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THE EFFECTIVE MODEL FOR FOREIGN DIRECT INVESTMENT IN MULTIPLE DOMAINS

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ABSTRACT

Foreign direct investment (FDI) refers to a direct investment in production or business in a country by the individual or company of another country. It is implemented either by buying a company in the target country or by expanding operations of an existing business in that country. Foreign direct investment is in contrast to the portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a very specific scenario, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable. This manuscript highlights various aspects of foreign direct investments alongwith different cases of the global market.

Keywords – Foreign Direct Investment, FDI, Foreign Association in Economy

INTRODUCTION

The Foreign Direct Investment means "cross border investment made by a resident in one economy in an enterprise in another economy, with the objective of establishing a lasting interest in the investee economy.

FDI is also described as "investment into the business of a country by a company in another country". Mostly the investment is into production by either buying a company in the target country or by expanding operations of an existing business in that country". Such investments can take place for many reasons, including to

take advantage of cheaper wages, special investment privileges (e.g. tax exemptions) offered by the country.

As a part of the national accounts of a country, and in regard to the GDP equation Y=C+I+G+(X-M)[Consumption + gross Investment + Government spending +(eXports - iMports], where I is domestic investment plus foreign investment, FDI is defined as the net inflows of investment (inflow minus outflow) to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. FDI is the sum of equity capital, other long-term capital, and short-term capital as shown the balance of payments. FDI usually involves participation in management, joint-venture, transfer of technology and expertise. *Stock* of FDI is the *net* (i.e. Inward FDI minus Outward FDI) cumulative FDI for any given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movements

AUTHORITIES DEALING AND GOVERNING FOREIGN INVESTMENT

(a) Foreign Investment Promotion Board (popularly known as FIPB) : The Board is responsible for expeditious clearance of FDI proposals and review of the implementation of cleared proposals. It also undertake investment promotion activities and issue and review general and sectoral policy guidelines;

(b) Secretariat for Industrial Assistance (SIA) : It acts as a gateway to industrial investment in India and assists the entrepreneurs and investors in setting up projects. SIA also liaison with other government bodies to ensure necessary clearances;

(c) Foreign Investment Implementation Authority (FIIA) : The authority works for quick implementation of FDI approvals and resolution of operational difficultieis faced by foreign investors;

(d) Investment Commission

(e) Project Approval Board

(f) Reserve Bank of India

PROHIBITED SECTORS FOR FDI

i) Atomic Energy

ii) Lottery Business
iii) Gambling and Betting
iv) Business of Chit Fund
v) Nidhi Company
vi) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations)
vii) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified in notification
viii) Trading in Transferable Development Rights (TDRs).
ix) Manufacture of cigars , cheroots, cigarillos and cigarettes , of tobacco or of tobacco substitutes.

LIMITS FOR FDI IN DIFFERENT SECTORS

(A) 26% FDI is permitted in

· Defence (In July 2013, there has been no change in FDI limit but higher investment may be considered in state of the art technology production by CCS)
· Newspaper and media
· Pension sector (allowed in October 2012 as per cabinet decision)

- Courier Services (through automatic route)
- Tea Plantation (upto 49% through automatic route; 49-100% through FIPB route)

(B) 49% FDI is permitted in :

- Banking
- Cable network
- DTH
- Infrastructure investment
- Telecom
- Insurance (in July 2013 it was raised to 49% from 26% subject to Parliament approval)
- Petroleum Refining (49% allowed under automatic route)

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- Power Exchanges (49% allowed under automatic route)
- Stock Exchanges, Depositories allowed under automatic route upto 49%
- 49% (FDI & FII) in power exchanges registered under the Central Electricity Regulatory Commission (Power Market) Regulations 2010 subject to an FDI limit of 26 per cent and an FII limit of 23 per cent of the paid-up capital is now permissible. [Permitted in September 2012]

(C) 51% is Permitted in

- Multi-Brand Retail (Since September 2012)
- Petro-pipelines

(D) 74% FDI is permitted in

- Atomic minerals
- Science Magazines /Journals
- Petro marketing
- Coal and Lignite mines
- Credit information comanies (raised from 49% to 74% in July, 2013)

(E) 100% FDI is permitted in

Single Brand Retail (100% FDI allowed in single brand retail; 49% through automatic route; 49-100% through FIPB)

- Advertizement
- Airports
- Cold-storage
- BPO/Call centres
- E-commerce
- Energy (except atomic)
- export trading house
- Films
- Hotel, tourism
- Metro train
- Mines (gold, silver)
- Petroleum exploration
- Pharmaceuticals
- Pollution control
- Postal service

- Roads, highways, ports.
- Township
- Wholesale trading
- Telecom (raised from 74% to 100% in July, 2013 by GoI)
- Asset Reconstruction Companies (increased from 74% to 100 in July, 2013. Out of this upto 49% will be under automatic route)

Source : RBI, Newpaper reports, GoI data

TAXONOMY

1. Horizontal FDI arises when a firm duplicates its home country-based activities at the same value chain stage in a host country through FDI.
2. Platform FDI Foreign direct investment from a source country into a destination country for the purpose of exporting to a third country.
3. Vertical FDI takes place when a firm through FDI moves upstream or downstream in different value chains i.e., when firms perform value-adding activities stage by stage in a vertical fashion in a host country.

