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FOREIGN DIRECT INVESTMENT CHALLENGES FOR INDIA

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ABSTRACT In an open economy, domestic savings can be supplemented by many kinds of external assistance. There is a large scope for foreign direct investment in a developing country like India. It may provide certain merits as well as challenges. Both of them are equally important. The challenges may include, wage disparity, Resource challenge, consumption challenge, equity challenge, challenge on technology, Federal challenge, challenge on sovereignty and politics. It also include the positive aspects of foreign direct investments.

KEYWORDS : Wage disparity, Resource challenge, Consumption challenge, Equity challenge, Technological challenge, Federal challenge, Challenge on sovereignty and Political challenge.

METHODOLOGY
For this study I collected information from secondary sources, which are most helpful for me.

SCOPE
One of the leading developing countries of the world, India had to depend on FDI, because, without it, is not possible for us to stimulate and to make a speedy growth path for our country's development. India also have to give importance to inflow of foreign capital on different sectors, in education, in technology, in case of eradication of poverty etc. So this concept is very much important to study.

FOREIGN DIRECT INVESTMENT (CHALLENGES)
Traditionally the role of Foreign borrowing has been seen by countries as a supplement to domestic saving to bridge an investment - savings gap and achieve faster growth. The international flow of financial resources which takes three main forms;

1. Private foreign direct and portfolio investment consisting of (a) Foreign direct investment by large multinational corporations, and (b) foreign portfolio investment (stocks, bonds and notes)
2. Remittance of earnings by international migrants and
3. Public and Private development assistance
   Eg. a) Individual national governments and multinational donor agencies
   b) Private non governmental organizations (NGOS)

Foreign Direct Investment and Portfolio Investment, which are non – debt – creating flows, and commercial bank lending which creates debt. There has been a vast increase in the amount of FDI going to developing countries in recent years, fuelled by 3 major factors: the rise of Multinational corporations and the search for global profits, the liberalization of global capital markets and economic liberalization within developing countries.

FDI bring many advantage to recipient countries, but there are also many potential dangers and disadvantages from a development point of view.

FDI NET INFLOWS TO TOP TEN DEVELOPING COUNTRIES

Country	Total 2007 ($Million)
China	138,413
Brazil	34,585
Mexico	24,686
Singapore	24,137
India	22,950
Turkey	22,195
Chile	14,457
Egypt Arab Rep	11,578
Thailand	9,498
Colombia	9,040

FDI raises the investment ratio above the domestic savings ratio, which is good for growth, if nothing adverse happens to the productivity of investment. The investment brings with it knowledge, technology and management skills, which can have positive externalities on the rest of the economy. Foreign investment can often be a catalyst for domestic investment in the same or related fields. It require the training of labour, which is another positive externality. It is estimated that over 30 million workers are employed directly or indirectly by multinational corporations in developing countries. The challenges facing larger FDI in India are in spite of the fact that more than 100 of fortune 500 companies are already investing in India, These FDIs are already generating employment opportunities, income, technology transfer and economic stability.

MERITS OF FDI
It opens a way to the integration of a country in to the global economy. It ensures a gain to access to a wider global and better platform in the world economy. It promote economic growth. This is one of the major sectors which is enormously benefited from foreign direct investment. A remarkable in flow of FDI in various industrial units in India has boosted the economic life of country. FDI also promote trade and technology it opens a wide spectrum of opportunities in the trading of goods and services in India both in terms of import and export production. Products of superior quality are manufactured by various industries in India due to greater amount of FDI inflows in the country. FDI apparently helps in the outsourcing of knowledge from India especially in the information technology sectors. Developing Countries by inviting FDI can introduce world class technology and technical expertise and processes to this existing working process. Foreign expertise can be an important factor in upgrading the existing technical processes. It increases the level of competition in the host country. Other companies will also have to improve on their processes and services in order to stay in the market. FDI enhanced the quality of products, services and regulates a particular sector. Linkages and spill over to domestic firms- various foreign firms are now occupying a position in the Indian market through joint ventures and collaboration concerns. The maximum amount of the profits gained by the foreign firms through these joint ventures is spent on the Indian Market. Foreign Direct Investment will also encourage Human Resource Development. Employees of the country which is open to FDI get acquaint with globally valued skills. It has also ensured a number of employment opportunities by adding the setting up of industrial units in various corners of India.

CHALLENGES
There are some potential dangers of FDI. Investment by multinational corporations with headquarters in developed countries involves not only a transfer of finds (including the reinvestment of profits) but also a whole package of physical capital, techniques of production, managerial and marketing expertise, products, advertising and business practices for the maximization of global profits. There is no doubt that such investment augments real resources directly, the question is whether such investment contributes to the broader aspects of development relating to the pattern of development and the distribution of income. Those challenges which are caused FDI inflows are as follows.

(A) Widening the income gap between urban and rural sectors
The multinational companies tend to locate in urban areas, it widen the income gap between urban and rural sectors, thus perpetuating dualism. This criticism, however cannot be leveled exclusively against multinationals because any new industrial activity establishing in existing urban centers will have the same effect.

B) Resource Challenge

India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time some exploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US $150 billion. This is the first step to overcome challenges facing larger FDI.

C) Consumption challenge

They encourage and manipulate consumption. Not only do they tend to cater for the tastes of the already well-to-do, which itself acts as a divisive force, but also they tend to encourage forms of consumption among the broad mass of people, particularly in the urban areas, they are inappropriate to the stage of development and often nutritionally damaging. Prime examples are …. Baby milk and Coca-Cola. These tendencies are not only wasteful, but they encourage acquisitiveness, reduce domestic saving and can worsen balance of payments difficulties by encouraging expensive tastes.

D) Equity Challenge

India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited to get the complete picture of growth, it is essential to make sure that the rural Section has more or less the same amount of development as the urbanized ones. Thus fostering social equality and at the same time a balanced economic growth.

E) Technological challenge

The MNCS come with FDI may introduce inappropriate technology and retared the development of an indigenous capital goods industry. Related to this is the possibility that the multinationals may, stifle indigenous entrepreneurship and destroy domestic firms, so that the net addition to capital accumulation is much less than the investment provided by the Multinationals themselves.

F) Federal Challenge

One of the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules and regulations. The important part is to keep the implementation of policies in all the states of India at par. Thus asking for equal speed in policy implementation among the states in India is important.

G) Challenge on sovereignty

Another aspect of the multinational is that because of their, large size and the power they wield, the developing countries in which they operate lose aspects of their national sovereignty and control over economic policy. The companies may easily avoid the effects of domestic monetary policy because of easy access to foreign capital markets and their own internal resources. They can avoid tax by shifting profits abroad. Countries may wish a multinational company to do one thing, but it may not readly comply because the action may conflict with the global profit objectives of the company as a whole. Firms may exploit resources more quickly than is desirable, and exploit consumers and workers through the exercise of monopoly and monopsony power.

H) Political challenge

The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

CONCLUSION

Even though there exist certain challenges for FDI, it is urgently needed for economic development because in a developing country like India, domestic saving is not sufficient. So in order to encourage development inflow of foreign capital is essential, and it may take inform of foreign direct investment and foreign portfolio investment. In any way India must also focus on areas of poverty reduction, trade liberalization, and banking & insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

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