CHAPTER - II

CONCEPTUAL VISION

Country system is composed of subsystems like financial, communication, marketing systems etc. In a similar fashion, the world system is composed of country systems and when the countries are viewed as systems then the globe is the super-system (Figure 2.1 and Figure 2.2). A country is a system. Hence, the system approach concept of management is a befitting approach to research the significance of “FDI - A Gateway to Globalization in India”.

Figure 2.1: The Globe, a Super-System Comprising Country Systems

Figure 2.2: The Country System Comprising Integrated Systems
FDI enters into the economy by way of the country's sub-systems—finance, transportation, communication, technology etc. And as a consequence, trigger off growth activities, nourishing the sub-systems - imports of energy, data or matter result in system growth. For example, if FDI enters in the communication system - part of the economic system - then it triggers off growth activities, nourishing the communication system.

The economic sub-system, which is growing as a result of the imported FDI, interacts with the sub-systems integrated in the economic system, and in the process, stimulates interaction activities amongst the subsystems that brings about overall system growth with synergy. Thus, FDIs, if brought in and utilised judiciously, will accelerate the growth and productivity in the host country and further, will accelerate the globalization discharge (Figure 2.3). But, if the economic system simulates closed system, then barriers obstruct FDIs from interacting with the host's economic system, incurring opportunity costs of "growth with synergy".
Figure 2.3

Illustration of the Model: FDI - A Gateway to Globalization
Assumptions: All the systems are defined, well-established, and open

Stage - 1

Economic System
Stage 1: Entry of FDI into the economic system and growth of the economic sub-system due to the import of FDI.

-----------------: Signify growth

Stage - 2

Economic System
Stage 2: Interactions amongst the integrated sub-systems in the economic system.
-----------: Signify growth
----------: Signify interaction
Economic System
Stage - 3: Economic system grows as the comprising integrated systems grow by achieving synergism.
-------- : Signify growth

Country System
Stage - 4: Interactions amongst the integrated systems, including the growing economic systems, in the country system.
-------- : Signify growth
---------- : Signify interaction
Stage - 5: Country system grows as the comprising integrated systems grow by achieving synergism.

Stage - 6: International economic integration through FDI – A Gateway

--- : Signify growth

---- : Signify interaction
Stage 7: "FDI – A Gateway to globalization" – The world system grows in scope and the systems globalize by way of international economic integrations.

- : Signify growth
  → : signify interaction

Growth with synergy necessitates the economic system being characterized by symbiosis, which is the existence of relationship between systems, interacting co-operatively in co-ordination, producing positive synergism. Dysfunctional relationship between systems produce negative synergy. Thus, the economic system needs befitting and optimum management to bring about synergy and growth, by way of the incoming FDIs. Otherwise FDIs, by causing negative synergism can be counter-productive.
When a country behaves as host or source site for FDIs, its system gets integrated with global system which wide opens various channels for multivariate socio-economic activities.

An open system has many interfaces with its environment which permits interaction across its boundary by receiving input from outside the boundary and delivering outputs to its environment. The economic system needs behaving as an open system for allowing entry of FDIs and facilitating the proliferation.

An open system has the following six significant characteristics, making an open economic system more desirable to a closed economic system.

1. **Input from outside**: Open systems are self-adjusting and self regulating. When functioning properly, an open system reaches a steady state or equilibrium. The characteristic enhances the dynamism and adaptability of open economic system. The system imports energy from outside and grows over the period of time. Thus FDI in the open economic system boosts the growth of economy over the period of time.

2. **Entropy**: All dynamic systems tend to run down over time, eventuating entropy or loss of energy. Open system resist entropy by seeking new
inputs or modifying the processes to return to steady state. Open economic system can resist entropy by way of attracting FDIs and modelling itself as an adaptable FDI environment. The check and balance mechanism inhibited in the system facilitates the modification process to attain a steady economic state or maintain a dynamic equilibrium. On the other hand, a closed economic system results in entropy or lowering of efficiency.

3. Process, output, and cycles: Open systems interact with the environment, produce useful output and operate in cycles of continuous flow path. Thus, an open economic system by engaging in constant activities enhances the capacity for productivity.

4. Differentiation: Open systems have a greater tendency toward an increasing specialisation of functions and greater identification of their components. The tendency cultivates emergence of separate subsystems which further sponsor interactions.

