India's Economic Growth and the Role of Foreign Direct Investment

Singh, Lakhwinder

Department of Economics, Punjabi University, Patiala 147002 India

22 December 2007

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Lakhwinder Singh
Department of Economics
Punjabi University
Patiala 147002
India.

1. **Introduction:**

India is widely recognized as an emerging global economic power. Indian economy recorded rate of economic growth 8.4 per cent in the current fiscal year 2005-06. This is evidence enough for an economy to be called as high performing economy. The sustained high rate of economic growth in the first half of the first decade of the 21^{st} century has allowed India to join the club of high growth performing economies of East Asia and China. Indian policy makers have been encouraged to pursue more vigorously the on going reform program because of the fact that it is their firm belief that high growth is the result of liberal economic policy. Therefore, Indian policy makers are preparing through their painstaking endeavors to achieve double digit rate of growth in the coming years. Foreign direct investment has been seen as a dominant determinant to achieve high rate of economic growth because it brings in scarce capital resource, raise technological capability and increase efficiency through enhancing domestic competition. Chinese experience of achieving high growth through foreign direct investment has been sited as worth emulating policy lesson for the Indian economy. However, the skeptics have argued that the high growth rate of the Indian economy is path dependent and have had the long experience of institution building which ultimately resulted into high rate of economic growth. Furthermore, the structure of the Indian economy is such that it is highly rural oriented and large section of population is still very poor and lacking essential capabilities to participate in the modern process of economic growth. There is growing evidence of marginalization of the large section of the rural population and increasing unemployment in the rural areas. The economic advisory council of Prime Minister of India has recently cautioned for adverse consequences of such a grave situation in the face of high performing Indian economy. The market oriented policies normally have exclusionary impact which needs to be prevented through articulate response of the policy makers. Therefore, this paper strives to examine current status and future prospects of the Indian economy with special reference to the role of foreign direct investment in achieving higher rate of economic growth and the removal of structural constraints. The paper is divided into five sections. Apart from introductory remarks in section one, section two examine the growth and structure of the Indian economy since 1950-51. Important changes in the foreign direct investment policy of the government of Indian are discussed in section three. The analysis of trends of FDI and likely impact has been presented in section four. Concluding remarks are presented in the last section.

2. **Indian Economy: Current Status and Future Prospects**

Per capita income of India was US $ 620 in the year 2004. However, per capita income when measured in terms of purchasing power parity (PPP) was US $ 3120 in the year 2004. Thus, both the figures of per capita income of India provide her the status of a low income country. It is little on the higher side of average per capita income of the low income countries. India's low per capita income is mainly because she supports huge size of population which was 1.08 billion- approximately 17 per cent of the world population- in the year 2004. In absolute terms, India is now recognized as one amongst the large sized economies of the world. When we judge Indian economy in terms of gross national product, it was US $ 673.2 billion. Accordingly, her global rank was 11th in the year 2004. This is quite a respectable global rank and the expectation is that in the next quarter century or so she will be occupying third position just next to USA and China. Furthermore, this is being justified by both international institutions and the leading economists on the basis of recent growth momentum shown by the Indian economy have designated her as a running tiger. India has been placed at a better pedestal in terms of achieving global position compared even with China because of the strong institutional system developed by democratic India over the years. However, the matter of fact is that India is now widely acclaimed and recognized as an emerging global economic power. This recognition granted by the credible experts and institutions is a ground enough to look back and analyze how has India emerged as a faster growing country and how will

India sustain growth momentum in terms of constraints of huge size of population which is poor and looking for gainful economic opportunities.

