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How Foreign Direct Investment can Help India in Eradicating the Problem of Poverty and Unemployment

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Abstract

International investment that reflect the objectives of a resident entity in one economy obtaining a lasting interest and control in an enterprise resident in an economy other than that of the foreign direct investor. Realizing the importance of contribution that private foreign capital can make to the economic development, the industrial policy Resolution ushered in major changes to attract foreign investment in India, such a positive and open-door policy of India towards foreign investment and technology transfer has as compared to the earlier policy. The enlarged spheres of Foreign Direct Investment (FDI) entry now include mining, oil exploration, refining and marketing, power generation and telecommunication, insurance, defense, print media, tourist, hotel management and rural development including agriculture.

Foreign investments have provided great impetus for growth to Indian economy especially in the post liberalization period. Continuous flow of foreign investments across almost all sectors has proven that foreign investors have faith in growing Indian market. India is the 3rd largest economy of the world in terms of purchasing power parity making it lucrative to investors from all over the World. Though there has been stiff opposition from various quarters on the issue of FDI but the government of India, has been trying hard to do away with the FDI caps for majority of the sectors. There are critical areas like retailing and insurance where there is lot of opposition from local Indian companies.

Keywords: *Foreign Direct Investment, Poverty, Employment, GDP, TRIPS*

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1. INTRODUCTION

Realizing the importance of contribution that private foreign capital can make to the economic development, the industrial policy Resolution of 1991 ushered in major changes to attract foreign investment in India, such a positive and open-door policy of India towards foreign direct investment and technology transfer has as compared to the earlier policy. The government has announced the opening of the Indian stock markets to direct participation by Foreign Institutional Investors (FIIs). The government has also amended the Foreign Exchange Regulation Act, introduced current account convertibility, eased Statutory Liquidity Rates and Cash Reserve Ratio on banks, reduced customs and excise duties, provided to foreign investors on intellectual property rights, became member of Multilateral Investment Guarantee Agency (MIGA) to provide insurance for non-business risks including expropriation and so on, Following these liberalizations, there has been an unprecedented growth in the inflow of foreign investment and technology transfer into the country.

2. MEANING AND IMPORTANCE OF FDI

Foreign Direct Investment (FDI) is defined as a process by which the investment is made by one country in another country. FDI generally takes the forms of participation in management, joint ventures; transfer of technology etc. as per international guidelines, based on the recommendations by the IMF in its publication entitled "Balance of Payment". FDI is defined as "International investment that reflect the objectives of a resident entity in one economy obtaining a lasting interest and control in an enterprise resident in an economy other than that of the foreign direct investor".

In past 60 years or so population of the World has grown exponentially especially in the under developed and developing countries. Barring few exceptions where the economic growth has been hampered due to serious internal problems like insurgencies and warring factions, there has been rapid growth in Gross Domestic Product resulting to substantial increase in per capita income. Increase in GDP and resultant per capita income is associated with improved Countries seeking FDI usually invest the money in infrastructure development and other projects which are directly related with the growth in multiple areas. FDI also brings advance technologies in host country, creating more job opportunities, access to research and development resources and production of World class products in a global competitive economy. Furthermore, it improves foreign exchange position of the country which enables the country to seek more imports of essentials and raw materials for production of goods. Enhanced employment results into increased production. Competition increases in the local market resulting into greater efficiency. Higher production leads to increase in exports. Higher revenue generation through taxes completes the cycle resulting into desired growth in economy.

FDI is generally defined as "A form of long term International capital movement, made for the purpose of productive activity and accompanied by the intention of managerial control or participation in the management of foreign firm,"

Foreign Direct Investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor it is the sum of equity capital, reinvestment of earnings, other long-term capital and short-term capital as shown in the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: inward foreign direct investment and outward foreign direct investment, resulting in a net FDI inflow (positive or negative) and "stock of foreign direct investment", which is the cumulative number for a given period.

Foreign Direct Investment (FDI) is fund flow between the two countries in the form of inflow or outflow by which one can able to gain some benefit from their investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. The effectiveness and efficiency depends upon the investors perception, if investment with the purpose of long-term then it contributes positively towards economy on the other how if it is for shorts-term for the purpose of making profit then it may be less significant. Depending on the industry sector and type of business, a foreign direct investment may be an attractive and viable option. Any decision on investing is, thus, a combination of an assessment of internal resources competitiveness and market analysis and market expectations.

