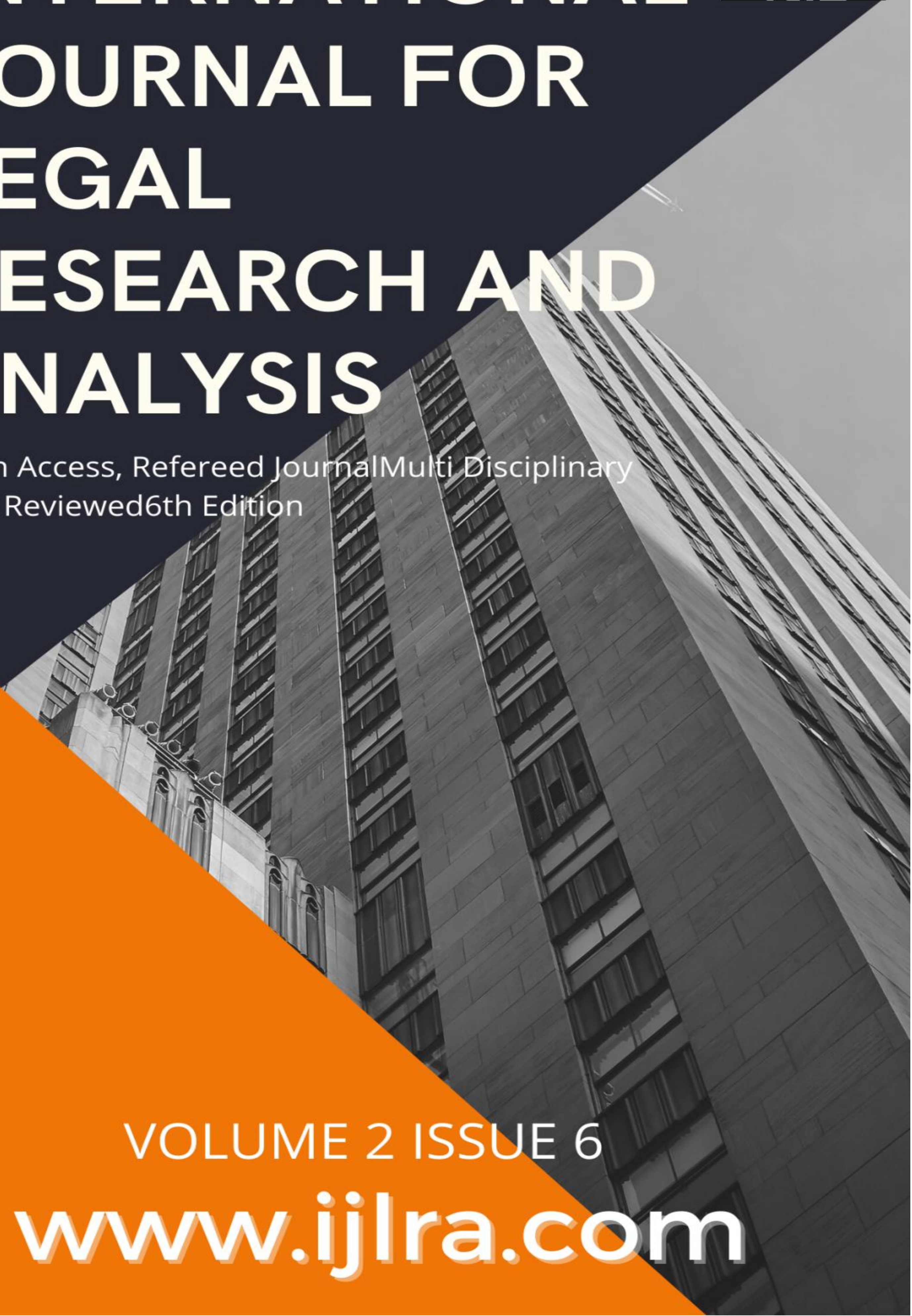
ISSN :2582-6433

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH AND ANALYSIS



Open Access, Refereed JournalMulti Disciplinary
Peer Reviewed6th Edition

VOLUME 2 ISSUE 6

www.ijlra.com

 ISSN: 2582-6433

DISCLAIMER

No part of this publication may be reproduced or copied in any form by any means without prior written permission of Managing Editor of IJLRA. The views expressed in this publication are purely personal opinions ofthe authors and do not reflect the views of the Editorial Team of IJLRA.

