CHAPTER THREE

CHAPTER - 3

THE THEORY OF PRIVATE FOREIGN INVESTMENT

Traditionally, private foreign investment (PFI) is supposed to play a catalytic role in the economic growth of a country. This role of PFI sprouts from it being a source of capital, modern technology and efficient management and marketing methods.[1] The flow of foreign investment is therefore a historical phenomenon.[2] However it has assumed significance in the wake of the desire of the present day developing countries to accelerate their growth rates. But at the same time it has also led to serious misgivings about its possible cost in terms of its servicing and fears that national economic or cultural objectives may in some way be interfered with or thwarted.[3] As a Corollary to the above, PFI has aroused both passions as well as opposition in less developing countries.[4] It therefore becomes necessary to understand as to what factors govern PFI ? Is private foreign investment explained by the classical theory of capital movements or by the theory of firm or by some other factors ? How the host country benefits from PFI and what cost is incurred by the host country. An attempt is made here to examine these aspects of private foreign investment.

I

THE RATIONALE BEHIND PRIVATE FOREIGN INVESTMENT

1. Classical Theory of Capital Movements and Private Foreign Investment

History of international movements of capital suggest that PFI in the form of investible funds, flow from countries where capital is relatively abundant to countries where capital is relatively scarce so as to take the advantage of the differences in the marginal productivity of capital.[5] As labour and capital are complementary factors of production, in capital scarce and labour surplus countries, foreign capital is likely to enjoy higher marginal productivity.[6]

During the 19th century and earlier part of the 20th century nearly ¾ of the international capital movement took the form of portfolio investment.[7] This form of capital movements can be explained by the classical theory of capital flows and also by tools of international economics such as the concept of balance of payments and the theory of differences in factor endowment. But, in the post World War - II period PFI in direct form has been the dominant form of private foreign investment.[8]

Is foreign direct investment (FDI) also explained by the classical theory of international capital movements pertaining to earning of higher rate of investment abroad ? This may be so if FDI and portfolio investment are considered capital movement to the same extent. However, FDI is more than a capital movement in the traditional sense.[9]

Capital flows can occur in various forms, for e.g. through issues of new bonds and equity shares or through purchase and sale of existing bonds and equities, through a variety of short-term credit instruments and through FDI. Foreign direct investments differs from other kinds of capital movements mentioned above as it is generally accompanied by control and management of the enterprise in the host country. It also takes place in kind such as permission to use patents and technology and through sale of machineries. The claims against investment in kind may be adjusted against ownership of equity capital of enterprise concerned in the recipient country. Thus, the investment in kind may take place even without the normal transfer of funds through foreign exchange market associated with capital movements. Therefore, the classical theory of capital movement becomes irrelevant in the explanation of FDI as transfer of funds may not necessarily be involved.[10] Foreign investment in direct form these days, is sought to be explained by the (growth) theory of firm.[11]

2. The Theory of Firm and Private Foreign Investment

In economic theory a firm is assumed to try to maximise its profit. The consideration of profit is important enough to assume that profit maximization to be the sole motive of the firm. In view of this objective the firm has to take decisions regarding the level of output and particular resources combination to employ. The firm is completely under the discipline of market with respect to the products it produces as with all aspects of its productive activities. The entrepreneurs need own only enough of the firm to have a control of it so that they can make the decisions. They constantly experiment with new products, diversify their output, close down plants and switch to other products under the pressure of market conditions.[12] These decisions of the firm lead to its growth. If the firm stops growing it dies, therefore, it has to grow. In growing they may go abroad, in going abroad they grow abroad.[13]

Thus according to the theory of firm that PFI particularly in direct form is a function of the growth of firm. It may be argued that a firm may invest abroad, for two reasons - first, expansion of market and second, investment of retained earnings.

