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GLOBALIZATION AND THE CONSUMER: AN OVERVIEW

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ABSTRACT

Foreign direct investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution, and other activities of a firm in another country (the host country). FDI is a measure of foreign ownership of domestic productive assets such as Factories, Land and Organizations. Foreign Direct Investments have become the major economic driver of globalization, accounting for over head of all cross-border investments. This paper firstly examines the current economic scenario of India in terms of its FDI inflows, GDP growth rate and its export performance so far.

***KEYWORDS**: FDI, Exports, GDP, Organizational Techniques, Non-rate of Return.*

Introduction

Foreign direct investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution, and other activities of a firm in another country (the host country). Foreign direct investment is an investment which involves a long-term relationship and reflects a lasting interest and control of a resident entity in one economy (foreign direct investor of foreign enterprise) in an enterprise resident in an economy other than that of the foreign direct investor In general, three criteria characterize FDI.i) The multinational enterprises (MNEs) show a long-term controlling interest over their subsidiaries' production and distribution process. ii) There are movements of productive factors other than capital-such as transfers of (skilled) labor to the host country, movements of knowledge and management techniques, etc. iii) There is evidence of the non-rate of return motive to invest-which may include conducting FDI in order to expand profits and sales, to seek cheaper raw materials, labor, and market, etc. Past literature on FDI suggests that FDI brings both positive and negative externalities to the host countries. Foreign Direct Investment (FDI) is a potential instrument of economic development, especially for the less developed countries. It enables capital-poor countries, like India, to build up physical capital, create employment opportunities, develop productive capacity, enhance skills of local labour through transfer of technology and managerial knowledge, and help integrate the domestic economy with the global economy. In integrating the local economy with the global economy, it affects the Balance of Payment (BoP) of country. Therefore, Foreign Investments provide a great impetus for growth to Indian economy. The continuous upsurge in foreign direct investments (FDI), allowed across the industries and sectors, has proven that foreign investors have faith in the resilience of Indian markets. A wise policy regime and positive business environment have also played catalytic role to ensure the continuous inflow of foreign capital in the Indian markets. Various surveys and industry experts have revealed that India is amongst the top destinations for investments across the globe.

Objectives of the Study

- To study the impact of FDI on the growth of an economy.
- To substantiate the need of FDI for promotion of exports and analyze the relationship between exports and FDI.

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Data and Methodology

Since the sample evidence has been taken from the context of Indian Economy, therefore, this study uses secondary data to prove the validity of the topic. The data under study has been mostly collected from RBI Statistics Database on Indian Economy from the period of 2000-2015. The key activities ranged from preparation of this paper, data retrieval, verification of the secondary information and input from entrepreneurs, top management personnel and industry experts. For data collection, the report takes into consideration only on secondary data sources. The collection of secondary data includes sources like such as government reports, journals, newspapers and others. For the selection of manufacturing representatives, the field survey has been undertaken ensuring the representation of all categories of manufacturing units. In total, we have approached around 14 top or middle representatives of the Multinational corporations (MNCs, or multinational enterprises: MNEs) investing to the states of North East India. The survey takes into consideration the business environment in the states and analyses the states, which provide conducive environment for pursuing the Make in India initiative of the Hon'ble Prime Minister and creating more FDI in india. The first section of the paper deals with the study of the current economic scenario of India in terms of total FDI inflows, FDI inflows on a sectoral basis, growth of GDP and its export performance over the years. In order to fulfill the objectives of the study.

Limitation of the Study

This study will highlight only with the impact of FDI on the growth of an economy and the need of FDI for promotion of exports and analyze the relationship between exports and FDI. This study has been made basically on data available in secondary data.

Current Economic Scenario of Indian Economy

Magnitude of FDI Inflows in India from the period 2000-2015: The historical background of FDI in India dates back from the time when East India Company was established in India with the objective of setting up units in India. This is how railways came into being in India. If we examine the current state of FDI inflows in India, it can be seen that there has been an exponential increase in the flow of FDI in India with more liberalized reforms coming into being. But on the other side of it, it is also seen that with years to come, there has been some volatility in its flow. But if we see, FDI again picked up pace because of automatic approval route via RBI. According to UNCTAD (2014) Investment Report, India has emerged as the second most attractive destination for FDI after China. Indian policymakers continue to make concerted efforts to make India an attractive destination for FDI and reap the benefits out of it. While it is clear that FDI inflows into India have been on the rise, let's now analyze the sources as to where the flow of FDI is most. It is clear from the figure below that India has attracted significant overseas Investment in service sector over the years. The other sectors mentioned below too have been able to bring considerable investment over the years:

- GDP growth rate of India from 2000-2015: The GDP of India has been constantly on a rise. India has witnessed a robust growth rate since 2000 with services sector to be one of the major contributors of GDP. It can thus be summed up that FDI has played a major role in the increase in growth rate of the various sectors of India.
- Growth of exports in India from 2000-2015: Exports in India too have seen a steady increase with increase in GDP. One of the reasons for this sharp increase in exports is because India has been able to diversify its exports base from agricultural based products to manufacturing products.

Table 1: World Exports, Imports and FDI Inflows Years

Year →	1990-1994	1994-1999	2000-2015
Exports	37,20,338	53,94,946	76,56,527
Imports	38,32,498	54,94,774	79,40,450
FDI Inflows	2,01,002	6,06,884	8,40,742

Source: RBI

FDI and international trade are not only increasingly complementary and mutually supportive, but also increasingly inseparable as two sides of the process of economic globalization (Ruggiero 1996). Furthermore, inward FDI may stimulate exports from domestic sectors through industrial linkage or spill-over effects, Harrison, 1993). This effect creates a strong demand stimulus for domestic enterprises and promotes exports. FDI is expected to affect export from the export supply side of the host country. FDI may enhance export-oriented productivity that further improves export performance. Others may argue that export leads to increase in productivity that further attracts foreign investors to undertake FDIs. Export contributes to growth by facilitating labour mobilization and capital accumulation. In theory, there is a two-way causal relationship between trade and productivity, although advocates of export-led growth generally contend that exports enhance productivity growth. These economists argue that firms tend to learn advanced technologies through exports & must adopt them to compete in the foreign marketplace. Firms also learn by doing, and emulate foreign rivals through trial and error inherent in the production and sale of export goods. Furthermore, the expansion in production resulting from exports reduces unit production prices, thus increasing productivity. In addition to these effects, exports also provide a country with foreign exchange, which is often scarce in the early stages of economic development, enabling a country to import capital and intermediate goods. Thus, for a variety of reasons, exports increase productivity growth. The reverse causation from productivity growth to exports is also intuitively straightforward. Productivity growth improves a country's international competitiveness in price and quality, and thereby boosts its exports. The table II shows that the Exports, Imports and FDI inflows during the year of 2015. The maximum of 4111 USD Million Foreign Direct Investment inflows receives during the month September. Further the Growth Rate of FDI shows positive growth was observed only during the months April, June, July, August, September and November. The maximum of Rs.1451.23 Billion expects during the month of March, 2012. The Growth Rate shows positive growth was observed only during the months of March, May, June, September and December. The total of Foreign Direct Investment and Exports shows that 17554, 26077.04 and 15519.78 respectively. The Mean of Foreign Direct Investment and Exports shows that 1462.83, 2173.09 and 1293.31 respectively.

Table 2: Impact of FDI on Exports and Growth

Calculation of FDI, Imports and Exports Growth Rates Months Factors	FDI (USD Million)	% of Inc / Dec	Exports (INR Billion)	% of Inc/Dec
January	871		1302.94	
February	484	-44.43	1238.74	-4.93
March	219	-54.75	1451.23	17.15
April	1542	604.11	1231.37	-15.15
May	1133	-26.52	1349.84	9.62
June	1220	7.68	1396.45	3.45
July	1570	28.69	1284.17	-8.04
August	3010	91.72	1215.40	-5.36
September	4111	36.58	1302.14	7.14
October	685	-83.34	1215.63	-6.64
November	1424	107.88	1192.73	-1.88
December	1285	-9.76	1339.14	12.28
Total	**17554**		**15519.78**	
Mean	**1462.83**		**1293.31**	

(Sources: www.Tradingeconomics.com)

