CHAPTER V

FDI - A GATEWAY TO GLOBALIZATION IN INDIA

As time unfolds the new millennium expeditious progress in communication, transportation and financial circulation have rendered nation's boundary inconsequential. FDIs, by cultivating socio-economic integration of nations, have forged networks conducting as gateway to globalization. Furthermore, FDIs by facilitating network of communication, research and development, and production, integrate national economies with global economies. In search of excellence, organisations' process cycles are entering and passing through economies and political boundaries of nations with comparative advantages, and as a consequence, developing and Least Developed Countries (LDCs) are also benefited with the opportunities to participate in the internationalisation processes, under the aegis of globalization.

In this day and age, globalization is a fact, happening and phenomenon; on the other hand, Indian economy propose strong growth potential in FDI. The experience sanctions the hypothesis

"With each dose of FDI

Globalization gets accelerated. "
Countries and the globe represent systems from the angle of the system approach. Globalization is characterised by international economic integration, the phenomenon complements ‘the integration and interaction of systems’ behaviour. The convergence of the phenomenon subscribes the systems approach concept to the research study - “FDI - A Gateway to Globalization, in India”.

This system concept deduces that entry of FDI propagates productivity in a well-founded open system, otherwise it can also be counter-productive. The concept prescribes FDIs in forging gateway to globalization for India.

The conceptual vision recommend low entry and exit FDI barriers to cultivate comparative advantages for promoting a country as a prospective host site for FDIs. The current study appreciates India’s continuous efforts in lowering the entry and exit barriers, which has been achieving liberalization for India, and further, prescribe low entry and exit barriers to achieve globalization.

Well-founded infrastructure has been substantiated as one of the facets of globalization and further, established the significance of FDIs in India’s infrastructure investment and development.
The conceptual vision envisages the global information technology (IT) phenomenon, at this time and age, converging to globalization phenomenon and FDIs in IT for India, lending the requisite credibility.

It diagnoses a country's vision signifying intangible infrastructure and the current study reveals India conceiving globalization vision.

India took the path to liberalization, privatisation, and globalization as a consequence of the announcement of the first part of the New Industrial Policy on 24th July 1991 and further, India decided not to turn back, by announcing the second part on 6th August 1991. In India's globalization calendar, the New Industrial Policy is India growing as part of the world economy and not in isolation. FDI having the international economic integration function has been playing the pivotal role to realise India's globalization dream.

India has learnt from experience that the price of protection is inefficiency which came about, for India, in the form of balance of payment crisis and failure of the banking system in the mid 1991. Thus, the emerging scenario is the by-products of financial crisis management rather than that of a sound conceptual vision. Consequently, the New Industrial Policy incorporates check and balance mechanisms for stabilising macro economy and micro economy of
structural reforms that ultimately broke the protection barriers for her economy and subsequently, putting the country on the road to globalization. The policy triggered off gradual elimination of the various controls and regulations in the economy.

Subsequently, the Eighth Five Year Plan has perceived the need for introspection and reorientation of planning in conjunction with the process of economic reforms and restructuring of the economy. The review of the experience enables learning from experience, steering the direction of change and surfacing criticality, with a view to take on globalization discharge with invigorated vigour.

The Ninth Five Year Plan having fixed the “Accelerated Growth - Scenario” growth rate of 7.0 percent for the economy and incorporating such objectives as accelerating the growth rate of economy with stable prices, development process through participation of people, strengthening efforts to build self reliance etc. envisages to accomplish the unfinished globalization agenda and put India further steps ahead on the road to globalization by 2002 AD

The reform has enabled lowering the fiscal deficit, containing inflation and enhancing the foreign exchange reserve. Continuity of liberalization in the industrial licensing policy and procedure has facilitated in bringing about entrepreneurial culture in the country.
India's foreign trade regime have responded in a befitting manner to the globalization drive, by way of abolishing import licensing, reducing tariff rates and dismantling regulatory frameworks. Further, devaluation of the Rupees and realisation of full convertibility have been stimulating trade, cultivating favourable movements of the balance of trade positions to a great extent. The reform in trade has been accomplishing improvements in the export realisation by way of competitiveness in the international market. Liberalization in import has brought in competition and international benchmarks for the domestic companies.

The need for reform in foreign investment especially FDI, has been fairly significant, considering that India's liberalization agenda had been triggered off by the financial crisis in the mid 1991. FDIs having the long term investment values, technologies that provide international benchmark, risk insured investments and potential to bring about quality culture in the environment, as competitors and reference groups for the domestic organisations, are destined to fulfil the need of the Indian economy to be globalized in the true sense of the term.

Indian companies are embracing global competitive strategies like cost leadership, product differentiation and focus, since India's business and economic environment, on the path to globalization, has been complementing think global and act global strategy. Taking the requisite initiative of opening up to be
global, in the foreign investment area, India has been acting commendably to streamline the approval procedure, raise permissible equity limits and expand the range of sector.

