Foreign Direct Investment and its Effects

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Abstract:-

Foreign direct investment plays a very significant role in the democratic country like India and it is the major monetary source for economic development of a country. Foreign companies invest in India to take benefits of cheaper wages and changing business environment of India. In wake of the 1991 economic crisis the introduction of LPG has steadily increased FDI in India. According to the Financial Times, in 2015 India overtook China and the US as the top destination for the Foreign Direct Investment. In first half of the 2015, India attracted investment of $31 billion compared to $28 billion and $27 billion of China and the US respectively. To attract foreign direct investment many countries provide incentives. This paper is designed to explain the effects and impact of FDI in general and insurance in particular. It establishes the fact that traditional insurance sector (Life Insurance Corporation of India) when exposed to competition improves and modernizes to sustain its relevance in the insurance sector. This paper also explains the need and importance of the FDI on economic growth and development. In the light of 'Make in India' campaign the relevance of FDI and its significance is highlighted.

Keywords –FDI, LIC, LPG, ICICI, Portals, foreign investment. foreign investor

Introduction:-

After globalization steps have been taken by the government of India to promote and support democracy abroad. **Democracy is of the people, by the people and for the people**. To promote for the people democratic principles are established by gaining support abroad. FDI has been successful in enhancing employment opportunities for the people by stimulating their income earning capacity and further promote economic growth and development at macro level. FDI would utilize the available unused natural and human resource potential and help India to derive large external economies. FDI has a positive impact on the growth of different sectors of the economy like banking, insurance, investments etc.

East India Company of Britain marks the beginning of FDI in India. Japanese companies entered Indian market after Second World War and began trading with India. After independence lot of issues pertaining to foreign capital attracted attention of the policy makers. Keeping in view the national interest efforts were made to mobilize foreign exchange resources. Under the new foreign investment policy government took the initiative to invite foreign capital and facilitate foreign investment. It is worthwhile to note that there was an increase of more than 10 percent in student visas issued to Indian nationals in 2013, making India the among the fastest growing students market for New Zealand. The January-November period in 2013 witnessed merges and acquisitions deals worth US $ 26.76 billion in India according to the survey made by tax advisory firm. This paper discusses and analyzes the growth in insurance sector in the light of privatization and also highlights how FDI has impacted economic growth and development.

Review of Literature:-

Foreign direct investment plays an important role in the process of globalization during the past two decades. The rapid increase in FDI by multinational enterprises has brought significant changes in technologies and greater liberalization in trade and investment regimes. In early nineties Indian economy faced severe balance of payments crises and experienced serious difficulties in exports. The crippling external debts were putting pressure on the economy. In view of all these developments there was a serious treat of the economy defaulting in respect of external payments liability. It was in the light of such adverse situations that the policy makers decided to adopt a more liberal and global approaches, there by opening its door to FDI in order to restore the confidence of foreign investors.

According to current-in-charge chairman T. Thomas Mathew "Any increase in foreign direct investment (FDI) in the insurance sector from 26 percent to 49 percent would not affect Life Insurance Corporation of India (LIC) as its market share was 83 per cent. He said that the corporation would soon introduce new health insurance and pension products to widen its operations. .

The research article of Yogesh Shikhare reviewed that even after the liberalization of the insurance sector, the public sector insurance companies have continued to dominate the insurance market, enjoying over 90 per cent of the market share and a major role was played by the insurance sector to mobilize national savings and channelize them into investment in different sectors of the economy in which it would increase the penetration of insurance in India.

Empirical evidence from different countries suggests that FDI plays an important role in contributing to economic growth. However, most studies generally indicate that the effect of FDI on growth depends on other factors such as the degree of complimentarily and substitution between domestic investment and FDI, and other country – specific characteristics.

The study of Mottaleb (2007) was about "determinants of foreign direct investment and its impact on economic growth in developing countries", it aimed to find out the relationship between the direct investment and growth of a country. The study found that the economic growth can be significantly affected by foreign direct investment.

According to the study done by Pardeep Agrawal (2000) on economic impact of foreign direct investment in south Asia by under talking time -series , cross- section analysis of panel data from five south Asian countries , India , Pakistan , Bangladesh , Srilanka , and Nepal revealed that there exist complementarily and linkage effects between foreign and national investment. Further he argued that, the impact of FDI inflows on GDP growth rate is negative prior to 1980, mildly positive for early eighties and strongly positive over the late eighties and early nineties.

The result of the analysis carried out by Archanun kohpaiboon (2008) on the impact of FDI on growth performance in investment receiving countries through a case study at Thailand for the period 1920 – 2000, shows that the growth impact of FDI tends to be greater an export promotion trade regime compared to an import substitution regime.

This paper discusses and analyzes the growth in insurance sector in the light of privatization, the impact of FDI on economic growth and development and also highlights the fact that FDI increases entrepreneurial competencies, motivates entrepreneurs and promotes mobility.

