
Bharathi Retails	74 easy day stores with plant to invest about 2.5 billion USD over the next 5 years to add about 10 million sqft of retail space in the country.
Reliance Retail	700 Stores with a revenue of 7600 Crores INR

Aditya Birla “More”	575 Stores with approximate revenue of 2000 crores INR. Recently, Purchased stake in Pantaloon Retail.
Tata Trent	59 west Side stores, 13 Star Bazaar hyper markets and 26 Land mark book stores.

Source: Media Report, Company Web Site.

Foreign Entrants in the Indian Segment are as follows.

- ❖ Germany – based Metro Cash and Carry opened 6 whole sale center in the country.
- ❖ Wal mart with Bharathi retail, owners to Easy Day Stores.
- ❖ British Retailer Tesco Plc (TESCO), Signed an agreement with Trent Ltd (Trent), the retail arm of Tata group to set up Cash – and – Carry stores.
- ❖ Carrefour opened its first cash-and-carry store in New Delhi.

Background and Recent Developments for FDI in Retail Sector which has raised lot of controversies in political circles:

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

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

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

2006: FDI in cash and carry (wholesale) was brought under automatic approval route: Upto 51% investment in single by subject to Press Note 3 (2006 series)

2011: 100% FDI in Single Brand Retail allowed.

2012: On Sept. 13, Government approved the allowance of 51 percent foreign investment in multi-brand retail, (It also aviation and broadcasting sectors).

Conclusion

FDI has boomed in Post reform India. At the same time, the symphony and type of FDI has changed considerably. The above analysis shows that FDI has positive and negative effects on India economy. It can be concluded that to keep pace with the forecast of Indian GDP, government should encourage foreign investment. A number of concerns have been raised about opening up the retail sector to FDI in India. In this paper I had explain that the procedures and policies, benefits and key players in the retail market in India. The Potential benefits from allowing large retailers to enter the Indian Retail Market may balance the costs but organized retails such as hyper markets, super markets and departmental stores is still rare in India accounting for the just 5%. It is also expected that technical know-how from foreign firms, such as warehousing technologies and distribution systems, for example, will lend itself to improving the supply chain in India, especially for agricultural produce.

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Chapter 19

IMPACT OF FDI ON SELF EMPLOYMENT IN INDIA

DR.VASA.PRABHAKAR

Introduction

FDI in retail industry means that foreign companies in certain categories can sell products through their own retail shop in the country. At present, foreign direct investment (FDI) in pure retailing is not permitted under Indian law. Government of India has allowed FDI in retail of specific brand of products. As India is one of the developing countries, so FDI must be kept under control as it can affect the economy of the country.

Foreign direct investment (FDI) plays an important role in Indian economic growth dynamics. There are several examples of the benefits of FDI in India. FDI in the retail sector can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit to the consumers and suppliers (farmers). The result is also net gains in employment at the aggregate level. Author has been given forth a few conceptual issues and analysis of qualitative information, data and stylized facts. Author takes following methods - Foreign direct investment in India, surveys retail sector growth forecasts in India, highlights components raised by opponents of liberalising FDI in retail trade, provides arguments in favour of allowing foreign competition in this sector, and outlines challenges for organised retail in India **(**Dr. Sulochana Chhajed).

Review of Literature

FDI and retailing are the current burning issues and several researches were conducted in this area. It is an interesting subject for research scholars and policy makers. The literature review mainly focused on huge untapped markets in Indian retail and the opportunities available in the Indian market for the growth of organized retail. New policy of 30% of obtaining manufactured and processed products should be secured from small industry (Department of Industrial Policy and Promotion Statistics, 2012). Experts' points out that Indian retail trade sources more than 30% from small industry currently. The FDI policy is not ensuring a concession on this matter. Basu (2012) states that as of now only ten states in the country have endorsed the Centre's decision to allow FDI in multi-brand retail. Singhal (2011) reports that with a contribution of 14 percent to the national GDP and employing 7 percent of the total workforce in the country, the retail industry is definitely one of the pillars of the Indian economy. Sinha (2003) viewed that traditional outlets are preferred as consumers can bargain while modern outlets are preferred

because they link entertainment with shopping. Soundararajan (2009) preferred modern outlets as they provide better product quality, lower prices, one-stop shopping, choice of more brands and products, better shopping experiences with family and fresh stocks etc. Study (McKinsey Report, 2012) states that the retail productivity in India is very less compared to other International counterparts. The over-all retail employment in India, account for about 6% of current Indian labour force, mostly unorganized, and which is about half when compared to the other emerging economies.

In the period 1970s, international trade grew more rapidly than FDI, and thus international trade was by far than most other important international economic activities. This situation changed radically in the middle of the 1980s, when world FDI started to increase sharply. In this period, the world FDI has increased its importance by transferring technologies and establishing marketing and procuring networks for efficient production and sales internationally (Shujiro Urata, 1998).

Impact of FDI

But now-a-days, it seems that impact of FDI on India is a negative one. From a position of 8th rank in 2009 India has fallen to 14th position as country attracting largest FDI, according to "World Investment Report 2011" by United Nations Conference on Trade and Development (UNCTAD). Developing countries like Singapore, Thailand, Taiwan, Malaysia etc. are attracting a higher FDI inflow than India. A number of studies and reports highlight the weakness of India as a falling FDI destination. In the latest study from World Bank "Ease of Doing Business in India 2011" India is ranked as 134 out of 183 countries. GD on impact of FDI on India can have different faces.

India is basically agrarian country. The Indian economy remains primarily agrarian despite making enormous grow in information Technology, science, commerce and industry. Despite the tide of urbanization, Current Population of India - India, with 1,270,272,105 (1.27 billion) people is the second most populous country in the world, while China is on the top with over 1,360,044,605 (1.36 billion) people. The figures show that India represents almost 17.31% of the world's population, which means one out of six people on this planet live in India. With the population growth rate at 1.58%, India is predicted to have more than 1.53 billion people by the end of 2030. More than 50% of India's current population is below the age of 25 and over 65% below the age of 35. About 72.2% of the population lives in some 638,000 villages and the rest 27.8% in about 5,480 towns and urban agglomerations. India as per 2011 Population Census is 74.04%, with male literacy rate at 82.14% and female at 65.46%.

For this huge population India needs trillions of dollars to build infrastructure, hospitals, housing and schools for its growing population. The Indian economy is small, with limited surplus capital. The government is already operating on budget deficits. It is simply not possible for Indian investors or the government to fund this expansion, job creation and growth at the rate India needs. There is a way to create the quality employment opportunities to the unemployed youth by way of encouraging self employment through establishing micro and small enterprises.

Table 1: Performance of MSME: Working enterprises, Employment and market value of assets

Sl. No.	Year	Total Working Enterprises(in Lakh)	Employment (in Lakh)	Market Value of Fixed Assets (Rs. in Crore)
I	II	III	IV	V
1	2001-2002	105.21	249.33	154,349.00
2	2002-2003	109.49	260.21	162,317.00
3	2003-2004	113.95	271.42	170,219.00
4	2004-2005	118.59	282.57	178,699.00
5	2005-2006	123.42	294.91	188,113.00
6	2006-2007	361.76	805.23	868,543.79
7	2007-2008 #	377.36	842.00	920,459.84
8	2008-2009 #	393.70	880.84	977,114.72
9	2009-2010 #	410.80	921.79	1,038,546.08
10	2010-2011 #	428.73	965.15	1,105,934.09
11	2011-2012 #	447.66	1011.80	1,183,332.00
12	2012-2013 #	467.56	1061.52	1,269,338.02

Source: Annual Report 2013-2014Government of India Ministry of Micro, Small and Medium Enterprises

--- Including activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transport and storage & warehousing (except cold storage) for which data was extracted from Economic Census 2005, Central Statistics Office, MOSPI.

--- Estimated on the basis of per enterprises value obtained from sample survey of unregistered sector for activities of wholesale/retail trade, legal, education & social services, hotel & restaurants, transports and storage & warehousing(except cold storage) which were excluded from Fourth All India Census of MSMEs, unregistered sector .

-- Projected

As per available Statistics (4th Census of MSME Sector, India), this sector employs an estimated 597 lakh persons spread over 467.56 lakh enterprises. It is estimated that in terms of value, MSME sector accounts for about 45% of the manufacturing output and around 40% of the total export of the country. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors[1]. (Government of India Ministry of Micro, Small and Medium Enterprises Annual Report 2013-2014).

Table 2: Summary Results of Fourth All India Census of Micro, Small and Medium Enterprise sector (Lakh) (2006-2007)

Sl. No.	Characteristics	Registered Sector	Unregistered Sector	Total
1	Total number of working enterprises	**15.64**	**346.12**	**361.76**
	Manufacturing	10.5	104.51	115.01
	Services	5.14	241.61	246.75
2	Number of rural enterprises	7.07	193.12	200.19
3	Number of urban enterprises	8.75	153	161.57
4	Number of women enterprises	2.15	24.46	26.6
5	Employment	93.09	712.14	805.24
	Manufacturing	80.84	239.23	320.07
	Services	12.26	472.91	485.17
6	Employment	93.09	712.14	805.24
	Male	74.05 (79.55%)	610.62	684.68
	Female	19.04 (20.45%)	101.52	120.56
7	Enterprises by type of social category	15.64	346.12	361.76
	SC	1.19	27.15	28.34
	ST	0.45	20.4	20.84
	OBC	5.99	145.74	151.73
	Others	8.01	149.55	157.57

Source: Annual Report 2013-2014 Government of India Ministry of Micro, Small and Medium Enterprises

Table 3: Fourth All India Censuses of Micro, Small and Medium Enterprises 2006-07: Registered Sector Summary Results

Sl. No	Characteristics	Number	Percentage
1	Total number of Enterprises (Lakh)	15.64	
2	Number of Rural Enterprises (Lakh)	7.07	45.23%
3	Number of Women Enterprises (Lakh)	2.15	13.72%
4	**Number of Enterprises by Type: (Lakh)**		
	Micro Enterprises	14.85	94.94%
	Small Enterprises	0.76	4.89%
	Medium Enterprises	0.03	0.17%
5	**Number of Enterprises by type of Social Category: (Lakh)**		
	Enterprises by type of social category		
	SC	1.19	7.60%
	ST	0.45	2.87%
	OBC	5.99	38.29%
	Others	8.01	51.24%
6	**Employment: (Lakh)**		
	Micro Enterprises	65.34	70.19%
	Small Enterprises	23.43	25.17%
	Medium Enterprises	4.32	4.64%

Source: *Annual Report 2013-2014 Government of India Ministry of Micro, Small and Medium Enterprises*

As we are in the category of developing country and to develop properly we need to control the country's economy very carefully. If the % in FDI in retail sector (multi-brand) is increased then the investment in India's retail market will be from foreign investors and the profits are also drained to the investors. And moreover in INDIA, the retail sector mainly depends upon the agricultural sectors and the producer and if FDI is increased then it is going to affect the agricultural sector of the Country very badly and which will affect the country's economy. And if the % of FDI is increased to 100% in retail (both single and multi-brand) sector then government will lose the control over this sector completely and then it cannot help in controlling this sector with its rule and regulations as the whole retail sector would be privatized. And this privatization can make a very serious effect on the country's economy. Foreign Direct Investment (FDI) is a vital ingredient of the globalization efforts of the world economy.

