Course: BBA Part III

Paper: XV

Topic: Advantages of FDI

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1. Increased Employment and Economic Growth

Creation of jobs is the most obvious advantage of FDI. It is also one of the most important reasons why a nation, especially a developing one, looks to attract FDI. Increased FDI boosts the manufacturing as well as the services sector. This in turn creates jobs, and helps reduce unemployment among the educated youth - as well as skilled and unskilled labour - in the country. Increased employment translates to increased incomes, and equips the population with enhanced buying power. This boosts the economy of the country.

2. Human Resource Development

This is one of the less obvious advantages of FDI. Hence, it is often understated. Human Capital refers to the knowledge and competence of the workforce. Skills gained and enhanced through training and experience boost the education and human capital quotient of the country. Once developed, human capital is mobile. It can train human resources in other companies, thereby creating a ripple effect.

3. Development of Backward Areas

This is one of the most crucial benefits of FDI for a developing country. FDI enables the transformation of backward areas in a country into industrial centres. This in turn provides a boost to the social economy of the area. The Hyundai unit at Sriperumbudur, Tamil Nadu in India exemplifies this process.

4. Provision of Finance & Technology

Recipient businesses get access to latest financing tools, technologies and operational practices from across the world. Over time, the introduction of newer, enhanced technologies and processes results in their diffusion into the local economy, resulting in enhanced efficiency and effectiveness of the industry.

5. Increase in Exports

Not all goods produced through FDI are meant for domestic consumption. Many of these products have global markets. The creation of 100% Export Oriented Units and Economic Zones have further assisted FDI investors in boosting their exports from other countries.

6. Exchange Rate Stability

The constant flow of FDI into a country translates into a continuous flow of foreign exchange. This helps the country's Central Bank maintain a comfortable reserve of foreign exchange. This in turn ensures stable exchange rates.

7. Stimulation of Economic Development

This is another very important advantage of FDI. FDI is a source of external capital and higher revenues for a country. When factories are constructed, at least some local labour, materials and equipment are utilised. Once the construction is complete, the factory will employ some local employees and further use local materials and services. The people who are employed by such factories thus have more money to spend. This creates more jobs.

These factories will also create additional tax revenue for the Government, that can be infused into creating and improving physical and financial infrastructure.

8. Improved Capital Flow

Inflow of capital is particularly beneficial for countries with limited domestic resources, as well as for nations with restricted opportunities to raise funds in global capital markets.

9. Creation of a Competitive Market

By facilitating the entry of foreign organisations into the domestic marketplace, FDI helps create a competitive environment, as well as break domestic monopolies. A healthy competitive environment pushes firms to continuously enhance their processes and product offerings, thereby fostering innovation. Consumers also gain access to a wider range of competitively priced products.

For a multinational corporation, FDI in India is a means to access new consumption and production markets, and thereby expand its influence and business operations. It can gain access not only to limited resources such as fossil fuels and precious metals, but also skilled and unskilled labour, management expertise and technologies. FDI also enables an organisation to lower its cost of production- by accessing cheaper resources, or going directly to the source of raw materials rather than buying them from third parties. Often, there are various tax advantages that accrue to a company undertaking FDI. This can occur when the home country allows tax deduction on foreign income, or when the recipient country allows tax deductions and benefits for organisations incurring FDI in that country. Additionally, this can happen when the recipient country has a more beneficial tax code than the home country.