Chapter VI

SUMMARY OF THE MAJOR FINDINGS OF THE STUDY, POLICY RECOMMENDATIONS AND CONCLUSION
Introduction and Rationale for FDI

The last quarter of the 20th century has witnessed an inadequacy of domestic capital to meet the ever increasing needs of the people in their respective countries, this kind of trend was observed in some countries in Europe and America in different degrees during the period referred here above. England seems to be the major beneficiary of FDI inflows. Thus FDI flows answered the capital inadequacy of domestic capital. The reason ascribed to this kind of sorry state of affairs was due to the existence of ‘two gaps’: savings and investment gap and foreign exchange demand and supply gap. The FDI flows proved to be an effective means to bridge these two gaps. This has been the backdrop or rationale for FDI across the countries of the world, including India.

Basically, India is a capital-starved country whose development could not be accomplished during plan period as anticipated for want of adequate capital. The international financial institutions and the governments could not fully meet the financial needs of the countries like India and China. In a situation like this, financial assistance by MNC’s began to flow through the channels of FDI. The present study has been undertaken chiefly to analyze the impact of FDI flows on income and employment generation in the state of Karnataka.

The present research is a state specific study, confined to Karnataka for a period of a decade, from 2000-2010. It is a study based solely on Secondary data, alone drawn from the following sources:

1. The UNCTAD’s world Investment Reports of various issues
2. Department of Industrial Policy and Promotion, Government of India, New Delhi.
3. R.B. I, Bulletins of various years and various issues of occasional papers.
Write the following objectives and hypotheses pursued in the study,

**Objectives of the study**

1. To examine the need for FDI in India;
2. To analyze the trends and pattern of FDI flows in India;
3. To study the Investment channels of FDI in India in general and Karnataka in particular;
4. FDI and its impact on income and employment generation during a period of ten years, from 2000 to 2010;
5. To examine the casual nexus between FDI and economic growth in Karnataka during the period, and its role in industrialization of the state; and
6. To offer suggestions, based on the findings of the study.

**Hypotheses of the study**

Based on the analysis of the objectives, five hypotheses are framed to test in this study. They are:

1. There is no significant inflow of FDI into Karnataka vis-à-vis other states in India.
2. FDI inflows have not gone into the most vital sectors of the Karnataka’s economy.
3. There has been a significant improvement in employment generation in Karnataka on account of FDI.

4. The FDI further widened the rural-urban dichotomy in the state.

5. The FDI impacted significantly the wage differentials in the industrial sector of Karnataka.

Testing of Hypotheses of the study

The hypotheses test has been done based on mostly numerical values or facts, and statistical tools have been employed wherever required to test the hypothesis of the study. They are under:

1. The first hypothesis revealed that there is a significant increase in FDI inflows in Karnataka vide table no 3.17.

2. The second hypothesis states that the FDI inflows have not gone into the most vital sectors of the Karnataka’s economy. The study makes it amply clear that the FDI has gone into all other major sectors in Karnataka, except the power sector which is the most important sector vide table no 3.16.

3. The recently concluded Global Investors Meet states that the FDI in India significantly impacted both employment and investment levels in the state of Karnataka vide table 4.2.

4. The FDI further has widened the rural-urban dichotomy in the state. Since major portion of FDI investments have been concentrated in and around Bangalore; this has undoubtedly further widened rural-urban dichotomy as FDI is, as of now, is urban oriented in Karnataka.

5. The FDI impacted significantly the wage differentials in the industrial sector of Karnataka. There has been significant wage increase in the industrial and service
sectors in Karnataka on account of increase in FDI flows into Karnataka. For example, the salary of an IT Professional in the year 2000 was Rs 10,000 per month and the same has increased by more than threefold by 2010

**Tools applied**

**Concordance Coefficient**

Concordance Coefficient is used to measure the Sectoral Changes. The formula used for calculating Concordance Coefficient (W) is given as below:

\[
W = \frac{12\sum_{i=1}^{n}(x_i - \bar{x})^2}{m^2(n^3 - n)}
\]

In the above formula \(\bar{x}\) represents the grand mean of the ranks of selected sectors \(n\) during the selected time periods \(m\) and is estimated with the following formula:

\[
\bar{x} = \frac{m(n+1)}{2}
\]

In the formula for Concordance Coefficient (W), \(x_i\) represents the sum of the ranks allotted to \(i\) the Sector \((i = 1, 2, 3, 4, \ldots, n)\) during the selected time periods under study.