(i) Expansion of market

The term 'market' in the context of PFI can be interpreted to mean a market share or a volume of sales. The firm may seek a market share abroad because the domestic demand falls short of its production capacity. Therefore, the dependence on domestic market alone may stifle its growth. The expansion of market through investment abroad becomes more desirable than through exports because of certain factors. (i) desire to circumvent trade barriers,[14] (ii) the realization that there exists a difference in local taste, hence, a close familarity with local conditions will be necessary for a successful marketing programme, (iii) the desire to prevent foreign competition from becoming a strong force, the firm may invest abroad even by acquiring foreign firms. For instance, nearly half of U.S. owned foreign subsidiaries were originally acquired by the purchase of already existing concerns during 1960's and early 1970's.[15]

(ii) Reinvestment of retained earnings

In case a firm already has a presence abroad, it may expand through investment of retained earnings rather than to declare dividend in order to avoid the hassles of lengthy procedure for borrowing or issuing of equity which necessarily involve delays. It, may be noted again that the PFI in direct form can proceed by reinvestment of profit without involving movements of funds through foreign exchange market.[16]

The expansion of market and reinvestment of retained earnings to some extent may explain the motive for foreign investment. However, this explanation appears to be inadequate. It is so because a foreign subsidiary operates at a distance from parent firm - the decision making centre, and functions in a different social cultural and legal environment. Hence, to compensate for these disadvantages, a foreign firm must enjoy certain specific advantages to motivate it to invest abroad. Therefore, a comprehensive theory of PFI must encompass the firm specific advantages also.

3. The Firm Specific Advantages and Private Foreign Investment

As stated above a foreign firm would generally have a disadvantage over local firms on account of factors like distance, differences in socio-cultural environment etc. As such, the question arises as to why an investor would move into a foreign country to compete with local firms ?

The answer lies in the 'market power' which the foreign firm enjoys over the local entrepreneurs. The term market power may be defined as the ability of foreign firms to exercise control over the price of a product, which may be used benevolently. This amounts to the dominance of the market by the foreign firm.[17] It may be noted that market power can be acquired only under conditions of imperfect competition. That means market power is nothing but monopolistic advantage of foreign firm due to reasons like superior technology patent, easier access to large amount of financial capital, managerial skill etc.[18] These advantages in the contex of PFI are specific to foreign firm. Therefore, PFI can be attracted by offering certain firm specific advantages to foreign firms. The theory of PFI was related to imperfect competition originally by S. Hymer. This theory is popularly known as oligopolistic theory of foreign investment.[19] The nature of monopolistic advantages leading to PFI may be discussed under the following headings :

i. Imperfection in the market for goods.

ii. Imperfection in the resource or factor market.

iii. Economics of scale

iv. Official barriers to entry.

(i) Imperfection in goods market

The market imperfection in goods market in the form of product differentiation breeds PFI. The products are differentiated by trade-marks, distinctive design and by a variety of product promotion devices. A known and respected brand confers upon its owner a position of monopoly when he sells to customers ruled by no other brand than his.[20] Therefore, an internationally established brand would naturally give market power to the foreign producer. This is so because the consumer have a tendency to believe that an international brand is superior to locally manufactured competitive products. The argument that product differentiation boost direct investment is supported by the fact that most of the PFI in direct form is prevalent in branded products such as pharmaceutical, cosmetics, soft drinks etc. rather than standardized products like textiles, crude oil etc. It may be emphasized here that the product differentiation is effective only to the extent that it has an impact on the minds of the consumers. The physical features of the two products may be similar, still special marketing skills advertising, attractive packaging, buy-back schemes are likely to make the two products different in the minds of the consumer.

(ii) Factors market imperfections

The resources market in many countries may be characterized by various imperfections. For instance, lack of mobility of factors of production and lack of knowledge about market conditions. These imperfections act as a barrier to entry to firms in most countries. In the context of factor markets the barriers to entry are as follows :

(a) Cheap and large source of financial capital

The foreign investor may have a cheaper & larger source of capital than a local competitor. There may be three reasons for this - parent company may have a large internal funds, it may have easier access to capital markets in developed countries, it may get priority in raising capital locally due to better credit ratings. In the absence of relative unavailability of funds the domestic firms cannot modernise and expand to face foreign competition.

