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FOREIGN DIRECT INVESTMENT: A KEY DRIVER FOR TRADE, GROWTH AND PROSPERITY

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ABSTRACT

The World Trade Organization popularly known as WTO has come into being on 1st January, 1995 in place of GATT – to give boost to international trade through increased global market competition. WTO is a land mark in the history of multilateral trade relations such as agriculture, textiles, communications and foreign direct investment in insurance and other areas. Recently, the Department of Industrial Policy and Promotion Government of India has released a discussion paper on “Foreign Direct Investment (FDI) and invited views on the same. Consequently number of opinions has emerged as a result of this paper. Foreign Direct Investment (FDI) does not require any introduction because of the limelight it has attracted in recent days. FDI in very easy terms is an investment by a parent company in a foreign country.

Key Words: Global Meltdown, Liberalization, Foreign Direct Investment, Equity Inflows, Service Sector.

INTRODUCTION

Foreign Direct Investment (FDI) does not require any introduction because of the limelight it has attracted in recent days. FDI in very easy terms is an investment by a parent company in a foreign country. Right from the commencement of Industrial Revolution and European expedition we can get a glimpse of FDI (though in a passive way) where for instance Europeans invested and developed resources in American soil. The cane era of socialism and end of Czar rule inspired and filled many nations with socialistic views but the disintegration of USSR brought to light a plethora of issues like rising fiscal deficits, high debts, poor services delivery and low penetration, delays in reforms, poor organization and management behavior, corruption etc. to name a few. Every country like ours nurtured by socialistic ideas of Nehru, found itself at a point where we had to make a choice, and we made one, Liberalization, Privatization, Globalization (LPG) and we all know the results. We are one of the fastest growing economies in the world. And today once again we have to see the scenario, understand, analyze and make some important choices. Rupee is depreciating, twin deficit trouble knocks our door, inflation wants repair, rating agencies are turning their backs on us, unemployment, health, hunger everything is shouting, crying out loud and over this Hot Money in forms of Foreign Institutional Investor (FII) etc if flowing out at sonic



speed. So what does the situation demand? Let us enter the world of “Truth and Hype” and see for ourselves. Govt. of India, coming out of what was called policy paralysis, announced a series of economic reforms to boost up the economic environment of the country. Hikes in diesel, Liquefied Petroleum Gas prices, change in Forward Contract Regime and the most famous of all FDI changes in Retail, Financial Sector, Broadcasting and Aviation.

OBJECTIVES:

- To prove the FDI a key driver for trade, growth and prosperity
- To assess the FDI equity inflows in service sector
- To examine the inflows of Foreign Direct Investment
- To know about Truth or Hype of FDI
- To suggest ways and means to combat the challenges

METHODOLOGY:

The research design will mainly be descriptive in its nature as its aim is to prove the FDI a key driver for trade, growth and prosperity and suggest ways and means to combat the challenges comes in the path of development. The data will mainly be used from the secondary source such as report of SAC, Department of Industrial Policy and Promotion. The statistical tool such as percentage and average has been taken into consideration to analysis and interpretation to arrive at certain conclusion.

DATA ANALYSIS AND INTERPRETATION:

Flow of Foreign Direct Investment and Sector Wise FDI Equity Inflows are given below:



TABLE 1: SHOWING YEAR-WISE FOREIGN DIRECT INVESTMENT INFLOWS 2000-01 TO 2015-16
(Amount US\$ million)

