FDI Prospects And Challenges Ahead For India

*** Dr. Ravi Aluvala**

INTRODUCTION

One of the most notable features of economic globalization has been the increased importance of foreign direct investment around the world. Some view it as an engine of economic growth and development, while others look upon it as a panacea for all ills. It is, however, important to weigh the costs and the benefits of Foreign Direct Investment (FDI) to gauge whether FDI has a positive impact on economic development. FDI has the potential to generate employment, raise productivity, enhancing competitiveness of the domestic economy through transfer skills and technology, strengthening infrastructure, enhance exports and contribute to the long-term economic development of the world's developing countries. More than ever, countries at all levels of development seek to leverage FDI for development. We, in India, see FDI as a developmental tool in all sectors and tourism has no exceptions.

Liberalization policies have led to rapid growth in FDI inflows in recent years. Based on the benefits associated with FDI, several developing; as well developed countries compete fiercely for FDI. They try to attract foreign investors by providing financial and fiscal incentives, undertaking corporate restructuring and economic reforms and inviting foreign investors in the privatization of state-run units. In 2001, for example, 71 countries made 208 changes in their FDI regulatory regimes, out of which 194 had done the same to attract higher FDI. The global market for foreign direct investment (FDI) has undergone significant changes in recent years, with the increasingly important role played by emerging market multinational enterprises (MNEs) being one of the most important ones among them. While outward FDI (OFDI) from these countries, in itself, is not new, the magnitude that this development has achieved, is raising a host of issues that are examined in this paper. The rise of global OFDI over the past three decades has been remarkable. Since 1980- 1985, when global OFDI flows averaged roughly US$50 billion per year, OFDI flows have grown by a factor of forty, to surpass US$2.1 trillion in 2007. In 2008, due to the financial crisis and the global economic downturn, global OFDI flows fell by roughly 10% to US$1.9 trillion.

Foreign direct investment (FDI) is no longer an activity exclusively undertaken by firms from developed countries. The growth of multinational enterprises (MNEs) from emerging markets has begun to focus attention around the world on the role of these new players. The rise of outward investment from emerging markets has contributed to the growth in FDI globally. In 1980, global FDI outflows totaled US$52 billion; emerging markets accounted for only 6% of this figure. By 2007, global FDI outflows approached US$2 trillion, and emerging markets accounted for over 15% (or US$300 billion) of the total. India is today one of the most favored investment destinations in the world, ranked as the world's third best FDI destination after China and the USA. In 2003, India ranked sixth on the list. The Goldman Sachs Global Economic Paper of October 2003 *'Dreaming with BRICS: The Path to 2050'* had predicted that over the next 50 years, Brazil, Russia, India and China could become a much larger force in the world economy. India has declared that, *"now it is destination India, unlike China in the past."* Several steps have been initiated recently to facilitate increased FDI inflows.

REVIEW OF LITERATURE

Caves (1974) concluded that there exists a positive correlation between the productivity of a multinational enterprise (MNE) and average value added per worker of the domestic firms within the same sector. Later, in 1996, Caves had observed several positive effects of FDI that brought about increasing efforts to attract more of it. Among these were productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks and access to markets. **Findlay (1978)** has postulated that FDI, through a *"contagion"* effect, increased the rate of technical progress in host country from the more advanced technology, management practices, etc., used by foreign firms. In addition, FDI may contribute to economic growth where the transfer of technology raised the stock of knowledge in host country through labor training and skill acquisition, new management practices and organizational arrangements. For instance, **Blomstrom,**

