Chapter - IV

"As the twentieth century comes to an end, the world economy is deeply divided and unstable. The failure to achieve faster growth that could narrow the gap between the rich and the poor must be regarded as a defeat for the entire international community. It also raises important questions about the present approach to development issues".

"Asymmetries and biases in the global system against the poor and underprivileged persist unchecked. Leaving global economic integration to markets has not helped, and that should hardly come as a surprise. Unbridled competition, particularly among unequal, has never, by itself, delivered faster growth and shared prosperity even in today's developed countries, and it has at times been destructive. There is no reason to expect a different outcome in a globalizing world".

"Bold leadership, purposeful cooperation and compassion are essential ingredients if today's fragmented global economy is to give way to a century of peace and property. In their absence, and if history is any guide, all will suffer".

The above are extracts from Trade and Development Report, 1999 of United Nations Conference on Trade and Development of United Nations. This shows that globalization has not been an unmixed blessing.

In this chapter we propose to explore and analyze the impact of globalization on trade and investment in cultural products. This chapter has been structured in the following manner.

The first section will discuss the impact of globalization at world level. It will explore the relationship observed in the last two decades between globalization, trade, investment i.e. foreign direct investment (FDI) and growth. We will use the data published in Trade and Development Report of UNCTAD 1999. In the second section we will discuss the global export trends in the 1990s. In the third section we will discuss the importance of foreign trade for India and India's

export performance in the last two decades. In the fourth section we will discuss the trends of flow of FDI in to India and its impact on the economy. In the fifth section we will discuss the trends in cultural trade the world over including India and draw conclusions from this. In the last section we will discuss including policy implications of the observed impact of globalization on trade and investment.

Liberalization, external constraints and growth

In recent years developing countries have striven hard, and often at considerable cost, to integrate more closely into the world economy. But, in the face of deep-seated imbalances in economic power and systemic biases in the international trading and financial systems, their expectations of the gains from such integration in terms of faster growth, greater employment opportunities and reduced levels of poverty have been disappointed. A clear example is the extravagant predictions made regarding the gains they could reap from the Uruguay Round. By contrast, the downside risks have proved far greater than was generally expected, as recently demonstrated by the experience of East Asia and Latin America. The humbling of the Asian tigers since 1997 has revealed the vulnerability of even the strongest developing economies to the powerful forces unleashed by globalization. Indeed, the twentieth century closed on a note of crisis and a growing sense of unease about the policy advice that was proffered in the 1980s.

Much of that advice was fashioned in response to the debt crisis of the early 1980s, when a reorientation of policies in the industrial countries led to considerable macroeconomic distress in many developing countries and a sharp fall in their growth rates. Severe balance-of-payments crises revealed the extent to which rapid growth in the South had come to depend on steadily rising export earnings and capital inflows and just how disruptive an interruption to these sources of foreign exchange could be. For many, the crisis was final proof that inward-oriented growth strategies and interventionist policies could not extract developing countries from the mire of poverty and underdevelopment. Thus, in the second half of the decade, a powerful consensus was forged around "getting prices right". **Close integration with the world economy through rapid liberalization of trade, finance and investment was believed to be**

the recipe for preventing setbacks to development caused by recurrent payments crises.

Trade liberalization would ensure the best allocation of resources according to comparative advantage, securing the export revenues needed to import key ingredients of faster growth Financial liberalization would attract foreign capital seeking high returns in these capital-scarce countries, allowing them to invest more than they save without running into a payments constraint. A bigger flow of foreign direct investment would further accelerate growth not only by supplementing domestic resources for capital accumulation, but also through transfer of technology and organizational skills.

Fast integration into the world economy thus seemed to promise an alternative to stop-go growth and development through export expansion and inflows of private foreign capital, providing the inspiration for widespread reform and encouraging *"big bang"* liberalization. Indeed, the growth of world trade and, perhaps even more decisively, the recovery of financial flows to developing countries in the 1990s were taken as confirmation that a new era of prosperity was beginning to unfold and that it would include a growing number of developing countries.

However, few attempts have been made by various UN organizations to examine what rapid integration has actually meant for developing countries. The analysis in Trade and Development *Report (TDR) 1999 of UNCTAD* shows that the empirical record has been at odds with the promises. Inevitably, the discussion involves "nuts and bolts" economics of a technical nature, but the conclusion is a simple and striking one. It is that, after more than a decade of liberal reforms in developing countries, their payments disorders, which had earlier ushered in a rethinking of policies, remain as acute as ever, and their economies depend even more on external financial resources for the achievement of growth rates sufficient to tackle the deep-rooted problems of poverty and underdevelopment. Broadly the conclusions of TDR 1999 are as under:

- Growth in developing countries has generally recovered in the 1990s from the levels of the 1980s, but it has remained well below the average of 5.7 per cent achieved during the 1970s. This

recovery has been accompanied by a significant worsening of external deficits. For developing countries as a whole (excluding China), the average trade deficit in the 1990s is higher than in the 1970s by almost 3 percentage points of GDP, while the average growth rate is lower by 2 percent per annum.

- Low prices of oil are only part of the story. In the non-oil-exporting developing countries the trade deficit in the 1990s stands at approximately the same proportion of GDP as in the 1970s, while the average growth rate is lower by 2 per cent per annum.

- The pattern is broadly similar in all developing regions. In Latin America the average growth rate is lower by 3 per cent per annum in the 1990s than in the 1970s, while trade deficits as a proportion of GDP are much the same. In sub-Saharan Africa growth fell, but deficits rose. The Asian countries managed to grow faster in the 1980s, while reducing their payments deficits, but in the 1990s they have run greater deficits without achieving faster growth.

- In almost half of the developing countries examined, which include exporters not only of commodities but also of manufactures, the trend is one of widening trade deficits, with falling or stagnant growth rates. Where trade balance have improved, there has generally been a slowdown in economic growth and imports. Among the countries which succeeded in achieving faster growth, the majority experienced a deterioration in their trade balances, financed by inflows of private capital. However, such inflows could not always be sustained and eventually led to currency crises, economic contraction and massive import cuts. Only a very small number of countries, notably China and Chile, have been able to buck this general trend by combining faster growth with improved trade performance.

The reasons why trade deficits have been increasing faster than income in developing countries are undoubtedly complex. However, the evidence shows that a combination of declining terms of trade, slow growth in industrial countries and *"big bang"* liberalization of trade and of the capital account in developing countries has been a decisive factor.

For developing countries as a whole the terms of trade fell by more than 5 percent per annum during the 1980s. The more favorable trend around the mid-1990s due to a recovery in oil and non-oil commodity prices has been more than offset by large losses since 1996, when these prices declined by about 16 per cent and 34 per cent, respectively. For non-oil developing countries, the decline in the terms of trade has been steady, at about 1.5 per cent annum, since the early 1980s. Terms-of-trade of countries are now beginning to behave more like primary commodities as a growing number of countries simultaneously attempt to raise their exports in the relatively stagnant and protected markets of industrial countries. For example, the prices of manufactures exported by developing countries fell relative to those exported by the European Union by 2.2 per cent per annum from 1979 to 1994.

The slower growth in industrial countries during the past two decades than in the 1970s may have added to trade deficits of developing countries perhaps by as much as 1 per cent of GDP. Rapid trade liberalization in the latter countries has further added to their deficits; it led to a sharp increase in their import propensity, but exports failed to keep pace, particularly where liberalization was a response to t he failure to establish competitive industries behind high barriers. With the notable exception of China, liberalization has resulted in a general widening of the gap between the annual growth of imports and exports in the 1990s, but the impact was particularly severe in Latin America, where the gap averaged about 4 percentage points.

Liberalization of capital flows, often prompted by the need to finance growing external deficits, has actually made matters worse. It has led to currency appreciation's and instability, thereby undermining trade performance. Despite greater exposure to foreign competition, there have been serious shortcomings in exchange-rate management, even compared to the interventionist regimes of the 1970s and 1980s. An examination of exchange-rate movements in 58 developing countries by UNCTAD shows that, after persistent appreciation's, 8 of them resorted to real devaluation's in the 1970s of 25 per cent or more but that there were as many as 24 in the 1980s. From 1990 until 1997, before the more recent turmoil's in East Asia or Latin America, 19 countries experienced comparable reversals.

Private capital flows

With today's globalized financial markets, access to foreign private capital is generally expected to greatly alleviate the external constraint on growth. Certainly, the 1990s have witnessed a rapid expansion of private capital inflows into developing countries, registering a sevenfold increase over the average for the 1970s. Portfolio flows and foreign direct investment (FDI) have shown the strongest growth, accounting for more than two-thirds of total private inflows.

While such figures have received increased attention in the financial press, and seem to have had a effect on many policy makers in the South, a sense of proportion is called for. The conclusions of TDR 1999 in this regard are as under:

- The upsurge in the 1990s represents no more than a return to trend after the blighted years of the 1980s. The annual capital inflow in the 1990s was around 5 per cent of GNP, which was roughly the level prevailing in 1975-1982. If China is excluded, the ratio is actually lower than in the earlier period by one percentage point.

- Not all trends are rising. Official development assistance has steadily declined throughout the present decade, falling in real terms in 1998 to its lowest level for many years. The share of official financial assistance in total capital inflows fell from over 50 per cent in the 1980s to 20 per cent in the 1990s.

- As official financial assistance took a back seat, capital inflows have increasingly been concentrated in a small group of 20 or so emerging markets which received over 90 per cent of total inflows of capital in the 1990s, compared to some 50 per cent before the outbreak of the debt crisis. As regards FDI, China, Brazil and Mexico together accounted for almost one half of the total inflow; their per capita inflow, in the range of $20-$80, and an inflow of as much as $223 per capita in Malaysia, stand in stark contrast to under $5 in many countries in sub-Saharan Africa.

- An important part of private capital inflows, notably liquid capital seeking arbitrage profits, is highly unstable and hence constitutes an unreliable source of development finance. This is particularly true for short-term loans and portfolio equity, which together reached $ 100 billion by the middle of the decade (about 40 per cent of all private inflows into developing countries) but fell to a mere $15 billion after the financial crises in East Asia and Russia.

A growing proportion of net private capital inflows was absorbed by activities which add little to productive capacity in those emerging markets fortunate enough to receive them: of every dollar brought in by non-residents 24 cents were taken out by residents, compared to 14 cents in the 1980s. No less disturbing is that more than 20 cents of every dollar of net capital inflow are put aside for the accumulation of foreign-exchange reserves, notwithstanding policy reforms designed to ensure greater exchange-rate flexibility and increased access to global capital markets. Developing countries have increasingly been advised to cover their short-term liabilities by reserves as a safeguard against speculative attacks on the currency and reversal of capital flows; the increase in reserves from 1990 to 1998 amounted to a staggering 60 per cent of the increase in their import bill during the same period. 1998 amounted to a staggering 60 per cent of the increase in their import bill during the same period.

The cost has been high, since reserves are borrowed at much higher rates than they can earn in international financial markets. The net cumulative cost over 1990-1997 may have been as much as $50 billion. Moreover, short-term capital inflows have a high rate of leakage. In the 1990s, for every dollar of short-term capital brought in by non-residents, 56 cents were taken out by residents for investment in short-term assets abroad. Thus, such capital flows provided little for current-account financing, while provoking significant instability.

Although an important part of the capital inflow into developing countries in the present decade has allegedly been *"non-debt-creating",* external indebtedness is again on the rise, in both absolute and relative terms. In Latin America, for instance, for the first time in the 1990s, the ratio of debt to export increased in 1998, reaching 203 per cent, from 191 per cent in 1997, and there was likewise an increase in the ratio of interest payments to exports. Higher interest

payments add to the difficulties caused by widening trade deficits and run the risk of incurring an unsustainable debt burden.