5. Equifinality: Being more open to interactions, open systems provide differing courses of action and a variety of paths. The different courses of action promote competing strategies to achieve objectives. Thus, an open
economic system is conductive to competitive strategies where as a closed economic system nurtures its protection.

6. Differentiation: Open systems have a tendency toward an increasing specialisation of functions and greater differentiation of their components. The tendency cultivate emergence of separate subsystems which further sponsor interactions.

No system is totally closed or totally open. That is why, the country systems are characterised by the degrees to which they are open or closed.

A closed economic system nurtures the consequent positive entropy by way of protection from outside interests. Thus, price of protection is inefficiency. Consequently, India needs FDIs for socio-economic interactions and integrations to complement the globalization agenda.

INVESTMENT BARRIERS

Foreign investors encounters investment barriers of two types at the host site:-

A. Entry Barriers

B. Exit Barriers
Investors’ main motive of investment is maximisation of the Return on Investment (ROI). Entry barriers are hurdles to foreign investment and exit barriers to its ROI, (Figure 2.4, Page No. 26). On that account, both the barriers operate against investors’ motives.

The host site’s social political, economic and technological state of affairs impact on investment barriers and their significance. Entry barriers cultivate climate of investment uncertainty and exit barriers, climate of investment risk.

**A. Entry Barriers:** Entry barriers fashion foreign investment difficult and inconvenient. Thus, the system of a country, for behaving as open system, needs lowering both the entry and exit barriers. These barriers necessitate investors incurring supplementary expenses, thanks to extra time taken and increased energy expanding, to cut across, and consequently, bring upon investors, time expenses and energy expenses, that in addition add to the opportunity costs, often rendering the investment nonviable and unattractive. Consequently, entry barriers cultivate climate of investment uncertainty.

Entry barriers can range from schemes hindering foreign investments to non permission. Following are significant entry barriers:

- schemes hindering foreign investments;
- (24) -

- bureaucratic hurdles;
- red tapisms;
- lack of co-ordination between government agencies;
- weak intellectual property rights;
- laid back attitudes prevailing in the system;
- political uncertainty;
- poor infrastructure;
- non-transparent guidelines and policies in many sectors.

Consequently, entry barriers enforce climate of uncertainty on the investors.

**B. Exit Barriers** : Exit barriers are impediments to the return on investment. Investors are driven by the Return on Investment (ROI) motives. Exit barriers levy risk on ROI, cultivating apprehensions of diminishing the yield. The barriers psyche foreign investors in addition to pruning and/or obstructing the return on investment. Investors expend extra outlay managing the psychic expenses. Consequently, investors expend monetary expenses and psychic expenses besides opportunity costs of investment. Hence, exit barriers cultivate climate of investment risk.

The following are significant exit barriers:
- (25) -

- direct and indirect taxes;
- exchange control;
- multiple exchange rates;
- government restrictions and regulations on outflow of the return on investment;
- profit remittance restrictions;
- expropriation of investment.

Consequently, exit barriers enforce climate of risk on the investors.

Entry barriers incorporate the following barriers:

1. Time expenses
2. Energy expenses

Exit barriers incorporate the following barriers:

1. Monetary expenses
2. Psychic expenses

The roles of entry and exit barriers toward hindering foreign investments are illustrated in the following Figure 2.4.
Figure 2.4
Barriers to FDI

**Time expenses:** Entry barriers cultivate realisation of investment, a time consuming experience, constraining investors to incur time expenses.

**Energy expenses:** Entry barriers necessitate supplementary investment efforts to push through the barriers and consequently, drain away investors’ energies.

**Monetary expenses:** Exit barriers bring about increase in expenses of investment. Investors are motivated by optimum return on investment but, on the flip side - the host site, by imposing exit barriers, enables taking away significant shares of the investors' return and in certain cases, expropriation of the
returns. Besides, investors incur opportunity costs of investment and encounter obstructions to its flow. Consequently, such sites are not favoured for FDI.

**Psychic expenses:** Foreign investors are subject to psychic expenses by reason of risks of return on investment impediments and risk management.

Foreign investors experience supplementary risk and uncertainties enforced by investment barriers - entry and exit barriers. High investment barriers greatly reduce the comparative advantages of the host site. India need to lower both the entry and exit barriers for promotion of a prospective host site for foreign investment.