**Faculty,* Osmania University, Hyderabad. E-mail: aravi13371@yahoo.co.in

Lipsey, and Zejan (1994) believed that FDI had a positive growth effect when the country was sufficiently wealthy, that is, FDI could exert a positive effect on economic growth, but that there seemed to be a threshold level of income above which FDI had positive effect on economic growth and below which, it did not. This was because only those countries that had reached a certain income level could absorb new technologies and thus benefit from technology diffusion, reaping the extra advantages that FDI could offer. **Borensztein et al. (1998)** pointed out that FDI, an important vehicle for the transfer of technology, has contributed to growth in larger measure than domestic investment. According to **Rappaport (2000)**, FDI may improve the productivity not only of the firms receiving investments, but also of all firms of the host countries as a consequence of technological spillovers. These spillover effects were generated from both intra-industry (or horizontal, i.e.: within the same sector) externalities and inter-industries (or vertical) externalities through forward or/and backward linkages. **De Gregorio (2003)** noted that technologies and knowledge that are not readily available to host country investors may be brought to them along with FDI, and in this way, led to productivity growth throughout the economies. FDI may also bring in expertise that the country does not possess, and foreign investors may have access to global markets. In fact, through empirical studies, he found that increasing aggregate investment by 1 percentage point of GDP increased economic growth of Latin American countries by 0.1% to 0.2% a year, but increasing FDI by the same amount increased growth by approximately 0.6% a year during the period 1950-1985, thus indicating that FDI is three times more efficient than domestic investment. Moreover, as **Noorzoy** put forward in 1979, FDI could help host countries overcome capital shortage and complement domestic investment when FDI flowed to high risk areas or new industries where domestic investment is limited. When FDI is attracted for resource industries, for instance petroleum, domestic investment in related industries may be stimulated. Also, FDI may boost exports for the host countries. Empirical studies supporting these arguments include **Sun (1998) and Shan (2002)**. Using the conventional regression model and panel data, **Sun (1998)** has found out a high and significantly positive correlation between FDI and domestic investment in China. **Shan (2002)** used a VAR model to examine the inter-relationships between FDI, industrial output growth and other variables in China. He concluded that FDI has a dramatically beneficial impact on the Chinese economy when the ratio of FDI to industrial output rose. Nevertheless, some macroeconomic studies, using aggregate FDI flows for a broad cross section of countries, generally have suggested a positive role of FDI in generating economic growth under particular environments. Besides, **Alfaro et al. (2003)** have argued that FDI promoted economic growth in economies with sufficiently developed financial markets; while **Balasubramanyam, Salisu, and Sapsford (1996)** have stressed that trade openness was crucial for obtaining the growth effects of FDI. As **De Mello (1999)** pointed out: *"Whether FDI can be deemed to be a catalyst for output growth, capital accumulation, and technological progress seems to be a less controversial hypothesis in theory than in practice"* (1999, p. 148). **Alfaro et al (2007)** suggested that FDI had a positive growth-effect in countries with sufficiently developed financial markets. According to **Carkovic and Levine (2002)**, this view was not true since FDI flows did not exert an exogenous impact on growth in financially developed economies. Finally, **Balasubramanyam et al (1996)** contended that trade openness is very important in order to obtain the growth-effect of FDI, which was defended by **Kawai (1994)**.

FOREIGN DIRECT INVESTMENT

In literature, there exists an agreed framework definition of foreign direct investment (FDI). That is, foreign direct investment is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996).

DEFINING FOREIGN DIRECT INVESTMENT (FDI): SOME CRITICAL ISSUES

According to the IMF, FDI is the category of international investment that reflects the objective of obtaining a lasting interest by a resident entity in one economy, in an enterprise resident in another economy. There is a divergence in the definitions of FDI as stated by the IMF and used by the RBI for reporting its FDI statistics. According to the Balance of Payments manual of the IMF, FDI includes equity capital, reinvested earnings of foreign companies, inter-company debt transactions, short-term and long-term loans, financial leasing, trade credits, grants, bonds, non-cash acquisition

of equity, investment made by foreign venture capital investors, earnings data of indirectly held FDI enterprises and control premium, non-competition fee, and so on. The concept of FDI includes the following organizational bodies:

☸ Subsidiaries (in which the non-resident investor owns more than 50 %).

☸ Associates (in which the non-resident investor owns between 10 and 50 %).

☸ Branches (unincorporated enterprises, wholly or jointly owned by the non-resident investor).

