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FDI IN INDIA: CURRENT TRENDS AND WAY FORWARD

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ABSTRACT

This paper is an attempt to analyze the need of FDI. This paper traces the FDI inflow sector wise and its impact on employment. Paper advocates for more FDI in manufacturing sector taking into account the employment elasticity of different sectors and the need and education attainment level of Indian workforce. Paper also highlights the increasing importance of FDI in financing the saving investment gap and FDI also becoming an increasingly important component of Gross Fixed Capital Formation.

KEYWORDS

FDI, employment, saving investment gap, gross fixed capital formation.

INTRODUCTION

FDI has been a focus area of reforms in India since the last two and a half decades. However it was China which has led the pathway in attracting FDI and changing the notion of development by following liberal policies for attracting foreign investment as means to meet its investment needs and to accelerate growth of their economy. China was a highly closed economy till mid seventies, then China opened up its economy in late 1970's and received large amount of FDI in manufacturing sector, this enabled China to create large number of jobs in manufacturing sector which enabled it to pull more than 500 million people out of absolute poverty line in less than three decades. China has shown that for development purposes money matters and not the colour of money. India opened up its economy in 1991 when its level of openness (trade to GDP ratio) was 17% which has increased to 49% by 2014. India also has turned out to be an attractive destination for FDI but there is a quantitative and qualitative difference in FDI received by India and China. In china the amount of FDI received is much more both in absolute terms and as a % of GDP as compared to India. In India FDI has mostly been invested in service sector but more broad based benefits in terms of providing more employment opportunities will come if FDI is invested in industry rather than services as has been the case in China.

OBJECTIVES

1. To analyse FDI inflow and sector wise distribution of FDI in India.
2. To analyse impact of FDI on employment.
3. To analyse trend of saving and investment in India and China and need of FDI inflow in India.

RESEARCH METHODOLOGY

This study is based on secondary data. To show the relationship between FDI and employment we have used coefficient of co-relation.

TABLE 1.1: FDI EQUITY INFLOW IN INDIA YEAR WISE

YEAR	FDI EQUITY INFLOW IN USD \$ BILLION
Cumulative FDI equity inflow from 1991-March 2000	37620
2000-01	2400
2001-02	4095
2002-03	2764
2003-04	2229
2004-05	3778
2005-06	5975
2006-07	16481
2007-08	26864
2008-09	32066
2009-10	27146
2010-11	22250
2011-12	35855
2012-13	22884
2013-14	25274
2014-15	31885

Table 1.1 points towards in increasing trend of average FDI equity inflow when taken for five years average at a time, however the rate of increase of FDI has moderated in post global financial crisis year due to many reasons like Global recession, apprehension of rate increase by Federal reserve, increase in current account deficit and fiscal deficit in India. Between 2000-01 to 2004-05 average FDI equity inflow was \$ 3.08 billion per year and for 2005-06 to 2009-10 it was \$ 21.72 billion per year, and the corresponding figure for 2010-11 to 2014-15 was \$ 27.66 billion per year.

TABLE 1.2: SECTOR WISE DISTRIBUTION OF FDI BETWEEN APRIL 2000 TO JUNE 2015

Sector	% of total fdi equity inflow
Services sector (services sector includes financial, banking, insurance, non-financial/business, outsourcing, r&d, courier, tech. Testing and analysis)	17%
Construction development: township,housing,built-up infrastructure	9%
Computer software and hardware	7%
Telecommunications (radio ,paging , cellular , mobile , basic , telephone services)	7%
Automobile industry	5%
Drugs & pharmaceuticals	5%
Chemicals(other than fertilizers)	4%
Power	4%
Trading	4%
Metallurgical industries	3%

Table 1.2 clearly shows that FDI in India is heavily tilted in favor of service with top 4 service sub sectors together accounting for about 40% of FDI equity inflow. So FDI can boost growth in India but not an equitable one across all sectors. However, service sector is skill intensive which is not in line with India’s comparative advantage of large unskilled labor force (ES -2013-14). In India more FDI is needed in manufacturing sector to increase employment so that surplus workforce in agriculture sector could be shifted to manufacturing sector as has been the case in china.

IMPACT OF FDI ON EMPLOYMENT

To analyse the impact of FDI on employment we have used karl pearson coefficient of correlation, we have assumed FDI as independent variable and employment as dependent variable and we get r=0.77 which shows high degree of co efficient of correlation between FDI and employment. Still service sector is not providing enough employment opportunities in India which can be clearly seen in table no 1.4, the reason for this can be attributed to less amount of FDI and service sector being skill intensive while labour force in India is largely unskilled}

TABLE-1.3: ESTIMATED NUMBER OF WORKERS (PS+SS IN THE AGE GROUP OF 15–59) BY LEVEL OF EDUCATION BY SECTOR (MILLIONS), 2009–10

	Agriculture and allied	Manufacturing	Non manufacturing	Service	Total
NOT LITERATE	87.36	9.56	14.42	13.65	124.99
Literate without formal schooling	1.23	0.25	0.21	0.42	2.11
Below primary +primary	57.62	12.69	12.47	18.32	101.10
Middle	36.20	10.27	8.67	18.98	74.12
Secondary	21.30	7.02	4.27	18.21	50.79
High secondary	10.36	3.21	1.45	12.43	27.45
Diploma/Certificate course	0.58	1.16	0.53	3.12	5.39
Graduate	3.84	3.01	1.25	17.82	25.93
Graduate and above	0.74	0.73	0.24	7.00	8.70
Total	219.23	47.90	43.50	109.96	420.59

