"Increasing trend and Pattern of FDI in India"

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Abstract
Foreign direct investment is generally considered, by many international institutions, politicians and economists, as a factor which enhances host country economic growth, as well as the solution to the economic problems of developing countries. Usually FDI is defined as an investment involving the transfer of a vast set of assets, including financial capital, advanced technology and know-how, better management practices, etc. This investment is carried out by an entity (a firm or an individual) in foreign firms, involving an important equity stake in, or effective management control. Since capital formation and technological improvement are the motor of economic growth, FDI is expected to promote host countries' economic growth. In 2002, OECD reports that countries with weaker economies consider FDI as the only source of growth and economic modernization. For this reason, many governments, particularly in developing countries, give special treatment to foreign capital. It is common that countries have public agencies whose aim is to attract foreign investments using public funds, which shows that governments are willing to bear some costs to attract such investments.
Key Words: Infrastructure, Privatization, Inefficient Transport.

INTRODUCTION

World-class infrastructure in both the urban and outlying areas is essential for India's expansion. Due to constraints of land availability and rising real estate prices, consideration of alternative site locations in the rural areas necessitates connectivity between urban centers and ports to rural areas. In addition to inefficient transport options, these areas also contend with frequent water shortages and power outages. With the encouragement of the World Bank, India started privatizing public utilities, dams, ports, and highway projects in the 1990s. Yet infrastructure projects have not attracted FDI from outside the country as expected.

India's restrictive policies and extensive public sector, coupled with an encumbering bureaucratic system, had prevented foreign investment necessary to economically stimulate the impoverished country. Not only were the federal government's regulatory bodies slow and boundless, most projects were also dependent on individual state governing bodies, which were often influenced by local sentiment influenced by labor parties and rampant corruption. Foreign investors were restricted from most sectors. Those sectors open to FDI were limited by the allowed percentage of ownership, which required a company to enter into a joint venture or shared technical collaboration without substantial management control.

Under the Industrial Policy Resolution, new reforms were initiated in 1991, with the primary focus on building the technology and communication service sectors. The liberalization of their technology sector catapulted India into the forefront of the emerging markets as a leader in outsourcing of communication technologies and software programming, which expanded into other engineering and high-tech services. The diffusion of professional outsourcing now proliferates in medical and financial services. In consideration of the success, India continuously addresses liberalization policies in many other sectors.

Despite opening of many sectors, policies continue to limit foreign ownership of corporations to 51%. Still protective of small and medium enterprises (SMEs), particularly the textile, arts and crafts, cottage industries, and small retail shops that employ 70% of the working population, India's central government continues to restrict FDI in those sectors in response to the protests of local businesses and as protectionist support for villages. However, retail is slowly opening up, allowing 51% majority ownership in single-brand name stores, such as Nike or Starbucks. The recent joint-venture between Wal-Mart and the Indian telecom company Bharti Enterprises Ltd. makes Wal-Mart the first foreign retail chain store.

The concept of foreign direct investment (FDI) is different from the concept of foreign investment. The foreign investment covers private and official investment. This private investment consists of FDI, Portfolio investment and export credit. Therefore, FDI is a part of foreign private investment. In the age of reduced concessional domestic assistance and growing need for capital to fuel rapid economic development, countries are tying hard to get finance for the other developed and cash rich countries of the world. In this competitive world, greater access to capital and more importantly efficient and effective use of foreign investment are necessary for promoting higher growth of output, exports and employment. Foreign investment fills the gap between domestic savings and investment. It consists of portfolio investment, foreign direct investment and official transfers. Foreign investment and technology have been exploited by a number of developing countries. Economic growth is proportional to the capital formation. Less developed countries having less income and low saving have not been able to take their economics to a take off stage. They find it difficult to mobilize domestic savings for the financing of projects that are badly needed for economic development. In the early stage of development their capital market is itself underdeveloped. During the period in which capital marked is in the process of development, foreign capital is essential as temporary measure. Hence domestic sources are supplemented with foreign investment for the objective of better and healthier economy. The economic health of the many countries in Eastern Europe, Russia and Central Asia are well of due these inputs. Even the communist countries like China have welcomed the foreign investment to make their economies better. Most of the advanced countries of today developed due to the foreign investment, which played a vital role in making them high-income countries. Liberalization policies as a whole had a favorable effect on the economy. Malaysia succeeded in the expansion of employment and production especially for exports and has recorded remarkable economic growth rates of around 8 or 9 percent since the introduction of liberal policies. A certain tendency of improvement in the level of Total Factor Productivity is also found. Foreign companies contributed a great deal to the expansion of production (especially for exports) and employment, and the accumulation of capital stocks since the introduction of FDI liberation policy. In addition, they have also contributed to the diversification of the industrial structure Ingo non-traditional, non-resource-based industries.

