Research Paper *IJMSRR*
*Impact Factor :**3.029*** *E- ISSN - 2349-6746*
ISSN -2349-6738

FOREIGN DIRECT INVESTMENT: A RECENT PHONOMENAN

Dhanya John
Research scholar in Economics, St. Thomas College, Thrissur.

Abstract
Generally we were experienced with the flow goods among the nations and assumed that there are no movements of resources among the nations. But in the case of international trade the movement of goods and productive resources are considered as the proxy of each other. The movement of productive resources from nations with relative abundance and low remuneration to nations with relative scarcity and high remuneration has a tendency to equalize factor remunerations internationally and generally increase the wellbeing. International trade and movements of productive factors, however, has very different economic effects on the nations involved. There are two important types of foreign investments; Portfolio investments and direct investments. Portfolio investments are purely financial assets, such as bonds denominated in national currency. With bonds, the investors simply lend capital to get fixed amounts or return at regular intervals and then receive the face value of the bond at a pre specified date. Most foreign investments prior to World War I were of this type and flowed primarily from the UK to the regions of recent settlements. Direct investment, on the other hand, are real investments in factories, capital goods, land, and inventories where both capital and management are involved and the investor retains control over use of the invested capital. Direct investment usually takes the form of a firm starting a subsidiary or taking control of another firm.

INTRODUCTION

Generally we were experienced with the flow goods among the nations and assumed that there are no movements of resources among the nations. But in the case of international trade the movement of goods and productive resources are considered as the proxy of each other. The movement of productive resources from nations with relative abundance and low remuneration to nations with relative scarcity and high remuneration has a tendency to equalize factor remunerations internationally and generally increase the wellbeing.

International trade and movements of productive factors, however, have very different economic effects on the nations involved. There are two important types of foreign investments; Portfolio investments and direct investments. Portfolio investments are purely financial assets, such as bonds denominated in national currency. With bonds, the investors simply lend capital to get fixed amounts or return at regular intervals and then receive the face value of the bond at a pre specified date. Most foreign investments prior to World War I were of this type and flowed primarily from the UK to the regions of recent settlements.

Direct investment, on the other hand, are real investments in factories, capital goods, land, and inventories where both capital and management are involved and the investor retains control over use of the invested capital. Direct investment usually takes the form of a firm starting a subsidiary or taking control of another firm.

DATA ANALYSIS

FDI being a non-debt capital flow, is leading source of external financing, especially for the developing countries. It is not only brings in capital and technical know-how but also increases the competitiveness of the economy. Overall it supplements domestic investment, much required for sustaining the high growth rate of the country. Since 2000, significant changes have been made in the FDI policy regime by the government to ensure that India becomes an increasingly attractive and investor friendly destination.

The current phase of FDI policy is characterized by negative listing, permitting FDI freely except in a few sectors indicated through a negative list. Under the current policy regime, there are three broad entry options for foreign direct investors. In a few sectors, FDI is not permitted; in another small category of sectors, foreign investment is permitted only till a specified level of foreign equity participation; and the third category, comprising all the other sectors, is where foreign investment up to 100 per cent of equity participation is allowed. The third category has two subsets- one consisting of sectors where automatic approval is granted for FDI (often foreign equity participation less than 100 per cent) and the other consisting of sectors where prior approval from the Foreign Investment Approval Board (FIPB) is required. FDI policy changes increasingly reflect the requirements of industry and are based on stakeholder's consultation. Upfront listing of negative sectors has helped focus on reform areas, which are reflected in buoyant FDI inflows.

FDI POLICY CHANGES- 2011

- Circular 1 of 2011, effective from 1.4.2011 contained a number of significant policy changes, including pricing of convertible instruments upfront, on the basis of a conversion formula, instead of price. Inclusion of fresh items for issue of shares against non-cash considerations, including import of capital goods/machinery/equipment and pre-operative/ pre incorporation expenses. Removal of the condition of prior approval in case of existing joint ventures/technical collaborations in the same field. Simplification and rationalization of guidelines relating to down-stream investments and development and production of seeds and planting material, without the stipulation or having to do so under controlled conditions.
- Effective May 20, 2011, Government allowed FDI in limited liability partnership subject to specific conditions.
- Circular 2 of 2011 effective from 1.10.2011 further simplified FDI and included exemption of construction development activities in the education sector and in old-age homes, from the general conditionality in the construction development sector. Inclusion of apiculture under controlled conditions, under the agricultural activities permitted for FDI. Inclusion of basic and applied R&D on bio technology pharmaceutical sciences/ life sciences, as an industrial activity under industrial parks. Notification of the revised limit of 26% of foreign investment in Terrestrial Broad casting/FM radio. Liberalization of conversion of imported capital goods/machinery and pre operative / pre-incorporation expenses to equity instruments and introduction of provisions on pledging of shares and opening of non-interest bearing escrow accounts, subject to specified conditions.
- Effective November 8, 2011 government reviewed the extant policy on FDI and decided that FDI, up to 100% would be permitted for brown field investments (means investments in existing companies) in the pharmaceuticals sector, under the Government approval route.
- Effective January 10, 2012, Government liberalized the extant policy on FDI in single brand retail trading, in which FDI up to 51% was permitted, subject to specified conditions, by allowing FDI up to 100 % under the Government route, subject to additional condition that, in respect of proposals involving FDI beyond 51%, mandatory sourcing of at least 30% of the value of products sold would have to be done from Indian's small industries/village and cottage industries, artisans and craftsmen.