(b) Superior technology

The technologies used by a foreign firm may be superior than those used by local firm because of better research and development which is protected by patent laws. It should be noted that technologies here means not merely the knowledge of relevant science which may be available to all countries, but the ability to translate the knowledge into practical and commercial use. In addition to this, the foreign investors may have easier access to highly sophisticated plant & equipment embodying state of the art technology As the domestic firms are at present deprived of these facilities, their cost of production is naturally higher in comparison to foreign firms consequently they cannot face foreign competition.

(c) *Superior management skills*

This may take the form of either greater efficiency of operation or the ability to take risks. This advantages may arise from greater experience of foreign managers or better training or education or higher standards of recruitments.

(d) *Access into raw materials*

The foreign firm may have better access to raw materials by virtue of its control over (i) transportation - generally shipping or (ii) processing of raw materials or (iii) the production of materials itself,

Owing to better access to capital, raw materials, technology etc, which act as barrier to entry for the domestic firms, these barriers can be regarded as a major reason for the existence of market power.[21]

(iii) Economies of scale

Economies of scale refer to variety of production efficiencies associated with specialization, expansion of plant size and large markets. The scale economies may also be achieved by co-ordinating production activities in different countries. The cases of economies of scale relating to plant size and large markets can be found in automobiles industries and newspaper. The entry into the newspaper business is limited by the difficulties of building up large-scale circulations to attract enough advertising revenues. In addition, when a firm is operating in different countries it may reap the fruits of economies of scale in certain lines of production such as petroleum, steel etc., by co-ordinating decisions relating to mining, processing, transportation and marketing, so that it can avoid piling up of inventories.[22]

An international dimension can be given to scale economies in the context of foreign investment. The reason is that foreign firms in comparison to domestic firms, generally, have easier access to capital, superior technology and better marketing skills all of which are essential for large-scale production. This gives monopolistic advantage to foreign firms, hence economics of scale are also regarded as an important barrier to entry into an industry, and a source of market power for foreign firms.[23]

(iv) Government policy

The aforesaid three factors give monopolistic advantages to the foreign firms. However, the realisation of these advantages depends on the official policy in the host country regarding private foreign investment. Generally, the government of the host country would be unwilling to permit free entry of PFI into their country because of the competition which domestic firms have to face with more powerful and resourceful foreign firms. This kind of fear dominated the attitudes of business class in India also during the mid-fifties.[24] The conflict between national interest and foreign control of domestic industry might become a strong source of political concern leading to application of certain restriction to PFI in the host country. These restrictions can take the form of some control on payments of royalties, remittance of dividend and/or disallowing 100% ownership. However, the foreign investors are generally reluctant to share control or even tolerate a substantial local holdings because the interests of the foreign firm and their local partners may differ. For instance the foreign investor may wish to accumulate capital whereas the domestic investor may want dividend. The foreign firm therefore prefers 100% ownership of the enterprise.[25]

As a consequence of the restriction mentioned above, the foreign firms are prevented from exploiting their monopolistic advantages leading to discouragement of foreign investment. Therefore, the government of the host country, inspite of all its apprehension against foreign investment, would be forced to relax its policies as the industrial development of the country needs the influx of technical knowhow and capital through private foreign investment.[26] Given this relaxation, the foreign firms would find themselves in a position to exploit their monopolistic advantages. As such, they would be tempted to invest abroad. Given the sheltered market in the host country, the subsidiaries of foreign firms would themselves be protected from foreign competition. This would further enhance the monopolistic advantage of the foreign firms.[27]

Having related foreign investment to monopolistic advantages, a further question arises as to why a foreign firm prefers to undertake to produce abroad through PFI rather than expand its exports ? Alternatively why market power possessed by these firms are not exploited by selling the sources of market power through licensing ? The answer to these questions is attempted below.