Thus it can be summarized that FDI accelerates host countries' growth by (1) augmenting domestic savings and investment, (2) helping transfer of technology from the 'leaders' (3) increasing competition in the host country's domestic market, (4) increasing exports and earning foreign exchange, and (5) imparting several other types of positive externalities (spillovers) to the economy at large. On the other hand, however, it is sometimes suggested that FDI may (1) repatriate funds almost to the same extent as it brings in funds, (2) transfer technologies that are inappropriate for the host country's factor proportions, (3) "kill" indigenous enterprise through an intense competition, especially due to the strong economic power of multinational companies that bring FDI, (4) primarily target the host country's domestic market and thus not increase exports, (5) cause distortions in the host country's policies so as to benefit the foreign investors and (6) create distortions in the host country's social and economic structures by infusing inappropriate social and cultural norms and behavior patterns.

1.2 THE ROLE OF FDI IN INDIA'S ECONOMIC DEVELOPMENT

Development Economics one finds broadly two main approaches to the concept of economic development. The first one often known to the traditional approaches to the concept of economic development strictly in economic terms. For the exponents of traditional approach economic development implies abstained annual increase in GNP (or GDP) at rates varying from 50 to 70 percent or more together with such alteration in the agriculture declines in both, whereas that of the manufacturing and tertiary sectors increases. The policy measures thus suggested are the ones which induce industrialization at the expenses of agriculture development.

During the 1970s development economists redefined the concept of economic development in terms of the reduction or elimination of poverty, inequality and unemployment in the context of a growing economy. In this phase "Redistribution with growth" become the popular slogan. Lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, change in the composition of inputs and output that generally include shifts in the underlying structure of production away from agriculture towards industrial activities the organization.

Similarly, the initial phase of their economic development, the underdevelopment countries need much larger import. This creates a gap between the earning and expenditure of foreign exchange. Foreign investment presents a short-run solution to the problem. Foreign investment is generally in the form of private foreign participation in certain sector of the domestic economic. The main advantage of this form of assistance is that generally the foreign investor also brings with him technical expertise machines, capital goods, etc. which are scarce in underdeveloped countries. The disadvantage is that a large part of the profits are repatriated to the foreign investor. It the underdeveloped country in question choose to depend too much on private foreign investment, it would be risking too much interference in the conduct of its affairs. This would be against the long term interests of the country.

FDI is the need of time in a cut throat competition when every country wants to improve technology, increase employment, reduce inflation rate, reduce current account deficit without increasing the liability of the economy. For this purpose FDI is the only option of choice because it does not increase the liability of the country, FDI is respectable borrowing as it is not an aid. Another option for financing the economy is the deficit financing but it was not good option because at that time inflation was moving around 12 percent to 13 percent. It was dangerous to opt for deficit financing. Than FDI was the last resort to go because it is non debt borrowing and payment are done according to the performance of the investment. It can be said that FI can fill the gap between desired investment and locally mobilized savings, and on other side the euphoria that hype about wooing multinationals to invest in India rests on the belief that such investment will significantly augment capital available for investment, bring in up-to-date technology and improve access to foreign market. Foreign investment provides external resources which help to reduce BOP deficit which otherwise would add to external debt of the country. It brings with it technological knowledge while transferring machinery and equipment to developing countries. It can stimulate domestic investment through forward and backward linkages.

1.3 Theories of Foreign Investment

The first attempt to explain the FDI was considered Ricardo's theory of comparative advantage. However, FDI cannot be explained by this theory, which is based on two countries, two products and a perfect mobility of factors at local level. Such model could not even allow FDI. Thus, as Ricardo's comparative advantage theory fail to explain the rising share of FDI, other models were used, such as portfolio theory. This attempt was designed to fail, because the theory explains the achievement of foreign investments in a portfolio, but could not explain the direct investments. According to the theory, as long as there is no risk or barriers in the way of capital movement, the capital will go from countries with low interest rates to countries with high interest rates. But these allegations have no basis in reality, and the introduction of risk and barriers to capital movement erodes the veracity of the theory, and capital can move freely in any direction (Hosseini 2005). Although more realistic, the new theories of international trade still cannot capture the entire complexity of FDI and other forms of international production. The new theories of international trade, still cannot explain foreign direct and other forms of international investment.

Industrial Organization Approach

This theory comes into form when in the 1960s economic analysis of direct foreign investment began in the earnest. These studies explained the US-type direct foreign investment as a natural consequence of the growth and expansion of oligopolistic firms. As Stephen Hymer’s clear that direct foreign investment is typical of an oligopolistic firm, which has some sort of superiority, searching for control in an imperfect market in order to maximize profits. This in turn increases the receipts of the country which directly affects economic growth rate. As the oligopolistic firms in their nature are a product differentiation and the development is in there system. This theory suggest that firms venture into direct foreign investment because of their oligopolistic characters and their investment and operation abroad enable them to survive by strengthening and expanding oligopolistic systems. As oligopolistic market is one of the market nature which prevail in a competitive market. In this there are few buyers and sellers in a market and price determination is not easy.

