Chapter-VI

A Survey of Literature
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A SURVEY OF LITERATURE.

Foreign investment and foreign aid has been accorded an important place in the scheme of development finance in India. In fact majority of the developing countries lack resources and advanced technical know how to augment their economic prosperity. The paucity of indigenous savings is to be made up through foreign resources. Recognising the crucial role that foreign capital can play in supplementing domestic savings the government of India has adopted a liberal policy for securing foreign capital and technology. However, certain safe-guards were also provided right from the beginning to ensure that this is not used against national interest. All these aspects have been analysed, discussed and explored by eminent scholars, learned professors, researchers, planners, industrialists and specialists, on the subject. This chapter gives a brief review of the literature pertaining to foreign investment and foreign aid with particular reference to the role of international financing agencies like the World Bank, The IDA, The Asian Development Bank etc in the development of economic infrastructure in India.
Michael Kidron in 1965 carried out a study on foreign investments in India. This study is divided into four parts. Part I presents a rough profile of the nature of foreign business investment in India at the time of Independence and some of the factors which necessitated changes at different levels during post independence. Part II deals with the changing relations between the three wings of the modern sector - foreign private - domestic private and domestic state capital since then - Part III discusses the foreign private capital as it is evolving, and Part IV outlines the economic and social impact of foreign investment in the country.

Prof. V.K.K.V. Rao and U. Narain made an exhaustive study in 1964 on Foreign Aid and India's Economic Development. In their study the authors have discussed the vital role that foreign aid can play in the economic development of a country. The authors also examined the possibilities and limitations and were of the opinion that the limitations of international aid posed quite insignificant problems which can and will be overcome easily. The possibilities of international aid are immense which do not constitute an insurmountable burden on the economies of the more developed nations. In fact, the burden would be
much less than the current burden of armaments and would hardly impose a dent on current expenditure of a luxurious and wasteful character. All that is required is a change in psychology, the recognition on the part of nations that they are all parts of the World, and on the part of their citizen that they are all members of the human race.

Nihar K. Sa kar's book entitled, "Foreign Investment and Economic Development in Asia", is a collection of papers on aspects of foreign investment in Asia. The papers focuses attention on trends of capital movements, comparative rates of return, the relationship between domestic savings and foreign resource inflows, motivation and modus operandi of Multinational Corporations, the cost and benefits of foreign direct investment and the nature of bargaining, and the structure of incentives and capital mark et etc. The papers also bring together data on foreign private investment in developing Asia and a comparison of the trends in foreign private investment in India, Pakistan and Iran was also made.
A Book entitled, Foreign Technology and Investment, published by the National Council of Applied Economic Research discusses the importance of the quality of technology. It highlights the fact that the quality of technology has an important influence on the quality and production costs of the products it helps to produce. It brings out the close connection between post war imports of technology and capital, and shows that foreign investment is often a way of getting around the governments refusal to allow higher royalties.

A study by Bepin Behari was carried out in 1963 on 'The Facets of Foreign Aid'. He has discussed the problems related to Foreign aid. It attempts to discuss some of these facets with a view to show the difficulties confronted by the aid giving and the aid receiving countries. The study is divided with four sections. Section I deals with general background and raises certain basic issues. Section II relates to the problems facing developing countries for which the Indian example has been taken for study. The main emphasis of this section has been to show the different types of difficulties which arise during the courses of industrialisation.
While overcoming these impediments India has endeavoured to extend a helping hand to others in a similar situation. In section III the problems which are faced by an industrialized country have been discussed for which the economic difficulties of France and her efforts in solving them have been cited in detail. Finally, section IV deals with administrative difficulties which are often a digression from the main topic of foreign aid.

A study by Herbert Fies was carried out in 1964 on "Foreign Aid and Foreign Policy." His study discusses the ideas on foreign aid and foreign policy. He shows the idea of material progress emerged during nineteenth century and how loans and other forms of financial assistance were, until recent times, subject to the flow of world trade. Although Feis is principally concerned with U.S. policy, his arguments ranges over the whole problem of foreign aid in world politics, today and has a wider application than the analysis of one major country's role. Underlying his obvious concern with the mechanics of U.S. Aid is a profound moral concern with the best ways of maintaining world peace.
A study on, "Foreign capital and Economic Development; Japan, India and Canada was done by Nurul Islam in 1958. In his study he has discussed certain problems which arise on the absorption of foreign capital in the economic development of underdeveloped countries. This study is an attempt at analysing such problems in the light of past experiences of three selected countries namely, Canada, Japan and India. The study is divided into four parts. Part I provides an analytical discussion of some of the problems involved such as the inflationary impact of capital import, the role of supplementary domestic savings and of complementary factors in the form of technical skill and entrepreneurship and the long run effect of foreign capital investment in accelerating or encouraging domestic capital formation and enterprise. Part II attempts to throw light on the factors governing the pattern of foreign investments. Part III discusses firstly, the long run problems of debt service and repayment in terms of its internal economic implications and also in terms of its external economic circumstances of a debtor country in the context of changing pattern of trade and balance
of payment and secondly the short run problem of meeting regular debt service payments abroad vis-a-vis the fluctuating state of balance of payments. Finally, Part IV considers in detail the various facets of interrelationships between domestic and foreign enterprise in the same and related fields of activity.

