

# Pros and Cons of FDI in India



## What is FDI?

FDI is very vast term. Various kind of deals can be classified as FDI deals. The deals can be categorised as FDI are

- Purchases of assets if any assets have bought by any foreign origin person or entity then that deal would be considered as FDI.
- Establishment of production facility by any company in the foreign country then it would be considered as FDI.
- Expansion of business when any company expand their business in the foreign country and establish facilities for various purposes such as selling, production, services, in particular, the country this would also come in the category of FDI.
- Mergers of companies or firms if any company merge with any foreign company or any company is a takeover by a foreign

company. This type of commercial activity are also going to consider as FDI

- Even purchase of the considerable amount of shares in any company by any foreign entity or person then it will be considered as FDI.
- Long-term foreign loan if loan is taken for longer period from any foreign entity or person then it would be considered as FDI.

## Historical background of FDI

In the era of commercial revolution economies of the various countries and continents get linked with each other thru trade and commerce. Europeans had the monopoly over the intercontinental trade that's why they were the major beneficiaries of this trade. They use to earn a lot of profit thru this trade. They had to invest this extra money somewhere. For the protection of their commercial interest as well as for the enhancement of trade they establish some logistic facilities in other countries spatially in the Asian and African countries.

In my view, this is the beginning of the foreign direct investment. from last decades of 18 century till the mid of 20th century the various Asian and African countries ruled by Europeans'.

India also remains under British rule for the period of 150 years. In this period they financially exploited India. for this purpose they invested a large amount of money in various sector such as mining, textile and jute production, production of steel and machinery, plantation of tea, coffee, rubber, apart from all that investment colonial government also took loan from the British government as well as from private entities for the development of infrastructure.

## Stand taken by Indian government regarding FDI after independence

Actually after independence stand of Indian government is not clear regarding FDI. Because of bitter experience of the colonial period Indian government was reluctant to accept FDI but at the same time, foreign technology and expertise also require for the industrial development.

That's why in first industrial policy Indian government stated that FDI would be welcome but control should remain in the Indian hand. After this declaration, a foreign investor was scared and started to withdraw their investment. However after pry-ministers clarification that outflow of investment was stopped and incumbent industries and businesses continued their operations. However, in the decades of 60s government realise the importance of advance technology and mobilisation of foreign currency. That's why in 1965s industrial policy government allowed FDI thru the collaboration of Indian companies with multinational companies. Before that also government had relaxed its rule and regulation for some corporate houses. Even in the seventies decade government felt the need to promote FDI that's why government set up foreign investment board to facilitate the foreign investment. Apart from all that joint ventures were launched in the collaboration with multinational company by the government itself. Maruti is the best example of that kind of joint ventures.

## Roots of foreign investment in India

There are two roots for FDI in India

- **Automatic root** actually for so many sector permissions are not required for foreign investment only investor need to inform the RBI. Under this root, 100 percent FDI is permitted.
- **Government root**, however, there are some sectors which are restricted in terms of level of investment and permission. That's why for those sectors which are completely not opened for the foreign investment approval of FIPB is required.

## Advantages of FDI

- The increase in the foreign currencies reserves thru FDI thru FDI foreign currency came in our country in large amount that's means countries foreign currency reserve get increased.
- Boost to the industrial development most of the time FDI's main objective is to increase the production facility that's why the large-scale industry has been setup thru FDI. as well as small scale industries which provide ancillary to the large-scale industry will get a benefit of FDI.

- Availability of the advance technology companies which are investing in foreign countries these companies would have strong financial and technical background that means they are definitely going to bring advanced technology in the country.
- Generation of employment if foreign money is invested in any country that means activities like production, services, marketing, sale, are definitely going to boost and to carry out all these activities companies required huge manpower
- The increase in the export foreign companies are investing in our country because they felt that if they produce commodities in our country then they would have some kind of advantages and because of these Advantages commodities produce by these industries are definitely going to export.
- Import substitution at present we are importing so many sophisticated equipment if those companies which are producing this sophisticated equipment establish production facilities in our country then these made in India equipment will become a substitute for imported equipment.

## Disadvantages of FDI

- The threat to the small and medium industries because of advanced technology and huge investment position of multinational would become very strong in the market . however in the absence of adequate financial and technical support it is very difficult for small and medium industries to compete with multinational companies.
- Unbalanced development of country foreign investor always looking to invest in that territory which is already developed and because of this attitude major industries get concentrated in the particular territory of the country.
- Fear of establishment of monopoly if any foreign company which is technically and financially strong enter in Indian market then there is the possibility that Indian companies may not able to compete with that foreign company and that foreign company could establish its monopoly in the particular sector.
- Disincentive to the development of indigenous technology we are always looking towards a foreign company or foreign country for the acquisition of advanced technology. Why not are we trying to develop our own technology?

## Conclusion

In my opinion, FDI is good if it is helpful for our financial and industrial growth but can we achieve all the developmental goal thru the FDI?

In my view, we need to devise our own strategy for financial and industrial development as well as we need to develop indigenous technology for achieving our developmental goals. FDI should not be permitted blindly all the consequence must be understood properly before permitting the FDI. Apart from all this government is duty bound to protect the domestic industries particularly small and medium industries?

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