Though every effort has been made to ensure that the information in Volume 2 Issue 5 is accurate and appropriately cited/referenced, neither the Editorial Board nor IJLRA shall be held liable or responsible in any manner whatsever for any consequences for any action taken by anyone on the basis of information in the Journal.

 ISSN: 2582-6433

EDITORIAL TEAM

EDITORS

Megha Middha

Megha Middha, Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar

Megha Middha, is working as an Assistant Professor of Law in Mody University of Science and Technology, Lakshmangarh, Sikar (Rajasthan). She has an experience in the teaching of almost 3 years. She has completed her graduation in BBA LL.B (H) from Amity University, Rajasthan (Gold Medalist) and did her post-graduation (LL.M in Business Laws) from NLSIU, Bengaluru. Currently, she is enrolled in a Ph.D. course in the Department of Law at Mohanlal Sukhadia University, Udaipur (Rajasthan). She wishes to excel in academics and research and contribute as much as she can to society. Through her interactions with the students, she tries to inculcate a sense of deep thinking power in her students and enlighten and guide them to the fact how they can bring a change to the society

Dr. Samrat Datta

Dr. Samrat Datta Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Samrat Datta is currently associated with Seedling School of Law and Governance, Jaipur National University, Jaipur. Dr. Datta has completed his graduation i.e., B.A.LL.B. from Law College Dehradun, Hemvati Nandan Bahuguna Garhwal University, Srinagar, Uttarakhand. He is an alumnus of KIIT University, Bhubaneswar where he pursued his post-graduation (LL.M.) in Criminal Law and subsequently completed his Ph.D. in Police Law and Information Technology from the Pacific Academy of Higher Education and Research University, Udaipur in 2020. His area of interest and research is Criminal and Police Law. Dr. Datta has a teaching experience of 7 years in various law schools across North India and has held administrative positions like Academic Coordinator, Centre Superintendent for Examinations, Deputy Controller of Examinations, Member of the Proctorial Board

 ISSN: 2582-6433

Dr. Namita Jain

Head & Associate Professor

School of Law, JECRC University, Jaipur Ph.D. (Commercial Law) LL.M., UGC -NET Post Graduation Diploma in Taxation law and Practice, Bachelor of Commerce.

Teaching Experience: 12 years, AWARDS AND RECOGNITION of Dr. Namita Jain are - ICF Global Excellence Award 2020 in the category of educationalist by I Can Foundation, India.India Women Empowerment Award in the category of "Emerging Excellence in Academics by Prime Time & Utkrisht Bharat Foundation, New Delhi.(2020). Conferred in FL Book of Top 21 Record Holders in the category of education by Fashion Lifestyle Magazine, New Delhi. (2020).Certificate of Appreciation for organizing and managing the Professional Development Training Program on IPR in Collaboration with Trade Innovations Services, Jaipur on March 14th, 2019

Mrs.S.Kalpana

Assistant professor of Law

Mrs.S.Kalpana, presently Assistant professor of Law, VelTech Rangarajan Dr. Sagunthala R & D Institute of Science and Technology, Avadi.Formerly Assistant professor of Law,Vels University in the year 2019 to 2020, Worked as Guest Faculty, Chennai Dr.Ambedkar Law College, Pudupakkam. Published one book. Published 8Articles in various reputed Law Journals. Conducted 1Moot court competition and participated in nearly 80 National and International seminars and webinars conducted on various subjects of Law. Did ML in Criminal Law and Criminal Justice Administration.10 paper presentations in various National and International seminars. Attended more than 10 FDP programs. Ph.D. in Law pursuing.

Avinash Kumar

Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship.He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi.Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi.He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.