India began her development program with the first five year plan in the year 1950-51. The policy process adopted during the early planning era fundamentally strived to achieve self reliant growth under the import substitution regime like many other Asian countries. This process has allowed Indian economy to initiate modern economic growth and as was expected to face numerous problems. Therefore, policies have to match to encounter the problems as and when aroused. This evolution of policy process and economic growth has ultimately resulted into the mature response of policy making and high rate of economic growth.[1] Indian economy has grown steadily at 4.36 per cent per annum during the period 1950-51 to 2004-05, that is, nearly five and half decades. During the same period, per capita income has grown at a rate of 2.02 per cent (Table 1). When we divide the whole period into two sub periods, that is, 1950-51 to 1979-80 and 1980-81 to 2004-05, the growth rates of GDP and per capita income recorded in the first sub period and second sub period differ substantially. The first period rate of GDP growth was 3.5 per cent which is typically known as the Hindu rate of growth associated with the name of late Raj Krishna. Per capita income increased at a rate of growth of 1.22 per cent during the first sub period. This growth of GDP and per capita income has been regarded as meager when viewed from the perspective of high performing Asian economies, but quite respectable compared with India's colonial period growth.[2] It is important to note here that the second sub period, that is, 1980-81 to 2004-05, recorded amazingly high growth rates which can very easily regarded as a departure from the Hindu rate of growth. The rates of growth of GDP and per capita income were 5.7 and 3.50 per cent per annum respectively (Table 1). If we divide the second sub period into two further sub periods, that is, 1980-81 to 1990-91 and 1991-92 to 2004-05, the growth rates perceptibly higher for the period 1991-92 to 2004-05 compared with the period 1980-81 to 1990-91. The growth rate of GDP during the eighties was 5.4 per cent and for per capita income it was 3.2 per cent per annum. Where as, the GDP and per capita income growth rates were 6.09 and 4.1 per cent per annum respectively during the period 1991-92 to 2004-05. This high growth rate of both GDP and per capita income compared with the previous period has been essentially attributed to the success of the pro-market oriented policies adopted by the Union government of Indian since July 1991.[3]

An important fact need to be noted here with regard to long run growth rate in the second half of the twentieth century is that the structural break in the growth has occurred at the year 1980-81 and not at 1991-92. The stepping up of the rate of growth in the 1980s has been essentially attributed to the expansionary macroeconomic policies of the late seventies

Table 1: Rates of Economic Growth of the Indian Economy, 1950-51 to 2004-05

(At 1993-94 prices)

Year	Gross domestic product	Per capita income	Sectors		
			Primary	Secondary	Tertiary
1950-51 to 2004-05	4.36	2.02	2.50	5.30	5.40
1950-51 to 1979-80	3.50	1.22	2.20	5.30	4.50
1980-81 to 2004-05	5.70	3.50	2.90	6.10	7.10
1980-81 to 1990-91	5.40	3.20	3.10	6.70	6.60
1991-92 to 2004-05	6.09	4.10	2.50	6.00	7.80

Table 2: Distribution of Gross National Product across Sectors

Year	Primary sector	Secondary sector	Tertiary sector
1950-51	59.20	13.29	27.51
1960-61	54.75	16.61	28.64
1970-71	48.12	19.91	31.97
1980-81	41.82	21.59	36.59
1990-91	34.93	24.49	40.58
2000-01	26.55	23.62	49.83

and the eighties resulted into expansion of aggregate demand. These policies also stepped up the investment-GDP ratio from 18.7 per cent in the 1980-81 to 24.1 per cent in 1990-

91. Trade liberalization in the late seventies and deregulation of industrial policies in the 1980s has substantially contributed in the acceleration of rate of growth in the eighties. The liberal import of capital goods and restrictions to borrow from international institutional sources has generated strains on the balance of payments. Government's debt financing from commercial borrowings along with current account imbalance due to liberalization of imports has culminated in the crisis of 1991. The occurrence of 1991 crisis has been used by some of the prominent economists as evidence against the sustainability of growth momentum which was unleashed by the expansionary macroeconomic policies initiated in the late 1970s and during the decade of 1980s[4]. It needs to be noted here that it has been recognized that the acceleration of economic has occurred in the 1980s which was a dramatic departure from the earlier three decades. This acceleration of economic growth rate was maintained in the 1990s[5]. However, there is further acceleration in the rate of economic growth in the early 21st century. The sect oral rates of economic growth also showed a similar acceleration except primary sector. An important distinction which can be noted from the sect oral growth rates is that tertiary sector recorded higher growth rate compared with secondary sector during the 1990s and beyond (Table 1). The engine of economic growth of the Indian economy is now service sector rather than industrial sector (Dasgupta and Singh, 2005).

