Class: I B.Com (II Semester)
Subject: Industrial Economics
Chapter- 5 **(Foreign Direct Investment)**

Government initiatives to promote FDI

- Investment made by NRIs, PIOs and OCIs under Schedule 4 of FEMA (Transfer or Issue of Security by Persons Resident outside India) Regulations on non-repatriation basis is now deemed to be domestic investment at par with the investment made by residents.
- The special dispensation of NRIs has also been extended to companies, trusts and partnership firms, which are incorporated outside India and are owned and controlled by NRIs.
- In order to provide simplicity to the FDI policy and bring clarity on application of conditionality's and approval requirements across various sectors, different kinds of foreign investments have been made fungible under one composite cap.
- FDI up to 100% through automatic route has been allowed in White Label ATM Operations.
- Reforms in FDI Policy on Construction Development sector include:
- Removal of conditions of area restriction and minimum capitalization to be brought in within the period of six months of the commencement of business.
- Exit and repatriation of foreign investment is now permitted after a lock-in-period of three years. Transfer of stake from one non-resident to another non-resident, without repatriation of investment is also neither to be subjected to any lock-in period nor to any government approval.
- Exit is permitted at any time if project or trunk infrastructure is completed before the lock-in period.
- 100% FDI under automatic route is permitted in completed projects for operation and management of townships, malls/ shopping complexes and business centres.
- Foreign investment up to 49% in defence sector has been permitted under automatic route along with specified conditions. Further portfolio investment and investment by FVCIs has been allowed up to permitted automatic route level of 49%. The foreign investment beyond 49% has been permitted through government approval in cases resulting in access to modern technology in the country or for other reasons to be recorded. Further, FDI limit for defence sector has also been made applicable to Manufacturing of Small Arms and Ammunitions covered under Arms Act 1959.
- Sectorial cap on Broadcasting sector has been raised across various activities as follows:
- 74% to 100% in Teleports, DTH, Cable Networks (Digital), Mobile TV, HITS
- 26% to 49% for FM Radio, up-linking of news and current affairs
- 49% to 100% for Cable Networks (not undertaking digitisation)
- FDI route for Teleports, DTH, Cable Networks (Digital), Mobile TV, HITS, Cable Networks (not undertaking digitisation), and Up-linking of Non- 'news and current affairs' and down-linking of channels has been changed to automatic route.
- Full fungibility of foreign investment has been introduced in Banking-Private sector. Accordingly, FIIs/FPIs/QFIs, following due procedure, can now invest up to sectorial limit of 74%.

- Certain plantation activities namely coffee, rubber, cardamom, palm oil tree and olive oil tree plantations have been opened for 100% foreign investment under automatic route.
- A manufacturer has been permitted to sell its product through wholesale and/or retail, including through e-commerce under automatic route.
- Government has reviewed single brand retail trading (SBRT) FDI policy to provide that sourcing of 30% of the value of goods purchased would be reckoned from the opening of first store. In case of entities undertaking Single Brand Retail Trading of products having ‘state- of -art’ and ‘cutting edge’ technology and where local sourcing is not possible, sourcing norms have been relaxed up to three years for entities undertaking Single Brand Retail. Further, an entity operating SBRT through brick and mortar stores has been permitted to undertake e-commerce activities as well.
- Indian brands are equally eligible for FDI to undertake SBRT. In this regard, it has been provided that certain conditions of the FDI policy on the sector namely- products to be sold under the same brand internationally and investment by non-resident entity/ entities as the brand owner or under legally tenable agreement with the brand owner, will not be made applicable in case of FDI in Indian brands.
- 100% FDI is now permitted under automatic route in Duty Free Shops located and operated in the Customs bonded areas.
- FDI policy on wholesale cash & carry activities has been reviewed to provide that a single entity will be permitted to undertake both the activities of SBRT and wholesale.
- 100% FDI is now permitted under the automatic route in Limited Liability Partnerships (LLP) operating in sectors/activities where 100% FDI is allowed, through the automatic route and there are no FDI-linked performance conditions. Further, the terms ‘ownership and ‘control’ with reference to LLPs have also been defined.
- Regional Air Transport Service has been opened for foreign investment up to 100%, with 49% under automatic route, and beyond that through government approval route. Foreign equity cap of activities of Scheduled Air Transport Service/ Domestic Scheduled Passenger Airline has been increased from 49% to 100%, with 49% under automatic route, and beyond that through government approval route. Further, foreign equity cap of activities of Non-Scheduled Air Transport Service, Ground Handling Services have been increased from 74% to 100% under the automatic route.
- With a view to aid in modernization of the existing airports to establish a high standard and help ease the pressure on the existing airports, 100% FDI under automatic route has been permitted in Brownfield Airport projects.
- Foreign investment cap on Satellites- establishment and operation has now been raised from 74% to 100% under the government route.
- Foreign investment cap on Credit Information Companies has now been increased from 74% to 100% under the automatic route.
- In order to achieve faster approvals on most of the proposals, the Government has raised the threshold limit for approval by FIPB to Rs. 5000 crore (800 million USD).