 ISSN: 2582-6433

ABOUT US

INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANLAYSIS ISSN 2582-6433 is an Online Journal is Quarterly, Peer Review, Academic Journal, Published online, that seeks to provide an interactive platform for the publication of Short Articles, Long Articles, Book Review, Case Comments, Research Papers, Essay in the field of Law & Multidisciplinary issue. Our aim is to upgrade the level of interaction and discourse about contemporary issues of law. We are eager to become a highly cited academic publication, through quality contributions from students, academics, professionals from the industry, the bar and the bench. INTERNATIONAL JOURNAL FOR LEGAL RESEARCH & ANALYSIS ISSN 2582-6433 welcomes contributions from all legal branches, as long as the work is original, unpublished and is in consonance with the submission guidelines.

 ISSN: 2582-6433

IMPACT OF FOREIGN DIRECT INVESTMENT ON INDIAN ECONOMY: A CRTICAL ANALYSIS

Authored By- Neha Bhuraney
Phd Research Scholar
GNLU

INTRODUCTION

One of the most striking developments during the last two decades is the spectacular growth of FDI in the global economic landscape. This unprecedented growth of global FDI in 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are designed in order to stimulate inward flows. In fact, FDI provides a win – win situation to the host and the home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. On the other hand the 'host' countries want to acquire technological and managerial skills and supplement domestic savings and foreign exchange. Moreover, the paucity of all types of resources viz. financial, capital, entrepreneurship, technological know- how, skills and practices, access to markets- abroad- in their economic development, developing nations accepted FDI as a sole visible panacea for all their scarcities. Further, the integration of global financial markets paves ways to this explosive growth of FDI around the globe.[1]

The simplest meaning of FDI would be the direct investment by a corporation in a commercial venture in another country. A key to separating this action from involvement in other ventures in a foreign country is that the business enterprise operates completely outside the economy of the corporation's home country. The investing corporation must control 10% or more voting power of the new venture. The definition of FDI originally meant that the investing corporation gained a significant number of share (10 percent or more) of the new venture. In recent years, however, companies have been able to make a foreign direct investment that is actually long term management control as opposed to direct investment to FDI has been a key factor in the "international" matter of business that many are familiar with 21st century. This growth has been facilitated by changes in regulation both in the originating country and in the country where the new installation is to be built. Increasing foreign investment can be used as growing economic globalisation. Some figures show net inflows of FDI as a percent of Gross domestic product (GDP). The largest inflow of foreign investment occurs between the industrialised countries. But flows to non-industrialised countries are increasing sharply. FDI refers to long term participation one country to another country.

According to the international monetary fund (IMF), foreign direct investment is defined as "an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of investor". The government of India has also recognized the key role of the foreign direct investment in its process of economic development, not only as an addition to its own domestic capital but also as an important source of technology and other global trade practices. In order to attract the required amount of foreign direct investment it has bought about a number of changes in its economic policies and has put in its practice a liberal and more transparent foreign direct investment policy with a view to attract more foreign direct investment inflows into its economy. These changes have heralded the liberalization era of the foreign direct investment policy regime into India and have brought about a structural breakthrough in the volume of foreign direct investment inflows in the economy.[2]

[1]Ms. Sapna Hodda: A study of FDI and Indian economy

[2]http://usforeignpolicy.about.com/od/introtoforeignpolicy/a/what-is-FDI.htm

 ISSN: 2582-6433

Meaning And Concept Of FDI:

Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, 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 portfolio investment which is a passive investment in the securities of another country such as stocks and bonds. Foreign Direct Investment (FDI) is a fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. The effectiveness and efficiency depends upon the investors perception, if investment with the purpose of long-term then it contributes positively towards economy on the other hand if it is for short-term the purpose of making profit then it may be less significant.

In other words, FDI means an investment made by a company or entity based in one country, into a company or entity based in another country. Foreign direct investments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made. Open economies with skilled workforces and good growth prospects tend to attract larger amounts of foreign direct investment than closed, highly regulated economies.