A study by S. K. Taneja in 1976 on "India and International Monetary Management" brings into focus the problems which India faces in International monetary matters. The study does not offer an international financial history. Nor much of what is written is meant for the expert in the field. Instead of its aim is to clarify the problems which a developing country like India, faces in managing its external monetary problems.

Recently a study was conducted by C.P. Bhambhri, on World Bank and India. This study discusses the impact of foreign aid on India's political economy. This study examines the status of India vis-a-vis the World Bank and explore the role of the World Bank in influencing critical decisions for India's future as an independent economic entity.
M. Balasubramaniam in his work "Role of foreign aid in India's economic development", (Indian Finance Annual Year Book, Calcutta-1966) analysed the need for foreign aid in the interest of economic development of our country. Inadequancy of domistic savings calls for use of foreign capital which helps to supplement domestic savings and fills the gap in foreign exchange resources and also brings advanced technology and know how. He discusses the benefits of foreign aid and suggests selectivity to save foreign exchange.

The Economic Times in its editorial of November 14th 1984 also discussed the role of Asian Development Bank in promoting economic development in Asian countries and its relationship with India.

Mathew Kurien in his article entitled "Role of external assistance in India with special reference to irrigation" (Bhagirath, New Delhi, July 1984) makes an appraisal of the irrigation projects and water management programmes and discusses the importance of irrigation in Indian economy. The author here gives details of external assistance utilised for the development and contribution of irrigation facilities and feels
that it may become a pace setter for the country.

Larosicre, J.D. made an intensive study of various sources of energy and its socio economic significance in attaining rapid industrialization in his article "Energy and the Third World - A Medium Term Perspective", (Foreign Trade Review, New Delhi- April-June, 1980). The author here also suggests certain steps for optimum utilisation energy.

Mukherji, A. in an article on "The future of International Finance", (Commerce, Bombay, Aug. 2nd 1986 pp 212-215) made an explanatory study concerned with governing the conduct of international economic transactions, the methods of financing deficits and surpluses in international payments and the manner in which countries are expected to respond to such deficits and surpluses.

Raja Kutty S. in his paper "World Bank's role in agricultural and rural development programmes", (The Economic Times - 11 Feb. 1984, New Delhi pp. 1-8) examines the World Bank's role in the agricultural and rural development programmes in India. The author observes that the World Bank's emphasis during the 60's was mainly on agricultural and rural development and during these years its investment in these sectors
has been increasing in cumulative terms. The author further observes that the World Bank and its affiliate I.D.A. has been overwhelmingly financed projects for fertilizers, farm credits, irrigation, seeds, storage marketing and processing of farm products etc.

R. K. Sharma in his paper, "Foreign Aid to India" (Socialist India ; New Delhi August, 5-, 1972), pointed out that the role of external aid has been continuously increasing during the plan period. Thus according to him, the increasing tempo of investment in the Indian economy has been sustained substantially through increased inflow of foreign aid. He has also referred to the implications of heavy dependence on foreign aid and suggested self reliance in greater measure.

Siddarth. S. Mehta in his article, "The World Bank - Assistance to Indian industrial Sector" (The Economic Times - New Delhi, Sept. 28, 1983 p. 5) has examined the impact of World Bank's loan on various industrial sectors of India.
The Commerce Research Bureau (Commerce Bombay, October 8, 1983, p. 549) has made a detail study of the IBRD and IDA loan assistance to India for developmental purpose. It further examined the contribution and magnitude of loan assistance in different sectors of Indian economy.

Ram Vichar Sinha in his paper "Resource Mobilisation and our plans" (Yojna - November 16-30, 1986, New Delhi p. 4) examined and identifies the problems associated with the financing of the Five Year Plans right from the first plan. He feels that the uncovered resource gap of Rs. 14,000 crore in the seventh plan has got to be covered through deficit financing. In view of this foreign aid has to be pursued but with caution only, "as a means of resource mobilisation for development. Alongwith it efforts will have to be strengthened to achieve the goal of self-reliance by giving impetus to our export industry."
The Ministry of Finance is responsible for the administration of finances of the Government. It is concerned with all economic and financial matters affecting the country as a whole, including mobilisation of resources for development and other purposes. It regulates the expenditure of the government including the transfer of resources to States. This Ministry comprises three departments namely (1) Department of Economic affairs (2) Department of expenditure (3) Department of revenue.

The Department of Economic affairs inter alia - monitors current economic trends and advises the government on all matters having a bearing on internal and external economic management including investment regulation and external assistance.

Various issues of the World Development Reports which are published annually by the World Bank IBRD since 1978 has also been consulted. Each edition examines the current world economic situation and prospects as they relate to development and offers a detailed analysis of a particular topic or sector of importance in economic and social development.
Considering the above studies it can be said that there has been emphasis on this particular aspect of foreign investment in India. Still this aspect deserves attention. A coordinated and concerted efforts of unbiased economists, planners, and policy makers with a deep insight into the problem is necessary to understand the problem and to find out ways which can induce more and more foreign capital in the country which will go a long way in the development of economic infrastructure in the country.