ISSN 2394-2762(Print)
e-ISSN 2394-2770(Online)

Case Study

FOREIGN DIRECT INVESTMENT IN INDIA: FUTURE AND GROWTH POLICIES- AN OVERVIEW

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Abstract: *The report analyses the concept of Foreign Direct Investment in India and studies it in various contexts like growth and policies implemented after the independence. With the economic direction of gradual increase in the liberalization and globalization, several factors influencing the patterns for the investment in India have also been discussed in the paper. The report entails the advantages and limits of FDI, main sectors with Equity/ Route limit in India & factors affecting FDI with respect to Indian Economy. The paper purports to explain the purpose of studying this topic and gives insights on different proposals of encouraging the flow of foreign capital through FDI & analyzing the largest sectors of the investments in India. We have also performed case studies on organization such as PepsiCo, to justify our assumptions and to clarify the concepts.*

Keywords: *Joint Venture, FDI, GDR, ADI*

Introduction

Investment by the pages of British Dictionary, defined as the act of laying out money or capital in an enterprise with the expectation of profit. Investment in India is basically done by two styles: one that does not involve obtaining the degree of control in a company known as Portfolio Investment and the second one, Foreign Direct Investment specializing in purchase of physical assets or significant amount of the ownership (stock) of a company in another country to gain a measure of management control [15].

Apparently, FDI can be defined as a company from one country making a physical investment into building a factory in another country [3]. Its definition can be extended to include investments made to acquire lasting interest in enterprises operating outside of the economy of the investor. FDI or Foreign Direct Investment is any form of investment that earns interest in enterprises which function outside of the domestic territory of the investor [15].

FDIs require a business relationship between a parent company and its foreign subordinate. Foreign direct business affairs give rise to international corporations. The parent firm needs to have at least 10% of the ordinary shares of its foreign affiliates in an FDI. The investing firm may also qualify for an FDI if it has voting rights in a business enterprise functional in an overseas country [14].

FDIs are broadly classified into two types i.e. Outward FDIs and Inward FDIs.

Reasons for FDI

Economic growth, de-regulation, liberal investment rules, and operational flexibility [16]. All the factors that help increase the inflow of Foreign Direct Investment. There are various types of foreign collaboration agreements, like Joint ventures, Technical collaborations, setting up of branches/project office [23], FDI- investment by non-residents and overseas corporate bodies [11].

Advantages of FDI

- Increase in foreign as well as home – based investment and thereby profit & employment
- Promotes technology sharing and transfer
- Increases tax, excise revenue of government
- Inspires managerial revolution through professional management
- Increases exports and minimizes import requirements
- Increases competition and breaks inland monopolies
- Improves product quality and minimizes cost of inputs

Limitations of FDI

- Areas with high returns attract FDI
- International firms can control economic autonomy and this may hamper the international/ national politics
- It may inculcate invalid and unethical trading that leads to minimize/ eliminate competition

Factors Affecting FDI

Foreign Direct Investment has obtained importance worldwide as a mechanism of global economic integration. The industrial policies of almost all the countries provide a fairly liberalized policy framework to attract Foreign Direct Investment in the country and hence it becomes obligatory to understand the factors that influence where and why firms decide to invest overseas. The factors that relate the complete economic outlook for a nation, maybe listed out as; Profitability – any investment is characterized profitable when the return on investment is higher, Costs of Production – mainly encouraged by lower costs of production like raw materials, labor. Economic Conditions – Market openings, infrastructure, income level, population etc., Government policies – Policies like overseas investment, remittances, collaboration, returns, taxation, foreign exchange control, costs etc. and Political elements – permanence, practices of political parties and reputation.

India at a Glance

India is a union of States with parliamentary system of Government and has land area 3.29 million square kilometers. India is counted for having longer coastline of around 7, 516.6 km, encompassing the continent, Islands. Official records state that the Indian population is 1.028 billion as on 1 March 2001. Delhi is the capital of India. India is still backward in case of literacy, the literacy rate in the Country stands at 64.84 percent, 75.26% for males and 53.67% for females (records updated on 1 March 2001).

Climate in India is mainly tropical with temperature ranging from $10^{o} – 40^{o}$ C in most of the parts. The Indian time zone is GMT + 5 1/2 hours. The country is still stressed with major environment issues like air pollution control, solid waste management, Petroleum and energy conservation, forest saving, etc. and in this regard the government has signed certain Environment – International agreements such as Rio Declaration on environment and development, Biosafety protocols (such as Cartagena Protocol), Kyoto Protocol to the United Nations framework Convention on climatic change, Helsinki Protocol to LRTAP on the reduction of sulfur emissions of nitrogen oxides or their trans boundary fluxes and Geneva Protocol to LRTAP regarding the control of emissions of volatile organic compounds or their trans boundary fluxes (VOCs Protocol), World Trade Agreement [21] [25] [24].