**FOREIGN INVESTMENT BARRIERS AND HOST SITE CATEGORIES**

From the host site perspective, the host site for foreign investment can be broadly categorised based on the degrees of entry and exit barriers imposed by them (Figure 2.5).
Guarded Host: The host country imposes high entry barriers but low exit barriers. The guarded host is restrictive and selective about the entry of FDIs. FDIs are assigned priorities based on their types, forms and perceived values. The host country is investment friendly towards the foreign investments getting high priorities based on their needs. Foreign investors don’t envision such sites as investment friendly for the country projects protectionism attitudes.

Protected Host: The host site imposes high entry and exit barriers on foreign investment. The host country has negative opinions about the
significance of foreign investment towards growth and productivity of the country.

The Government protects the economy from foreign influence. Since the country system behaves as closed system, suffers from positive entropy due to want of flow and circulation of resources in the system and, as a result, retards the multiplication of resources. Consequently, the country is vulnerable to financial crises.

**Skimming Host:** The host country enforces low entry barriers but high exit barriers, thus, allowing easy access of investment into the system but on the other hand, inducing high cut-backs on the return on investment. The host country is more motivated by the return on investment; the host country is more motivated by the resources accumulated through high exit barriers than sustenance of the incoming foreign investments. Since the return on investment tends to diminish by way of investment in the country, foreign investors could refrain from taking such risks.

**Globalizing Host:** Here, the host country puts on moderate entry and exit barriers. The country would have been gradually lowering the investment barriers through check and balance mechanisms, learning from the experience of diminishing productivity associated with imposing higher barriers and consequently, is on the road to globalization.
Globalized Host: With less obstructions from entry and exit barriers, the flow of investment is smooth and convenient. Since the host appreciates the role of foreign investment for growth and productivity, the host is investment friendly and makes convenient the entry and flow of investment in the systems by lowering both entry and exit barriers, for gaining optimum investment synergy and achieving globalization.

FDI AND INFRASTRUCTURE

FDIs can be counter productive in the absence of a befitting infrastructure. Sound infrastructure ensures optimum utilisation of the technologies, resources, expertise, innovations, competencies etc., accompanying with FDIs. The economic growth of a country is subordinate to the investment and growth in infrastructure, and their optimum utilisation. Poor infrastructure brings about its inefficient utilisation and non availability for economic movements. Consequently, FDIs for India’s globalization agenda, can be counter productive, if the efforts are not confirmed by investment in infrastructure, and its growth schedule.
FDI AND COUNTRY’S VISION

A country’s visions are its intangible infrastructures. A country’s growth and development are driven by the visions. Political, social, economic, and technological visions drive the country’s investment and development in the social and economic infrastructures.

To realise the social, political, economic and technological visions of the country, social infrastructure perform the integrative function, with economic infrastructure providing the support functions. Economic infrastructure is the hardware of the economy and social infrastructure, the software; and visions, the drivers of the economic discharge.

A country is as develop as its visions. Consequently, India’s FDI and globalization vision need introspection.

FDI AND INFORMATION TECHNOLOGY (IT)

The acceleration in the information technology revolutions has enhanced the significance of the sector in India’s globalization agenda. The Internet from an innovation, is emerging into a global information system offering
innovative ways for communication and business. The Internet - international networks of networks and information superhighway - as an electronic community is envisaged to have the presence of 150 million users and more than 80 percent of the corporate houses the world over by the end of 2000 AD. Internet complements globalization agenda, in which, distant happenings directly affect local economy, and what we do as individuals can have global consequences.

Consequently, FDI in the IT is envisioned cultivating India’s platform of global presence.

CONCEPTUAL VISION

As a country is a system, system approach is a befitting approach to research the significance of “FDI - A Gateway to globalization in India.” The system approach subscribes FDI for realising India’s vision of international socio-economic integration and further deduces that FDI propagates productivity in a well-founded open system, otherwise it can also be counter productive.

The investment barriers analysis prescribes lowering entry and exit barriers to cultivate comparative advantages for promoting a country as host site for FDI and furthermore, to transform itself into a globalized host.
Well-founded infrastructure has been substantiated as requisite platform and facet of globalization.

The conceptual vision foresees information technology (IT) converging to globalization phenomenon and seeks well-founded IT infrastructure for enhancing globalization discharge.

It reveals a country's vision signifying intangible infrastructure and globalization vision realising globalization dream.