The investing company may make its overseas investment in a number of ways - either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. the accepted threshold for a foreign direct investment relationship, as defined by the OECD, is 10%. that is, the foreign investor must own at least 10% or more of the voting stock or ordinary shares of the investee company.[3]

An example of foreign direct investment would be an American company taking a majority stake in a company in china. Another example would be a Canadian company setting up a joint venture to develop a mineral deposit in Chile.[4]

Chapter 3: Types Of FDI:

1) BY DIRECTION[5]:-

a) Outward direction: An outward-bound FDI is backed by the government against all types of associated risks. This form of FDI is subject to tax incentives as well as disincentives of various forms. Risk coverage provided to the domestic industries and subsidies granted to the local firms stand in the way outward FDIs which are also known as ‘direct investment abroad’.

b) Inward FDIs: Different economic factors encourage inward FDIs. These include interest loans, tax breaks, subsidies, and the removal of restrictions and limitations. Factor detrimental to the growth of FDIs include necessities of differential performance and limitations related with ownership patterns.

c) Horizontal FDIs: - Investment in the same industry abroad as a firm operates in that home.

d) Vertical FDI:-

[3] http://www.investopedia.com/terms/f/fdi.asp

[4] Ibid

[5] Ms. Sapna Hodda: A study of FDI and Indian economy

i. Backward vertical FDI: Where an industry abroad provides inputs for a firm's domestic production process.
ii. Forward vertical investment FDI: Where an industry abroad sells the outputs of a firm's domestic production.

2) BY TARGET[6]:

a) Greenfield investment: - direct investment in new facilities or the expansion of existing facilities. Greenfield investments are the primary target of a host nation's promotional efforts because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to global marketplace. The organisation for international investment cites the benefits of Greenfield investment for regional and national economies to include increased employment, investments in research and development and additional capital investments.

b) Mergers and Acquisitions: - Transfers of existing assets from local firms to foreign firm takes place, the primary type of FDI. Cross-border mergers occur when the assets and operation of firms from different countries are combined to establish a new legal entity. Cross-border acquisitions occur when the control of assets and operations is transferred from a local to a foreign company, with the local company becoming an affiliate of the foreign company. Nevertheless, mergers and acquisitions are a significant form of FDI and around 1997, accounted for nearly 90% of the FDI flow into the United States. Mergers are the most common way for multi-nationals to do FDI.

3) By MOTIVE[7]: - FDI can also be categorised based on the motive behind the investment from the perspective of the investing firm:

a) Resource-seeking: - Investments which seek to acquire factors of production those are more efficient than those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all.

b) Market seeking: - Investment which aim at either penetrating new markets or maintaining existing ones. FDI of this kind may also be employed as defensive strategy, it is argued that business are more likely to be pushed towards this type of investment out of fear of losing a market rather than discovering a new one.

c) Efficiency seeking: - Investments which firms hope will increase their efficiency by exploiting the benefits of economies of scale and scope, and also those of common ownership. It is suggested that this type of FDI comes after either resource or market seeking investment have been realised, with the expectation that it further increases the profitability of the firm.

---

[6] Ibid

[7] Ms. Sapna Hodda: A study of FDI and Indian economy

Major Impediments To Larger FDI Inflows In India:

There are several other factors that make India a far less attractive ground for direct investment than the potential she has. Given that India has a huge domestic market and a fast growing one, there is every reason to believe that with continued reforms that improve institutions and economic policies, and thereby create an environment conducive for private investment and economic growth that substantially large volumes of FDI will flow to India. We list some of the major deterrents below[8]:

The FDI outlook index captures the central role of market size and its expected growth in driving FDI flows.

1) **Poor Infrastructure**: - The quality of existing infrastructure in the host country is important factor. The infrastructure in India is still considered to be a major drawback of doing business for foreign investors.

2) **Lack Of Economic Stability**: - The economic prosperity is followed by recession. This is inevitable during the time when the economy is facing a recession or depression FDI is hard to come by because players don't see it safe to invest. Also various factors affect the economy adversely and thereby discourage FDI.

3) **Corruption-Cum-Lack Of Transparency**: - Corruption defers several efficient players from investing as they think that the clearance of their proposal is not performance or reputation but under the table dealings.