The major international airports in India are New Delhi, Mumbai, Kolkata, Chennai, Thiruvananthapuram, and Bangalore. The major ports to pass are Chennai, Ennore, Haldia, Kolkata, Kandla, Kochi, Mumbai, Jawaharlal Nehru, Mormugao, Paradip and Tuticorin, New Mangalore, Vizag.

FDI in India – Growth and Policies

India, among the foreign investors, is believed to be a good investment despite of political issues, organizational hassles, shortages of power and infrastructural deficiencies. India presents a vast potential for foreign investment and is actively encouraging the entrance of foreign players into the market. Foreign investors cannot discount India, as it is predicted that India will become one of the emerging economies. Presently, India is at fifth position in the list of largest economies in the world and has the third largest GDP in Asia. India also offers high prospects for growth and earning potential in practically all areas of business [14]. Yet, despite the practically unlimited possibilities in India for foreign dealings, it has failed to acquire the kind of enthusiastic attention generated by other emerging economies such as China. Indian Government has permitted access to FDI through automatic route, except for a small negative list. Time to time there has been revision in liberalization of the FDI. Recently the Government of India has liberalized their policies in certain sectors, like increased FDI limits for "Air Transport Services (Domestic Airlines)" up to 49 percent through automatic route and up to 100 percent by Non – Resident Indians (NRIs) through automatic routes. (No direct or indirect equity participation by foreign airlines is allowed) [12]. Prior approval of the Government would be required only in cases where the foreign investor has an existing joint venture for technology transfer/trade mark agreement in the 'same' field [18] [22].

Even for all the cases mentioned so far, the Government approval is not required in respect of the following:

a. Investments to be made by venture capital funds registered with SEBI; or
b. Where the existing joint venture investments by either of the parties is less than 3 percent; or
c. Where the existing venture/collaboration is defunct or sick [3].

As joint ventures are to be entered soon after the date of Press Note dated January 12, 2005 are concerned, the joint venture agreement may embody a 'conflict of interest' clause to safeguard the interest of joint venture partners in the event of one of the partners desiring to set up another joint venture or a wholly owned subsidiary in the 'same' field of economic activity [2].

Foreign investment in the banking sector has been further liberalized by raising FDI limit in private sector banks to 74 percent under the automatic route including investment by FIIs [21]. The aggregate foreign investment in a private bank from all sources will be a maximum of 74 percent of the paid up capital of the bank and minimum 26 percent of it held by residents except in regard to a wholly owned subsidiary of a private bank. The overseas banks will be permitted to either have branches or holdings and not both. A banking supervisory authority in the home country regulates overseas banks and meeting Reserve Bank's license criteria will be allowed to hold 100 percent paid up capital to enable them to set up wholly-owned subsidiary in India. Maximum FDI in telecom sector in certain services (such as basic, public mobile radio trunked services (PMRTS), global mobile personal communication service (GMPCS) and other value added services), has been increased from 49 percent to 74 percent, in February 2005 [26]. The total composite foreign holding including but not limited to investment by FCCB, FIIs, ADRs, NRI/OCB, GDRs, proportionate foreign investment, convertible preference shares in Indian promoters/investment companies including their holding companies etc., will not exceed 74 percent. In 2004, the guidelines on FDI equity cap, including NRIs and OCBs investment by were revised as under: - FDI up to 100 percent is permitted in printing scientific and technical journals, periodicals subject to acquiescence with legal framework and with the prior approval of the Government [17]. FDI up to 100 percent is permitted through automatic route for petroleum product marketing, subject to existing sectorial policy and regulatory framework [16].

FDI up to 100 percent is permitted through automatic route in oil exploration in both small and medium sized fields subject to and under the policy of the Government on private participation in exploration of oil fields and the discovered fields of national oil companies [11]. FDI up to 100 percent is permitted through automatic route for petroleum products pipelines subject to and under the Government policy and regulations there of FDI up to 100 percent is permitted for Natural Gas/ LNG pipelines with prior Government approval [10].

A news report from World Bank "Doing Business in 2005; Removing Obstacles to Growth" has shown that India has made the highest progress among South Asian nations in improving its investment climate [7]. India was rated among top ten reformers in the world. Further, a recent confidence survey by global consultancy AT Kearney rated India as the third most favored FDI destination, next only to China and United States. 2004 of United Nations Conference on Trade and Development (UNCTAD), Global FDI Inflows have declined significantly from the peak of US$ 1.4 trillion (in 2000) to US$ 560 billion (in 2003). Even though FDI inflow to India has shown a rise in 2003, to reach US$ 4.27 billion Country wise, Mauritius dominates FDI inflows to India (34.49 percent), followed by the United States (17.08 percent) and Japan (7.33 percent) [1]. Formulation of policy for Indian Direct Investment for setting up Joint Ventures (JV) and Wholly Owned Subsidiaries abroad, Indian investment abroad and Mutual investment Promotion and Protection Agreement {BIPA} are the major functions of IC Section of the Indian Government, Ministry of Finance, Department of Economic Affairs Investment Division [4]. Indian investment abroad is governed by the Foreign Exchange Management (Transfer or issue of any foreign security) Regulations, 2000 notified by RBI from time to time [18].