The value of concordance coefficient measures the degree of agreement between the Sectors. A complete randomness in ranking leads to \(W = 0\) on the one hand and perfect agreement among patterns result in \(W = 1\), on the other. The greater the departure from complete agreement, the smaller is the value of concordance coefficient. If 'W' takes only non-zero value, whatsoever, then there is a certain amount of agreement among the Sectoral Changes.

**Chi-square \(\chi^2\) test:** In the present study, Chi-square \(\chi^2\) was calculated by using the following formula.

\[
\chi^2 = m(n-1)W
\]

If \(\chi^2\) table value exceeds the calculated \(\chi^2\) value, the coefficient of concordance is not significant and there are no significant changes in the Sectoral Composition. On the
other hand, if calculated $\chi^2$ value exceeds the $\chi^2$ table value, the coefficient of concordance is significant and there are significant changes in the Sectoral Composition.

**Summary of the Major findings of the study**

The following are the major findings of the study, based on analyzing the secondary data:

**Trends and patterns of FDI inflow in India**


- India's FDI inflows as percentage of GDP was observed for the period of ten years, from 2000 to 2010; it has revealed that the maximum growth rate recorded in the year 2006-2007 with 187 percent over the previous year, amounted to Rs 70,630 crore.

- World Economy has observed a phenomenal increase in volume and pattern of FDI flow from developed countries. There has been an intense the global competition for FDI in the recent years. India is not behind in this global race for attracting foreign private investment.

- The list of nations that saw the maximum FDI last year is topped by the United States ($228 billion) during 2010, FDI inflows worldwide climbed 5 per cent to about $1.24 trillion during 2010, compared to 2009.

- The percentage composition of FDI in GNP was increasing trend but it is slow in the year 1997-1998, whereas during 1998-99 and 2005-06. There were more fluctuations in the flow of FDI.
It is significant to note that the decadal growth rate in the FDI inflow into India was very high in both first and second generation reform periods than the decadal growth rate in GNP during the period 1991-2010.

A small country-Mauritius-emerged as a top Investing country in India with the share of 42 percent to the total FDI inflow into India during 2000-2010, it was found that Mauritius was considered a tax haven by the US Multinationals.

USA is the first, China is the second and India has emerged as the fifth most important destination for private foreign investors.

It is found that in order to get benefits out of the low tax agreement between Mauritius and India, a large number of MNCs and even some Indian firms started as dummy companies in Mauritius routed their investment in India through Mauritius.

Mauritius, Singapore and USA have been the three most important sources of FDI for India during 2000-2010, contributing, jointly, 60.30 percent to total inflow of FDI into India.

India's FDI source was diversified with increase in the number of funding countries whose FDI was approved by the government of India during 1991-2010. Further, the number of investing countries in India increased from 29 in 1991 to more than 120 in 2010.

The sector wise investment channels of the FDI in India during 2002-2010, reveals that the major sectors like the service sector, Computer software & Hardware and Tele communications were the largest beneficiaries, with share of 21 percent, 8 percent and 8 percent respectively.
The Technology transfer is also seen as one of the major changes apart from increasing operational efficiency, managerial efficiency, employment creation and infrastructure development during the period 2000-2010.

The number of Sector-wise FDI approvals by FIPB in Karnataka during 2009-2010, has revealed that the major sectors like Trading sector, Service sector, Telecommunications and Electrical equipment sectors was 27, 23, 18 and 15 approvals respectively.

It has been estimated that over 30 million people remained un-employed and another 25 million are officially under-employed in the country during the period of study.

Sector-wise employment scenario in India reveals that has comparing the per-worker Value addition from various sectors, agriculture has the lowest valued addition and the highest employment catering sector had to suffer with the lowest income.

FDI and its impact on Karnataka's Economy

FDI Investments in Karnataka has a major impact on the growth of IT and IT related firms during 2000-2010.

The state accounts for 37 percent of India's IT exports and IT enabled services firms during 2009-2010.

Concerns have been expressed about state's growth expanding inequalities by being lopsided or too Bangalore-centric, in terms of concentration of FDI firms in the state.
The state has been the best known for its comprehensive Economic reforms and competitiveness in attracting FDI green-field investments in IT and BT sectors during 2000-2010.