Statistics on FDI reported earlier by the RBI in the balance of payments included only equity capital and this tended to underestimate the quantum of FDI inflows. According to the International Finance Corporation, India's adoption of a standard method of FDI computation would raise its net annual FDI inflows from US$ 2-3 billion to US$ 8 billion and would be 1.6 per cent of its gross domestic product. The RBI has revised the FDI definition, 2000-01 onwards, to include equity capital, reinvested earnings and other direct capital. The critical role of FDI in the economic development process is widely recognized, not just as a source of financial capital, but also as a tool to enhance knowledge and technology transfer and integration into global production chains. A number of studies have showed a strong link between FDI flows and export growth. However, the FDI policy has been revamped continuously to encourage foreign investments. Foreign investment is allowed freely in almost all sectors including services. In some sectors, the existing and notified sector policy permits FDI within a ceiling. Besides, virtually all items/activities can be brought in through the automatic route under powers delegated to the RBI. For the remaining activities, Government approvals are accorded on the recommendations of the Foreign Investment Promotion Board (FIPB). The automatic route is available not just to the new ventures, but to existing companies as well. Foreign technology agreements have also been actively promoted by the Government, to attract the desired investment through the automatic route.

FOREIGN DIRECT INVESTMENT (FDI) POLICY

The Foreign Exchange Management Act*,* 1999, notifications issued by the Ministry of Industry and the Reserve Bank of India (RBI) control the Foreign Direct Investment (FDI) in India. FDI is permitted through financial collaborations; joint ventures and technical collaborations; capital markets via Euro issues; and through private placements or preferential allotments. FDI for virtually all items/activities can be brought in through the automatic route under powers delegated to RBI, and for the remaining items/activities through specific government approval accorded on the recommendation of the Foreign Investment Promotion Board (FIPB).

☸**New Ventures:** All foreign investments except the following fall under the automatic route.

☸ Proposals requiring an Industrial License including **(i)** Items requiring an Industrial License under the Industries (Development and Regulation) Act, 1951; **(ii)** Foreign investment being more than 24% in the equity capital of units manufacturing items reserved for small sector; items requiring an Industrial License under the location policy notified by government under the new Industrial Policy of 1991.

☸ Proposals where provisions of Press Note 1(2005 Series) are attracted, that is, proposals in which the foreign collaborator has a venture/tie-up in India in the same field that he proposes to set up a venture in India.

☸ Proposals relating to acquisition of shares in an existing Indian company for taking over another company.

☸ Proposals falling outside notified sectoral policy/caps or under sectors in which FDI is not permitted and/or whenever any investor chooses to make an application to the FIPB and not avail it through the automatic route.

☸**Existing Companies:** Such approval can also be granted for existing companies proposing to induct foreign equity for expansion, for which the additional requirements are: **(i)** Increase in equity level must result from the expansion of the equity base of the existing company; **(ii)** Money to be remitted should be in foreign currency; and **(iii)** The proposed expansion programme should be predominantly in the sector(s) under the automatic route. Otherwise, the proposal would need FIPB approval, requiring a board resolution of the existing Indian company, as well as a consent letter from the Indian partner, and the foreign collaborator must support the proposal.

REPATRIATION OF FUNDS

100% repatriation of dividends is permissible in the case of foreign investments. However, in the case of 22 specified industries in the consumer goods sector, (whether approved through the automatic route or by Government), the outflow on account of dividend payments would need to be balanced by an equivalent amount of export earnings over seven years with effect from the date of commercial production. In cases where dividend balancing was not applicable

earlier and became applicable subsequently, it would be applicable to the extent of incremental foreign equity. This also applies in the case of secondary market acquisition/preferential allotment/transfer of shares to the extent of foreign equity infused, provided the activity attracts the condition of dividend balancing as per the existing policy. The entrepreneurs are free to export the item(s) for which FDI approval has been granted, as well as export any of the items falling under automatic route for such balancing. This condition of dividend balancing does not apply to investments approved by international organizations, such as International Finance Corporation (IFC), the Deutsche Entwicklungs Gesellschaft (DEG), the Commonwealth Development Corporation (CDC), the Asian Development Bank (ADB), etc.

