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INSINUATION OF FOREIGN DIRECT INVESTMENTS – A DEVELOPMENTAL BOON

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ABSTRACT

Across the world, every economy has been scared of generation of employment which well-connected to the better investment. As there was a positive relation between employment and investment, need to set up more investment in creating more employment. Now a day, no economy has prospered and stays alive alone in generating employment as well as investment and intentionally in addition to conditionally depending on the abroad investments. As Classical school of economics persuade that specialisation and need determines the extent of trade among economies. Later, comparative advantage among trade countries is established. The Terms of Trade, Exchange rates, Balance of Payments, absolute and comparative advantages, taxes, tariffs, policies and political obligations all are vital concepts in abroad transactions. In this connection, in the 1990's the Indian government has taken initiation by accepting LPG (Liberalization, Privatization and Globalization) policy which can raise the inflow of foreign reserves into the economy. Global Foreign Direct Investment in 2010 worth $1,122 billion and in 2009 the extent was $1,114 billion which was 25 percent below the pre-crisis average between 2005 -2007. Majority extent referring 44 percent of the inflows have come from the neighbour country of Mauritius whereas USA having the share of $18,040 and the UK has the share of 8 percent which are major traders with India. Though India attracting more inflows, the heavy imports overlapping the actual developmental needs. The exports position to 30.84 percent where the imports are 42.8 percent during 2005-06. The tendency has been continued in the later years too. India's foreign direct investment was registered to be US $34.1 billion. It has been projected that during the time period of 2008-09, the FDI of the country could attract US $35 billion. Therefore, there should be a reduction in imports at the same time invite more FDIs in the core area is needful. In the way, spend more on research and development, stop students to abroad education by establishing innovative education, made policies to stabilize exchange rates are a few can give significant extent of result.

INTRODUCTION

As noble laureate Amartya Sen believed that 'if we provide continuous employment to the rural dwellers, the demand for goods and services uninterruptedly exist, leading to economic prosperity'. Across the world, every economy has been scared of generation of employment which well-connected to the investment. As there was a positive relation between employment and investment, need to set up more investment for much employment. Now a day, no economy has prospered and stays alive alone in generating employment as well as investment and intentionally in addition to conditionally depending on the abroad investments. The inflow of abroad investment into an economy is known as foreign investment. It may be in two ways the direct flow and the indirect or partial passage. But both can directly influence the economic conditions of an economy as much as possible. The entering task of foreign investment is not an easy and depends on needs of people, political obligations of the parties and conditions of domestic enterprises. Other implicit terms in international trade are also being kept in account. Where calling up horizontal FDI, refers a firm can continue its activities as same as both in the domestic and abroad destines. And referring vertical FDI, the firm continues its activities in one manner in the domestic and on the other fashion (i.e. differentiate in goods value or quality) in the host country. Generally, the horizontal FDI is not favour to international trade as the product of them is usually aimed at host country; the other generally acts as a stimulus for trade. Further, other inner concepts are the terms of trade and another is balance of payments. The Terms of Trade refers at the relationship between the price received for exports and the amount of imports we are able to buy with that money where, the Balance of Payments consign to a record of the trade between a country and the rest of the world. In this connection, we should have to pursue the exchange rate concept too.

PERCEPTION OF TRADE, EXCHANGE RATE AND THEIR ROLE IN ATTRACTING FDIS

The buying and selling goods and services from other countries is known as trade where the purchase of goods and services from abroad that causes to an outflow of currency called Imports denote with ‘M’ and the sale of goods and services to buyers from other countries leading to an inflow of currency means Exports represent by ‘X’. If exports are more than that of imports, can say there was favourable balance of payments which terms a structured record of exports and imports of a country with other countries. In this connection there should be some mutual collaboration among trading countries rather individual domestic endowments. As Classical school persuade that specialisation and need determines the extent of trade among economies. A country can produce goods with fewer resources than another beside its specialisation picks up Absolute Advantage while, a country can produce goods at a lower opportunity cost and it sacrifices less resources in production and made available mutual benefit termed as Comparative Advantage. At this juncture, even when one country is affordable to produce variant goods efficiently than other but; it facilitates to presence trade by stopping its production of some goods which can be produced by the other country with less efficiency. For instance, In Russia, oil can be produced cheaper than in Scotland. Russia only sacrifices 1 litre of whisky to produce 2 extra barrels of oil whereas Scotland would have to sacrifice 2 litres of whisky to produce 1 barrel of oil. Where the total output has risen and trade can be arranged at a mutually agreed rate that will leave both countries better off than without trade. The rate has to be somewhere between the opportunity cost. If the trade were arranged at 1 barrel of oil for 1 litre of whisky the end result would be the Comparative Advantage. So, there should be exchange and rate too. The exchange rate refers the purchasing power of the domestic currency into standard currency for example with Rs.55 can by 1$ i.e. 1 $ = Rs.55.

