International Journal of Applied Research 2016; 2(6): 289-292

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2016; 2(6): 289-292
www.allresearchjournal.com
Received: 07-04-2016
Accepted: 08-05-2016

Dr. Kuldeep Kaur
P.G. Dept. of Commerce
Guru Nanak Khalsa College for Women, Ludhiana, Punjab, India.

Correspondence
Dr. Kuldeep Kaur
P.G. Dept. of Commerce
Guru Nanak Khalsa College for Women, Ludhiana, Punjab, India.

Review of foreign direct investment policy- An impetus for startup India

Dr. Kuldeep Kaur

Abstract
Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. The paces of FDI inflows in India initially were low due to regulatory policy framework but there is a sharp rise in investment flows from 2005 towards because of the new policy has broadened. The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers, which is the need of Hour for the project of 'Start up India'. Yet, India seems to be suffering from a host of self-imposed restrictions and problems regarding opening its markets completely too global investors by implementing full scale economic reforms. Keeping in view of current requirements and benefits of the nation the government of India should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing 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. The main purpose of the study is to discuss the reforms in FDI policy to ease of doing business in India which will give a philip to 'Start Up India' for economic growth in India.

Keywords: Economic growth, FIPB, Inflows, Policy Reforms, FDI

Introduction
Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, foreign direct investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. A MNE may make a direct investment by creating a new foreign enterprise, which is called a green field investment, or by the acquisition of a foreign firm, either called an acquisition or brown field investment. With coming of NDA Government to power, Shri Narendra Modi has expressed his commitment to poverty elimination and also to make India a Global Manufacturing Hub. Being aware of the constraint of financial resources for fast tracking the development process, a series of Economic Reforms and a number of measures to improve the Ease of Doing Business in the country have been set in motion.

Need For FDI in India
Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. Due to poverty and low GDP the savings are low in under-developed and the developing countries. Therefore there is a need to fill the gap between income and savings through foreign direct investments, which will help to take risk in new ventures. India needs technical assistance for provision of expert services, training of Indian personnel and educational, research and training institutions in the industry through private foreign investment or foreign collaborations. In India we have abundant natural resources such as coal, iron and steel but to extract the resources we require foreign collaboration. FDI will help in developing the infrastructure by establishing firms in different parts of the country with the help of special economic zones which have been developed by government for improvising the industrial growth. MNCs will produce goods in India at low cost and export the same to other country. This will help in improving the balance of payment position.

FDI Policy Framework in India

Apart from underlying overall fundamentals, ability of a nation to attract foreign investment essentially depends upon its policy regime.

a) Pre-Liberalisation Period: In order to boost the FDI inflows in the country and due to significant outflow of foreign reserves, India made various changes and additions in law relating to FDI.

- Foreign Exchange Regulation Act (FERA), 1973 with permission of 40% foreign equity in a joint venture was passed.
- Special economic zones (SEZs) with liberal policy and incentives to promote exports are set up by Govt. of India.
- Industrial Policy (1980 and 1982) and Technology Policy (1983) with tariff reduction and shifting of import licensing to Open General Licensing (OGL) were passed.

b) Post-Liberalisation Period: A major shift occurred in 1991with series of measures that were directed towards liberalizing foreign investment.

- Dual route of approval of FDI i.e. RBI's automatic route and Government's approval route were Introduced.
- Automatic permission for technology agreements in high priority industries and removal of restriction of FDI in low technology areas.
- Permission to Non-resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) to invest up to 100% in high priorities sectors was given.
- Hike in the foreign equity participation limits to 51% for existing companies and liberalisation of foreign "brands name".
- Convention of Multilateral Investment Guarantee Agency (MIGA) for protection of foreign Investments was signed.
- Foreign Exchange Management Act (FEMA), 1999 in place of (FERA), 1973was passed.
- In 1997, 100% FDI in cash and carry wholesale and 51% in single brand retailing in June, 2006 was allowed.
- In December, 2012 100% FDI in single brand retailing and 51% in multiple brand retailing.
- 100% FDI in Computer Software and Hardware under automatic route were permitted.
- Increase of FDI limit from 49% to 74% in Telecom sector with approval of FIPB.

