

FOREIGN DIRECT INVESTMENT AND REGIONAL DISPARITIES IN POST REFORM INDIA

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The largest democracy, second largest population and third largest economy (on the basis of the basis of purchasing power parity), India is experiencing a varied pattern of growth in its various parts. Some of the states like Maharashtra, Gujarat etc. are highly developed and also having better infrastructural provisions which leads to more investments and growing faster than the backward states. Further the developed states also attract more and more Foreign Direct Investment (FDI) inflows and it is accentuating regional disparities. Against this background, present paper attempts to raise some crucial questions related to what, where, why and how of regional disparities in India. What are the trends in and patterns of FDI flows in India? Where these inflows are getting accumulated? Why these FDI inflows are causing regional disparities in India? And how regional disparities are accentuating after the adoption of new economic policies in India? Analysis of trends and patterns of these variables of FDI and regional disparities have been done through Census of India, Reserve Bank of India and Economic Survey reports. The study found that widening regional disparities are a marked feature of development map of India in post reform period.

Keywords: Foreign direct investment, India, new economic policy, regional disparities.

1. INTRODUCTION

India, which is the largest democracy, second largest population and third largest economy in the World, followed mixed economy model after independence. During the closing years of its seventh five year plan (1985-1990) India's economy was in worse situation. India adopted New Economic Policies (NEP) in 1990's to pursue liberalization, privatization and globalization of its economy.

It has improved its economy from the Hindu rate of growth during the pre-reform period to one of the fastest growing economies in post reform era. At present India is ahead of China in its economic growth. IMF's new estimates project India surpassing China in its economic growth rate in 2016 (International Monetary Fund, 2015).

Although India has adopted new economic policies to transform its economy, a lot of investments through FDI inflows have also been received, nonetheless these flows getting absorbed to some specific locations are being questioned to accentuating regional disparities (Kant, 1999). Among the new studies including Shand and Bhide, 2000; Krishan, 2001; Deaton and Dreze, 2002; Singh, *et al.*, 2003; Dholakia, 2003; Ghosh and Narayana, 2005; Mazumdar, 2005; Nayyar, 2005; Ghosh, 2006; Balakrishnan and Parameswaran, 2007; Jayadev *et al.* 2007; Kar and Sakthivel, 2007 have observed that regional disparity in India have increased

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in the post reform period. Kant (1999) also found that states like Maharashtra, Gujarat, Tamil Nadu, West Bengal, Karnataka and Delhi, having better infrastructure, received higher investments and the situation of regional disparities has aggravated further in the post reform period.

Present research paper is an attempt to test the above observation. It purports to raise few crucial questions related to the what, where, why and how of regional disparities in India. What are the trends in and patterns of FDI flows in India? Where these inflows are getting accumulated? Why these FDI inflows are causing regional disparities in India? And how regional disparities are accentuating after the adoption of new economic policies in India? Analysis of trends and patterns of these variables using suitable statistical techniques (viz., correlation coefficients, development index and rankings etc.) has been carried to answer these questions through the case of India in its post reform period. Present paper present a research endeavor to answer the above listed questions.

2. FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) refers to the investments, equity shares, and capital shown in the balance of payments etc. which are coming in the market of an economy. Indian Government (2015) defined FDI as the investment in the capital of an Indian company under Foreign Exchange Management Act (FEMA) regulations by non-resident persons/ entity which resides outside India. After the inception of new economic policies in 1991, FDI started pouring in the country. During first fiscal after NEP in 1991-92, India received FDI of just Rs. 409 Crores. At present the FDI has increased to Rs. 1,55,489 Crores in April 2014-January 2015 period. The cumulative FDI during 1991 to 2015 period has reached Rs. 12,63,515 Crores. Reserve Bank of India (2015) data describes total FDI investment in 1991-92 fiscal year was just 0.03 percent of the Gross Domestic Product (GDP), which has increased to around 3 percent of the GDP of the country currently.