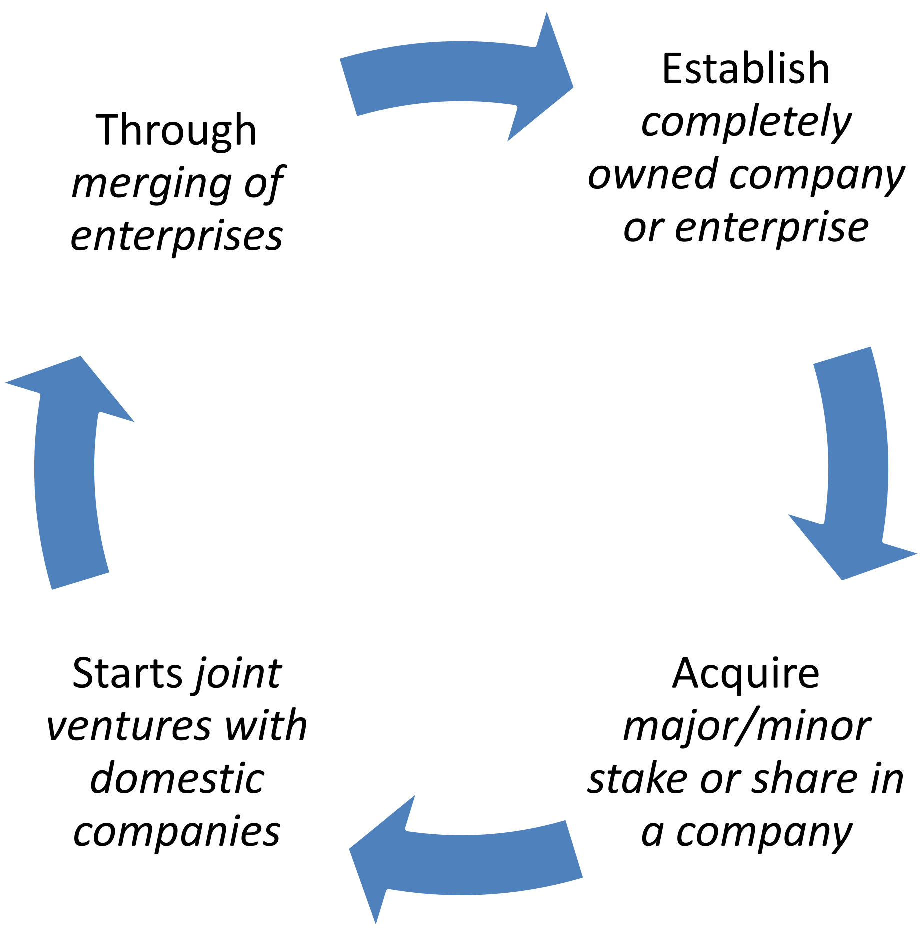
If the exchange rate in domestic currency is lower, the home country can get more goods from the destine country whereas the rate is higher will get less goods from the trading country.

GLOBAL FOREIGN DIRECT INVESTMENT

The United Nations Conference on Trade and Development (UNCTAD) announced that there was no significant growth of Global Foreign Direct Investment in 2010 worth $1,122 billion and in 2009 the extent was $1,114 billion which was 25 percent below the pre-crisis average between 2005 -2007.

The below depiction is the process of FDI entry in to an economy or the foreign direct investor may acquire voting power of an enterprise in an economy through any of the following methods:

PROGRESSION OF FDI ENTRY INTO AN ECONOMY:



Not only above are possible ways to enter into an economy but also some favorable conditions and stimulations are needed to pore investments into an economy. The stimulus is as below:

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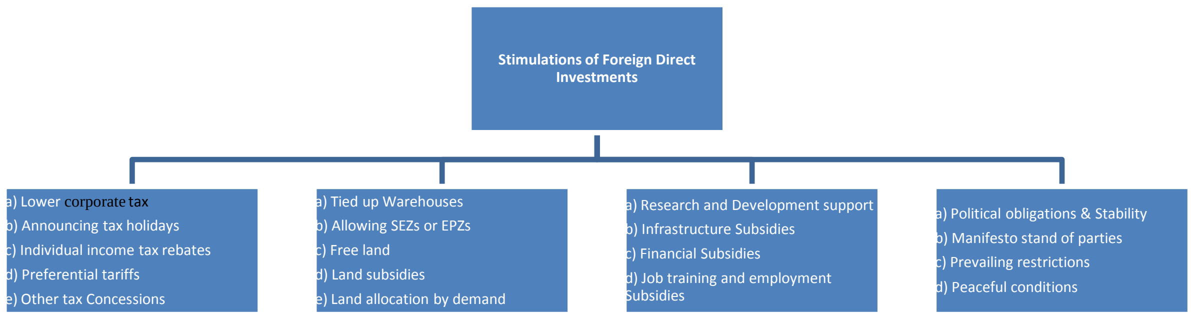
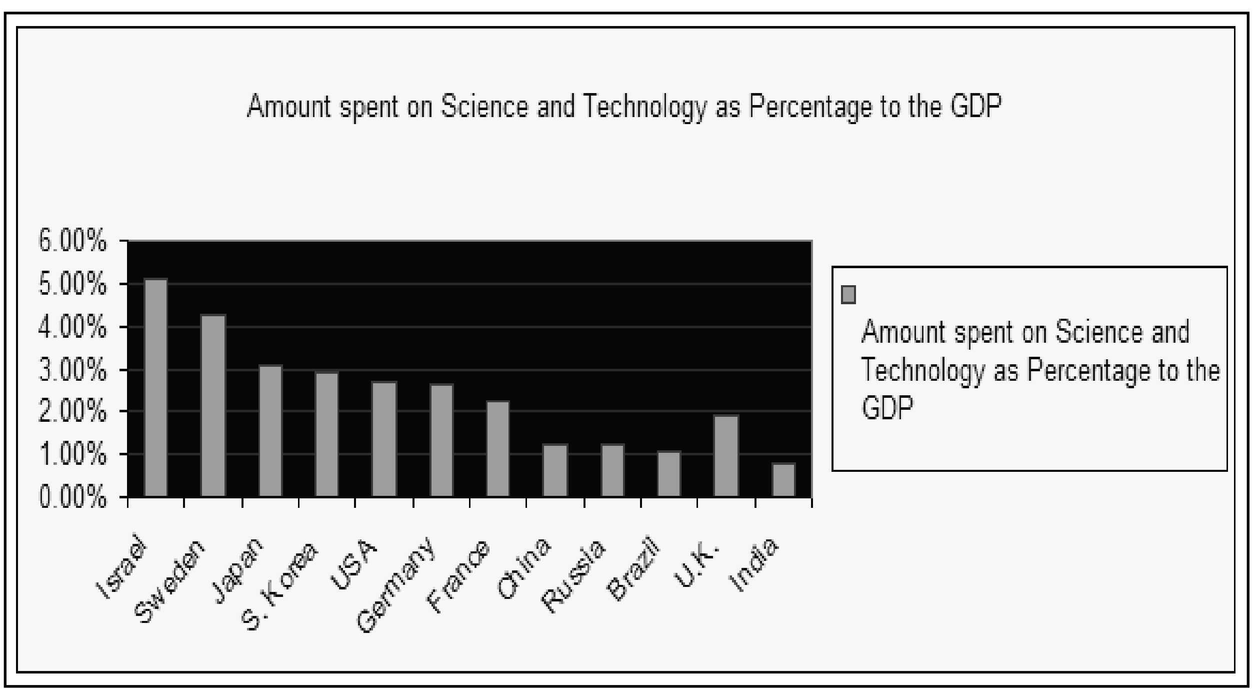
THE STIMULATING BENEFITS TO FOREIGN DIRECT INVESTMENTS



THE DRIVE OF INDIAN ECONOMY TOWARDS GLOBAL CHANGES

The prospect of Science and technology in any country determines its growth process. The below is poor spending of India on Science and Technology even after adopting bailout policies and it stresses the need of more investments on Science and Technology.