Impact of FDI in Retail on MSME The recent government policy decision to permit 100% foreign direct investment in retail segment particularly in the multi-brand arena and 51% in single brand has not gone down well with small and medium entrepreneurs, cutting across party lines. Moreover with governments flip flop on the policy guidelines and provisions, the MSME is sector is the most worried lot. In order to protect the interest of MSME sector, government in year 2011, announced in the floor of Parliament about mandatory 30 percent sourcing from MSME. In respect of proposals involving FDI beyond 51%, sourcing of 30%, of the value of goods purchased, will be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors, where it is feasible. The quantum of domestic sourcing will be self-certified by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts which the company will be required to maintain. For the purpose of ascertaining the sourcing requirement, the relevant entity would be the company,

incorporated in India, which is the recipient of FDI for the purpose of carrying out single-brand product retail trading[2] . This clause was still accepted by industry and its apex bodies. CII on also supported the government decision of mandatory 30 percent sourcing from Indian micro and small (SME) units by the foreign single-brand retailers, who wish to hold more than 51 percent stake in their units in this country[3]. It believed that the mandatory 30 per cent sourcing from Indian micro and small industry will give a fillip to the small scale businesses and would also assist SMEs to achieve higher growth in sales, size of the industry, capacity addition, increased contracts/orders, qualitative improvements and products branding, technology up gradation, employment etc[4].

However in September 2012, government while notifying the executive order changed its own position. Anand Sharma, Union Commerce Minister, Sourcing of a minimum of 30 per cent from Indian micro and small industry having capital investment of not more than $1 million is mandatory, and there is no compromise on it[5]. Mandatory provision became suggested provision; meaning the foreign investors are not bound to purchase anything from Indian manufacturers.

And one of the disadvantage of FDI in retail sector is that as we know that the retail sector is one of the major employment provider and permitting FDI in this sector can displace the unorganized sector and leading to loss of livelihood the most favoring example is if wall mart entry in retail sector is allowed then it will kill the millions of local shops and jobs. The global retailers would exercise monopolistic power to raise prices and monopolistic power to reduce the prices received by the supplier. Hence both the consumer and supplier would lose while the profit margin in such retail change would go up.

Some people believe that there is relatively lesser threat and more opportunity for MSME after the arrival of foreign led retail chains. It is foolish to expect foreign retail chains to make local purchase when they can easily import cheap goods from other parts of the world and market the same at cheaper price. With the opening of retail trade space in India, the traditional retail ecology is bound to be disturbed and the ill effects are going to set in. The traditional retailer will face a survival challenge from resourceful mega retail chains, which are not just capable of investment of money, but are also capable to control the market economics and fundaments.

Advantages of FDI in Retail in India

- Growth in Economy
- Job Opportunities
- Benefits to Farmers
- Benefits to consumers
- Lack of Infrastructure
- Cheaper Production facilities
- Availability of new technology
- Long term cash liquidity
- Conducive for the country's economic growth
- FDI opens up a new avenue for Franchising

Disadvantages of FDI in Retail in India

- Impact on Local Markets (Kirana Shops)
- Limited Employment Generation

- Fear of Lowering Prices
- Negative Impact on Indian Economy
- Negative Impact on Indian Domestic Market

CONCLUSION:

The paper concludes that on FDI in retail has a negative effect to retail sector and employment. Due to which cheaper products may be available but in a long run stores like walmart will destroy the retail market and self employment opportunities in developing countries like India.

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Chapter

20

ROLE OF FOREIGN DIRECT INVESTMENT IN SERVICE SECTOR IN INDIA

DR.U.SANKARA

INTRODUCTION

FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Service Sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

Need and importance of the study

The flow of FDI in Indian service sector is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. This sector attracting a significant portion of total FDI in Indian economy and economic reforms in India. Is this contribution of FDI in this sector is stimulating the economic growth or not, this knowledge thrust of research scholar create the interest in conducting this study.

Objectives of the study

- To study the relationship between service sector growth and Indian economy.
- To study the Foreign Direct Investment inflows in Indian Service Sector (2007-2012)

Methodology of the study

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, newspapers, etc.

Services Sector contribution to the Indian Economy

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounts for around 53.8% in 2005. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP.

The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

Recent trends in Indian service sector

By services sector we mean the tertiary sector, which is the largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP) in India. The service sector comprises trade, hotels and restaurants, transport, storage, communication, financing, insurance, real estate and business services, community services (public administration and defence) and other services. This sector provides services of final consumption nature as well as intermediate nature, the latter accounting for a major share. Substantial parts of services such as transport and communications are in the form of intermediate inputs for production of other goods and services.

Table 1: Annual Growth in India's Services GDP at Factor Cost (Constant Prices)

SECTOR	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**20011-12**
Trade, Hotels &Restaurants	10.1	5.7	7.8	9.0	11.2
Financing, Insurance, Real Estate& Business services	12.0	12.0	9.4	10.4	9.1
Construction	10.8	5.3	7.0	8.0	4.8
Total service(including construction)	10.3	9.4	10.0	9.2	8.8
Total GDP	**9.3**	**6.7**	**8.4**	**8.4**	**6.9**

(Source: Economic survey 2011-2012)

Table-2: Annual Growth in India's Services GDP at Factor Cost (Current Prices)

SECTOR	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
Trade, Hotels &Restaurants	17.1	16.9	16.6	16.9	25.2
Financing, Insurance, Real Estate& Business services	15.1	15.9	15.8	16.4	16.9
Construction	8.5	8.5	8.2	8.2	8.1
Total service(including construction)	61.2	62.4	63.0	63.3	64.4

(Source: Economic survey 2011-2012)

The Role of FDI in Service Sector

FDI plays a major role in the dynamic growth of the service sector. According to the definition of International Monetary Fund (IMF), FDI includes equity capital, inter- company debt transactions, reinvested earnings of foreign companies, financial leasing, trade credits, grants, venture capital by foreign investors, investments through GDRs and ADRs, Foreign Currency Convertible Bonds (FCCB) are also treated as FDI. FDI is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from investor. The exchange of such investment flows benefits the home country and the host country.

FDI can play catalytic role in a growing economy like India. The role of FDI is becoming increasingly significant in the Indian economy. The service sector in India has tremendous growth potential and as a result it attracts huge FDI. The top 5 subsectors attracting FDI inflows are in service sector.

These are as below:

• The Computer Software and Hardware enjoy the permission of 100% FDI under automatic route.

• The limit of FDI in Telecom sector was increased from 49% to 74%. FDI upto 49% is permissible under automatic route but FDI in the licensee company/Indian promoters including their holding companies shall require approval of FIPB.

Table 3: Services attracting highest FDI equity inflows (Rs. Crore)

SECTOR	2009-10	2010-11	2011-12
Service sector (Financial& Non-Financial)	19945	15053	24656
Telecommunications	12247	7542	9012
Computer software &hardware	4127	3551	3804
construction	13469	4979	15236

(*Source: Compiled from Department of Policy & Promotion Data*)

CONCLUSION

The study concludes that FDI inflows have shown significant growth after the economic reforms of 1991 especially in service sector. Removal and relaxation of restrictions on FDI inflows in the service sector may also be considered which will help in the geometrical growth of the Indian economy. Though the economic and financial crisis in the world have made a deepening impact on overall FDI flows. FDI has declined in all the services at different rates. Yet the FDI has become necessity for inclusive growth.

Table 4: Ranking of Country wise FDI equity flows (US$ in million)

Ranks	country	2010-11	2011-12	2012-13 (April to Nov)	% to totalinf lows(in terms of US$
1	Mauritius	31855	46710	39258	38%
2	Singapore	7730	24712	8253	10%
3	U.K	12235	36428	3272	9%
4	Japan	7063	14089	8614	7%
5	USA	5353	5347	2054	6%
6	Netherland	5501	6698	5941	4%
7	Cyprus	4171	7722	1853	4%
8	Germany	908	7452	2575	3%
9	France	3349	3110	2529	2%
10	UAE	1569	1728	642	1%
Total FDI Inflows		**97320**	**165146**	**86225**	**100%**

(*Source: compiled from ww.rbi.org*)

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Chapter 21

FDI IN INSURANCE: IMPACT ON INDIAN ECONOMY

Y. VENUPRASAD & DR. K. RAVINDHER REDDY

Introduction

Recently The Cabinet Committee on Economic Affairs headed by Prime Minister Narendra Modi has approved the limit of Foreign Direct Investment (FDI) in Insurance sector to 49 percent from the existing 26 percent. The cabinet has cleared the FDI limit in insurance companies through FIPB route which necessitates the management control with the Indian promoters. It is expected that the higher FDI cap will immensely help the insurance sector which is extremely short on investments. So this paper is prepared to assess the impact of FDI in insurance in India.

FDI in insurance sector inculcates the savings habit, which in turn generates long-term investible funds for infrastructure building. In India, insurance sector is one of the most vial sectors as it ensures constant inflow of funds – the payout is staggered and contingency related – thereby making it readily available for investment on infrastructure building. Insurance Sector contribute to GDP, is quite insignificant. Insurance Sector, in India, had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to 26 per cent. When it was done, many private companies are now into the insurance business. But now the new government in 2014, through The Insurance Laws (Amendment) Bill aims to raise the ceiling on foreign direct investment (FDI) in insurance to 49 per cent from the current 26 per cent limit. This will mark the new beginning in the insurance sector and will bring a lot of capital inflows in the Indian economy.

Objectives of the Study

The main objectives of the study are as follows:

- To study the role of FDI in economic Development
- To study the strengths and weakness of the FDI in insurance
- To study the issues involved in the FDI in insurance.
- To study the Effects of FDI in Insurance on Indian Economy:

Need for the Study

FDI inflows helps the developing countries to develop a transparent, broad, and effective policy environment for investment issues as well as, builds human and institutional capacities

to execute the same. The insurance sector is of considerable importance to every developing economy; it inculcates the savings habit, which in turn generates long-term investible funds for infrastructure building. So this study is undertaken.

Methodology

The analytical, descriptive and comparative methodology has been adopted for this paper and the data is mainly secondary with extracting the information from books, journals, newspapers and online databases and on the views of experts in the concerned area.

What is Foreign Direct Investment?

Foreign Direct Investment, generally speaking, refers to the capital inflows from abroad that invest in the production capacity of the economy and are "usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors.

Role of FDI in Economic Development

When any nation progresses or say prosper, it is reflected by the pace of its sustained growth and development. In order to grow and develop economically, investments provides the base and pre-requisite. A nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, do contribute to nation development but apart from above factors, magnitude and quality of foreign investment is necessary for the wellbeing of a country.

Developed nations, across the whole globe, consider FDI as the safest type of international capital flows out of all the available sources of external finance available to them. During 1990s, FDI inflows rose faster than almost all other indicators of economic activity worldwide. Developing nations like India looks FDI as a source of filling the savings, foreign exchange reserves, revenue, trade deficit, management and technological gaps. There are several factors as to why FDI should be considered as an instrument of international economic integration as it brings a package of assets including capital, technology, managerial skills and capacity and access to foreign markets.

