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Role of Foreign Direct Investment in Employment Generation

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ABSTRACT

Investment in a country by individuals and organizations from other countries is an important aspect of international finance. This flow of international finance may take the form of portfolio investment (acquisition of securities) or direct investment (creation of productive facilities). This paper focuses that an inflow of FDI improves economic growth and thereby enhances employment opportunities. The main objective of this paper is to find out the role of FDI in employment generation, especially in case of India. Most studies have shown that the impact of FDI on the host country has been generally favourable in developing countries. It is an important stimulus for the economic growth of India. It creates high perks jobs for skilled employees in Indian service sector. It has helped to raise the output, productivity and employment in many sectors, especially in service sector. Banking and insurance is first and telecommunication is second segment of service sector which pick the growth after coming of FDI. There has been a visible positive impact on the creation of jobs not only in those sectors attracting FDI inflows but also in the supportive domestic industries. FDI play a major role in world trade and investments because of their high management skills, technology, financial resources and other related advantages.

KEYWORDS : - Investment, Finance, Portfolio, Employment, Multinational Corporation.

INTRODUCTION

Foreign direct investment (FDI) plays a multidimensional role in the overall development of the host economies. It may generate benefits through bringing in non-debt-creating foreign capital resources, technological upgrading, skill enhancement, new employment, spill-overs and allocative efficiency effects. Capital formation is an important determinant of economic growth. While domestic investments add to the capital stock in an economy, Foreign Direct Investment (FDI) plays a complementary role in overall capital formation by filling the gap between domestic savings and investment. FDI has played an important role in the process of globalisation during the past two decades. The rapid expansion of FDI by multinational enterprises (MNEs) since the mid-eighties may be attributed to significant changes in technologies, liberalisation of trade, investment regimes, deregulation and privatisation of markets in many countries including developing countries like India. Fresh investments, as well as mergers and acquisitions, (M&A) play an important role in the cross-country movement of FDI. However, various qualitative differences have been identified between fresh FDI (greenfield FDI) and M&A. An important question that arises is whether FDI merely acts as filler between domestic savings and investment or whether it serves other purposes as well. At the macro–level, FDI is a non-debt-creating source of additional external finances. This might boost the overall output, employment and exports of an economy. At the micro-level, the effects of FDI need to be analysed for changes that might occur at the sector-level output, employment and forward and backward linkages with other sectors of the economy. While the quantity of FDI is important, equally important is the quality of FDI. The major factor that might provide growth impetus to the host economy includes employment generation, inclusion of the poor and rural population in the resulting benefits, and productivity.

REVIEW OF LITERATURE

Laura Alfaro, (2003), in this paper, the author evaluates the effect of foreign direct investment on growth in the primary, manufacturing and services sectors. It is found that that there is as ambiguous effect of FDI on service sector, a great positive effect of FDI on manufacturing sector while in case of primary sector, there is totally negative effect. FDI means not only direct capital financing even it includes knowledge of valuable technology and know-how. Therefore developing countries always ready to offer more incentives to encourage foreign direct investments in their economies. Devajit, Mahanta (2012), in this paper, it is found that FDI is an important factor for Indian economic growth. Since FDI is that component of investment which is required by India for achieving the economic reforms and development of the country. Due to change in new policy framework regarding FDI, there is a sharp rise in investment flows from 2005 onwards.

FDI SCENARIO IN INDIA: TRENDS AND POLICIES

The role of FDI in the up gradation of technology, skills and managerial capabilities is now well accepted. Additional investments always help in providing much needed employment opportunities. The FDI Confidence Index has ranked India second most attractive destination for FDI. Prior to 1991, the FDI policy framework in India was highly regulated. The government aimed at exercising control over foreign exchange transactions. All dealings in foreign exchange were regulated under the Foreign Exchange Regulation Act (FERA), 1973, the violation of which was a criminal offence. Under the deregulated regime, FERA was consolidated and amended to introduce the Foreign Exchange Management Act (FEMA), 1999. This new Act was less stringent and aimed at improving the capital account management of foreign exchange in India. The Act sought to facilitate external trade and payments and to promote orderly development and maintenance of the foreign exchange market in India. It resulted in improved access to foreign exchange. Now the government of India welcomes FDI in all sectors and in all those projects which can create employment opportunities on a large scale.