4) **Lack Of Clear Cut And Transparent Sectorial Policies For FDI**:-Expeditious translation of approved FDI into actual investment would require more transparent sectorial policies, and a drastic reduction in time-consuming red-tapism.

5) **Lack Of Clear And Consistent Regulatory Framework For The FDI**: - This is one reason why India is rated below the U.S, China, U.K, Brazil and Mexico. Thus, if experience is guide, creation of more authorities and institutions will add to the confusion. The policy focusing of the govt. would also try to simplify the procedures and put in a proper legal framework and transparent mechanism.

6) **Restrictive FDI Regime**:-The FDI regime in India is still quite restrictive. Foreign ownership of between 51 and 100 percent of equity still requires a long procedure of governmental approval. In our view, there does not seem to be any justification for continuing with this rule. This rule should be scrapped in favour of automatic approval for 100-percent foreign ownership except on a small list of sectors that may continue to require government authorization. Further deregulation of FDI in industry and simplification of FDI procedures in infrastructure is called for.

[8] Anil Kumar Thakur and T.K. Shandilya, *Foreign direct investment in India: problems and prospectus*, Deep and deep publications pvt.ltd, New Delhi

7) **High Tariff Rates By International Standards**:-India's tariff rates are still among the highest in the world, and continue to block India's attractiveness as an export platform for labour-intensive manufacturing production. Most importantly, tariff rates on imported capital goods used for export, and on imported inputs into export production, should be duty free, as has been true for decades in the successful exporting countries of East Asia.

8) **Lack Of Decision-Making Authority With The State Governments**: - The reform process so far has mainly concentrated at the central level. India has yet to free up its state governments sufficiently so that they can add much greater dynamism to the reforms. In most key infrastructure areas, the central government remains in control, or at least with veto over state actions. Greater freedom to the states will help foster greater competition among themselves.

9) **Limited Scale Of Export Processing Zones**:[9] - The very modest contributions of India's export processing zones to attracting FDI and overall export development call for a revision of policy. India's export processing zones have lacked dynamism because of several reasons, such as their relatively limited scale the Government's general ambivalence about attracting FDI; the unclear and changing incentive packages attached to the zones; and the power of the central government in the regulation of the zones, in comparison with the major responsibility of local and provincial government in China.

10) **No Liberalization In Exit Barriers**: - While the reforms implemented so far have helped remove the entry barriers, the liberalization of exit barriers has yet to take place. In our view, this is a major deterrent to large volumes of FDI flowing to India. An exit policy needs to be formulated such that firms can enter and exit freely from the market. While it would be incorrect to ignore the need and potential merit of certain safeguards, it is also important to recognize that safeguards if wrongly designed and/or poorly enforced would turn into barriers that may adversely affect the health of the firm. The regulatory framework, which is in place, does not allow the firms to undertake restructuring.

Impact On Indian Economy

Nations' progress and prosperity is reflected by the pace of its sustained economic growth and development. Investment provides the base and pre-requisite for economic growth and development. Apart from a nation's foreign exchange reserves, exports, government's revenue, financial position, available supply of domestic savings, magnitude and quality of foreign investment is necessary for the well-being of a country.

The impact of FDI depends on the country's domestic policy and foreign policy. As a result FDI has a wide range of impact on the country's economic policy. In order to study the impact of foreign direct

[9] B. Bhattacharya and Satindra Palaha: Foreign direct investment: fact and issues

 ISSN: 2582-6433

investment on economic growth, two models were framed and fitted. The foreign direct investment model shows the factors influencing the foreign direct investment in India. The economic growth model depicts the contribution of foreign direct investment to economic growth. It is observed that Trade GDP, Reserves GDP, Exchange rate, FIN. Position, R&DGDP and FDIG are the main determinants of FDI inflows to the country. In other words, these macroeconomic variables have a profound impact on the inflows of FDI in India. The results of foreign Direct Investment Model reveal that Trade GDP, Reserves GDP, and FIN. Position variables exhibit a positive relationship with FDI while R&DGDP and Exchange rate variables exhibit a negative relationship with FDI inflows. Hence, Trade GDP, Reserves GDP, and FIN. Position variables are the pull factors for FDI inflows to the country and R&DGDP and Exchange rate are deterrent forces for FDI inflows into the country. Thus, it is concluded that the above analysis is successful in identifying those variables which are important in attracting FDI inflows to the country. The study also reveals that FDI is a significant factor influencing the level of economic growth inIndia. The results of Economic Growth Model and Foreign Direct Investment Model show that FDI plays a crucial role in enhancing the level of economic growth in the country. It helps in increasing the trade in the international market. However, it has failed in raising the R&D and in stabilizing the exchange rates of the economy.[10]

