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FOREIGN DIRECT INVESTMENT: THE KEY FACTOR FOR ECONOMIC SUCCESS OF INDIA

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ABSTRACT

India is one of the developing countries which has introduced a liberalization policy and a part of it relaxed the FDI regulatory framework on selective basis with reference primarily to the economic sector since 1991. The FDI plays a very important role in Indian economy and it's a non-debt creating long- term private capital. It also provides a stimulus to competition, innovation, savings and capital formation and enhances job creation, industrial growth and economic development. The economists believe that the impact of the FDI is positive, since it brings to the developing countries a package of capital, exchange, technology, managerial expertise, skills and other inputs which are critical for the event on Indian economy. The FDI will improve the international equality in allocating capital. In recent decades most the countries (developed yet as developing nations) initiated to draw in more FDI. It's because, a number of the Asian countries like China, Thailand, Singapore and Korea increased their status among the world economy by using more foreign investment. Through the FDI, the country can bring new production technology and other inputs from the host economy thus generating benefits to both the host and also the source country. The liberalization policy is probably going to continue in the coming years and also the approach also changes its face towards the FDI. In this situation it's very urgent to check the main focus and importance of the Foreign Direct Investment from the direction of commercial development and growth, which can be useful to the state to guage and implement suitable policy and approaches for the advantages of the economy in the forthcoming period. Further the study will offer useful suggestions to draw in more FDI at the proper time and to the proper sector.

Keywords: *Foreign, Significant, Investment, Commercial, Development, Social, Globalization, Economy.*

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Introduction

Capital formation through Foreign Investment plays a very important role in the development of industry. In the absence of domestic saving and capital formation, the capital of external or outside countries plays a significant role in providing the much needed resources for adequate capital formation in the country. In the modern process of commercial development or production process requires not only capital but also essential staple, technical know-how, enhanced technology and therefore the like. Hence, technical know-how and technology also determine the productivity of the country. India has been getting down liberalizing its economy since 1991 and it's relaxed the FDI regulating framework on a selective basis to industrial sector. Such a positive and open door policy followed by India towards foreign investment is in contrast to its an early restrictive approach. On the opposite hand, some economic and social thinkers criticize and are against foreign investor as the bad experience during nation colonialism. Foreign Investment is a substitute for import and to the outward export, many countries have well known it as a tool for economic upliftment and an important input for sustained economic development. During this globalization process, the FDI has an unusual, very great importance in the Indian economy. India's liberalization policy has evolved significantly by changing the attitude of the country from the protective tendencies adopted in the past to open door economy. Seeable of globalization process going down with rapid development in various parts of the world, the question of attracting FDI for economic development in the emerging economies has come to in an exceedingly sharp focus.

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Why Foreign Direct Investment is a Need

For an extended period of time, the FDI was utilized by colonial power to use the Indian resources. The arena that received such investment was mostly employed in export sectors, and this led to an enclave variety of investment. However, among the various styles of international capital movement, Foreign Direct Investment has come to occupy a really important place in recent years. Hence most countries – developed likewise as developing, compete among themselves in attracting the FDI inflows with increasingly liberal policy regimes and incentive packages. But in India, there's a niche between the degree of the FDI approval and also the actual flows leading to the much added pressure on Indian exchange reserve for financing its development needs generally and its industrial need specifically.

Therefore, it's necessary to investigate the factors that have impeded the inflow of the foreign investment. An analysis of the determinants of FDI inflow into India would help to extra service this gap between the particular and also the approvals. Foreign Direct Investment by facilitating imports of capital and technology, managerial skills and finance can play a number one role in the development of the commercial sector in developing countries. Therefore, it's necessary to look at the FDI and its impact in selected industrial sector. The recent growth of the FDI flows has been fuelled by cross border mergers and acquisition (M&A) like in North America and Europe as part of ongoing wave of business restructuring and consolidation. Hence, most of the developed in addition as developing countries compete among themselves in attracting the FDI inflows by various ways like venture, merger, acquisition and also the like. Therefore, it's necessary to investigate and compare the role of the FDI in India and in the other Asian countries. Though, India attracts more FDI, still there's a controversy of unemployment, industrial production, exchange reserve, and therefore the like. India‘s contributions to world export remain small compared to other developing countries in the world. In step with UNCTAD survey, India is in the second position in the most engaging location for FDI. Even then, the inflow of FDI into India again very less and hence there's an urgent have to analyze the correlation between the FDI and export, and to check the expansion in export after introducing FDI.