The sect oral distribution of the GNP during the period 1950-51 to 2000-01 presented in Table 2 clearly show structural changes which has occurred during the second half of the twentieth century. The primary sector which was predominant in the 1950-51 with GDP share 59.2 per cent has reduced to a marginal sector with a relative share of GDP 26.55 per cent in 2000-01. The secondary sector has improved its relative position from 13.3 per cent in 1950-51 to near 24 per cent in the year 2000-01. Tertiary sector has emerged as a leading sector of the Indian economy and improved its relative share in GDP from mere 27.5 per cent from 1950-51 to nearly 50 per cent in 2000-01. The structural change that has occurred during the second half of 20th century provides the credence to the view that engine of growth of the Indian economy is service sector led. However, when we analyze the sect oral distribution of the work force, the primary sector is still the largest sector. The primary sector of the Indian economy has been continuously absorbing the largest size of work force. The work force engaged in the primary sector was 72 per cent in the 1951 and has been declining thereafter at a very slow rate compared with income decline. The work force engaged in the primary sector in the 2001 was nearly 57 per cent against the income share of 26.55 per cent. The secondary and tertiary sectors are increasingly absorbed more work force during the second half of the 20th century but their combined share remained below fifty per cent against the income

Table 3: Distribution of India's Work Force across Sector

Year	Primary sector	Secondary sector	Tertiary sector
1951	72.10	10.70	17.20
1961	71.80	12.20	16.00
1971	72.10	11.20	16.70
1981	68.80	13.50	17.70
1991	66.80	12.70	20.50
2000	56.70	17.50	25.80

share of 74 per cent (Table 3). The elasticity of factor substitution has clearly indicated the decline in the capacity of work force in primary and secondary sectors. The service sector has been providing gainful employment to high skilled urban work force and semi-skilled and low skilled work force has been facing employment famine like situation. The decade of the nineties has shown in the decline of work force absorption capacities of the primary and secondary sectors.[6] The challenge ahead for the sustainability of the high growth rate lies in terms of creating more opportunities for employment to the continuous increasing work force. The increase in employment also has a positive impact on the aggregate demand and thus has a capacity to further accelerate growth rate via increase in demand for consumption goods. Although high growth rates recorded recently, yet decline in the employment elasticity have not allowed the gains of growth to percolate down to the countryside. This has created a sharp wedge between the rural and urban India. Economic reform program has increased the doze of market economy beyond the tolerant levels of certain section of society especially of rural economy. One important symptom of the higher doze of market economy has resulted into wide spread crisis of agrarian economy and response of the farmers to commit suicides. The farmer suicides have been reported across the board and even from highly agricultural developed states of India (Gill, 2006). These problems have been well recognized by the Advisory Council to

Prime Minister of India and it is thus expected that in the near future more mature response of policy will be displayed by the government of India. It needs to be noted here that the policy makers have been encouraged to pursue more vigorously the existing policies to achieve further high rates of economic growth and the target is two-digit annual rate of economic growth.

3. **Foreign Direct Investment policy since 1991**:

Foreign direct investment policy of the government of India has been gradually liberalized. As early as in the year 1948 and 1956 (two industrial policy resolutions) government policy clearly reflected the need to supplement foreign capital and technology for rapid economic growth. The core objective of the foreign capital policy was that the control of industrial undertaking should remain in the Indian hands. However, the government had granted permission in certain cases for allowing establishment of exclusive foreign enterprises. Foreign capital was preferred in specific areas which bring in new technology and establish joint ventures with Indian partners. Government also granted tax concessions to foreign enterprises and streamlined industrial licensing procedures to accord early approvals for foreign collaborations. In the case of 100 per cent export of output, foreigners were allowed to establish industrial units. It needs to be noted here that under the Foreign Exchange Regulation Act (FERA) 1974 only up to 40 per cent of the equity holding of the foreign firms were permitted. Foreign investment was permitted under designated industries along with restrictions in terms of local content clauses, export obligations, promotion of R&D and prohibition by law the use of foreign brands (Hybrid domestic brands were promoted such as Ford Escort and Hero Honda). It needs to be pointed out here that the restrictions have been flouted frequently and relaxations were also granted. This process has culminated into gradual liberalization of government policy towards foreign capital. It is reflected in continuous increase in the number of approvals granted. During the period 1961-1971, the number of foreign collaborations approved was 2475 which were increased to 3041 during the period 1971-1980. There was dramatic increase in the foreign collaboration approvals during the period 1981-1990 (7436 collaborations were approved). This policy enabled to build domestic technological capability in many branches of industry but generally considered very restrictive. It has been widely accepted that protection of domestic industry for a longer period of time resulted into high cost production structure along with poor quality.