Foreign Investment Policy

The Ministry of Industry has expanded the list of industries eligible for automatic approval of foreign investments and, in certain cases, upstretched the higher level of overseas ownership from 51 percent to 74 percent and further in certain cases to 100 percent. In 1998, the Reserve Bank of India declared simplified procedures for automatic FDI approvals [24] [9]. Further, the announcements provided that Indian companies will no longer require prior clearances from the RBI for inward remittances of foreign exchange or for the issuance of shares to foreign investors.

Facilitating Foreign Investment

In the recent budget, the GOI has announced its commitment to a 90 days period for approving all foreign investments. Government officers are assigned to larger foreign investment proposals and to facilitate Central and State clearances in a time limit. New companies with a 3 year worthy track record have been permitted to raise funds in international markets through the issue of Global Depository Receipts (GDRs) and American Depository Receipts (ADRs). A number of recent policy changes have reduced the discriminatory bias against foreign firms [2]. The government has amended exchange control regulations previously applicable to companies with significant foreign involvement. The prohibition besides using overseas brand titles/ trademarks has been lifted. The FY 1994/95 budget reduced 14 the corporate tax rate for foreign companies from 55 - 65 percent. The tax on in – home companies was lowered to 40 percent [14]. The long-term capital gains rate for foreign companies was lowered to 20 percent; a 30 percent rate applies to domestic companies. The Indian Income Tax Act exempts export earnings from corporate income tax for worldwide firms. Further policy variations have been lead to encourage foreign direct and foreign institutional investment [23].

The Securities and Exchange Board of India (SEBI) has recently formulated guidelines to facilitate the operations of foreign brokers in India on behalf of registered Foreign Institutional Investors (FII's). These brokers can now open foreign currency-denominated or rupee accounts for crediting inward remittances, commissions and brokerage fees [22].

The condition of dividend balancing (offsetting the outflow of foreign exchange for dividend payments against export earnings) has been eliminated for all but 22 consumer goods industries [23]. A 5-year tax holiday is extended to enterprises engaged in development of infrastructure. Even though there is no registered workplace in India, foreign companies are allowed to start multimodal transport services in India [18]. The Reserve Bank of India (RBI) now permits 100 percent foreign investment in the construction of roads/ bridges [12]. The peak custom duty rate was reduced to 50 percent from 65 percent in the March 1995 budget [17]. Import regime changes included enhancement of the scope of Special Import License (SIL) programs, and the expansion of freely importable items on the Open General License (OGL) list to include some consumer goods [13].

Currently, there are no investment disputes over expropriation or nationalization [21]. A committee has been named to study the longstanding disputes in pharmaceutical sector, but the failure of Government to produce a swift and transparent resolution has led to a virtual standstill in foreign investment in India's pharmaceutical sector [14]. Indian Courts and constitution of Intellectual Property Rights Tribunal provide adequate safeguards for the enforcement of property and contractual rights.

Forms of FDI

The cautious promotion plays significant role in the evolution of Government policy about Foreign Direct Investment. The current policy framework allows investors to endow through financial/ technical alliances, joint ventures, capital arcades via Euro concerns, private placements or preferential allotments as well as in few industrial sectors like Arms and Ammo, Nuclear Energy, Coal and Lignite, Railway Transport, Mining of iron, manganese, chrome, gypsum, Sulfur, gold, diamonds, copper, zinc are still not open for FDI.

Foreign Investment through GDRs (Euro Issues)

Foreign Investment through GDRs is treated as Foreign Direct Investment [15]. Indian companies are allowed to raise equity capital in the international market through the issue of Global Depository Receipt (GDRs) [16]. GDRs are designated in dollars and are not subject to any ceilings on investment [19]. The Government of India has approved floating of GDR issue [23]. There is no restriction on the number of Euro-issue to be floated by a company or a group of companies in the financial year [25]. A company engaged in the manufacture of items covered under Annexure – III of the New Industrial Policy whose direct foreign investment after a proposed Euro issue is likely to exceed 51% or which is implementing a project not contained in Annexure – III, still needs to get FIPB clearance before seeking final approval from Ministry of Finance [26].

In India, Department of Industrial Policy and Promotion (DIPP) is the nodal agency constituted by Ministry of Commerce & Industry. Foreign Investment Implementation Authority (FILA) has been set up by Government of India to facilitate quick translation of FDI approvals into implementation and to help foreign investors to obtain necessary approvals, sort out operational problems and find solutions to Foreign Investors issues. Fast track Commission has been constituted for each sector to assist FILA [01].