Table 1 depicts the FDI inflows in India since 2000. Investments are given as registered in Reserve Bank of India's seventeen regional headquarters. Mumbai and Delhi have received half of the FDI investments and another 21percent have been registered collectively by Chennai, Bangalore, Ahmadabad and Hyderabad. The patterns of FDI investments are shown through figure 1. This map depicts that these investments are clustered in six mega cities and their surrounding areas. Eastern half of India particularly, the central/eastern tribal belts and north eastern states are lagging behind in their FDI investment flows and these regions are also noted for their backwardness and fall under poverty stricken areas of India. States of Bihar, Jharkhand and Odisha collectively, the received total FDI of Rs. 2,222 Crores, which was just 0.2 percent of the total FDI during this period. Collectively the North Eastern states shared just 0.03 percent of the FDI which was Rs. 361 Crores only.

TABLE 1: INDIA: FOREIGN DIRECT INVESTMENT EQUITY INFLOWS, APRIL 2000 TO JANUARY 2015¹

S. No.	RBI's - Regional Office ²	State covered	2014-15 (April '14- January '15)	Cumulative Inflows (April '00 - January '15)	% age to total Inflows(in US \$)
1	MUMBAI	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	30,360 (4,983) *	344,449 (71,740) *	30
2	NEW DELHI	Delhi, part of UP and Haryana	35,433 (5,779)	242,204 (48,315)	20
3	CHENNAI	Tamil Nadu, Pondicherry	20,384 (3,340)	85,790 (10,536)	7
4	BANGALORE	Karnataka	13,886 (2,258)	74,753 (14,934)	6
5	AHMEDABAD	Gujarat	6,811 (1,112)	51,193 (10,622)	4
6	HYDERABAD	Andhra Pradesh	7,621 (1,256)	48,536 (9,901)	4
7	KOLKATA	West Bengal, Sikkim, Andaman & Nicobar Islands	1,229 (201)	14,393 (2,943)	1
8	CHANDIGARH ³	Chandigarh, Punjab, Haryana, Himachal Pradesh	234 (39)	6,360 (1,331)	0.6
9	JAIPUR	Rajasthan	3,233 (540)	6,791 (1,264)	0.5
10.	BHOPAL	Madhya Pradesh, Chhattisgarh	600 (100)	6,095 (1,216)	0.5
11	KOCHI	Kerala, Lakshadweep	641 (105)	5,373 (1,086)	0.5
12	PANAJI	Goa	208 (34)	3,864 (822)	0.3
13	KANPUR	Uttar Pradesh, Uttranchal	502 (82)	2,267 (454)	0.2
14	BHUBANESWAR	Orissa	51 (9)	1,957 (397)	0.2
15	GUWAHATI	Assam, Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Tripura	9 (1)	361 (80)	0
16	PATNA	Bihar, Jharkhand	66 (11)	265 (50)	0
17	JAMMU	Jammu & Kashmir	25 (4)	26 (4)	0
18	Region not indicated ³		34,196 (5,673)	25.3	
	Sub. Total		1,199,386 (243,107)	100.00	
19		RBI'S-NRI Schemes (from 2000 to 2002)	0	533 (121)	
	GRAND TOTAL		155,489 (25,526)	1,199,919 (243,228)	-

Source: Reserve Bank of India.

1. Includes 'equity capital components' only.

2. The Region-wise FDI inflows are classified as per RBI's - Regional Office received FDI inflows, furnished by RBI, Mumbai.

3. Represents, FDI inflows through acquisition of existing shares by transfer from residents to nonresidents. For this, RBI Regional wise information is not provided by Reserve Bank of India.

*Amount Rupees in Crores (US\$ in million)

3. REGIONAL DISPARITIES IN INDIA

Regional disparities in the levels of development denotes the gap between the developed and backward regions of a country as evolved through time. Present paper purposed that the FDI has accentuated regional disparities in post reform India. To see the association between these variables, patterns of regional disparities are described below and their correlation is analysed. For discerning development levels at state level, four different indicators depicting different dimensions of development using Census data, have been taken to show the patterns of regional disparities in India in 2011 (Table 2). The indicators included in the study are: Female literacy, rural non-agricultural workers, population above poverty line and urbanization. Amongst these female literacy rates denotes the social advancement in an area; rural non-agricultural workers signify diversification of rural economy thus rural development; population above poverty line portrays prosperity of people thus signifying economic growth and Urbanization represents the overall development scenario. State wise development index have been derived by aggregating the values of all the four indicators and dividing it with total number of these indicators. Finally the development ranks have been allocated according to derived aggregate values. Highest value is given the highest rank and so on.

