

Chapter 39

Foreign Direct Investment in India Opportunities and Challenges

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ABSTRACT

Foreign Direct Investment (FDI) is the dispersal and optimisation of resource packages like human, financial, knowledge, physical and reputational resources. The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, etc., influenced Multinational Enterprises (MNEs) to perform various activities in the host countries. MNEs internationalise business mainly to acquire intangible assets and for balancing resources which they do not possess. India is in receipt of continuous capital flow due to favourable policy management and a strong business environment. Globally, Indian corporations continually display significantly better equity earnings over other countries both developed and emerging. The Government of India is very keen in simplifying FDI rules with an ultimate aim to attract more investors with zero hazards.

1. INTRODUCTION

Foreign Direct Investment (FDI) is the spreading and value enhancement of resource packages by Multinational Enterprises (MNEs) in a host country where a company based in another country looks for business activities. Resource packages are the combination of human, financial, knowledge, physical and reputational resources. MNE's goal is to perform commercial activities and to retain strategic control in the host country. Host countries are based in another country, having high business potentials. MNE crafts value and placates stakeholder desires by operating across national borders. Normally, host countries are historically well aware about the local stake holder requirements. Accordingly, while operating across national borders, MNE is in disadvantage position as compared to firms from host country. MNEs engage themselves in Foreign Direct Investment (FDI) if the host country has locational advantage in

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relation to the home country. Value plan strategy on the foreign activities must be more eye-catching to MNEs, than the alternate value enhancement at home. The under noted key motivational factors influence MNEs to perform various activities in the host countries.

1.1. Natural Resource

This motivation leads to the hunt for financial, physical or human resources in host countries. All these means are primarily not easily available and trademarked. However, to make them available, MNEs, besides their optimal uses, add high value creation. Favourable institutional environment is the key factor which allows MNEs to access these resources.

1.2. Market Resource

Initially MNEs search for the customers in host countries and conclude by encompassing productive activities when foreign market confers higher value to the firm. Host country's locational advantage motivates MNEs to conduct economic activities in that location to enlarge their market size. Locational advantage is the incidence of customer's inclination which leads to procure firm's products. Looking for market by MNEs, is not the same as mere export. It involves MNEs multiple business activities, helped to transfer/convert bundle of resources and to retain strategic control over the host country.

1.3. Strategic Resource

MNEs motivation to invest is the aspiration to improve access to cutting-edge resources of host country through exploration, recovery and then laying into production. MNEs main thrust areas are to explore the cutting-edge resources, like up- stream, downstream, administrative, and reputational. The available/hidden resources are the locational advantage of the host country and are very difficult to access, examples, natural and market resource etc. FDI primarily decide by acquiring companies, tempting alliance activity/ making an insider in foreign knowledge group. The main thought behind it by MNEs is to become a recognised industry player in a set of advantageously knowledge development environment.

1.4. Efficiency Resource

It is the desire of the firm to capitalize environmental changes. In the process, MNEs international network leads to more attractive and ultimately helped to achieve consolidation with the concentration of Firm Specific Advantage's (FSA's i.e. having innovation capabilities and marketing capabilities) proprietary resources. Environmental changes comprise greater economies of scale through a rigorous process of technological breakthrough aiming shorter product cycle, increased industry focus on innovation, higher trigger on R and D investments besides smoothening trade and investment barriers. Locational advantages are the key factors to receive fresh FDI in host countries.

1.5. Locational Advantages

Locational advantages (natural and created) represent the entire set of strengths like reputation, skilled labour, growth facilities, scope of subsidiary industries, employment opportunities, common problems,

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