[Source: Twelfth Five Year Plan]

TABLE NO 1.4: SECTOR WISE EMPLOYMENT AS % OF TOTAL EMPLOYMENT

SECTOR/YEAR	1993-94	1999-2000	2004-05	2009-10	2011-12
AGRICULTURE AND ALLIED ACTIVITES	61.6	58.5	54.5	51.6	47.1
INDUSTRY	16.0	16.8	19.5	21.8	24.4
SERVICES	22.9	24.7	26.0	26.6	28.5

[Source- Table No.7.5, Economic Survey 2014-15]

As table 1.4 depicts there has been a shift in labour force from agriculture to other sectors but till date agriculture continues to be major employer in India as manufacturing and service sector have not been able to absorb all the excess agricultural work force.

FDI in service sector is likely to leave out vast majority of Indian population employed in agriculture out of the ambit of FDI led growth so we need to adopt alternate growth strategy for agriculture and allied sectors.

Table 1.5: EMPLOYMENT ELASTICITY IN THREE SECTORS OF THE ECONOMY

SECTORS/YEAR	1993-94 TO 1999-00	1999-00 TO 2004-05	2004-05 TO 2009-10	2009-10 TO 2011-12
AGRICULTURE AND ALLIED ACTIVITIES	0.3	0.7	-0.2	-0.5
INDUSTRY	0.4	0.9	0.3	0.9
SERVICE	0.3	0.5	0.1	0.5

[Source: Table No 7.5 Economic Survey 2014-15]

Service sector is providing more employment in comparison to industry but employment elasticity is more in industry than service sector, it means industry can provide more employment than service sector (for per % of GDP growth) as employment elasticity of industry is highest among the three sectors of the economy. Even though service sector is receiving most of the FDI but still its employment generation capability is limited due to its lower employment elasticity than industry. So more FDI in industry is needed as it has more capacity than other sectors to absorb surplus workforce of agriculture sector.

TABLE 1.6: SAVING - INVESTMENT GAP OF INDIA AND CHINA

INDIA	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GROSS DOMESTIC SAVING AS % OF GDP(S)	24.7	24	25.5	30.7	31.5	32.7	34.0	30.5	30.9	32.2	32.5	29.5	29.6
GROSS DOMESTIC CAPITAL FORMATION AS % OF GDP(I)	26	25	26	32	34	36	38	36	36	37	39	36	33
S-I	-1.3	-1	-0.5	-1.3	-2.5	-3.3	-0.4	-4.5	-5.1	-4.8	-6.5	-6.4	-3.4
CHINA	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GROSS DOMESTIC SAVING AS 5 OF GDP(S)	37.8	39.7	42.7	44.7	46.4	49.2	49	50.3	51.5	50.4	49.2	50.1	50.4
GROSS DOMESTIC CAPITAL FORMATION AS% OF GDP (I)	36	38	41	43	42	43	41	44	48	47	47	47	48
S-I	1.8	1.7	1.5	1.7	4.4	6.2	8.0	6.3	3.5	3.4	2.2	3.1	2.4

[Source: World Development Indicator]

Saving Investment Gap has been observed to be increasing adversely in India and FDI can be an important non debt creating option to fill this gap without putting additional fiscal burden on government or without the need of decreasing investment expenditure. FDI along with investment also brings better technology which is very essential for developing country like India where expenditure on R & D is low as compared to other developed countries, this is one of the reasons why China wants to attract more FDI even though it has a surplus saving-investment gap.

FDI can be an important source of investment when the global markets are not performing well this can be observing in India's case when FDI investment spiked in year 2007-08 and 2008-09. A rapidly growing and stable economy can attract higher FDI in case of global crisis as has been observed in India between 2007-09.

TABLE 1.7: FDI AS % OF GROSS FIXED CAPITAL FORMATION (GFKF)

YEAR	FDI as percentage of GFKF
On an average FDI as % of GFKF from 1991 To 2000	1.8
On An Average FDI as Percentage of GFKF From 2001 TO 2005	3.58
2006	6.9
2007	6.2
2008	12.3
2009	8.2
2010	5.2
2011	5.8
2012	4.2
2013	5.1
2014	5.9

Above table clearly points towards increasing importance of FDI especially after 2005 in Gross Fixed Capital Formation (GFKF). Moreover, there has been a spike in FDI as % of GFKF in 2007-09 this again points to the fact that FDI is increasingly becoming more important for India and more so in years of global financial crisis.

CONCLUSION

There is an increase in inflow of FDI but this rate of increase in inflow of FDI has moderated in post global financial crisis years. In India FDI is heavily tilted in favor of service sector but rather we need more FDI to be invested in industry as it has higher employment elasticity than service sector. At times when saving investment in India is widening FDI has proved to be vital in financing this deficit and FDI is forming a larger part of GFKF. There is a high degree of correlation between FDI and employment, still service sector is not able to provide enough employment opportunity despite getting highest FDI equity inflow, this is due to the fact that service sector is skill intensive while larger part of our labour force is unskilled.

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