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FLOW OF FDI WILL FAVOUR THE ECONOMIC DEVELOPMENT

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ABSTRACT

Foreign Direct Investment (FDI) plays an important role in economic development in developing countries like India. They act as a long-run source of capital as well as a source of advanced and developed technologies. The investors also bring along best global practices of management. A large amount of capital comes in through these investments more industries are set up. This helps in increasing employment. Foreign Direct Investment also helps in promoting international trade. This investment is a non-debt, Non-volatile investment and received on these are generally spent on the host country itself thus helping in the economic development in every field of the country. This paper is going to explain the role of FDI for economic development of Bihar.

Key Words: FDI, Multinationals, Portfolio Investment

INTRODUCTION

Foreign investment can be defined as the acquisition by governments, institution or individuals in one country of assets in another. Foreign investment covers both direct investment and portfolio investment and includes public authorities, private firms and individuals. Direct investment may be a means of financing a balance of payments deficit. Direct investment often involves the setting up of subsidiary companies for the domestic production of goods, which previously were imported from the parent company. Portfolio investment represents passive holdings of securities such as foreign stocks, bonds, or other financial assets, none of which entails active management or control of the securities issuer by investor where such control exists, it is known as foreign direct investment (FDI). Some examples of portfolio investment are purchase of shares in a foreign company, purchase of bond issued by a foreign government, and acquisition of assets in a foreign country.

The World Investment Report of the United Nations Conference on Trade and Development (UNCTAD) defined FDI as international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in and control of an enterprise resident in an economy other than that of the foreign direct investor.

According to the International Monetary Fund (IMF), FDI can be defined as Investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor.

In this paper, we have attempted to identify the issues and problems associated with India's current foreign direct investment regime in general and in Bihar in particular, and more importantly the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market rule of law, low labor costs, and a well working democracy, her performance in attracting FDI flows has been far from satisfactory. A restrictive FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision-making processes, and a very limited scale of export processing zones make India an unattractive investment location.

In recognition of the important role of Foreign Direct Investment (FDI) in the accelerated economic growth of the country, Government of India initiated a slew of economic and financial reforms in 1991. India is now ushering in the second generation reforms aimed at further and faster integration of Indian economy with the global economy. As a result of the various policy initiatives taken, India has been rapidly changing from a restrictive regime to a liberal one, and FDI is encouraged in almost all the economic activities under the automatic route. Over the years, FDI inflow in the country is increasing. However, India has tremendous potential for absorbing greater flow of FDI in the coming years. Serious efforts are being made to attract greater inflow of FDI in the country by taking several actions both on policy and implementation front. Since the last publication of the Manual in November 2002, Foreign Investment Promotion Board has been shifted to Department of Economic Affairs, Ministry of Finance and Company Affairs. However! the subject relating to FDI Policy and its promotion and facilitation as also promotion and facilitation of investment by Non- Resident Indians (NRIs) and Overseas Corporate Bodies (OCBs) will continue to be handled by this Department. Further, application form required for Carry on Business (COB) License has been revised. These changes have been incorporated in this issue of the Manual. In Annexure-IV of this Manual! Guidelines' regarding print media has been also elaborated.

An essential requirement of the foreign investing community in making their investment decision is availability of timely and reliable information about the policies and procedures governing FDI in India. This publication is a part of our endeavour to apprise the investing community of our policy measures and the opportunities available for investment in India. We hope that this Manual will be found useful by the investing community. We welcome suggestions for its improvement. Government's liberalisation and economic reforms programme with the global economy in a harmonized manner. The industrial policy reforms have reduced the industrial licensing

requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment.

FOREIGN DIRECT INVESTMENT AND ITS IMPORTANCE

In the last two decades whole world has seen an extensive in flow of foreign direct investment into developing countries like India. More and more developing countries are competing with each other to attract this investment. Restrictions which were earlier in place on these investments are not being removed as the importance of FDI is being realized. Hence FDI has a major role to play economic development in Bihar. The total inflow in India was US\$27 billion in 2010-11. Over the past few years many sectors have seen the growth of foreign investment. The Bihar Government is also coming out with new reforms to promote more and more of this investment.

In this way, we can say that FDI refers to an investment made by a foreign individual or company in the productive capacity of another country. It can be considered as the movement of capital across national boundaries in a manner that allows the investors to have a control over investment. Firms that provide foreign direct investment are referred to as Multinational corporations (MNCs). The investor can invest in existing industries or can promote new industries/business. There can be two types of FDI in words and out word. The cumulative of two, results in new FDI inflow. FDI is freely allowed in all the sectors except a few sectors, though in certain sectors FDI is not allowed beyond a ceiling. Some of the sectors that attract high FDI inflows in India are the Insurance, hotel and tourism, telecommunication, retail, power, drugs, real estate, financial services, pollution control and infrastructure etc. Foreign Direct investment is not permitted in Railways, Atomic Energy, Defense and Coal and Lignite etc.

An investor has to take a decision regarding the following aspects while investing:

- I. Exchange Rate: The stronger the foreign currency is in comparison to that of the host country, the lesser will be the amount of investment required. It means, depreciation of currency in the host country will lead to more investments.
- II. Market Size: it refers to the Gross Domestic Product (GDP) growth. Developing and emerging countries are more likely to attract investments.
- III. Infrastructure: This refers to investors will invest in a country if they think that the country has suitable infrastructure to support the business.

- IV. Tax Regime: Multinational Corporations (MNCs) are subject to tax in both the parent as well as host country. The host country which attempts to reduce this double taxation of MNCs will attract more foreign direct investment.
- V. Labour Market Conditions: It is important that the educational levels of the labour as well as the wage rates also play a major role in determining the flow of foreign direct investment. Good Political, Financial and Economic stabilities are also essential to attract FDI in the country.

Whatever be the steps in formulating the policy, it is certain that we are to move towards the opening up of multi-brand retail in the coming days. Politicians and Social activists have to conceive the idea of accepting it and put some positive inputs towards the policy to protect the interest of the people they are concerned about. Otherwise, it should be nobody's case that foreign investment itself in this sector is against Indian interests. In a global marketplace where purse is empty and are possibly going to get emptier once again (courtesy: recession), one has no option but to attract FDI in all feasible domain of global business. So, with fingers crossed, let's hope that the government will move steadily and certainly towards not just opening up multi-brand retail to foreign players as a matter of policy but also create a regulatory environment that appears investor friendly and will protect the interest of the people of India

CONCLUSION

Perceptions of News reports on such a sensitive issue will always create some confusion amongst people of different perception. But surely no one will support the government's decision to liberalise FDI, in few sectors only where maximum profitability possibility foreign giants can registered in few span of time. It should be nobody's case that foreign investment itself in various sector is against Indian interests. In a global marketplace where purse is empty and are possibly going to get emptier once again (courtesy: recession), one has no option but to attract FDI in all feasible domain of global business. So, with fingers crossed, let's hope that the government will move steadily and certainly towards not just opening up multi-brand retail to foreign players as a matter of policy but also create a regulatory environment that appears investor friendly and will protect the interest of the people of Bihar.

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