SECTOR-WISE DISTRIBUTION OF FDI INFLOWS

During October 2012, top 10 sectors attracting highest FDI inflows were as follows:

1. Services sector	(19 percent)
2. Construction development	(12 percent)
3. Telecommunications	(7 percent)
4. Computer software and hardware	(6 percent)
5. Drugs pharmaceuticals	(5 percent)
6. Chemicals (other than fertilizers)	(5 percent)
7. Power	(4 percent)
8. Automobile industry	(4 percent)
9. Metallurgical industries	(4 percent)
10. Hotel and tourism	(3 percent)

Source: (Ministry of External Affairs, Govt. of India)

COUNTRY-WISE DISTRIBUTION OF FDI INFLOWS

Top 10 investing countries during October 2012 were as follows:

1. Mauritius	(38 percent)
2. Singapore	(10 percent)
3. UK	(9 percent)
4. Japan	(7 percent)
5. USA	(6 percent)
6. Netherlands	(4 percent)
7. Cyprus	(4 percent)
8. Germany	(3 percent)
9. France	(2 percent)
10. UAE	(1 percent)

ROLE OF FDI IN EMPLOYMENT GENERATION

Foreign direct investment (FDI) is likely to create as many as 10 million jobs in a span of 10 years, making it the largest sector in employment. According to Indian Staffing Federation (ISF), FDI can create around 4 million direct jobs and almost 5 to 6 million indirect jobs including contractual employment within a span of 10 years. ISF welcomed the government's move to allow entry of FDI and said that this will have a positive impact on employment generation. It is expected that the impact of the FDI will have a much wider impact on organized employment as it will open doors for less skilled and less educated people as well. The impact will be far and wide and all across country. Logistics and supply chain companies are also expected to grow as they will be the link between small manufacturers, producers and farmers. The rapid expansion of FDI by multinational enterprises since the mid-eighties may be attributed to significant changes in technologies, liberalization of trade and investment regimes, deregulation and privatization of markets in many countries including developing countries like India. As an engine of economic development for developing countries, foreign direct investment (FDI) inflows have contributed for creation of employment, technology transfer to local firms, and managerial know-how; have had positive effects on exports and access to external markets. This study tries to analyze the impact of foreign direct investment (FDI) inflows on employment generation. The majority of the population, both urban and rural, is expected to gain, indirectly and differentially, from FDI. While FDI may benefit the economy at both macroeconomic and microeconomic levels, it is equally important to probe whether people in the rural and suburban areas get affected through such benefits. FDI in relatively labour-intensive sectors including food processing, textiles and readymade garments, leather and leather products, and light machine tools, with plants set up in small cities close to rural and suburban areas, would tend to have relatively high employment-generating potential. FDI-enabled plants in India are spread across various states with relatively high concentration in Maharashtra, Gujarat, Tamil Nadu, Karnataka and West Bengal. A significant proportion of manufacturing plants are located in small cities

India has inward FDI stock worth $76.2 billion (compared with $327.1 billion in China) and outward FDI stock of $29.4 billion (compared with $95.8 billion of China). The FDI inflows received by India accounted for 3 per cent of gross fixed capital formation (GFCF) in 2005, 6.6 per cent in 2006 and 5.8 per cent in 2007. The corresponding figures for China are 7.7, 6.4 and 5.9 per cent, respectively. Thus, the share of FDI in GFCF for India in 2007 was almost the same as that of China. The share of inward FDI stock of India was 0.5 per cent of GDP in 1990, 3.7 per cent in 2000 and 6.7 per cent in 2007. The corresponding figures are much higher for China, viz., 5.1, 16.2 and 10.1 per cent, respectively.