In any case, on recent trends, the level and composition of net capital flows received by most developing countries have proved inadequate to meet their existing external financing requirements. They tell far short of those which would be needed to achieve a target growth of 6 per cent. Even under relatively optimistic assumptions regarding growth in industrial countries and the terms of trade, the external financing needs of developing countries can be estimated to exceed recent net capital inflows by more than 40 per cent. The gap would be greater if growth in industrial countries remains sluggish and the terms of trade or developing countries continue to deteriorate.

Global export trends

In this section we discuss the highlights of world trade performance in the 1990s. The facts are as under:

During the 1990s, world trade showed a sustained and buoyant growth. The ratio of world trade in goods and services to global GDP had increased from 19% in 1990 to 29% in 2000.

Table - 1

Summary of World Trade and Exports

World Trade (Volume)	Ten Year Averages 1982-1991	Ten Year Averages 1992-2001
World Trade in Goods and Services.	5.0	6.7
Exports (Volume) Advanced Economies	5.5	6.4
Exports (Volume) Developing Countries	4.4	8.6

Source: World Economic Outlook May 2000., IMF

Global exports in 2001 is however estimated to be less than 2% due to the slow down in US and other leading world economies and the September 11 events in USA and its aftermath. The growth rate of world exports in the first half of 2001 was just 1%.

World trade in the 90s has been a result of several convergent forces, which are rapidly integrating the trading world. The dependence of global GDP on global trade also threatens rapid transmission of business cycles abroad through trade, necessitating not only strong domestic economies to buffer such impact but also enhance competence at industry level to deal with a higher degree of business uncertainly and volatility. The key factors influencing world trade have been (i): External Trade and Foreign Investment, (ii) Relocation of global manufacturing bases and (iii) Rapid technological developments. We discuss briefly each of these factors below.

External Trade and Foreign Investment

Global trade policy and capital flows, in the form of Foreign Direct Investments (FDIs) and Foreign Invested Enterprises (FIEs), are the major determinants of international trade flows. The impact of global trade policy changes on regional trade patterns is generally seen only over the medium term, while changes in capital flows oft en have immediate repercussions on year-to year trade developments.

Now all sectors of the economy including services have been brought under the global trade rules of the WTO. By 1999, the bulk of the Uruguay round tariff cuts was completed in the developed countries which has provided an impetus for world exports. However, there are some exceptions, notably in textiles and agriculture, which incidentally are areas where developing countries are export competitive.

The impact of FDI to a host country's economy is widely recognized. FDIs and FIEs grew at almost double the rate of world merchandise trade, benefiting countries like China which received substantial boost through inbound capital flow. FDI flows to developing countries increased more than six fold from 1990 to 1998, and their share of global FDI flows has risen from 25% in 1991 to an estimated 42% in 1998. A detailed analysis of FDI is given later on.

Relocation of Global Manufacturing Bases

Large scale shift in global manufacturing bases to Asian countries has occurred through the 1990s, with factor costs especially labour, increasing in developed countries. Initially, low skilled labour based manufacturing shifted to the Asian countries like China, which had a natural cost advantage. However, during the course of this decade, high skilled labour based manufacturing such as electronics also shifted. To those Asian countries that had built sufficient capability. The consumption centers i.e. USA, EU and Japan were now separated from the production centers i.e. China Indonesia, and Taiwan etc. As a result, skilled labour and technology-based manufacturing products have increased as a proportion of world trade. Relocation of global manufacturing bases, especially in skilled-labor-intensive manufacturing to Asian countries has provided a boost to growth of these industries in the concerned Asian economies.

It is evident that in almost all countries, high technology-based exports have displayed the fastest growth, thus increasing their share of trade in these countries, which is largely an outcome of relocation.

Rapid technology developments:

Due to rapid technological developments, steep decline in transportation and telecommunication costs have been achieved which in turn have vastly reduced the impact of physical distance for global commerce. Adoption of internet technologies has played a critical part in overall telecommunication cost reduction.

Regional trade performance in global trade was as follows:

North America: North America continued to be the major motor of global trade expansion through the 1990s. The strength of the US domestic demand, combined with the high value of the dollar, pushed North America's share of World merchandise imports to 23% in 2000, its highest level in the last century. The US share in world merchandise imports was 19.8% in 1993. The China increased its share of North American imports from 4.9% in 1993 to 7.4% in 2000, while Japan's share decreased by 5.2% during the same period. The

combined share of US imports from Asian economies fell by 3.4% during 1993-2000.

Latin America: Latin America's merchandise trade is highly concentrated among a few countries. Mexico and Brazil alone account for 62% of the regions merchandise trade. One of the main features of Latin America's trade in the 1990s was the exceptional expansion of Mexico's trade, in particular to US, obviously because of the North American Free Trade Agreement.

Western Europe: The slowdown of Western Europe's trade was affected by the region's weakening GDP growth. In the 1990-99 period, Ireland, Spain and Turkey achieved by far the highest growth for merchandise exports and imports among the West European countries. Three out of the four largest West European traders - Finance, Germany & Italy - recorded export and import growth below the European average.

Asia: In the aftermath of the financial crisis of 1997-98, Asia's trade and output recovered strongly. The regions GDP growth matched the global economy as a whole, while Asia's merchandise and commercial services trade exceeded the world average. The recovery of intra-regional trade, exchange rate developments, higher commodity prices and strong global demand for information technology products were the principal factors underpinning Asia's trade expansion in the late 1990s.

- Among the leading countries in Asia, China expanded its merchandise trade at nearly twice the rate of Asia as a group in the 1990s, while Japan's trade growth lagged behind.

- Many Asian low-income countries like Bangladesh, Cambodia, Myanmar, Nepal and Vietnam with a modest share in World trade achieved outstandingly high export growth throughout the 1990-2000 period.

World trade basket

A comparison of world trade basket between 1990 and 1999 reveals that shares of product groups like agricultural products, mining products, and Iron & Steel, had declined in 1990s.

Table - 2

Industry share of World Trade-Comparison between 1990-1999

	1990	1999
Agricultural products	**12.2**	**9.9**
Ores, Fuels & Non ferrous metals	**14.3**	**10.2**
Iron and steel	**3.1**	**2.3**
Chemicals	**8.7**	**9.6**
Automotive products	**9.4**	**10**
Office and telecom equipment	**8.8**	**14.1**
Textiles & Clothing	**6.3**	**6.1**
Others	**34.2**	**34.4**

Source : WTO Trade Statistics

Individual sector performance has been as follows:

Agricultural Products: These products registered a decrease of about 3% in value terms during 1990-2000.

Fuels: World trade of fuels in the 1990s witnessed marginal changes in shares of regions. Middle East continued to account for 30% of the world fuel exports.

Metal & Minerals: Weaker prices played a major role in depressing export values for non-ferrous metals, ores and minerals and Iron and Steel (which saw global exports drop by 11% in 1999)

Automobiles : Exports of automotive products witnessed strong share increases with growth of 4.1% in 2000. North America remained the largest net importer of automobile products while Asia remains the largest net exporter. The most dynamic exporters of automobiles have been the hitherto non-traditional exporting

countries such as Mexico, Korea, Brazil and Central and Eastern Europe, which expanded their exports at double-digit rates.

Office & Telecom Equipment: World trade in office and telecom equipment was stimulated by strong export growth for computers (10%), semi-conductors (15% and mobile phones (25%) Asia has expanded to contribute to almost 50% of world exports of this category with exports growth of 15%.

Textiles & Clothing: The 1990s saw a steady decline in the share of textiles from 3.5% to 2.7%, while clothing in contrast remained at 3.3% level throughout. Textiles trade supply also saw a shift from Western Europe to Asia, which increased its share of world textile trade by 6%. Asia remained the World's largest clothing exporter with a 43% share in 1999 with North America leading world imports with 30% share.

Importance of Foreign Trade for India

The importance of Foreign Trade for India can be gauged from an analysis of certain macro economic, indicators relating to foreign trade and the growth of the economy.

Table 3

Table 3. Foreign trade as a percentage of GDP

Period	Percentage of GDP
1985-86	10.99
1990-91	13.32
1995-96	19.28
1999-2000	19.15
2000-01	21.8#

*GDP at market prices
GDP at factor cost
Source : Ministry of Commerce an Industry

As is evident from the Table above, the contribution of external trade of India to the total GDP at market prices is nearly 20%. Over a period of time i.e., in the last 15 years, the contribution of external trade to GDP has nearly doubled. **It is further seen that the magnitude of the increase in the contribution of foreign trade to**

GDP is higher during the last 10 years i.e., post reform period. By breaking the last 15 years into three time periods i.e., second half of 1980s, the first half of 1990s and the second half of 1990s, it is seen than the average annual proportion of foreign trade as a percentage of GDP is highest at 18.8% during 1995-96 to 1999-2000 followed by 15.34% during 1990-91 to 1994-95. It is only 12.32% during the second half of the 80s.

Thus, during the post-reforms period the contribution of foreign trade to the growth of the growth of the economy has been quite significant. This has been more so in the latter half of 1990's.

Further analysis has been made in the following table to see whether such an increased share of foreign trade to GDP has arisen more out of the growth of exports or imports.

Table 4

Exports and Imports as a percentage of GDP

Period	Exports as % of GDP*	Imports as % of GDP*
1985-86	3.92	7.07
1990-91	5.72	7.59
1995-96	8.95	10.33
1999-2000	8.15	11
2000-2001	10.1#	11.6#

*GDP at market prices
GDP at factor cost
Source : Ministry of Commerce an Industry

Although value of imports as % of GDP is higher at 11% during 1999-2000 as against exports as a % of GDP at 8.15%, the increase in their respective contribution to GDP during the last 15 years has been more or less the same at about 4%.

In 2000-01, however exports as a percentage of GDP was 10.2% and imports was 11.6% which shows that both have become equally important as a percentage of the GDP.

Role of exports in financing country's imports

The financing of country's imports is increasingly made out of our export earnings throughout the period 1985-86 to 2000-01 which is evident from the Table given below.

Table - 5

Exports as a percentage of Imports

Period	Exports as % of Imports
1985-86	55.42
1990-91	75.36
1995-96	86.69
2000-01	88.17

Source : Ministry of Commerce & Industry

It is thus evident that the increase in the export earnings of the country has been made use of to finance our growing imports. It also implies that our dependence on other sources of foreign exchange to finance our imports has declined during the last 15 years. This is a vindication of the reforms undertaken on the trade front wherein not only the quantitative restrictions have been gradually removed but also the import tariffs has been gradually reduced.

Composition of India's Imports

The following table gives the changing composition of India's major imports

Table 6

Major Imports of India

	Percentage share to total imports	
	1994-95	2000-01
Petroleum crude & products	20.69	31.53
Pearls precious & semi Precious stones	5.72	9.69
Machinery	15.03	8.24
Organic & Inorganic chemicals	7.46	4.91
Electronic Goods	4.29	7.06
Gold & Silver	2.49	8.92

Source : Ministry of Commerce and Industry

It is seen that during the second half of the 1990s, there has been a shift in the commodity composition of major items of imports. The proportion of imports of items that are related to export production has increased. The rise in the percentage of imports of Pearls, Precious & semi-precious stones, and Electronic goods to the total imports are pointers in this case. It is also important to note that the share of the value of imports of Petroleum crude to the total imports has gone up by nearly 10% mostly on account of the rise in oil prices.

India's export performance

During the last decade of reforms, India's exports have performed well. Positive policy measures combined with robust growth of world trade have led to this improved performance. Compared to pre-liberalization period, India's export to GDP ratio has increased from 5.8% in 1991-92 to 10.1% in 2000-01 and the export growth rate has increased from 1-5% in 1991-92 to 10.1% in 2000-01 and the export growth rate has increased from - 1.5% in 1991-92 to 21% in 2001-01. The export growth rate, however, has not been steady during this decade; the rate was high during 1993-94, 1994-95 and 1995-96 at 20%, 18.4% and 20.8% respectively, but declined sharply in 1996-97 to 5.3 and became negative in 1998-99 on account of South East

Asian crisis and worldwide recession. It again recovered to 10.8% in 1999-00 and reached the highest growth for the decade at 21% in 2000-01. However, the global economic slowdown and the events of September 11 have led to a steep fall in the rate of growth of exports during 2001-02. Liberalization & trade reforms have led to this spectacular growth performance through very unstable. We analyze below the how liberalization of trade policy has affected export performance.

