AUTHORS
Dr. Brijesh Kumar
Lecturer,
Faculty of Commerce &
Busi. Administration,
D. N. College, Meerut.
Anuj Singhal
Chartered Accountant,
Research Scholar.

Role of FDI in Indian Economy

A Concern of the FDI and Indian Regime.

ABSTRACT

The last two decades of the 20th century witnessed a marked change in attitude of most developing countries towards foreign capital, accompanied by a dramatic world wide increase in foreign direct investment (FDI). Most countries now regard FDI as beneficial for their development efforts and compete with each other to attract it. The success of many Asian economies (China, South Korea, Singapore, Thailand, and Malaysia) is largely attributable to high level of foreign investment and export promotion.Though India has one of the most transparent and liberal FDI regimes among the developing countries with strong macro-economic fundamentals, its share in FDI inflows in dismally low. The country till suffers from weaknesses and constraints, in terms of policy and regulatory framework which restrict the inflow of FDI.

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1. THE START

All investments, foreign and domestic are made under the expectation of future profits. The economy benefits if economic policy fosters competition, creates a well functioning modern regulatory system and discourages artificially monopolies created by the government through entry barriers. A recognition and understanding of these facts can result in a more positive attitude towards Foreign Direct Investment.

The current wave of globalization and liberalization sweeping across the world has stimulated governments to compete for FDI has reinforced the rule of tax policy in the process. With most world economies being liberalization in a big way, the prime considerations have become more or less equal for these economics.

Consequently, tax considerations have become significant. Policy makers now ensure that their tax system is rnationally competitive and that impediments to FDI are removed. Government in all parts of the world now feels it necessary to offer tax incentives to attract FDI.

Product market related barriers coupled with the infrastructure and labour laws related obstacles are adversely affecting the export sector. It has been highlighted that privatization holds a big promise for attracting FDI to the tune of US $ 10 billion annually. Citing the example of Brazil where the privatization has reaped in larger inflows of FDI, the government should think seriously about disinvestment while setting the desired goals for FDI.

2. THE CONCERN

The concern of foreign investors as regards the red tapism, infrastructure bottlenecks, archaic, legislations, centre-state duality, weak database etc. demand serious thoughts. The future policies should be designed in the light of the above observations.

The most important initiatives that need attention are:

a) Empowering the State Governments with regard to FDI.

b) Developing fast track clearance system for legal disputes.

c) Changing the mind set of bureaucracy through HR practice.

d) Developing basic infrastructure.

e) Improving India's image as an 'investment destination'.

While the magnitudes of inflows have recorded impressive growth, they are still at a small level compared to India's potential. The policy reforms undertaken have undoubtedly enabled the country to widen the sectoral and source composition of FDI inflows.

3. THE INDIAN REGIME

India has one of the most transparent and liberal FDI regimes among the emerging and developing economies. Most of the manufacturing sectors have been for many years on the 100 per cent automatic route. Foreign equity is limited only in production of defence equipment (26 per cent), oil and marketing (74 per cent) and government-owned petroleum refineries. Most of the mining sectors are similarly on the 100 per cent automatic route. In the case of infrastructure sector also, highways and roads, ports, inland waterways and transport and urban infrastructure are on 100 pre cent automatic route. Contrarily, telecom (40 per cent), airports (74 per cent), civil aviation (40 per cent), and oil and gas pipelines (51 per cent) have foreign equity limits.

India has maintained one of the most liberal policy regimes in regard to technology agreements. Foreign technology collaborations are permitted either through automatic route. Foreign technology induction is encouraged both through foreign technology agreements.

The fundamental objective of economic reform is to bring about rapid and sustained improvement in the quality of life of the people of India. Central to this goal is the rapid growth in incomes and productive employment. Such growth requires investment in farms, in industry, in power and above all in people. Fostering an economic environment which promotes rapid, broad-based development will note be easy. Reforms of broad policy will not be sufficient enough. They must be accompanied by reforms of laws, rules and procedures.

Within a generation, the countries of East Asia transformed themselves. China, Indonesia, Korea, Thailand and Malaysia today have living standards much above ours.

Private investment in agricultural sector and infrastructure hold key to augmenting the available resources for achieving a higher growth rate. Infrastructure services are critical for all the sectors of the economy. In may parts of the country, infrastructure services have emerged as the single most severe bottleneck to development of agriculture, industry and exports. Foreign investment in this sector can provide a critical supplement to resources and technology in some sectors. In certain cases this may involve build-operate-transfer (BOT) approaches.

4. THE END

The process of economic reforms in India initiated in 1991 seems irreversible. There enough evidence. That government is withdrawing, though gradually, as a controller and licenser of private activity and allowing competition

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and market forces to guide investment decisions. Domestic policies and regulations determine the environment for private investment. This environment affects both domestic investors and FDI. Simplification and modernization of laws, rules and regulations, elimination of controls and bans, introduction of modern and professional regulatory systems and other policy reforms will result in greater gross domestic investment besides increasing the flow of FDI.

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