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Foreign Direct Investment: Problems & Challenges in Present Corporate World

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ABSTRACT

In the present emerging global economy, the nature of the foreign investment has to be generally motivated by various favorable business environment accelerated by globalization, liberalization as well as privatization of capital flows which have been growing rapidly. Also the cross-border M&As have been seen as the pivoted of recent surge in the foreign direct investment. Accordingly, the international capital flow contributes a great role of the domestic investment, employment generation, industrial production and even the export in various global economies including India

Even though, there are only two globally recognized foreign investment via, foreign direct investment, as well as portfolio investment, it has also been followed by three main global economic motives of the foreign direct investment like: resource factor as well as marketing factor and efficiency factors. However, the main objective of this paper is to stage on how the Indian government has substantially liberalized its nature of foreign investment policy, even though the foreign direct investment inflow into the Indian economy has been discouraging.

Introduction:-

In the present emerging world economy which has been circumvented with the force globalization, liberalization and even more particular privatization. The nature of expansion of international investment from the rich economies to the poor one has been facilitated very vast in context to various changes in their regulatory environments. However, during the last decade of the last century, their was a huge experience of more than 90% of more than 1035 changes in the global laws governing various kinds of foreign direct investment, of which exactly encouraged sound functioning of foreign direct investment. Hence various bilateral investment treaties were also encouraged between developing countries. Apart from the above, according to our own findings, double taxation treaties both in various global economies have also grown.

In addition to the above, at various regional as well as interregional stages there has been an increase in figures of agreements which are exactly assisting to create sound environment for investment in various international boundaries. According to our own analysis, the exact percentage of the global foreign direct investment inflows to the global gross domestic capital formation in the year 1999 was generally 14% of which exactly attracted the increase of more than 15% of the foreign direct investment stock from the last 5%. Hence, due to the above, the nature of the international production has risen more higher as it is compared to the last years. In the year 1999, a small number of developing countries received 80% of the whole amount of foreign direct investment. Equally, production in such countries has been improving. Above all, the only challenging issue is that; how can the low developing countries motivate themselves.

Need foreign direct investment

Analytically, our analysis proves that foreign direct investment is very much important in the economic development of any global economy. It is very much clear that various economic reforms and even the sense of political environment have exactly motivated the nature of capital flows in the present emerging economic environment. However, foreign direct investment contributes very much to domestic investment, employment generation as well as exports in various low developing countries, like china by which more than 15% of foreign direct investment and also more than 40% of total exports and even 19% of industrial output, 13% of tax revenue as well as more than 18million employment.

Due to such variation in the nature of capital flows and even substantial growth in the size of other capital flows like foreign direct investment have generally resulted to changes in the nature of the balance of payments as well as the foreign exchange reserves of various low developing countries. In addition to the above, the debts which courses the flows of the ratio of balance of payment of India is averaged 97% during the year 1985-90 of which during the year 1990s is declined to less than 20%. This generally made India to experience a great surplus on the balance of payment of which improved reserve position over the same. According to World Bank report, the low developing countries have highly benefited from foreign direct investment in various ways like:

The foreign direct investment is exactly the only means of influencing the nature of capital flow of which is linked to gross domestic product.

The percentage of foreign direct investment to all the global economies (both developed and developing economies) has accelerated the economic growth through its increase in domestic investment. Even though according to our own findings we can easily conclude that a great share of the foreign direct investment is being circumvented by the developed countries as compared to developing countries. Hence, the poor developing countries, because of its discouraging gross fixed capital formation (GFCF) it only gain half of the foreign direct investment.

Foreign direct investment, to poor developing countries has encouraged technology transfer as well as generation of mass employment opportunities. Due to the poor formation of the domestic savings, many developing countries have exactly started depending on foreign direct investment of which has equally motivated the economic growth and development of such countries. In relation to that, countries like china has exactly maintained a high ratio of gross domestic development product for along period of time because of it is sound nature of savings rate and even high ratio flow of foreign direct investment into its economy.