Foreign direct investment policy announced by the government of India in July 1991 was regarded as a dramatic departure from the earlier restrictive and discretionary policy towards foreign capital. The FDI policy of 1991 proposed to achieve objective of efficient and competitive world class Indian industry. Foreign investment was seen as a source of scarce resource, technology and managerial and marketing skills. The major feature of policy regarding foreign investment up to 51 per cent of equity holding was too permitted. Automatic approvals were also allowed to foreign investment up to 51 per cent equity in 34 industries as well as to foreign technology agreements in high priority industries. The Foreign Investment Promotion Board (FIPB) was set up to speedily process applications for approvals of the cases which were not covered under the automatic route. Laws were amended to provide foreign firms the equivalent status as the domestic ones. Government of India, however, put in place the regulatory mechanism to repatriate payments of dividends through Reserve Bank of India so that outflows are balanced through export earnings during stipulated period of time. Further liberalization measures with regard to foreign investment were taken during 1992-93. The dividend balance conditions were revoked except in the case of consumer goods industries. Non Resident Indian (NRI) and Overseas Corporate Bodies (OCB) were permitted in high priority industries to invest up to 100 per cent equity along with repatriation of capital and income. Apart from expansion of the area of operation for FDI in many new economic activities, the existing companies were also allowed to increase equity participation up to 51 per cent along with disinvestment of equity.

Foreign direct investment policy has been changed frequently since 1991 to make it more transparent and attractive to the foreign investors. FDI up to 100 per cent is allowed under automatic route for all sectors/activities except activities that attract industrial licensing, proposals where foreign investors had an existing joint venture in same field, proposals for acquisition of shares in an existing Indian company in the financial sector and those activities where automatic route is not available. The only sectors/activities where FDI is not permitted are agriculture and plantations excluding tea plantations, real estate business (excluding development of townships, housing, built up infrastructure and construction development projects-NRI/OCB investment is allowed for the real estate business), retail trade, lottery, security services and atomic energy. Government has simplified procedure, rules and regulations on a regular basis since 1991 to make Indian economic environment foreign investor friendly.[7] Attempt has been made through FDI policy to make India the hub of global foreign direct investment as well as in economic activities.

4. Trends of Foreign Direct Investment in India since 1991:

To examine the impact of recent FDI policy changes on the economy, quantitative information is required on the numerous dimensions. The most easily available information with regard to FDI is FDI approvals, approved amount and inflows across industries and regions/state wise. There are several limitations of such statistics because of the multiple agencies are involved in according approvals. The recent change of policy and adopting automatic route has further reduced the reliability of such quantitative information. The number of FDI approvals, amount approved and actual inflows in rupee terms since August 1991 to December 2004 year wise and cumulative are presented in Table 4. The year wise number of approvals from 1991 to 2004 has increased at a much faster rate compared with the rate of approvals which were increased in the earlier decade. It needs to be noted here that in some of the years when approvals were lower, it is generally linked with the decline in global FDI. Total approvals during the period were 18,802. Some what similar trends can be observed from the amount approved over the period of study. The actual inflows of FDI is generally considered as a better indicator to examine the impact of changes in policy on the outcomes and same is presented in the forth column of the Table 4. The actual inflows have slowly increased and turn out more than amount approved. The ratio of inflows to the approved amount showed that it was very low in the initial years and recorded wide differentials. However, it picked up and reached to the level of 214 per cent in the year 2003. The approved-inflow ratio (expressed in per cent terms) was remained very high during the period 2002 to 2004. This ratio for cumulated amount was 53.47 which clearly show that the liberal policy of FDI has not given the desired dividends.