Impact of liberalization

An important thrust of the new policy measures undertaken from 1991 was to integrate the Indian economy with the global economy with greater emphasis on India's external trade. A series of policy measures aimed at liberalizing the economy included the following:

- Reduction in level of tariffs
- Removal of product-specific export incentives, coupled with a two-stage devaluation of the rupee
- Simplification of export-import policies & procedures
- Removal of quantitative restrictions on imports to remove anti-export bias

As a result of these and other measures taken by the Government and the favorable world trade environment, the export sector has shown buoyant growth during this decade. Except for 1998 when both the world exports and India's exports showed a negative growth rate, India's export growth rate has been higher than world export growth rates as can be seen in the following table.

Table - 7

Export Growth Rate of India and World

Year	World's Export Growth Rate	India's Export Growth Rate
1995	19.67	22.41
1996	5.28	8.10
1997	3.55	5.75
1998	(-)1.63	(-)4.48
1999	3.95	8.61
2000	12.4	16.46

Source : WTO International trade statistics 2001

Further, the liberalization of trade policy has also increased the openness of India's economy as may be seen from the index of openness i.e. trade as a percentage of GDP. The index initially declined from 12.22% in 1950 to 6.9% in 1970-71 as a result of various inward looking policies. However, due to the gradual opening of the economy during 1980s, the ration increased to 13.32% in 1990-91 and after the trade liberalization measures, it further improved to 19.15% in 1999-2000. Exports as a percentage of GDP, has also increased from 5.8% in 1991-92 to 10.1% in 2000-01. A comparison of India's trade performance in 2000-01 with 1991-92 is given below:

Table 8

Comparison of India's Export Performance

	1991-92	2000-01
Exports (% of GDP)	5.8%	10.1% ***
Exports Growth rate (%)	-1.5%	21.0%
Index of Openness (Trade as a percentage of GDP)	-1.5%	21.0%

*Pertains to 1990-91
** Pertains to 1999-00
*** GDP is taken at factor cost
Source: Ministry of Commerce & Industry

In fact, India's share in world exports increased from 0.41% in 1992-93 to 0.6% in 1998-99 and to 0.67% in 2000.

India's export performance vs. S.E Asia & China

An analysis of share of world trade and the share of export contribution of the South East Asian economies and China reveals that India's comparative position vis-à-vis these countries has declined steadily.

The following shows the share of exports in GDP in some Asian countries.

Table - 9

Share of Exports in GDP of some Asian countries

Country	Exports as % of GDP	
	1980	1999
China	6	21.8
S.Korea	34	36.4
Thailand	24	48.2
Indonesia	34	38.9
Malaysia	58	109.8
India	6	10.1*

Source: World Development Indicators - 2001, world Bank,
* Calculated for 2000-2001

The above table indicates that between 1980 and 1999, *"export as a percentage of GDP measure"* of China, Thailand, and Malaysia has increased significantly. While India's share of exports to GDP has nearly doubled in this period, export, exports still contribute only 10% of GDP, significantly lower than its competitors in the region.

India's export basket: Commodity Composition

A compositional change has been witnessed in the export basket with the opening up of the economy. The Commodity composition of our export basket can be divided into three main categories: Agriculture and allied products, ores and minerals and Manufactured goods. The

commodity composition in the 1990s shows that the share of manufactured products increased from 75% in 1991-92 to 83% in 2000-2001.

Agricultural and Allied groups

The export value of agricultural & allied products has increased from US$3.2 billion in 1991-92 to US$5.9 billion in 2000-01.

An analysis of growth rates within the Agriculture and Allied group during the 1990's indicates that the growth of individual item is varying and can be grouped into four sub-groups as given below:

Steady growth items: The major items for which export values have increased over the decade are marine products, spices, cashew and basmati rice. Others that are not indicated in the graph but have shown high growth are pulses, sesame and niger seeds, meat preparations and sugar & molasses.

Negative growth items: Tea, nuts and seeds are items whose export values have actually declined over this period.

New high growth items: Some items of which export value was low in 1991-92 but that have consistently grown in strength since then are non-basmati rice, castor oil, processed fruits and juices, floriculture products, meat and meat preparations, etc.

Other items with inconsistent growth: Exports of some items have been fluctuating during this period. These are sugar and molasses, fruits and vegetables, manufactured tobacco products, groundnuts etc.

Ores & Minerals

In the group ores and minerals, Iron is the main constituent and comprises 30.82% of the value. Other items include Mica, Coal, and processed minerals. In the last decade, a substantial fall in export value (from US$ 0.58 billion in 1991-92 to US$ 0.36 billion in 2000-01) has been witnessed in case of iron ore. Mica is another item

where exports fell sharply. However, exports of processed minerals and other ores and minerals increased in value during the decade.

Manufactured goods

India has improved its share of manufactured goods. The export value of manufactured goods has increased from USD 13 billion to around USD 35 billion during 2000-2001.

The top ten items of exports in the manufactured goods groups are Gems & Jewellery; Ready-made Garments; Textile yarn, Fabrics & made-up; Leather & Leather manufactures; Drugs, Pharma & Fine Chemicals, Machinery & Instruments; Manufactures of Metals and Rubber manufactured products. Together these constitute 58.5% of this group in value terms during 2000-2001.

An analysis of growth rates within the Manufactured Goods group shows that most of the items in the manufacturing group have shown an increasing trend throughout the decade and can be grouped into four sub-groups as given below.

High growth, High value items : The high value, high growth items are Gems & Jewellery, Manufactures of Metals, Drugs, Pharma & Chemicals and Textiles. **Most of our cultural products fall in this category.**

Gems & Jewellery improved its export value from USD 2.75 billion t o USD 7.4 billion over the decade. Moving from an insignificant position in the 80s, it has become the second most important constituent with a share of 17% in 2000-2001.

Drugs, Pharma & Chemicals have increased increased from USD 0.5 billion in 1991-92 to USD1.6 billion in 2000-2001. Manufactures of metals have increased from USD 0.5 billion in 1991-92 to USD1.6 billion in 2000-2001.

Machinery & Instruments have increased from USD 0.6 billion in 1991-92 to USD 1.6 billion in 2000-2001. Transport equipment's have increased from USD 0.5 billion in 1991-92 to USD 0.98 billion in 2000-2001. Textiles comprising Readymade Garments and Yarn

together have increased from 4.03 billion t o 10.4 billion in 2000-2001. A comparison of the export baskets reveals that textiles improved its share from 22.6% in 1991-92 to 24.4% in 2000-2001.

Fast growing, lower value items: Inorganic Chemicals & Agrochemicals and Handicrafts in cluding Handmade Carpets comprise about 1.7% each of total exports and have clocked a growth of 14% and 12% resepctively. Other items that have grown impressively are Rubber manufactured products, Paper/Wood products and Glass/Glassware/Ceramics. Some of our cultural products are in this category.

Steady growth items : Electronic goods, Machinery & Instruments, Dyes Intermediates & Coal Tar Chemicals and Transport Equipment are the other items whose export value increased.

Low growth items: The commodity group that has shown a low growth in exports is Leather & Manufactures. Its share of the export basket has fallen from a peak of 7% in 1991-92 to 4.38% in 2000-2001.

The growth rate matrix of India's exports (vide box-I) shows that 42% of India's exports have high growth and high share in India's exports.

BOX-I

Growth-Share Matrix of India's Exports - 1996-2001

	Low share (>0.5%,<2%)	High share (2% and above)
High growth (10% and above)	Petroleum products Plastic & Linoleum products Oraganic/inorganic/Agro chemicals Tea Residual chemicals Meat preparations paper/Wood products Cosmetics & Toiletries Glass/Glassware/Ceramics **9% of India's exports**	Rubber manufactured products Manufactures of metals Gems & Jewellery Drugs & Pharmaceuticals Readymade garments Machinery & Instruments **42% of India's exports**
Low growth (<10%)	Paints/enamels/varnishes Dyes/Intermediates/coal tar Primary & Semi-finished Iron & Steel Processed minerals Other ores & minerals, Iron ore Handicrafts, Carpets-handmade Tobacco un-manufactured, Coffee Basmati rice, Non-basmati rice Cashew, Spices, Castor oil **16% of India's exports**	Electronic good Marine products Leather & manufactures Textile, yarn fabrics&made-ups Transport equipment Oil meals **26% of India's exports**

Source: Ministry of Commerce an Industry Report on Medium Term Export Strategy 2002-2007, January 2002.

Thus there has been a compositional change in the export basket of India. The share of manufactured goods in the total exports of India have increased from 75% in 1991-92 to 79% in 2000-2001. If we include Petroleum products being exported from the country, the share of manufactured goods has risen from a level of 76% in 1991-92 to 83% in 1991-92 to 13% in 2000-2001. Similarly, the share of exports of Ores and Minerals has declined from 5.2% in 1991-92 to 2.60% in 2000-2001. **This is an evidence of India's exports moving away from Resource based products to Technology based products in the post-liberalization period.**

A study by Shri S.D.Tendulkar (2000) vide *"Indian Export and Economic Growth Performance in Asian Perspective"* reveals that during 1980-96 the growth of Indian export earnings turned out to be above the world average for all the broad categories of Extended-Manufacturing (E-Mfg) exports including double digit growth rates in labour and scale intensive products. However, Indonesia, Malaysia and Thailand posted much higher and more stable growth rates than

India. A better export performance than India in technologically more sophisticated products by South Korea and Taiwan requires to be underlined. During the period 1980-96, the highest growth has been achieved in the export of labour-intensive exports and 12% by India which is higher than the world export of labour - intensive products at 9%.

As far as changes in the commodity composition of country specific export basket is concerned, India improved the share of Extended-Manufacturing significantly from 56% (1980-1986) to 71% during 1993-96. **The first period 1980-1990 was marked by the rise in the share of scale intensive exports. Share of labour intensive exports remained constant at around 41%. The scale intensive product exports improved their average share from 26% in 1980-86 to 36% in 1993-96.** On the other hand, the Resource-Intensive export items witnessed a decline in their share to the total exports from 11% during 1980-86 to about 6% in 1993-96. The other early trade liberalizing and rapidly growing economies changed their export basket increasingly towards differentiated and science based products. This diversification achieved by them helped in reducing their vulnerability to volatile world trading environment in resource intensive exports and slower growing would exports of labour intensive products.

The critical factor in these countries has been not the state of the international trading environment but the functioning of the domestic main springs of the growth process such as the incentive structure for innovations, reliable and cost effective transport and communication facility and stable macro economic management - all this has been driven by a proactive approach. India had a headlong start in industrialization in t he 1950s well ahead of these countries, but the persistently inward looking character of Indian industrialization not only made it internationally non-competitive but led to wastage of scarce capital and foreign exchange, thereby slowing down the rate of economic growth. Possibly realizing the limited size of their domestic markets at lower levels of per capital incomes, these East Asian countries had switched from import substitution to export-orientation fairly early in their development process. India was the first in initiating industrialization but the last in trade liberalization.

To sum up progressive export orientation of the economy would yield not only very obvious efficiency gains in resource utilization but also two other benefits which have often been overlooked: one, because of expansion of domestic market beyond national borders it would enhance and maintain the rate of return on productive investment and raise the rates of domestic savings and investment essential for rapid growth. Two, it would also impart resilience to the economy to successfully overcome external shocks.

Trends in Cultural Trade in Select Countries

In this section we discuss the trends in cultural trade in some select countries including India.