Taking into account the above factors, government of India decided to increase the FDI cap in the insurance sector as well as in the Defence Sector, taking the threshold to 49% in both the sectors. The above step was taken during the monsoon session of the parliament, when the new government in power announced the Finance budget for the year 2013-14.

Strengths for FDI in Insurance

- **Increased Insurance Penetration**– With the population of more than 100 crores, India requires Insurance more than any other nation. However, the insurance penetration in the country is only around 3 percent of our gross domestic product with respect to over-all premiums underwritten annually. This is far less as compared to Japan which has an insurance penetration of more than 10 percent. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.
- **Level Playing Field –** With the increase in foreign direct investment to 49 percent, the insurance companies will get the level playing field. So far the state owned Life Corporation of India controls around 70 percent of the life insurance market.
- **Increased Capital Inflow** – Most of the private sector insurance companies have been making considerable losses. The increased FDI limit has brought some much needed

relief to these firms as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.

- **Job Creation** –With more money coming in, the insurance companies will be able to create more jobs to meet their targets of venturing into under insured markets through improved infrastructure, better operations and more manpower.
- **Favourable to the Pension Sector** –If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.
- **Consumer Friendly** – The end beneficiary of this amendment will be common men. With more players in this sector, there is bound to be stringent competition leading to competitive quotes, improved services and better claim settlement ratios.

Weakness for FDI in Insurance

Even after the liberalization of the insurance sector, the public sector Insurance companies have continued to dominate the insurance market.

- In the long run, other forms of non-price competition like aggressive advertisement wars are likely to lead to increasing costs, eventually harming the interests of the consumers.
- A key challenge for India's non-life insurance sector will be to reform the existing tariff structure. From a pricing perspective, the Indian non-life segment is still heavily regulated.
- Reinsurance is only provided by GIC

Issues in FDI in Insurance Sector:

1. Efficiency of the companies with FDI: The opening up of this sector for private participation in 1999, allowed the private companies to have foreign equity up to 26 per cent. Following this up 12 private sector companies have entered the life insurance business. Apart from the HDFC, which has foreign equity of 18.6%, all the other private companies have foreign equity of 26 per cent. In general insurance 8 private companies have entered, 6 of which have foreign equity of 26 per cent. Among the private players in general insurance, Reliance and Cholamandalam does not have any foreign equity. The aggregate loss of the private life insurers amounted to Rs. 38633 lakhs in contrast to the Rs.9620 crores surplus (after tax) earned by the LIC. In general insurance, 4 out of the 8 private insurers suffered losses in 2002-03, with the Reliance, a company with no foreign equity, emerging as the most Profitable player. In fact the 6 private players with foreign equity made an aggregate loss of Rs. 294lakhs. On the other hand the public sector insurers in general insurance made aggregate after tax profits of Rs. 62570 lakhs.

2. Credibility of foreign companies: The argument that foreign companies shall bring in more expertise and professionalism into the existing system is debatable after the recent incidents of the global financial crisis where firms like AIG, Lehman Brothers and Goldman Sachs collapsed. Earlier too, The Prudential Financial Services (ICICI's partner in India) faced an enquiry by the securities and insurance regulators in the U.S. based upon allegations of having falsified documents and forged signatures and asking their clients to sign blank forms. This was after it made a payment of $2.6 billion to settle a class-action lawsuit

attacking wrong insurance sales practices in 1997 and a $ 65 million dollar fine from state insurance regulators in 1996. AMP closed its life operations for new business in June 2003. Royal Sun Alliance also shut down their profitable businesses in 2002. A recent report by Mercer Oliver Wyman, a consultancy, found that European life insurance companies are short of capital by a whopping 60 billion Euros. According to the Mercer Oliver Wyman Report the German, Swiss, French and British insurers suffer from severe capital inadequacy, which is a result of undertaking risky investments in equity and debt instruments in the past. Hence FDI in Insurance in India would expose our financial markets to the dubious and speculative activities of the foreign insurance companies at a time when the virtues of regulating such activities are being discussed in the advanced countries.

3. Greater channelization of savings to insurance: One of the most important duties played by the insurance sector is to mobilize national savings and channelize them into investments in different sectors of the economy. However, no significant change seems to have occurred as far as mobilizing savings by the insurance sector is concerned even after the liberalization of the insurance sector in 1999. Therefore the private or foreign participation has not been able to achieve the goal.

4. Flow of funds to infrastructure: The primary aim of life insurance is about mobilizing the savings for the development of the economy in long term investment in social and infrastructure sectors. The same vision was argued for the opening up of insurance market would enable huge flow of funds into infrastructure. But more than fifty percent of the policies they sell are ULIPS where the investments go into the equity markets. As per a report, 95% of policies sold by Birla Sun Life and over 80 percent of policies sold by ICICI Prudential were unit-linked policies during 200 -04. Under these schemes, nearly 50 percent of the funds are invested in equities thus limiting the fund availability for infrastructural investments. On the other hand, the LIC has invested Rs.40,000 crore as at 31.3.2003 in power generation, road transport, water supply, housing and other social sector activities. IRDA figures further imply that the share of the public sector life and non-life insurance companies in investment in infrastructure is greater than their market share. Despite the FDI cap being set at 26%, the investment from the insurance sector to the infrastructure sector was predominantly from the public sector companies. Hence the point of raising the FDI cap in the insurance sector for mobilizing resources does not hold good

Effects of FDI in Insurance on Indian Economy:

Following will be the effect of the increase in the threshold in the Indian economy:

- Firstly, through this Insurance Laws (Amendment) Bill, a rise to 49% will be a composite cap – which means that foreign capital can flow in either as direct investment or via the portfolio route, or as a combination of both. So foreign investors can either directly buy equity from the company or can buy shares on the stock market.
- Secondly, it will lead to hike foreign holding in insurance joint ventures to 49 per cent which means that there will lot of foreign player coming to Indian market for direct investment.
- Thirdly, the laws will also provide for insurance companies to list on stock exchanges, which in turn will lead to barring public sector insurance companies, all other insurance companies will potentially benefit from a higher FDI cap. So there might be a possibility that public sector undertakings will face huge competition from the private sector undertakings.

- Fourthly, there was huge cry in the Indian market that through this increase there will be a situation where in the Indian entities might lose control but the bill provides that management must remain with India companies and the companies will have to go for approval of the Foreign Investment Promotion Board (FIPB) will be needed on any investment over 26 per cent.
- Fifthly there will be a huge inflow of money once the bill will be cleared in the parliament, which will in turn, infuse a higher foreign direct investment limit in insurance which could result in inflows of Rs. 40,000 crore to Rs. 60,000 crore over time, and immediate inflows of around Rs. 20,000 crore.
- Sixthly the increase in the Cap will help to increase Infra Investment with the help of private players or the foreign entities, in the Indian Market.
- Seventhly, with the increase in the cap, there will be enough chances to bring in new technologies and products in the insurance market, which was not available during the cap of 26%. Public Sector Undertakings were unable to provide enough chances to its customers to invest in their various policies. But now due to increase in the cap, the private entities will definitely provide new policies which will in turn bring lead to opening up the Insurance sector.

Conclusion:

Increase in cap in Insurance Sector will definitely boost up the Indian Economy due to wide scope of foreign players in the Indian Market. This will also help in increasing the employment level in India. The Indian market will certainly recover from the poverty and other social difficulties due to infusion of funds from the foreign countries. Insurance Sector will definitely improve and it will help Indian population at large. Other players in the market will get the level playing field across the whole India when it comes to Insurance sector because as of now only government companies are having monopoly in the above mentioned sector.

A strong domestic consumption, rural health, education, connectivity, high savings, low dependency on exports, burgeoning middle class, positive demographics, talent pool and intellectual capital are some of the key strengths of our economy. However, somewhere down the line, some bottlenecks started emerging as we did not pay enough attention to re-engineering and making our institutions contemporary with the growing needs and changing environment. One of the underlying needs is the building of an institutional and financial infrastructure and the latest move is a right step in the right direction

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Chapter

22

INFLOWS OF FOREIGN DIRECT INVESTMENT IN INDIA: AN ANALYTICAL STUDY

A. VENKATA PRASAD

Introduction:

Indian economy stands today as one of the influential and attractive economy. The liberalization move by the Indian Government in 1990s has given a boost to the Indian economy and put her into a fast track economic growth route. With the beginning of the new millennium, India was considered as an emerging super power. In 2009, Indian GDP based on purchasing power parity (PPP) stood at USD 3.5 trillion making it the fourth largest economy. India's service industry accounts for 62.5% of the GDP while the industrial sector contributes 20% to the GDP. The agricultural sector which was the back bone of Indian economy post-independence took a back seat in 21st century and contributed only 17.5% to the GDP. India growth rate has been an average of 7% since 1997 and has maintained a growth rate above 5% even in times of global recession.

Foreign investments add a great deal to India's economy. The continuous inflow of foreign direct investment (FDI), which is now allowed across several industries, clearly shows the faith that overseas investors have in the country's economy. FDI inflows to India increased 28 per cent in 2014 to reach US$ 36 billion, as per a United Nations (UN) report. Foreign direct investments helps in developing the economy by generating employment to the unemployed, Generating revenues in the form of tax and incomes, Financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for financial system. Forward and back ward linkages are developed to support the foreign firm with supply of raw and other requirements. It helps in generation of employment and also helps poverty eradication. FDI have helped India to attain a financial stability and economic growth with the help of investments in different sectors. FDI has boosted the economic life of India and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Trade policies in India, there has been a positive GDP growth rate in Indian economy.

"India has emerged as one of the largest global economies and the resilience of our economy is evident from the fact that the impact of the global financial crisis has been far

less severe in India than other countries," the President said while addressing Business Meeting at Finpro in Helsinki.

"Presently, our Foreign Direct Investment (FDI) policy is widely seen to be amongst the most liberal in the emerging economies, allowing up to 100 per cent FDI under the automatic route in several of our sectors and activities," he said, adding that it makes India an attractive destination for investments.

Need for the Study

India is suffering from the scarcity of financial resources and low level of capital formation because it has to majorly depend upon the external sources of Finance. Also the domestic resources are entirely inadequate to carry out development programmes that is why need of Foreign Investment in India. India possesses several advantages like superior IT technology; well developed industrial base, large consumer market, and abundant supply of skilled and educated workers who can fluently speak English are relatively low wage rates. Still, India attracts lesser inflows of FDI in comparison to other nations.

Research Methodology

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

Objective of the Study:

- To understand and analyze the global status of FDI in India
- To exhibit the year-wise & sector-wise analysis of FDI's in India.
- To Study the trends of FDI Flow in India during 2000-01 to 2014-15 (April-August)

Trends in FDI Inflows

International Economic Integration plays a vital role in Economic Development of any country. Foreign Direct Investment is one and only major instrument of attracting International Economic Integration in any economy. It serves as a link between investment and saving. This section briefly presents the recent trends in global (developing economies) capital flows particularly to emerging economies including India.