4. The Advantage of Private Foreign Investment Over Exports

It may be pertinant to argue that if a foreign firm possesses some monopolistic advantages over domestic firms, these advantage could be better exploited by exporting the product rather than undertaking manufacturing of the same product abroad. The question arises as to what affects the choice between exports and investment abroad ? The choice between the two alternatives may be influenced by the following considerations.

(i) Trade barriers

Trade barriers in the form of tariff and imports quotas are imposed by host governments to protect domestic firms from foreign competition and therby encourage domestic production. This is based on "infant industry" consideration.[28] However, these very trade barriers instead of protecting domestic firms, stimulate foreign investment. For instance in India, a major objective of the foreign investment was to jump the tarrif wall.[29] Similarly, increase in tarrif rates have been decisive in stimulating American investment in Australian manufacturing industries.[30] Trade barriers provide incentive to PFI by raising the price of the good within the protected market, thus enabling the foreign firms to make more profit.

(ii) Product cycle hypothesis

In some cases, particularly in manufacturing sector, the PFI may be better explained by 'product cycle hypothesis' rather than by trade barriers.[31] Before a foreign firm sets up a subsidiary abroad, it may already have a presence in these countries through exports. Initially when the firm had developed the product, due to technological lead, it could enjoy a monopoly position in the production of this product. But, over a period of time, as the product gets widely traded and becomes well known, local firms may develop similar products and produce it locally. Therefore, to face this competition, the foreign firm may undertake production of this product in those countries where it previously merely exported the said product.[32]

(iii) Transport cost

Sometimes it may be argued as to why PFI occurs in products such as soap, textiles etc, requiring simple technology and which can be acquired easily ? The main explanation can be provided in terms of transport costs. If transport costs are sufficiently high due to the long distance between manufacturing centre and the final market, then it will make the expansion of production at home and the export of that increase production less profitable than production within importing country. It may be so even if production abroad is at a higher cost than at home. Apart from the above, the private foreign investment in simple manufactured products may also be explained by the economics of experience and/or scale of operation possessed by the investing company over its local competitors.[33]

(iv) Defensive investment

At times the decision of a firm to move abroad, may be prompted by the decision of its rivals to invest abroad.[34] The basic explanation for this reaction of the firm seems to be the perception of losing its exports market to rivals.[35] Such defensive investment is thus a part of international firms strategic decision making. The speed of reaction will differ from industry to industry, depending upon the extent of concentration and the product range. It has been suggested that the reaction increases with the level of concentration and decreases with the diversity of products.[36]

5. The Advantage of Private Foreign Investment Over Licensing

"Licensing" in the context of foreign investment may be defined as a permission from a foreign firm to a local firm to use its technology, brand name, trade mark etc. in lieu of technical fees or royalties Such a foreign firm can either directly invest abroad to exploit its monopolistic advantage or it licenses a domestic firm. The choice between the two alternatives will depend upon the firms assessment about the returns from investing abroad or through licensing. There are so many factors which a firm can consider.

If the technology to be transfered is of 'state of the art nature', the firm is internationally well known, and the potential licensee's capacity to undertake production is low, than it will be advantageous to the foreign firm to undertake production abroad rather than license a domestic firm to produce the same good over and above these factors the host country's policy regarding generally disallowing direct investment, may have an important bearing on the choice between the two.

Here it may be relevant to note that the calculation about the returns from PFI or through licensing differs from firm to firm For, there are cases of firm which have gone abroad for production of a product, and another prefering licensing for the same product.[37]

6. The Pattern of Private Foreign Investment and Monopolistic Advantage

The theory of monopolistic advantage is considered these days as more plausible in explaning PFI.[38] This theory not only explains PFI but it may also account for the pattern of private foreign investment, i.e. particular type of monopolistic advantage is likely to explain PFI in a particular sector in a country. For instance, economies of vertical integration which involves reduction in transport cost, the cost of search and the cost of holding inventories are likely to spell out the foreign investment in sectors producing raw materials namely-mining, petroleum and agriculture.[39] The product differentiation (goods market imperfection) may account for foreign investment in consumer goods sector.