Business Administration Approach

This theory is of the views that the activities of direct foreign investment as a natural consequence of the growth of a firm. In this the decision – making of the firm changes from the traditional domestic market to a world market orientation and firm goes through changes, first with the strengthening of its export section, then to the independence of the international business section, next to the establishment of a foreign subsidiary, and finally to the central control of subsidiaries all over the globe. Consequently, the firm faces new problems such as negotiation with foreign governments, the handling of foreign currencies and other assets dealing with foreign labourers, arbitrations of international conflicts, and so forth.

Raymond Vermon’s Product Cycle Theory

It is published in 1966, it deal with the evolution of the Multinational Companies and FDI patterns. Its special feature lies in the combination of a three stage theory of innovation, growth and maturing of a new product with the Research and Development (R&D) factor theory. In the first stage the sequential development of the product i.e. the new product stage which emerges in the home country following innovations as a result of intense R&D activities by the company. Next stage is characterized by the mature product stage, when the demand in the foreign countries expands and the host country firms begin to produce competing home country enterprise is induced to invest abroad for taking advantage of its technology and increasing demand for the product. It stimulates foreign investment in subsidiaries. In the last stage the product becomes standardized and competition grows in the world market.

ECLECTIC THEORY

Now although we have seen several different theories which have evolved for analyzing determinants and affects of FDI, an exceptionally flexible and increasingly popular one is the "Eclectic Theory" of John Dunning postulates that specific factors of both, firm and the country are necessary for firm's investment. When it is most profitable for a multinational Firms to advantages to internationalize its oligopolistic advantages in a given foreign country.

1.4 OBJECTIVES:

The specific objectives of the research are to:

(i) Study trends and growth pattern of foreign Direct Investment flows in India.

1.5 HYPOTHESES

1. Increasing rate of FDI has a positive impact on GDP in India.

1.6 METHODOLOGY

The proposed research intends to examine the determinants of FDI inflows; their growth, regional pattern and sectoral composition. The study based on secondary data collected from various national and international published sources. The major sources of data of FDI for all India level is UNCTAD Statistical Database which provides data on various aspects of FDI inflows and outflows of different countries. Apart from this source, data has been collected from World Investment Report, Economic Survey, RBI database, Government of India concerned ministries, indiastst.com, CMIE publications, etc. Data has been gathered from the individual states from their statistical department especially related to infrastructure, human capital and energy. The reference period for the study has covered from 1991-92, beginning year of the economic reform in India, to 2005-06 for which the data is available. The collected data has been suitable transformed before making any meaningful analysis. The study mainly confined to the National level data. However, interstate disparity in the distribution of FDI flows has been examined by collected the data from the states. For this purpose, 15 major states, which together constitute over 75 percent of total FDI flows of country, has been selected for intensive study. The collected information on various aspects related to the FDI flows has been analyzed with the help of suitable statistical techniques, fitting trends in the FDI flows and estimated the sectoral share of FDI.

1.7 Analytical Techniques

There have been many studies to analyze the determinants of FDI Inflow. It can be broadly classified into two streams: economic and socio-economic factors. The economic factors include the target country's market size, income level, market growth rate, inflation rates and current account positions, while socio-economic factors include political stability and quality of infrastructure. (Thomas, Leape, Hanouch & Rumney, 2005; Wint & Williams, 2002)

A test is conducted to study the degree of correlation between different economic factors and FDI inflow in India. The model used is Karl-Pearson's Correlation equation :

The mathematical formula for computing r is :

$$r = \frac{n\sum xy - \left(\sum x\right)\left(\sum y\right)}{\sqrt{n\left(\sum x^2\right) - \left(\sum x\right)^2}\sqrt{n\left(\sum y^2\right) - \left(\sum y\right)^2}}$$

Where

r = Karl Pearson's coefficient of correlation

n = number of years taken into consideration

x = different economic factors such as GDP, REER, WPI, TO

y = FDI inflow in India

SECTORAL COMPOSITION OF FDI FLOWS

1.2 FDI in Infrastructure

Infrastructure sector has an important role in the growth of Indian economy. Its growth has been relatively slow so FDI in infrastructure sector has a positive role in Indian Economy. It’s up to 49% is allowed for investing companies in infrastructure/service sector (except telecom sector) through FIPB route. The infrastructure sector constitutes power, non-conventional energy. Petroleum and Natural gas, telecommunication, air-transport, ports construction activities including roads and highways and real estate. The infrastructure sector accounted for 1.38 percent of total FDI inflows from 2000 to 2006. In the year 2001 FDI in infrastructure sector rapidly increase with the amount 45343.20 Rs. Million beside the year 2002. Its increased from 2000 to 2006. The table 6.1 shows that FDI inflows in infrastructure sector in India. Initially the inflows were low but it is a sharp rise in investment from 2003 onward.

