Preface

Foreign direct investment (FDI) is traditionally considered in development literature as instrumental for economic growth of countries, particularly the developing ones. It acts as a panacea for breaking out of the vicious circle of low savings–low income and facilitates import of capital goods and advanced technical knowhow. The worldwide globalization drive in leading to liberalization of foreign capital regimes has resulted in a spurt in the presence of multinational corporations. The growth rate in absorbing FDI has been so fast during the recent years that in 2012, the developing economies have attracted more FDI flows than the developed economies accounting for 52% of global FDI flows (UNCTAD 2013).

With FDI gaining so much prominence in the backdrop of liberalized investment policies, the welfare of developing economies ought to be significantly affected. Besides, these countries are subjected to phenomenal multi-dimensional impact on a host of other economic, social and environmental variables. The remarkable enthusiasm among developing countries to attract FDI, coupled with empirical results often contradicting the general contention of favourable effects calls for a close inspection into the diverse aspect and consequences of FDI on the host economy. A theoretical analysis of the different facets of FDI is indispensable, especially for formulation of appropriate policies for foreign capital.

In this book we attempt to delve into the complex interaction of FDI with different other factors. While FDI boosts up the efficiency of domestic producers, it impinges on the labour market affecting wages, unemployment levels, and wage inequalities on the basis of skill and gender; it also has important implications on the socio-economic issues like child labour, agricultural disputes over special economic zones (SEZ) and human capital formation through externalities. The empirical evidences with regard to most of the effects of FDI are highly mixed and reflect the fact that there exist a number of mechanisms that interact with each other producing opposing results. We try to provide the theoretical underpinnings behind
the inherent contradictions and show that the final outcome depends on a number of country-specific factors like endowments of other production, technological, and institutional factors.

We give an outline of the established doctrines relating to FDI and elucidate on the newer ones to trace the nature and direction of desirable policy parameters that may be relevant in the present scenario. We incorporate the effects of FDI within the traditional Heckscher-Ohlin model and introduce different kinds of distortions that developing countries are rampanty plagued with, like imperfections in the factor markets and product market and presence of non-traded goods. We consider the cases where FDI enters not only the export and import-competing sectors but also the intermediate and services sectors. Other characteristics typical in developing countries like labour market segmentation, with the existence of skilled/unskilled labour, male/female labour and child labour have also been taken into account. Thus, although not exhaustive, we have tried to integrate FDI within the important existing economic systems to find out its much-debated role in developing economies.

Although a number of theoretical articles relating to FDI have been published in different journals, very few books address all the issues and dimensions related to FDI comprehensively in a simple theoretical and formal framework, as we do here. The major part of the book is based on Chaudhuri’s own, and sometimes collaborative, research, carried out in Kolkata, India and published in different international journals over the last decade and a half. Throughout the book we have used the simple ‘hat calculus’ developed and popularized by R.W. Jones in his two seminal articles, Jones (1965, 1971). We felt the necessity to discuss in detail on extensions of the simple two-sector general equilibrium models, inclusion of non-traded goods and factor market imperfections and the techniques of measuring social welfare in a small open economy. All these give a future economist a thorough idea how simple general equilibrium models can readily be used to analyze different complex problems pertaining to the developing world and to suggest remedial measures based on findings of the theoretical models. The contents of the book can be a part of a course on trade and development at the postgraduate level. These can as well be a small part of a course on labour economics in universities in the developing world. Although the book is primarily intended towards postgraduate students and researchers who are pursuing theoretical research on trade and development, it is also aimed at suggesting alternative policies to policymakers in the developing nations for application to development projects.

The book was written over a period of more than 3 years. It was first, Sagarika Ghosh, Senior Editor, Springer (India) who came up with a proposal of writing a book based on policy-oriented theoretical research on the developing economies like India. After satisfactory progress in the first 2 years, Chaudhuri fell seriously ill and was practically out of his academic activities for several months. At that time, it looked impossible that the book could ever be completed. After his recovery Chaudhuri could finally complete the work at least to his satisfaction. He wishes to express his heartfelt gratitude to Profs. Sarmila Banerjee, Mahalaya Chatterjee and other colleagues at the Department of Economics, Calcutta University, and, to
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Sarbajit Chaudhuri

Reference

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