3. FDI IN INDIA

Foreign investments have provided great impetus for growth to Indian economy especially in the post liberalization period. Continuous flow of foreign investments across almost all sectors has proven that foreign investors have faith in growing Indian market. India is the 3rd largest economy of the world in terms of purchasing power parity making it lucrative to investors from all over the World. Though there has been stiff opposition from various quarters on the issue of FDI but the government of India, has been trying hard to do away with the FDI caps for majority of the sectors. There are critical areas like retailing and insurance where there is lot of opposition from local Indian companies.

India is amongst the top destinations for investments across the Globe as per various surveys and studies carried out in this field. Certain facts and figures, pertaining to latest FDI developments are as under:-

India witnessed an upsurge of 24.2 per cent in FDI to touch US$ 3.95 billion in April-May 2013 as against US$ 3.18 billion during the same period in 2012, according to statistics released by the Department of Industrial Policy and Promotion (DIPP).

FDI in pharmaceutical sector, jumped by 86.5% to $1.08 billion during April to October period in the current fiscal year. During 2012-13, India attracted FDI worth US$ 22.42 billion. Hotels and tourism, pharmaceuticals, services, chemicals and construction received the highest amount of FDI. The major contributors to the Indian FDI were Singapore, Mauritius, the Netherlands and the US.

The Government of India has liberalized the FDI regime in about a dozen sectors, including telecom, power etc and have also relaxed investment norms in multi-brand retailing.

In India, Foreign Direct Investment is allowed in franchising (unless specifically prohibited) and commission agent's services. Foreign investments (FDI) can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. As per the current policy, a foreign player can enter the Indian distribution services sectors under the following conditions, "Trading is permitted under automatic route with Foreign Direct Investment up to 51 per cent provided it is primarily export activity, and the undertaking is an export house/trading house/super trading house/star trading house." But the new central Government under the leadership of Prime Minister Mr. Narendra Modi has made it more liberal. The following table shows the latest figures of FDI. The highest FDI inflow to India was in the year 2008 amounting to US$ 43.41 billion.

Table 1: Inflow to India

Year	FDI inflow US $ Billion (Approximated to two digits after decimal)
2000	3.58
2001	5.47
2002	5.62
2003	4.32
2004	5.77
2005	7.27
2006	20.03
2007	25.23
2008	43.41
2009	35.58
2010	27.40
2011	36.49
2012	23.99

Source: World Bank Database

4. POVERTY AND ITS INCIDENCE IN INDIA

The Planning Commission has been estimating the incidence of poverty at the national and state level using the methodology contained in the report of the Export Group on Estimation of Proportion and Number of Poor (Lakdawal Committee) and applying it to consumption expenditure data from the large samples surveys on consumer expenditure conducted by the NSSO at an interval of approximately five years. On this basis, comparable estimates of poverty are available at national and state level from 1973-74 to 2011-12.

Table – 2: Estimation of Poverty

Year	All India Number (Million)	Poverty Ratio (Percent)	Rural Number (Million)	Poverty Ratio (Percent)	Urban Number (Million)	Poverty Ratio (Percent)
1973-74	321	54.9	261	56.4	60	49.0
1977-78	329	51.3	264	53.1	65	45.2
1982-83	323	44.5	252	45.7	71	40.8
1987-88	307	38.9	232	39.1	75	38.2
1993-94	320	36.0	244	37.3	76	32.4
1999-00	260	26.1	193	27.1	67	23.6
2006-07	220	19.3	170	21.1	49	15.1
2010-11	260	20.1	180	30.2	80	24.3
2011-12	295	26.4	205	28.4	90	22.7

Source- Different Five Year Plans of India.

As per the estimates of poverty by the Planning Commission, based on 55th Round of NSSO covering the period July 1999 to June 2000 in the last two decades there was a significant decline in the proportion of people living below poverty line, from 51.3 percent in 1977-78 to 26.1 percent in 1999-2000. In absolute terms, the number of the poor's declined from 328.9 million in 1977-78 to 260.3 million in 1999-2000. But in2011-12 the poverty ratio reached to 26.4%.

(i) Economic Growth and Poverty: It should be obvious enough that economic growth can be extremely helpful in removing poverty. This is both because the poor can directly share in increased wealth and income generated by economic growth, and also because the overall increase in national prosperity can help in the financing of public services (including health care and education), which in turn can be particularly useful for the poor and deprived. This does not, however, make economic growth the only means-not necessarily even the principal means-of poverty removal. This is so for at least three reasons:

First, poverty need not take the form only of low income; there are other kinds of deprivation reflecting various 'un-freedoms', varying from prevalence of preventable or curable illness to social exclusion and the denial of political liberty.