Table: 1.1
FDI INFLOWS IN INFRASTRUCTURE SECTOR IN INDIA

Year	Amount (Rs. Million)	Amount (US$)	Percentage (Rs.)
2000	4420.70	78.62	1.45
2001	45343.20	806.36	14.83
2002	9688.90	172.30	3.17
2003	13401.30	238.32	4.38
2004	13048.90	232.05	4.27
2005	13604.10	241.93	4.45
2006	15467.20	275.06	5.06
2007	16243.20	288.86	5.31
2008	19546.80	347.61	6.39
2009	21457.60	381.59	7.02
2010	25346.10	450.74	8.29
2011	27658.30	491.86	9.05
2012	32154.90	571.83	10.52
2013	48321.50	859.32	15.81
Total	**305702.70**	**5436.45**	**100.00**

Source: Compilation of Data ,SIA Articles (1991-2013) .

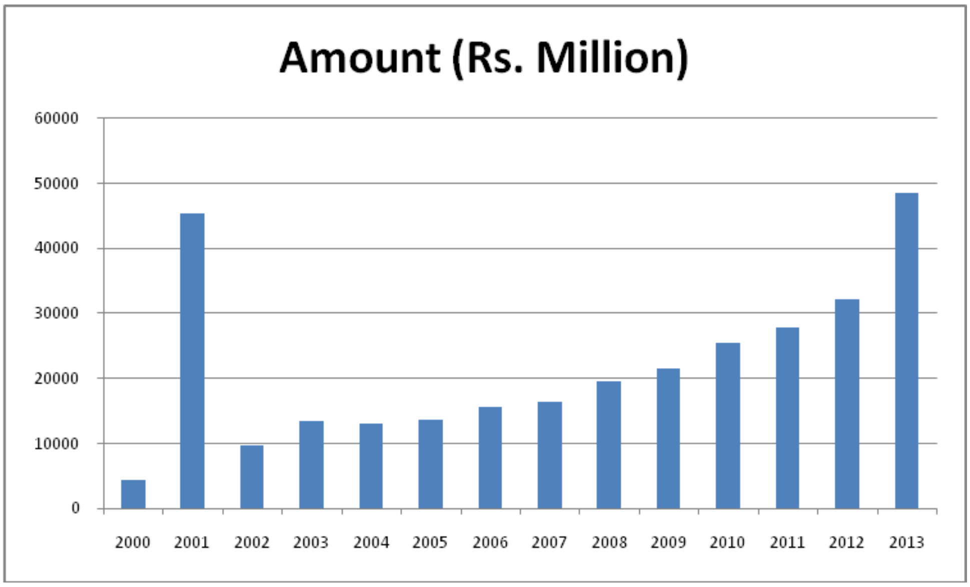


Table : 1.2

COUNTRY-WISE FDI INFLOW IN INFRASTRUCTURE SECTOR IN INDIA [2000-2013]

S.No.	Country	Amount in Rs. Million	Amount in US$	%age with Inflows
1	Mauritius	131063.27	2896.24	65.06
2	Bermudas	18787.72	418.83	9.41
3	USA	12395.03	264.92	6.19
4	Netherland	10010.07	220.17	4.95
5	Singapur	4064.05	90.48	2.03
6	U.K.	3522.29	76.92	1.73
7	Japan	3416.40	77.33	1.74
8	Malaysia	2509.96	53.99	1.21
9	U.A.E.	1496.44	32.45	0.73
10	Germany	1475.80	32.24	0.72
11	Denmark	1450.23	33.28	0.75
12	Cyprus	1423.54	31.10	0.70
13	Spain	1416.04	31.16	0.70
14	Hongkong	1225.67	27.19	0.61
15	Australia	838.72	18.23	0.41
16	Others	6128.59	136.34	3.06
Total		**201223.21**	**4451.43**	**100.00**

Source: Compilation of Data ,SIA Articles (1991-2013) .

