It also, in case of a loan inflow,

It cannot easily increase its real savings without further lowering the consumption standards of the people. FDI provides a way out of this difficulty.

(ii) Technology:

FDI is expected to bring in improved technology and thereby add to the productive efficiency of domestic labour and capital. It also introduces fresh managerial techniques and work culture and thus promotes domestic entrepreneurship.

(iii) Growth Stimulant:

If directed into appropriate sectors and commodities, FDI can contribute to a balanced development of the economy. This in turn, accompanied with generation of additional employment and income, provides growth multipliers.

(iv) Balance of Payments:

Inflow of FDI improves balance of payments of the host country. And, it causes a reverse flow only if the venture earns profits or if it closes down.

(v) Better than Loans:

FDI is preferable to inflow of foreign loans. Loans have to be serviced and repaid irrespective of the way they are used. FDI, on the other hand, creates a reverse flow of resources only if the venture succeeds or closes down. Also, in case of a loan inflow, the productive use is the responsibility of the host country, while in case of FDI the productive use is ensured automatically.

(vi) Growth Atmosphere:

FDI creates a favourable atmosphere for the development of ancillary industries.