In the same way marketing skill determines investment in service sector like insurance and banking. It is a known fact that marketing skill possessed by Americans brought US investment to life insurance in Europe.[40] The advantage of possessing sophisticated technology and access to capital could provide a clue to

PFI in capital-intensive sectors like telecommunication[41] Yet again it is important to note that the official policy of the home country will alternatively determine the PFI in various industries of the country This is so because the government may offer attractive terms to foreign firms to invest in those industries where there is scarcity or where the domestic firms are unable to invest, even though the foreign firm may be enjoying better monopolistic advantage in some other lines of production. It may be pointed as spelt out earlier that high levels of tariff in a particular sector would be decisive in activating foreign investment in this sector.

It can seen from the aforementioned discussion that foreign investment may occur to take advantage of high rate of returns or stimulate the growth of firm or exploit the monopolistic advantages. Whatever may be the motivation driving a firm to go international, it remains to be seen whether such investments benefits the host country or not. This requires an evaluation of likely benefits and cost of PFI.

II

EVALUATION OF IMPACT OF PRIVATE FOREIGN INVESTMENT

In order to assess the contribution of private foreign investment as an instrument of development in developing countries, it is necessary to examine the gains that can accrue to countries which are recipient of foreign investment and then weigh it against the various undesirable consequences of such investment which the host countries will have to cope with.

1. Benefits of Private Foreign Investment

The following are the likely gains of PFI.

(i) It is generally non-debt source

One beneficial aspect of foreign capital is that it a non-debt source of finance because it involves no fixed liability like debt service payments. Moreover at a time when official flows are becoming increasingly difficult to obtain, and the burden of repayment and service charges of the past flows are mounting, PFI may provide an alternative source of finance.[42] Here it should be noted that in certain cases firms in host country may borrow abroad in the form foreign currency loans. Although PFI may involve payment in the form of royalties, technical fees etc., it arises only when the investment fructify unlike contractual debt.[43] Moreover these repayment obligation can be met partly or wholly by the host country through exports generated by foreign investment, however, balance of payment will come under pressure if PFI is under taken solely for domestic markets. Yet another advantage is that payments under PFI to some extent can be regulated by host country authorities.

(ii) Production packages

Generally private foreign investment unlikes official loans is accompanied by other facilities of productive nature. Alongwith equity capital, the foreign investors brings physical capital embodying advanced technologies, managerial, technical, marketing expertise and efficient business practices. These packages may ensure that the investment will bear fruit. As against this official loans carry no such support for their productive use. Apart from the above mentioned gains, the receipt country can also benefit directly or indirectly through PFI in the following ways.[44]

(iii) Increase in national income and employment

One of the likely benefit of PFI for the host country is the increase in income and output resulting from increases flow of foreign investment.[45] As stated earlier the process of foreign investment entails not only capital but also other complementary factors like technology, modern management practices and training of local workers in acquiring new skills. When these workers are absorbed in domestic firms or when their knowledge gets transmitted to other member of the labour force it will benefit the economy as productivity of firms are enhanced.[46]

In addition foreign investment and accompanying technology create external economies not only from better utilisation of existing plants and machinaries but also from construction of new plants. Improved technology due to its cost-reducing nature also makes domestic investment cost reducing through linkage effects. This will give inducement to further investment. Thus, private foreign investment of cost-reducing nature can be regarded as giving rise to a series of consequential investments, ultimately resulting in higher level of national income. The increase in national income is the main direct economic benefits of foreign investment. The case for foreign investment is simply that more is produced.[47]

Similarly, rise in the national income leads to increased savings. The primary rise in the saving-investment-income in the economy, through multiplier-accelerator effect, would generate a secondary round of saving-investment-income and thus trigger off the growth process. This can be regarded as the indirect effect of PFI in raising national income of a country.[48]

(iv) Promoting development of indigenous technology

Technological progress is at the heart of development process of any country. This fact has not only been asserted by classical economists but is also being reasserted now by modern economists[49] Technology generally has been considered as the most visible element in the process of growth. Whenever traditional societies have modernized, the most important need felt has been to locate and adapt the technological framework and, as its corollary, devise an educational system, man power planning and undertake research and development (R&D).[50] It has been argued that the level of technology of a country to be a function of indeginous R&D, technology imports and the relationship between the two.