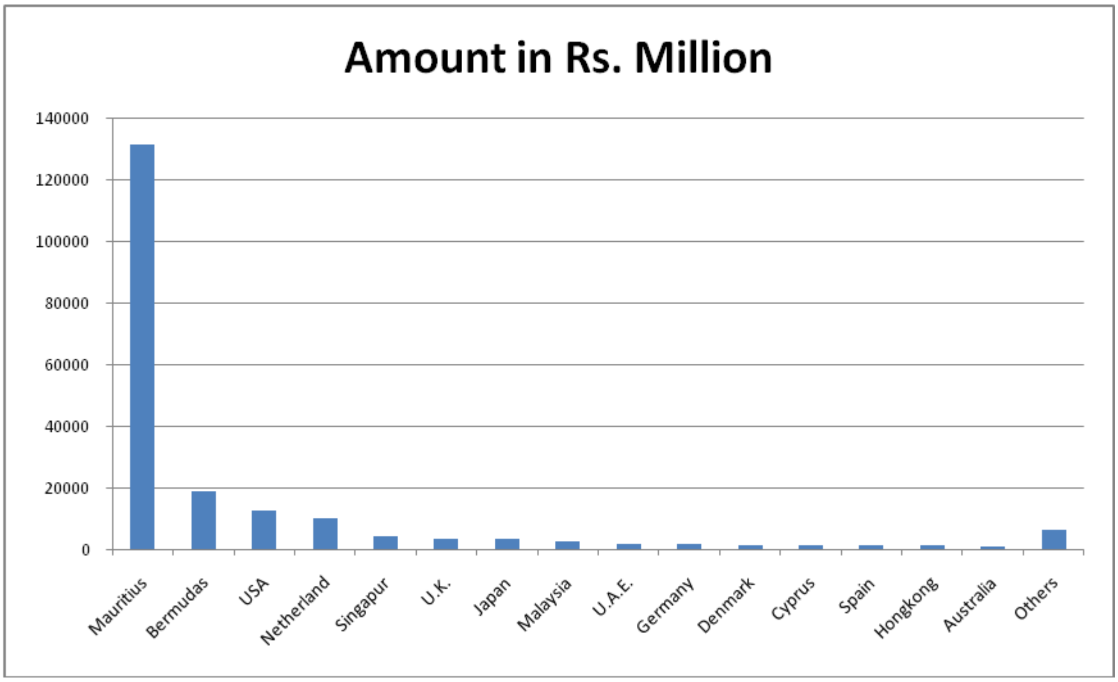


Table 1.2 presents country-wise FDI inflow in infrastructure sector. Mauritius has the first position received the amount 131063.27 Rs. Million (65.05%) during the period 2000-2006. Bermudas, USA, Netherland and Singapur have the amount 18787.72 (9.41%0, 12395.03 (6.19%), 10010.07 (4.95%) and 4064.05 (2.03%) share in FDI inflows in infrastructure sector. While many countries as Germany, Spain, Hongkong and Australia have less hare during the same time period shows the every country share of FDI in infrastructure sector.

Table: 1.3

YEAR-WISE FDI INFLOWS IN INFRASTRUCTURE SECTOR [2007-2013]

(In Rs. Million)

S.No.	Sector	2007	2008	2009	2010	2011	2012
1	Telecommunication	3428.20	42477.56	7748.61	5859.00	6004.37	7046.99
2	Construction Activities	992.46	966.62	1936.32	2120.93	6419.88	5118.03
3	Housing & Real Estate (including Cineplex, multiplex integrated townships & commercial complex etc.	-	1206.21	-	-	-	879.61
4	Ports	-	692.79	3.93	5421.32	624.67	21.69
5	Air Transport (including Air-freight)	-	-	-	-	-	537.82
6	Power	4760.17	8246.68	30494.60	1797.04	2503.55	1513.45
7	Education	-	-	-	-	24.85	257.95
8	Health						
	A. Medical& Surgical Appliances	101.13	1925.74	1177.43	99.14	227.31	72.62
	B. Hospital and Diagnostic Centres	-	266.06	1316.60	782.26	689.38	2225.83

Source: Compilation of Data, SIA Articles (2000-2013).

Telecommunication sector in India is the third largest across the global and second largest among the emerging economies of Asia. This sector comprise telecommunication, radio, paging, cellular, mobile / basic telephone service etc.. India received FDI inflows of 154641.00 Rs. Million during 1991-2006 which is 7.59% of the total FDI inflows. There has been a steady flow of FDI in telecommunication from 1991-2005 but there is an exponential rise in FDI inflows after 2005. The amount of FDI inflows high in the year 1995 which is 178230.28 Rs. Million with the percentage 57.71. This amount decrease from the year 2001 as defined by table.

In the case of country-wise FDI inflows. Mauritius is the first country of investment remains of the top among the investing countries in this sector. Other investing countries in the telecom sector are Russia and USA. The total amount of approvals for telecommunication industry have been of the order participation of 425470.05 Rs. Million 15.12% of the total investment. Telecommunication sector rank IInd in the list of sectors in terms of cumulative FDI approved from August 1991 to 2013.