Nature of trade and investment:-

According to our findings, the nature of the trade and investment can easily be influenced both on a positive or negative manner. In relation to this, while some of the foreign direct investment increases and even motivates the nature of international trade, others on the other hand decrease it.

Equally, foreign direct investment increase the natural resources sectors of the poor developing countries even the size of plantations also increases of which also motivates the increase of trade as well as the international trade. Hence it encourages the substitution of such said foreign trade. In the sense of other forcing factors like foreign exchange difficulties, demand of industrialist faster, the policies of poor developing economies prefer foreign direct investment to import.

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Large amount of foreign direct investment have only been concentrated in the developed economies of which have equally substituted the nature of foreign production in relation to foreign trade. It is generally due to such regional integration which has increased investment. So that to substitute the production for trade, hence, such kind of investment are possible only through the past trade of which its funds are generated and ploughed back to investment in the foreign economies. In context to that, massive foreign direct investment made by developed economies like that of the Japanese companies. In addition to the above, to some extend, while the international foreign direct investment substitute the nature of international trade, in certain products, the final result is that it may generate other important products.

Types of foreign investment:-

Foreign investment can generally be grouped into foreign direct investment as well as portfolio investment. However, we may say that foreign direct investment indicates to such kind of investment in foreign economies by which the investors gain the control of the whole part of investment. It is in the nature of subsidiary or acquiring a stake in the existing firm or even starting a joint venture in the foreign country. Apart from the above, foreign direct investment is generally managed by long term decisions since such kind of investment cannot easily be liquidated over the same. In consideration with this, long term aspects like political stability, government policy; industrial as well as economic prospect attracts foreign direct investment.

On the other side, portfolios investments of which can be easily liquidated faster are also influenced by the short term profits. In comparison with the foreign direct investment, the portfolio investments are generally highly sensitive. Hence, direct investors on the other hand have a direct management or role with the promotion of the enterprise, which such is not recognized in portfolio investment. In India, since the era of economic liberalization of 1991, surging has been recognized in the foreign direct investment as well as portfolio investment. In context to this, in India, there are two portfolio investments like foreign institutional investors (FIIs) of which include; mutual funds and even the global depository receipts (GDRs); American depository receipts (ADRs) as well as the foreign currency convertible bonds (FCCBs).

Besides that, Global Depository Receipts (GDRs) or American Depository Receipts (ADRs) and Foreign Convertible Currency Bonds (FCCBs) are the main instruments which are issued by the Indian companies in foreign economies in order to attract foreign capital by facilitating portfolio investment mostly by those foreigners in Indian security markets. The following are the classification of foreign investment in India.

Foreign direct investment
Wholly owned subsidiary
Joint venture
Acquisition
Portfolio investment
Investment by FIIs
Investment by GDRs, FDRs, FCCBs

Factors influencing international investment:-

The hosting economies factors, generally, the economic determinants of the foreign direct investment has been categorized for the main aim of studying into three groups of which each of them showing the agenda of investing in foreign economies, these are:

Resources factors
Market factors
Efficiency factors

Resources factors:-

The most important influencing factor of the foreign direct investment is the nature of exploitation of the available natural resources. During the last century (19th Century) foreign direct investment of Europe, United states and even Japanese companies was exactly encouraged by the demand to secure source of minerals, primary products for the investing industrializing nations mostly of Europe as well as of North America. Analytically, up to the end of the Second World War, more than 60% of the global stock of foreign direct investment was in the nature of natural resources. Equally there was a high decline of the foreign direct investment during 1960s and 1970s. In relation to this phenomenon, in the developing economies, public sector stated playing a predominant role in resource influenced sector, of the foreign direct investment stock mostly in the sector of developed economies increased from 1975 to 1990.

