ISSN 2278-8808 IMPACT FACTOR: 1.38
An International Peer Reviewed
SCHOLARLY RESEARCH JOURNAL
FOR INTERDISCIPLINARY STUDIES

FOREINGN DIRECT INVESTMENT IN INDIA: NEED AND CHALLENGES

Prabhjeet Kaur

Senior Executive;Godrej&boyce mfg co ltd

Abstract

Foreign Direct Investment (FDI) plays an important role in accelerating the development process in a nation. By developing employment opportunities, revenue, infrastructure, technology etc,, FDI had helped the Indian economy to make rapid progress in many spheres. In India, Initially FDI inflows were very low due to restrictive government policies and trade barriers. But after liberalizing the regulatory the need FDI in India an also the issues or challenges that FDI possesses for the Indian economy.

Keywords: *routes for FDI ,Indian government policies & issues relating to FDI.*

INTRODUCTION

Foreign direct investment is fund flow between the countries in the form of inflow or outflow by which one country can avail benefits from investment in the form of development of infrastructure, revenue generation, poverty reduction etc. and another can increase its productivity by exploring the full potential of the former. FDI may be affected by the government's trade barriers and policies. While some countries are still opposed to trade with other countries, most of the countries have liberalized their trade barriers and are deriving the benefits of international trade.

Most of the underdeveloped countries suffer from low level of income and low level of capital accumulation However, despite the shortage of capital, have developed a strong urge for indoctrination. And economic development . For instance, Indian launched upon an ambition program of industrialization during the second plan (1956-1961).Since the domestic resources to carry out this plan were insufficient, the country had to depend on foreign capital through foreign direct investment. This has changed the landscape of the Indian financial sector from different dimensions. Foreign direct investment has helped Indian to attain financial stability and economic growth with the help of investment in also responsible for the closure of several domestic units. Although the liberalization of trade policies have developed India by ways of generation of employment of infrastructure, generation of revenue from taxes etc. it has also been the cause if poor performance of national brands, closing of sick units, disruption of the local employment market etc.

ROUTES FOR FBI IN INDIA

An Indian company may receive Foreign Direct Investment under the two routes:

i. Automatic Route

Under the automatic route, FDI is allowed without prior approval either of the Government or the Reserve Bank of India in all sectors as specified in the consolidated FDI policy, issued by the Government of India from time .

ii. Government Route

FDI in activities not covered under the automatic route require approval of the Government Which are considered by the Firing Investment promotion Board (FIPB), Department of Economic Affair, Ministry of Finance.

NEED FOR FOREIGN CAPITAL IN INDIA

1. Sustaining a high level of investment

For India to industrialize rapidly in a short period of time there is a requirement of substantial investment This requires, in turn , a high level if saving . However, dye to large scale poverty in India the level of savings is very low. Hence, there emerges a huge gap between the investments and savings. This gap has to be filled by foreign capital.

2. Technological gap

India has a very low level of technology as compared to advanced countries. Hence, there in an urge to industrialize the economy rapidly. This creates a requirement f importing technology from advanced countries and this is usually in the form of foreign capital by the way of private foreign investment or foreign collaboration. In India, this has been mainly through three ways-A) provision of expert services: B) training of India personnel; and C) educational, research and research and training institutions in the country.

3. **Utilization of Natural Resources**

India has huge mineral reserves and other under- utilized resaves of natural resources. However, it does not have the required skill and expertise to exploit these reserves. As a result, it has to depend upon foreign capital to undertake the exploitation of their mineral wealth.

4. **Development of infrastructure**

It has been observed that the domestic capital of India is too inadequate to build up the economic infrastructure on its own. Thus, It requires foreign capital to accomplish this tack. Since the liberalization of the Indian trade policy, international financial institution and many advanced countries have made substantial capital available for the development of the system of transport and communication, generations and distribution of electricity, development of irrigation facilities in India.

5. **Improvement in the BOP status**

In the earlier stages of economic development, India had to resort to large scale imports for its requirements (capital goods, spares and components, machinery etc.) and the export were fairly low. This often created an adverse position in the balance of payments. To fill up the gap between he income and expenditure, foreign capital proved to be a short term solution.

6**) Shortage of Foreign Exchange**

For rapid economic growth, India requires a large amount of foreign exchange to import machines, capital goods, raw material etc. Since India's BOP position has been unfavorable, It cannot meet all its foreign exchange requirements from export earnings. Hence, foreign capital proves to be a solution for this purpose. It brings in foreign exchange which is used for imports.

INDIAN GOVERNMENT'S POLICY TOWARDS FDI

To understand the attitude of the country towards foreign capital, India 's foreign capital policy can be divided into the following phases:

1. **Precautionary Incentive Policy (1948-1967)**

At the time of independence, the attitude towards foreign capital was full of fear and suspicion. Hence. In the Industrial policy resolution, the government declared its intention to regulate private foreign investment and also ensure that majority control remained in the native hands. As a result foreign capital inflow was disrupted as the foreign capitalists were not satisfied with this intention, following which, pt Nehru, the then prime- Minister, had to give certain assurances to the foreign capitalists in 1949 which were:

a) India would not make any discrimination between foreign and local undertakings. The implication was that the government would not place any restrictions or impose any conditions on foreign enterprise which were not applicable to similar Indian enterprise.

b) Foreign exchange position permitting reasonable facilities would be given to foreign investors for remittances of profits and repatriation of capital.

c) In case of nationalization o the undertaking, fair and equitable compensation would be paid to foreign investors.

2. **Rigid Selective Policy (1968 to 1991)**

During this phase, a high level of selectivity was seen in allowing private foreign investment and collaboration proposals. The policy limited foreign participation to less than 40 per cent except in exceptional cases involving substantial exchange/reserves. During the 1970's further tightening of the regulatory regime took place. However, the fear of huge volume flows of foreign capital persisted. Liberalization was mainly in context of collaborations and there was hardly any contribution towards equity thus, There was very little change from the earlier phase.