After the liberalization, the domestic market is more vibrant due to proliferation of economic activities compared against the lull in the era of protected economy. The virtual dismantling of the industrial licensing policy has been a significant move to encourage entrepreneurial culture in the country. India has been realising flatter rate of direct and indirect taxes which have been enabling the domestic products and services more deserving for the international market and by the same token, occasioning the venture more worthwhile and profitable.

In the liberalization of the domestic market, there are deficiencies in certain sectors which call for immediate attention and significant steps for improvement. A major impediment coming in the way of maintaining fiscal discipline and liberalization of domestic market is subsidy. Subsidies amount to redundancy of accountability, rearing of inefficiencies and hiding weaknesses. There has been considerable progress in steel, fertiliser, cement sectors etc. Yet, there are giants like petroleum products, power etc.

Another issue where India hasn’t made any real progress, but calls for attention, calibration and balancing act is exit policy which is a sensitive issue.
Further sensitive issue is privatisation of public sector, where in, there has been good start on profitable companies, still loss making units are causing hindrances.

Consequently, it is apt to consider Indian economy as a globalizing economy (chapter-II). The globalizing Indian economy needs emulating continuous improvement and gain quality culture in its business and economic environment for accelerating the globalization discharge. Quality culture factors are to exert broad and deep influences on the people and the environment at large. The quality episode entails nurturing quality values in the education system, right from the Primary School level to the University level. Healthy mind in a healthy body; quality culture demand quality investment in the social infrastructure. Quality culture is an institution. FDIs, accompanied with continuous improvement practices and total quality management cultures, are the reference groups acting as change agents, stimulating the economy and complimenting the quality culture institution.

It has already been evaluated through systems approach that the property of FDI can also be counter productive by way of negative synergism, if the systems are not open, properly defined, and nurture efficiency. Indian economy, by way of FDI performances and encouraging consequences has been instituting check and balance mechanisms in the ongoing reform process to nurture a congenial climate for FDI.
FDIs are preferred to portfolio investment, reason being the uncertainty associated with its (portfolio investment) flow, its speculative characteristics and the revelation of umpteen factors influencing their movements. The globalization agenda's international economic integration, to lend credibility, endurance, and permanency, discharge long term investment prospects emanating international perspective. Consequently, FDIs have been cultivating Indian economy's international economic integration, and proliferation of FDIs, in India, have earned the economy's globalization march.

Infrastructure is the backbone of an economy which also derive its potential, including globalization's. As already examined, India's infrastructural development, arising from deficiency in long term resources, stand in need of FDI. As a result, FDIs expedite India's globalization by supplementing infrastructural support.

It is clear that FDIs are reference groups and role models for the domestic companies. They have infused in them global levels of competitiveness and have assimilated cost-leadership, differentiation and strategic focus practices to attain globalization and ultimately transform them into global companies. Accordingly, FDIs have triggered off globalization in the domestic companies.
A sector which had a particular mention in the current study, by way of its influence, at the present time, is the information technology (IT) sector. Internet - international network of networks and information superhighway - has promoted the tempo of globalization. The Internet has actualised socio-economic integration of the electronic media the world over, provides global scope for e-commerce - commercial activities using electronic media. FDI in information technology has facilitated expediting multivariate avenues of India’s globalization. Further, it has enabled the country’s information network to participate in the global information network. In India’s information technology sector, the need for FDIs accompanied by both resources and up-to-date technology, is fairly significant. Since, the IT wave propagates from the international environment of India’s business and economic environment, FDIs are portraying significant roles in the sector.

It is evaluated that India’s political, social, technological and economic environment are nurturing globalization vision and envisioning FDI as India’s gateway to international socio-economic integration.

There are unfinished agendas in India’s globalization calendar. India need to improve the discharge of compressing both the entry and exit barriers
of FDI to promote the country as host site affording comparative advantage perspective for FDI. The following are India’s significant entry and exit barriers:

A. Entry barriers (Uncertainties)

- Schemes hindering foreign investments;
- Bureaucratic hurdles;
- Red tapism;
- Lack of co-ordination between government agencies;
- Weak intellectual property rights
- Laid-back attitudes prevailing in the system;
- Political uncertainties;
- Poor infrastructure;
- Non-transparent guidelines and policies in many sectors.

B. Exit barriers (Risks)

- High direct and indirect taxes;
• Exit policy;

• Weak intellectual property rights;

• Legal framework;

• Bureaucratic hurdles in remitting money;

• Lack of co-ordination between RBI and other concerned agencies;

• Conflicts with income-tax department;

• Axing and altering evoking high risk of contract violation;

• Corruption perception.

India has empathised with the significance of the globalization wave sweeping all over the world and the realisation has set in that blocking the FDI gateway had brought about protected economy, antithesis of globalized economy.
It is evident that FDI is hold on India's globalization discharge has been pervasive and invigorating. Consequently, "with each dose of FDI globalization gets accelerated." FDI is a gateway to globalization, for India.