No.	Financial Year (April-March)	FOREIGN DIRECT INVESTMENT (FDI)						Investment by FII's Foreign Institutional Investors Fund (net)
		Equity		Re- invested earnings +	Other capital +	FDI FLOWS INTO INDIA		
						Total FDI Flows	%age growth over previous year (in US\$ terms)	
		FIPB Route/ RBI's Automatic Route/ Acquisition Route	Equity Unincorpora- ted bodies #					
FINANCIAL YEARS 2000-01 to 2015-16 (up to December, 2015)								
1.	2000-01	2,339	61	1,350	279	4,029	-	1,847
2.	2001-02	3,904	191	1,645	390	6,130	(+) 52	1,505
3.	2002-03	2,574	190	1,833	438	5,035	(-) 18	377
4.	2003-04	2,197	32	1,460	633	4,322	(-) 14	10,918
5.	2004-05	3,250	528	1,904	369	6,051	(+) 40	8,686
6.	2005-06	5,540	435	2,760	226	8,961	(+) 48	9,926
7.	2006-07	15,585	896	5,828	517	22,82	(+) 155	3,225
8.	2007-08	24,573	2,291	7,679	300	34,84	(+) 53	20,328
9.	2008-09	31,364	702	9,030	777	41,87	(+) 20	(-) 15,017
10.	2009-10	25,606	1,540	8,668	1,93	37,74	(-) 10	29,048
11.	2010-11 (P)	21,376	874	11,939	658	34,84	(-) 08	29,422
12.	2011-12 (P)	34,833	1,022	8,206	2,49	46,55	(+) 34	16,812
13.	2012-13 (P)	21,825	1,059	9,880	1,53	34,29	(-)	27,582
14.	2013-14 (P)	24,299	975	8,978	1,79	36,04	(+)	5,009
15.	2014-15 (P)	30,933	952	8,983	3,42	44,29	(+)	40,923
16.	2015-16 (P) (Apr	29,443	710	7,253	3,41	40,82		(-) 11,269
CUMULATIVE TOTAL		279.641	12.458	97.396	19,18	408.67	-	179,322

SOURCE: SAC, Department Of Industrial Policy and Promotion, Govt. Of India

Foreign Direct Investment Inflows into India has been enumerated in Table I. Table I reveals that total FDI inflows in the year 2000-01 was 4029 US \$ million. In the year 2001-02, it increased to 6130 us \$ million and

thereafter it showed a downward trend for the next two years i.e. 2002-03& 2003-04. It increased to 6051 US \$ million in 2004-05, 8961 US \$ million in 2005-06 and 22826 US \$ million in 2006-97. It shows an increasing trend during this period. Further FDI show a mixed trend. The FDI inflows was the highest during 2011-12 with figure of 46556 US \$ million. From these facts and figure we can conclude that it is true that Foreign Direct Investment (FDI) has increased in recent years.

TABLE 2. SHOWING SECTOR WISE FORIENG DIRECT INVESTMENT INFLOWS

Amount in Rs. crores (US\$ in millions)

Ranks	Sector	<u>2013-14</u> (April - March)	<u>2014-15</u> (April- March)	<u>2015-16</u> (April,15 – December , 15)	<u>Cumulative</u> <u>Inflows</u> (April '00 - December '15)	% age to total Inflows (In terms of US\$)
1.	SERVICES SECTOR **	13,294 (2,225)	27,369 (4,443)	27,630 (4,258)	240,570 (48,161)	17 %
2.	CONSTRUCTION DEVELOPMENT	7,508 (1,226)	4,652 (769)	673 (105)	113,882 (24,180)	9 %
3.	COMPUTER SOFTWARE & HARDWARE	6,896 (1,126)	14,162 (2,296)	34,304 (5,306)	108,136 (20,419)	7 %
4.	TELECOMMUNICATIO NS	7,987 (1,307)	17,372 (2,895)	6,936 (1,072)	91,027 (18,130)	7 %



5.	AUTOMOBILE INDUSTRY	9,027 (1,517)	16,760 (2,726)	11,405 (1,781)	76,362 (14,318)	5 %
6.	DRUGS & PHARMACEUTICALS	7,191 (1,279)	9,052 (1,498)	2,267 (352)	67,389 (13,447)	5 %
7.	CHEMICALS (OTHER THAN FERTILIZERS)	4,738 (878)	4,658 (763)	7,828 (1,197)	57,720 (11,628)	4 %
8.	TRADING	8,191 (1,343)	16,755 (2,728)	17,633 (2,717)	61,225 (10,744)	4 %
9.	POWER	6,519 (1,066)	4,296 (707)	4,194 (650)	51,146 (10,258)	4 %
10	HOTEL & TOURISM	2,949 (486)	4,740 (777)	6,145 (945)	47,094 (8,839)	3 %

