Preface

FDI plays crucial role in bridging the gap between capital required and capital available domestically. It has played a significant role in shaping Indian economy since the first half of the decades of 1980’s. Globalization has further emphasized the need of FDI in different sectors of the economy to fall in line with the global production standards. Most of the countries of the world have evolved their economic policies to attract foreign investors creating further pressure for the economy in India.

Basically, FDI plays multidimensional role in the overall development of the host country. It may generate benefits through bringing non-debt creating foreign capital resources, technology up-gradation, skill enhancement, new employment, spillovers and allocative efficiency effects. It plays a complementary role in over all capital formation and filling the gap between domestic saving and investment. At the macro level it is a non-debt creating source of additional external finances. At the micro level it is expected to boost output, technology, skill level, employment and linkages with other sectors and the regions of the host economy. There are also costs and benefits for the countries involved both the investing country and the host country.

There is a fundamental disagreement on what constitutes the costs and benefits of FDI from the perspectives of the two countries. This disagreement is indicated by the big gap between those holding pro-globalization and those with anti-globalization, views. Moreover, sharing the gains of welfare between the host country and the home country depends not only on given market scenario, but also on the relative strength of the two countries in bargaining over the terms and conditions governing a particular FDI project. It is not necessarily an optimal market condition that one country’s gains must be accompanied by other country’s loss.

Kindleberger (1969) argues that the relationship arising from the FDI process is not a ‘zero-sum game’. For an effective FDI both countries must believe that the expected benefits to them must be greater than the costs. Such a trust and confidence are the essence of an agreement to be reached to initiate the understanding projects. Of course, such an assessment is in its ex-ante sense that often leads to a departure in the ex-post form. This gives the foundation of the present study that focuses on the FDI in Indian Pharmaceutical Industry.
Pharmaceutical industry has universally emerged an important driver in the economy and this is a 'life-line' industry. The importance of this sector is that its products can neither be substituted nor replaced. In fact, India is one of few developing countries which have comparative advantages in this sector. Pharmaceutical industry currently, accounts for nearly 2% of the GDP and 12% of India’s manufacturing sector and is a leading export sector. The Indian Pharmaceutical Industry today is in the front rank of India’s science-based industries with wide ranging capabilities in the complex field of drug manufacture and technology. It ranks very high in the third world, in terms of technology, quality and range of medicines manufactured. Indian pharmaceutical sector produces the entire range of medicines from simple headache pills to sophisticated antibiotics and complex cardiac compounds; almost every type of medicine is now made indigenously. In terms of trade balance it is the only Indian sector after apparels that have consistently given positive trade balance and is growing around 1.5 to 1.6 times of the country’s GDP growth rate and is known as recession free sector. Presently, 70 percent domestic requirement in bulk drugs and almost all the demands for formulations are met. Coping well with the rapid changes in this sector the world over, the Indian Pharmaceutical Industry has done well in the last few decades.

The study has dealt with the role of FDI in pharmaceutical industry for the period from 1991-2008. Performances and appraisals of pharmaceutical industry have been done in terms of trends in production, investment, profit, export and employment. The same parameters have been taken to explore the nature of interrelation between the FDIs vis-à-vis trends in production, investment profit, export and employment of pharmaceutical sector in India.