Table 1:
FDI Inflows in the World
(Source: Compiled from various issues of WIR, UNCTAD, World Bank)

Years / Countries	1990 – 95	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007
World FDI	225.3	386.1	478.1	694.5	1088.3	1492	735.1	716.1	632.6	648.1	958.7	1411	1833.3
Developed Economies share in World FDI	64.4	57.1	56	69.7	77.1	82.2	68.4	76.5	69.9	58.6	63.8	66.7	68
Developing Economies share in World FDI	33	39.5	39.9	27	20.7	15.9	27.9	21.7	26.3	36	33	29.3	27.3
amount in US $ Billion													

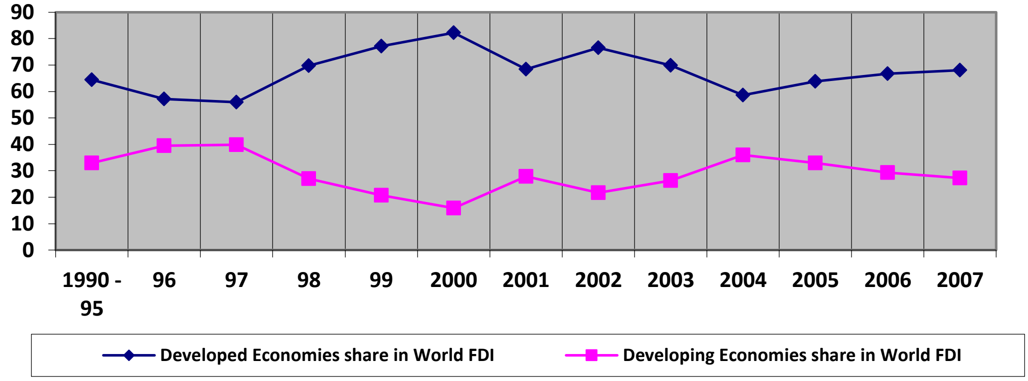

Figure 1: FDI Inflows in the World
(Source: Compiled from various issues of WIR, UNCTAD, World Bank)

Most Attractive Location of Global FDI

It is a well-known fact that due to infrastructural facilities, less bureaucratic structure and conducive business environment China tops the chart of major emerging destination of global FDI inflows [03]. The other most preferred destinations of global FDI flows apart from China are Russia, Mexico, India and Brazil. The annual growth rate registered by China was 15%, Brazil was 84%, Mexico was 28%, Russia was 62%, and India was 17% in 2007 over 2006[06]. During 1991-2007 the compound annual growth rate registered by China was 20%, Brazil was 24%, Mexico was 11%, Russia was 41% (from 1994), and India was 41%. India's FDI need is stood at US$ 15 bn per year in order to make the country on a 9% growth trajectory (as projected by the Finance Minister of India in the current Budget74)[08]. Such massive FDI is needed by India in order to achieve the objectives of its second generation economic reforms and to maintain the present growth rate of the economy.

Table 2:
Share of India in World FDI
(Source: Compiled from various issues of WIR, UNCTAD, World Bank)

Years / Countries	1990 – 95	96	97	98	99	2000	2001	2002	2003	2004	2005	2006	2007
World FDI	225.3	386.1	478.1	694.5	1088	1492	735	716.1	632.6	648.1	958.7	1411	1833.3
India's share in World FDI	0.3	0.7	0.8	0.4	0.2	0.2	0.5	0.5	0.7	0.8	0.8	1.4	1.3
amount in US $ Billion													

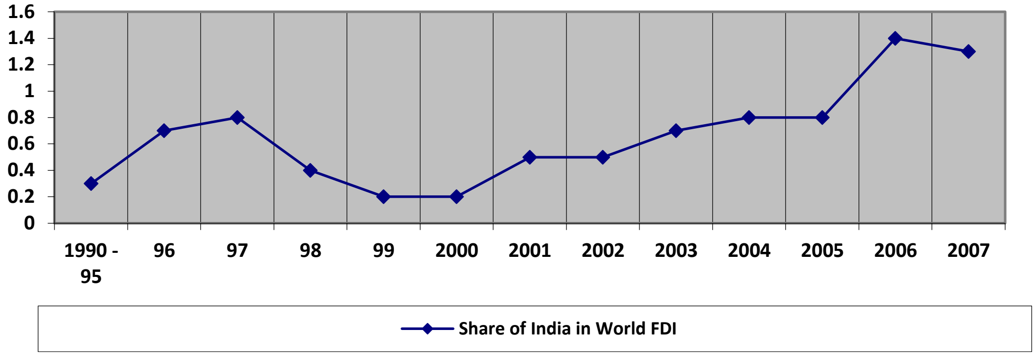

Figure 2: Share of India in World FDI
(Source: Compiled from various issues of WIR, UNCTAD, World Bank)

Although, India's share in world FDI inflows has increased from 0.3% to 1.3% (Table 2) from 1990 – 95 to 2007 [09], this is not an attractive share when it is compared with China and other major emerging destinations of global FDI inflows [05].