Despite the country's dynamism and perceived increasing importance, actual FDI inflows to India will be relatively modest. India's potential to attract FDI is vast and the government has, in recent years, been adopting measures to encourage FDI. Increased acquisitions by foreign companies will lead to higher FDI inflows. There will be a steady increase in FDI focused on growing domestic market opportunities, especially in consumer goods. FDI in manufacturing will remain limited, although it should increase from a low base on the back of improvements in infrastructure. FDI inflows are set to increase substantially during the forecast period, but will still remain well below potential because of persistent business environment problems. The government's FDI target of US$25bn for fiscal year 2007/08 (April-March) is unlikely to be met. Political resistance to privatization, inflexible labor laws and poor infrastructure will also restrict FDI inflows.

FDI inflows into India grew strongly to US$17.5bn in 2006, two and half times the US$6.7bn recorded in 2005. The increase in FDI flows into India was owing to increased M&A activity, a booming property market and the increased ability of some investors to find ways around remaining entry restrictions. However, some US$4.6bn of the 2006 recorded inflow was owing to two accounting transactions by the UK-based Cairn Energy and its Indian arm's initial public offering (IPO). These transactions resulted in an FDI inflow and outflow of the same amounts. Nevertheless, even if these are deducted from the 2006 inflow, growth was still strong. Inflows into India are still dwarfed by the amounts that China receives.

OUTWARD FLOWS FROM EMERGING MARKETS

Considerable attention has lately been devoted to increasing outward investment by companies from emerging markets. Significant outward FDI flows from emerging markets are a relatively recent phenomenon. Although almost all developing countries remain net importers of FDI, several of them have nevertheless emerged in recent years as important outward investors. Unsurprisingly, it is the relatively more advanced economies- certain countries in the Association of South-East Asian Nations (ASEAN), some east-central European economies, South Africa, Russia, and a few within South America-as well as China, that have taken the lead. We estimate that outward FDI flows from emerging markets, including from offshore financial centers, amounted to some US$160bn in 2005.

This was the highest level ever recorded and represented 18% of world outflows-still far below the share of emerging markets in inward flows of 44% in that year, but a sharper rise on their share in global outward flows of 12% in 2004. This raised to an estimated US$210bn in 2006-at 17% of the global total, a slight decline from the share in 2005. Rapid economic growth, especially in Asia and oil-exporting countries, high prices for raw materials and continuing investment liberalization in some countries have underpinned strong growth in outflows.

FDI flows into India are mostly in information technology (IT) and communications centers, which are not accompanied by sizeable FDI flows. Despite India's successful positioning as a business processing and IT outsourcing hub, these activities often translate into Indian services sector exports via third-party transactions-not FDI. Despite strong growth in FDI inflows in 2005-06, India has yet to build a critical mass in FDI. The services sector continues to be the main target for FDI in India. FDI in the services sector increased to US$5.3bn in 2006, compared with US$1.8bn in 2006-in part owing to two large transactions by Oracle and Merrill Lynch (both US). There were also a number of small investments in IT services, as well as a pick-up of FDI in real estate (to about US$1.5bn, from only US$0.1bn in 2005), following a relaxation of regulations related to FDI in the sector in February 2006. By contrast, FDI in manufacturing actually declined in 2006 to US$1.5bn, compared with US$1.8bn in 2005. The largest single investment in the manufacturing sector was only US$79m, reflecting the fact that the overall business environment for manufacturing FDI is not yet attractive enough.

India's potential to attract FDI is vast and the government has in recent years been adopting measures to encourage FDI. Increased acquisitions by foreign companies will lead to higher FDI inflows. There will be a steady increase in

FDI focused on growing domestic market opportunities, especially in consumer goods.
FDI in manufacturing will remain limited, although it should increase from a low base on the back of improvements in infrastructure. There could also be a foreign investment boom in retailing, if the government eventually opens up this sector. Telecoms and energy are other high-potential industries for FDI.

