**Foreign Direct Investment- A Boon or A Bane?**

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### ABSTRACT

In recent time foreign direct investment has become a debatable issue in the developing nations. It has become the order of the day all over the world. It has opened new opportunities for a large number of countries across the globe. But at the same time there are crucial issues related to foreign direct investment which cannot be undermined or ignored. The present paper is an attempt to focus the concept of FDI and issues related to it for the host country and the home country. It also examines the pros and cons of FDI.

### INTRODUCTION

Investment is “the flow of funds from one destination to another”, for any activity, including industrial development, infrastructure and manufacturing. When the investment goes from the home country to another country it is defined as ‘investment outflow’ and when the foreign investment comes from other countries to home country it is termed as ‘investment inflow’.

All developing countries produce primary goods, and to exploit them financial resources are necessary. Foreign Direct Investment (FDI) is related to investment in developing countries. Apart from industrial development, developing countries and Less Developed Countries (LDCs), require huge investments in other activities, such as infrastructure, healthcare, housing etc.

With the liberalization of the Indian economy, a large Indian market is being opened up to foreign investors. Practically, FDI represents foreign assets in domestic structures, equipment and organization. It does not include foreign investment in the stock markets. Foreign direct investment is useful to a country if the focus is more on projects rather than investments in the equity of companies because equity investment are potential “hot money” which can leave at the first sign of trouble.

### CHARACTERISTICS OF FDI

- **Follow Competitors**: Oligopolistic industries and interdependence of a few major competitors force a strategic approach.
- **International Product Life Cycle**: Reduces cost by shifting production to developing countries.
- **Location**: Specific advantages make FDI easier than e exporting or licensing.

### BENEFITS FOR HOST COUNTRIES

- **Contract manufactures**: bring down the cost of manufacturing and also contribute to consolidate competitive sourcing.
- **Assured return on investment**: R & D centers and futuristic projects enable the investor to achieve great success through high revenue.

### EXPORT PROMOTION

It seems that FDI could be related with export trade in goods, and the hosting country can benefit from an FDI-led export growth.
Generating employment: It leads to generation of both direct and indirect employment opportunities in the host country.

Cost for the Host Country

- The investing companies may not serve the host country’s interests.
- There is an outflow of earnings as they are repatriated to their home country.
- Import of substantial inputs form the country of the investor.
- Hiring expatriate managers for management positions
- The investing country has controlling technology, for which it charges a huge technology fee.
- FDI can only wipe out the local firms. Infant industries and other home industries may suffer if they cannot compete.

Costs for the Home Country

- Initial capital outflow is extremely large.
- Exports may decrease.
- Imports may increase if FDI is intended to serve the home country.
- Employment loss to the home country population.
- Profits are repatriated abroad. They may not stay in the country for reinvestment.

Motivations for FDI

- Exporting may not be feasible with high transportation costs and trade barriers.
- Companies, with operations only in the home country, have limited scope for prosperity and in order to grow fast investing in fertile grounds outside is a strategic move.
- Ownership advantages are used to benefit from global expansion.
- Location specific advantages are important.
  - Cost and skill of labour are low.
  - Natural resources are available in abundance.
  - The cost incurred in research and development can be recovered at the earliest by identifying a suitable location.

- There are several strategies by which a foreign enterprise could be lured to set up Indian operations. Broadly, entry strategies for such organizations may be classified into two major types:-
  - A foreign investor may directly set up its operations in India through a branch office, a representative office, a liaison office or a project office to carry out business.
  - It may do so through an Indian arm i.e. through a subsidiary company set up in India under Indian laws.

- Generally, the second option of setting up operations through an Indian arm is advisable, especially if the investment is large. A foreign company is one which has been incorporated outside India and conducts business in India. These companies are required to comply with the provisions of the Indian Companies Act, 1956. As far as Indian operations are concerned foreign companies can set their operations in India by opening liaison offices, project offices and branch offices. Such companies have to register themselves with the Registrar of Companies in New Delhi, within 30 days of setting up business in India.

References