Foreign Direct Investment: Impacts on Indian Economy  
(A socio-Economic analysis)

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ABSTRACT
Foreign direct investment (FDI) as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. The paces of FDI inflows in India initially were low due to regulatory policy framework. Multinational enterprises (MNEs) have become one of the key drivers of the world economy and their importance continues to grow around the world. However, the activities of multinational enterprises abroad have also aroused much controversy and social concerns. For example, MNEs have been accused of practicing unfair competition when taking advantage of low wages and labour standards abroad. In some cases, MNEs have also been accused of violating human and labour rights in developing countries where governments fail to enforce such rights effectively. In many OECD countries, civil society has appealed to MNEs to ensure that internationally-recognized labour norms are respected throughout their foreign operations.

The study tries to find out how FDI seen as an important economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. The main purpose of the study is to investigate the impact of FDI on economic growth in India. Foreign Direct Investment (FDI) is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance.

The FDI may also affect due to the government trade barriers and policies for the foreign investments and leads to less or more effective towards contribution in economy as well as GDP of the economy. The studies try to find out the implications which affect the economic scenario and also measure the level of predominance by the factors for economic contribution to India. This paper brief presents the main insights from OECD work on the social impact of inward FDI in host countries. It looks at how much MNEs contribute to better working conditions in host countries and what governments, in both home and host countries, can do to promote good work practices by MNEs.

Keywords--- Economic, FDI, Labour

I. INTRODUCTION

Developing country like India has mixed economic system, public sector as well as private enterprises can exist together. Multinational enterprises (MNEs) have become one of the key drivers of the world economy and their importance continues to grow around the world. The increased influence of OECD-based MNEs in developing countries is particularly striking. Today, developing countries account for almost one third of the global stock of inward foreign direct investment (FDI), compared to slightly more than one fifth in 1990.

The increased role of FDI in developing and emerging economies has raised expectations about its potential contribution to their development. FDI can bring significant benefits by creating high-quality jobs and introducing modern production and management practices. And many governments have developed policies to further promote inward FDI.

However, the activities of multinational enterprises abroad have also aroused much controversy and social concerns. For example, MNEs have been accused of practicing unfair competition when taking advantage of low wages and labour standards abroad. In some cases, MNEs have also been accused of violating human and labour rights in developing countries where governments fail to enforce such rights effectively. In many OECD countries, civil society has appealed to MNEs to ensure that internationally-recognised labour norms are respected throughout their foreign operations. This Policy Brief presents the main insights from OECD work on the social impact of inward FDI in host countries. It looks at how much MNEs contribute to better working conditions in...
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II. OBJECTIVES

- The research paper covers the following objectives:
- To study the trends and pattern of flow of FDI.
- To assess the determinants of FDI inflows.
- To evaluate the impact of FDI on the economy.
- To know the flow of investment in India
- To know the social impact of FDI

III. HOW DOES FDI AFFECT THE WIDER ECONOMY?

In addition to having direct effects on workers employed by MNEs, FDI may also have indirect effects on workers’ employment conditions in domestic firms when there are knowledge spillovers associated with FDI. The effect on workers in domestic firms, however, is considerably weaker than the direct effect on employees of foreign affiliates of MNEs. It is true that FDI typically has a strong effect on average wages in local firms, but this largely reflects the competition among foreign and domestic firms for local workers. In principle, FDI could also affect wages in local firms through its impact on the productivity in those firms. Positive productivity-driven wage spillovers are likely to be more important when there are strong links between local firms and foreign MNEs, such as through the participation of local firms in the supply chain or through worker mobility. New OECD evidence indicates that average wages are a little higher in local firms which participate in these supply chains or recruit managers with prior experience in MNEs, than in local firms with no apparent link to MNEs. Do the potential benefits of FDI for workers also help to improve the performance of the labour market as a whole? This question is more difficult to address. First, it depends on whether FDI increases labour market inequality or labour market segmentation. The previous literature suggests that inward FDI may contribute to higher earnings inequality, particularly in developing countries, by raising the relative earnings of skilled workers. However, there is little evidence to suggest that FDI leads to an expansion of the informal sector or non-compliance with labour standards. The effects of FDI on the performance of the labour market as a whole also depend on its effects on overall efficiency. The positive wage effects of inward FDI may be a prima facie indication of its impact on productivity resulting from the transfer of modern production and management practices. The bottom-line may be that the overall effects of inward FDI on the host country are positive, but that the benefits are not evenly spread over the host-country population.

