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IMPACT OF FORIGN DIRECT INVESTMENT IN ECONOMICS

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ABSTRACT

Now a day's the Foreign Direct Investment i. e. FDI has played an important role in world's economic development and export success, According to the Ministry of Commerce, foreign invested enterprises account for over half of world's exports and imports; they provide for 50% of globalize industrial output, and generate 30% of industrial profits while employing only 20% of labor – because of their high productivity. Foreign market entry strategies are numerous and imply a varying degree of risk and of commitment from the international firm. In general, the implementation of an international development strategy is a process achieved in several steps. Indirect exporting is often used as the starting point; if the results are satisfactory, more committing agreements are made by associating local firms. When an organization has made a decision to enter an overseas market, there are a variety of options open to it. These options vary with cost, risk and the degree of control which can be exercised over them. The simplest form of entry strategy is exporting using either a direct or indirect method such as an agent, in the case of the former, or countertrade, in the case of the latter. More complex forms include truly global operations which may involve joint ventures, or export processing zones. Having decided on the form of export strategy, decisions have to be made on the specific channels. Many agricultural products of a raw or commodity nature use agents, distributors or involve Government, whereas processed materials, whilst not excluding these, rely more heavily on more sophisticated forms of access. Evidence on technology spillovers is more limited, but industries with higher FDI seem to have higher productivity increases than other industries, suggesting a positive effect.

Key Words: - degree, global, involve

INTRODUCTION:

FDI first of all it is to be understood that it is a form of - A point of debate or - Hectic or - Then just hypocrisy.FDI is considered less prone to crisis because direct investors, typically, have a longer-term perspective when engaging in a host country. In addition to the risk-sharing properties of FDI, it is widely believed that FDI provides a stronger stimulus to economic growth in host countries than other types of capital inflows. The underlying argument is that FDI is more than just capital, as it offers access to internationally available technologies and management knowhow. Yet, economists know surprisingly little about the driving forces and the economic effects of FDI. There are few undisputed insights on which policymakers could definitely rely. The relevance of earlier findings on the determinants of FDI is debatable. The relative importance of traditional determinants may have declined in the process of economic globalization. The economic effects of FDI do not allow for easy generalizations. Empirical studies on the growth impact of FDI have come up with inflicting results.[1]

REASONS TO GO FOR FDI: 1. Small **shops, street vendors and malls can all co-exist (as they are doing now):** They all serve different needs, and sometimes different income segments. Not everyone is going to be able to drive to a Walmart, or shop at malls. The neighborhood shop selling everything from toothpaste to SIM cards is not going to go away anytime soon, whatever giant retailer comes in. To say that Walmart will harm small vendors is like saying McDonalds will harm the roadside chaat / tea shop.

2. **Premium pricing has not meant better quality:** I have found this to be true of almost every product and service in India. Just because you go to a big store and pay a premium for a product, you cannot expect either that the product will be better quality, or that the service will be better. Prices for a whole lot of products are the same as in the US, though the quality is just not the same.

3. **Customer service is non-existent:** Most stores in India will not allow a customer to return a product even if he/she has the purchase receipt and the product is unused. Salesmen are more inclined to hardsell a product than understand the customer's needs and steer her to what will fit her needs. And if you get a lemon, getting the store or the manufacturer to fix anything is extremely time-consuming. I have been surprised that the same big name brands that provide excellent customer service in the US do not do so in India, not even in their company-owned stores. If the advent of FDI means stores with US standards of customer service, it would be a big improvement.

4. **Local industry doesn't have to suffer:** A lot of stuff will still be made in India. If people want to use Hamam soap and Bambino vermicelli, that is what Walmart will have to stock. Even where there is no brand preference, it makes complete sense to source items locally instead of importing them from say, Mexico. It's not as if products made in China are not already sold in Indian stores, small and large. That is the greater threat to Indian industry, not Walmart. Granted, Walmart has a long history of squeezing its suppliers (and will do the same to any Indian suppliers), but the suppliers who stick with Walmart do so because what they lose in margins per unit, they make up with the huge volumes.[4]

Finally, the FDI approval does state that " *30 per cent of the products must be procured from small scale industries which have a total investment in plant and machinery not exceeding $1 million.* "

5. **Hypermarkets aren't new to India, right?** We already have the Big Bazaars and Spencer's and so on. So what are these international chains going to do that's so dangerous for local industry? If anything, the consumer will have greater choice.

6. **Some categories currently have no big players:** There are some categories of stores that are just not present in India. For instance, we have the friendly neighborhood hardware stores, but something like Home Depot could really change people's attitudes towards DIY. (At first, though, people will just buy tools so their handyman/carpenter has what is needed. A bit like how washing machines mainly make the maid's work easier.)

Similarly, craft shops like Joann could potentially do well in India given how many people still sew/ embroider/ knit etc. Knowing India, it could well also be a go-to store for tailors and owners of clothing boutiques.

7. **The Prime Minister's perishables argument is very true:** We do have enormous wastage in foods and vegetables because small stores and vegetable vendors cannot afford refrigerated trucks, or actually any refrigeration. The stores lose money, and so does the consumer (because a lot of the fruits/ vegetables spoil too quickly after purchase).

CHALLENGES IN FDI:

Economies of scale: the global players have economies of scale and are perfect in cost cutting and providing the consumer the best at lowest price which still is a major challenge for Indian retail firms. The way they perform their process itself builds an entry barrier for other new firms.[8]

Brand name: They bring with them world class products which have high quality and a highly valued brand name. The domestic brands don't have that charm and attracting power as of global brands.

Technology: Global players are highly advanced in technology. The tools, equipments, kind of warehouses they use, their way of performing processes are highly advanced and cannot be compared with those used by Indian retail firms, which in turn provides better services and better quality products even in categories like perishable food etc.

Attract skilled employees: The work culture of global players is quite different from those of Indian players. They believe in earning profits by cutting costs as much as possible and at the same time are conscious towards career of their employees. Their approach is more oriented towards achieving ends rather than means. Attractive salary and high incentives can also attract skilled employees towards global players which is also a threat for big Indian retail firms.

Better infrastructure: Better storage facilities, better transportation medium and high investment can pose another threat to Indian retail firms which can hardly match the capabilities of giants on their own.

Joint ventures: Global players may not prefer to enter into joint ventures with Indian firms and may also close down the existing ventures in wholesale and single brand which may adversely affect the Indian firms. This is possible when 100% FDI is allowed in multi-brand retail.

INDIAN MARKET:

Indian economy is growing at a faster pace in comparison to other nations and has shown resilience in times of global financial crisis. Today, the Indian market with about 1 billion population has become a hub of opportunities for the foreign investors, who can clearly see the chances of massive growth and expansion here. The major sectors like environment, infrastructure, energy, transportation, defense and healthcare with their rising demands beckon them to India market entry.

India GDP has registered 6.7% growth in the period 2008-09. According to statistics, India has the ability to sustain the growth rate of 8 to 10% in the coming years. The current growth rate and the projected figures serve as perfect bait for the foreign investors.[7]

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CONCLUSION

Many investors have turned to foreign markets with the view of doing better business and reaping large rewards. Though markets abroad offer the opportunity to flourish, practical experience has revealed they are not as easy to dominate as thought. This is due to different customs, business procedures, as well as different regulations that leave foreign investors in a disadvantaged position. Though foreign business people may try and do good business, the local entrepreneurs always enjoy a remarkable advantage. Understanding the best market entry strategies for international business will make it easy for companies to enter foreign markets and succeed.

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