CHAPTER SEVEN

CHAPTER - 7

SUMMARY AND CONCLUSIONS

The study begins with an introductory chapter wherein the problem and the objectives of the present study are stated. Besides, some of the terms employed in this study such as economic development and economic growth, private foreign investment, foreign direct investment, subsidiaries have also been defined to avoid any possible confusion in subsequent discussion.

Many studies have been undertaken in India to assess and examine the effect of private foreign investment on India's economic development. These studies covered a wide spectrum of areas regarding the foreign investment's effects on Indian economy. Some of areas dealt with in these studies are private foreign investment impact on India's balance of payment, on investment and on research and development.

These studies are unanimous regarding the adverse effect of foreign investment on India's balance of payment. They, however differ in respect of foreign investment's effect on national income, local research and development and on investment. The relevant studies are reviewed in second chapter. This chapter also provides a justification for undertaking the present study.

The motives of a firm for investing in other countries are examined in chapter - 3. It has generally been accepted that foreign investment occurs because of differences in rate of return or to help the growth of a firm. As compared to these generally held motives about foreign firm the present study makes it clear that the most likely explanation for a firm to go abroad is to exploit its market power. The market power is enjoyed by a foreign enterprise due to imperfection in product and factor markets. As regards the theory of foreign investment the present study has been influenced by the ideas of Kindleberger and Hymer.

The theory of private foreign investment as formulated and presented in this chapter let it be understood that the foreign firm would have to examine alternatives like exporting the goods it produces or licensing domestic producers. The pattern of foreign investment is also explained by the theory of private foreign investment. In addition the benefits and cost of foreign investment to the host country are examined at length.

It has been argued in the third chapter that the official policy of the government of the host country play a decisive role in foreign investment. The fourth chapter has tried to relate India's policy towards foreign investment to the magnitude and composition of private foreign investment. The growth profile of PFI in India as presented in this chapter also shows balance of payment pressures were responsible for a restrictive policy towards foreign investment in the late sixties upto 1980 and the same balance of payments problem caused to a considerable extent for adoption of liberal attitude towards private foreign investment in 80's in general and 1991 onwards in particular. Thus the ambivalence in the foreign investment policy is exhibited. However, the pattern of investment has generally conformed to the priorities of the government

The economic impacts of private foreign investment are analysed in succeding chapters. Chapter five has been devoted to examining the balance of payments effects, both direct as well as overall, of foreign investment in India for the period 1960-91. It has been found that the direct BOP effect is negative for the entire period considered. When exports and imports, by firms with foreign investments are added to the direct BOP effect of foreign investment, termed as overall BOP effect, the situation worsened. Thus, the result doesn't support the hypothesis that foreign investment has helped to relieve the balance of payment pressures in India. There are number of reasons for the adverse effect of foreign investment. They are higher cost of technology transfer, low export intensity, higher import intensity. Although for the entire period under considration the BOP effects of foreign investment are negative, it has been observed that the negative effect is declining. For instance it is found that foreign investment was directly responsible for 1.93% of India's current amount deficit during 1960-73 which fell to 0.49% in the period 1985-91. The overall BOP effect was responsible for 41% of India's current account deficit in 1960-73. This declined to 14% during 1977-86 and further declined to about 1% between 1986-91. If the same trend continues there is every reason to believe that the adverse BOP effects of foreign investment would vanish soon. And the government would have achieved its objective in inviting PFI to bridge the foreign exchange gap. Given this, the present policy of the government in favour of foreign investment appears to be in right direction.

The impact of foreign investment on India's national income, corporate investment and domestic research and development is analysed in chapter six. Granger test of causality has been used to establish that PFI has led to growth of national income in India. The analysis also support, the hypothesis that foreign investment has contributed positively in enhancing the investment capacity of the corporate sector in India. The analysis has employed regression technique. Incidently the conclusion reached here is similar to what K.K. Subrahmanian concluded in his famous study on import of capital and technology.

Technology upgradation has been one of the objectives of attractive private foreign investment to India. This aspect are also examined in sixth chapter. In order to study the impact of foreign investment on local research and development, two different channels of technology imports - through FDI and through licensing were considered. The regression technique used reveals that the relationship between imported technology and local research and development are positive whatever the channels of import. However, Indian firms spend larger sum on research and development in relation to imported technology, than foreign firm. This means for upgrading technology through local research and development, licensing is a better channel of technology import than FDI so long as both the two channels are available.

To conclude this study, certain policy changes are suggested which are as follows:

1. To reduce the adverse effect of foreign investment on India's balance of payment, it is recommended that foreign investment in export sector should

be encouraged more than foreign investment in general. This policy is suggested because it was found that low export intensity is one of the chief cause for the negative BOP effect of foreign investment.

2. As far as possible foreign minority financial participation should be encouraged, this is so because the subsidiary form of investment are largely responsible for adverse Balance of Payment in India.

3. Although foreign investment policy in India has been liberalized considerably, yet a maze of approvals, implementation procedure and bureaucratic control still remains, which may discourage foreign investment. Therefore, it is suggested that the maze is replaced by a single window clearance system.

Not withstanding the cost in terms of balance of payment, foreign investment has contributed to growth processes in India. Nevertheless, certain policy changes are desirable for a more effective role of foreign investment in India's economic development.