Figure 2 depicts the development map of India in 2011 showing patterns of regional disparities using the development index. State of Delhi recorded the highest index value of 87.85 followed by Goa, Kerala, Punjab and Tamil Nadu having index values of 80.02, 76.60, 61.55 and 61.32 respectively. These states got the highest positions in development levels owing to their high values in all the indicators. National Capital Region of Delhi and its surrounding areas in UP and Haryana have attracted 20 percent FDI during last fifteen years and have shown one of the fastest growth since 1991. Tamil Nadu has also received seven percent FDI flows during same time. Moreover southern states of Kerala and Tamil Nadu are high in their social indicators of development and increasing industrial growth. Goa owing to its strong tourism industry and Punjab boost on its agricultural development (Singh, 2009). Karnataka and Meghalaya designate the mean and median values of development ranks that means both lie on 15th and 16th ranks of development index respectively. Fifteen states have registered development index values between 50 and 60 scores. These include the northern states of Haryana, J & K, Himachal Pradesh and Utrakhand; western states of Gujarat and Maharashtra, southern states of Karnataka and Andhra Pradesh; eastern state of West Bengal and north eastern states except Assam and Arunachal Pradesh fall under this moderate to high levels of development owing to their improved indicators. In case of northern states, agricultural and tourism development is more strong; in western states, industrial development and more FDI flows are strong; IT sector growth and rapid investments in real estate sector are influencing factors in southern

states and increase in literacy and urbanization in north eastern hill states are prominent in their high development scores.