- FDI Policy on Insurance and Pension sector has been reviewed to permit foreign investment up to 49% under the automatic route.
- In order to provide clarity to the e-commerce sector, the Government has issued guidelines for foreign investment in the sector. 100% FDI under automatic route is permitted in the marketplace model of e-commerce.
- With an objective of increase investment in the country, 100% FDI in Asset Reconstruction Companies has been allowed under automatic route.
- 100% FDI under government approval route has been permitted for trading, including through e-commerce, in respect food products manufactured and/or produced in India.
- In Pharmaceutical sector, with the objective of making the sector more attractive to foreign investors, 74% FDI under automatic route has been permitted in brownfield pharmaceuticals. FDI beyond 74% will be allowed through government approval route.
- FDI limit for Private Security Agencies has been raised to 74%. FDI up to 49% is permitted under automatic route in this sector and FDI beyond 49% and up to 74% would be permitted with government approval.
- For establishment of branch office, liaison office or project office or any other place of business in India if the principal business of the applicant is Defence, Telecom, Private Security or Information and Broadcasting, it has been provided that approval of Reserve Bank of India would not be required in cases where FIPB approval or license/permission by the concerned Ministry/Regulator has already been granted.
- As per FDI Policy 2016, FDI in Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture and Apiculture was allowed 100% under Automatic Route under controlled conditions. This requirement of ‘controlled conditions’ for FDI in these activities has now been done away with.
- Government has reviewed FDI policy on Other Financial Services and NBFCs to provide that foreign investment in financial services activities regulated by financial sector regulators such as RBI, SEBI, IRDA etc. will be 100% under the automatic route. In financial services, which are not regulated by any financial sector regulator or where only part of the financial service activity is regulated or where there is doubt regarding regulatory oversight, foreign investment upto 100% will be allowed under the government approval route.

Advantages of FDI in Retail in India

- Growth in Economy
- Job Opportunities
- Benefits to Farmers
- Benefits to consumers
- Lack of Infrastructure
- Cheaper Production facilities
- Availability of new technology
- Long term cash liquidity

- Conducive for the country’s economic growth
- FDI opens up a new avenue for Franchising

Disadvantages of FDI in Retail in India

- Impact on Local Markets (Kirana Shops)
- Limited Employment Generation
- Fear of Lowering Prices
- Negative Impact on Indian Economy
- Negative Impact on Indian Domestic Market

Advantages of Foreign Direct Investment

1. Economic Development Stimulation.

Foreign direct investment can stimulate the target country’s economic development, creating a more conducive environment for you as the investor and benefits for the local industry.

2. Easy International Trade.

Commonly, a country has its own import tariff, and this is one of the reasons why trading with it is quite difficult. Also, there are industries that usually require their presence in the international markets to ensure their sales and goals will be completely met. With FDI, all these will be made easier.

3. Employment and Economic Boost.

Foreign direct investment creates new jobs, as investors build new companies in the target country, create new opportunities. This leads to an increase in income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources.

One big advantage brought about by FDI is the development of human capital resources, which is also often understated as it is not immediately apparent. Human capital is the competence and knowledge of those able to perform labor, more known to us as the workforce. The attributes gained by training and sharing experience would increase the education and overall human capital of a country. Its resource is not a tangible asset that is owned by companies, but instead something that is on loan. With this in mind, a country with FDI can benefit greatly by developing its human resources while maintaining ownership.

5. Tax Incentives.

Parent enterprises would also provide foreign direct investment to get additional expertise, technology and products. As the foreign investor, you can receive tax incentives that will be highly useful in your selected field of business.

6. Resource Transfer.

Foreign direct investment will allow resource transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

7. Reduced Disparity Between Revenues and Costs.
Foreign direct investment can reduce the disparity between revenues and costs. With such, countries will be able to make sure that production costs will be the same and can be sold easily.

8. Increased Productivity.
The facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country.

9. Increment in Income.
Another big advantage of foreign direct investment is the increase of the target country's income. With more jobs and higher wages, the national income normally increases. As a result, economic growth is spurred. Take note that larger corporations would usually offer higher salary levels than what you would normally find in the target country, which can lead to increment in income.

Disadvantages of Foreign Direct Investment

1. Hindrance to Domestic Investment.
As it focuses its resources elsewhere other than the investor's home country, foreign direct investment can sometimes hinder domestic investment.

2. Risk from Political Changes.
Because political issues in other countries can instantly change, foreign direct investment is very risky. Plus, most of the risk factors that you are going to experience are extremely high.

3. Negative Influence on Exchange Rates.
Foreign direct investments can occasionally affect exchange rates to the advantage of one country and the detriment of another.

4. Higher Costs.
If you invest in some foreign countries, you might notice that it is more expensive than when you export goods. So, it is very imperative to prepare sufficient money to set up your operations.

5. Economic Non-Viability.
Considering that foreign direct investments may be capital-intensive from the point of view of the investor, it can sometimes be very risky or economically non-viable.

6. Expropriation.
Remember that political changes can also lead to expropriation, which is a scenario where the government will have control over your property and assets.

7. Negative Impact on the Country's Investment.
The rules that govern foreign exchange rates and direct investments might negatively have an impact on the investing country. Investment may be banned in some foreign markets, which means that it is impossible to pursue an inviting opportunity.

8. Modern-Day Economic Colonialism.
Many third-world countries, or at least those with history of colonialism, worry that foreign direct investment would result in some kind of modern day economic colonialism, which exposes host countries and leave them vulnerable to foreign companies' exploitations.