Effects of Foreign Direct Investment on Export Performance

The effects of FDI on both the source and the host countries are wide-ranged. FDI impacts the economy, the industrial and trade structures, and export performances of the countries involved. A full discussion of all the effects of FDI is beyond the scope of this research paper. I will, however, focus on expositing the effects of FDI on export performance. This section discusses how FDI impacts the host country, confining its attention to economic rather than socio-political impacts of FDI. In the economic sphere, FDI can affect the pattern of production, consumption and distribution in the host economy. In fact, it is difficult to make an undisputable classification of what qualifies as an economic effect of FDI and what does not. For example, the setting up of plants by foreign firms in the host country may cause pollution in that country. Pollution created by the foreign firm, in a way, can be considered an economic effect as it represents an adverse welfare effect to the people in the host country. The same argument also applies to the influence of the foreigners' way of life and the products they introduce in changing the consumption habits of the people in the host country. The discussion in this section, however, will concentrate on certain aspects of FDI that are generally considered to be economic effects in economic literature. The discussion of economic effects of FDI to the host country in this section pertains to the following topics:

Effects on Income and Employment

FDI helps generate employment and income in the host economy. More investments bring about more production of goods and services, which would lead to a higher demand for labor.

Effects on the Industrial Structure

The effects which FDI has on the host economy's industrial structure include the introduction of new goods and services, new industrial clusters, structural changes in production and exports, and effects on an industry's competitive edge. In the case of an industry's competitive edge, the effects of MNCs vary it may create positive or negative effects on the host country. Even though FDI could help generate income, employment, and better resource utilization, it could also force local firms to go out of business. For instance, if prior to the MNC's entrance, the existing firm in the industry is a monopoly, then the MNC will create competition upon entering the host country. If the MNC possesses superior technology and managerial skills, the entrance of the foreign firm may force the local firm out of business. Under such a circumstance, in the long run, the MNC will make the industry it is in less competitive. Therefore, the effects of FDI on the host economy's industrial structure could be good or bad, depending on the situation. vii) Consumption pattern effects With the MNCs' investments, more goods and services are introduced to the host economy. Although this may provide consumers with more choices—better quality at cheaper prices, it can, at the same time, bring in inappropriate spending habits. For instance, the entrance of fast food chains into the host country or the introduction of luxury goods to developing host countries may generate unsuitable dietary habits or overspending amongst the people.

Conclusion

The present study, as against a number of previous studies, has provided adequate and statistically significant evidence of positive linkage between FDI and exports. The FDI could not be assumed as the only explanatory variable for predicting variations in exports. International trade that is measured either by exports is found to be complementary to FDI inflows. FDI inflows are observed to have feedback effects with exports of the trading partners and of the other trading partners. Similar linkages between FDI inflows to, and imports by, the trading partners and the other trading partners are also revealed. FDI induced by trade expansion will also improve social welfare. It is important for both the public and private sectors to realize the complementarily between trade and investment, and respond accordingly. FDI can complement local developmental efforts by boosting export competitiveness, generating employment and strengthening the skill base, enhancing technological capabilities (transfer, diffusion and generation of technology), and increasing financial resources for development. It can also help plug a country in the international trading system, as well as promote a more competitive business environment. In view of this, India should continue to take steps to ensure an enabling business environment to improve India's attractiveness as an investment destination. But there have been a few elements of concern for India. According to the latest reports published by Economist Intelligence Unit (EIU, 2007-11), FDI inflows in India are set to increase substantially but would remain well below potential. The report says that 'India's potential to attract increased FDI inflows is vast, although poor infrastructure, excessive bureaucracy, labour market inefficiencies, and interdepartmental wrangling will slow the pace of opening in many sectors'. The results of the export model that both the variable included under study are statistically significant. The elasticity of coefficient between exports and FDI is positive which indicates that 1% increase in FDI can increase 4.7% of exports. Some of the study findings are as follows:

- In the GDP model the variables under study proved to be statistically significant indicating that FDI and exports play a vital role in accelerating the GDP of Indian Economy.
- Further, the study clearly reveals that FDI not only acts as a vehicle for accelerating the pace exports but it is also an important variable that alters the level of GDP of the host country.

Therefore, it is highly recommended to the policy makers of India that drastic steps must be taken to improve infrastructural facilities and increase labour efficiencies which can be seen as a restructuring tool to increase FDI inflows in India. It is also recommended that focus should not be on the absolute amount of gross FDI inflows, but also the on the type of FDI inflow as it is seen that FDI inflow in India is mostly concentrated through M&A. There is hardly any Greenfield Investments being taken place so far. Finally, India should consciously work towards attracting greater FDI into R&D as a means of strengthening the country's technological capacities. Although policy makers are looking at FDI as the primary source of funds, but it must be taken into consideration that FDI is not the only solution of rapid growth and development. India needs to put in place a comprehensive developmental strategy which includes being open to trade and FDI.

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