SOURCE: SAC, Department Of Industrial Policy and Promotion, Govt. Of India

Sector wise Foreign Direct Investment Equity Inflows is enumerated in Table2. Table 2 reveals that Service sector which includes Financial, Banking, Insurance, Non-financial/Business Outsourcing R& D Testing and Analysis shows the highest percentage of total inflows in terms of US \$. On the other hand Hotel and Tourism sector shows the lowest percentage to total inflows in terms of US \$. The construction Development stood at second place. The Computer Software& Hardware, Telecommunications, Automobile Industry, Drugs & Pharmaceuticals, Chemical , Trading and Powers stands in between these sectors. If we put an eye on the inflow during 2013-14 to 2015-16 , the Computer Hardware and Software sector has fetched the highest amount of FDI

equity of 34304 crores in the year 2015-16 whereas the the service sector has fetched the highest amount of FDI equity of 13294 crores and 27630 crores in the year 2013-14 and 2014-15 respectively. From these facts and figure we can come to the conclusion that it is also true that Foreign Direct Investment (FDI) equity inflows of service sector has increased in the new global era.

HYPES: LOOKING INWARD

Even before the advent of the government decision to allow FDI in different sectors strong voices in opposition started popping up, which were opposing the green signal given to FDI for various reasons. Say comparison with countries like America, where they say Wal-Mart took away many jobs and was detriment to the growth of “Mom ‘n’ Dad” stores of the States. Then it is also said that the predatory pricing followed by such retail giants and introduction of a new layer of middlemen like-quality controllers, standardizers, packaging managers will come up and will suffocate the farmers. Over this there is also a section which says that FDI in retail won’t be attracting much investment and even if it does then it won’t lend a helping hand in country’s development. Regarding FDI in Pension Institutions and Insurance sectors, there is suspicion that the private investors will try to earn early and big returns in search of which they will invest in risky equities and may blow off some hard earned pension money of a vast section of society. FDI in aviation is the only thing that is not facing hard opposition but subtle antagonism can’t be denied. Apart from this, accusations, of the government favoring and making moves under western pressure, have also been made. So, is FDI really this anti-society and are we much stronger without FDI? Our society is totally flummoxed by these assumptions. But as the law of the land says that no decision can ever be arrived at without looking at the other side of the coin and as FW Taylor says that all methods be first analyzed before choosing the “One best way”.

TRUTH: NEED OF THE HOUR

The report (Kelkar, 2012,p.1) contained that the twin deficits hypothesis implies that, given a certain level of private savings, an increase in the government deficit will have to be balanced by either a reduction in private investment or an increase in the Current Account Deficit (CAD. Accordingly we urgently need to bring down our twin deficits, high inflation and increase investment and for this, subsidies on Liquefied Petroleum Gas, Kerosene etc need to be phased out, expenditures have to be controlled and there should be strict adherence to the Fiscal Responsibility and Budget Management Act. But as we have noticed in Euro crises and Manmohan Singh’s speech at U.N General Assembly Meet that austerity measures alone are ineffective unless coupled with growth



pushes. The report (Parekh, 2010) found that India needs \$ 1 trillion during 12th plan period for infrastructure building. So, from where will the capital come from?

Comparisons are done with the western nations like US that started developing in an altogether different era when resources were abundant and market had few players, a critic of Rostow's Development Theory says and even today when ours is an agricultural economy, American is on a totally different stage. If comparisons are to be made then we should look at a similar nation like ours, say China, that opened up to FDI in 1992 with 26% cap in retail and has grown it to 51% and even today the unorganized sector of retail flourishes and co-exist there with the big retailers and even organized Modern retail market is dominated by domestic retailer like Bailion Group and Wal-Mart in China just accounts for 5.5% of the market. In India too the overall market is expected to grow from today's 500 billion to 900 billion in 2020 and the share of organized retail is expected to go up to 20% of total market share from today's 5% and that will still have the Kiryana stores with a business of \$ 650 billion from present \$ 450 billion. In addition to this it has been seen that in attempt to position themselves better vis-a vis fast moving consumer goods brand these modern retailers encourage their own brand for which they depend on the MSME's .So the market won't be ruled just by Big Stores. Even though Govt. of India has put some "Invisible Barriers" as precautionary measures like stores can only be opened in cities with population greater than 10 lakhs and 51 such cities exist, also 30% of the intake should come from MSME s so they won't shut down.