NEW FDI POLICY 2012

The Department of Industrial Policy and Promotion (DIPP) has on April 10, 2012 come out with new Foreign Direct Investment policy effective from April 10, 2012. The consolidated circular on FDI policy was introduced for the first time in 2010 summarizing all the regulations including those of FEMA and of the RBI for the benefit of foreign investors. Thereafter, a revised version was released every six months. However, the Government has now decided that the consolidated circular on FDI policy will be issued after one year instead of every six months. The consolidated document is a guide to foreign investors as it contains the entire regulatory frame work and includes all FDI policies announced prior to the release of the circular. It also has regulations on FDI, contained in FEMA and RBI circulars. Definition of Joint ventures remains unchanged. There was a speculation that the government was most likely going to define the term joint venture for the purpose of FDI under which it would be mandatory for at least two Partners to have minimum 25% stake each in the JV Company. The definition of 'Joint Venture' was to be incorporated in the consolidated FDI policy. However no such change has been introduced in the consolidated FDI policy.

KEY CHANGES

DIPP has introduced the following key changes under the new consolidated FDI policy:

- POLICY FOR FDI COMMODITY EXCHANGES: Foreign Institutional Investors can now invest up to 23 per cent in commodity exchanges without seeking prior approval of the government. However, FDI will continue to need the approval of the FIPB. At present, foreign investment, within a composite cap of 49 percent. Under the government approval route is permitted in commonly exchanges. Within this overall limit of 49 per cent, investment by registered FIIs is limited to 23 percent and investment under the FDI scheme is limited to 26 percent. This change aligns the policy for foreign investment in commodity exchanges, with that of other infrastructure companies in the securities markets, such as stock exchanges, depositories and clearing corporations.
- NON BANKING FINANCE COMPANIES Clarifications on Leasing: It has been clarified that the activity of leasing and finance which is one among the eighteen NBFC activities, where induction of FDI is permitted, covers only financial leases and not operating leases. This provision intends to clarify the coverage of the term leasing and finance, insofar as the NBFC sector is concerned.

- Clarification on Investment by FIIs: Currently an FII may invest in the capital of an Indian company under the port folio investment scheme which limits the individual holding of an FII to 10 percent of the capital of the company and the aggregate limit for FII investment to 24 percent of the capital of the company. This aggregate limit of 24 per cent can be increased to the sectoral cap/statutory ceiling, as applicable, by the Indian Company concerned, through a resolution by its Board of Directors, followed by a special resolution to that effect by its general body. It has been clarified that this would be subject to prior information to RBI.
- Investment by Foreign Venture Capital Investors (FVCIs): FVCIs are allowed to invest in the eligible securities like equity, equity linked instruments, debt, debt instruments, debentures of an IVCU or VCF, units of schemes/funds set up by a VCF) by way of Private arrangement/purchase from a third party also, subject to stipulated terms and conditions. SEBI registered FVCIs have also been permitted to invest in securities on a recognized stock exchange subject to the provisions of the SEBI (FVCI) Regulations, 2000.
- Investment by Qualified Financial Investors (QFIs): Government has permitted QFIs to invest (DPs), in equity shares of listed Indian Companies as well as in equity shares of Indian companies which are offered to the Indian public in terms of the relevant and applicable SEBI guidelines/regulations. QFIs have also been permitted to acquire equity shares by way of right shares, bonus shares or equity shares, on account of stock split/consolidation or equity shares on account of amalgamation, demerger or such corporate actions, subject to the prescribed investment limit for QFIs will be 5 percent and 10 per cent respectively, of the paid up capital of company.
- General Permission for Transfer of Shares and convertible Debentures: The liberalized policy on transfer of shares, convertible debentures of companies engaged in the financial services sector has now been reflected under FDI policy.
- Changes in FDI policy in single Brand Retail trading: The policy regarding single brand retail trading has been liberalized and now FDI up to 100 per cent is permitted under the Government route, subject to specified conditions.

FOREIGN INVESTMENT INFLOWS

According to RBI the Foreign investment Inflow into India topped $50 billion on a net basis during 2012-13, despite the Central government's efforts to woo foreign direct investments yielding poor results. This is the first time since 2009-10 that the net foreign investment, which includes FDI and portfolio flows has topped the $50 billion mark. The 28.7 per cent witnessed seen during 2012-13 was led by portfolio inflows, which went past $27 billion on a net basis compared to a tad over $17 billion during 2011-12.

However, the news was dismal on the FDI front. On a gross basis, investment was down almost 21 per cent to $36.9billion, as foreign investors stayed away due to poor sentiments in the country as well as problems in Europe and the slow recovery in the US. FDI in all routes including mergers and acquisitions saw an all-round fall. The positive news was the low rate of repatriation. RBI data showed that repatriation and disinvestment more than halved to $6.8billion during 2012-13 from $13.6 billion in the previous fiscal.

On the net basis, however, FDI inflows went up by under 5 per cent to around $ 23 billion, as Indian companies slowed down their overseas expansion.

REFERENCE

1. D.salvatore 'International Economics' Eighth Edition, ISBN 978-81-265-1413-7.
2. Economic survey 2011-12, Oxford University Press, ISBN 0-19-808551-6.
3. Chopra.j.k 'Indian Economy' unique publishers, ISBN 978-81-8357-116-6.
4. Agrawal.A.N. 'indian economy problems of development and planning, New Age International Publishers' 35th Edition. ISBN 978-81-224-2697-7.
5. Competition Success Review 2014 issue.
6. Pratiyogita darpan 2013 issue.
7. www.epwonline.com.
8. www.cds.edu.
9. www.keralagov.nic.in.