- The results of Foreign Direct Investment Model shows exchange rate shows positive sign instead of expected negative sign. This could be attributed to the appreciation of Indian Rupee in international market which helped the foreign firms to acquire the firm specific assets at cheap rates and gain higher profits.
- Research and Development expenditure shows unexpected negative sign as of expected positive sign. This could be attributed to the fact that R&D sector is not receiving enough FDI as per its requirement. But this sector is gaining more attention in recent years.
- Another important factor which influenced FDI inflows is the Trade GDP. It shows the expected positive sign. In other words, the elasticity coefficient between TradeGDP and FDI inflows is 11.79 percent which shows that one percent increase in TradeGDP causes 11.79 percent increase in FDI inflows to India.
- In the Economic Growth Model, the variable GDPG (Gross Domestic Product Growth i.e. level of economic growth) which shows the market size of the host economy revealed that FDI is a vital and significant factor influencing the level of economic growth in India.[11]

In a nutshell, despite troubles in the world economy, India continued to attract substantial amount of FDI inflows. India due to its flexible investment regimes and policies prove to be the horde for the foreign investors in finding the investment opportunities in the country.

Policy Initiatives

The Government of India has released a comprehensive FDI policy document effective from April 1, 2010. Furthermore, the government has allowed the FIPB, under the Ministry of Commerce and Industry, to clear FDI proposals of up to US$258.3 mn. Earlier all project proposals that involved investment of above US$129.2 mn were put up before the Cabinet Committee of Economic Affairs (CCEA) for approval. The relaxation would expedite FDI inflow.[12]

[10] http://www.nber.org/papers/w9293

[11] Anil Kumar Thakur and T.K. Shandilya, *Foreign direct investment in India: problems and prospectus*, Deep and deep publications pvt.ltd, New Delhi.

[12] Anil Kumar Thakur and T.K. Shandilya, *Foreign direct investment in India: problems and prospectus*, Deep and deep publications pvt.ltd, New Delhi.

 ISSN: 2582-6433

During April 2010, Mauritius invested US$568 mn in India, followed by Singapore which invested US$434 mn and Japan that invested US$327 mn according to latest data released by DIPP. It shows that there has been a significant shift in the character of global capital flows to the India in recent years in that the predominance of private account capital transfer and especially portfolio investment increased considerably.

The importance of FDI received special impetus towards the end of 1992 when the Foreign Institutional Investors (FIIs) such as pension funds, mutual funds, investment trusts, asset management companies, nominee companies and incorporated/institutional portfolio managers were permitted to invest directly in the Indian stock markets. In order to attract portfolio investments which prefer liquidity, it has been advocated to develop the Indian stock markets. The foreign portfolio investment not only do they expand the demand base of the stock market, but also stabilize the market through investor diversification.[13]

State-wise FDI inflows show that Maharashtra, Delhi, Karnataka, Gujarat and Tamil Nadu together accounted more 75% of inflows during 2000-2010 because of the infrastructural facilities and favourable business environment provided by these states. Despite troubles in the world economy, India continued to attract FDI inflows mainly because Government of India open-up with flexible investment regimes and policies prove to be the horde for the foreign investors in finding the investment opportunities in the country.[14]

Case study

Greenfield Airport In India –Bangalore International Airport[15]

We have two ‘Greenfield’ airport projects where the concession agreements have already been signed. These are for the international airports at Bangalore and Hyderabad. The Bangalore Greenfield airport was signed off in July 2004. Though the concessionaire for the Bangalore airport is a private limited company, the Government through its agencies and instrumentalities holds 26% shareholding (13% by Central and 13% by State). It ensured that the government is a bale to veto certain fundamental resolutions which as per Companies Act require a minimum of 75 % votes.