FOREIGN DIRECT INVESTMENT IN INDIA

☸STOCKS AND FLOWS

FDI into India is rising rapidly. FDI inflows totaled US$17.5bn in 2006, compared with US$6.7bn in 2005 and US$2bn-3bn for most of the 1990s (although these figures are not strictly comparable, since in 2000/01, the government changed the means by which it measures FDI to include, for example, reinvested earnings). However, inflows of FDI into India are low by global standards (equivalent to 1.9% of GDP in 2006), as was the stock of inward FDI, at around US$68bn in 2006 (equivalent to 7.3% of GDP, or US$62 per head). This was below the figure for Pakistan (US$91 per head), and a fraction of the level in China (US$532 per head).

☸ORIGIN AND DISTRIBUTION

According to the Secretariat for Industrial Assistance, the largest source of FDI in 2006/07 was Mauritius, which accounted for 40% of total inflows. Many companies were incorporated in Mauritius to invest in India because of tax benefits. The UK was the second most important foreign investor, with 11.9% of the total, followed by the US (5.4%), the Netherlands (4%), Singapore (3.7%) and Germany (0.8%). Historically, the electrical equipment sector, which includes India's highly successful computer software industry, has attracted the most FDI, but in 2006/07, it was overtaken by the services sector. Financial and non- financial services drew in US$4.7bn in investment, well above the US$2.7bn garnered by electrical equipment. The next most important sectors for FDI were construction activities (US$985m), telecommunications (US$521m) and transportation (US$466m). Foreign investment was concentrated in the southern and western states, where more reform-minded administrations were in power. The top five destination states for FDI in recent years have been Maharashtra, Delhi, Tamil Nadu, Karnataka and Andhra Pradesh. FDI accounted for 6.4% of gross fixed investment in 2006, up sharply from 2.9% in 2005.

☸DETERMINANTS

India's skilled, English-speaking workforce has been a significant attraction for FDI, particularly in the information technology (IT) sector. Caps on FDI in protected industries have been steadily lifted: in January 2004, the limits on foreign investment in oil production and oil refining were abolished, and in private banking, the limit was raised to 74%. In October 2004, the sectoral caps were raised in insurance (to 26%), civil aviation (to 49%) and telecoms (to 49%). The limit for some telecoms services, for example Internet service providers (ISPs), was raised to 74% in February 2005, and all basic, mobile, and value-added telecoms services were moved under the 74% limit in November 2005. In February 2006, FDI up to 51% was permitted for retail trading of *"single brand"* products. However, fuller liberalization of the retail sector has been held up by political opposition, and some sectors, such as agriculture, remain off-limits to foreign investment. The approval process is gradually being simplified, and the government is expanding the number of industries that are subject to automatic approval. However, state-level impediments can be severe, and companies have been known to abandon FDI projects mid-way through the implementation stage.

☸IMPACT

FDI has had the greatest impact on India's software industry and on IT- enabled services. Call centers and other forms of back-office administration have become important industries. The pharmaceutical, telecoms and power sectors have also been influenced significantly by FDI.

☸POTENTIAL

India's potential to attract increased FDI inflows is vast, although poor infrastructure, excessive bureaucracy and interdepartmental wrangling will slow the pace of opening in many sectors. The infrastructure, energy, telecoms, IT and insurance sectors are likely to be the main magnets for FDI. Producers and assemblers of cars and automotive

components are also re-evaluating India's potential, as are biotechnology firms. The establishment of special economic zones, in which 100% foreign ownership is allowed, in order to promote exports should attract increased FDI inflows into export-oriented industries.