Global Trends in FDI Inflows:

FDI flows to developing economies reached a new high at $778 billion (table.1), accounting for 54 per cent of global inflows, although the growth rate slowed to 7 per cent, compared with an average growth rate over the past 10 years of 17 per cent. Developing Asia continues to be the region with the highest FDI inflows, significantly above the EU, traditionally the region with the highest share of global FDI. FDI inflows were up also in the other major developing regions, Africa (up 4 per cent) and Latin America and the Caribbean (up 6 per cent, excluding offshore financial centres).

In 2013, FDI flows returned to an upward trend. Global FDI inflows rose by 9 per cent to $1.45 trillion in 2013. FDI inflows increased in all major economic groupings −

developed, developing, and transition economies. Global FDI stock rose by 9 per cent, reaching $25.5 trillion. UNCTAD projects that global FDI flows could rise to $1.6 trillion in 2014, $1.75 trillion in 2015 and $1.85 trillion in 2016. The rise will be mainly driven by investments in developed economies as their economic recovery starts to take hold and spread wider.

Table 1: FDI Inflows, by Region wise 2011-13

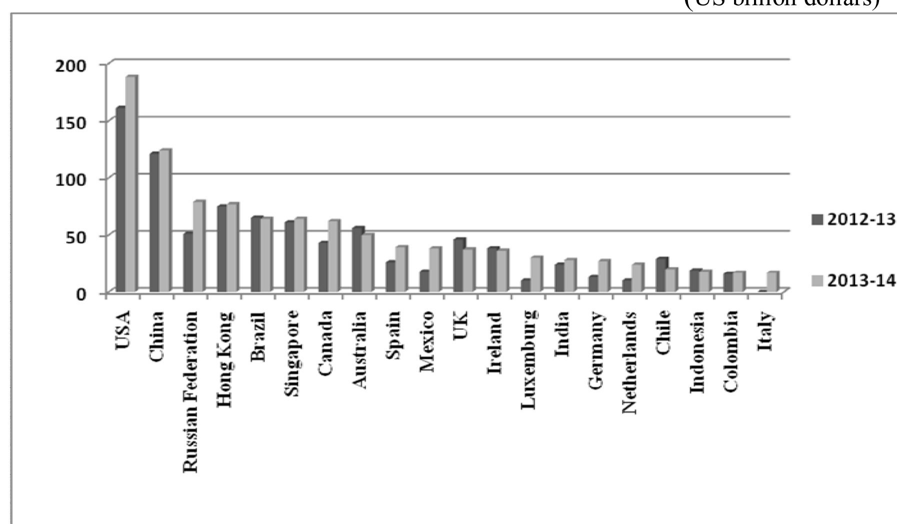
(Billions of dollars and Per cent)

Region	FDI Inflows			Percentage (%) share in world FDI Inflows		
	2011	2012	2013	2011	2012	2013
World	**1700**	**1330**	**1452**	--	--	--
Developed Economies	880	517	566	51.8	38.8	39.0
European Union	490	216	246	28.8	16.2	17.0
North America	263	204	250	15.5	15.3	17.2
Developing Economies	725	729	778	42.6	54.8	53.6
Africa	48	55	57	2.8	4.1	3.9
Asia	431	415	426	25.3	31.2	29.4
East and South-East Asia	333	334	347	19.6	25.1	23.9
South Asia	44	32	36	2.6	2.4	2.4
West Asia	53	48	44	3.1	3.6	3.0
Latin America and Caribbean	244	256	292	14.3	19.2	20.1
Oceania	2	3	3	0.1	0.2	0.2
Transition Economies	95	84	108	5.6	6.3	7.4

Source: World Investment Report, 2014

Fig. 1: FDI Inflows in Top – 20 host Economies in the World, 2012 and 2013

(US billion dollars)



Source: World Investment Report, 2014, Published by UNCTAD

Although FDI to developed economies resumed its recovery after the sharp fall in 2012, it remained at a historically low share of total global FDI flows (39 per cent), and still 57 per cent below its peak in 2007. Thus, developing countries maintained their lead over developed countries by a margin of more than $200 billion for the second year running. Developing countries and transition economies now also constitute half of the top 20

economies ranked by FDI inflows (figure 1). Mexico moved into tenth place and India on fourteenth place. China recorded its largest ever inflows and maintained its position as the second largest recipient in the world.

TRENDS IN FDI INFLOWS IN INDIA

Table 2: FDI Inflows in India during 2000-01 to 2014-15(April-Aug)

(US $ million)

S.No.	Financial Year	Total FDI Flows	% age growth over previous year (in US $ terms)
1	2000-01	4029	--
2	2001-02	6,130	+52%
3	2002-03	5,035	-18%
4	2003-04	4,322	-14%
5	2004-05	6,051	+40%
6	2005-06	8,961	+48%
7	2006-07	22,826	+146%
8	2007-08	34,843	+53%
9	2008-09	41,873	+20%
10	2009-10	37,745	-10%
11	2010-11	34,847	-8%
12	2011-12	46,556	+34%
13	2012-13	34,298	-26%
14	2013-14	36,396	+6%
15	2014-15 (April – August, 2014)	17,445	--
	Cumulative Total from April 2000 to August,2014	3,41,357	--

Source: http://www.rbi.co.in

India’s economic reforms way back in 1991 has generated strong interest in foreign investors and turning India into one of the favourite destinations for global FDI flows. Many developing countries like India are facing the deficit of savings. This problem can be solved with the help of Foreign Direct Investment. Foreign investment helps in reducing the defect of Balance of Payments. The flow of foreign investment is a profit making industry like insurance, real estate and business services and serving as a catalyst for the growth of economy in India.

Total FDI inflows into India in the period April 2000–August 2014 touched US$ 3, 41,357 million. Total FDI inflows into India during the period April–August FY15 was US$ 17,445 million (table-2). The services sector (US$ 2,336 million) attracted the highest

FDI equity inflows in the period April–August 2014, followed by the services (US$ 1,086 million) and drugs & pharmaceuticals (US$ 903 million) sectors.

Table 3: Share of Top Ten Investing Countries FDI Equity Inflows in India

(US$ in millions)

Ranks	Country	2012-13 (April - March)	2013-14 (April – March)	2014-15 (April-August, 2014)	Cumulative Inflows (April 2000 - August 2014)	%age to total Inflows (in terms of US $)
1.	Mauritius	9,497	4,859	3,934	82,459	36 %
2.	Singapore	2,308	5,985	1,892	27,337	12 %
3.	United Kingdom	1,080	3,215	827	21,591	9 %
4.	Japan	2,237	1,718	897	17,165	8 %
5	Netherlands	1,856	2,270	1,562	12,797	6 %
6	United States	557	806	394	12,321	5 %
7	Cyprus	490	557	283	7,729	3 %
8	Germany	860	1,038	377	6,895	3 %
9	France	646	305	192	4,070	2 %
10	Switzerland	180	341	114	2,822	1 %
	Total FDI Inflows from all Countries*	22,423	24,299	12,014	229,716	85% (Top -10 total cumulative %age)

Source: http://www.indiastat.com

*Includes inflows under NRI Schemes of RBI.

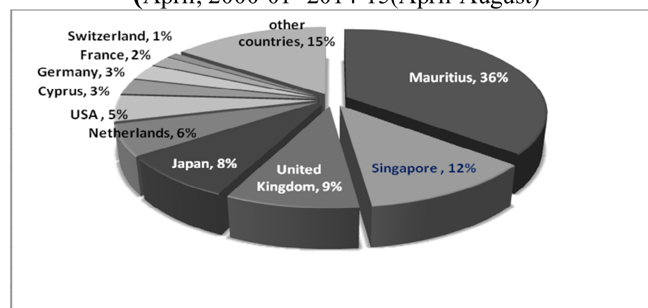
Note: (i) Cumulative country-wise FDI equity inflows (from April, 2000 to August, 2014)

(ii) %age worked out in US$ terms & FDI inflows received through FIPB/SIA+ RBI's Automatic Route + acquisition of existing shares only.

Table -3 shows that the country Mauritius led the share of top investing nations by FDI equity inflows into India with US$ 3,934 million during April-August FY15, followed by Singapore (US$ 1,892 million), the Netherlands (US$ 1,562 million), the Japan (US$ 897 million) and United Kingdom (US$ 827 million).

Fig.2 **Cumulative FDI Inflows to India (%)**

(April, 2000-01- 2014-15(April-August)



Source: Consolidated from Table.4

The country Mauritius had the largest share of FDI inflows at 36% amongst top countries investing in India. Singapore (12%), United Kingdom (9%), Japan (8%) and Netherlands (6%) were the other countries in the top five lists (Fig.2)

The Sector wise FDI flows in India:

India attracted FDI equity inflows of US$ 36,396 million in 2013-14. The cumulative amount of FDI equity inflows from 2000-01 to 2014-15 (April – August) stood at US$ 3,41,357 million, according to the data released by the Department of Industrial Policy and Promotion (DIPP)

India attracted FDI equity inflows of US$ 36,396 million in 2013-14. The cumulative amount of FDI equity inflows from 2000-01 to 2014-15 (April – August) stood at US$ 3,41,357 million, according to the data released by the Department of Industrial Policy and Promotion (DIPP). Services sector is one of the most important sectors contributing to the sustained economic growth and development by contributing 62.5% to GDP. There is a continuously increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 (onwards).

Table.4: Sector - Wise Top - 10 FDI Equity Inflows

(US$ in millions)

Rank	**Sector**	**Cumulative Inflows (April '00 August '14)**	**% age to total Inflows (In terms of US$)**
1	Services Sector**	40,546	18%
2	Construction Development: Townships, Housing, Built – Up Infrastructure	23,752	10%
3	Telecommunications (radio paging, cellular mobile, basic telephone services)	16,499	7%
4	Computer Software & Hardware	13,191	6%
5	Drugs & Pharmaceuticals	12,500	5%
6	Automobile Industry	10,120	4%
7	Chemicals (Other than Fertilizers)	10,070	4%
8	Power	9,269	4%
9	Metallurgical Industries	8,268	4%
10	Hotel & Tourism	7,441	3%

Source: www.unctad.org/fdistatistics

Note: ** Services sector includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis

The Service sector comprising financial and nonfinancial services attracted 18 per cent of the total FDI equity inflow into India, with FDI worth US$ 40546 million during 2000-01 to 2014-15 (April-August) while construction activities including Town ship, Housing, Build-up infrastructure and attracted second largest amount of FDI worth US$ 23,752 billion (10%) during the same period. Telecommunications (radio paging, cellular

mobile, basic telephone services third highest sector attracting FDI worth US$ 16,499 million (7%) followed by Computer Software & Hardware which garnered US$ 13,191 million (6%) during the cumulative 2000-01 to 2014-15 (April-August). Drugs and Pharmaceuticals received FDI worth US$ 12,500 million (5%) while power attracted FDI worth US$ 9,269 million (4%) during above said period.

Government Initiatives:

India's cabinet has cleared a proposal which allows 100 per cent FDI in railway infrastructure, excluding operations. Though the move does not allow foreign firms to operate trains, it allows them to do other things such as create the network and supply trains for bullet trains etc. The Union Cabinet has cleared a bill to raise the foreign investment ceiling in private insurance companies from 26 per cent to 49 per cent, with the proviso that the management and control of the companies must be with Indians. The Reserve Bank of India (RBI) has allowed a number of foreign investors to invest, on repatriation basis, in non-convertible/ redeemable preference shares or debentures which are issued by Indian companies and are listed on established stock exchanges in the country.