The sources of FDI usually affect the nature of economic outcomes. Therefore, it is important to analyze the most important source countries from where FDI is pouring in

India. It is amazing to note that Mauritius has emerged as the top most investor countries in India (Table 5). Total stock of investment from Mauritius was 9000.8 million dollars with 27.53 per cent share. It is important to note here that India has tax avoidance treaty with Mauritius since 1982 (Nagraj, 2006). Therefore, multinational companies preferred to invest in India via Mauritius. Second largest investor country is USA and accounts for 13.58 per cent of the total FDI. Japan is not only an important investor in India but has been regarded as most beneficial in terms of brining in new technology and having higher spillover effects on Indian firms (Banga, 2004). Apart from traditional investors (UK, Germany and France), South Korea and Singapore have emerged other important Asia countries which have substantially increased their stakes in India.

Table 4: Foreign Direct Investment Approvals and Inflows since 1991

Year	Approvals in numbers	Approved Amount (Rs. crores)	Inflows Amount (Rs. crores)	Realisation rate (per cent)
1991	203	504.90	353.48	70.01
1992	693	3817.89	691.20	18.10
1993	785	8861.80	1861.96	21.01
1994	1039	8955.22	3112.23	34.75
1995	1350	30882.11	6485.36	21.00
1996	1545	30886.05	8752.19	28.34
1997	1656	50389.20	12989.76	25.78
1998	1184	27589.57	13269.21	48.10
1999	1720	25140.28	10166.71	40.44
2000	1702	17236.97	12353.73	71.67
2001	1976	20939.74	16777.75	80.12
2002	1963	11058.10	18195.56	164.55
2003	1550	5416.59	11617.17	214.47
2004	1436	8741.25	17265.75	197.52
Total 1991-2004	18802	250419.67	133892.06	53.47

The sectors/activities wise FDI inflows and respective relative shares are presented in Table 6. The most attractive sector for FDI is the electrical equipment. The relative share of FDI in this industry was 16.62 per cent. Transport industry accounts for 10.39 per cent of FDI. These two industries alone cover more than one-fourth of the total FDI which clearly shows the high degree of concentration FDI in a few activities. Financial and non-financial services were also quite important where foreign investment has poured in. This share **is** nearly10 per cent. Fourth and fifth place goes to telecommunication and fuels where foreign investors have shown substantial interest and their respective shares are 9.6 per cent and 8.49 per cent respectively. Rest of the economic activities has relative shares which lie between less than six per cent to more than two per cent of the FDI.

Table 5: Top 10 Investor Countries in India, 1991-2004.

Country	FDI Inflows Million $	Per cent share
Mauritius	9000.8	27.53
U.S.A.	4440.68	13.58
Japan	1891.32	05.78
Netherlands	1867.83	05.71
U.K.	1692.45	05.18
Germany	1255.57	03.84
France	743.69	02.27
South Korea	682.98	02.09
Singapore	641.02	01.96
Switzerland	530.60	01.62
Total	32690.99	100.00

Table 6: Top 10 sectors Attracting FDI Inflows, 1991-2004

Sector	FDI Inflows Million $	Per cent share
Electrical equipment	4862	16.62
Transport industry	3124	10.39
Service sector (financial and non financial)	2908	09.94
Telecommunication	2863	09.60
Fuels	2514	08.49
Chemicals	1887	05.92
Food processing industries	1173	03.72
Drugs and Pharmaceuticals	946	03.21
Cement and gypsum products	746	02.57
Metallurgical industries	624	02.13

State wise FDI approved amount and their relative shares are presented in Table 7 to examine the preference for destination of foreign companies. National capital city, that is, Delhi and surrounding areas of Utter Pradesh and Haryana, Maharashtra-Dadra and Nagar Haveli, and Daman and Diu constituted for almost 50 per cent of the total inflows during the period 1991 to 2004(Economic Survey 2005-06). However, when we examine the amount approved Maharashtra state topped in terms of preferred destination for foreign investors. Tamil Nadu, Karnataka and Gujarat attracted substantial amount approved and their respective shares were 9.05 per cent, 7.63 per cent and 4.98 per cent. The top seven states received investment proposal and amount approved more than 55 per cent which show high degree of concentration of FDI. Therefore, there is a strong need to make some changes in FDI policy so that equitable distribution of such flows can be ensured.