- Description of the project:-

A significant part of the project is permissible for non airport activities. The concessionaire can develop up to 300 acres land commercially for any activity not connected with the airport. They are free to set up not only hotels or malls-it can even go for Special Economic Zones, etc. the concession is for development, construction and maintenance of the airport. The agreement allows the concessionaire to develop, construct, operate and maintain the Bangalore International Airport for a period of 30 years, extendable at its sole option for another 30 years. The land is leased by the State government. The concessionaire has the burden to independently evaluate the scope of the project and be responsible for all risks which may exist in relation thereto. It is obliged to follow good industry practices and all applicable laws.

The Government on the other hand, undertakes to support the project. Article 5.4 of the concession agreement states that in so many words: (“GOI acknowledges and supports the implementation of the project”). It further states that the Government of India will not take any steps or action in contradiction with the Concession Agreement which results in or would results in its shareholders or the lenders being deprived or substantially deprived of their investment or economic interest in the project. Further all statutory and non-statutory bodies under the control of the Central Government will act in compliance with the concession agreement as if they are a party thereto and the Government of India shall ensure that all statutory compliances as may be required in relation to the project are granted promptly. This is a unique feature of

[13] Ibid
[14] Ibid
[15]http://www.mondaq.com/india/x/50362/cycling+rail+road/Greenfield+Airports+In+India+A+Case+Study+Of+The+Bangalore+International+Airport

the Airport concession agreements. In fact, the concession agreements in the Port sector or Road sector do not have similar obligations on the Government. The Concession Agreement also insulates the concessionaire against competition by stating that no new airport would be allowed to be set up within 150 k.m. radius for a period of 25 years from the date of airport opening and further the Government of India will ensure that no other airport in India gets any unfair competitive advantage as compared to the Bangalore airport-again, a unique feature to be found in the airport concession agreements alone.

- Monitoring the project:-

It is provided that government shall not intervene in or interrupt in the design, construction or developing of the airport unless it is on account of national emergency or as per any existing law or for public safety. If intervention is on account of public safety, it shall be limited in time and for a period to be mutually agreed between the parties. The parties agree to set up a joint Co-ordination Committee compromising of representatives of the State and private parties to monitor them implementation of the project at all stages including post completion.

- The way forward:

The Naresh Chandra Committee report suggests a number of ways to improve the state of Indian airports. Separate Economic Regulator – This is to ensure active regulation of the sector along with checking malpractices. TRAI (Telecom regulatory Authority of India) has played a similar role in the area of telecommunications and it has been very successful in conflict resolution.
Reduction of airport charges – This is seen as a way to bring them in line with international prices. For example, Mumbai airport is the 49th most expensive airport (IATA 2004) but it is nowhere near its peers (Hong Kong, Los Angeles) in terms of the infrastructure. The loss in revenue can be compensated by greater contribution from non aeronautical revenues.

Etihad Taking Minority stake In Airways[16]

United Arab Emirates' Etihad Airways were the first to land in India when the government opened its market for foreigners this year. And now they're approximately two weeks away from taking a 24% stake in regional Jet Airways, one of India's three domestic carriers.

The $379 million deal is being called more of a "strategic partnership" by Etihad. Etihad's latest airline deal could get green lighted from the Cabinet Committee on Economic Affairs,but the final outcome of the transaction will be decided by the Securities and Exchange Board of India (SEBI).

The Indian authorities have expressed some concerned that the original agreement, signed in April, will result in Etihad effectively controlling the management of Jet Airways. Etihad is privately held. "India is one of the world's fastest-growing destinations, and a key market in the growth strategy of Etihad Airways," Chief Executive James Hogan said in a statement. "We now have the opportunity to add significant capacity between the two countries."

By the end of the year, Etihad will operate twice-daily flights leaving from its hub in Abu Dhabi-and heading to both Mumbai and New Delhi instead of just daily flights currently. It also plans to upgrade Abu Dhabi to Chennai flights.