India will require around US $1 trillion in the 12th Five-Year Plan (2012–17), to fund infrastructure growth covering sectors such as highways, ports and airways. This requires support in terms of FDI. The year 2013 saw foreign investment pour into sectors such as automobiles, computer software and hardware, construction development, power, services, and telecommunications, among others.

CONCLUSION:

On the basis of study we draw conclusion that maximum global foreign investment's flows are attracted by the developed countries rather than developing and under developing countries. Foreign investment flows are supplementing the scare domestic investments in developing countries particularly in India. FDI has helped the Indian economy grow and the government continues to encourage more investments of this sort. Attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. However India has tremendous potential for absorbing greater flow of FDI in the coming years. The Indian government's policy regime and a robust business environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defence, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. The same year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment

FDI has grown in its importance in India in the last two decades. Cumulative FDI inflows reached US$ 341,357 million between 2000-01to 2014-15(April-August). Since 2000-01, sectors such as services, construction hotels and tourism, drugs and pharmaceuticals, metallurgical industries, power, automobile, computer hardware and software have performed well in attracting FDI.

Service sector took the lion's share between 2000-01 to 2014-15 (April-August) in 18% of total FDI inflows. It was followed by construction (11%), Telecommunications (8%) and Computer software & hardware (6%).

Country wise, in 2014-15(April – August), Mauritius has been the largest investor in India accounting for 33% of the total FDI inflows. Singapore is the second largest investor in India accounting for 15.7% of inflows, followed by Netherlands (13%) Japan (7.4%) and U.K (6.8%). The investments from these countries are primarily concentrated in telecom, power, transportation and service sectors.

Our Prime Minister Shri Narendra Modi's favourite punch line for attracting foreign investments – **"no red tape, only red carpet".**

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Chapter 23

FOREIGN DIRECT INVESTMENT IN INDIAN SERVICE SECTOR

DR. S.BALAJI NAIK, D. SREENIVASA REDDY & DR. U. PRABHAKAR REDDY

INTRODUCTION

FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections.

FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Services Sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

Need and importance of the study

The flow of FDI in Indian service sector is boosting the growth of Indian economy, this sector contributes to a large share in the growing GDP of India. This sector attracts a significant portion of total FDI in Indian economy and it has shown especially in the second decade (2001 -2014) of economic reforms in India. Is this contribution of FDI in this sector is stimulating the economic growth or not, this knowledge thrust of research scholar create the interest in conducting this study.

Objectives of the study

- To study the FDI inflows in Indian Service Sector from 2001-2014.
- To analyze the relationship between service sector growth and Indian economy.

Methodology of the study

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

Services Sector contribution to the Indian Economy

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP.

The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

Recent trends in Indian service sector

By services sector it mean the tertiary sector, which is the largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP) in India. The service sector comprises trade, hotels and restaurants, transport, storage, communication, financing, insurance, real estate and business services, community services (public administration and defense) and other services. This sector provides services of final consumption nature as well as intermediate nature, the latter accounting for a major share. Substantial parts of services such as transport and communications are in the form of intermediate inputs for production of other goods and services.

Performance of service sector

The performance of services sector (Table 01) gives figures of the annual growth rates of GDP at factor cost and the services sector and its three constituent categories from 2001-02 onwards — that is the growth rates recorded by the three components of services:

A. Trade, hotel, transport and communication,
B. Financing, insurance, real estate, and
C. Other services.

Thus, **(Table - 01)** shows the growth of the service sector. It is clear from Table I that the service sector had higher aggregate rates of growth. 'Trade, hotels, transport and communications' segment has continuously registered higher growth rates up to 2006-07 and following years the growth rate has been decreased. In finance, insurance and real estate sector indicates that the growth rate is fluctuating. The last segments, i.e., other services increased up to 2005-06 and rest of the years indicates the growth rate has been decreased.

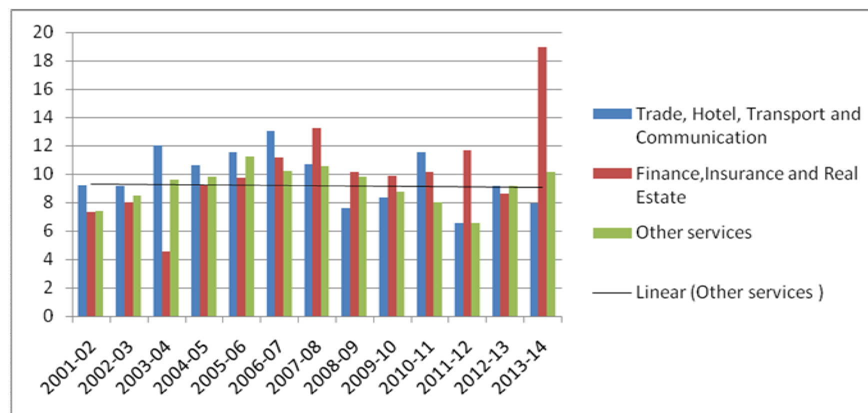
Table 1: Growth of Services Sector in India

(In Percent)

Year	Trade, Hotel, Transport and Communication	Finance, Insurance and Real Estate	Other services
2001-02	9	7	7.4
2002-03	9	8	8.5
2003-04	1	4	9.6
2004-05	1	9	9.8
2005-06	1	9	11.2
2006-07	1	11.1	10.2
2007-08	1	13.2	10.5
2008-09	7	10.1	9.8
2009-10	8	9.9	8.7
2010-11	1	10.1	8.0
2011-12	6	11.7	6.5
2012-13	9	8.6	9.1
2013-14	7	18.9	10.1

Source: Central Statistical Organization

Figure 1: Growth of Services Sector in India



FDI and Economic Growth

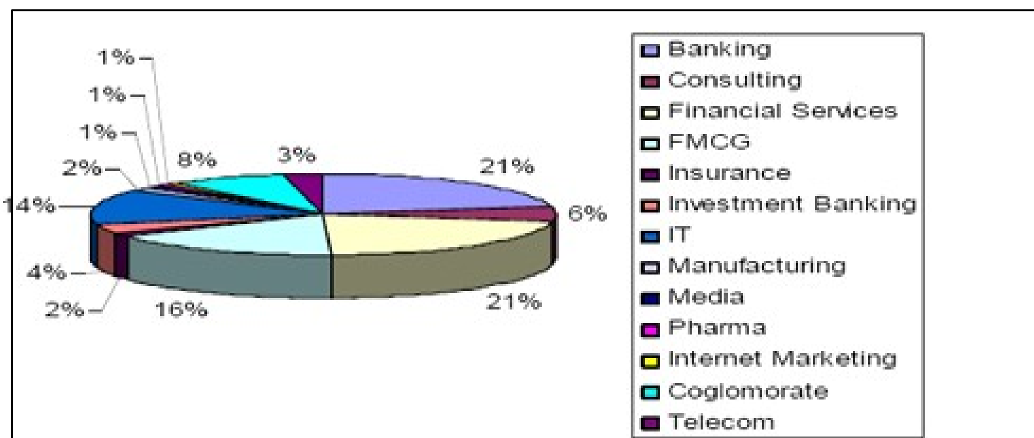
The IMF definition of FDI includes as many as twelve different elements-equity capital, reinvested earnings of foreign companies, intercompany debt transactions, short-term and long- term loans, financial leasing, trade credits, grants, bonds, non-cash acquisition of equity, investment made by foreign venture capital investors, earnings data of indirectly-held FDI enterprises, control premium and non-competition fee. India, however, does not adopt any other element other than equity capital reported on the basis of

issue or transfer of equity or preference shares to foreign direct investors. Figure - 01 shows the process how FDI is important in utilizing of our economic resources and generating the employment in country as well as important for creating economic prosperity.

Current Scenario of Employment in Indian Service Sector

The number of service sector jobs (skill and unskilled) has increased in India, new findings have revealed. A survey conducted by the country's Labor Ministry indicated that during the last quarter, employment in the industry rose to 15.72 million, Channel News Asia reported. The research revealed that two sectors have shown the strongest improvement in terms of hiring levels; information technology and business process outsourcing. Commenting on the findings, Nimish Adani, chief executive of workosaur.com, told Channel News Asia: "As far as employment is concerned, there have been certain short-term initiatives taken by the government." There has been an infusion of stimulus packages in sectors which were labor intensive. So, there has been a marginal improvement." Finance Services sector is growing with rapid rate, Finance sector is the second preferred choice of students of management postgraduate in top B-Schools in India, following figures are explaining the preference of skilled professional in Indian service sector. For analyzing the perception of skilled toward various segment of service sector, we have taken some data of top B- Schools in India. , Figure – 02 exploring the employment interest of MDI batch 2011-12, it has been analyzed that Banking and Financial services was the most preferred area by the students for their future employments.

Figure 02: Placement Batch 2011-12 MDI



It was same in case of IIM K and FMS **(Figure 03 & 04)** management student consulting and finance were the major options of students in comparison to other, it means FDI

in service sector is creating more opportunities in case of skilled employment India. If it will continue with this rate then the disposable income in India will go higher and creates more job opportunities.

Figure 03: Placement Batch 2011-12 IIM K Batch

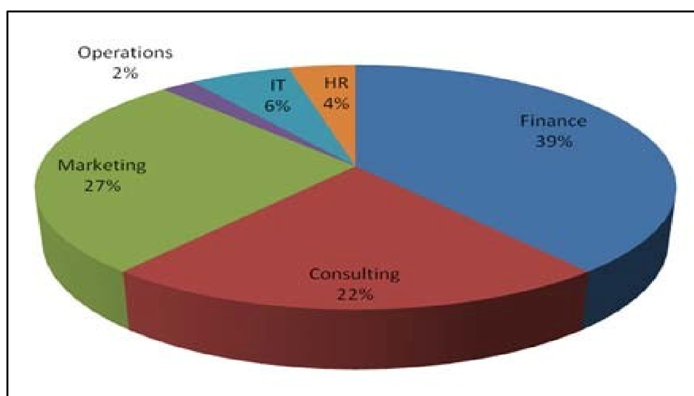
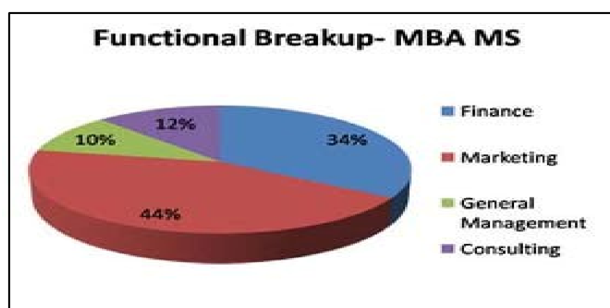


Figure 04: Placement Batch 2011-12 FMS Batch



CONCLUSION

The present paper found that the FDI is an important stimulus for the economic growth of India. FDI had shown a tremendous growth in second decade (2000 -2010) that is three times then the first decade of FDI in services sector. Banking & Insurance is first and Telecommunication is second segment of service sector which pick the growth in second decade of reforms. FDI create high perks jobs for skilled employee in Indian service sector.