Table 7: Top seven states according to FDI approvals Between August 1991-December 2004.

State	Amount approved Million $	Share in per cent
Maharashtra	9640.37	14.82
Delhi	8445.36	12.19
Tamil Nadu	5895.99	09.05
Karnataka	4837.22	07.63
Gujarat	3278.24	04.98
Andhra Pradesh	3055.12	04.65
Madhya Pradesh	2520.93	03.70

In recent years, India's share in the global FDI inflows has increased from 0.5 per cent in 2002 to 0.8 per cent in 2004. In terms of FDI inward stock, the global share of India is 0.44 per cent in the year 2004. However, China has received 9.4 per cent of global FDI inflows and 2.75 per cent of the global FDI inward stock in the year 2004 (UNCTAD, 2005). India has received one-twelfth of FDI inflows in the year 2004 compared with China. India's effort have not yet realized in comparison to the changes which has been made in the FDI policy. Global ranking of India in terms of FDI preferred destination has improved but realization is very low. Even the FDI approvals are largely in the infrastructure, but the actual inflows are more in the consumer durable goods and automotive industries. Capital goods sector has more or less been bypassed by the FDI. This clearly points out the tendency of foreign investment to exploit the pent up domestic demand for consumer durable goods. Further more, there is a gradual increase in the mergers and acquisitions during the 1990s which show a tendency of FDI inflows to acquire existing industrial assets and managerial control without actually engaging in new productive activities (Nagraj, 2006). India's large size of domestic market seems to have been the major attraction for foreign firms.

Economic reform program in general and FDI reforms in particular has been regarded as pro-economic development. The suggested mechanism through which it can work is the increase in competition that compels domestic agents of production to improve their efficiency and productivity as well as introduce new variety and high quality products. The presence of FDI has also been considered as a rich source of indirect effects on the domestic firms to learn to improve numerous business practices. Foreign investment inflows are expected to bring in widely publicized technology and productivity spillovers which will make domestic firms more efficient and competitive. These positive effects as contemplated in theory if are realized in actual practice, then economic agents of production brings in self sustained economic growth in an economy. These kinds of arguments have been put forward by Indian policy makers while making economic policy more FDI friendly. One and half decade of liberalization program has passed and therefore, there are enough evidence which have accumulated to test especially the impact of the presence of MNEs on the improvement in efficiency and productivity of the Indian firms.

In a comprehensive study, Das (2004) has shown that total factor productivity of Indian industries increased at a slower pace during the 1990s compared with the pre-reform period. Further evidence, while dividing the 1990s period into the early and late nineties, has been provided to shows that total factor productivity growth was lower in the second half (1996-2000) compared with the first half (1991-95). Economic Survey 2005-06 of the Government of India has also recognized this fact on the basis of several other studies conducted by various institutions and well acclaimed economists. These results have been obtained with homogeneity assumption (that is, all firms are alike) might not be valid. Firms operating in an industry may differ in terms of their access to technology and other intangible assets, therefore, reforms might result in gainers and losers. Thus, there is a possibility of widening productivity gap-a phenomenon called convergence and divergence in economic literature.

Firm level estimates of efficiency during the period 1991 to 2001 have been calculated for the 27 industry groups by Ray (2004). The empirical evidence showed an average level of efficiency decline during the period 1991 to 1996. However, there was a gradual reversal of coefficient of efficiency in the later period, but the recovery of efficiency parameters could not reach to the initial levels. Firms which are closely linked with MNEs such as ownership of domestic firms gained by foreigners and strategic alliances have gained in terms of attaining higher level of efficiency. But adverse effects on gains in capability generating activities of the domestic firms have occurred, that is, decline in in-house R&D. In a comprehensive study, Siddharthan and Lal (2004) examined the spillover effects of MNEs on the domestic firms during the period 1993-2000. The empirical evidence show that during the initial years of reforms spillover effects from FDI were quite weak, but increased in the later period. The most significant result of the study is that high technological capability firms benefited from the presence of MNEs and domestic firms with large gap of technological capabilities became victims. By way of conclusion the evidence clearly show differential effect of the presence of MNEs on the domestic firms. Those firms which have developed networking with the MNEs have done well compared with those who could not have lost out.