Heavy investment came from Mauritius. In terms of most attractive locations in India New Delhi and Mumbai are on the first and second position. The total numbers of foreign collaborations in Housing and Real Estate Sector is 18. Maximum numbers of foreign collaborations in Housing and Real Estate sector is with Mauritius, Singapore and U.K. The top five Indian companies which received maximum FDI inflows in this sector are: Emaar MGF Land P. Ltd., Emaar MGF Land P. Ltd., Shivajai Marg Properties, Shyamaraju & Company (India) Pvt. Ltd., and India Bulls Infrastructure Development.

Construction Activities Sector

Construction activities sector includes construction development projects viz., housing, commercial premises, resorts, educational institutions, recreational facilities, city and regional level infrastructure, township. The amount of FDI in construction activities during 1991 to Dec 2006 is 54168.15 Rs. million which is 26.93 of the total inflows received. The construction activities sector shows a steep rise in FDI inflows from 2005 onwards Major investment in construction activities is received from Mauritius during the same time period. In the year 2000 its received992.46 Rs. million beside the year 2001 its amount increased properly till 2013. Table 6.4 shows the year-wise inflows of FDI in construction activities sector.

Housing and Real Estate Sector

Housing and Real Estate sector account 23252.13 of FDI inflows which is 8.54% of the total inflow during 2000-2013. There is an exponential rise in the amount of FDI inflows to this sector after 2005. Table shows that the FDI inflows in subsector of infrastructure housing and real estate (including Cineplex, multiplex, integrated townships and commercial complex etc.) is 1206.21 Rs. million in 2001 and this amount increase 2005 to 2006. Heavy investment i.e. 61.96% came from Mauritius. In terms of most attractive locations in India New Delhi and Mumbai with 34.7% and 29.8% shares are on the first and second position. The total numbers of foreign collaborations in housing and real estate sector is 18 with an equity participation of US$ 1.0 bn during 1991-2008. Maximum numbers of foreign collaborations in housing and real estate sector is with Mauritius (7), Singapore (2) and U.K. (2).

FDI up to 100% is allowed in education sector under the automatic route. Education sector received 2353.23 Rs. million of FDI inflow from 2000-2006. Education sector shows a steep rise in FDI inflows from 2004 onwards. Heavy investment in education sector came from Mauritius followed by Netherland and USA respectively. The share of FDI inflows in education sector is approximately nil in the year 2000, 2001 and 2003, but its share is 24.85 Rs. million in year 2004 and its share increased properly till 2006.

In the education sector FDI inflows 24.85 Rs. million in 2004 and its share increased till 2013.

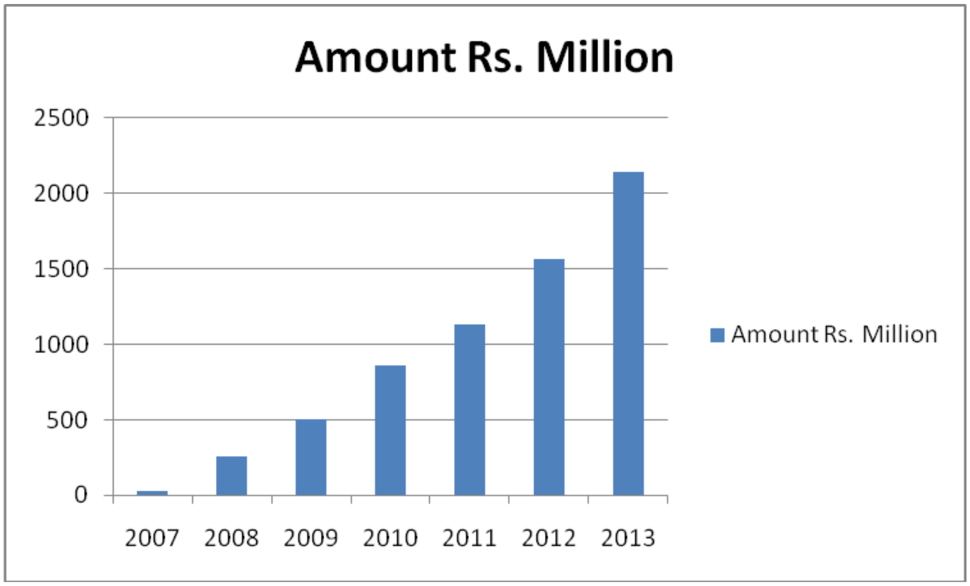
Table: 1.4

FDI INFLOWS IN EDUCATION SECTOR – 2007-2013

Year	Amount Rs. Million	Amount US$ Million	Percentage of Inflows
2007	24.85	0.40	0.38
2008	257.95	4.16	3.98
2009	498.43	8.04	7.69
2010	862.27	13.91	13.30
2011	1127.06	18.18	17.38
2012	1567.45	25.28	24.17
2013	2146.98	34.63	33.11
Total	**6484.99**	**104.60**	**100.00**

Source : Compilation of Data ,SIA Articles (2007-2013) .