It can be observed from the above analysis that at the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks.

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Chapter

24

FOREIGN DIRECT INVESTMENTS: BRICS ECONOMIES

H.RANJEETA RANI

Introduction:

In the past few decades, some large economies such as Brazil, Russia, India, China and South Africa (BRICs) have acquired a vital role in the world economy as producers of goods and services, receivers of capital, and as potential consumer markets. The BRICs economies have been identified as some of the fastest growing countries and the engines of the global recovery process, which underscores the changed role of these economies. Even in the G-20 countries' forum, BRICs are playing a formidable role in shaping the macroeconomic policy after the recent financial crisis. At present, these five countries encompass over 40 per cent of the global population and a share in world GDP (in PPP terms) that increased from 16 per cent in 2000 to nearly 27 per cent in 2011, and is expected to rise significantly in the near future. If one compares the GDP in PPP terms for 2011, five economies figure among the G-20 top ten, with China, India, Russia and Brazil in 2nd, 4th, 6th and 8th place respectively. In terms of contribution to growth of PPP-adjusted global GDP of the world, these four economies accounted for 55 per cent during 2000–11, and their contribution is expected to rise in the coming years.

According to an estimate by Goldman Sachs, the four original BRICs countries are expected to represent 47 per cent of global GDP by 2050, which would dramatically change the list of the world's 10 largest economies. An important change that we may expect over the medium to long term is that the top 10 countries in terms of GDP may be different from the top 10 countries in terms of per capita GDP. The inherent strength of the BRICs emanates from strong domestic demand-based economies in the case of India, South Africa and Brazil and the significant outward linkages of China and Russia.

Traditionally foreign direct investment (FDI) has flowed from advanced developed economies into developed and developing countries. More recently, a new trend has emerged in the pattern of FDI. Outward FDI from emerging economies has begun to increase significantly and has been growing at a faster pace than FDI from the advanced developed world in general. The Action seeks to develop and sustain an international research network to study the impact of this new phenomenon for BRICS nations.

Need for the Study

The goal of the network is to implement a research agenda that will be of value to all stakeholders and policy makers in BRICS economies as they grapple with this facet of globalization. In this context, the main purpose of this paper is to shed some light on to what extent multinationals from some of the major emerging economies, the so called BRICS countries (Brazil, Russia, India, China and South Africa), are directly involved.

Objectives of the Study

1. To analyse FDI flows in BRICS economies
2. To analyse the Stock of FDI flows
3. To study FDI stock in percent of GDP for the BRICS countries

BRICS counters and FDI

Table 1 and 2 shows the stock of FDI in Brazil, Russia, India, China (excluding Hong Kong) and South Africa from 2000 to 2011. It is the stock of outward FDI that reflects the expansion of multinationals originating in these emerging economies.

The growth column, where the stock of FDI in 2013 is measured relative to the stock in 2000, shows that, in nominal values, the stock of outward FDI for the BRICs countries has increased twenty times over a decade. This is a much higher growth rate than for the stock of inward FDI to these countries in the same period.

It is in particular the stock of outward FDI from China that envisages huge growth rates, however from a very low level. In addition, it is the stock of outward FDI form Russia and India that has grown most substantially in absolute terms. For India and China, the growth of outward FDI has been much faster than that of inward FDI. The same is true for Russia, but the difference here is not substantial. The growth rate, both with regard to outward and inward FDI, is much lower when it comes to Brazil where, in the same period outward FDI has grown faster than inward FDI and for South Africa, the growth of inward FDI has been much faster than that of outward FDC. Thus, the notion of rapidly expanding Southern multinationals does not hold true for all the BRICs countries.

The table also shows that the stock of outward FDI is smaller than the stock of inward FDI in each of the BRICc countries. This indicates that despite the emergence of Southern multinationals, emerging economies are still mainly host countries for multinational corporations.

Table 1. FDI inflows, by region and BRICS economies, 2000-2013

(Millions of dollars)

Region/economy	2000	2010	2011	2012	2013	Growth 2010/2000
World	1 415 016.9	1 422 254.8	1 700 082.4	1 330 272.9	1 451 965.4	1.0051
Developed economies	1 142 383.2	703 474.1	880 406.2	516 664.3	565 626.5	0.6158
Developing economies	266 646.1	648 207.6	724 839.9	729 449.2	778 372.4	2.4310
BRICS Total	**80 683.6**	**237 475.1**	**286 162.0**	**265 694.0**	**303 605.7**	2.9433
Brazil	32 779.2	48 506.5	66 660.1	65 271.9	64 045.3	1.4798
Russian Federation	2 714.2	43 167.8	55 083.6	50 587.6	79 262.0	15.9042
India	3 588.0	27 431.2	36 190.4	24 195.8	28 199.4	7.6453
China	40 714.8	114 734.0	123 985.0	121 080.0	123 911.0	2.8180
South Africa	887.3	3 635.6	4 242.9	4 558.8	8 187.9	4.0972

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

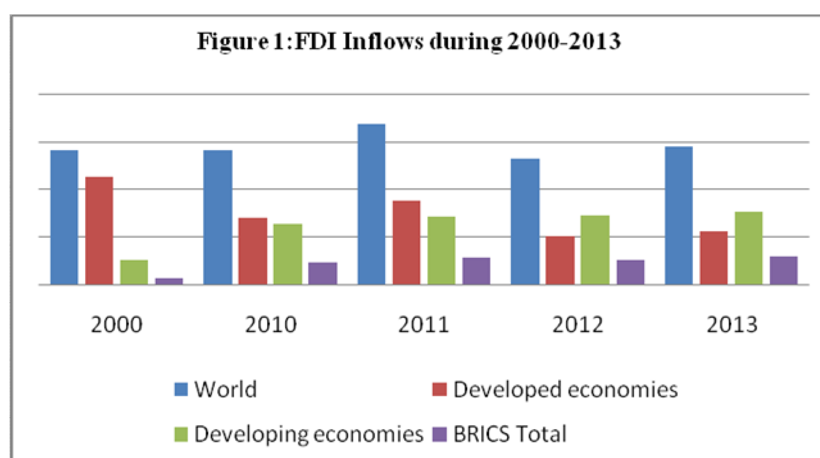
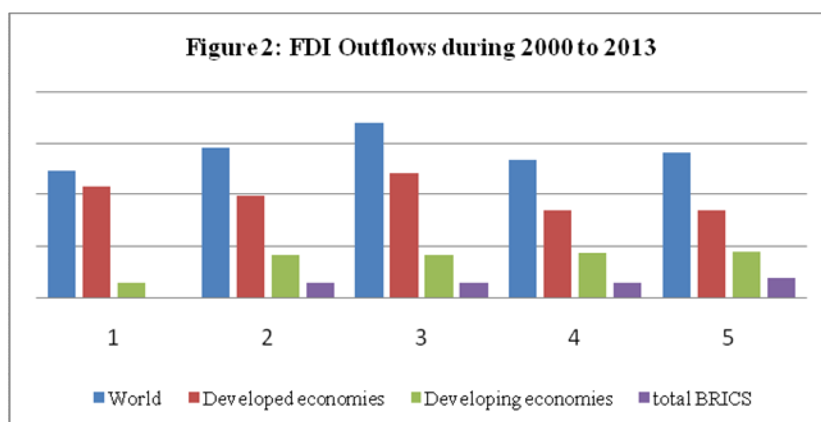


Table 2. FDI outflows, by region and BRICS economies, 2000-2013

(Millions of dollars)

Region/economy	2000	2010	2011	2012	2013	Growth 2010/2000
World	1 241 226.5	1 467 579.6	1 711 651.9	1 346 671.4	1 410 695.8	1.1823624
Developed economies	1 090 662.2	988 769.3	1 215 690.2	852 708.4	857 453.5	0.906577
Developing economies	147 372.4	420 919.4	422 581.8	440 163.8	454 066.9	2.8561614
Sum of BRICS	**7 159.2**	**148 871.7**	**152 675.1**	**145 278.3**	**199 709.8**	20.794467
Brazil	2 281.6	11 587.6	- 1 029.0	- 2 821.4	- 3 495.8	5.0787306
Russian Federation	3 176.8	52 616.3	66 850.8	48 822.4	94 907.0	16.562792
India	514.4	15 932.5	12 456.1	8 485.7	1 678.7	30.970273
China	915.8	68 811.0	74 654.0	87 804.0	101 000.0	75.139472
South Africa	270.6	- 75.7	- 256.8	2 987.6	5 619.9	-0.279627



Playing a minor role in world FDI

For multinationals from BRICs countries to gain a more important role in the world economy, the growth rate of outward FDI from emerging economies should be significantly higher than that for other countries. Table 3 and 4 shows the stock of inward and outward FDI and its growth over the period 2000-2013 for the world, for developed economies, developing economies and BRICS.

Table 3. FDI inward stock, by region and BRICS economies, 2000-2013
(Millions of dollars)

Region/economy	2000	2010	2011	2012	2013	Percentage 2013 only
World	7 511 299.5	20 370 689.8	21 117 234.4	23 304 428.6	25 464 172.6	100
Developed economies	5 681 796.9	13 040 937.2	13 425 931.5	14 536 018.7	16 053 148.6	63
Other developed countries	214 827.3	907 957.6	963 194.4	1 016 839.5	937 365.1	3.68
Sum of BRICS	**407 592.3**	**2 145 867.5**	**2 229 002.3**	**2 462 865.6**	**2 623 890.3**	**0.1**
Brazil	122 250.3	682 345.9	696 507.0	745 089.4	724 644.1	2.85
Russian Federation	32 204.0	490 560.0	454 949.0	496 396.0	575 658.0	2.26
India	16 339.0	205 580.2	206 353.8	224 988.3	226 748.4	0.89
China	193 348.0	587 817.0	711 802.0	832 882.0	956 793.0	3.76
South Africa	43 451.0	179 564.4	159 390.5	163 509.9	140 046.8	0.55

Table 4. FDI outward stock, by region and BRICS economy, 2000-2013
(Millions of dollars)

Region/economy	2000	2010	2011	2012	2013	Percentage 2013 yr only
World	8 008 433.9	21 288 583.6	21 912 790.7	23 916 273.5	26 312 635.1	100
Developed economies	7 100 064.1	17 399 827.2	17 521 120.3	18 858 787.4	20 764 527.4	79
Developing economies	887 828.5	3 485 591.9	3 983 342.3	4 600 926.6	4 993 338.6	19
sum of BRICS	**128 916.8**	**1 055 009.8**	**1 199 277.2**	**1 419 595.8**	**1 623 661.1**	6.2
Brazil	51 946.2	191 349.2	206 187.2	270 864.0	293 276.5	1.1
Russian Federation	20 141.0	366 301.0	361 750.0	406 295.0	501 202.0	1.9
India	1 733.5	96 900.6	109 508.8	118 072.3	119 837.5	0.5
China	27 768.4	317 210.6	424 780.7	512 584.7	613 584.7	2.3
South Africa	27 327.7	83 248.4	97 050.6	111 779.8	95 760.4	0.4

Source: UNCTAD, FDI/TNC database ,

FDI is still at relatively low levels

When considering the role of FDI in the economies of different countries, it is relevant to consider the relative magnitude of FDI to the domestic economy. One common measure is to calculate the stock of FDI in percent of GDP. In Table 5 and 6 this is done for the BRIC countries, for all countries that are regarded as developed economies developing economies, and for the world as a whole, for the sake of comparison.