Table 3: Emerging Economies of Asia
(Source: Compiled from various issues of WIR, UNCTAD)

Country	1990 – 1999	2000 – 2007
China	188	483.1
Singapore	43.3	108
India	12	63.3
South Korea	21	41.5
Malaysia	25	33.1
Philippines	6.1	13.3
Thailand	17	37.2
All Developing Countries	831	2227.1
India's Share (%)	1.4	2.8
China's Share (%)	22.6	21.7
		amount in US $ Billion

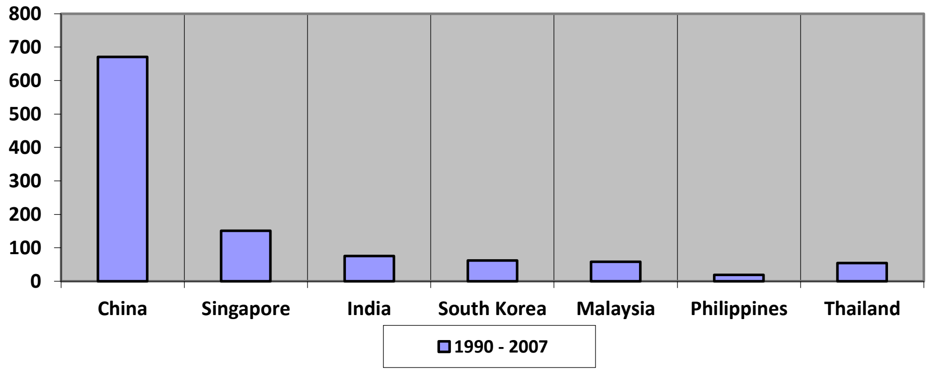

Figure 3: Emerging Economies of Asia
(Source: Compiled from various issues of WIR, UNCTAD)

Sources of FDI in India

India has broadened the sources of FDI in the period of reforms [11]. There were 120 countries investing in India in 2008 as compared to 15 countries in 1991 [14]. Thus the number of countries investing in India increased after restructurings. After liberalization of economy many more countries like Malaysia, Mauritius, Cayman Islands and South Korea predominantly appears on the list of major investors apart from the major investor [19].

Table 4:
Share of top countries in FDI inflows
(Source: Compiled from various issues of Economic Survey, RBI Bulletin, Ministry of Commerce)

Mauritius	USA	Singapore	UK	Netherlands	Japan	Germany	Cyprus	France	Switzerland
39.9	8.8	7.2	6.1	4.4	3.4	2.9	2.1	1.5	1.1

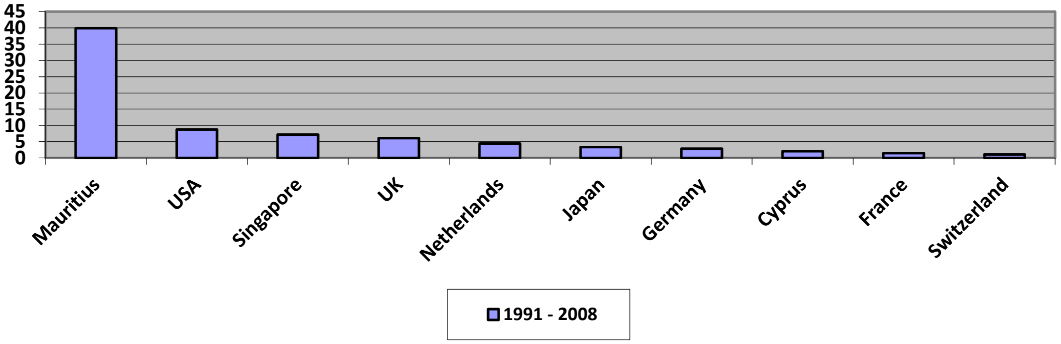

Figure 4: Share of top countries in FDI inflows
(Source: Compiled from various issues of Economic Survey, RBI Bulletin, Ministry of Commerce)

The analysis in (Table 4) presents the major investing countries in the world during 1991 – 2008. Mauritius (Figure 4) is the largest investor in India during 1991-2008 [04]. FDI inflows from Mauritius constitute about 39.9% of the total FDI in India and enjoying the top position on India's FDI map from 1995. This dominance of Mauritius is because of the Double Taxation Treaty i.e. DTAA- Double Taxation Avoidance Agreement between the two countries, which favors routing of investment through this country [12]. This (DTAA) type of taxation treaty has been made out with Singapore also [18].