Table No - 10

Trends in Cultural Trade in Select Countries

Cultural Trade[1]

Country	US$ Mill	US$ Mill	US$ per Capita	US$ per Capita	As % of GNP	As % of GNP	Cultural exports as % of total cultural trade	
	1980	1997	1980	1997	1980	1997	1980	1997
	2	3	4	5	6	7	8	9
India	18	2558	(.)	4	(.)	0.6	42	30
Indonesia	139	4668	1	23	0.2	3.4	5.9	71
Malaysia	-	29007	21	1335	1.3	36.4	24	72
Phillipines	79	5741	2	79	0.2	7.3	18	45
Singapore	1968	72322	815	20633	17.9	76.0	62	63
Thailand	80	15925	2	264	0.3	11.8	14	66
South Korea	1263	23342	33	506	1.4	6.3	76	63
Developing Industrial	57850	714030	77	608	0.8	3.1	53	46
South East Asia/Oceania	3488	140395	14	331	2.4	14.6	40	60

Source: World Cultural Report 2000

1. Exports plus imports of books and pamphlets, newspapers, newsprint and periodicals; typewriters and word and data processors; music-related goods; Cinema and photography; radio, television and VCRs; visual arts and antiques; and sporting goods.

The above table indicates that the value of cultural trade in developing industrial countries has increased manifold in 1997 compared to 1980. The same is story of all countries in South East Asia. India is no exception. The share of cultural trade in GNP has also increased for all in developing industrial countries including India. However the share of cultural exports in total cultural trade has declined for all developing industrial countries including India, but with exception of South East Asian countries where cultural exports as a percentage of total exports have gone up remarkably. This employees that most of the developing industrial countries have been importing more of cultural goods in 1997 as compared to 1980. This fact brings us to the next section where we discuss policy implications of this declining trend of cultural exports in total cultural trade of India.

FOREIGN DIRECT INVESTMENT : (FDI)

In this section we discuss the impact of globalization on investment, particularly FDI.

In recent year & Foreign Direct Investment (FDI) or operation of multinational corporation in foreign countries with a view to control assets and manage productive activities in those countries has been growing rapidly, faster indeed, than international trade, which has been the principal mechanism of linking national economies. In fact, the global scenario for FDI has been characterized by a faster growth of FDI, vis-à-vis, almost all other indicators of economic activities worldwide. It has also become more important in terms of delivering goods and services to foreign market and in addition, it has become an important mechanism for organizing production internationally. All countries, specifically the developing ones, recognize the role of FDI in development and are actively competing for it.

There has been a resurgence in investment flows and technology transfer through FDI to the developing world. The developing countries today receive twice as much t he value of world FDI flow compared to late-eighties. Several factors may have contributed for such resurgence. Among these, liberalization of FDI policy by the host countries is generally regarded as very important. Further, the spectacular growth has been fed by increasingly close integration of national economies driven by worldwide competitive pressure economic liberalization and opening up of new areas for investment. Specifically, the developing countries consider the increased FDI inflows necessary for strengthening their resource-base, macro-economic stability and improving their overall economic performance. Therefore, it seems useful to study analytically the trend of FDI particularly in developing countries. The present study is an attempt in this direction.

Trends in FDI

According to the latest World Investment Report 2000 published by UNCTAD, FDI flows continue to set new records. In 1999, global inflows reached $865 billion, an increase of 27 per cent over the previous year. FDI flows to developing countries, after stagnating in 1998, seemed set to resume their earlier growth trend. Their value reached $208 billion, an increase of 16 per cent over 1998. The driving force behind the 1999 increase in FDI continued to be cross-border mergers and acquisitions (M&As), accounting for a substantial

share of total flows - a higher share in developed and a lower share in developing countries.

This is the short-term picture. The long-term picture is that FDI is playing a larger and more important role in the world economy. International production - production under the common governance of transnational corporations (TNCs) - is growing faster than other economic aggregates. The nature of international production is changing, responding to rapid technological change, intensified competition and economic liberalization. Falling transportation and communications costs are allowing TNCs to integrate production and other corporate functions across countries in historically unprecedented ways. Previous World Investment Reports (WIRs) have termed this process "deep integration", which is giving rise to cohesive global production system, with specialized activities located by TNCs in different countries linked by tight, long-lasting bonds. The system is unevenly spread across industries, countries and TNCs, but it is growing rapidly to span many of the most dynamic activities in the world.

At the end of 1999, the stock of FDI, a broad measure of the capital component of international production, stood at $5 trillion (vide table-10) Sales by foreign affiliates, a broad measure of the revenues generated by international production, reached an estimated $14 trillion in 1999, while their gross product (value added) stood at an estimated $3 trillion. The gross product of all TNC systems together - that is , including parent firms - was an estimated $8 trillion in 1997, comprising roughly a quarter of the world's gross domestic product (GDP).

International production is thus of considerable importance to the world economy. Global sales of foreign affiliates alone were about twice as high as global exports in 1999, compared to almost parity about two decades ago. Global gross product attributed to foreign affiliates is about one tenth of global GDP, compared to 5 per cent in 1982. The ratio of the stock of FDI to global GDP has risen from 6 per cent to 16 per cent over this period. The ratio of FDI flows to world gross domestic capital formation was 14 per cent in 1999; this ratio is significantly higher for manufacturing (22 per cent in 1998) vide (table-11). In relation to private capital formation, the share varies (for

the countries for which data are available) from 0.4 per cent in Japan to 98 per cent in Djibouti. This share is typically higher in developing countries. Global sales and gross product associated with international production have increased faster points and 4.1 percentage points, respectively during the period 1982-1999.

Table - 11

Selected indicators of FDI and international production, 1982-1999
(Billion of dollars and percentage)

	Value at current prices (Billion dollars)				Annual growth rate (Per cent)	
Items	1982	1990	1999	1986-1990	1991-1995	1996-1999
FDI inflows	58	209	865	24.0	20.0	31.9
FDI outflows	37	245	800	27.6	15.7	27.0
FDI inward stock	594	1761	4772	18.2	9.4	16.2
FDI outward stock	567	1716	47759	20.5	10.7	14.5

Source : UNCTAD, based on FDI/TNC database and UNCTAD estimates.

Table - 12

The importance of FDI flows in capital formation, by region and sector, 1980, 1990 and 1998.

Region/economy	FDI inflows as a percentage of gross domestic capital formation: all industries	FDI inflows as a percentage of gross domestic capital formation: manufacturing	FDI inflows as a percentage of private capital formation: all industries
World			
1980	2.3	9.0[a]	3.4[d]
1990	4.7	14.0[b]	5.4[e]
1998	11.1	21.6	13.9[f]
Developed countries			
1980	2.7	8.5	3.4
1990	4.9	11.9	5.2
1998	10.9	16.6	12.9
Developing countries			
1980	1.2	11.7	3.6
1990	4.0	22.3	6.7
1998	11.5	36.7	17.7
Central and Eastern Europe			
1980	0.1	..	..
1990	1.5	..	0.7[g]
1998	12.9	..	16.2

Source : UNCTAD, based on information from the World Bank, 1999 and 2000; International Finance Corporation, Economics Department Database, (taken from their web site http://www.ifc.org/economics/data/database.htm); OECD, various issues and IMF, 1999.

The developed countries with more than two-thirds of the world inward FDI stock (cumulative FDI flows) and 90 per cent of the out ward stock remained significant in the global picture. However, developing countries accounted for nearly a one-third of the global inward FDI stock in 1997, increasing from one-fifth in 1990.

The above table indicates that the FDI inflows as a percentage of gross fixed capital formation is also on the rise. For the world as a whole, FDI inflows as percentage of world gross fixed capital formation was 2.3 per cent in 1980 which increased to 11.1 per cent in 1998. Developed countries have also experienced the similar rising

trend. It rose from 2.7 per cent in 1980 to 10.9 per cent in 1998. The rising trend was more pronounced in case of developing countries. It rose from 1.2 per cent in 1980 to 11.5 per cent in 1998. The data given in annex 1 to 5 also vindicate this fact.

Growth Impulses

Growth impulses in a dynamic world order have to come from competitiveness and technology upgradation. Foreign investment in developing countries has increased sharply over last ten years, overtaking as a source of external funding for economic development. FDI is also preferred by the developing countries as compared to other external finance, because because it brings with them new technologies, management techniques and market access as well. The additional benefits accrue from the new economic activity, creating additional employment and tax revenues. Entry by foreign firms can also increase competition in domestic markets, reduce monopoly profits and stimulate quality upgradation of products and services by all firms in the sector.

Economic liberalization, combined with advances in communications and transports, has led to growing integration of world markets for goods, services and capital. This process has emerged in the 1990s and is expected to continue in future.

Global integration process has received major boost from the FDI, by helping link markets for capital and labour and raise relative wage and productivity of capital in recipient countries. The growing multiplicity of linkage is reflected in a sharp rise in intra-firm trade across national boundaries, between foreign affiliates in developing countries and parent companies in developed countries as well as between foreign affiliates within developed countries and hence growth stimulating both for developed and developing countries.

In general, the FDI is considered as a composite bundle of capital stocks, know-how, knowledge and technology, which lead to increasing returns in domestic production and increase value addition to the FDI related production. However, impact of inward FDI

depends mainly on the initial conditions of the recipient country. It is found that the impact of FDI is country specific.

In neo-classical framework, the impact of FDI on growth is confined only to short-run. Its effect and magnitude depends on transitional dynamics to the steady state growth path. The possibility, that FDI is growth enhancing in the long-run, has motivated a growing body of literature and theoretical work in economics.

The advent of endogenous growth theory (Barrow and Sala-I-Martin, 1995) has encouraged research into the channels, through which FDI can be expected to promote growth in the long run. The basic shortcoming of conventional neo-classical growth models, as far as FDI is concerned, is that long-fun growth can only result from technological progress and/or population/labour force growth, which has been considered as exogenous. The only vehicle for growth enhancing FDI would be through permanent technological shocks. Notable characteristic of endogenous growth model is that long-run growth can be affected by policy action of government.

If growth determinants are taken as endogenous, trade regime, composition of FDI, use of FDI (Finished goods/Capital goods, Infrastructural development) orient the impact of FDI on growth.

Experience of some select Asian countries

In the past decade, a number of East and South-East Asian countries experienced remarkable economic growth, which was partly export-led and associated with an upsurge of FDI during the period. We examine below the experiences of some selected Asian countries regarding the impact of FDI on their economic growth.

- **Singapore**

  Singapore is the most economically advanced country and is characterized by a high degree of industrial sophistication and technology capability. FDI has been vital to the economic development of the country. During the period 1991-1995, FDI inflows accounted for high percentage of gross fixed capital formation. Manufacturing sector is heavily dominated by foreign

affiliates whose share in total exports was 87 per cent in 1994. The predominance of FDI in Singapore's economy, is the result of deliberate government policy. Creating an attractive business environment for TNCs has been a principal concern. Therefore, the Government has invested substantially to provide adequate infrastructure, education and training R&D and public service. FDI policies have been directed at supporting priority sectors and achieving sustained and diversified growth.

- **Malaysia**

  Malaysia is on of the fastest growing countries of the region, with growth averaging about 9 per cent a year between 1990 to 1996. The structural transformation of the economy over the past two decades has placed it at the forefront of the second-tier of newly industrializing economies. Transnational Corporations have played an important role in this transformation and in the spectacular expansion of manufacturing exports. These accounted for 80 per cent of total exports in 1995, compared with 21 per cent in 1980s. Malaysia has been one of the largest recipient of FDI among developing countries.

- **Thailand**

  Like Malaysia, Thailand benefited from the currency appreciation and higher labour cost in Japan and other Asian newly industrializing economies, which led to sharp rise in FDI inflows in the late 1980s. The expansion of largely export-oriented FDI fuelled strong export growth and triggered an investment boom. Economic growth has been rapid, averaging 8 per cent per year between 1990 to 1996.