5. Conclusions:

Indian economy has reached in the orbit of high rate of economic growth. She is being widely acclaimed and recognized as an emerging global economic power. The rate of growth recorded during the period 1950-51 to 2004-05 clearly showed a tendency of steady upward trend. However, the decade of eighties emerged as a beginning of the high rate of economic growth or at least a dramatic departure from the past growth performance. This tendency had continued in the 1990s and further growth stimulus has occurred in the early 21st century. The structural change based on sect oral income shares showed a rapid economic transformation of the Indian economy from predominantly agrarian to the service oriented. However, the labor force structure show resilience of the primary sector which employ yet largest work force. Transformation of rural work force to non-agricultural economic activities require huge investment both in the activities where such labor force can be deployed along with imparting necessary skills for enabling such work force capable. Policy endeavor of the government of India is to attract foreign investment for the removal of such constraints along with making domestic agents of production to become more competitive and efficient so that scarce resources can be used to achieve high growth rate. FDI inflows have been increased in the post-reform period and India now seems to be quite attractive place for such kind of investments. In quantitative terms, India's global share of FDI is still very low. However, the FDI still is shying away from the most important sectors and regions where it is direly needed. Since the employment elasticity in the agriculture and industrial sector has gone down in the post-reform period, creation of employment opportunities will be a gigantic task for the policy makers. FDI has come in the most capital intensive sectors, therefore, the desired employment opportunities could not be created especially for the manual and the semi skilled labor. High skilled labor gained substantially. That is why high growth is called urban centric and thus has created a wedge between the rural and urban economy. There is urgent need to fill this void. Policy making process has matured in the democratic Indian polity since the independence. It is thus expected that the growing problems will receive mature response and policy will be articulated in such a manner to use FDI the way China has used to enhance economic growth while taking more and more investment to industrialize the rural sector of the Indian economy.

Notes:

1. The interpretation of public policy process in India and resultant growth rates has remained quite controversial. Many serious observers of the Indian economy have attributed low rates of growth to the import substitution and restrictive economic policy. However, recent high growth rate has been attributed to the liberal-market oriented-economic policies (Panagariya, 2006). Both the school of thoughts is sharply divided to accord credit and discredit to public policy seems to be highly loaded with ideological bias. Economic growth experience of developed and developing countries during the second half of the twentieth century examined by Stern (2004) has shown to depend on

the right combination of the state and the markets. This is the precisely what has been attempted by the policy makers in India and also elsewhere in the global economy.

2. The rate of GDP and per capita growth were one per cent and 0.2 per cent respectively during the period 1900-01 to 1946-47 (Nayyar, 2006).

3.This view is being challenged on the ground that econometric testing of GDP growth provide evidence of structural break in the year 1980 and pro-market policy was initiated in the year 1991(Nayyar, 2006).

4. For a detailed account of this view see Ahluwalia (2002), Srinivasan and Tendulkar (2003) and Panagariya (2004, 2006).

5. The average annual rate of growth comes out to be 5.8 per cent both for the decade of the eighties and the nineties (see Government of India, Economic Survey 2005-06).

6. The overall employment elasticity has declined from 0.6 between 1983-84 and 1987-88 to 0.16 between 1993-94 and 1999-00. However, employment elasticity has declined more sharply from 0.87 to 0.01 in agriculture sector during the same period. The manufacturing sector has also shown decline from 0.59 to 0.33. The decline in employment elasticities in the two important sector especially of agriculture sector has dramatic implications for rural poverty and inequality. This process has been attributed as jobless economic growth in the post-reform era (Dasgupta and Singh, 2005).

7. See for detailed changes in the FDI policy and regulation procedures from 1991 to 2005 in Government of India, **Handbook of Industrial Statistics** 2003-2005, Department of industrial Policy and Promotion, Ministry of Commerce and Industry, 2005.

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