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Foreign Direct Investment (FDI): Is it a Blessing in disguise for the developing countries like India?

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ABSTRACT: This paper highlights the pattern of FDI and how it affectsthe Indian economy.it will also some throw light on this concept Foreign Direct Investment. The objective of this Research paper is to understand the conceptual background, its necessity and its impact on Indian economy. The design of the study is descriptive in nature. Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. While FDIs may increase the aggregate demand of the host economy in the short run, via productivity improvements and technology transfers, critics have also raised concerns over their supposed benefits. This theory follows the rationale that the long- run balance of payments position of the host economy is jeopardized with the investor outlay. Once the initial investment starts to turn profitable, it is inevitable that capital will return to the country it originated from.

Keywords: FDI, economy, capital, country, investment.

INTRODUCTION

Foreign capital refers to the investment of capital by a foreign government, institution, private individual and international organization in the productive activities of a country.

• Foreign Direct Investment is a direct investment into production in a country by a company located in another country, either by buying a company in the target country or by expanding operation of an existing business in that country.

Thus, putting the money of your country in a company which in functioning in some other country is Foreign Direct Investment, if we invest this way then we are a foreign direct investor. Foreign Direct Investment plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing for a host country, which receives the investment. It can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development.

As a part of the national accounts of the country, the national income equation is $Y = C + I + G + x - m$. I is investment plus foreign investment. Foreign Direct Investment refers to the net inflows of investment to acquire a lasting management interest in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, other long term capital and short term capital as shown the balance of payment. It usually involves participation in management, joint ventures, transfer of technology and expertise. There are two types of Foreign Direct Investment, which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. Foreign Direct Investment is the one example of international factor movements.

A foreign direct investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. Foreign directinvestments differ substantially from indirect investments such as portfolio flows, wherein overseas institutions invest in equities listed on a nation's stock exchange. Entities making direct investments typically have a significant degree of influence and control over the company into which the investment is made.FDI has played a very important role by being the backbone of the developing economies giving it an economic support and stability. But on the other hand playing its disguised role it has also brought some problem which is taken as a hurdle for these countries. So in this proposed study we are going to analyze and study both the aspects of the FDI which has been a blessing and a disguise for the developing countries.

- Role of FDI in developing countries: it gives new avenue to the capital flows,Economists tend to favor the free flow of capital across national borders because it allows capital to seek out the highest rate of return. Unrestricted capital flows may also offer several other advantages, as noted by Feldstein (2000). First, international flows of capital reduce the risk faced by owners of capital by allowing them to diversify their lending and investment. Second, the global integration of capital markets can contribute to the spread of best practices in corporate governance, accounting rules, and legal traditions. Third, the global mobility of capital limits the ability of governments to pursue bad policies. In addition to these advantages, FDI allows the transfer of technology—particularly in the form of new varieties of capital inputs—that cannot be achieved through financial investments or trade in goods and services. FDI can also promote competition in the domestic input market. Recipients of FDI often gain employee training in the course of operating the new businesses, which contributes to human capital development in the host country. Profits generated by FDI contribute to corporate tax revenues in the host country.
- FDI is way too important for the economic growth of a developing country like India: **(FDI) in India** is the major monetary source for economic development in India. Foreign companies invest in India to take benefits of cheaper wages and changing business environment of India. Economic liberalization started in India in wake of the 1991 economic crisis and since then FDI has steadily increased in India. According to the *Financial Times* , in 2015 India overtook China and the US as the top destination for the Foreign Direct Investment. In first half of the 2015, India attracted investment of $31 billion compared to $28 billion and $27 billion of China and US respectively.
- FDI how it can be a problem: A widely perceived problem with FDI in developing countries concerns its high concentration in a few large and fairly advanced developing economies(e.g., UNCTAD 1995; Collins 1998). This notion seems to imply that most developing countries do not have favorable prospects to attract FDI. However, this concern is largely unjustified, as it is based on the distribution of FDI in absolute terms.

- Foreign Direct Investment is an important part of Globalization. Generally in developing country like India, the level of national income and per head income is low, the ratio of savings is low, because of it, the rate of capital formation is low and it is realizing the scarcity of capital. Scarcity of capital has been a big barrier in the economic development of India. In this situation, it is necessary to invite foreign capital as supplementary capital in economic development. Every undeveloped or developing country requires foreign capital in the initial stages of development due to deficiency of domestic savings and inadequate capital formation.

Nearly every developed state has had the assistance of foreign finance to supplement its own merge savings during the initial stages of its development. This foreign capital mostly from the developed countries has played a significant role in the development of Indian economy.