- **China**

  China has been the largest developing recipient country of FDI since 1992. During 1992-1997, it accounted on an average for 32 per cent of FDI flows to developing countries, with average annual FDI amounting to almost US $ 32 billion. China constitutes an attractive location not only because of its size,

but because of its economic growth. This averaged more than 10 per cent a year during 1990-1996. But market access has not been the only motive for FDI; relatively low labour costs have made China an important export platform for TNCs engaged in labour-intensive industries.

Based on the experience of the selected recipient countries, it can be recognized that FDI can contribute to economic growth. Economic and policy environment play crucial role to attract FDI.

Trends in FDI Flow to India

Potential for inward FDI flow in India remained substantial. During 1997, India attracted FDI flows worth of US $ 3.3 billion by far the single largest amount, the country was able to attract during the ongoing reform period, according to UNCTAD Report 1998.

The average annual FDI flows into India, which amounted to US $ 0.2 billion between 1986-1991 shot up to US $ 1 billion in 1994, to US $ 2 billion in 1995 and to US $ 2.4 billion in 1996. As a percentage of gross fixed capital formation, India's inward FDI averaged annually 0.3 per cent in 1986-91 and this rose to 1.4 per cent in 1994, 2.4 per cent in 1995 and to 2.9 per cent in 1996.

India's outward investment stock, which was just US $ 0.02 billion in 1985 inched up to US $ 0.03 billion in 1990. It is only during the ongoing reform period that such stock surged to US $ 0.3 billion in 1995, and to US $ 0.6 billion in 1997.

This trend of FDI inflow into India is encouraging and growth enhancing In order to know the growth implication of such FDI for India economy, an attempt is made to analyze the pat tern of FDI inflow into India and its implication for India's growth prospects. Since, sector/industry-wise break up data are not available in World Investment Report, data available from the Annual Report 1998-99 of Ministry of Industry, Government of India are used for analytical purpose. Before analyzing the sectoral FDI inflows, an attempt is made to indicate some policy developments in respect of Foreign Direct Investment.

Some FDI Policy Developments

An important feature of India's industrial development since 1991 has been the unprecedented growth of foreign collaboration, the formal channel for foreign investment inflows and technology transfer into India from industrialized countries, which has been viewed by the Government of India as a vehicle for transfer of technology. In consonance with the introduction of structural adjustment and economic reform programmes, there have been major changes in the country's economic policies that influence the shape and scope of industrial investment, including foreign investment.

The industrial policy statement of 1991 states as one of its objectives that foreign investment and technology collaboration will be welcomed to obtain higher technology, to increase exports and to expand the production base'. The new industrial policy statement of 1991 has heralded an `open-door' policy on foreign investment and technology transfer.

As the economy was passing through a serious external crisis at the beginning of the nineties, the response of the Government was to go in for a comprehensive macro-economic and structural adjustment with economic reforms and globalization as key elements since July 1991. This phase in India's foreign collaboration policy is characterized by transparency and `openness' and is intended to seek increased foreign direct investment. The degree of openness of course, is seen mainly in terms of entry policy on (1) sectors open to FDI, (2) level of foreign equity participation, and (3) transparency in approval procedures. In contrast to the earlier regime, the most striking feature of the present liberalization policy in India is the freedom provided to the level of foreign equity participation. Under the present policy regime, FDI is given automatic approval upto 51 per cent foreign equity in the listed priority industries. Besides, there is no upper bound for foreign equity; even 100 per cent foreign equity is permitted with prior clearance. Permission is given freely to 100 per cent foreign equity in the power sector and wholly export-oriented industries.

Further, the government has presently adopted a liberal approach towards Non-Resident Indians (NRIs) investment. NRIs and

Overseas Corporate Bodies (OCBs) can invest upto 100 per cent in high priority industries.

In a recent development, the Government has decided to allow 100 per cent FDI under the automatic route in roads, ports, etc., projects to encourage private investors in the sector and to accelerate reforms in the core sector.

Approval and Actual Inflows Analysis

Although the amount of FDI approvals has increased sharply during post-reform period in response to liberal policy initiatives, the actual inflow remained at very low level. It has remained a major concern for the policy maker. During 1991 total FDI approved stood at Rs. 534 crore but actual inflows of FDI stood at Rs. 351 crore, accounting for 65.8 per cent of approval. However, in post-reform period the approval of FDI has increased manifold, the ratio of FDI inflow to approval's amount on an average remained around 30 per cent in the range between 17.0 per cent and 66.0 per cent during the period from 1991 to 1998. During 1998, total FDI approvals amounted to Rs. 30,814 crore as against inflows of Rs. 13,320 crore (Table 6).

Although the trend in FDI approved is highly encouraging, the actual flow is major cause of concern. The lag is partly explained by the fact that the gestation period of mega projects, such as power, fuel is longer. Nearly, 50 per cent of FDI approvals pertain to such mega project like power and fuel sector. As per the Industry Ministry report, excluding project, the inflow : approval ratio is roughly 1 : 1.7. As nearly, 50 per cent of the FDI approvals is in infrastructure, low inflow of FDI means an inadequate investment in the infrastructure sectors, which has its negative impact on industrial growth in particular and output growth in general.

An analysis of country-wise FDI and foreign technology agreements of the major investing countries in India during 1991-1998 reveals that during this period 14,551 agreements were approved of which 8,598 were financial and 5,953 were technical. The USA tops the list with total agreements of 2,896 with 1,560 financial agreements and 1,336 technical agreements, which accounts for 19.9 per cent of the total approvals during 1991-98. Followed by Germany (11.7 per cent),

U.K. (10.0 per cent), Japan (6.8 per cent), Netherlands (4.8 per cent), Singapore (2.8 per cent), Canada (1.3 per cent), Austria (1.3 per cent), NRI (6.1 per cent) and other countries (15.4 per cent). It may be highlighted that financial approval numbers accounted for about 59.0 per cent as against 41.0 per cent technical approval numbers during 1991-1998.

Industry-wise Analysis of FDI

There has generally been an apprehension that FDI approvals are not flowing into desired sectors. In fact, a bulk of FDI (over 80 per cent) since 1991 has been in the priority and core sectors, as opposed to the trend in 1980s. The sector-wise distribution of approvals of FDI is in such important sectors as power, oil refineries, electronics and electrical equipment's (computer software and electronics), chemicals and food processing industries. In addition, foreign investment approvals are significantly high in sectors like telecommunications, transportation, and industrial machinery. This position is given in annex 6 to 9. This points to the fact that the FDI inflows into India are growth stimulating, as they are basically infrastructure-oriented inflows.

Overall Assessment

The US-based Consultancy firm, A.T. Kearney has developed a FDI confidence Index, based on 10 indicators like market size, political stability, GDP growth, regulatory environment, profit repatriation, macro-economic stability, GDP-wise, quality of business, infrastructure, competitor presence and quality of labour. The latest ranking of India is seventh most attractive destination of FDI. The top six in the surveys are the US, Brazil, China, UK, Germany and Poland. According to survey, India scores high only on market size and low on all others. Most prospective investors in India are interested in sectors like telecom, power, ports and road (basically infrastructure project). It can be seen from Table below that the inward FDI into India as percentage of gross fixed capital formation which was on an average at 0.3 per cent during 1986-91, increased to 1 per cent in 1993 and further 2.4 per cent in 1995 and 2.9 per cent in 1996. Since the domestic savings rate is around 26 per cent, foreign savings to the tune of around 2 per of the GDP would be

required to achieve the target growth of 7 per cent with an incremental capital output ratio (ICOR) of approximately 4. Even a 2 per cent contribution of FDI for savings, therefore, is critical, considering the close linkages between infrastructure and economic growth in the country.

Sustainability of FDI

FDI has emerged as an important source of private external finance for developing countries. It is different from other major types of external private capital flows in that it motivated largely by the investors' long-term prospects for making profits in production activities that they directly control. FDI are not generally prone to herd behavior. It may be interesting to note that FDI flows to the Asian countries affected by financial turmoil in 1997, remained positive in all cases and declined only marginally for the group in 1997. Flows in 1998 declined a modest 7 per cent for the first time since the mid-1980s, but the drop was due to almost entirely to sharply decreased inflows into Indonesia and Taiwan Province of China. In 1998, FDI flows to the region were US $ 78 billion, down room US $ 84 billion in 1997.

A Survey of foreign investors (conducted by UNCTAD) suggests that, mergers and acquisitions, joint ventures and other equity and non-equity types of inter-firm agreements are expected to go hand-in-hand with the growth in FDI.

Thus FDI, which represents investment in production facilities, its significance, particularly for developing countries is much greater. FDI adds to investible resources and capital formation. It is also a means of transferring production technology, skills, innovative capacity as well as of accessing global market. FDI has thus become one of the major focal points for the policy makers, particularly of developing countries. Policy makers are paying more attention to measures that encourage potential investors. It is to be recognized that economic determinants play major role to attract FDI. Although, many of the factors such as abundant natural resources, attractive domestic

market, low production cost, conducive labour force etc., remained important to attract FDI; their relative importance is changing as multinational corporation increasingly pursue new strategies to enhance their competitiveness.

Mergers & acquisitions are increasingly emerging as mode of entry for FDI. Policy makers in developing countries are very active to attract FDI by further opening real sector to it and relaxing rules with respect to ownership, mode of entry, financing, labour and land related issues. The UNCTAD Survey of Foreign Investors pointed out that countries in developing Asia to a lesser extent, in Latin America and countries in Eastern Europe are likely to be main beneficiaries of corporate restructuring. Foreign investors expect dramatic increases in investments in infrastructure, distribution, non-financial services and automobiles, but slower growth in financial services and real estate. In all, the survey pointed out, the growth of FDI is expected to remain brisk over the next five years, both in terms of absolute levels and as a proportion of corporate investments.

Summing up

To sum up the developments in the external sector relating to trade and investment are as follows (Vide Box-II at Annex-10):

Evidence on the relative performance of the external sector during 1980s and 1990s belies the skeptics. Exports of goods and services grew at an annual rate 10.7 per cent during 1990s compared with only 7.4 per cent during 1980s. Likewise, imports grew at 9.7 per cent during 1990s but only 5.9 per cent during 1980s. The annual growth rate of exports as well as imports has, thus, risen by 3.3 percentage points.

The rise has manifested itself in significant increase in the imports-to-GDP and exports-to-GDP rations. On the exports side, the ratio approximately doubled from 7.3 per cent to 14 per cent between 1990 and 2000 and on the imports side it jumped from 9.9 per cent to 16.6 per cent. The overall trade to GDP ratio has thus gone up from 17.2 per cent in 1990 to 30.6 per cent in 2000. In contrast, the change in the trade-to-GDP ratio between 1980 and 1990 was tiny from 15.2 per cent to 17.2 percent.

On the foreign investment front, India has been receiving approximately $5 billion every year since 1994-95 compared with just $0.1 billion during 1990-91. This amount is split approximately equally between foreign direct investment (FDI) and portfolio investment. There has also been a significant shift in the remittances from abroad: from $2.1 billion in 1990 to $12.3 billion in 2000.

While the basic claim of the skeptics is thus readily refuted, it must be acknowledged that the response of the external sector to liberal trade and investment policies has been an order of magnitude weaker in India than China. Exports of goods and services grew at annual rates of 12.9 and 15.2 per cent during 1980s and 1990s respectively in China. Imports exhibited a similar performance. Consequently, China's total trade to GDP ratio rose from 18.9 per cent in 1980 to 34 per cent in 1990 and to 49.3 per cent in 2000.

On the foreign investment front, differences are even starker. FDI into China has risen from $.06 billion in 1980 to $3.49 billion in 1990 and then to a whopping $42.10 billion in 2000. China was slower to open its market to portfolio investment but once it did, inflows quickly surpassed those into India, reaching $7.8 billion in 2000. Even if we allow for an upward bias in the figures as suggested by some China specialists, there it little doubt that foreign investment flows into China are several times those into India.