Now, when it comes to employment issues, Bharti –Walmart opened its first store at Amritsar in 2008 and has trained and provided jobs to 3944 unskilled and educated youth. Also the demand of minimum \$100 million investment and 50% of it going to the development of backend infrastructure will not only provide a robust supply chain but also give employment opportunities to many unskilled labours. Similarly the opposition that a new middle class layer of quality approval , standardizer , packaging etc. will be detrimental to farmers should be taken as an employment generation avenue and providing better quality of goods that is right of every consumer. Then comes the issue of farmers of nation. A nation in which tillers are rarely the owners and revenue from the producer just ends up removing the debt. Haven't we seen Mother India! Seriously, as on June, 1 2012, 82 million tone of surplus grain was rotting because we didn't have the infrastructure to store. More than 50% of the Horticulture produce ends up as garbage due to very same problem. Govt. has refused to revise procurement price of many crops so that farmers do not produce in excess. Doesn't it sound ironic when we are spending so much on research to increase our vertical production and when we show no significant improvement on Hunger Index. Yes, FDI will help in raising the required backend infrastructure and necessary supply chain so that we can curb



these issues and we can revise the procurement prices for those farmers because they too feel the wrath of inflation.

Moving to Finance Sector and Broadcasting Sector we see that we have set some ambitious targets regarding telecom penetration and financial inclusion and these are some basic requirements for the development of a major chunk of population. Those assuming that the Foreign players will just invest in rising venture and will suffer insolvency and the hard earned savings of people will go up like a bubble should consider that subscribers are given choice under The New Pension Scheme, wherein if the subscriber does not want the funds to be invested in equities then that too can be taken care of. Apart from this, committee set up under chairmanship of R.N. Malhotra, former RBI Governor, recommended introduction of concept of professionalism in insurance sector to make out strong case for paving way for foreign capital and also to take care of risk involved with FDI, on the recommendations of the same committee.

The Insurance Regulatory and Development Authority (IRDA), 1999, para 1 is an autonomous apex statutory body which regulates and develops the insurance industry in India. The IRDA act recommendsprivate players to enter the insurance sector in India and allow Foreign Direct Investment to 49 percent. Similarly, The Pension Fund Regulatory and Development Authority Act, 2012, came into existence to regulate and control pension funds. The PFRDA act recommends....control of pension funds.

Now looking at the components of Bharat Nirman one can easily guess the importance of telecom and simultaneously can see the grim picture that it is still a dream for a large number of people in our country to just hold and use a telephone. We are in an age where we are talking about transparency, accountability and right to information. Does anyone have the answer that how are we going to bring transparency without such basic amenities? Are we not depriving so many people of their Right to information? And to achieve these goals like providing broadband on demand by 2015 we should know the important role FDI can play. Also government has decided to go for 74% FDI in broadcasting whereas Deepak Pareekh Committee has asked for 100% FDI. This shows the importance of FDI for this sector. Chidambaram, suggests (2013, November 1) The Hindu, that there are still many challenges, most important being inflation and reviving investment. The current account deficit to come down to \$ 60 billion

Last but not the least the Civil aviation that started around early 1950's is going through serious hardship today i.e. fuel costs for ATF. We know that ours is an energy stressed nation and we cannot help much in this regard but we know that Civil Aviation in the coming time has a great role to play not just in passenger transportation

but also in cargo and strategic needs. But the development needs cannot be put in to the customers and the Airline staff and also debt restructuring too is not a lifetime tool as we have noticed in case of KFA. So freedom to the cash strapped stumbling airlines is necessary to provide some required kick to get them going.

CONCLUSION

So, as we go through all the assertions and reasons given above we can judge that our country is not exactly in same situation as it was in late 80's, is on a similar path that requires some hard, urgent and rational step. We can see that FII's are never reliable and apart from that we should look at the benefits, like organizational improvement, technology transfers, better service delivery etc, that FDI brings with it have their own importance. Today we have schemes like MGNREGA, Bharat Nirman and we have much more ambitious plans for future like Universal Health Coverage but the funds of our developing country are scarce and will grow slowly for some time. (United Nation's Economic and Social Council on Asia and Pacific projects India's GDP growth at 5.9% for this fiscal year). And we'll have to invest very cautiously because any frivolous move can end up in a debt trap and then the situation about employment, market and farmers will be NOT SO GOOD! Accordingly it is the NEED OF THE HOUR that we go for FDI cautiously and simultaneously we must believe in ourselves that we are not inferior to any one and good competition will always lead to the growth of our nation and its people. And in the end I would just like to quote Charles Darwin that "It is the long history of humankind (and animal kind, too) those who learned to collaborate and improvise most effectively have prevailed."

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