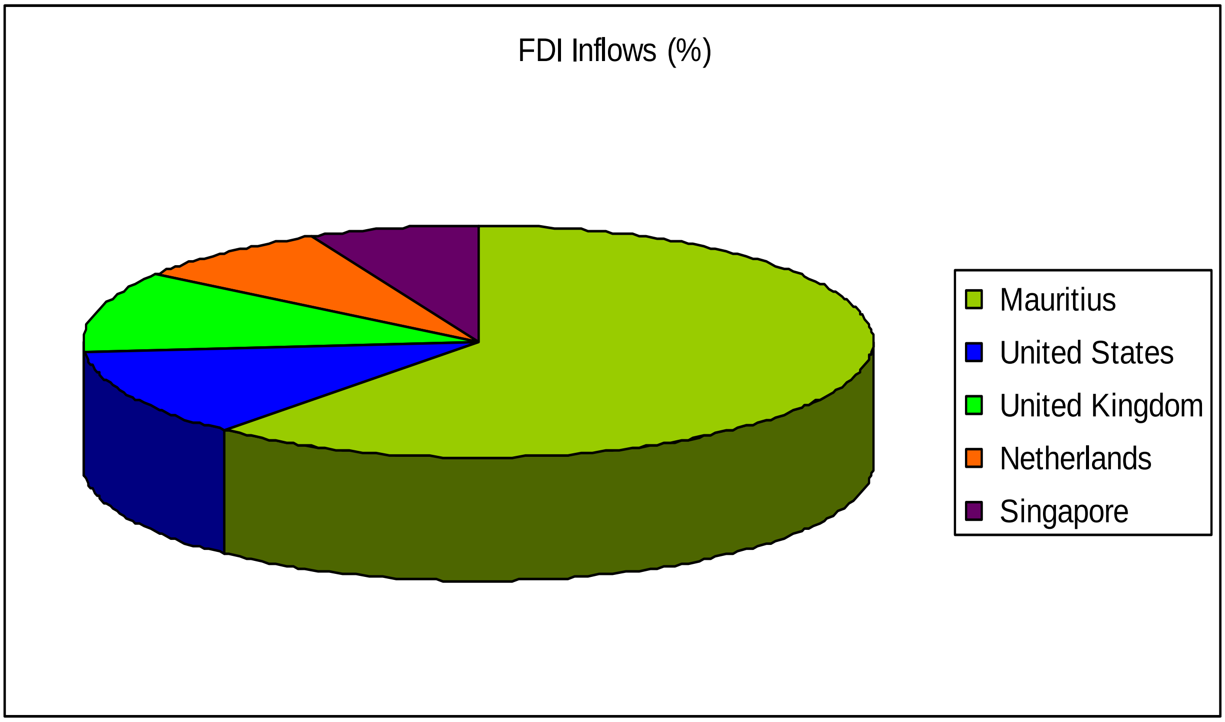
Above picture denotes that the position of the countries across the world spending amount on Science and Technology as percentage to their GDP. Indian spending is very less as a percentage to the GDP when compared with countries having less infrastructure and development than that of India. Where Israel is spending more, USA gets fifth position and UK is after Germany and France.

In a developmental process more investment is needed. For this, in the 1990's the Indian government has taken initiation by accepting LPG (Liberalization, Privatization and Globalization) policy which raises the inflow of foreign reserves into the economy. On the other hand the prime motto of LPG is allowing FDIs and facilitates the global markets to market their production. In the way it has allowed 51% (now it raised to 72% in selected sectors) stake to the foreign enterprises. It makes possible a way to import required science and technology and other needful machinery, raw materials which causes for hike in the physical growth. However, the Liberalization Policy-1991 has exposed India as a market-based economy and extracted the gains.

SHARE OF TOP FIVE INVESTING COUNTRIES IN FDI INFLOWS (2000-2007):

Rank	Country	Inflows (Million US $)	Inflows (%)
1	**Mauritius**	**85,178**	**44%**
2	**United States**	**18,040**	**9%**
3	**United Kingdom**	**15,363**	**8%**
4	**Netherlands**	**11,177**	**6%**
5	**Singapore**	**9,742**	**5%**
Source: CIA World Fact Book, 2008 (est.)			

Above explores that the major shares of five investing countries or foreign direct investment inflows into India. Majority extent referring 44 percent of the inflows have come from the neighbour country of Mauritius while USA having the share of $18,040 and the UK has the share of 8 percent. Here, one interesting thing is that the inflow of FDI s is very lower from USA and UK though they are prime foreign traders with India than that of Mauritius. The Singapore and Netherlands has also contributing to flow funds to India. The shares have been shown through the below pie diagram for better understanding.