While some differences between the performances of India and China can be attributed to the Chines entrepreneurs in Hong Kong and Taiwan, who have been eager to escape rising wages in their respective home economies by moving to China, a more central explanation lies in the differences between the compositions of GDPs in the two countries.

Among developing countries, India is unique in having a very large share of its GDP in the mostly informal part of the services sector. Whereas in other countries, a decline in the share of agriculture in GDP has been accompanied by a substantial expansion of industry in the early stages of development, in India this has not happened. For example, in 1980, the proportion of GDP originating in industry was 48.5 per cent in China but only 24.2 per cent in India. Services, on

the other hand, contributed only 21.4 per cent to GDP in China but as much as 37.2 per cent in India.

In the following twenty years, despite considerable growth, the share of industry did not rise in India. Instead, the entire decline in the share of agriculture was absorbed by services. Though a similar process was observed in China, the share of industry in GDP was already quite high there. As a result, even in 2000, the share of services in GDP was 33.2 per cent in China compared with 48.2 per cent in India.

This is a matter concern because under liberal trade policies, developing countries are much more likely to be able to expand exports and imports if a large proportion of their output originates in industry. Not only the scope for expanding labour-intensive manufactures greater, a larger industrial sector also requires imported inputs thereby offering greater scope for the expansion of imports. In India, the response of imports has been just as muted as that of exports. This is demonstrated by the fact that recently RBI has had to purchase huge amounts of foreign exchange to keep the rupee from appreciating. Imports have simply failed to absorb the foreign exchange generated by even modest foreign investment flows and remittances.

This same factor is also at work in explaining the relatively modest response of FDI to liberal policies. Investment into industry, whether domestic or foreign, has been sluggish. Foreign investors are hesitant to invest in the industry for much the same reasons as domestic investors. At the same time, the capacity of the formal services sector to absorb foreign investment is limited. The information technology sector has shown promise, but its base it still small. Moreover, this sector is more intensive in skilled labour than physical capital.

Therefore, the solution to both trade and FDI expansion in India lies in stimulating growth in industry with a thrust on cultural industries in which India has a comparative advantage coupled with a rethinking on policy parameters which we discuss next section.

Rethinking policies

With liberal trading regimes now in place throughout much of the developing world, growth sucks in a greater volume of imports than in the past. Attempts to close the payments gap through increased exports to developed countries run up against sluggish markets, adverse movements in the terms of trade and protectionism. As a result, maintaining growth momentum increasingly relies on attracting foreign capital, or any kind. Dependence on hot money has thus become the unstable pillar of economic growth and development in many countries. This situation contrasts with the post-war experience of liberalization in industrial countries, where the process was a gradual one and was underpinned by exceptionally strong growth.

The time has thus come for a rethinking of policies and responsibilities, which should, and indeed must, involve those of the world's richest countries as well as of the developing ones. The international community must face up to the pronounced external constraints to development and the need for exports rather than unstable capita flows to underpin a return to rapid and sustained growth in third world. **This is true of trade in cultural products.**

Achieving an increased exports requires growth in world demand, while additional foreign borrowing makes sense only if the higher export earnings are sufficient to finance the additional debt service.

Thus, liberalization as a successful growth strategy in an interdependent global economy relies crucially on exports, which in turn are highly dependent on growth in industrial countries and greater access of developing countries to their markets. For their part, developing countries must promote efficient and competitive industries, including cultural industries. There is no escape from competition and efficiency.

It is now time to take a long, hard look at the international trading system and identify the short comings of the Uruguay Round Agreements and their implementation, in order to establish the appropriate basis for new multilateral negotiations or of a "development round". Attention needs to be focused on market access. Tariff levels and the frequency of tariff peaks are still high in many areas of export interest to developing countries.

The panorama of protectionism is not healthy for industrial products. Footwear, clothing and textiles are well-known cases. But tariff peaks are also common in other low technology and resource-based industries, as well as for high - technology products which involve unskilled labour in the production of components. Moreover, the threat of market penetration by southern producers is prompting new forms of protectionism within the framework of the various WTO Agreements. The abuse of antidumping procedures and health and safety standards against successful exporters in the South is causing major concern and there are also sings that the provisions of the Agreements are not always being properly adhered to; for example, voluntary export restraints continue to be applied.

There is strong evidence that in many product markets including market for **cultural products** that are protected in the North, producers in developing countries have a competitive advantage or are able to acquire one. The potential for large overall export gains exists. It is estimated that an extra $700 billion of annual export earnings could be achieved in a relatively short time in a number of low-technology and resource- based industries. The increase in annual foreign-exchange earnings could be at least four times the annual private foreign capital inflow in the 1990s. Moreover, unlike a large part of such flows, the resources would be devoted to productive activities, with beneficial effects on employment.

More flexibility should also be granted to developing countries in the design and implementation of policies. Building competitive industries holds the key to overcoming the external constraint not only by boosting export capacity but also by reducing the import content of growth. The scope for promoting exports through direct support has been reduced since the poineers of export-led growth made their successful entry into world markets. However, the considerable financial resources employed by the world's richest countries to support their mature producers provides sufficient grounds to retain the infant-industry concept as an integral part of trade-policy discussion. Moreover, the success of the East Asian and other fast-growing developing economies shows that an export push often followed the built-up of domestic production capacity that replaced imports.

Advice aimed at encouraging the full use of what is still possible under the existing rules of the trading system needs to be strengthened, and further restrictions should be avoided. It is also important to secure consistency between policies regarding the current and the capital account. For instance, in view of the changing nature of the external vulnerability of developing countries, in particular to the volatility of capital flows, the conventional criteria of legitimate action need to be reviewed. Criteria based on imports or current-account deficits can not longer provide an appropriate basis for assessing reserve adequacy and hence the legitimacy of measures to safeguard the balance of payments in the context of WTO provisions. In some areas of trade policy, where review processes are, or about to get, under way, the full impact on the competitiveness of developing countries of limiting the policy options open to them needs to be reconsidered, in particular with respect to subsidies, intellectual property rights and trade-related investment measures. Special and differential treatment for developing countries, as a means of guaranteeing them adequate policy flexibility, should be made part of the contractual obligations of the rule-based system.

Developing countries need to improve the management of their exchange rates if they are to benefit from greater integration into the trading system. The advice they have received in recent years has been at best confusing and at worst misleading. Under free capital mobility, no exchange-rate regime can guarantee stable and competitive rates. Contrary to some perceptions, countries with floating rates are no less vulnerable to financial crises than those with pegged or fixed ones. Differences among pegged, floating and fixed regimes lie not so much in their capacity to prevent damage to the real economy as in the way damage is inflicted in the first place. There now appears to be a growing consensus that developing countries should target real exchange rates in combination with the control and regulation destabilizing capital flows. This offers a viable alternative to free floating or to ceding completely monetary authority to a foreign Central Bank, Successful examples of control over inflows and outflows abound, from Chile to China, India and Malaysia, and provide a rich arsenal of tools for better management of the capital account and exchange rates.

It is essential that the autonomy of developing countries in managing capital flows and choosing whatever capital-account regime they deem appropriate should not be constrained by international agreements on capital-account convertibility or trade in financial services. Indeed, a basic objective for countries at all levels of development should be to roll back the control that financial capital has established over trade, industry and employment. It should also be recognized that private capital markets have not always been successful in replacing official development finance. Reform of the global financial architecture should focus on these issues, and include a greater role for official financing, recognize the rights as well as the obligations of debtors and provide for full debt relief for the poorest developing countries.

Import Statistics of Cultural Products of India by 8 Digit Commodity. **Annex - 01**

(Value in Rupees)

ITC (HS) Code	87-88	91-92	95-96	2000-2001
Products of				
Chemical and				
Allied Industries				
3207	29520335	75257275	292148690	590795557
3208	39187164	79406046	553621153	610028881
3209	9428366	34126499	91422738	160526210
3210	28843031	43875354	77413040	87743982
3213	256058	284073	5812184	5375755
3701	218036467	228466603	620401712	631382534
3702	274381802	1167788207	2878392503	4146082881
3703	252635156	628891938	1462797754	3617862036
3704	7137525	11296689	18330446	58592374
3705	14737931	12071993	56953052	26891837
3706	23064561	6959302	56168770	85212893
3707	67638539	81256783	262011897	380708853
Paper & paper				
board articles				
thereof				
4901	707113562	609233140	1879212453	3395743397
4902	36894995	71237844	201179908	326862926
4903	177313	210926	5326216	4955053
4904	106269	35210	1767249	717271
4905	3458369	4083180	19851888	35320730
4906	42666575	255078110	720248523	1519968647
4907	28066811	1131959	2868754	2574595243

4908	2937210	7610687	44834973	111867687
4909	3299892	1327223	2459410	3370182
4910	7148026	1624413	11136478	18135641
4911	10075822	44255394	151301357	825136719
Textiles &				
textile articles				
5007	7142011	94671124	221412224	205409599
5208	31691489	109954593	238129179	534712899
5209	159716462	201173868	353837065	243102851
5211	45640951	29220077	23435681	38495821
5408	4409977	33835205	207719940	66039068
5701			5629470	18896588
5705			5774237	21738217
5808	466671	4391739	5900664	5668873
5810	51477	267768	2241790	36721968
5811	262994	379967	4353764	10812838
6204			59064	148012476
6214			4585	89872112
6215			2376052	34983175
6216		7756	28916	3137984
Machinery &				
Electrical				
Equipment				
parts thereof				
8424	111048954	155480461	633044934	758630149
8523	126092420	63338668	430846972	1346783591
8525	265596258	287459634	2102141836	9217720794
8527	6272843	6740564	153422322	319055718
8528	4357903	7028600	406659498	843374064
8540	1269973194	1447329687	4014691679	4831782061
Photographic				
equipment's &				
accessories				
9006	25440724	53144887	204224984	621798896
9007	26656484	14826849	63715843	381680211
9008	21669831	2863332	86462402	115257291
9010	90571295	36327955	512611944	706002028
9011	63160813	123501634	167121675	336570799
9201			2345134	19800231
9202			279206	2428009
9203				7042223
9204				1659753
9205			7739	3028625
9206	249082		4416352	6453375
9207			7038941	51178227
9208			391351	8247122

9209	6373243	6996295	64664144	18622300
Miscellaneous				
manufactured				
articles				
9501	2380638	1522833	3458363	24297983
9502	1728157	799243	1672845	30777635
9503	820015	559425	108117703	799986697
9504	222299	1393212	51398232	281841016
9505	428248	25285	509220	27114841
9506	19926452	38694803	243323504	515321980
9507	6739607	7487869	14116497	20546897
9508	276595	33381588	19585006	29754174
9601	2383		538180	704603
9603	7079280	11990128	45796463	107383275
Works of art,				
Collector's				
pieces & antiques				
9701	68457		3354007	11102072
9702		159353	92194	90163
9703	30281	2637515	1428793	1481703
9991	394808	593765	2343445	27887023
Grand Total	4,113,754,075	6,169,464,526	19,839,385,187	42,146,427,739
Source : DGCIS Director General of Commercial Intellingence, Ministry of Commerce & Industry.				