Market factors:-

Market is the main determinant of foreign direct investment markets which are being protected from international competition factors by the sense of tariffs exactly influence foreign direct investment. In reciprocation with the above, united state is the largest recipient of the foreign direct investment and then followed by china. According to UNCTAD's analysis, concluded that some of the largest national markets remain unchanged in nature by largest regional markets, that is to say that European market has been smaller than that of USA, that of African continent apart from south Africa is also very small than that of Republic of Korea.

The incidence of this indicated that a large share of foreign direct investment is circumvented by the developing economies due to sound infrastructure facilities and even political stability by such economies. The significance of other sectors mostly the service sector has been growing of which has resulted to increasing of foreign direct investment since some of such service sector is not tradable in nature, hence due to this they have been introduced and even more so established in the foreign economies.

Portfolio investment:-

In the year 1983-90, the ratio of the portfolio equity flow to developing countries was $ 1.3 billion. The large ratio of the portfolio equity flow can generally be encouraged by factors like;

Capital liberalization and even reforms in the developing economies.

Sound growth in global financial assets Good growth in developing economies nature of exports and even the capacity to serve foreign debts.

Sound industrial and economic growth of the developing economies.

Increased and diversification of investors portfolios.

Growing resource of the investors as well as faster equity markets in developing economies.

New policy:-

In 1991, the industrial policy observed that in the process of freeing the Indian economy from controls the chance of promoting foreign investment in India should also be fully exploited and also liberalized the nature of the Indian policy towards sound foreign investment and even technology even though, the nature of the foreign equity participation was restricted only to the ratio of 40%, by which the foreign direct investment and technology has to be approved, in relation to this findings the new policy accepted various foreign equity with automatic acceptance and even more so approval in various industries in the economy. Import of capital goods is automatic if the foreign exchange need for such is ensured through foreign equity.

In 1996, according to the provision of annexure lll of the industrial policy only 36 industries were accepted for foreign direct investment up to the ratio of 51% of the total equity.

The following are the main kinds of groups of industries which have been accepted for foreign equity participation:

Industries in which foreign direct investment does not exceed 26%

Industries in which foreign direct investment does not exceed 50%

Industries in which foreign direct investment does not exceed 51%

Industries in which foreign direct investment does not exceed 74%

Industries in which up to 100% of foreign equity is permitted

Foreign investment by Indian companies:-
According to our own findings, Indian companies have been exactly contributing very little to foreign investment. However, the Indian government and its policy have been equally encouraging the foreign investment by Indian companies in relation to some standing factors like local economic policy and even the nature of the local conditions were discouraging foreign investment by the Indian companies.

The Indian governments have been also controlling the operation by the Indian companies in the foreign investment. The nature of protected domestic market was a seller's market of which made the Indian companies not to accept international markets. The Indian companies have established joint venture in various global economies.

Apart from the above, the new economic policy in India has exactly encouraged the Indian companies to invest abroad. In addition to that, the nature of mergers and even acquisition, have been generally discouraged, the nature of financing restriction have been equally encouraged. Also private investments have been encouraged and also the foreign investment motivated through joint tie. Hence, the above said factors have been easily encouraging the Indian companies to invest abroad.

Conclusion:-
In the present era, foreign capital has now circumvented a great contribution to important share of the domestic investment, employment generation industrial production as well as export in a number of various economies including Indian economies. The main types of foreign capital investment are the foreign direct investment and portfolio investment the main economic element which have boosted the Indian economy are; the resource factor, marketing factor and the efficiency factor. Even though the Indian economy has substantially liberalized its foreign investment regulations, equally the foreign direct investment inflow into the Indian economy has been below the expected targets. In relation to this we can easily say that India has not been circumventing the required size of the foreign direct investment in relation to other economies like China. Also there has been a great fear of capital fright from the Indian economy. Finally, India must make sure that some factors which are discouraging like poor government policy, poor infrastructure, labor problems as well as high cost of input have to be checked for the economic growth and development.

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