Objectives of the Study:-

1. To analyze the impact of FDI on the existing public sector corporation viz Life Insurance Corporation of India (LIC).

2. The impact of FDI on economic growth and development:-

3. To highlights the fact that FDI increases entrepreneurial competencies, motivates entrepreneurs and promote mobility.

The above objectives are analyzed and discussed the findings are as follows:-

Analyzing the impact of FDI on the existing public sector corporation viz Life Insurance Corporation of India (LIC):-

Life Insurance Corporation is an Indian state-owned insurance group and investment company headquartered in Mumbai. It is the largest insurance company in India established on September 1st 1956. This paper analyzes the impact of FDI on the existing public sector corporation viz Life Insurance Corporation of India (LIC). Foreign insurance companies entered India in joint venture with private companies or private banks-nationalized banks. Foreign insurers brought along there improved processes and niche technologies to Indian insurance industries. Many insurance companies like Met Life, ICICI Prudential were waiting for the Indian Government to announce privatization of insurance industry to explore large opportunities because of large population. Competition for LIC a single largest insurance company was inevitable. It was an acid test for LIC as it had almost monopoly in insurance sector for two to three decades. Entry of FDI through foreign insurers also brought paradigm shift in the operating models for example brokers as an intermediary started gaining currency. Also insurers started using front- office model for premium collection and simple policy changes which is quiet a departure from the previous branch office model which took care of all the operations involved in a policy life cycle save re insurance and investments.

From a technology perspective usage of portals was extended by LIC from mere marketing to premium collection and most of the policy servicing aspects. Physical policy dockets were replaced by electronic files also, the paper application, endorsements and other policy file related documents are now being scanned at the new business stage itself and made available for further servicing in all electronic format. Net working has now extended LIC’s servicing ability to magical proportions. Any polices issued anywhere in India can now be accessed across the network for any enquiry-servicing needs.

The impact of FDI on economic growth and development:-

Research shows that FDI in developing nations promote higher growth rates by augmenting income resources and employment opportunities for economic growth and development. As consumption is the beginning and end of all economic activities FDI generates income for consumption and improves standard of living.

Improvement in social outlook is possible with FDI as it brings better exposure by giving opportunities to learn, to adjust and accommodate others intentions and feelings. This will help the policy makers to achieve their cherished objectives of attaining peace and solidarity.

An economic factor that contributes to growth and development are complementary to each others. For example FDI stimulates investments, increase production, enhance employment opportunities, generates income, push demand which further pushes the price which is an incentive for further investment and growth. FDI improves infrastructure in particular sectors like banking, insurance, transport, communication and so on. Present railway network was beautifully designed by the Britishers for marketing their goods which still proves to be one of the best networks in India. Infrastructural investments yield large external economies which are very important for economic growth and development.

FDI builds good relationships with other countries and help them to achieve mutual benefits. Controls are no more instrumental in achieving desired objectives. Growth and development is possible by self help through mutual help. Friendly atmosphere reduces expenses on military and defence preparations by reducing international tensions and conflicts.

There will be scope for the development of ancillary and service industry with the growth of FDI. Industrial development further stimulates the development of other two sectors viz agriculture and service which speeds up the growth and development of the economy.

The host country gets the latest technology and huge capital from other countries through multinational companies.

Rich financial and other resources of developed nations enable them to invest on research and development and develop the advanced technology. So transfer of technology because of FDI would stimulate growth and development in host countries.

Product innovations happen very frequently with FDI. With huge financial background, foreign investors are able to introduce variety of new products and services which will make the democratic country like India to be benefited.

FDI exhibits latest and sophisticated management techniques, which the host country learns and further progress and develops. FDI breaks protectionism and create competition among domestic companies and enhance their competitiveness.

Make in India campaign believes in traditional ideas that investments in manufacturing would lead to jobs; more jobs increase purchasing power for consumers. By this campaign Prime Minister Narendra Modi asks investors to think FDI as first develop India. Make in India campaign initiates a kick start in manufacturing sector which contributes about 15 percent of India's gross domestic products. It is inferred that investors are looking towards India and it should be taken as an opportunity to be capitalized to the fullest extent by supporting their cost to develop India.

Highlights the fact that FDI increases entrepreneurial competencies, motivates entrepreneurs and promote mobility:-

FDI promotes better exposure to entrepreneurial competence in host countries. As a result of FDI, people look for opportunity and take appropriate action as and when it arises to venture new areas. FDI demonstrates high efficiency and make consistent efforts to complete task which in turn increases the competence of entrepreneurs in the host country. FDI formulates realistic and proper plans and then executes rigorously to accomplish the task.

FDI motivates people in host countries intending to become entrepreneurs. Growing economy exhibits lot of qualities to the entrepreneurs for their motivation. The motivations are – desire to do something new, encouragement from big business houses, promising demand for the product etc.

FDI creates favorable environment for mobility and the inflow of FDI in educational sectors bring movement of human capital from one place to another.

Education enlarges one's thinking and understanding horizons. It enables people to comprehend conditions more easily and clearly and in a better way. An educated person can easily adjust with the changed environment and communicate more effectively so mobility is easy for them.

Size of enterprise in itself is a motivating factor. Large business houses like MNC's are found more mobile than small ones. Today, it is evident that people working in MNC's work in many countries of the world, this aspect will ensure better understanding of situations.

Suggestions and Conclusions:-

1. Technology brought out by foreign countries may not suit the needs of our country, as most of their techniques are capital- intensive. So appropriate technology should be used by foreign investors when they make investments.

2. Excessive use of valuable resources from the host country may cause depletion of these resources. So host countries have to be very careful when investments are made.

3. FDI promises high profiles and exploitation of resources, further they suppress domestic entrepreneurs, extend oligopolistic practices-like unnecessary product differentiation, heavy advertising, exploitation of consumers etc. Again they cater to the needs of only high-income groups by producing luxuries.

Concluding remarks could be that the benefits of FDI outnumber the negative effects for a democratic third world country like India

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