Percentage Growth Analysis of FDI

The Table 1shows the total amount of FDI inflows in India during the last 67 years i.e. 1948to 2015. It could be observed that there has been a steady build up in the actual FDI inflows in the pre-liberalization period. But measures introduced by the government to liberalize provisions relating to FDI in 1991increased FDI Rs. 2,705cr in 1990 to Rs. 123,378cr in 2010 and Rs. 189107cr in 2015, which is the highest FDI inflow in last 15 years. So we can say that the foreign investment have been fluctuating but rising as well in India.

Table 1: Percentage Growth in FDI

Period	Amount of FDI (in Crores)	Percentage Growth in FDI
Mid- 1948	256	-
Mid- 1964	565.5	121
Mid- 1974	916	62
Mid- 1980	933.2	2
Mid- 1990	2705	190
Mid- 2000	18486	584
Mid- 2010	123378	568
Mid- 2015	189107	54

Source: FDI data from various reports of DIPP and RBI report.

Sectoral Composition of FDI

The Sectoral composition of FDI in Table 2shows that the largest recipient of such investment is the service sector which contributes 27% to the total FDI inflows in the country as compared to 18% in 2013-14. The second recipient is Construction Development sector which shares 14% of total FDI. Table shows that percentage of FDI in all the sectors is increasing over the period.

Table 2: Percentage of Sectors Attracting Highest FDI Equity Inflows

Sector	Percentage of Total Inflows 2013-2014	Percentage of Total Inflows 2014-2015
Services	18	27
Construction	11	14
Telecommunications	6	11
Computer Industry	6	11
Drugs and Pharmaceuticals	5	8
Chemicals	4	7
Automobile Industry	4	8
Power	4	6
Metallurgical Industries	4	6

Source: FDI Statistics, Department of Industrial Policy& Promotion, Ministry of Commerce & Industry, Government of India, 2015.

Investments/Developments

Based on the recommendations of Foreign Investment Promotion Board (FIPB), the Government, in a meeting held on September 29, 2015, approved 18 proposals of FDI amounting to approximately Rs 5,000 crore (US$ 770 million).Some of the recent significant FDI announcements are as follows:

- Japan would construct India's first bullet train with offer of a loan of US$ 8.11 billion.
- Chinese mobile handset maker, Coolpad Group Limited, has committed US$ 300 million for setting up a R&D centre and assembly line in India by 2017.
- Amazon.com expanded its logistics footprint three times to more than 2,100 cities and invested more than US$ 700 million in its India operations since July 2014.
- Kellogg Co, world's largest cereal maker, is making large investments in manufacturing and plans to set up R & D facility in India at Taloja, near Mumbai.
- Swedish home furnishing brand Ikea has made a long-term plan of opening 25 stores in India by making an investment worth Rs 12,500 crore (US$ 1.9 billion).
- Google plans to invest Rs 1,500 crore (US$ 234.3 million) for a new campus in Hyderabad which will be focused on three key areas — Google Education, Google Fibre broadband services and Street view.

- Warburg Pincus, a US based Private Equity (PE) firm, has planned to invest Rs 850 crore (US$ 132.8 million) in Ecom Express – an India based logistics solutions provider.

Government Initiatives

Prime Minister Mr. Modi launched the Campaigns like 'Make In India' and 'Skill India'. The latest in the series is the upcoming 'Start-up India' initiative. To further boost this entire investment environment and to bring in foreign investments in the country, Government of India has recently taken many initiatives to liberlise FDI policy to give a Philip to FDI inflows. The salient measures are:

- Amendment in FDI policy in Construction Development Sector by easing of area restriction norms, reduction of minimum capitalisation and easy exit from project.
- Relaxation in FDI policy in 15 sectors with increase of FDI limit
- FDI limit in defence and airlines allowed up to 49% through the automatic route and Banks were allowed fungible FDI investment up to 74%.
- The non-repatriable investments made by the Persons of Indian Origin, Overseas Citizens of India and NRIs will be treated as domestic investments without FDI caps.
- Raised FDI cap in insurance from 26% to 49% through a notification issued by the DIPP.
- Cabinet Committee on Economic Affairs raised the limit of FDI approval to Rs 3,000 crore from the present Rs 1,200 crore.
- 100% FDI permission in railway infrastructure areas such as creating the network and supplying trains for bullet trains etc.
- Granted Most Favoured Nation (MFN) treatment to 15 countries with ease of investment rules.