Against these benefits the possible adverse effects on employment, balance of payments, creation of monopoly profits and the fears of possible foreign domination and control over the economy may be considered as cost of foreign investment on the host country.

2. Cost of Private Foreign Investment

While considering foreign investment its cost should be also considered. These cost are as follow :

(i) Effects on employment

Although PFI may generate new employment opportunities, it can be contended that foreign investment may aggrevate unemployment situation in a country under certain conditions. If foreign enterprises employ labour saving, capital intensive techniques, which are in vogue in capital rich and labour scarce western industrialised countries where bulk of the PFI is flowing from. This would displace labour.

If private foreign investment contributes to a general increase in the wage paid to skilled workers, compelling the domestic firms to adopt labour saving methods of production. Foreign firms may pay a wage higher than the prevailing rate not only to wean away skilled workers from domestic enterprises but also to appease local trade union sentiments against their operations.[51]

(ii) Monopoly profits

Foreign investment may lead to earning of monopoly profits as foreign investment generally occurs in sectors where competition is weak.[52] This is due backwardness of developing countries and also due to political factors and restrictive measures involving tariff and quotas which have provided a sheltered market for foreign firms to earn monopoly profits.[53]

(iii) Balance of payments effects

If the outflows of foreign exchange in the form of dividends, profit, repatriation of capital exceeds the inflow of fresh capital than it would aggrevate the BOP situation of the host country. Besides, if foreign firms tend to attract resources away from the foreign exchange earnings or savings sectors, the adverse effect on BOPs may be greater.

However, it must be noted that one cannot pass a judgement regarding the adverse impact of foreign investment on BOPs by taking into account the inflows and outflows only. It is also essential to consider the effects of PFI on productivity, import substitution, the impetus it provides to exports before arriving at a firm conclusion about the impact of foreign investment on BOPs.[54]

Here it is pertinant to note that it is rather difficult to ascertain whether the benefits of foreign investment exceeds its costs or vice versa. Even if it is possible to quantify the direct benefits and costs, it is not possible to measure all its indirect benefits and cost.

III

CONCLUSION

It becomes clear from the foregoing discussion that a foreign firm may invest abroad for three reasons :

1. to earn a higher rate of return
2. to help the growth of the firm
3. to exploit its monopolistic advantage.

The exploitation of monopolistic advantage is considered these days the most plausible explanation of foreign investment especially in direct form. When a firm invests abroad it suffers from certain disadvantages e.g. operating in an unknown territory from a distance. To overcome these disadvantages a firm entering from abroad must possess one or the other advantage not shared with its local competitors. This advantage may lie in technology, patent, better access to market for goods or capital in a foreign country This advantage not only explains PFI but it may also accounts for the pattern of foreign investment. Before deciding to exploit its monopolistic advantage by investing abroad the firm concerned would have to examine other alternatives like exports or licensing. Such calculation at times may not only turn out to be very close ones, but may also depend upon host governments' policy.

From the host country's standpoint it is essential to assess the contribution of PFI to national income, technological upgradation of domestic industries and weigh it against indesirable consequence foreign investment particularly on the BOP of a developing country like India which generally experiences a deficit in current account. It is in context like this that the governments policy in developing countries must be framed in such a way that it not only distinguishes among various uses of foreign investment but also regulate it so that it is consistent with the entire development programmes. It is in this connection that Indian Government's attitude towards PFI, the patterns, composition of private foreign investment, merits an analysis which is attempted in following chapter.

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15. Penrose E. : Op.Cit., p. 64.

16. This has been explained in the beginning of this chapter in the context of the differences between FDI and portfolio investment.