Some advantages of FDI:

- Global Integration : Developing country, which invites FDI, can gain a greater foothold in the world economy by get- ting access to a wider global market.
- Technology : FDI can introduce world-class technology as well as technical knowhow and processes to developing countries. Foreign expertise can be an important factor in upgrading the existing technical processes in a host country. For example, the nuclear deal between India and the United States would lead to transfer of nuclear energy knowhow between the two countries and allow India to upgrade its civilian nuclear facilities.
- Stimulant to Domestic Saving
  It may be difficult to mobilize domestic savings for the financing of projects that are badly needed for economic development. In the initial stages of development, the capital market is itself underdeveloped. During this period in which the capital market is in the process of development, foreign capital is essential as a temporary measure.
- Competition: As FDI brings in advances in technology and processes, it increases the competi- tion in the domestic economy of the developing country that has attracted the FDI. Other companies will also have to improve their processes and products in order to stay cometitive in the market. Overall, FD improves the quality of products and processes in a particular sector.
- Human resources: Employees of a host country in which there is foreign direct investment get exposure to globally valued skills. The training and skills upgradation can enhance the value of the human resources of the host country

Disadvantages:

- Exploitation of Natural Resources
  In a developing country, it cannot make optimum use of natural resources due to lack of knowledge and capital. With the assistance of foreign capital investment, the maximum use and speedy economic development can be possible.

- One of the measurements of economic development in a low income economy is the increase in the nation's level of capital stock. A developing nation may increase the amount of capital stock by incentivizing and encouraging capital inflows, and this is generally done through the attraction of FDI. It has been widely discussed and upheld that amongst various forms and modes of capital inflows, FDIs are favored, because of their long term durability and commitment to a host country's economy. FDIs are less susceptible to short term changes in market conditions, which ensures a certain level of continuity and stability in the money flow. However, many developing economies have tried to restrict, and even resist, foreign investments because of nationalist sentiments and concerns over foreign economic and political influence.

- One pertinent reason for this sentiment is that many developing countries, or at least countries with a history of colonialism, fear that foreign direct investment may result in a form of modern day economic colonialism, exposing host countries and leaving them and their resources vulnerable to the exploitations of the foreign company.

The fast and steadily growing economy of India with the majority of its sectors has made India one of the most famous and popular destinations in the whole world for foreign direct investment. According to a recent survey by the UNCTAD India has conspicuously immerged out as the second most popular and preferable destination in the entire world, after china for highly profitable direct investment.

Objectives

- **To analyze the general trend of FDI and its growth**:*Recent Trends in Foreign Direct Investment in India* The decade gone by would be considered as the golden year for foreign direct investment (FDI) in India. Between year 2000-11, India attracted cumulative FDI inflow of USD 237 Billion. 70 per cent of this FDI constituted equity inflows, the rest being reinvested earnings and other capital. Over the last decade, FDI in India grew at CAGR 23 per cent. The bull nm in India FDI started in FY 2006-07 when it grew by 146 per cent over the previous year. FDI peaked in year FY 2007-08 and only marginally declined in the following years of economic crisis. For the eight months of FY 2011/12 (Apr-Nov 2011), India has already garnered USD 33 Billion of FDI matching the full year FDI of the year 2010-11. India's FDI policy progressively liberalized since the nineties and only a few sectors, primarily in services sector now have an FDI Capp on investment. India's inward investment regime is now be considered most liberal and transparent amongst emerging economies.
- **Pattern of sector –wise growth to evaluate FDI:**Indian sectors attracting highest FDI inflows are service ,electrical equipments, transportation industries, telecommunication, fuel and food processing industries. The Indian industries attracting sizable amount of FDI inflows are cement and gypsum products, metallurgical industries, chemicals, and drugs and pharmaceuticals. The Indian government's policy regime and a robustbusiness environment have ensured that foreign capital keep flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms in 2013, in sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges, among others. During the year, big global brands such as Tesco, Singapore Airlines and Etihad lined up to invest in India as the government opened more sectors to foreign investment.
- **To identify the factors determining the flow of FDI**:India is potentially active in terms of investments and provides a galore of opportunities to the foreign players into the market. Foreign companies who aspire to become a global player would grab the opportunities, India provides in terms of investments. The foreign companies enjoy the rights to set up branch offices, representative offices, and also carry out outsourcing activities in terms of software developmental programmes in India. All these have opened up innumerable options for the

foreign investors to expand their businesses at a global level. These are some of the factors which led to FDI Inflows in India.

- To suggest better strategy for attracting FDI on the basis of policy implication of empirical evidences.

CONCLUSION

In development literature Foreign Direct Investment (FDI) is traditionally considered to be instrumental for the economic growth of all countries, particularly the developing ones. It acts as a panacea for breaking out of the vicious circle of low savings/low income and facilitates the import of capital goods and advanced technical knowhow.To sum up, FDIs have created tremendous opportunities for India's development and helped to boost the performance of local firms as well as the globalization of some of them. This has undeniably raised India's stature among developing countries. India needs massive investments to sustain high quality economic growth, particularly in the energy and infrastructure sectors. Policymakers are looking at FDI as the primary source of funds. It is important to keep in mind that FDI on its own is not a panacea for rapid growth and development. What India needs is to put in place a comprehensive development strategy, which includes being open to trade and FDI. This should go a long way in fulfilling the ultimate goal of permanently eradicating poverty. Thus, FDI has some good factors and also bad factors. So, FDI may be good for the economy, if it used optimally. So the Government has to make use of FDI in various sectors by considering its advantages-disadvantages optimally.

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