Initiatives by RBI

The Reserve Bank of India (RBI) relaxed several rules including foreign direct investment norms to boost start-up activity in the country.

1. To begin with, start-ups are allowed to receive foreign venture capital investment irrespective of the sector in which they operate. The new norms will enable transfer of shares from foreign venture capital investors to other residents or non-residents.
2. The central bank also permitted, in case of transfer of ownership of a start-up enterprises, receipt of the consideration amount on a deferred basis as also enabling escrow arrangement or indemnity arrangement up to a period of 18 months.
3. The regulatory changes for easing the cross-border transactions, particularly relating to the operations of the start-up enterprises, are proposed to be made in consultation with the Government of India.
4. The central bank simplified the process of dealing with delayed reporting of foreign direct investment (FDI)-related transaction by building a penalty structure into the regulations itself.

Above amendments to the FDI Policy are meant to liberalise and simplify the FDI policy so as to provide ease of doing business in the country leading to larger FDI inflows contributing to growth of investment, incomes and employment, which will help to make 'Start Up India' successful.

Road Ahead

FDI inflows to India are likely to exhibit an upward trend in coming years on account of economic recovery. India needs at least $ 1 trillion investments to develop its roads, railways, ports and airports under the current 12th Five-Year Plan (2012–17).

- The government recently published a comprehensive document on FDI policy decisions with more clear provisions. It will provide the necessary impetus to increase FDI inflows in future.
- The Make in India initiative was launched globally in September 2014 with renewed focus on country's manufacturing sector which reflects significant growth of overall FDI to make India an integral part of the global supply chain.
- Government of India has taken several reform initiatives to create an enabling environment and for Further impetus to India's growth such as "Digital India", "100 Smart Cities" and "Skill India".
- With an objective to make the regulatory environment easy and simple for business to flourish, the Government has effectively used technology to converge and integrate different departments. 14 services are integrated within the 'e Biz portal', which will function as a single window portal for obtaining clearances from various government agencies. All these measures certainly give boost to FDI.

Conclusion

FDI in India to various sectors can attain sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries. FDI has helped to raise the output, productivity and employment especially in service sector in country through liberalization and globalization. The Crux of these reforms is to further ease, rationalise and simplify the process of foreign investments in the country and to put more and more FDI proposals on automatic route instead of Government route to give the boost to 'Start up India'.

References

1. Aggrawal S, Singla A, Aggrawal R. Foreign direct investment in India. International Journal of Computational Engineering & Management. 2012; 15(5):93-105.
2. Azhar S, Marimuthu KN. An overview of foreign direct Investment in India. International Journal of Multidisciplinary Management studies. 2012; 2(1):202-214.
3. Basu P, Nayak NC, Archana. Foreign Direct Investment in India: Emerging Horizon, Indian Economic Review, 2007; XXXXII(2):255-266.
4. business.mapsofindia.com
5. CTAD World Investment Report, 2015.
6. Department of Industrial Policy and Promotion, Annual Report. 2000, 2015.
7. Economic Survey, Ministry of Finance, Government of India, New Delhi, 2009-10.
8. en.wikipedia.org/wiki/Foreign direct _investment

9. Kumar P. FDI in India and its impact- A critical evaluation. VRSD International Journal of Business & Management Research. 2011; 1(3):185-196.
10. Mahajan D. FDI in India not as per her potential. The Economic Challenger, 2008; 41(11):59-63.
11. Manual on Foreign Direct Investment in India by Secretariat for Industrial Assistance (SIA) DIPP.
12. Naga Raj R. Foreign Direct Investment in India in the 1990s: Trends and Issues, Economic and Political Weekly, 2003, 1701-1712.
13. Nayak DN. Canadian Foreign Direct Investment in India: Some Observations, Political Economy Journal of India. 1999; 8(1):51-56.
14. Reserve Bank of India Monthly Bulletin, 2015.
15. Sahni P. Trends and determinants of foreign direct investment in India: An empirical investigation. International Journal of Marketing and Technology. 2012; 2(8):144-161.
16. Shalini Aggarwal. Foreign Direct Investment in India, IJCEM International Journal of Computational Engineering & Management. 2012; 15:93-105.
17. Sourangsu Banerji. Effects of Foreign Direct Investment (FDI) in the Indian Economy hal-00846825, version. 2013, 1-21.
18. www.tradingeconomics.com