FDI Inflows in Education Sector



In the table 1.4 Health sector has two part – (a) Medical and Surgical and Appliance, (b) Hospital and diagnostic centers.

Total FDI inflows in health sector is 101.13 Rs. million in 2000. Its amount is high in the year 2002 and 2005 with amount 2494.03 and 2298.45 Rs. million. Its amount decreased in 2006 with 1544.77 Rs. million. The total amount of FDI inflows in infrastructure sector is 275025.69 Rs. million with the given sub-sector of infrastructure. However, insufficient and poor conditions of India's infrastructure are the major factor to the slowdown in growth which reduces the first and enthusiasm for FDI from investors and economic growth of the country. Further, insufficient power supply inadequate and unmaintained road, an over-burdened railway system, severally congested urban areas, may continue to plague the Indian economy in the coming years.

1.3 FDI in Manufacturing

The share of manufacturing sector in India's real GDP has risen over the years. However, this increase has not matched the expectations for two main reasons. *First*, the expectations from manufacturing sector were high due to the emphasis on heavy industries led development in the planning process in India; and, *second*, the countries with similar levels of development on the eve of planning in India, especially the East-Asian Economies including China, have been able to make their presence felt in the global market for manufacturing products to a far greater extent than India. In Table 6.1, we provide a synoptic view of the importance of the manufacturing sector and its two components, *viz.*, registered and unregistered manufacturing in India's real GDP. It can be seen from Table 6.1 that the average share of manufacturing sector in real GDP increased from about 13 per cent during 1970-75 to about 15.1 per cent during 2002-07, *i.e.*, approximately by just about 2 percentage points over a period of more than three decades. Even in the year 2009-10, the share of manufacturing sector in India's real GDP is just about 16.1 percent.

Over the years, the growth of real income in the registered manufacturing has been higher than that of unregistered manufacturing sector, resulting in the average contribution of the unregistered sector shrinking to almost half of that of the registered sector during 2002-07. The situation has remained more or less unchanged even during the post 2007 period.

Table 1.5: Contribution of Manufacturing Sector to India's Real GDP

Average GDP (In Rupees Crore at 1999-2000 Constant Prices)

State/Country	Employment in Unorganised Sector as a % of Total Employment in Manufacturing Sector			
	1989-90	1994-95	2000-01	2005-06
Andhra Pradesh	79.4	70.4	78.4	75.9
Bihar	85.3	88.0	91.1	91.8
Delhi	79.7	80.5	88.4	79.1
Gujarat	70.0	69.9	66.4	69.6
Haryana	63.3	52.1	58.3	60.5
Karnataka	96.8	94.0	81.1	78.1
Kerala	83.8	65.7	77.4	81.4
Madhya Pradesh	76.3	74.4	84.7	87.2
Maharashtra	67.3	64.6	71.7	71.4
Orissa	93.7	94.1	94.5	93.3
Punjab	59.6	55.2	67.5	60.6
Rajasthan	83.2	76.0	83.2	82.8
Tamil Nadu	78.0	71.2	75.2	72.7
Uttar Pradesh	86.6	88.4	91.2	89.5
West Bengal	89.2	85.4	91.1	91.4
India (excluding J & K)	80.9	78.2	82.3	81.2
Total employment ('00)	432383	423611	450685	448964

Source: Based on the data from the 45th, 51st, 56th and 62nd rounds of NSS (for unorganised manufacturing sector) and from ASI (for the organised manufacturing sector).

Table 1.6: Contribution of Manufacturing Sector to India's Real GDP

Average GDP (In Rupees Crore at 1999-2000 Constant Prices)

Period	Average GDP of Manufacturing Sector	Average GDP of Registered Manufacturing Sector	Average GDP of Unregistered Manufacturing Sector
1970-75	64405 (13.2)	33545 (6.9)	30786 (6.3)
1975-80	81744 (13.0)	42547 (7.2)	39108 (6.6)
1980-85	1014.12 (14.3)	55571 (7.8)	45841 (6.5)
1985-90	133812 (14.7)	79756 (8.7)	54056 (6.0)
1990-95	171233 (14.6)	109247 (9.3)	61987 (5.3)

1995-2000	248504 (15.7)	162847 (10.3)	85657 (5.4)
2000-05	316307 (15.1)	212370 (10.1)	103938 (5.0)
2001-06	338105 (15.0)	228619 (10.2)	109486 (4.9)
2002-07	367898 (15.1)	249583 (10.3)	118315 (4.9)
2008-09	(15.6)	(10.4)	(5.2)

Note: Figures in parentheses are % share of the respective sector in the Real GDP (1999-2000 prices), except for 2008-09. For this year, figures are based on GDP at 2004-05 constant prices.

