

FDI IN INDIA: OPPORTUNITIES AND ISSUES FOR FINANCIAL SECTOR

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Abstract

This paper reviews some of the various "Theories explaining financial sector FDI", Microeconomic framework, Importance and barriers to FDI and Diverse economic environment. We will also be discussing the Risk management challenges, dynamic foreign exchange rates and the opportunities of developing Retail marketing in India. From the review, of the financial management and Macroeconomic and risk diversification theories would seem particularly well-suited to explain this reality. The financial management importance helps the microeconomic framework to entitle the GDP with the FDI resources.

Keywords: Financial sector, FDI, GDP, Economics

I. INTRODUCTION

For the implementation of the FDI, first of all we need to review the theories which are explaining the financial sector FDI, and once the theory has been implemented in respect with local market then we can implement the same in the retail market in order to magnify the result from the international FDI. The different methods need to be verified and should be taken in order to implement the FDI in the country's policy. For this there should be a study of Risk Management Challenges, dynamic foreign exchange rates and the opportunities of developing Retail marketing in India.

Post Globalization, some reforms were introduced in the banking sector to strengthen Indian banks and make them internationally competitive and banks to play a vital role in the economic development of the country. The banking sector was opened up for private participation and the entry of new private banks increased competition. The efficiency of the

banking sector was improved as suggested by indicators such as gradual increase in cost of intermediation and decline in nonperforming loans. Efficiency in the banking sector was driven by improved technology and competition.

II- THEORIES EXPLAINING FINANCIAL SECTOR FDI

Various theories have been introduced and as per the study the financial sector will be increased once the FDI retail market. A discussion on macroeconomic theories were started only because to praise more emphasis on the potentiality of the financial FDI.

Microeconomic/Behavioral Framework-

"Virtually all existing theoretical paradigms focus on the comparison of benefits and costs of the investment decision. As with any kind of investment, the bank will face uncertainty about the expected profits of such decision, and even expected costs. On the cost side, introduces the widely accepted notion that foreign banks face significant cost disadvantages when compared with local competition. These additional costs can arise as a consequence of cultural differences, legal barriers or increased control problems, just to cite a few examples. Therefore, in order to operate profitably in a foreign market, international banks must be able to realize gains that are unavailable to local competitors." Hymer (1969) Thus the gains were established and realized benefit on operating the financial sector like (i) factors explaining competition (ii) local market non-efficient operations; and (iii) diversification in geographical position.

Comparative advantage-

Most important issue is the availability of information for taking decisions, One of the most well-known ways of exploiting the comparative advantages stemming from private information in a foreign market is to “follow the client”. This implies that banks expand in those countries where their corporate clients choose to invest so as to be able to offer them the services they need (Brimmer and Dahl (1975), Gray and Gray (1981), Ball and Tschoegl (1982). Moreover, a bank has a clear interest in keeping other financial institutions away from developing a relationship with its corporate clients, because this can result in the loss of market quota in its home market. In other words, a bank's expansion abroad can sometimes be a defensive reaction to avoid losing important corporate clients at home. This “defensive reaction” hypothesis was first offered by Grubel (1977) for US banks' decision to move overseas (the so called “second wave” of banking internationalization, starting in the 1960s).

Voting Power Methods:

FDI can thus acquire the right power through voting of an enterprise through various methods for an enterprise:

- Starting the own WOS (Subsidiary wholly owned by the company) or company registered elsewhere,
- Investment made in shares of other associate or joint ventures;
- M&A of associates enterprises;

IV-IMPORTANCE AND BARRIERS TO FDI

A research study introduced and as some of the important of FDI are as, “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 benefit from the employment opportunities created by new businesses.”

In order to avoid the competition with their own products the investing company use to transfer their older production capacity and essential machines to the host country all because of the under development of the updated version and lac of technological updation too.

V-DIVERSE ECONOMIC ENVIRONMENT

It is defined in by the analyst as, “Operating in a globalized environment means being answerable to different countries with different political environments and cultural norms, as well as trade procedures and tax conditions to comply with. In addition, the credit conditions may be totally different from what they are domestically. Anticipate day-to-day financial management challenges when operating internationally and devise ways to maintain healthy equilibrium within this economic framework to ensure your business's continued growth and survival.”

Dynamic Foreign Exchange Rates

On the similar note dynamic foreign exchange rates are also essential in financial management system. Thus it is being explained as, “in a globalized economy, the cash that goes in and out of the various countries is subject to fluctuations in exchange rates. This creates uncertainty for financial managers when it comes to the value of the home currency in relation to foreign currencies. Continuous fluctuations in the foreign exchange market could mean slow business for global organizations. If you need part of your financing for projects in emerging economies where you conduct your business,

fluctuating exchange rates can subject you to higher interest rates. You have to monitor the foreign exchange market closely for suitable rates that benefit your organization.”

Opportunities for Retail Development in India

Retail marketing gets various opportunities to grow up in the Indian market. Not only retailing but Manufactures as well as suppliers, and buyers have various opportunities, some of which are mentioned below:

- Ø Provides visibility to bands
- Ø Urbanization
- Ø Nuclear Family
- Ø Plastic Revolution
- Ø Indian consumers
- Ø Indian Farmers
- Ø Inflation control

VI- CONCLUSION:

Thus in light of the above study it has being noted that through dynamic economic environment and foreign exchange rates the FDI and the financial management has been possible in the current scenario. But in order to obtain more opportunities in the retail market it need to light up the opportunities in the field of Urbanization, increasing the workforce of Indian farmer, Indian consumer and then need to control the inflation of the country.

From the above discussions it can be concluded that since India is a developing country and the people who are working in non-government organisations have less social security after their retirement. To encourage the saving habits among them our banking sectors are introducing various schemes. Apart from all the above, since the capital raising capacity in India is very less to take the Indian banking sector to worldwide we require investment from abroad in Indian banking system.

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