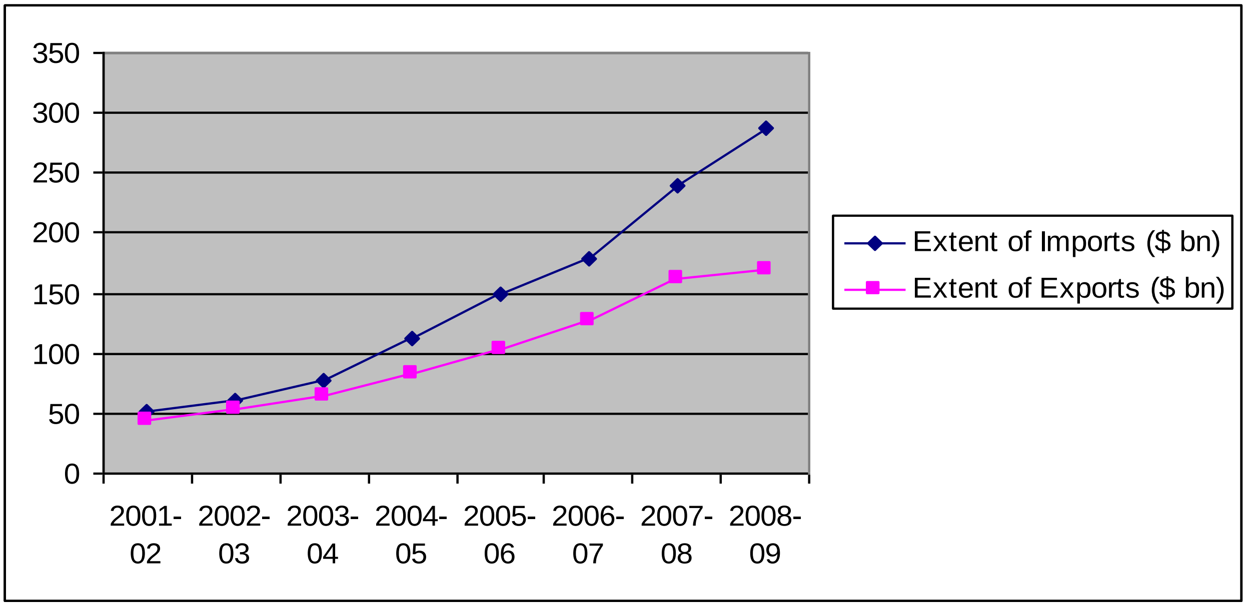
FDI GROWTH IN INDIA

Therefore India needs more foreign currency to fulfill its deficit and domestic needs resultant invitation to FDIs. The functioning of FDI in India is growing day by day. When India adopted and accepted global trends make them India as a FDI destiny. The facts are also standing high as in the year 2007-08, foreign direct investment in India has crossed the mark of US $25 billion, which was 56 per cent more than what it was in 2006-07, i.e., US $15.7 billion. In the first half of the current financial year, 2008, India's foreign direct investment was registered to be US $34.1 billion. It has been projected that during the time period of 2008-09, the FDI of the country could attract US $35 billion.

TRADING POSITION IN INDIA

The Export percent is in minus in the initial stage of liberalisation where it represents -1.66 in 2001-02 and it raised in the next year to 20.28 percent while the imports are at 18.61 percent, again exports increased to 21.11 in the year 2003-04 where the imports rose to 30.01 percent. Further exports rose to 30.84 percent while the imports are 42.8 percent during 2005-06. In the impact of global recession the exports decreased to 23.3 followed by 22.47 percent whereas imports decreased to 19.89 percent during 2006-07 from 33.51 percent by the preceding year 2005-06. In the year 2007-08 the hike in export is 6.61 percent while the imports rose to 13.55 percent. Therefore the tendency reveals that though the exports are increasing year by year, the increase in imports are more than that of imports shows the continuous deficit in India’s balance of payments. And more India also effected by global crisis during 2005-07 in a significant amount.

TRADING TRENDS OF INDIA IN BETWEEN 2001 TO 2009



Source: Quick estimates, RBI and Ministry of Commerce (March, 2009)

(TABLE-3) INDIA'S TRADE

Year	Import Growth (%)	Export Growth (%)
2001-02	0.38	-1.66
2002-03	18.61	20.28
2003-04	30.01	21.11
2004-05	42.8	30.84
2005-06	33.51	23.3
2006-07	19.89	22.47
2007-08	33.44	29.08
2008-09	20.56	3.56
Source: Quick estimates, RBI and Ministry of Commerce(March, 2009)		

INDIA AS THE FAVORABLE DESTINATION:

The result of the global survey conducted by Ernst and Young has put the India on the 4th rank of the most favorable destination after China, Central Europe and Western Europe, on the basis of the prospects of the different business locations. India has been put ahead of the United States of America and Russia. India received total 30 percent votes but both America and Russia got 21 percent votes each.