The state-wise distribution of FDI investments in India reveals that FDI seemed to have been flowing rapidly to those states that are already well developed in terms of infrastructure facilities and good investment climate and Karnataka has stood in the third place in this regard.

The top five states attracting highest FDI flows in India are Maharastra, New Delhi, Karnataka, Gujarat and Tamil Nadu were account for 70 percent of total FDI flows, and the each states FDI share has been of 35 percent, 19 percent, 6 percent, 5 percent and 5 percent respectively during 2000-2010.

FDI flows into Karnataka during 2000-2005 is of US $ 1354 million and for the year 2000-2010 and it has been raised to US $ 5681 million and the state stood third in India after Maharashtra and Delhi states.

Sector-specific industrial zones of SEZs that makes the natural resources and capabilities of a region with the Industrial requirements.

It has been found that FDI Investment scenario in Karnataka during 2000-2010 was quite positive, but it concentrated only in a few cities: Bangalore, Mysore, Hubli-Dharwada and Belgam resulted in acute regional disparities in terms of development.

Impact of FDI on Income and employment generation in Karnataka

The states pro-active and investor friendly approach during 2000-2010, helped in the attraction of FDI in green field investments to the tune of US $ 5681 million.
It has been found that employment originating in FDI manufacturing firms varies widely across states: Maharastra,(13%) Karnataka,(20%) West-Bengal(9%) and Haryana(7.4%) of the total employment in the FDI plants respectively.

Karnataka improved its position in labour force with the third highest labour force participation rate of 49 percent of the country during 2009-2010.

It has been found that eight states account for about three-fourth of the total manufacturing FDI employment in small cities: Maharastra 19 percent, Assam 100 percent, Karnataka 21 percent, Haryana 82 percent, Gujarat 57 percent, Andhra Pradesh 40 percent, Tamil Nadu 39 percent respectively.

According to the official statistical information of the department of industries and commerce, the Karnataka accounted for Rs 9,22,588 crore investment, generated employment to 48,96,223, persons, in secondary and tertiary sectors in Karnataka between 2000 and 2010.

According to Mr V.P.Baligar, principal secretary, Department of Industries and Commerce, government of Karnataka, 20 percent of the total investment and 20 percent of the total employment was on account of FDI flows into secondary and tertiary sectors during the period. That is to say the FDI over a period of ten years received Rs 1,84,518 crore investment which generated employment to 8,79,244 persons.

It has been found that out of Rs 4,73,000 crore investments in Karnataka during 2010-2011 of which FDI Investments was in the range of 20-25 percent of total investment in the state which must have generated the employment opportunities
to nearly 25 percent of total employment generation in Karnataka during 2010-2011.

- The Government of Karnataka introduced New Industrial Policy 2009-2014, which mainly aimed at optimal utilization of natural resources with the help of foreign investment to achieve the expected growth rate of income and employment generation.

- The Karnataka’s Growth rate figures reveal that from 2002-2006 there was positive trend in GSDP but there is a fall in growth rate in 2006-2007 again from 2007-08 there was a steep rise in GSDP followed by a slight fall in the GSDP rate during 2008-09.

- It has been found that the total number of people employed in FDI plants is about 15,64,920. Which accounts to nearly 5 per cent of the total labour force in the formal sector. More than 50 per cent of the total employment in the FDI manufacturing sectors originates in small cities, during 2009-10.

- Karnataka has registered more than 1200 MSMEs, generated employment for more than 75,000 persons during April-December 2010.

- The three districts: Bangalore urban and Bangalore rural plus Mysore accounted for almost all FDI projects. However in the recent years say from 2005-06 FDI based Units spread over to major cities like Mangalore and Hubli-Dharwad.

- The state accounted for 5.64 percent of the total number of unorganized manufacturing enterprises and 5.42 percent of the total unorganized manufacturing employment in the country in 2005-06. In terms of Gross Value Added per enterprise as well as per worker.
- It has been found that there is a wide gap between FDI proposed and FDI approved in Karnataka (proposed is of Rs 501 crore and the actual investment made was Rs 35 crore).

- Compare to Gujarat, Tamil Nadu and Andhra Pradesh, all other states are not performing well in terms of attraction of FDI investments into major SEZ's in the country.

**Policy Recommendations**

The following suggestion are advanced based on the major findings of the study to attract more FDI flows into India.

