

Fdi and economic growth

Economics



Foreign Direct Investment and Economic Growth Purity Sahara Bind

According to Slow swan model, economic growth can be attributed to three variables. Population growth, savings (capital) and technology. Therefore according to theory we know that higher saving rates leads to growth but only temporarily. So the actual growth and persistence rise in living standard is achieved only by technological process. Thus, the technological improvement is vital for economic growth. One of the major methods of increasing the technology is by foreign direct investment. A company can invest overseas if it sees there is enough opportunity. Read about comparison export promotion vs import substitution

Thus when a firm directly invests in production or other facilities in a foreign country, and maintains effective control of said investment. Foreign firm need to invest in country other than home country because they see ample opportunity in host country. The host country also benefits from FED. A developing country generally lacks capital, technology and human resource as well. Thus any increase in capital and technology transfer will increase the consumption and economic wellbeing of the host nation. The investing firm will bring improved technology and skilled manpower. This will improve the host nation.

International Monetary Fund (MIF) guidelines consider an investment to be a foreign direct investment if it accounts for at least 10 percent of the foreign firm's voting stock of shares. However, many countries set a higher threshold because 10 percent is often not enough to establish effective management control of a company or demonstrate an investor's lasting

interest. There is a widespread belief among policymakers that foreign direct investment (FED) enhances the productivity of host countries and promotes economic development.

This belief stems from the fact that FED not only provides direct capital financing but also creates positive externalities via the adoption of foreign technology and know-how. Foreign direct investment also helps in creating new jobs in the host nation. When foreign investors invest in host nations they generally require new people in the host country to bring about the operation. Thus any new investment is bound to create the employment opportunity. Similarly any inflow of capital also helps in balance of payment, foreign currency flow inward in the economy which helps the economy as a whole.

The other benefits of FED are Technology Transfers Inflows of foreign capital into the country Helps in the transition to privatization (when state owned firms are sold to foreign investors) Improves the countries' infrastructures Brings foreign executives into the country with sufficient knowledge of macroeconomic global and local situations Forms of FED Purchase of assets FED and economic growth By Purity-Sahara because of existing business, local financing may be possible, eliminate competitor.

New investment When no local entity is available for sale, new investment is done to harness the existing opportunity. There is no inherited problems but the company may face long dead time to generation of sales. International Joint-venture In this type of investment there is shared ownership with local and/or other non-local partner and the risk are shared. In Nepal In Nepal

foreign investors used to shy away from investing in the past due to various risks associated with such projects resulting from long gestation and pay back periods.

FED is an instrument for the transfer of technology from the technology-rich countries to technology-deficient countries. Similarly, leadership and managerial skills transferred by foreign investors and eventual expansion of local knowledge and skill base, whether at the enterprise level or at the sectorial level, are considered yet another spillover impact of foreign investment. The business community in Nepal are seeking greater flexibility towards foreign direct investment since long time.

The government has also given some freedom to foreign investment in Nepal, but it seems not enough has been done yet. Most of the advocates argue that being in the middle of two developing Asian giants, Nepal can capture the advantages of both nations by being neutral ground for trade with both parties. But this has not realized yet. Similarly, theoretically, Nepal has huge potential for hydro power but due to the government reluctance of giving the hydro projects to the foreign investor, this potential is also not being realized and is going in to vein and the nation's power woes continues.

The first thing the government can do to attract FED is to get economic and political stability in the nation. Without stability no one would want to risk huge sums of money in a volatile nation. Other thing that need to be done is to start substantial economic projects within the country by home investors. Investing huge sums of money on projects will help in getting the investors' confidence and overtime they will invest in Nepal.

We need FED (especially from India) to undo the constraints to Export Promotion, Import Substitution and Freedom to set Interest Rates arising from the fixed exchange regime. FED is also needed to develop our townships and cities as local and regional centers of modernization and social change and to create a bigger middle class much faster. So that we can depend and sustain our pluralistic democracy with much higher per capita income. Thus one thing is what is well known s that foreign direct investment is essential element when it comes to the growth of a nation.

No country can achieve a growth without help from foreign investors as it will need capital to produce output. Thus foreign direct investment should be encouraged in Nepal and policy which will help in getting the foreign investors need it be clearly and properly devised. Sources <http://www.Undermined.Com/facts/Nepal/foreign-direct-investment> [http:// www.Investments.Gob.NP/portal/index.PH? Up= content&p2= 9#](http://www.Investments.Gob.NP/portal/index.PH?Up=content&p2=9#). Pseudonym-LLC [http:// http://www.Slideshows.Net/Lordship/fed-economic-growth](http://http://www.Slideshows.Net/Lordship/fed-economic-growth)