The report of the National Council of Applied Economic Research (NCAER) has stated out, "In the first nine months of 2007-08, the net capital flows rose to US $83 billion from US $30 billion the country received during the corresponding period of the previous year." Those funds which have come as the FDI or the external commercial borrowing has sufficient to raise the portfolio funds between the time period of financial year 2007 and financial year 2008, the reserves have seen the rising trend by US $150 billion. Such arrivals of the funds have found to be sufficient for financing the current account deficit during the aforementioned time period.

The Japan Bank for International Cooperation reveals that the India has emerged out as the favorable business point 'for the Japanese investors. More flow of the foreign direct investment has been seen in the skill intensive and high value added service industries, especially those which are related to the financial services and information technology. Furthermore, India has come out as the international service industry with the more attraction of FDI, providing the more unassailable low cost opportunities, the prevalence of high technology and language skills and the high supportive government policies. Companies from across the world are now busy in wager their interest into various sectors such as construction, energy, electrical equipments, telecommunication, automobiles, retail marketing, insurance etc.

- Many automobile companies from Japan, France and America have come up with their manufacturing base in the India. ex. Hero Honda
- At present the inflow of foreign direct investment in the real estate sector is estimated in between of US $5 billion and US $5.50 billion. It has been projected that the investment in the Indian real sector will touch the mark of US $20 billion in coming years or by 2010. Some of the leading international players- IJM Corp (Malaysia), Lee Kim Tah Holding (Singapore), Salim Group (Indonesia), Emaar Properties (Dubai).
- Many foreign players are also interested in making their entry into the Indian sports ground. Like Wal Mart, Marks & Spencers, Roseby etc. have the investment to around US $10.
- The surging force in the mobile service is presumed to reach at US $24 billion, as the snowballing FDI, in the telecommunication sector by 2010.

GOVERNMENT PLANNING INITIATIONS

From last decade, India's government has undergone the complete change in its outlook when it comes about the FDI. The government has taken up several measures for expanding the insertion of the FDI in India. Some of the steps taken in this direction are-

- It is hoping that the government would soon take concrete steps in removing the disinvestment clause, which is the compulsory clause applicable on the international companies on various key sectors like chemical, food processing etc.
- The government may permit 49% foreign direct investment in sectors like apparels, gems & jewelry.
- Restructure of the Foreign Investment Promotion Board.
- Formation of the Indian Investment Commission for functioning as the 1 stop haven for the investor and bureaucracy.
- Raising the FDI Limit in many sectors like media, petroleum, telecom, aviation, banking etc.

IMPLICATIONS OF FDI ON INDIAN ECONOMY

The below are significant effects on Indian economy:

- India being made of an market based economy and people be more dependent on foreign products
- Domestic industries weakened and their existence gradually exhausted especially the artisan class disappear in the country
- India could not have privacy in making its own policies and the earlier stand was changed according to the global changes
- Domestic currency loses it bargaining power with the standard US dollar or on the other hand diminishes the value of Indian rupee in the international market.
- Imports are laying weight where exports are fluctuating every time. For example fuel rates, shipping charges etc.
- Due to lack of technical efficiency of labour, mishandling of machinery leads to wastage of time, material and money
- The environmental degradation prevails due to rapid industrialization through SEZ and EPZs.

- The entire Indian economy is being influenced by the global political, economical, cultural and environmental obligations.

A FEW REMEDIAL MEASURES

- Should reduce the portion of Imports in the international market
- Should spend more on Science and Technology
- Should encourage skill based education in the country
- Should stop out flow for better education
- Should not assign cultivable land to SEZ and EPZs
- Should try to sustain artisans in the society
- Should try to get uniform policy decisions among political parties
- The policies must not be favorable to the trading countries themselves.

CONCLUSIONS

Thus, this study proclaims that, allowing FDI into economy is a remedial way in generating more employment and sharing global efforts for making healthy economy. But, in the process, should not lay any pressure on our domestic industries and pursue the implications which capture the domestic efficiency and culture as well. More, reducing Import portion in the international trade must not be forgettable. These can be possible by having broad outlook of our rulers towards our culture, needs and obligations.

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