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25. Kindleberger, C.P : Op. Cit. pp 28 & 31.

26. For instance, during the 2nd five year plan, the Indian Government was willing to give all sort of concessions to PFI. C.F : Bhagwati - J. Op.Cit, 218 and Kidron M : op. Cit. p. 101.

27. The role of tariff in relation to PFI is discussed in the section titled exports and foreign investment.

28. According to this argument tariff may protect the industries in developing countries from foreign competition while they grow up. See : Soderston B. & Reed G : Op.Cit : pp. 256-257.

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35. Examples that have been proposed include Ford and General Motors, each of whom is alleged to have established plants in LDCs in order to keep the other out. c.f Sodersten. B & Reed G Op. Cit. P. 472

36. Knickerbocker : Op.Cit. pp. 190-195

37. For instance a French Company which developed a new process for producing plate glass, decided to undertake to produce it in USA, whereas a British Company which developed a superior method of producing plate glass but decided to License existing producers in U.S.A c.f : Kindleberger C.P. Op. Cit. pp. 17-18.

38. The acceptance of the theory of monopolistic advantage is available in Soderstan B & Reed G : Op. Cit. p. 473.

39. Aliber R.Z : "A Theory of Direct Foreign Investment" in Kindceberger. C.P. (ed) : The International Corporation, The MIT Press, Cambridge, 1970, pp. 19-20.

40. Kindleberger C.P. : American Business Abroad. Op. Cit. p. 15.

41. Deepak L : Op. Cit. p. 21.

42. A study reveals that currently about $ 200 bl. worth of FDI is available in the world, Compared to this, only $ 50 bl. is available from official sources. See Balakrishnan A : "Reforms Success Hinges on State", Times of India, 24-12-96, p. 6.

43. Penrose E. : Op.Cit, p. 94.

44. For a detailed discussion on the gains accruing to host country on account of foreign investment, see : Dunning J.H : Op.Cit. pp. 41-60 & Deepak L Op.Cit. pp. 29-36.

45. MacDougall was probably the first economist to use the concept of cost/benefits to evaluate PFI. However, his theoritical approach, in the light of the theory of PFI discussed in the earlier section loses it relevance here because of certain assumptions made by him like perfect competition, no external economics. c.f MacDougall. G.D. : "The Benefits and Costs of Private Investments from Abroad - A Theoritical Approach, "The Economic Record", Vol. 36, March 1960.

46. According to Hirschman, foreign investment play a role to enable and to embolden a country to set out in the path of unbalanced growth.... See Hirschman. A.O : The Strategies of Economic Development, Yale University Press, London, pp. 73-77.

47. Humphrey D. : "Direct Foreign Investment and Economic Growth", Economic Weekly, June 1960, p. 928.

48 See : Subrahmaniam K.K., Op. Cit p. 20.

49. See : Rosenbery : Inside the black box; Technology and Economies, Cambridge University Press, New York, 1987 and also Fransman M, "Conceptualizing Technical Change in the Third World Countries in 1980's, An Interpretative survey", Journal of Devt. Studies, July 1985.

50. Quoted in "Focus on the Future", Mahapatra S : Times of India, 3 December 96 p. 6.

51. Uppal J.S. Op cit. p. 386.

52. As Carlos D.A. put it 'much of direct foreign investment in Latin America has occurred in areas and sectors where markets and competition are week" - in "Direct foreign investment in Latin America" in Kindleberger C.D (ed), The International Corporation, MIT Press, 1970, p. 31.

53. According to Boff R.B., foreign firms are able to earn high monopoly profits because of an unholy alliance that exists between the foreign investors and the political power group in the LDC's whose interest coincides with the interest of foreigners, - in "Transferring Wealth from Under Developed to Developed countries via Direct Foreign Investment", Southern Economic Journal, Vol. 38, 1971, pp. 118-123.

54. In the present study, no attempt has been made to examine all these aspects due to lack of relevant data and informations. This view is also concurred by Balsubramanyam V.N : Op. Cit. pp. 383-384.