IV. HOW CAN GOVERNMENTS ENSURE THAT FDI BOOSTS DEVELOPMENT?

The positive effects of inward FDI for workers in host economies suggest that FDI-friendly policies could be a useful component of an integrated policy framework for development. When designing policies to promote FDI, policy-makers should take into account that these may not only affect the volume of inward FDI, but also its composition and, as a result, its corresponding benefits. The OECD Policy Framework for Investment provides a useful starting point. For a start, removing specific regulatory obstacles to inward FDI could be important. Under certain circumstances, it may also be appropriate to provide specific incentives to potential foreign investors. However, such targeted policies should not become a substitute for policies aimed at improving the business environment more generally. By contrast, lowering core labour standards in an effort to provide a more competitive environment for potential investors is likely to be counter-productive. It does not appear to be effective in attracting FDI and is likely to discourage investment from responsible MNEs, for whom it is important to ensure that minimum labour standards are respected throughout their operations. FDI-friendly policies in host countries can be usefully complemented by multilateral initiatives that seek to enhance the social benefits of inward FDI by promoting responsible business conduct amongst MNEs. The OECD Guidelines for Multinational Enterprises provide a good example of a government-backed initiative that aims to promote responsible business conduct. The Guidelines are most widely known for their system of National Contact Points (NCPs) through which disputes between relevant stakeholders with respect to the implementation of the guidelines can be addressed. Since its revision in 2000, more than 160 cases have been raised at the NCPs. Most of these have dealt with employment, labour and industrial-relations issues. The increasing share of these cases related to labour issues in non-OECD countries suggests that the OECD Guidelines are playing a growing role in the improvement of labour conditions worldwide. There is also an important role for public initiatives that are specifically designed to raise labour practices in the supply chain. For example, by generating greater transparency in labour practices, improved public monitoring can strengthen the incentives for responsible business conduct among supplier firms. To enhance the attractiveness of their products to responsible buyers, technical assistance and credit facilities may be required to help supplier firms overcome obstacles to improved labour practices in the production process. The Better Work Program, a joint initiative launched by the International Finance Corporation (a member of the World Bank Group) and the International Labour Organisation in 2006, is a
promising initiative that attempts to raise working conditions in the workplaces of supply-chain factories through the enhanced public monitoring of labour practices and the provision of technical assistance and credit facilities to program participants. With the initiation of globalization, developing countries, particularly those in Asia, have been witnessing a immense surge of FDI inflows during the past two decades. Even though India has been a latecomer to the FDI scene compared to other East Asian countries, its considerable market potential and a liberalized policy regime has sustained its attraction as a favourable destination for foreign investors. This research paper aims to examine the impact of FDI on the Indian economy, particularly after two decades of economic reforms, and analyzes the challenges to position itself favourably in the global competition for FDI. The paper provides the major policy implications from this analysis, besides drawing attention on the complexities in interpreting FDI data in India.

V. RECENT DEVELOPMENTS

New Zealand is looking to establish an office in Mumbai to broaden its education footprint in India. It plans to set up an education promotion and market development role within the New Zealand Consulate General, Mumbai. There was an increase of more than 10 per cent in student visas issued to Indian nationals in 2013, making India among the fastest growing student markets for New Zealand. Korean South-East Power Company (KOSEP), part of South Korean state-owned power generator Korea Electric Power Corporation, has signed an initial agreement with Jindhuvisht Group, Mumbai, for technical support for its Rs 3,450-crore (US$ 549.31 million) project in Maharashtra. The 600 megawatt (mw) power plant, which will be set up in Yavatmal district, is expected to be commissioned in 2016. India and UAE have agreed to promote collaboration in renewable energy, focusing in part of South Korean state-owned power generator Korea Electric Power Corporation, has signed an initial agreement with Jindhuvisht Group, Mumbai, for technical support for its Rs 3,450-crore (US$ 549.31 million) project in Maharashtra. The 600 megawatt (mw) power plant, which will be set up in Yavatmal district, is expected to be commissioned in 2016. India and UAE have agreed to promote collaboration in renewable energy, focusing in the areas of wind power and solar energy. A Memorandum of Understanding (MoU) was signed by Dr Farooq Abdullah, Minister of New and Renewable Energy of India and Dr Sultan Ahmed Al Jaber, Minister of State of UAE in Abu Dhabi on January 18, 2014. Luxury watch brand Jaeger-LeCoultre from Switzerland has filed for a 100 per cent single brand application to enter the Indian retail market. It thus became the first luxury company to apply for FDI through this route. Geneva-based Richemont SA that owns the luxury brand filed the application with the Department of Industrial Policy and Promotion (DIPP). France’s Lactalis, the biggest dairy products group in the world, will most likely buy out Hyderabad-based Tirumala Milk Products for US $275–300 million. Lactalis has a yearly turnover of about US $21 billion. Tirumala had a turnover of Rs 1,424 crore (US$ 226.71 million) for FY 2012–13. The Hyderabad-based company, which was founded in 1998, makes dairy products such as sweets, flavoured milk, curd, icecream, etc.

VI. A BRIEF REVIEW OF THE LITERATURE

Agarwal and Khan conducted the study on “Impact of FDI on GDP: A Comparative Study of China and India”, the study found that 1% increase in FDI would result in 0.07% increase in GDP of China and 0.02% increase in GDP of India. We also found that China’s growth is more affected by FDI, than India’s growth. Kumar and Karthika found out in their study on “Sectoral Performance through Inflows of Foreign Direct Investment (FDI)”, that Foreign Direct Investment has a major role to play in the economic development of the host country. Most of the countries have been making use of foreign investment and foreign technology to accelerate the place of their economic growth. FDI ensures a huge amount of domestic capital, production level and employment opportunities in the developing countries, which a major step towards the economic growth of the country. Balasubramanyam and Sapsford stated in their article “Does India need a lot more FDI” compared the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of China. The paper also concluded that India may not require increased FDI because of the structure and composition of India’s manufacturing, service sectors and her endowments of human capital and the country is in a position to unbundle the FDI package effectively and rely on sources other than FDI for its capital requirements. Bajpai and Jeffrey stated attempted the paper on “Foreign Direct Investment in India: Issues and Problems”, to identify the issues and problems associated with India’s current FDI regimes, and also the other associated factors responsible for India’s unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location.

VII. CONCLUSION

India’s Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI
inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy. India’s Foreign Direct Investment (FDI) policy has been gradually liberalised to make the market more investor friendly. The results have been encouraging. These days, the country is consistently ranked among the top three global investment destinations by all international bodies, including the World Bank, according to a United Nations (UN) report. For Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

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