Export Statistics of Cultural Products of India by 8 Digit Commodity.				Annex - 02
				(Value in Rupees)
ITC (HS) Code	87-88	91-92	95-96	2000-2001
Products of				
Chemical or				
Allied Industries				
3207	12197884	41709636	64210504	174904025
3208	442449330	503740592	100298873	69896526
3209	9175385	28894758	39109572	180953560
3210	4523924	6873322	49330805	9989162
3213	4680333	967838	9933156	19585295
3701	21354409	4858472	42260554	70325168
3702	57092944	67492628	35728948	510855594
3703	10575386	63854358	27068723	51787096
3704	3867647	7240602	8983930	17809307
3705	16775912	8103726	13686077	17102210
3706	84880428	168375015	355200586	1129321428
3707	360466	2209206	22007504	83425700
Paper & Paper				
Board & articles				
thereof				
4901	145196938	252913669	757029222	1630486424
4902	85267159	136217703	256739016	479172953
4903	16162	1677528	9956913	169879912
4904			379571	411070
4905	2400742	371304	1598338	7710973
4906	933813	2299275	42645212	102613133
4907	305314			6839075
4908	168119		18859935	16171908
4909	3509590		69340590	131551411
4910	2739748		22738874	50056322
4911	14625942		68128176	177609189
Textiles &				
textile articles				
5007	1248977277	3125897172	4079177666	12300877239
5208	4680747584	9986285686	18096475806	23335683090
5209	856451533	3412879192	8395988450	14649499906
5211	176853230	632200006	3201564487	1389378957
5408	104765112	1556450109	1269684151	824377941
5701	230392662	4288834496	5351911285	7978674078
5705	46703321	2190900696	5439002924	5067360331
5808	3659898	28667118	49908152	413833464

5810	26211944	457228231	471958014	2565159731
5811	958259	5296541	4927885	31675901
6204	4285679270	11566785651	26471896566	49744927790
6214	571939609	2264592845	4140429820	10569423954
6215	3301615	24396509	78408786	83988356
6216	3874776	13783159	64046097	150587060
Machinery &				
Electrical				
equipment's				
& parts thereof				
8424	25952380	57980101	80341452	219132697
8523	10366761	190083153	954560737	1302106997
8525	3076169	10325185	502007491	422018359
8527	10136535	78035581	1547868907	373772993
8528	9274357	437455424	1276116673	1149220246
8540	348872481	1005317252	783635652	715125263
Photographic				
equipment's &				
accessories				
9006	8895578	21074480	29265549	139632516
9007	3056042	11968859	23762282	25026269
9008	21017661	3622188	2610518	36059542
9010	1269087	3508841	7444776	24778329
9011	31168893	82888136	10702359	92932481
9201	525939	452215	10737442	3736483
9202	17157540	22974054	21708616	56253167
9203	2621103	5113016	7089073	23124925
9204	113778	43719	1701010	1889976
9205	3884706	2619709	15558364	7538546
9206	521345	1431676	6344263	23834481
9207	3165604	8274845	108734939	48840228
9208	409955	1254734	2953802	6835275
9209	40346762	73865452	138370087	162433069
Mislleneous				
Manufactured				
Articles				
9501	170487	433249	851741	3288495
9502	1165790	996918	11175532	79411594
9503	3484212	10431131	119994464	248029634
9504	9904954	37851779	153083237	127439042
9505	1706038	7519033	53375504	208595954
9506	266189818	540194550	1691847293	1753923359
9507	12739836	86701932	125768250	352244707
9508	397238	74988	494030	1809669

9601	8988208	56728203	114830369	78528653
9603	29245344	22217432	149887896	818175320
Works of art,				
collectors pieces				
and antiques				
9701	8348441	13100632	34694721	84097745
9702	34500			
9703	1937013	3744153	16087362	10749501
9991	2493590855	5908871445	14400502029	30521324904
Grand Total	18,616,883,085	49,607,532,440	49,607,532,440	173,335,725,658
Source : DGCIS, Ministry of Commerce and Industry.				

Annex - 1

FDI Outflows by Home Region and Economy, 1986-1997

(Billion US dollars)

Region/economy	1986-1991 (Annual average)	1992	1993	1994	1995	1996	1997(E)
1	2	3	4	5	6	7	8
1) World	**159.3**	**175.8**	**217.6**	**243.0**	**331.2**	**337.6**	**400.5**
2) Developed countries	**129.6**	**120.3**	**138.9**	**141.5**	**211.5**	**195.4**	**233.1**
(% to world)	**81.4**	**68.4**	**63.8**	**58.2**	**63.9**	**57.9**	**58.2**
3) Developing countries	**29.1**	**51.1**	**72.5**	**95.6**	**105.5**	**129.8**	**148.9**
(% to world)	**18.3**	**29.1**	**33.3**	**39.3**	**31.8**	**38.4**	**37.2**
of which :							
China	**3.1**	**11.2**	**27.5**	**33.8**	**35.8**	**40.8**	**45.3**
	(10.7)	**(21.9**	**(37.9)**	**(35.4)**	**(33.9)**	**(31.4)**	**(30.4)**
India	**0.2**	**0.2**	**0.6**	**1.0**	**2.0**	**2.4**	**3.3**
	(0.7)	**(0.4)**	**(0.8)**	**(1.0)**	**(1.9)**	**(1.8)**	**(2.2)**
Indonesia	**0.7**	**1.8**	**2.0**	**2.1**	**4.3**	**6.2**	**5.3**
	(2.4)	**(3.5)**	**(2.8)**	**(2.2)**	**(4.1)**	**(4.8)**	**(3.6)**
South Korea	**0.9**	**0.7**	**0.6**	**0.8**	**1.8**	**2.3**	**2.3**
	(3.1)	**(1.4)**	**(0.8)**	**(0.8)**	**(1.7)**	**(1.8)**	**(1.5)**
Malaysia	**1.6**	**5.1**	**5.0**	**4.3**	**4.1**	**4.7**	**3.8**
	(5.5)	**(10.0)**	**(7.)**	**(4.5)**	**(3.9)**	**(3.6)**	**(2.6)**
Singapore	**3.6**	**2.2**	**4.7**	**8.4**	**8.2**	**9.4**	**10.0**

	(12.4)	(4.3)	(6.5)	(8.8)	(7.8)	(7.2)	(6.7)
Thailand	1.3	2.1	1.8	1.3	2.0	2.3	3.6
	(4.5)	(4.1)	(2.5)	(1.4)	(1.9)	(1.8)	(2.4)
4) Central and Eastern Europe (% to world)	0.7	4.4	6.1	5.9	14.2	12.3	18.4
	0.4	2.5	2.8	2.4	4.3	3.6	4.6

E : Estimated
Source : World Investment Report, 1998
Note : Figures in brackets are percentage to Developing Countries FDI inflows.

Annex - 2

FDI Outflows by Home Region and Economy, 1986-1997

(Billion US dollars)

Region/economy	1986-1991 (Annual average)	1992	1993	1994	1995	1996	1997(E)
1	2	3	4	5	6	7	8
1) World	180.5	200.8	240.9	284.3	352.5	333.6	423.7
2) Developed countries	169.2	180.0	205.8	241.5	306.5	283.5	359.2
(% to world)	93.7	89.6	85.4	84.9	87.0	85.0	84.8
3) Developing countries	11.3	20.7	34.9	42.5	45.6	49.2	61.1
(% to world)	6.3	10.3	14.4	14.9	12.9	14.7	14.4
of which							
China	0.7	4.0	4.4	2.0	2.0	2.1	2.5
	(6.2)	(19.3)	(12.6)	(4.7)	(4.4)	(4.3)	(4.1)
India	0.00	0.02	0.04	0.08	0.10	0.20	0.10
	(0.0)	(0.1)	(0.1)	(0.2)	(0.2)	(0.4)	(0.2)
Indonesia	0.00	0.05	0.35	0.61	0.60	0.50	2.40
	(0.0)	(0.2)	(1.0)	(1.4)	(1.3)	(1.)	(3.9)
South Korea	1.0	1.2	1.3	2.4	3.6	4.7	4.3
	(8.8)	(5.8)	(3.7)	(5.6)	(7.9)	(9.6)	(7.0)
Malaysia	0.3	0.5	1.3	1.8	2.6	3.7	3.1
	(2.7)	(2.4)	(3.7)	(4.2)	(5.7)	(7.5)	(5.1)
Singapore	0.6	1.3	2.0	3.7	4.0	4.8	5.9
	(5.3)	(6.3)	(5.7)	(8.7)	(8.8)	(9.8)	(9.7)
Thailand	0.09	0.10	0.20	0.50	0.90	0.90	0.50
	(0.9)	(0.5)	(0.6)	(1.2)	(2.0)	(1.8)	(0.8)
4) Central and Eastern Europe (% to world)	0.02	0.10	0.20	0.27	0.40	1.00	3.29
	0.0	0.1	0.1	0.1	0.1	0.3	0.8

E : Estimated
Source : World Investment Report, 1998

Note : Figures in brackets are percentage to Developing Countries FDI inflows.

Annex - 3

FDI Inward Stock by Host Region and Economy, 1980-1997

(Billion US dollars)

Region/economy	1980	1985	1990	1995	1996	1997(E)
1	2	3	4	5	6	7
1 World	479.9	756.7	1736.3	2732.6	3065.3	3455.5
2) Developed countries	371.9	546.8	1377.6	1929.3	2122.7	2349.4
(% to world)	77.5	72.3	79.3	70.6	69.2	68.0
3) Developing countries	108.1	209.9	357.8	768.3	896.0	1043.7
(% to world)	22.5	27.7	20.6	28.1	29.2	30.2
of which						
China	0.1	4.3	18.6	131.2	172.0	217.3
	(0.1)	(2.0)	(5.2)	(17.1)	(19.2)	(20.8)
India	1.2	1.1	1.7	5.6	7.9	11.2
	(1.1)	(0.5)	(0.5)	(0.7)	(0.9)	(1.1)
Indonesia	10.3	25.0	38.9	50.6	56.8	62.1
	(9.5)	(11.9)	(10.9)	(6.6)	(6.3)	(5.9)
South Korea	1.1	1.8	5.7	10.5	12.5	14.8
	(1.0)	(0.9)	(1.6)	(1.4)	(1.4)	(1.4)
Malaysia	6.1	8.5	14.1	36.8	41.5	45.2
	(5.6)	(4.0)	(3.9)	(4.8)	(4.6)	(4.3)
Singapore	6.2	13.0	28.6	58.6	68.0	78.0
	(5.7)	(6.2)	(8.0)	(7.6)	(7.6)	(7.5)
Thailand	1.0	2.0	8.0	17.2	19.5	23.1
	(0.9)	(1.0)	(2.2)	(2.2)	(2.2)	(2.2)
4) Central and Eastern Europe (% to world)	0.0	0.0	1.0	34.9	46.6	62.4
	0.0	0.0	0.1	1.3	1.5	1.8

E : Estimated
Source : World Investment Report, 1998
Note : Figures in brackets are percentage to Developing Countries FDI inflows stock.

Annex - 4

FDI Inward Stock by Host Region and Economy, 1980-1997

(Billion US dollars)

Region/economy	1980	1985	1990	1995	1996	1997(E)
1	2	3	4	5	6	7
1 World	524.6	6.88	1704.5	2793.5	3115.9	3541.4
2) Developed countries	509.2	659.4	1629.8	2557.4	2830.9	3192.5
(% to world)	97.1	95.7	95.6	91.5	90.9	90.1
3) Developing countries	15.4	29.5	74.4	233.9	281.6	342.2
(% to world)	2.9	4.3	4.4	8.4	9.0	9.7
of which						
China	-	0.1	2.5	15.8	17.9	20.4
	(0.0)	(0.3)	(3.4)	(6.8)	(6.4)	(6.0)
India	0.00	0.02	0.03	0.28	0.52	0.62
	(0.0)	(0.1)	(0.0)	(0.1)	(0.2)	(0.2)
Indonesia	0.00	0.05	0.03	1.30	1.80	4.20
	(0.0)	(0.2)	(0.1)	(0.6)	(0.6)	(1.2)
South Korea	0.1	0.5	2.3	10.2	13.8	18.0
	(0.6)	(1.7)	(3.1)	(4.4)	(4.9)	(5.3)
Malaysia	0.4	0.7	2.3	8.9	12.6	15.7
	(2.6)	(2.4)	(3.1)	(3.8)	(4.5)	(4.6)
Singapore	9.6	9.6	9.6	32.7	37.5	43.4
	(62.3)	(32.5)	(12.9)	(14.0)	(13.3)	(12.7)
Thailand	0.00	0.00	0.40	2.30	3.30	3.80
	(0.0)	(0.0)	(0.5)	(1.0)	(1.2)	(1.1)
4) Central and Eastern Europe (% to world)	0.00	0.00	0.30	2.20	3.30	6.70
	0.0	0.0	0.0	0.1	0.1	0.2

E : Estimated

Source : World Investment Report, 1998

Note : Figures in brackets are percentage to Developing Countries FDI outward stock.