The stock of a country's outward FDI generally reflects activities of multinationals operating from that country. It is quite evident that the share of FDI is much higher in developed economies, and that the share of outward FDI to GDP in all the BRICs countries is well below the world average. The share of outward FDI to GDP has increased considerably in all the BRICs countries except Brazil. However, it is still below ten percent in India, and China and Brazil is above ten percent. The relative growth of outward FDI has been particularly strong in South Africa, reaching a share of outward FDI in percentage of GDP up to close to 30 percent and Russia above 20 percent. However, this is still only half of the average for all developed economies.

It is further a fact that the relative share of inward FDI measured as the stock value relative to GDP is larger than the stock value of outward FDI in all the five BRICs countries. In Brazil and Russia the stock of inward FDI has also grown relatively fast compared to the growth of outward FDI. Only in India and China the relative share of foreign multinationals in the domestic economy is in decline. In South Africa the stock of inward FDI has been strong reaching a share of inward FDI in percentage of GDP up to close to 40 percent.

Table 5. FDI inward stock as a percentage of gross domestic product, 2000-2013

(Per cent)

Region/economy	2000	2010	2011	2012	2013
World	22.9	31.7	29.7	32.1	34.3
Developed economies	22.4	31.7	30.4	33.1	36.4
Developing economies	25.1	31.3	28.4	30.6	31.1
South Africa	32.7	49.4	39.7	42.5	39.9
China	16.2	9.9	9.7	10.0	10.4
India	3.5	12.1	10.7	12.0	12.1
Brazil	19.0	31.8	28.1	33.1	32.3
Russian Federation	12.4	32.2	24.0	24.5	27.2

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Table 6. FDI outward stock as a percentage of gross domestic product, 2000-2013

(Per cent)

Region/economy	2000	2010	2011	2012	2013
World	24.6	33.3	31.0	33.2	35.7
Developed economies	28.0	42.3	39.7	42.9	47.1
Developing countries	7.4	19.5	19.2	20.8	22.7
Brazil	8.1	8.9	8.3	12.0	13.1
Russian Federation	7.8	24.0	19.0	20.0	23.7
India	0.4	5.7	5.7	6.3	6.4
China	2.3	5.3	5.8	6.1	6.7
South Africa	20.6	22.9	24.2	29.1	27.3

Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics).

Conclusions

The study provides some general information on FDI and the BRICs countries concerning the magnitude of outward and inward FDI in these countries, how FDI has developed over time, the relative magnitude of FDI involving the BRICS countries compared to the total level of FDI in the world, and the GDP share of inward and outward FDI for the BRIC countries.

It can be observed from the above analysis that multinationals from the BRIC countries have become more prominent in the world economy in the last decade. This is in particular the case for Chinese and Russian multinationals. However, these multinationals from China and Russia still represent a small share of the world's multinational investments.

Chapter

25

A STUDY ON THE NECESSITIES OF FDI IN RETAILING IN INDIA

DR.D.BHASKAR & K.VINAYA KUMAR

Introduction

Retailing is a distribution channel function, where one organisation buys product from supplying firms or manufacture product themselves, and then sells these directly to consumers. Retailing involves a set of business activities that adds value to the products and services sold to the final consumer for their use. There are more than 14 million retailing shops in the country, and only 4% of them have acquired more than 500sq.ft area. These outlets are run by family members, rarely employing one or more persons. Since India has embraced LPG, and signed on WTO agreement, entry to multinational giants has been allowed in this sector. In 1997, FDI in cash and carry (wholesale) with 100% owernership was allowed, and in the year 2006 51% investment in a single brand retail outlet was permitted. On 24th November 2011, the GOI allowed 51% stake in multi brand retail trade (MBRT) and raised the limit in single brand retail trade (SBRT) from 51 percent to 100 percent. FDI in retailing is an important and leading source of non-debt inflows of capital and provides opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing ideal resources. Taking the above description into consideration, the present paper is carried out to discuss the growth and necessities of FDI in retailing in India.

RESEARCH METHODOLOGY

Objectives of the Study

- To discuss the nature of retailing in India.
- To study the present scenario of retailing in India and
- To analyse the need of retailing in India related to various sectors/ areas or groups.

Data Source

The data and information collected is from secondary sources, i.e. from books, magazines, journals, newspapers and websites.

NECESSITIES OF FDI IN INDIA

India needs large amount of foreign exchange through FDI in retailing to sustain and enhance its economic growth. There are number of issues to opening of the retail sector for FDI. FDI in India is expected to benefit the concerned, which are discussed as under.

Growth and Development of Farmers

Farmers will be benefited by FDI. Farmers are getting only one fourth of price, what is sold in the market. Perishable nature of fruit and vegetables, without the option of safe and reliable storage, the farmers are compelled to sell their crop at whatever price they can get. The Govt. says that farmers will gain out of this investment due to omitting out of middlemen. India has 600 million farmers. The mandi system does not favour farmers because they lose 5% of the value in transportation, 10% in broker commission and 10% in quality parameters.Because of poor supply chain, large percentage of agricultural product is wasted. FDI in retail will be instrumental in the pricing, for farmers. Farmers association wishes reforms like increase in market accession, strong cold storage facilities, exclusion of middlemen etc. A better cold storage would help to prevent the existing loss of 34% of fruits and vegetables due to inefficient systems in place. Analysts said allowing in big foreign retailers would provide an impetus for them to set up modern supply chains, with refrigerated vans, cold storage and more efficient logistics. The biggest beneficiary would be the small farmers who will be able to improve their productivity by selling directly to large organized players. FDI is expected to push up this issue and restructure supply chain, making it smother and faster. This in turn may boost farm exports significantly. (Sengupta 2011)

Generating New Employment

The retail sector also acts as an important employment absorber for the present social system. One of the principal reasons behind the explosion of retail and its fragmented nature in the country is the fact that retailing is probably the primary form of disguised unemployment / underemployment in the country.

Benefits to Consumers

Entry of foreign retailers would eliminate middlemen and consumers will get fresh vegetable, goods and services at cheaper prices. The global retailers have advanced know how, inventory management, new technologies, quality of product and customer services that would result to improve productivity and efficiency is likely to lower down the prices. Due to entry of global players in retailing would result in the cut-throat completion and price war. Ultimately, consumers would enjoy benefits in terms of a wide range of world-class products and services at competitive prices.

Capital Inflow

FDI in retail trade would attract large inflows of foreign investment and likely to promote the welfare of all sections of society. (Agrawal 2011) Government decided to attract foreign capital inflow of $590 billion to the economy; also investors are mandated to make investment of atleast $100 million including infrastructural facilities. As we know that we require huge foreign capital for our comprehensive and sustainable growth and development. If we allow FDI in retailing, would bring interest free capital in the economy. Considering the principle of capital formation and multiplier effect of economics there will be positive impact on the economy.

Infrastructure Development

India is the second largest producer of fruits and vegetables and it has a very limited integrated cold-chain infrastructure. This leads to about 30% losses in certain perishable agricultural output in India, on average, every year. (kpmg) Farmers suffer heavy losses in terms of wastage in quality and quantity due to lack of adequate storage and handling facilities. Foreign investment makes a genuine contribution to the development of Indian infrastructure and logistics. It was projected that by 2010, 500 new malls would come-up. Allowing FDI in retail can bring about supply chain improvement, investment in technology, manpower and skill development, tourism development, greater sourcing from India, up gradation in agriculture, efficient small and medium scale industries, growth in market size and benefits to government through greater GDP, tax income and employment generation. Between 2010 and 2012, the organized retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft. (Knight)

Development of SSIs

FDI in retailing seems to have had a positive impact on the small manufacturers who now work in with large ones to work for modern retailers. Small and medium enterprises dominate the Indian retail scene. In respect of proposals involving FDI beyond 51 percent, 30 percent ourcing would mandatorily have to be done from domestic SMEs and cottage industries artisans and craftsmen. It is an evident that government of India, made compulsory to purchase materials and semi-finished goods from SMEs that would result to grow and prosper the SSI sector.

Improving Retailing Services

There would no immediate impact on the existing retail sector, due to entry of organized retailers. Local retailers are expected to remain a key element in the ecosystem in the foreseeable future, with their ability to offer door step service and convenient access. The ICRIER has found that though initially, small stores located in the vicinity of big malls have seen a drop in scales and profit. Besides, the advantages of neighborhood kirana stores such as proximity, leverage on credit sales, and bargaining choice of customers, home delivery and convenient shop timing would remain even after entry of big retail chains. In this regard, a study conducted by Venkateshwarlu (2007) to see the impact of malls on retail trade.36 percent of the retailers feel that there is not much impact, 24 percent opine that there is scope for healthy competition, 22 percent say that there would be cut in margin because of such malls. During the last ten years number of malls and organized retailing shops have been opened, it is evident that no kirana shop has been closed up.

Inflation Control

Investments in cold-storage and warehousing will ease supply-side pressures that have driven inflation close to a double-digit. The Govt. advocated that there is need to open the retail sector.

Inflow of Technical Know–How

Giant in retailing will bring their technology and technical know-how. The inflow of technology and technical know-how is said to be a natural migration along with the global players in retailing. This would transform into Indian technological advancement, production

improvements, better quality of goods and services, low cost, generation of exports, and hastening of manufacturing employment.

Improved Supply Chain Management

FDI is expected to restructure the supply chain, making it smoother and faster. Improved supply chain contributes to savings in food wastages which has been rampant on account of inadequate infrastructure. (Ghosh) FDI in retail would reduce cost of intermediation and entail setting up of integrated supply chains that would minimize wastage, give producers a better price and benefit both producers and consumers. An efficient supply chain may augment its linkage to the global supply chain. This in turn may boost farm export significantly.

Cost Reduction

The global retailers have advanced management know how in merchandising and inventory management and have adopted new technologies which can significantly improve productivity and efficiency in retailing. The entry of large low-cost retailers and adoption of integrated supply chain management by them is likely to lower down the prices. Big players in retailing will direct purchases from farmers and SSIs which result to elimination of middlemen. This will bring down the cost of produce and services.

Growth of GDP

It is widely acknowledged that FDI can have some positive results on the economy that would lead to greater efficiency and improvement of living standards. According to the ICRIER, India is expected to grow at a CAGR of over 13% till FY12. In the year 2007 retail sales reached Rs 3,300 billion and amounting to around 33% of India's GDP at current market prices. According to the Central Statistical Organization (CSO) estimates, the total retail trade constituted 13.0% of country's GDP in 1999-2000. In the year 2011 it has gone up to 15 percent .In light of the above, it can be concluded that allowing healthy FDI in the retail sector would lead to a substantial surge in the country's GDP and overall economic development.