METHODS IN FDI

The foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

- by incorporating a wholly owned subsidiary or company anywhere
- by acquiring shares in an associated enterprise
- through a merger or an acquisition of an unrelated enterprise
- participating in an equity joint venture with another investor or enterprise

FORMATS OF FDI INCENTIVES

Foreign direct investment incentives may take the following forms:

- low corporate tax and individual income tax rates
- tax holidays
- other types of tax concessions
- preferential tariffs
- special economic zones
- EPZ – Export Processing Zones
- Bonded warehouses

- Maquiladoras
- investment financial subsidies
- soft loan or loan guarantees
- free land or land subsidies
- relocation & expatriation
- infrastructure subsidies
- R&D support
- derogation from regulations (usually for very large projects)

Governmental Investment Promotion Agencies (IPAs) use various marketing strategies inspired by the private sector to try and attract inward FDI, including Diaspora marketing.

IMPORTANCE AND BARRIERS TO FDI

The rapid growth of world population since 1950 has occurred mostly in developing countries. This growth has been matched by more rapid increases in gross domestic product, and thus income per capita has increased in most countries around the world since 1950. While the quality of the data from 1950 may be of question, taking the average across a range of estimates confirms this. Only war-torn and countries with other serious external problems, such as Haiti, Somalia, and Niger have not registered substantial increases in GDP per capita. The data available to confirm this are freely available.

An increase in FDI may be associated with improved economic growth due to the influx of capital and increased tax revenues for the host country. Host countries often try to channel FDI investment into new infrastructure and other projects to boost development. Greater competition from new companies can lead to productivity gains and greater efficiency in the host country and it has been suggested that the application of a foreign entity's policies to a domestic subsidiary may improve corporate governance standards. Furthermore, foreign investment can result in the transfer of soft skills through training and job creation, the availability of more advanced technology for the domestic market and access to research and development resources. The local population may be able to benefit from the employment opportunities created by new businesses.

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PERSPECTIVE FROM THE GLOBAL SCENARIO

A 2010 meta-analysis of the effects of foreign direct investment on local firms in developing and transition countries suggests that foreign investment robustly increases local productivity growth. The Commitment to Development Index ranks the "development-friendliness" of rich country investment policies.

China

FDI in China, also known as RFDI (renminbi foreign direct investment), has increased considerably in the last decade, reaching $59.1 billion in the first six months of 2012, making China the largest recipient of foreign direct investment and topping the United States which had $57.4 billion of FDI. In 2013 the FDI flow into China was $64.1 billion, resulting in a 34.7% market share of FDI into the Asia-Pacific region. By contrast, FDI out of China in 2013 was $18.97 billion, 10.7% of the Asia-Pacific share.

During the global financial crisis FDI fell by over one-third in 2009 but rebounded in 2010.

India

Foreign investment was introduced in 1991 under Foreign Exchange Management Act (FEMA), driven by then finance minister Manmohan Singh. As Singh subsequently became the prime minister, this has been one of his top political problems, even in the current times. India disallowed overseas corporate bodies (OCB) to invest in India. India imposes cap on equity holding by foreign investors in various sectors, current FDI in aviation and insurance sectors is limited to a maximum of 49%.

Starting from a baseline of less than $1 billion in 1990, a 2012 UNCTAD survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010–2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were

among the leading sources of FDI. Based on UNCTAD data FDI flows were $10.4 billion, a drop of 43% from the first half of the last year.
United States

Broadly speaking, the U.S. has a fundamentally 'open economy' and low barriers to foreign direct investment.

U.S. FDI totaled $194 billion in 2010. 84% of FDI in the U.S. in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada. A major source of investment is the real estate, the foreign investment in this area totaled $92.2 billion in 2013. A 2008 study by the Federal Reserve Bank of San Francisco indicated that foreigners hold greater shares of their investment portfolios in the United States if their own countries have less developed financial markets, an effect whose magnitude decreases with income per capita. Countries with fewer capital controls and greater trade with the United States also invest more in U.S. equity and bond markets.

White House data reported in 2011 found that a total of 5.7 million workers were employed at facilities highly dependent on foreign direct investors. Thus, about 13% of the American manufacturing workforce depended on such investments. The average pay of said jobs was found as around $70,000 per worker, over 30% higher than the average pay across the entire U.S. workforce.