FDI INTO INDIA

Although China has been the top investment destination for some years, investor interest in India is a more recent development. Whereas China's FDI is concentrated in capital-intensive manufacturing and logistics, FDI flows into India are mostly in IT and communications centers, which are not accompanied by sizeable FDI flows. Despite India's successful positioning as a business processing and IT outsourcing hub, these activities often translate into Indian services sector exports via third-party transactions-not FDI. There have recently been positive signs of increased FDI into other sectors. Despite the attention to services outsourcing, two of the sectors that received large amounts of inward FDI in 2005 were automobile manufacturing and mining. FDI into India will grow but will remain very low in relation to the size and potential of its economy. However, some of the world's leading MNCs are taking an active interest in the country. Intel, Microsoft, Cisco, Posco and an AMD-backed chip fabrication consortium have proposed large multi-year investments. The recent increase in the ceiling on foreign ownership in some telecoms services to 74% (from 49%) and in civil aviation companies to 49% (from 24%) is also helping to generate greater inflows, although manufacturing is generally open to foreign investment and there has recently been substantial liberalization of the FDI regime in some sectors, such as telecoms, FDI opportunities in other sectors are limited. India's ability to attract FDI is also hampered by its poor infrastructure recent survey by KPMG ,that showed India's poor infrastructure (the road network, the ports, the distribution networks and in particular, the power supply) is a cause for concern and a major barrier to investment. Most of the companies surveyed doubted that rapid changes could be made to solve the infrastructure issues. The scope for making improvements is limited by the state of public finances. The combined deficit of the federal and state governments is running at around 10% of GDP.

CHALLENGES AHEAD

Despite commendable progress, there is a pressing need for continuing to work towards providing a more attractive policy environment to attract foreign investment. Whilst India claims to have one of the most transparent and liberal FDI regimes amongst developing countries, there still exist a plethora of rules, regulations and interpretations, which need to be remedied.

United Nations Conference on Trade and Development (UNCTAD) Confidence Index placed India on 82nd rank in terms of FDI potentiality and 112th rank in terms of performance during the period of 2002-2004 out of a survey of 141 economies. It can be inferred that despite its potentiality, performance is not satisfactory and challenges are still ahead of India, which is highlighted with the help of survey report of GoI and other organizations as follows:

Ground level hassles continue to be a major impediment for foreign investors. 88 percent respondents rated this problem as *'medium to high'* category (FICCI, 2004), which shows a marginal improvement of 3 percent over previous

Table 1: FDI Equity Inflows During Financial Year 2009-10

Financial Year 2009-10 (April-March)	Amount of FDI inflows*	
	(In ₹ Crore)	(In US$ million)
1. April 2009	11,708	2,339
2. May 2009	10,168	2,095
3. June 2009	12,335	2,582
4. July 2009	17,045	3,516
5. August 2009	15,796	3,268
6. September 2009	7,326	1,512
7. October 2009	10,895	2,332
2009-10 (Up to October 2009)	**85,273**	**17,644**
2008-09 (Up to October 2008)	**80,395**	**18,708**
% age growth over last year	**(+) 06 %**	**(-) 06 %**

Note: Figures are provisional, subject to reconciliation with RBI, Mumbai.

Table 2: FDI Equity Inflows During Calendar Year 2009

Calendar Year 2009 (January-December)	Amount of FDI inflows*	
	(In ₹ Crore)	(In US$ million)
1. January 2009	13,346	2,733
2. February 2009	7,329	1,488
3. March 2009	10,023	1,956
4. April 2009	11,708	2,339
5. May 2009	10,168	2,095
6. June 2009	12,335	2,582
7. July 2009	17,045	3,516
8. August 2009	15,796	3,268
9. September 2009	7,326	1,512
10. October 2009	10,895	2,332
Year 2009 (Up to October 2009)	**115,971**	**23,821**
Year 2008 (Up to September 2008)	**127,815**	**30,589**
% age growth over last year	**(-) 09 %**	**(-) 22 %**

Note: Figures are provisional, subject to reconciliation with RBI, Mumbai.

Table 3 : Share Of Top Investing Countries FDI Equity Inflows (Financial Year-wise)
Amount ₹ in crores (US$ in millions)