The US is the second largest investing country in India [21]. While comparing the investment made by both (Mauritius and US) countries one interesting fact comes up which shows that there is a huge difference (between FDI inflows to India from Mauritius and the US) in the volume of FDI received from Mauritius and the US [23]. FDI inflow from Mauritius is more than double then that from the US. The other major countries are Singapore with a relative share of 7.2% followed by UK, Netherlands, Japan, Germany, Cyprus, France, and Switzerland [25].

Thus, an analysis of last eighteen years of FDI inflows shows that only five countries accounted for nearly 66% of the total FDI inflows in India. India needs enormous amount of financial resources to carry forward the agenda of transformation (i.e. from a planned economy to an open market) [09], to tackle imbalance in BOP, to accelerate the rate of economic growth and have a sustained economic growth [26].

Distribution of FDI within India

FDI inflows in India are heavily concentrated around two cities, Mumbai (US$ 26899.57 million) and New Delhi (US$ 12683.24 million). Bangalore, Ahmedabad and Chennai are also receiving significant amount of FDI inflows [02]. These five cities (Figure 5) together account for 69 percent of total FDI inflows to India. Mumbai and Delhi together received 50 percent of total FDI inflows to India during 2000 to 2008 [21].

Table 5:
Distribution of FDI within India
(Source: Compiled and computed from various issues of SIA Bulletin, Ministry of Commerce, GOI)

Country	Mumbai	New Delhi	Bangalore	Ahmedabad	Chennai
Distribution of FDI within India between 2000 – 2008 (US $ million)	26899.57	12683.24	5601.22	5112.35	4300.11

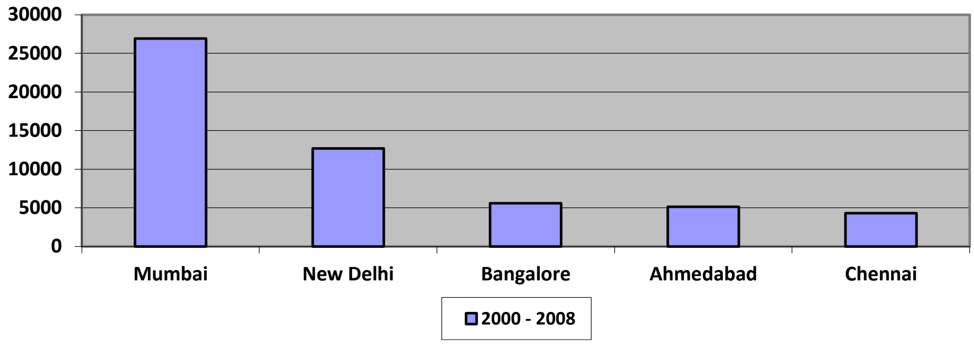

Figure 5: Distribution of FDI within India
(Source: Compiled and computed from various issues of SIA Bulletin, Ministry of Commerce, GOI)

Mumbai received heavy investment from Mauritius (29%), apart from U.K. (17%), USA (10%), Singapore (9%) and Germany (4%).The key sectors attracting FDI inflows to Mumbai are services (30%), computer software and hardware (12%), power (7%), metallurgical industry (5%) and automobile industry (4%) [26]. Mumbai received 1371 numbers of technical collaborations during 1991-2008 [12]. Delhi received maximum investment from Mauritius (58%), apart from Japan (10%), Netherlands (9%), and UK (3%).While the key industries attracting FDI inflows to Delhi region are telecommunications (19%), services (18%), housing and real estate (11%), automobile industry (8%) and computer software and hardware (6%). As far as technical collaborations are concerned Delhi received 315 numbers of technical collaborations during 1991- 2008.

Heavy investment in Bangalore came from Mauritius (40%) alone. The other major investing countries in Bangalore are USA (15%), Netherlands (10%), Germany (6%), and UK (5%). Top sectors reported the FDI inflows are computer software and hardware (22%), services (11%), housing and real estate (10%), telecommunications (5%), and fermentation industries (4%). Bangalore received 516 numbers of technical collaborations during 1991 – 2008. Chennai received FDI inflows from Mauritius (37%), Bermuda (14%), USA (13%), Singapore (9%) and Germany (4%). The key sectors attracting FDI inflows are construction activities (21%), telecommunications (10%), services (10%), computer software and hardware (7%), automobile industry (7%), As far as technical collaborations are concerned, Chennai received 660 numbers of technical collaborations during 1991-2008.

FDI Equity Limit – Automatic Route

The restriction on foreign equity limit also acts as a major impeding factor. Equity shares can be entirely, mandatorily convertible inclination shares or debentures. Presently, in India Insurance has 26 % of equity limit, it is 49 % for domestic airlines, 74 % for private banking sectors, 74 % for Mining of diamonds and precious stones as well as Exploration and Mining of Coal and lignite for captive consumption and same for Telecom services is again 74%.