President Barack Obama said in 2012, "In a global economy, the United States faces increasing competition for the jobs and industries of the future. Taking steps to ensure that we remain the destination of choice for investors around the world will help us win that competition and bring prosperity to our people."

In September 2013, the United States House of Representatives voted to pass the Global Investment in American Jobs Act of 2013 (H.R. 2052; 113th Congress), a bill which would direct the United States Department of Commerce to "conduct a review of the global competitiveness of the United States in attracting foreign direct investment." Supporters of the bill argued that increased foreign direct investment would help job creation in the United States.

Canada

Foreign direct investment by country and by industry are tracked by Statistics Canada. Foreign direct investment accounted for CAD$634bn in 2012. Canada eclipses the US in this important economic measure. Global FDI inflows and outflows are tabulated by Statistics Canada.

United Kingdom

The United Kingdom has a very free market economy and open to foreign investment. The current Prime Minister David Cameron has sought investment from emerging markets and from the Far East in particular and some of Britain's largest infrastructure including energy and skyscrapers such as The Shard have been built with foreign investment. The United Kingdom has been a nation of free trade and open to global markets and investment for decades often taking advantage of countries looking to make investments.

A bilateral investment treaty (BIT) is an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state. This type of investment is called foreign direct investment (FDI). BITs are established through trade pacts. A nineteenth-century forerunner of the BIT is the friendship, commerce, and navigation treaty (FCN).

Most BITs grant investments made by an investor of one Contracting State in the territory of the other a number of guarantees, which typically include fair and equitable treatment, protection from expropriation, free transfer of means and full protection and security. The distinctive feature of many BITs is that they allow for an alternative dispute resolution mechanism, whereby an investor whose rights under the BIT have been violated could have recourse to international arbitration, often under the auspices of the ICSID (International Center for the Settlement of Investment Disputes), rather than suing the host State in its own courts.

The world's first BIT was signed on November 25, 1959 between Pakistan and Germany. There are currently more than 2500 BITs in force, involving most

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countries in the world. Influential capital exporting states usually negotiate BITs on the basis of their own "model" texts (such as the US model BIT).

DISPARAGEMENT OF FDI

NGOs have spoken against the use of BITs, stating that they are mostly designed to protect the foreign investors and do not take into account obligations and standards to protect the environment, labour rights, social provisions or natural resources. Moreover when such clauses are agreed upon the formulation is legally very open-ended and unpredictable.

Foreign exchange controls are various forms of controls imposed by a government on the purchase/sale of foreign currencies by residents or on the purchase/sale of local currency by nonresidents.

Common foreign exchange controls include:

- Banning the use of foreign currency within the country
- Banning locals from possessing foreign currency
- Restricting currency exchange to government-approved exchangers
- Fixed exchange rates
- Restrictions on the amount of currency that may be imported or exported

Countries with foreign exchange controls are also known as "Article 14 countries," after the provision in the International Monetary Fund agreement allowing exchange controls for transitional economies. Such controls used to be common in most countries, particularly poorer ones, until the 1990s when free trade and globalization started a trend towards economic liberalization. Today, countries which still impose exchange controls are the exception rather than the rule.

Often, foreign exchange controls can result in the creation of black markets to exchange the weaker currency for stronger currencies. This leads to a situation where the exchange rate for the foreign currency is much higher than the rate set by the government, and therefore creates a shadow currency exchange market. As such, it is unclear whether governments have the ability to enact effective exchange controls.

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CURRENT COUNTRIES WITH FOREIGN EXCHANGE CONTROLS

Argentina	Armenia	Bahamas
Barbados	Belize	Brazil
Cameroun	China	Cuba
Egypt	Fiji	Georgia
Ghana	Iceland	India
Iran	Israel	Palestine
Sri Lanka	Libya	Malaysia
Mauritius	Morocco	Myanmar
Namibia	Nepal	Nigeria
North Korea	Pakistan	Papua New Guinea
Samoa	Russia	South Africa
Sudan	Tunisia	Ukraine
Uzbekistan	Venezuela	Zimbabwe

LIST OF COUNTRIES BY FDI ABROAD

This is the list of countries by stock of Foreign direct investment (FDI) abroad, that is the cumulative US dollar value of all investments in foreign countries made directly by residents - primarily companies - of the home country, as of the end of the time period indicated. Direct investment excludes investment through purchase of shares.

The list is based on the CIA World Factbook data.

Rank	Country	Stock of FDI abroad	Date of information
—	*World*	16,220,000,000,000	2008 est.
1	United States	4,854,000,000,000	2013 est.
2	United Kingdom	1,884,000,000,000	2013 est.
3	Germany	1,871,000,000,000	2013 est.
4	France	1,489,000,000,000	2013 est.
5	Switzerland	1,432,000,000,000	2013 est.