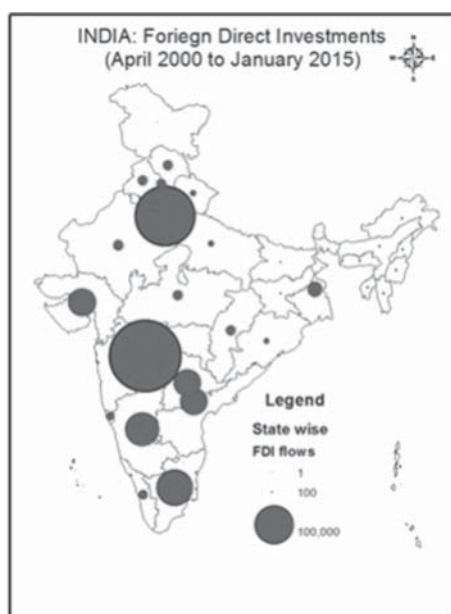


Figure 1: Foreign Direct Investments in India

Source: Reserve Bank of India, 2015

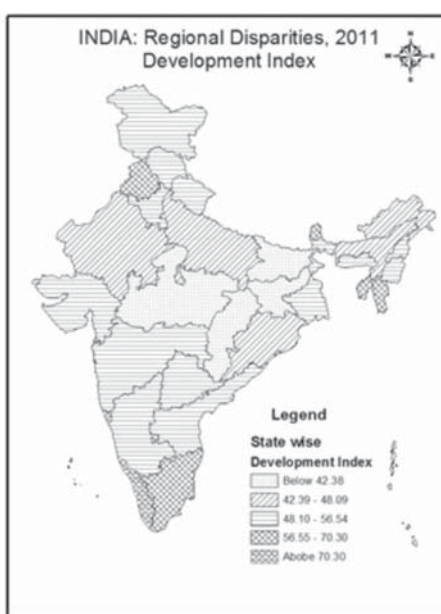


Figure 2: Regional Disparities in India

Source: Census of India, 2011

TABLE 2: INDIA: REGIONAL DISPARITIES IN LEVELS OF DEVELOPMENT, 2011

States	Urban	F_Lit	RNAW	PAPL	D_Index	Rank
Delhi	97.5	80.8	83.0	90.1	87.85	1
Goa	62.2	84.7	78.3	94.9	80.02	2
Kerala	47.7	92.1	73.7	92.9	76.60	3
Punjab	37.5	70.7	46.3	91.7	61.55	4
Tamil Nadu	48.4	73.4	34.8	88.7	61.32	5
Tripura	26.2	82.7	44.0	85.9	59.70	6
Mizoram	52.1	89.4	16.3	79.6	59.35	7
Sikkim	25.2	75.6	42.0	91.8	58.65	8
Haryana	34.9	65.9	36.6	88.8	56.55	9
Maharashtra	45.2	75.9	18.6	82.6	55.57	10
Uttarakhand	30.2	70.0	33.0	88.7	55.47	11
West Bengal	31.9	70.5	38.6	80.0	55.25	12
Gujarat	42.6	69.7	24.7	83.4	55.10	13
J & K	27.4	56.4	46.1	89.6	54.87	14
Karnataka	38.7	68.1	29.3	79.1	53.80	15
Meghalaya	20.1	72.9	30.3	88.1	52.85	16

contd. table 2

<i>States</i>	<i>Urban</i>	<i>F_Lit</i>	<i>RNAW</i>	<i>PAPL</i>	<i>D_Index</i>	<i>Rank</i>
Nagaland	28.9	76.1	24.7	81.1	52.70	17
H P	10.0	75.9	32.6	91.9	52.60	18
Manipur	32.5	72.4	39.2	63.1	51.80	19
Andhra P	33.4	59.1	23.0	90.8	51.57	20
Assam	14.1	66.3	43.8	68.1	48.07	21
Rajasthan	24.9	52.1	25.8	85.3	47.02	22
Uttar Pradesh	22.3	57.2	28.0	70.6	44.52	23
Odisha	16.7	64.0	29.5	67.4	44.40	24
Arunachal P	22.9	57.7	29.5	65.3	43.85	25
Madhya P	27.6	59.2	14.4	68.3	42.37	26
Jharkhand	24.0	55.4	24.9	63.1	41.85	27
Chhattisgarh	23.2	60.2	12.6	60.1	39.02	28
Bihar	11.3	51.5	20.8	66.3	37.47	29
INDIA	31.2	64.6	27.7	78.1	50.40	

Source: Census of India, 2011

(F_Lit: female literacy; RNAW: Rural non-agricultural workers; PAPL: Population above poverty line; D_Index: Development Index)

All the remaining nine states have less than 50 scores in development index which are also below the national average. Bihar lies on the bottom with development index value of just 37.47. It is having one of the lowest urbanization and female literacy and also low on rural non-agricultural workers and population above poverty line. Chhattisgarh (39.02), Jharkhand (41.85), Madhya Pradesh (42.37), Arunachal Pradesh (43.85) and Odisha (44.40) follow the bottom rank by displaying lower values in these indicators. Except Arunachal Pradesh, all these states are also noted for rise of naxalism owing to wide regional disparities and poverty prevalence (Singh, 2015).

Correlation between the foreign direct investment ranks and development index ranks is also confirmed. The value of correlation between the two variables as 0.010 which is significant at 0.05 level of confidence, gives the value of $r = 0.469$ indicating a generally positive association between FDI and development index. The FDI inflows in mega cities and their surrounding areas have clustered the development in these areas and stagnation in areas without such investments. So accentuation in regional disparities in post reform India is evident.

4. CONCLUSIONS

The widening regional disparities are a marked feature of development map of India in post reform period. Skewed FDI inflows favoring six mega cities and their surrounding areas, are creating two India's, more specifically, India and Bharat. One, which is more urban, more industrialized, more modern and forward looking, representing relatively developed parts is India, whereas the second, which is more rural, more agricultural, more traditional and backward falling, representing under developed regions is Bharat. Forward and further competitive India having higher

economic growth and FDI inflows is growing and developing fast. On the other side of development spectrum backward Bharat is stagnating in economic growth, is less competitive, and receiving small investments is deteriorating.

Widening gap between developed India and backward Bharat leading to increased regional disparities are a cause of concern. These disparities are needed to be bridged else worse consequences of higher poverty and swelling naxalism would be troubling India further. It may be concluded that the FDI inflows in the favored destinations and the resultant patterns of its regional disparities are associated. Improvement in India's economic growth will certainly expand its FDI inflows and furthering these disparities. Balanced regional development is the need of the hour and government has to improve the infrastructural base in its backward parts, so that these regions of Bharat also receive more investments and get advanced along with relatively more developed India.

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