CONCLUSIONS

Today each and every nation is trying to liberalize its economic policies in order to attract FDI to enhance a substantial level of economic and social development. Indian retail sector is in a boom period and attracting global retail giants due to its market opportunities. It can be observed from the above analysis that an entry of the global players in retailing leads to inflow of latest technical knowhow, establishment of well integrated supply chains, availability of quality products at cheaper prices to consumers, development of SSIs and SMEs, creation of more jobs, interest free capital, benefits to farmers, controls inflation and contributes for capital formation to increase nation's GDP. Taking into consideration, above necessities, FDI in retailing cannot be avoided in India.

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EFFECTS OF FDIs IN RETAILING IN INDIA- AN ANALYSIS

By Dr.K.D.L.Job Paul

ABSTRACT:

Retailing in India is one of the pillars of its economy and accounts for 14-15% of its GDP.[1] The Indian retail market is estimated to be US Dollars 450 billion and one of the top 5 retail markets in the world by the economic value. India is the one of the fastest growing retail market in the world with 1.2 billion people.

The post reform period also witnessed greater freedom and power extended to the states in respect of investment negotiations subject to clearance from the foreign investment approval board or the RBI. Decision has been taken in the year 1995 to the effect to allow the state governments to retain foreign exchange income. Economic reforms have empowered the country with the great responsibility of the economic management of their respective states leading to competition for larger FDI's. In-spite of this, the services sector and the manufacturing sector witnessed significant growth and the information technology sector exhibited event greater growth. The strong performance of the economy is attributed largely to the improved investment climate (world bank 2006).[2] In the perception of the world bank the ultimate goal of development is to reduced poverty and improve standards of living. Prof. Ragnar Nurkse realized and recognized even in 1986, the problem of shortage of financial resources experienced by the developing countries as they were "under equipped with capital in relation to their population and natural resources"[3]

Thus, this paper do examine and analyze the performance and evolution of FDI's in retail sector in India as per the changed economic scenario.

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It is an essential economic and technological link since the late 1950's between the advanced industrialized countries and the developing countries. The World Bank in its report entitled, "Global Development Finance" clearly observed, "Like trade, FDI provides an important channel for global integration and technology transfer. Many developing countries are opening their investments regimes and enhancing, the credibility of earlier trade and investment reforms"[4]

Proper attention might be initiated in designing an investment promotion strategy to attract FDI taking in to the consideration of the Country's National Development Priorities and objectives as follows.

Objective of the study:

- To analyze the steps to be taken to improve investment opportunities for obtaining larger FDI's in retail sector.
- To examine the better utilization and applicability of FDI to achieve sustainable economic development.
- To substantiate the selection of FDI projects should improve the income and employment levels in the retail sectors of developing countries.
- To improve good governance as to be integrated with the implementation of the FDI projects for achieving higher efficiency and greater productivity.
- To evaluate the status of FDI's in retail sector towards greater financial autonomy results in to the improvement of social welfare.
- To measure the impact of transparent regimes on FDI's flows in the retail sector under the observation of 'quantitative test'[4].

METHODOLOGY OF THE STUDY:

The present study is based on the data from secondary sources. It was collected from the articles restoring in internet, reports of the various study teams and govt publications. The study is mainly intended to evaluate the realization of scope, status and structure of FDI which are essential to ameliorate the growth of retail sectors both in urban and rural market locations.

FDI can be defined as 'a' cross border investment, where foreign assets are invested into the organization of the dome market excluding the investment in stock. It brings private funds from overseas into products or services. The dome company in which foreign currency is invested is usually being controlled by the investing foreign company. Eg. An American company taking major stake in a company in India. Their ROI is based on the performance of the project.

In the past decades, FDI was concerned only with highly industrialized countries. US was the worlds largest recipient of during 2006 with an investment of US$184 million from OECD (Organization for Economic Co-Operation and Development countries. France, Greece, Iceland, Poland, Slovak Republic, Switzerland and Turkey also have a positive record in investments. Now, during the course of time, FDI has become a vital part in every country more particularly with developing countries. This is because of the following reasons.

a. Availability of cheap labor
b. Uninterrupted availability of raw material.
c. Less production cost compared with other developed countries.
d. Quick and easy market penetration.

In the scheme of classification of capital flows based on duration, FDI has been the most attractive type of capital flows for emerging market economies because of its

lasting nature and also it is considered a vehicle for transformation of the domestic production process through bridging the technological gap. With reform in policies, better infrastructure and a more vibrant financial sector, FDI inflows into India accelerated in 2006-07 after rising to a level of US Dollars 6.2 billion in 2001-02, fell to US Dollar 4.5 billion in 2003-04 and a significant recovery had achieved to reach US Dollar 23.0 billion in 2006-07 through Portfolio Investment' (Economic Survey 2008)[5]

Recent developments in retail sector in India as an impact of FDI:

India's retailing industry is essentially owner manned small shops. In 2010 larger format convenience stores super markets accounted for about 4% of the industry and these were present only in larger urban centers. India's retail and logistics industry employees about 40 million Indians (3.3% of Indian population).

Until 2011, Indian Central Government denied foreign direct investment (FDI) in multi brand retail, for bidding foreign groups from any ownership in super market, convenience stores or any retail outlets, even a single brand retail was limited to 51% ownership and a bureaucratic process.

In January 2012, India approved reforms for single brand stores welcoming any one in the world to innovate in Indian retail market with 100% ownership, but imposed the requirements that the single brand retailer source 30% of its goods from India.

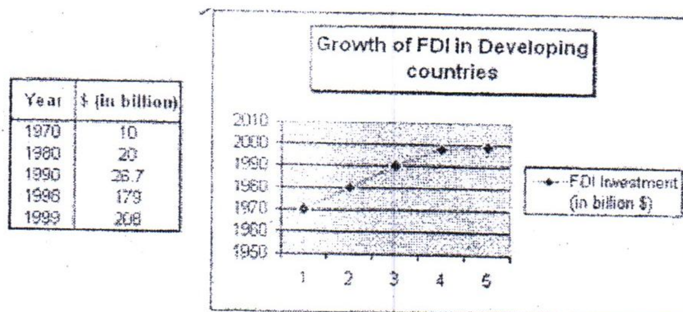
Indian government continues to hold on retail reforms for multi brand stores such as Walmart, Carrefour and Tesco where as single brand majors such as IKEA came forward to invest $ 1.9 billion in India and setup 25 retail stores including NIKE and Apple.

In September 2012, the Government of India announced the opening of FDI in multibrand retail subject to approvals by Individuals states. This decision has been welcomed by economies and the markets. But protests and an upheaval in India's Central Government Political coalition structure (Trinimal Congress left UPA, BJP criticized).

On 7th December 2012 the Central Government of India allowed 51% of FDI's in multi brand retail in India. The transparent regime on FDI flows in retail has became hue and cry in the parliament despite heavy uproar from the opposition. Some states will allow foreign super markets to open while other state will not. Organized retailing in India refers to trading activities undertaken by licensed retailers, those who are registered for sales tax, income tax etc. These include the publicly traded super markets, corporate backed hyper markets and retail chains and also the privately owned large retail business. The major draw back of this strategy was organized retailing absent in most rural and small towns of India.

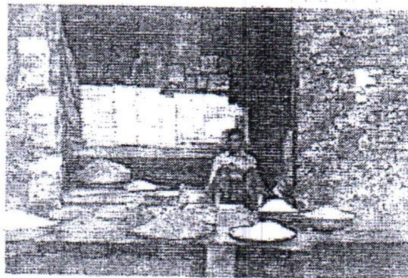
Unorganized retailing, refers to the traditional formats of low-cost retailing such as local corner shops, owner manned general stores, paan / beedi shops, convenience stores, hand cart and pavement vendors etc. Between 2000-10, consumers in select Indian cities have gradually begun to experience the quality, choice, convenience, benefits of organized retail industry.[7]

Growth of FDI's in Developing Countries:

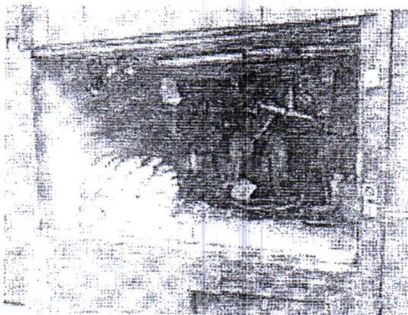


Year	$ (in billion)
1970	10
1980	20
1990	26.7
1996	179
1999	208

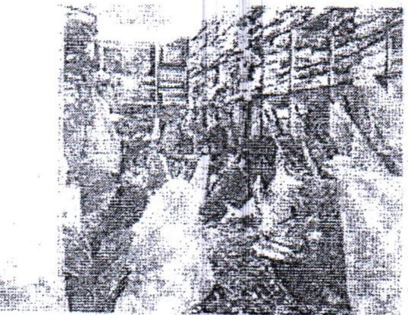
The graphs show that the growth of FDI's in developing countries since 1950-2010. The data of investment under FDI has been computed for a decade (in billion dollars) During 1950's the growth rate of FDI investments made zero rate and continued up to 1970, but significant growth rate was registered at US Dollar 1.1 billion which risen to 2.4 billion with in 10 years but there was a tremendous rise in FDI investment growth at US $ 4.4 billion even crossed US $ 5.1 billion in the year 2010.[9]



A food staple retail shop in Pushkar, India



A fish retail store in West Bengal, India



A textile retail store in India

The above pictorial presentation indicates the various market structures of single brand owner manned stores stocked in retail sector in India. The multi brand stores has developed at pace like big bazaars, super markets and convenience stores.

Transparent regimes in retail sector in Andhra Pradesh:

It appears the State Government of AP emerged as on attractive investment destination as liberal policies followed by the availability of necessary infrastructure showed its impact between 1994 and 2001 by attractive big units in IT, Agro food processing, Engineering based industries. Outlook rather economic reforms boost up the flows of FDI's is culminated into skies in AP. The Government of AP had taken quick decisions on providing concession relating to land, power and water supply for 'Fab City' Apart from, lack of transparency will impede the ability of foreign firms to participate in a global market. The FDI's flow depends on the degree of transparency, the level of economic activity in the host country and liberalization of its trade regime. For the convenience of the present study, two – equilateral models accessible to find out its transparency as such

a. FDI = f (T, eg, r,I, Er, Lb)

Where T = Transparency

e_g= Economic growth

r= Rate of Interest

I= Inflation

E_r= Exchange rate

L_b= Liberalization of trade regime.

The second equation identifies the inflow of the FDIs into once nation depends on the following parameters such as

FDI = f (T, I, Tr, Sl)

Where T= Level of Technology available

I= Infrastructural facilities

T_r= Transport conveniences

S_l= Supply of labor or skilled labour.

CONCLUSION:

Undoubtedly, the concept of LPG paved the way to encourage private investments to the developing nations. India's beleaguered coalition government won a major battle from alliance parties to protest the measure. The final stamp of approval from both the houses is a big win for the ModiGovernment, which has been trying to get India's lagging economy back on tract anticipating that these reforms will create some 10 million new jobs in the next 3 years, help farmers get better prices for their products and will infuse new life into India's loitering food distribution system. As the Prime Minister, Dr.Manmohan Singh said that "Wastage will go down, prices paid to farmers will go up and prices paid by consumers will go down" depending the Government decision to introduce to the retail reforms and it will help clear the way for more broader economic liberalization.

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