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Rank	Country	Stock of FDI abroad	Date of information
—	Hong Kong	1,392,000,000,000	2013 est.
6	Belgium	1,215,000,000,000	2013 est.
7	Japan	1,179,000,000,000	2013 est.
8	Canada	1,047,000,000,000	2013 est.
9	Netherlands	1,034,000,000,000	2013 est.
10	Ireland	792,600,000,000	2013 est.
11	Spain	714,400,000,000	2013 est.
12	Italy	683,600,000,000	2013 est.
13	Sweden	558,800,000,000	2013 est.
14	China	541,000,000,000	2013 est.
15	Australia	440,100,000,000	2013 est.
16	Russia	439,200,000,000	2013 est.
17	Singapore	367,800,000,000	2012 est.
18	Austria	345,200,000,000	2013 est.
19	Norway	264,300,000,000	2013 est.
20	Denmark	248,300,000,000	2013 est.
—	Taiwan	226,100,000,000	2013 est.
21	South Korea	223,200,000,000	2013 est.
22	Finland	197,200,000,000	2013 est.
23	Brazil	179,600,000,000	2013 est.
24	Mexico	141,200,000,000	2013 est.
25	Malaysia	133,500,000,000	2013 est.
26	India	120,100,000,000	2013 est.
27	Chile	109,200,000,000	2013 est.

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Rank	Country	Stock of FDI abroad	Date of information
28	South Africa	87,670,000,000	2013 est.
29	Israel	80,850,000,000	2013 est.
30	Portugal	71,260,000,000	2013 est.
31	Poland	69,780,000,000	2013 est.
32	Thailand	65,140,000,000	2013 est.
33	United Arab Emirates	61,960,000,000	2013 est.
34	Kuwait	60,760,000,000	2013 est.
35	New Zealand	59,080,000,000	2009 est.
36	Hungary	45,950,000,000	2013 est.
37	Greece	43,310,000,000	2013 est.
38	Argentina	34,210,000,000	2013 est.
39	Colombia	33,700,000,000	2013 est.
40	Turkey	33,440,000,000	2013 est.
41	Qatar	28,860,000,000	2013 est.
42	Kazakhstan	26,530,000,000	2013 est.
43	Saudi Arabia	26,080,000,000	2013 est.
44	Venezuela	21,940,000,000	2013 est.
45	Tajikistan	18,500,000,000	2010 est.
46	Libya	17,820,000,000	2013 est.
47	Indonesia	17,410,000,000	2013 est.
48	Czech Republic	16,630,000,000	2013 est.
49	Slovakia	11,580,000,000	2012 est.
50	Nigeria	11,240,000,000	2012 est.
51	Cyprus	11,130,000,000	2012 est.
52	Bahrain	10,020,000,000	2012 est.

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53	Slovenia	9,755,000,000	2012 est.
54	Angola	9,621,000,000	2012 est.
55	Philippines	8,435,000,000	2012 est.
56	Ukraine	7,853,000,000	2012 est.
57	Vietnam	7,700,000,000	2009 est.
58	Azerbaijan	6,923,000,000	2012 est.
59	Estonia	6,609,000,000	2012 est.
60	Ecuador	6,330,000,000	2012 est.
61	Egypt	6,285,000,000	2012 est.
62	Croatia	5,575,000,000	2012 est.
63	Cuba	4,138,000,000	2006 est.
64	Trinidad and Tobago	3,829,000,000	2007 est.
65	Peru	3,041,000,000	2012 est.
66	Iran	2,881,000,000	2012 est.
67	Romania	2,727,000,000	2012 est.
68	Lithuania	2,581,000,000	2012 est.
69	Algeria	2,474,000,000	2012 est.
70	Bulgaria	1,923,000,000	2012 est.
71	Pakistan	1,495,000,000	2012 est.
72	Morocco	1,353,000,000	2012 est.
73	Malta	1,213,000,000	2010 est.
74	Costa Rica	1,131,000,000	2012 est.
75	Latvia	1,037,000,000	2012 est.
76	Georgia	741,600,000	2011 est.

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Rank	Country	Stock of FDI abroad	Date of information
—	Macau	672,100,000	2011 est.
77	Mali	540,500,000	2012 est.
78	Uruguay	345,500,000	2010 est.
79	Kenya	319,400,000	2012 est.
80	Tunisia	285,000,000	2012 est.
81	Liberia	201,000,000	2012 est.
82	Bangladesh	108,000,000	2012 est.
83	Moldova	88,420,000	2012 est.
84	Dominican Republic	59,000,000	2012 est.
85	Mongolia	50,000,000	2012 est.
86	Kyrgyzstan	39,600,000	2012 est.
87	Vanuatu	23,300,000	2012 est.
88	Rwanda	12,900,000	2012 est.
89	El Salvador	12,400,000	2012 est.
90	Bolivia	8,000,000	2011 est.

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