Ranks	Country	2006-07 (April-March)	2007-08 (April-March)	2008-09 (April-March)	2009-10 (April-October '09)	% age to total Inflows (in terms of rupees)
1	MAURITIUS	28,759 (6,373)	44,483 (11,096)	50,794 (11,208)	36,572 (7,750)	44 %
2	SINGAPORE	2,662 (578)	12.319 (3,073)	15,727 (3,454)	6,456 (1,335)	9 %
3	U.S.A	3,861 (856)	4,377 (1,089)	8,002 (1,802)	6,359 (1,322)	8 %
4	U.K	8,389 (1,878)	4,690 (1,176)	3,840 (864)	1,636 (340)	5 %
5	NETHERLANDS	2,905 (644)	2,780 (695)	3,922 (883)	3,224 (670)	4 %
6	JAPAN	382 (85)	3,336 (815)	1,889 (405)	4,590 (950)	3 %
7	CYPRUS	266 (58)	3,385 (834)	5,983 (1,287)	5,557 (1,155)	3 %
8	GERMANY	540 (120)	2,075 (514)	2,750 (629)	2,160 (449)	3 %
9	FRANCE	528 (117)	583 (145)	2,098 (467)	1,119 (234)	1 %
10	U.A.E	1,174 (260)	1,039 (258)	1,133 (257)	2,591 (537)	1 %
TOTAL FDI INFLOWS*		**70,630 (15,726)**	**98,664 (24,579)**	**122,919 (27,329)**	**85,273 (17,644)**	-

Note:
(i) *Includes inflows under NRI Schemes of RBI, stock swapped and advances pending for issue of shares.
(ii) % age worked out in rupees terms & FDI Inflows received through FIPB/SIA + RBI Automatic Route + acquisition of existing shares only.

survey (FICCI, 2003). According to the corruption perception index 2006 of Transparency International, India ranked 74th with a score of 3.33 out of 10, which is same as China and Brazil.

Transport, Road, Power and Water availability continue to remain a cause of concern for investors, as revealed in the survey of FICCI, 2004. National Highway Authority of India reported that 6942 Km four-lane highway has been completed under highway development project. Out of a total 24971 Km, 7892 Km is under implementation and 9975 Km is still to be completed. Though the per capita peak demand is less than per capita installed capacity in India, it is not equally surplus for all states in the country (indiasta.com).

Approval procedure of FDI in India is time consuming. The biggest barrier for India at first is the screening stage itself. This is because we do not get across effectively to the decision-making *"board room"* levels of corporate entities where a final decision is taken. On the other hand, China is viewed as *'more business oriented'*, its decision-making is faster and has more FDI friendly policies (GoI, 2003).

One of the most prominent hurdles in attracting FDI inflow to India is its stringent labor laws, which discourage the

entry of Greenfield FDI because of the fear that the company concerned would not be possible to downsize the labor strength in the time of downturn of business (Planning Commission, 2002). The impediment was sounded in FICCI's survey report 2004, where 69 percent of the respondents assessed the problem of FDI investment in India because of labor laws. Moreover, high rate of tariff barriers, excessive red-tapism and bureaucracy and barriers of perception pose as a challenge in realizing FDI inflow in India (House of Commons 2006).

CONCLUSION

Removing its long held restrictive foreign investment policy in 1991, India sought to compete with the successful Asian economies to get a greater share of world's FDI. Ongoing initiatives, such as further simplification of rules and regulations, improvement in infrastructure are expected to provide necessary impetus to increase FDI inflows in future. The inflows of FDI would depend on domestic economic conditions, world economic trends, and strategies of global investors. Government, on its part, is fully committed to creating strong economic fundamentals and an increasingly proactive FDI policy regime.

Moreover, various governmental and non-governmental organizations' report revealed India's potentiality as a FDI destination in developing countries next to China, but performance is still very poor. The prospects of India as a FDI destination would be realized if some of its constraints could be overcome.

Although FDI inflow to India has been increasing, regional distribution of the same is found to be more inequitable. To ensure a more equitable regional distribution of such flows, both central and state government should take concerted strategy for improvement in infrastructure facilities and creation of sound economic and political environment. Moreover, state governments have to take attractive investment policy in the line of Maharashtra and Karnataka to invest in less attracting states or regions. Political willingness hence seems to be a major step in this direction. Development of infrastructure, especially power and transport network, is an immediate need of the time, since it is basic for industrialization. Bureaucratic hassles, corruption and time consuming procedures should be reduced to attract more FDI inflow. After all, a more transparent investment system will benefit and secure future prospect of FDI inflow in India.

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