Position of Foreign Direct Investment in India

The last twenty years of the 20th century witnessed a marked change in the attitude of world market and there was a dramatic worldwide increase in Foreign Direct Investment (FDI). Indian economy, which initiated the progressive liberalization in July 1991, witnessed consistent expansion in the role and functions of the Department of business Policy and Promotion. From formulation of regulation and administration of the commercial sector, the role of this Department has moved to facilitation of foreign technology and foreign investment flows and promotion of commercial development in the liberalized environment. As against a highly suspicious attitude of developing countries towards inward FDI in the past, most countries including a number of the developed countries now regard FDI as beneficial for his or her economic development effort and compete with one another by offering incentives and going in a trade agreement with other nations to draw in them. The countries changed their political and national economy in such the simplest way to draw in more and more FDI. Many countries have abandoned socialism in its various forms and embraced the economy. So as to facilitate the flow of capital among the European Union countries, they need introduced changes in their currency as Euro by consolidating its financial systems. Many developing and developed countries signed many bilateral trade agreements in their respective region. Asian countries including China, South Korea, Singapore, Thailand, and Malaysia are largely as a result of a high level of Foreign Investment and export promotion. TNCs identified Asian countries because the most engaging location for creating investment. Foreign private investors detected that, India is one amongst the foremost transparent and liberal FDI regimes among the developing countries with strong economic fundamentals. But, still India suffers from weaknesses and impediments, in terms of policy and regulatory framework which are the most important constraints for attracting more FDI.

Type of Foreign Investment

Foreign capital can be classified as:

- **External Assistance or Official Sources:** in these both concessional and non-concessional flows from official sources like Official Development funds through bilateral agreement from IMF, World Bank, ADB and also the like which has Grants, Concessional Loan and Non-concessional loan flows; sometimes it's going to be provided by developed countries to developing country with the objectives of assisting economic development.

- **Private Capital Flows or Non Official Sources:** these flows of investment from Multinational Corporations (FDI), Foreign Institutional Investors (FII), the Non-Resident investment, external bank loans, and other credits like buyer credit, supplier's credit, floating bonds and stuck bonds.

Benefits of FDI

The FDI is widely considered as a crucial element for achieving sustainable development in the host countries. It provides stronger stimulus to income growth in the host countries than other styles of capital inflows. After the recent financial crises in Asia and geographic region, developing countries are strongly advised to rely totally on the FDI so as to supplement national savings by capital inflows and promote economic development. Aside from that it provides the subsequent benefit for the host country.

- **Increase the Extent of Investment:** The foreign investment can stimulate domestic saving and investment through forward and backward linkages. Output of an overseas firm is an input for domestic industries the other way around. In this, foreign firms create demand for industrial producing goods purchased by them. In the absence / less development of local capital market, they cannot supply the desired volume of capital for big investment proposals. The foreign (investment) capital can stock up the gap between desired investment and locally mobilized savings, besides it provides hard cash or foreign (resources) currency to buy capital goods, which cannot be available in the domestic market.
- **Economic Scale and Scope:** Economic scale and scope is developed in production, marketing, finance, research and development, transportation and buying. In each of those areas, there are significant competitive advantages to being large. Economic productivity can come from the utilization of huge scale automated plant and equipment or from a capability to rationalize production through worldwide specialization. As an example, a number of the auto manufacturers, rationalizing manufacturing by producing engines in one country, transmission in another country and bodies in another. In this way the country is able to do the productivity of their economy. Marketing economics may be achieved by large enough to use the foremost efficient marketing technique (advertising media) brought out by the foreign MNCs to make worldwide brand identification. Financial economics will be achieved from access to the complete range of foreign financial instruments and sources of funds, and buying economic comes from quantity discounts and market power.
- **Advanced Technology:** Advanced Technology includes both scientific and engineering skills. It's not limited to the MNCs. Production units in less developed countries use outdated equipment and technologies which will reduce the productivity and result in the assembly of products with lower standards and increased cost. So, the domestic producers cannot compete abroad in the export market and it contributes to the difficulties to earn hard currencies. The FDI can solve these problems because Foreign Investment can supply a package of required resources like management experience, entrepreneurial abilities, organizational and technological skills and convey with it technological knowledge while transferring machinery and equipment to developing countries. Empirical studies have supported the importance of technology as a characteristic of MNCs. Similarly, the domestic firms are forced to boost their technology and stands of product quality.
- **Competitiveness of the Export Market:** The FDI makes a positive impact on the host country to boost its export performance, by raising the amount of efficiency and therefore the standards of product quality and with better access to foreign markets. The FDI contributes to exports directly by achieving and maintaining a worldwide cost and availability of cost of capital. Enhanced export possibility contributes to the expansion of the host countries by relaxing demand side constraints on growth, especially the country which have small domestic market and must increase export vigorously to take care of their economic process.
- **Job Creation:** Countries with economies in transition often have high rates of underemployment or outright unemployment. Attempts to combat unemployment through such measures because the creation of public-sector jobs often influence be unsustainable. Direct investment by the MNCs creates jobs. Moreover, through the educational process described above, these jobs will provide important benefits for the local economy.
- **Balance of Payments Effect (BoP):** The effect of the FDI on a country's balance-of-payments accounts is a vital policy issue for many host governments. A country's balance-of-payments account may be a record of a country's payments to and receipts from other countries. This account may be a record of a country's export and import of products and services. Governments typically opt to see an accounting surplus than a deficit. There are two ways in

which FDI can help a country to attain this goal. First, if the FDI could be a substitute for imports of products and services, the effect are often to enhance this account of the host country's balance of payments. A second potential benefit arises when the MNC uses a remote subsidiary to export goods and services to other countries.