FDI Requiring Prior Approval

All the proposals disqualified from automatic route considerations are attended by Foreign Investment Promotion Board (FIPB), a highly powered body located in the Prime Minister Office (PMO). This body is specially empowered to employ purposive negotiations and considers proposals that are free from predetermined parameters or procedures in entirety. There are few sectors like Defense production (26%), FM Broadcasting (20%), News and current affairs (26%), Broadcasting – cable (up linking 49%) that are included in the current list.

100% FDI Permitted In India

To withdraw the access to capital market and to encourage modernization as well as technology up gradation in small scale industry sectors as well as in education field (including foreign collaboration) the government of India has permitted 100 % FDI. The sectors like Engineering & Manufacturing sectors, Transport, Docks, Industrial parks, Pollution Control Hotels & Tourism and Management, Marketing & Motion picture industry, Electricity generation (Hydro – Electric, Coal/ Lignite, Oil or Gas based), Information Technology including E – Commerce, Trading - Wholesale cash and carry, Export trading, Tea plantation, Development of airports, Courier services can be forenamed.

PepsiCo - A Case Study on FDI in India

Caleb Bradham, a New Bern, N.C. pharmacist, created Pepsi-Cola in the late 1890s [02]. In 1965, PepsiCo, Inc. was founded by Herman L., CEO of Frito – Lay and Donald Kendall, president CEO, Pepsi- Cola. In 1987 Coke & Pepsi have 40.3% & 30.2 % of the U.S market respectively [21]. It had an image of soft drink manufacturer and dealer. Apart from Pepsi – Cola Company and Pepsi cola International, there were six other divisions which gave it a commanding presence in Food Business. Soft drinks contributed 32 % & the restaurants 27 % to the total operating profits in 1987 [09]. Pepsi Co. acquired KFC chain in 1986 and Pepsi took the ownership of the world's largest restaurant chain which also includes Pizza hut and Taco Bell with a total of nearly 16500 outlets in 1987[14]. Pepsi had so far made inroads in 151 countries –150 before India. Limca was the leading selling trademark and cola was the leading selling flavor having 40 % of the market share Lemon drinks followed cola with 31 % and orange drinks had only 19 %. Lemon drinks were more popular in Metros [7]. In 1977, a change at a centre led to the exit of the Coca cola. Pure drinks, Delhi switched over to CampaCola after coke's exit and by the end of seventies, it was only Campacola in the Indian cola market [06]. In 1980 another cola drink, Thumps Up was launched by Parle but was objected by Pure Drinks to its being called a cola drink. The first national cola drink to pop up was Double Seven. Thrill by Mc Dowell's in mid-eighties and by the late eighties there was Double cola which entered the market with the USP of an American Cola. Indian trade of soft drinks was expected to be worth INR 910 Crores. In December 1978 Parle headed the Indian soft drinks market, in 1983 its market share was 43%, 44% in 1987 and in 1990 it reached to 70% whereas its chief rivals Pure drinks' share had been declining in 1978 it was 28%, in 1983, 22% and in 1987 it was 21%.International Trade used to constitute only 6% of GDP in 1985. Till 1991 (liberalization), India was intentionally and largely isolated from the global market [24] [25]. Foreign trade was as usual subject to Import and Export duty charges as well as Government's terms and Conditions.

The restrictions ensured that FDI averaged only around $200M annually between 1985 and 1991; a large percentage of which came from foreign trade of NRIs. By the time PepsiCo began its negotiations, the upper cap on equity – holding for foreign investors was only 40% of an Indian enterprise. Any foreign investment had a lot of political sensitivity to it. Negotiations between the government and the foreign investors used to be civilians, no action used to be taken during elections due to fear of backlash. In the late 1960s, the FDI policy restriction became very visible and largely stemmed from the fact that there was a considerable drain of foreign exchange between 1956 – 65 (largely due to no policy on regulation of existing FDI in India). Because if the fear of foreign economic domination taking a broader outlook, in the decade of 80s Indian FDI policy served as a double-edged sword.

On one hand, it has fostered individual firms who have become highly efficient and competitive by international standards using their own research and manufacturing facilities and it created stagnation in product development. Still FDI policies were unjustified because the whole gamut of regulations had seriously undermined the international competitiveness of Indian Industry. It discouraged foreign companies with highly sophisticated technologies from investing in India. Lack of competition had fostered widespread areas of inefficiency and technology backwardness [5].

In 1977 Pepsico sees opportunity in India after Coca – cola departed. Pepsico attempted its first Proposal with R. P. Goenka group in 1985. The proposal involved export of fruit juice concentrates from Punjab in return for the Import of cola concentrates and 3:1 export import ratio but their summit rejected outcome. During the same year Pepsico again attempted second time with confiscating previous disagreements. The new proposal initiates along with Tata Industries and Punjab Agro Industries Corporation (PAIC).