[16]http://www.businessweek.com/articles/2014-04-10/etihads-network-of-ailing-airlines-takes-on-emirates

Etihad is investing another $150 million in Jet's frequent flyer program and has spent $70 million to buy Jet's three pairs of Heathrow slots through a sale and leaseback agreement, as part of the deal, which was first agreed in April. Etihad will also support Jet with up to $150 million of foreign currency loans. The Indian carrier's debt at the end of September was about $1.9 billion.

The deal, currently under the scrutiny of Supreme Court, invited widespread criticism as it would deal a fatal blow to India's national career Air India besides other domestic operators. The note exposes that PMO was later overpowered by those in favour of the bilateral agreement, which provided a huge largesse of 35000 seats per week to Etihad from India. PMO had raised seven objections on granting approval to the Jet-Etihad deal and the huge seats allotment to Etihad. It cautioned about the loss in business in catering, fuelling and cargo due to the haul of Indian passengers to other destinations via Etihad's headquarters Abu Dhabi. The note on several occasions cautioned the Aviation Ministry for routing the passenger flow from India through Middle East by avoiding direct traffic to Europe and US.
"Lesser stimulation to traffic growth with major impact on tourism promotion as direct connectivity promotes tourism. Passengers will have to bear the burden of the airports lack of recovering already invested capital due to the reduction of quality of traffic.

Conclusion

The study of FDI in India concludes that India should welcome FDI as it has huge benefits for the Indian economy. FDI participation always brings prosperity for any emerging country. Various benefits which India can entice by liberalising FDI are use of advanced technology, expertise, better infrastructural developments, widened product basket, improving standard of living, uplifting the brand quality, improving competitiveness, better foreign relations, boosting exports, and providing India with a global platform. The debated views of FDI in multi brand have certainly hindered the flow in retailing. However, the government has tried to encounter all the obstructions and ease the investment norms for foreign investors. As the analysis shows that India will have an upward trend in FDI flow for next 5 years, yet the government should revise its regulations under FEMA, to watch the barriers and protect the domestic companies and equity holders.

FDI though being beneficial and having an increasing trend always brings huge threat for domestic and small scale companies and retailers. India should formulate policies which will diverse the threats and channel the benefits, so that the economy may prosper globally FDI always faces problems in form of red-tapism, bureaucracy, lobbying, non-availability of credits, and rigid taxation policies. India has tried to assist FDI by allowing low corporate tax, tax holidays, preferential tariffs, removing the sectorial caps, removing restrictions of customs, lowering the depreciation rate, etc. Being politically controversial, FDI has to be accepted in India, to overstep the sluggish growth. As FDI will always provide long term benefits, the public should hold their patience to en-cash them, and utilise it for their profit.

FDI as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, Research and Development (R&D), etc. Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level. Therefore for further opening up of the Indian economy, it is advisable to open up the export-oriented sectors and higher growth of the economy could be achieved through the growth of these sectors.

Today foreign inflow is considered anon debt external resource to supplement inadequate savings and a tool in transforming technology, improving managerial skills and facilitating market development. In our recent economic system capital is the fuel that generates the profits. Keeping in the above things in mind an attempt is being made to order some suggestions to increase inflows:-

- To companies for an investment, there is a need to extend a hospitable environment for foreign investor by providing essential guarantee for investors to A) enter and exit B) operate on equal terms alongside local operators and C) repatriate their investment when needed.
- India can take advantage of its low labour cost and attractive investments. However the low costs need not necessarily equate with productivity. Thus, importance must be on rational labour policies, which protect the interest of both workers and employers through fair labour practices and arbitration.
- Continued export growth and careful management of India's import will also be crucial in maintaining India's ability to maintain and continue to build international equity and debt institutional investor's confidence.
- The large availability of required infrastructure in the form of serviceable roads, ports, telecommunication, air ports, water and power facilities in pre-requisite for attracting large volume of foreign investors.
- Domestic policy reforms in power sector, urban infrastructure and real estates.
- SSI reservations should be phased out as quickly as possible.
- Simplification of application laws, rules, and administrative procedures and reducing red tapism.