Second, in particular the enabling roses of basic education, good health, micro-credit facilities, land reforms, social security arrangements, environmental sustainability, legal provision and related factors.

Third, the fruits of economic growth may not be automatically utilized to expand basic social services. For example, South Korea did much better in channeling resources to education and health care than, say, Brazil did, which too had fast economic growth, and this greatly helped South Korea to better pursue growth with equity, compared with the Brazil. However, South Korea too continued to neglect arrangements for social security, thereby remaining vulnerable to downside risks, and in fact paid a heavy price for this when the economic crisis of 1997 came. Removal of poverty and deprivation requires a great deal more than relying on one simple associative connection between economic growth and the income of the poor.

This broader picture of social progress also contains a useful reminder and elimination deprivation is as much as a matter of public action as one merely of economic growth.

(ii) What do Recent Poverty Studies Reveal: A Reading of the poverty situation in India reveals some disturbing facts. It is disquieting that there has been no association in the pace of poverty reduction in the states, where it matters most. The poorer states of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh have not exhibited any significant increase in the rate of reduction of poverty over the two periods 1983-1993 and 1993-2005. Poverty has increasingly become concentrated in these states, While 46 percent of India's poor lived in the sates of Bihar, Madhya Pradesh, Orissa and Uttar Pradesh in 1983, over 54 percent lived in these states in 2004-2005. Moreover, rural poverty has also become concentrated in these four states which accounted for 56 percent of all-India rural poor in 1983 and 61 percent in 2004-2005. It is potentially become a source of conflict, North-western states (Punjab, Haryana, Himachal Pradesh and Jammu Kashmir) had made substantial progress in poverty reduction even by the early 1980s and their combined share in all-India poor was 2.7 percent in 1983 this further declined to 2.2 percent in 2004-05. These states have comparatively low rural-urban disparity in per capita expenditure. Further, they had higher wage rate for workers engaged in agriculture operations and lower gender disparity in wage rates. Contrary to expectation, the highest per capita income state of Maharashtra had a disproportionately larger share in poverty which increased from 9 percent in 1983 to 9.7 percent in 1993-1994 and further to 10.4 percent in 2004-05. It had higher rural-urban disparity, low wage rate for workers engaged in agricultural operations and high gender disparity in wage rates.

More than half of India's urban poor lived in the states of Maharashtra, Madhya Pradesh, Uttar Pradesh and Tamil Nadu. The first three states also had larger shares of rural poverty. Larger population size accompanied by higher urbanization rate was low; the large size of the urban population as well as high incidence of urban poverty explains the larger share of Uttar Pradesh and Madhya Pradesh in all India Urban poor.

5. FDI CAN GENERATE EMPLOYMENT

FDI plays an important role in the development process of a country in fact foreign direct investment (FDI) is an integral part of an open and effective international economic system and a major catalyst to development. FDI has attracted increasing interest from developing countries because of the perceived benefits in terms of the injection of capital and knowledge. It has potential for making a contribution to the development through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. The role of foreign direct investment (FDI) in driving economic growth and development has been contested one. Countries have liberalized of economic development and modernization, income growth and employment. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. It can act as a catalyst for domestic industrial development. Further, it helps in speeding up economic activity and brings with it over scarce productive factors such as technical knowhow and managerial experience, which are equally essential or economic development. Countries, emerging economies and countries in transition have come increasingly to see FDI as a source of their FDI regimes and pursued other policies to attract investment.

FDI generate employment in host countries directly or indirectly. Foreign affiliates of Trans National Corporations (TNCs) employ people in their mines, plantations, manufacturing plants and services establishments. They also cause employment to be created in enterprises that are suppliers, sub-contractors or service providers to them. The main field of working of the multi National Companies (MNCs) and TNCs is rural sector because their earning is more in exploiting the natural resources of developing countries including India. Other thing remaining the same, inward FDI thus has both direct effects that add to employment generation in a host country.

These effects may, however, be offset by a loss of employment caused by TNCs activities. Such effects may also be direct or indirect. If FDI enters a host economy through mergers and acquisitions (M & A), it may lead to significant labour shedding in the acquired firms. FDI could, under certain conditions, crowed existing firms out of business, creating unemployment for their workers. It may also induce local competitors to shed employees, either by reducing the local firm's production due to a decreased share of the market or because of efforts by local firms to increase their efficiency and competitiveness by downsizing their labors force.