Annex - 5

Inward and Outward FDI Flows as a Percentage of Gross Fixed Capital Formation, by Region and Economy, 1986-1996

(Billion US dollars)

Region/economy	1980	1985	1990	1995	1996	1997(E)
1	2	3	4	5	6	7
1 World						
inward	3.6	3.3	4.4	4.5	5.6	5.6
outward	4.1	3.7	4.9	5.3	5.9	5.5
2) Developed countries						
inward	3.5	2.6	3.0	2.8	3.9	3.6
outward	4.5	3.8	4.5	4.9	5.6	5.2
3) Developing countries						
inward	3.5	2.6	3.0	2.8	3.9	3.6
outward	4.5	3.8	4.5	4.9	5.6	5.2
of which						
China						
inward	2.9	7.4	12.2	17.3	15.0	17.0
outward	0.7	2.7	2.0	1.0	0.8	0.9
India						
inward	0.3	0.4	1.0	1.4	2.4	2.9
outward	-	-	-	0.1	0.1	0.3
Indonesia						
inward	2.3	3.9	4.3	3.8	6.7	8.5
outward	-	0.1	0.8	1.1	0.9	0.7
South Korea						
inward	1.3	0.6	0.5	0.6	1.1	1.3
outward	1.4	1.1	1.1	1.8	2.1	2.6
Malaysia						
inward	14.7	26.0	20.3	14.9	11.0	11.1
outward	2.9	2.6	5.4	6.2	6.9	8.8
Singapore						
inward	37.6	12.4	23.0	35.0	28.9	27.5
outward	6.9	7.4	9.9	15.7	14.0	14.0
Thailand						
inward	5.5	4.8	3.6	2.3	2.9	3.0
outward	0.4	0.3	0.5	0.9	1.3	1.2

4) Central and Eastern Europe (% to world)						
inward	**0.1**	**1.1**	**7.4**	**4.7**	**10.2**	**7.5**
outward	**-**	**-**	**0.2**	**0.2**	**0.3**	**0.4**

Source: World Investment Report 1998

Annex - 6

Total FDI Approval and the Actual FDI Inflow : India

(Rupees crore)

Year (January-December)	FDI Approved	Actual inflows of FDI	% of actual to approvals
1	2	3	4
1991	534.11	351.43	65.80
1992	3887.54	675.18	17.40
1993	8859.33	1786.71	20.20
1994	14187.19	3289.28	23.20
1995	32071.72	6820.02	21.30
1996	36146.81	10389.20	28.70
1997	54891.35	16425.33	29.90
1998	30813.50	13320.36	43.20
Total	181391.55*	53057.51**	

Source : Annual Report 1998-99, Ministry of Industry, Government of India.

Note : Inflow : Approval ratio is roughly 1:3.4 Gestation period of Mega projects such as Power, Fuel is longer. Excluding Mega Projects, involving 50% of FDI approved, the approval : inflow ratio is roughly 1 : 1.7.

- Includes the amount of proposals approvals by FIPB for Global Depository Receipts (GDRs) Foreign Currency Convertible Bonds (FCCBs) during the period June 1994 to December 1998.

** Includes the amount of inflows raised through GDRs/FCCBs againt the FDI approvals accorded by FIPB during the period from June 1994 to December 1998 and also includes the amount on transfer of shares from Resident to Non-resident under

section 29 of the FERA during January 1996 to December 1998, on the basis of information furnished by RBI, Mumbai.

Annex - 7

Country-wise Approval of FDI during 1991-1998 : India

Country	No. of approvals			% to total technical approved nos.	% to total approved nos.
	Total	Financial	Technical		
1	2	3	4	5	6
1) U.S.A.	2896	1560	1336	22.44	19.90
2) Germany	1707	834	873	14.66	11.73
3) U.K.	1451	760	691	11.61	9.97
4) Japan	993	395	598	10.05	6.83
5) Netherlands	695	433	262	4.40	4.78
6) Italy	684	318	366	6.15	4.70
7) Switzerland	556	299	257	4.32	3.82
8) France	512	272	240	4.03	3.52
9) Singapore	416	327	89	1.49	2.86
10) South Korea	392	235	157	2.64	2.69
11) Mauritius	424	399	25	0.42	2.91
12) Australia	311	188	123	2.07	2.14
13) Canada	195	112	83	1.39	1.34
14) Austria	186	73	113	1.90	1.28
15) NRI	895	886	9	0.15	6.15
16) Other Countries	2238	1507	731	12.28	15.38
Total	14551	8598	5953	100.00	100.00

Source : Annual Report 1998-99, Ministry of Industry, Government of India.

Annex - 8

Country-wise Approval of FDI during 1991-1998 : India

Name of Industry	No. of approvals			Amount of FDI approved	% of total FDI approved
	Total	Technical	Financial		
1	2	3	4	5	6
1) Telecommunication (ratio paging, cellular mobile/basic telephone services)	478	109	369	32740.85	18.06
2) Power	183	16	167	33414.39	18.43
3) Oil refinery	343	146	197	24365.26	13.44
4) Chemicals (other than fertilizers)	1364	698	666	11230.17	6.19
5) Service sector (financial, non-financial banking and other services)	590	36	554	11569.56	6.38
6) Transportation industry (including automobile)	895	433	462	11206.68	6.18
7) Metallurgical industries	539	295	244	11149.69	6.15
8) Electrical equipment (Computer soft are electronics)	2490	987	1503	9515.56	5.25
9) Food processing industries	698	137	561	8340.60	4.60
10) Hotel & tourism	328	112	216	3490.63	1.93
11) Textile (include dyed, printed)	547	114	433	2806.91	1.55
12) Miscellaneous industries (horticulture, agriculture, floriculture and other industries)	1159	613	546	2487.11	1.37
13) Paper & pulp industries	152	62	90	2308.76	1.27
14) Industrial machinery	1161	736	425	1958.40	1.08
15) Consultancy services	424	80	344	1708.23	0.94
16) Glass	78	28	50	1341.68	0.74
17) Trading	351	16	335	1218.83	0.67
18) Fermentation industry	58	17	41	1125.51	0.62
19) Miscellaneous mechanical and engineering industry	580	247	333	1120.00	0.62
20) Sugar	7	1	6	1000.75	0.55

21) Commercial, office and household equipment	**70**	**27**	**43**	**981.79**	**0.54**

Source: Ministry of Commerce & Industry

Annex - 9

Industry-wise Foreign Collaboration Approved : India (August, 1991-December, 1998)

(Rupees crore)

Name of Industry	No. of approvals			Amount of FDI approved	% of total FDI approved
	Total	Technical	Financial		
1	2	3	4	5	6
22) Drugs and pharmaceuticals	**307**	**171**	**136**	**801.98**	**0.44**
23) Ceramics	**180**	**52**	**128**	**790.37**	**0.44**
24) Rubber goods	**170**	**89**	**81**	**1057.49**	**0.58**
25) Cement & gypsum products	**79**	**33**	**46**	**702.63**	**0.39**
26) Agricultural machinery	**36**	**27**	**9**	**434.11**	**0.24**
27) Soaps, cosmetics & toilet preparations	**48**	**15**	**33**	**336.18**	**0.19**
28) Machine tools	**160**	**76**	**84**	**278.54**	**0.15**
29) Fertilizers	**58**	**52**	**6**	**246.88**	**0.14**
30) Leather, leather goods and pickers	**163**	**33**	**130**	**274.22**	**0.15**
31) Photographic raw film and paper	**19**	**10**	**9**	**221.45**	**0.12**
32) Medical and surgical appliances	**66**	**24**	**42**	**241.82**	**0.13**
33)) Vegetable oils and vanaspati	**35**	**3**	**32**	**193.93**	**0.11**
34) Boilers and steam generating plants	**69**	**40**	**29**	**118.02**	**0.07**
35) Industrial instruments	**157**	**90**	**67**	**116.58**	**0.06**
36) Dye-stuffs	**18**	**3**	**15**	**106.72**	**0.06**
37) Earth-moving machinery	**50**	**31**	**19**	**83.34**	**0.05**
38) Scientific instruments	**40**	**14**	**26**	**61.43**	**0.03**
39) Prime movers (other than electrical)	**60**	**38**	**22**	**91.32**	**0.05**
40) Mathematical, surveying and drawing	**5**	**1**	**4**	**38.37**	**0.02**
41) Timber products	**10**	**2**	**8**	**16.32**	**0.01**
42) Defence industries	**5**	**4**	**1**	**3.47**	**0.00**
TOTAL	**14230**	**5718**	**8512**	**181296.55**	**100.00**

Source : Annual Report 1998-99, Ministry of Industry, Government of India

BOX -2 **Annex - 10**

External Sector Developments during the 1990s

There have been significant improvements in the structure of India's balance of payments and the strength of the external sector since the economic crisis of June 1991.

Selected Indicators of External Sector in 1980s and 1990s

Item	1980-81 to 1991-92 (Annual Average)	1992-93 to 1999-2000
Annual Average Growth Rates		**Percent Per Year**
1. Growth of Exports -BOJ (%)	7.6	10.0
2. Growth of Imports - BOJ (%)	8.5	13.4
Non-POL-DGCI&S (%)	6.6	13.2
Key Ratios		**Averages for the period**
3. Exports/Imports - BOP (%)	62.3	74.0
4. Import cover of FER (No. of months)	3.8	7.2
5. External assistance (net)/TC (%)	41.6	18.9
6. ECB (net)/TC (%)	25.1	22.7
7. NR deposits/TC (%)	23.2	23.2
8. Short-term debt / FER (%)	137.5*	23.8
9. Debt service payments as % of current receipts	31.8*	22.2
Selected Items in Balance of Payments		**Percent of GDP**
10. Exports	5.1	8.4
11. Imports	8.2	11.5
12. Trade balance	-3.1	-3.1
13. Invisible balance	1.2	1.9
14. Current account balance	-1.9	-1.2
15. External Debt	31.4*	27.9
16. Debt Service Payments	2.8	3.0

Source : Economic Survey 2000-2001.

Data relate to the year 1989-92. External debt and debt service payments data for the earlier years in the 1980s are not comparable with those for the latter years, because of incomplete coverage of data.

Notes : For foot-notes, see Table 6.3.

- The export cover of imports rose sharply from an annual average of 62 per cent during 1980-81 to 1991-92 to 74 per cent during 1992-93 to 1999-2000.

- The reform of the 1990s facilitated India to move away from a closed economy framework towards a more open and liberal economy.

- The ratio of exports and imports to GDP, rose from an annual average of 13.2 per cent during 1980-81 to 1991-92 to an average of 19.9 per during 1992-93 to 1999-2000.

- The current account deficit, as percentage of GDP, declined from an annual average of 1.9 per cent during 1980-81 to 1991-92 to a well manageable level of 1.2 per cent during 1992-2000.

- The capital account of BOP has also undergone a major structural change in favour of non-debt creating foreign investment flows.

- Foreign exchange reserves were built to a very comfortable level of about 8 months of imports from a critical level of about two months of imports in June 1991.

- External debt and debt service indicators marked sustained improvements over the 1990s. External debt, as a per cent of GDP, declined gradually from 38.7 per cent at the end of March 1992 to 21.9 per cent at the end of March 2000.

- Similarly, debt service payments on external debt, as a per cent of current receipts, declined gradually from 35.3 per cent in 1990-91 to 16.0 per cent in 1999-2000.

- The strength of the external sector has enabled India to withstand fairly well the Asian financial crisis contagion and the related adverse spillovers.