

ECONOMICS

PROJECT

Class 12

Impact of GST on FDI

Making India an Investment Hub

Submitted By:

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..... (Name of the student)

CERTIFICATE

This is to certify that (Name of the student)..... of class 12 has successfully completed the Economics Project as per the guidelines of class XII Board examination conducted by C.B.S.E.

It is further certifying that this project is the individual and bonafide work of the candidate.

Teacher's Sign:

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CURRENT SCENARIO OF INDIA

Challenges of FDI in India

What were the challenges faced by foreign investors while moving their investment in India?

Why they were resisting to invest India?

What were the hindrances in the path of FDI in India?

1. DIFFICULTY OF DOING BUSINESS IN INDIA

Labor laws and Corruption in India are very complicated which slows down the entire process of setting up the business due to which foreign investors resist investing in India.

2. POLITICAL ISSUE

Several opposition parties are making it a political issue in parliament on these policy decisions and amendments.

3. TAXATION SYSTEM

Corporate tax in India is as high as 50%, if net income exceeds Rs. 10 crores. Whereas it is as low as 25% in china, 21% in UK, 40% in US etc.

4. **CORRUPTION**

Besides the taxes, corruption is another big hindrance between the paths of FDI in India.

All the reasons stated above increases the cost of doing business for foreign investors in India due to which foreign companies do not prefer investing in India.

MEANING AND DEFINITIONS

ITEMS	MEANING
GST (Goods and Services Tax)	Goods and Services Tax (GST) is an indirect tax applicable throughout India which replaced multiple cascading taxes levied by the central and state governments.
FDI (Foreign Direct Investment)	Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company.

WHAT IS GST?

- The Goods and services tax is a uniform indirect tax levied on all goods and services produced in the country and all goods and services imported from abroad.
- GST will be a single uniform indirect tax which will treat India as one market.

Benefits of GST-

The GST will enable a benefit to the economy in terms of:

- 1 A fall in product prices
- 2 A single price of a product across the country
- 3 Lower working capital for companies
- 4 A more simplified tax system
- 5 It would facilitate more seamless movement across the nation and will reduce the overall transaction cost of running the business
- 6 It will also reduce the compliance of multiple tax rules and obligations.

APPLICATION OF CONCEPT

What was the position of FDI in India in previous years?

- FDI inflows which were at \$55.6 billion for the year ending March 2016, which was a record, hits an all-time high of \$60.1 billion (approx.) in 2016-17

What will be the effect of GST on FDI?

1. INCREASE IN FDI

Market experts believe that the implementation of the new tax structure will attract more Foreign Direct Investment (FDI).

2. BUSINESS TRANSPARENCY

This in turn, is expected to **improve business transparency** which will create a trust-worthy bond between corporates and the government.

Experts Opinion on impact of GST on FDI

- *Takehiko Nakao* (President of Asian Development Bank) said that in the years to come India's growth would continue to exceed 7 %, whereas other global and Asian economies would have to adjust their business reforms.
- "For India to grow faster, FDI is important... For that purpose, Indian economy should be integrated as truly one single economy and ... rationalization of tax, the GST, as the government is seeking, is very important reform. I hope it can be successful," Nakao added

- According to a survey conducted by Feedback Business Consulting Services (a firm specialized in providing market insights) across 67 Indian companies, majority believed that the GST implementation would be constructive for the Indian economy.
- Around 72 per cent respondents felt foreign investments will rise across sectors and a significant portion of this will come in the form of FDI especially in heavy engineering and automotive sectors.

FINDINGS AND SUGGESTIONS

How GST has opened the gates for foreign investors in India?

1. SCOPE OF EARNING HIGH RETURNS

Rate of return will be high due to low intermediate cost, which will attract confidence of foreign investors to invest in India.

2. RELAXATION IN FDI NORMS

Government has relaxed FDI norms in various sectors like Civil aviation, Defence, Single Brand retailing, Pharma etc.

For example:

- a.** In defense sector, previously investment up to 49% were to be permitted by Government which are now under automatic route i.e. without any prior approval of government or RBI
- b.** 100% FDI in Defense Sector, Trading through E-Commerce, Railways etc.

3. REDUCTION IN LOGISTICS COST

Reduction in logistics cost will increase the profit for investors which will increase their willingness to invest in India.

Positive Impacts of increase in FDI after implementation of GST in India

1. INCREASE IN MARKET COMPETITION

With the introduction of foreign direct investment in the country, market competition increases to a considerable level and local companies plus MNCs starts working to deliver their best.

2. CHANGE IN MONOPOLISTIC NATURE OF COMPANIES

FDI shakes the monopolistic nature of local companies. This is beneficial for the customers and for the sellers as well.

3. MORE ACTIVE VENDORS

With the increasing market competition, vendors will become more active and provide their best services without any fraud.

4. SYNERGIC EFFECT

Developing country gets synergic benefit of working with a developed nation's company.

5. NO STRUGGLE WITH PRODUCTION COST

For local business owners, FDI takes all of the hassles and they do not have to struggle with the production cost.

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