FDI-RELATED INSTITUTIONS

There are three primary institutions in India that handle FDI-related issues: the Foreign Investment Promotion Board (FIPB), the Secretariat for Industrial Assistance (SIA), and Foreign Investment Implementation Authority (FIIA).

1. Foreign Investment Promotion Board (FIPB)

The Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance is the nodal single-window agency for all matters relating to FDI as well as promoting investment in the country. It is chaired by the Secretary, Industry (Department of Industrial Promotion and Policy). Its objective is to promote FDI in India:

i) By undertaking investment promotion activities in India and abroad;
ii) By facilitating investment in the country by international companies, non-resident Indians and other foreign investors;
iii) Through purposeful negotiations/discussions with potential investors;
iv) Through early clearance of proposals submitted to it; and
v) By reviewing policies and putting in place appropriate institutional arrangements, transparent rules and procedures and guidelines for investment promotion and approvals.

2. Secretariat for Industrial Assistance (SIA)

The Secretariat for Industrial Assistance (SIA) has been set up by the Government of India in the Department of Industrial Policy and Promotion, Ministry of Commerce & Industry to provide a single-window service for entrepreneurial assistance, investor facilitation, receiving and processing all applications which require government approval, conveying government decisions on applications filed, assisting entrepreneurs and investors in setting up projects (including liaison with other organisations and state governments) and monitoring the implementation of

projects. It also notifies all government policy decisions relating to investment and technology, and collects and publishes monthly production data for select industry groups. The SIA website2 provides chat time during fixed hours when all questions are answered. During other times, investors are encouraged to write e-mails and the Secretariat assures a reply within 24 hours.

3. Foreign Investment Implementation Authority (FIIA)

The Government of India has set up the Foreign Investment Implementation Authority (FIIA) to facilitate quick translation of Foreign Direct Investment (FDI) approvals into implementation, and to provide a pro-active one-stop after-care service to foreign investors by helping them obtain necessary approvals, sort out operational problems and meet with various government agencies to find solutions to their problems.

Foreign Investment Policy

Foreign investment is permitted in virtually every sector, except those of strategic concern such as defence (opened up recently to a limited extent) and rail transport. Foreign companies are permitted to set up 100 per cent subsidiaries in India. No prior approval from the exchange control authorities (RBI) is required, except for certain specified activities. According to the current policy, FDI can come into India in two ways.

***Automatic route*:**

FDI in sectors/activities to the extent permitted under the automatic route does not require any prior approval either by the government or the Reserve Bank of India (RBI). The investors are only required to notify the concerned regional office of the RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.

***Prior Government Approval route*:**

In the limited category of sectors requiring prior government approval, the proposals are considered in a time-bound and transparent manner by the Foreign Investment Promotion Board (FIPB) under the Department of Economic Affairs, Ministry of Finance. Approvals of composite proposals involving foreign investment/foreign technical collaboration are also granted on the recommendations of the FIPB.

CONCLUSION AND FDI PROSPECTS FOR 2013-2014

Indian companies are reaching overseas destinations to tap new markets and acquire technologies. While some of the investment has gone into greenfield projects, a major portion of Indian overseas investment went into acquiring companies abroad. Acquisitions bring with them major benefits such as existing customers, a foothold in the destination market and the niche technologies they require. Due to the rapid growth in Indian companies' M&A activity, Indian

companies are acquiring international firms in an effort to acquire new markets and maintain their growth momentum, buy cutting-edge technology, develop new product mixes, improve operating margins and efficiencies, and take worldwide competition head-on.

The role of FDI in the up gradation of technology, skills and managerial capabilities is now well accepted. Additional investments, over and above that FDI flows could rise moderately to US $ 1.4 trillion in 2013 and US $ 1.6 trillion in 2014 as the global economy is expected to make an uneven recovery over the coming two years.

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