During the last five decades, industrial development has provided employment and infrastructural growth in urban areas, while little impact has been noticed on rural economy in India to solve the problem of unemployment and poverty to achieve the goals of growth social justice and human face. In the rural sector, rapid industrialization of villages is a vital necessity. The objectives of such programs are enlarging employment opportunities, raising income and standard of living of rural people, diversification of the rural occupation, reducing exodus to urban areas, eliminating reasons of economic imbalances, reducing inequalities and securing social justice.

In spite of remarkable progress in agricultural area the country could neither meet its total demand for agricultural products nor improve the economic position of agriculturists. This is mainly on account of deficiencies in agricultural marketing system such as lack of amenities in the market transport bottlenecks, lack of scientific storage system, lack of new technologies in agricultural activities and the producer is not able to get fair deal in the market. Several attempts have been made by the government to improve marketing conditions and to remove other deficiencies but lack of sufficient capital, the situation has not been changed.

In the emerging scenario of liberalization of economy in the perspective of Globalization, Indian rural sector is in hot water like other developing countries. FDI is needed with transfer of technology but the First World is investing its capital through MNCs and TNCs in exploiting the natural resources of developing countries. The governance of World Trade Organization (WTO) has entered in the rural sectors, including agriculture of its member countries, including India. Three of the most recent instruments, which came into force in 1995, were negotiated in the Uruguay Round of WTO. The Agreement of Trade Related Investment Measures (TRIMs), the General Agreement on Trade Services (GATS) and the agreement on Trade Related Intellectual Property Rights (TRIPS). The purpose of these agreements is to enhance the contribution of FDI to the economic development and to discourage restrictions on FDI in the member countries. India is one of them.

6. NEED OF THE HOUR

Economic development remains an urgent Global need. The need for economic development is self raised as an automatic consequence of the Globalization. Although many countries have achieved significant increase in income in the last few years, there still exist great international inequalities in the level of income. Developing countries have two options of raising capital. First by creating capital surplus from internal sources i.e., capital formation such as controlling consumption, reducing foreign imports and other measures such as taxation, pubic borrowing, budgetary saving from current revenue and profits of public enterprises. However, due to much rigidity in the internal economy, these measures cannot accumulate much capital and the rate of their accumulation will be more or less static and not flexible.

The second method of capital formation in taking foreign assistance for accelerating the rate of internal capital formation in the shortest period of time. Foreign capital helps the developing economies overcome their balance of payments crisis as well. Foreign investment not only brings in capital but also carries with it managerial ability, technical knowledge, technical personnel, innovations in products and production techniques and hence the development of infrastructure and demand creation and in turn additional domestic investment.

Ordinarily poverty is defined as lack of income to acquire the minimum necessities of life. Its cut off point which distinguishes the poor from non-poor. Poverty is not static; it is a socio-economic phenomenon in a given society which varies between countries at a moment of time and for the same country over the period of time. It is a social determinant because it depends substantially on the structure of class and family as well as attitudes and values which render it undesirable. In India poor have been defined as those living below a basic minimum level of consumption. The poor have the following predominant features:-

(a) Landless agricultural workers, attached casual employed during July-December.
(b) Non-Agricultural workers-village artisans, craftsmen who live exclusively on their labour.
(c) Small farmers and Land operators-share croppers.
(d) Members of tribal groups who are not sufficiently in the streamline of the production process.
(e) Members of backward classes in terms of income.

Thus, according to the documents of government of India, poverty is greatly related to the rural sector and employment is the main element in the definition of poverty. The urban poor are not a big concern for our government. Whole of the attention regarding poverty alleviation and employment are for rural people. The reason is that 70% of India's population is living there and in democratic political systems votes are required for the politicians.

7. CONCLUSION

Thus Government of India will have to remember that Indian economy is a developing economy. India is the same problems as a developing economy has. But on the contrary, India is also having a multi-face population too. The issue is not simply of foreign invasion in India. Nehru ever opposed foreign entry in business. He was somewhat afraid of imperialism, which had its own issues and after math. But on the contrary, in our opinion the issue lies in the well being of the mass. The issue lies in the roti, kapda aur makaan to the last one in the country. If effectively implemented, FDI has the potential to:-

(a) It may bring not only foreign capital but also technology and expertise.
(b) It may help to build an efficient linkage between the back-end supply chain and the front-end via capital investment and technological inputs.
(c) It can develop a batter farmer to consumer net work through better expertise and control and bulk purchases from the farmers.
(d) It may insure efficient and effective transportation by reducing transit costs and other relative costs.

Thus, FDI has a positive impact on our economy. Political influence must leave their old outlook as overpowered by the imperialism and government should foresee the future and rising demands of the country. Modern youth needs a respectable and comfortable job, quality education, rural areas need upbringing and urban areas need industrialization.

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