3. **Open incentive And Liberalized Policy (Since 1991)**

The Industrial Policy announced in 1991-92 brought a vest change in the trade regime as Foreign direct investment is concerned. Specific methods have been laid down for the approval of FDI. In order to induce more and more technological inflows from both, technological collaborations as well as through FDI, the RBI gives automatic approval to foreign technological agreements. Foreign Investment promotion Boated has been set up for accelerating approval process in India, The Foreign Investment approval process in India. The Foreign Investment implementation Authority has been set up to facilitate translation of FDI approvals and implementation, provide after care services to the foreign investors and sort out problems relation to FDI. Investment in 100 percent Export oriented Units and Export processing Zones has been allowed. Apart from this many other key changes have been taken till date by adopting a pro-active foreign trade policy

ISSUES OR CHALLENGES RELATING TO FDI

1) **Political Interference**

Avery serious challenge of heavy dependence on FDI is interference of foreign countries in the political affairs of the country. This will be against the national interests. Hence, a very significant challenge for India would be the proper regulation of investment activities of these countries right from the time of inception so as to mitigate any possibilities of usurpation and also to ensure that these countries confine themselves to economic activities only.

2) **Increase in Dependence**

Use of foreign capital had increased India's dependence in foreign countries. Since the advanced countries discourage the development of indigenous technology in competition with themselves, the country in question continues to depend upon the import of foreign technology. India is also facing the problems of balance in payments because imports of replacements and maintenance are costing a lot.

3) **Cultural Distortion**

Though FDI will contribute in the growth and development on India on One side, it can also be responsible for change in the culture if the people of India. The youth can easily negative aspects of foreign culture and lifestyle which will not only distort the Indian culture but change the consumption pattern of the people. This in turn will affect the Indian industry adversely. Thus, FDI stands as a threat to Indian culture.

4) **Impact on Small Scale Producers and Domestic Companies**

Domestic companies in India fear that they may lose their ownership to overseas companies Small enterprises even fear that they may not be able to compete with world class large companies and it may ultimately lead to the closure of such units. Increasing competition had led to the shutting down of many Indian companies that could not compete with the big global gains. It is because these global biggies have better know how and technology to produce better quality products. Example-Wal-Mart is committed to buying the best products at the lowest prices. Thus, in order to achieve self-sufficiency. Indian policies regarding foreign trade need to be in favor of the Domestic companies.

5) **Development of Rural Areas**

Since the main objective of foreign companies is profit earning they are not concerned with the development of the host country. They invest more in machinery and intellectual than in wages of the local people. Thus, the scope of balanced regional does not come into question. The rural areas and villages do not possess the required infrastructure, banking ,finance. Insurance, telecommunication, workforce and other important resources and so the foreign companies do not invest in these areas. Hence, India cannot depend entirely on foreign companies for the development of rural areas and it has to come up with its own developmental projects, funds and schemes for this purpose.

CONCLUSION

On the basis of the above study it can be said that FDI has both positive and negative impact on the Indian economy. India has technical expertise, killed managers, low man power cost, abundance of resources and favorable investment laws of the government and this represents an attractive market. It is because of this reason that has become one of the greatest investing destinations for the investors as more and not investors and investing in India. The influx of capital of capital is increasing tremendously and India had become one of the fastest growing economies in the world.

Though, foreign investments have show an upward trend in India in the last two decades and have led to the growth and development of the Indian economy, they have also created many challenges for the country in matters relating to employment, self-sufficiency, performance of local producers, balanced regional development etc. Historical examples show that unrestricted entry of foreign capital has led to disastrous results for India. The East India Company was responsible for years of turmoil that the people of India had to face and are still facing. Hence, there is a need to monitor the regulatory framework under proper safeguards. Firstly. It is important to achieve self-dependence in the production of domestic resources. While inviting foreign capital, it is important to be vigilant with regard to the policies. The amount of capital need to be studied before before investment. Secondly, capital shout be sought only for those priority fields in which the country is severely deficient. These would be the industries in which high quality technology is required or in which India finds it impossible to come up with domestic resources.

While FDI is the catalyst behind rapid industrialization in India in the last two decades, it is also the major contributor if number economic problems in India. Hence, policies regarding FDI need critical examination.

REFERENCES:

[1] Dutt, R., & Sundharam, K.P.M (Eds.) (2009). India Economy (60th ed.) New Delhi: S. Chand & Company Ltd.

[2] Gupta, K.L., Harvinder (Eds.) (2005). New India Economy and reforms. New Delhi: Deep and Deep Publications Pvt. Ltd.

[3] Puri. V.K. & Mishra, S.K. 9 (EDS). (2013). Indian Economy-its Development Experience (31st ed.). Mumbai: Himalaya Publishing House Pvt .Ltd.

[4]Agrawal , A.N. (Ed.) .(2010). India Economy-Problems of Development and planning.(36st ed.). New Delhi: New age International Publishers.

[5] Pradeep, K.R.(2011). FDI in India and Its Impact-“A Critical Evaluation” .VSRD-IJBMR, Vol. 1(3),185-196.Retrieved from http:/www.visrdjounals.com

[6]Bhattacharyya, R, (2012).The Opportunities and Challenges of FDI in India. IOSR-JHSS ,Vol. 5,99-109. Relrieved From http:/www.losrjournals.com/

[7] Aggarwal. S., Singh, A.& Aggarwal, R.,(2012) Foreign Direct Investment in India . UCEM-IJCEM, Vol. 15,93-105. Retrieved from http://www.IJCEM.org/