Potential Pitfalls of the FDI

The FDI isn't an unmixed blessing to the world. The respective government in developing countries must be very careful while deciding the magnitude, pattern and conditions of the foreign investment. India had a really bad experience. British, Dutch and other European countries MNCs, came to India for business purpose and ruled India for quite several decades. During that period foreign investors came and exploited Indian resources and killed many Indian traditional business and firms. Due to this most of the political parties in India are against foreign Investment. Though it benefits the country by offering advanced technology, capital, technical know-how, management expertise, it's the subsequent possible adverse implications in the host country.

- **Domestic Industries Destroyed:** because of foreign investors and their expertise in manufacturing and marketing, the domestic firms couldn't compete with them. When foreign investors are competitive in nature competing with domestic firms, profit in domestic industries fall, resulting in fall in domestic savings and in the long term domestic firm won't have any longer opportunity to survive in the country. The foreign investors create a monopolistic market in the host country.
- **Less Contribution to Public Revenue:** so as to draw in more FDI, host countries especially developing countries offer more attractive benefits to foreign investors including tax benefits. Therefore, the contribution to public revenue by foreign firms through corporate taxes is relatively less. This can be because of liberal tax, concession, investment allowances, distinguished public subsidies, concessional rate of infrastructure facilities and tariff protection provided by the host country.
- **Unbalanced Development:** The foreign direct investments are location specific, resource specific and industry specific. Foreign investors value more highly to have their establishments in urban areas instead of in rural areas. As they're located in urban areas, they create imbalance between rural and concrete opportunities, accelerating flow of the agricultural population to the urban areas. For example, foreign investment in computer software and hardware prefer leading metro cities like Bangalore, Chennai and also the like. These movements cause an imbalance in the distribution of employment, wealth creation and overall imbalance development of the country. They divert resources far away from the first sectors to manufacturing of sophisticated products for the consumption of local elite.
- **Income Inequalities:** Foreign firms reinforce dualistic socio-economic structure and increase income inequalities. The MNCs prefer expert knowledge in a very particular field. This creates more gap between the labour groups by Difference in incentives resulting in income inequalities. As an example people working in the MNC software companies are becoming more payments than people in other firms.
- **Inappropriate Consumption:** Foreign firms stimulate inappropriate consumption pattern through excessive advertising and monopolistic/oligopolistic market power. The products made by foreign investors for domestic market aren't necessarily low in price and high in quality. Their technologies are generally capital-intensive which doesn't suit the wants of the labour- surplus economy.
- **Less Social Benefits:** Foreign firms are ready to extract sizeable economy and political concession from competing government of developing countries. Consequently, private profits of those companies may exceed social benefits.
- **Profit Motive in Nature:** Continuous outflow of profits from the host country is just too large in many cases. This ends up in exerting pressure on the host country's interchange resources. The Foreign Investors are very particular about profit repatriation facilities in the host country.
- **Influence in Political Decisions:** Foreign firms may influence political decision in developing countries. Considering of their large size and power, national sovereignty and control over economic policies is also jeopardized. In extreme cases, foreign firms may bribe public officials at the best level to secure undue favours. Similarly, they will contribute to friendly political parties and subvert the political process of the host county. For instance, the historical experiences of British east India Company. Therefore the important lessons to host

countries need to minimize the possible negative impacts/effects on their national integrity, domestic firms and their survivals, political dominance and influence and maximize the positive effects of the FDI through appropriate strong policies, procedures and regulations.

Conclusion

As far because the impact of FDI inflows on wages and labour condition is anxious labour-intensive production technique is mostly utilized in developing countries and foreign direct investments increases employment. In the present study labour conditions measured through per capita wages has been found to be a significant determinant and includes a negative relation with FDI inflows. It is concluded that the FDI is coming into India in labour intensive sectors because it is sensitive towards the rise in wage cost. It also can be conclude that FDI is resources seeking because it seeks cheap labour. Empirical studies have also been supporting the actual fact that cheap labour is the major requirement of the foreign investment in labour-intensive industries and for export-oriented subsidiaries. The study reveals that the FDI coming into India is of horizontal type. It means foreign investors are fixing the similar quite activity in the host country (India), with a view to reap the good thing about market demand and expand its economic activity. Thus, government must invest in social overhead capital and it must specialize in developing basic infrastructure to test the foreign investors to be diverted to other nations. Foreign investors always seek the business friendly environment. They give the impression of being forward for certainty, predictability, consistency and timeliness in the tax. They like lower tax rates together with the higher tax administration instead of tax incentive provided by the govt. to take a position in some backward areas. Therefore, the government has to concentrate on having an honest and reliable tax structure.

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