1. Since 1991 FDI flows into India have been growing significantly. Nevertheless, the quantum of FDI inflows is not in commensurate with either India's projections or requirements for capital investment. India's cautious opening up of different sectors for FDI indeed was beset with the policy constraints and as such could not blame for the slow progress. The reasons like the excessive delays and red-tapism, pervasive factor and product market distortions generated by overall policy frame work might be responsible for this sorry state of affairs. These are to be liberalized as in China to achieve rapid rise in FDI flows.

2. The analysis of sectoral composition of India’s FDI inflows revealed that since the year 2000 non-priority sectors like service sector, real estate, construction activities are gaining importance. The priorities have to be redesigned so as to attract more FDI to priority sectors like power, mass transportation, construction of roads, ports, etc. Within manufacturing sector
also high priority is to be given to machine building industries, chemicals and pharmaceuticals.

3. The regional distribution of FDI Projects clearly mirrored the fact that the already well developed states like Maharastra, Delhi, Karnataka, Gujarat have absorbed relatively larger doses of FDI inflows into India. As a result, the existing regional disparities further widened in India. It is necessary to redirect, the FDI in the states/regions in the country, such as Rayalaseema in the Andhra Pradesh and backward states like Bihar, U.P, Orissa, M.P by offering attractive package of incentives as it goes a long way in achieving balanced regional development in India.

4. Analysis of sectoral composition of FDI prima facie, revealed that they have flown to high priority and essential sectors like electrical equipments, chemicals, industrial machinery, transportation industry etc. Unless a disaggregate analysis is made the reality would not be known. Non-priority sectors may be discouraged to get FDI.

5. Although Mauritius is a small country, yet it dominated with over 40 percent FDI flows into India raises serious apprehensions. Whether Mauritius really contributed such a large amount of FDI to India or whether there is any recycling of domestic savings in India through Mauritius (popularly known as round tripping) so as to utilize concessions offered to FDI. Establishment of a 'level playing field' for one and all might reveal the reality.

6. The quantum of foreign investment and technology from the advanced countries improve both production and productivity levels through spillover
effects in Indian industries. It is for this reason FDI flows from the advanced
countries like USA, UK, Germany, Japan, etc are to be encouraged instead of
tiny countries like Mauritius and Korean countries.

7. owing to the large and growing middle income class and their demand for
consumer durables and luxury goods, the MNC’s try to divert their FDI to
these sectors. The flow of FDI to these sectors is to be carefully regulated so
that these sectors are not overloaded with FDI flows.

8. It is discerned that 40 percent of FDI in India is in the form of mergers and
acquisitions. These are considered to be second rate investments where there
is little scope for augmenting capital resources of the country and technology
transfer. Hence, as far as possible ‘Green Field’ investments should be
appreciated and encouraged.

9. In the case of Karnataka, mining, transport and power sectors seems to be
highly promising; FDIs in these sectors are welcome sign.

10. The scholar reveals the fact that he has faced acute data constraint with regard
to income generated due to FDI as such he could not clearly assess the socio-
economic impact of FDI in Karnataka.

In order to overcome this problem the state Government may initiate Action Plan
to provide relevant data base which trigger quality research to aid the policy-making
body to prescribe a suitable remedy to Socio-Economic ills in the country.
Conclusion:

India's principal problem is to increase savings and investment from the current about 35 percent to over 40 percent of its GDP in order to ensure growth prospects take a quantum jump and become comparable with high growth phases of China and East Asian economies. In such a situation FDI becomes an important contributory factor to fast promote Economic Growth in the state of Karnataka.

Globalization, in fact induces enhanced FDI flows into the country mainly to a few states like, Maharashtra (35 percent), Delhi (19 percent), Karnataka (6 percent), Gujarat (5 percent) and Tamil Nadu (5 percent) in that order.

Since the study concluded that FDI inflows have significantly impacted state's economy substantially both in terms of increase in the volume of investment and creation of job opportunities to a lot of unemployed technocrats. As such the state has an obligation to create a congenial and investment friendly environment, to attract higher volume of FDI inflows into the state.

To accomplish this, political administration needs to gear up its machinery to ensure law and order, security to both life and physical properties and harmonious social relations sans, caste, creed, cultural and language differences in the state as it go a long way to enrich the quality of life of people of Karnataka.

In order to achieve a balanced regional development backward and small cities need to be provided with the advanced infrastructure along with Industrial Training Institutes so as to attract FDI projects equally in all the districts of Karnataka.