Proposal included:

- Initial Investment of $15 Million [18]
- Agro Research Centre (costing Rs. 1.55 Crores).
- A potato and grain based processing unit (costing Rs 8 Crores).
- A fruit and vegetable processing unit (costing Rs. &.5 Crores).
- The Pepsi co would have an equity holding of 39%, PAIC 20% and Voltas 24%. The balance was to be placed privately from loans.
- Imports would be 37 Crores and exports a minimum of Rs. 194.1 Crores over a decade period.
- Benefits and advantages of proposal includes better market for rice, fruits, wheat and edible oil in Punjab
- Company location in politically unstable region of Punjab (due to Khalistan terrorism)
- Creation of 25,000 jobs in Punjab and same in other parts
- Expertise for efficient utilization of fruit production by prevention wastage (30 %) in Punjab
- Allow local companies to grow and compete with overseas companies who have significant comparative advantage 1986 through 1988
- 20 Parliamentary Debates [19]
- 15 review Committees
- 5000 articles in Press
- Allegations of PepsiCo and CIA nexus (1986 through 1988)
- Governments disagreement on overseas capital investment in areas where India lacked expertise
- Governments concern that PepsiCo's proposal of production of processed food (chips, fruit drinks, sauces) would displace what are home prepared items and hurt India's BOP
- Indian Govt. deliberates. Pepsi continues to negotiate.

In 1988, the Indian government and PepsiCo reach an agreement.

The conditions were:

- EXIM ratio of 5:1. About $150 million of export to be done over 10 year period
- Soft drink sale limited to 25% of total sales
- Ownership limited to 39.9%
- 75% of soft-drink concentrates to be exported
- The JV sets up farming research center

- The company could sell Pepsi Era, 7-Up Era and Miranda Era
- The JV will setup fruit and vegetable processing plants
- Coca-Cola applies to re-enter Indian market.

An incompetent proposal by Cokes is rejected in 1989. Next year Pepsi begins production of snack Food and soft drink production to commence during summer. Shri. V. P. Singh (Prime Minister of Minority Government) expresses concern over FDI and announces to reexamine PepsiCo agreement. US government threatens to impose trade restrictions (under Super 301 legislation) on India for its negative FDI regulations. Pepsico lobbies for India. US back out and Pepsi gains good will through tax sops. Pepsi agrees to place a new logo of Lehar with its insignia.

In 1991, Shri. P.V. Narsimha Rao becomes PM and promotes FDI and LPG. Newly formed Foreign Investment Promotion Board allows 51% foreign ownership of companies, 40% max cap of foreign ownership, only domestic competition in soft drink industry will gain an early entrant advantage for a foreign soft drink player. It proposes incredible potential due to reasons like Low per capita consumption of Soft-drinks, Population, Size and Purchasing power of Indian middle class, estimated $300 million market in near future

Conclusion

The large and growing Indian middle class; low wages; many workers are well educated and speak English; investors are optimistic and local stocks are up; despite of unstable government, the country tends to economic reforms. The fast financial growth in last few years has put heavy stress on India's infrastructure. The demand of more expansion in key areas could snap the already strained lines of transportation unless massive programs of expansion and modernization are being executed. Difficulties include shortfall in energy demand, demand for more dock capacity, damaged roads (only half of the country's roads are surfaced), low telephone penetration. Even though government of India is timely pushing for reform in this area, the commercial sectors still have to counter with an inefficient and sometimes still slow-moving bureaucracy.

The Indian market is totally unpredictable. India has 17 formal languages, cultural diversity as wide as all of Europe and 6 major religions. Hence, tastes and likings vary significantly among units of consumers. The general economic direction in India is toward liberalization and globalization. There is always a constant fear for the investor of the frequent changes in environmental legislations and policies in India. Long term environment policies could be drawn up. India is not a member of the International Center for the Settlement of Investment Disputes or of the New York Convention of 1958. Commercial arbitration or other alternative dispute resolution (ADR) methods are not yet popular ways of commercial dispute settlement in India. The recent introduction in Parliament of a new Arbitration Bill signals the importance now accorded to this matter by the GOI.

However, India still has a heavy regulation burden among other countries, e. g. the time taken to start business or to register a property is greater in India. Likewise, direct and indirect taxes, entry and exit barriers, import and export duties have been a major detriment to investment climate in India. All these issues are required to be addressed or at least practically avoided for having higher FDI in India. Though India is not a signatory to the Convention on Settlement of Investment Disputes between States and nationals of other States many Bilateral Investment Agreements entered by India include an ICSID Arbitration clause for settlement of disputes. The lack of legislative and institutional reform is a barrier to FDI.

Though there are several setbacks and deficiencies, the existence of economic opportunities would not dissuade FDI in India.

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