Source : http://www.mospi.nic.in/mospt_cso_rept_pubn.htm, National Accounts Statistics-Back series 1950-51 to 1999-2000 and http://www.mospi.nic.in/mospi.

1.4 FDI in Services

Services sector is particularly important for India for various reasons. The ratcheting up of the trend rate of GDP growth of the economy reaching 9.4 per cent in 2006-07 was to a great extent due to the ratcheting up of the trend growth rate in the services sector of around 10 percent since 2004-05. Even in 2008-09 when GDP growth was relatively lower at 6.7 per cent due to global recession, services growth was at 9.7 per cent with its share in GDP at 57.3 per cent. State wise growth rate of GSDP is also closely associated with higher growth of tertiary sector. The primary importance of services sector in the growth process of India and most of the states of India has been strongly established in the last two decades. India is also moving towards a services dominated export growth. Even in 2008-09 when the merchandise export sector was severely affected by the global recession, services exports grew by a respectable 12.5 percent. The openness of the Economy reflected by total trade including services as a percentage of GDP shows a remarkable increase from 27.4 percent in 2000-01 to 52.1 percent in 2008-09.

Services Export Growth

India is moving to a services dominated export growth with services export growth at 28.0 percent and 22.1 percent respectively for the years 2006-07 and 2007-08. The CAGR for export of services at 28.7 percent is higher than the 19 percent for merchandise exports during 2000-01 to 2006-07. Even in 2008-09 when the world economy was affected by the global recession, India’s services exports grew by 12.5 percent. In the second half of 2008-09 export growth of services was less negative at -0.53 percent compared to merchandise export growth of -16.6 percent. However, in the first half of 2009-10, the impact of global recession was visible on India’s services export sector as well, with exports declining by 21.4 percent though it was better than the fall of merchandise exports by 28.5 percent. Exports of services are valued at $ 102 billion compared to $185.3 billion of merchandise exports in 2008-09, thus forming 55 percent of merchandise exports.

Conclusion

1. FDI has proved to stimulate economic growth and development in many of the countries. It not only promotes capital formation but also improves the quality of capital stock. In order to promote competitive markets developing nations must reduce restrictions on

FDI. We need to learn from the experiences of successful countries. The ultimate motive should be to minimise the "bads" and maximise the "benefits".

2. It is time to realize that increasing global inter-dependence is leading to quick shift in the comparative advantage. East Asian economies are graduating from first stage labour-intensive export orientation to the second stage skill-intensive export orientation. International sub-contracting for labour-intensive export sectors can play a major role in promoting export growth in segments which are competitive for India. Flexible policies should be formulation for encouraging international sub-contracting in view of the diversified nature of India's economy and availability of a wide variety of skills at low cost. However; sector-specific policies presently do not favour such an arrangement. An illustration is the garments sector. As this sector is reserved for the small scale, joint ventures can be set up only if they undertake export obligation for 75 per cent of production. The existing policy thus inhibits the flow of domestic and foreign investment in the garments export sector.

3. FDI in India is confined to heavy, complex and technology-intensive industries, labour-intensive electronics/electrical, and textile and clothing industries have been the thrust sectors in East Asian economies and China. These sectors have high export orientation and their potential for employment-generation is enormous. The East Asian experience suggests that the development of a dynamic manufacturing export sector helps in sustaining industrialization. Exports have emerged as a strategic instrument for economic and social development, and need not be treated a residual activity. There is an imperative need to fine-tune FDI policies and incentives for raising the export orientation of foreign investment. Giving MNCs a fair share of domestic market in these sectors could be a significant step in this direction.

Suggestion

1. There is no dilemma in allowing FDI into the domestic sectors. There is no doubt that government has a major role to play. The level and composition of FDI that should be allowed is a challenge that needs to be addressed. There could be policies that can allow us to extract maximum benefits from foreign investments that outweigh the losses we suffer from them.
2. Therefore present study is one step forward to analyse the positives of FDI for Indian industry.
3. In contrast to foreign lenders and portfolio investors, foreign direct investors, typically, have a longer-term perspective when engaging in a host country. Hence, FDI inflows are less volatile and easier to sustain at times of crisis.
4. While debt inflows may finance consumption rather than investment in the host country, FDI is more likely to be used productively.
5. FDI is expected to have relatively strong effects on economic growth, as FDI provides for more than just capital. FDI offers access to internationally available technologies and management know-how, and may render it easier to penetrate world markets.

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