cratic intervention to an increasing role for "market-oriented" trade policy over time. The Ministry of Commerce is performing the role of facilitator by quickly responding to the needs and suggestions of the exporting community, to ensure a self sustaining growth in exports at a high level.

India's tariff rates have been reduced and rationalised. India has started progress in fulfilment of her commitments to the World Trade Organisation.

5.8 KEY WORDS

Advalorem duty: A duty assessed as a percentage of the value of the item.

Advance Licence: Licence issued for duty free import of inputs as defined in the policy.

Deemed Export: Refers to those transactions in which the goods supplied do not leave the country.

Import Substitution: An industrialisation policy whereby new industrial development emphasises products that would otherwise be imported.

Tariff: A government tax levied on goods, usually imports.

WTO: A voluntary organisation through which groups of countries negotiate trading agreement and which has authority to overseas trade disputes among countries.

5.9 ANSWERS TO CHECK YOUR PROGRESS

A4 i) False ii) True iii) True iv) False v) True

B4 i) False ii) True iii) False iv) True v) True

5.10 TERMINAL QUESTIONS

1. Describe the evolution of trade policy. What are the objectives of EXIM Policy 1997-2002.
2. Explain the major provisions of recent Export Policy.
3. Describe the major provisions of recent Import Policy.
4. Explain India's trade policy response to WTO regime.
5. Write a note on India's Tariff Policy.

UNIT 6 INDUSTRIAL AND INVESTMENT POLICY

Structure

6.0 OBJECTIVES

After studying this unit, you should be able to:

- discuss the evolution of industrial policy
- explain various aspects of new industrial policy
- examine the nature and importance of foreign investment
- describe the foreign investment policy in India
- analyse the FDI inflow in India
- evaluate the foreign investment Policy.

6.1 INTRODUCTION

Industrialisation is an important element of economic growth. Considering the importance of industrialisation, Government of India announced the first Industrial Policy in 1948. Many changes were made in the policy several times and the new economic policy was brought in 1991. The present industrial policy focusses on the globalisation of Indian economy. In tune, with the globalisation the foreign investment policy has been further liberaslised. Considerable effort has been made to attract the foreign investment in India for accelerating the economic development of the country. In this unit, you will learn the evolution of industrial policy, the recent foreign investment policy in India and the inflows of FDI in India. You will further learn about the evaluation of investment policy.

6.2 EVOLUTION OF INDUSTRIAL POLICY

After independence, the "Industrial Policy Resolution of 1948" was the first formal official pronouncement of the Indian Government. The aim of the 1948 Industrial Policy was that the "State must play a progressively active role in the development of Industries". It also conceded that the mechanism and the resources of the State may not permit it to function forthwith in industry as widely as may be desirable. Hence, it allowed the establishment of industries in the private sector in a wide field. Later, however, more stress was laid by the government on the attainment of a "socialistic pattern of society".

The Industrial Policy Resolution of 1956, which was the first comprehensive policy statement after 1954 Parliament Resolution of Socialistic Pattern of Society, laid the stress on:

i) accelerating the speed of industrialisation; in particular heavy industries,

ii) expansion of public sector and growth of the cooperative sector,

iii) state to progressively assume a predominant and direct responsibility for setting up new industrial undertakings and developing transport facilities, and

iv) state trading was stressed by the Policy Resolution.

These policies were followed upto the middle of the seventies. Thereafter, started a rethinking and modification of the policies. This led to the "Industrial Policy Statement, 1980".

The Industrial Policy was restated in July, 1980. The announcement emphasised the commitment of the government to rapid and balanced industrialisation of the country with a view to benefiting the common man by increasing availability of goods at fair prices, larger employment and higher per capita income. A dynamic industrial economy capable of distribution of benefits of industrialisation to the maximum number of people was emphasised. The socio-economic objectives of the policy were:

i) Optimum utilisation of the installed capacity.

ii) Maximising production and achieving higher productivity.

iii) Higher employment generation.

iv) Correction of regional imbalance through a preferential treatment to agro-based industries, and promoting optimum inter-sectoral relationship.

v) Faster promotion of export-oriented and import substitution industries.

vi) Promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread-over of small but growing units in rural as well as urban areas.

vii) Consumer protection against high prices and bad quality.

Maximisation of productivity, growth, export and generation of adequate employment were considered the need of the hour. The wave of globalisation and liberalisation were also realised. Considering these aspects, the new policy was announced. Let us discuss them in detail.

6.3 NEW INDUSTRIAL POLICY, 1991

Even though, India attained self-sufficiency in a wider range of consumer goods, the industrial growth was not rapid enough to generate sufficient employment to reduce regional disparities and to alleviate poverty. Lack of adequate competition resulted in inadequate emphasis on reduction of costs, upgradation of technology and improvement of quality standards. It is to reorient and accelerate industrial development to achieve international competitiveness that the industrial policy 1991 was announced.

Industrial policy of 1991 reviewed its emphasis an removal of poverty, attaining social and economic justice, the need to integrate the domestic economy with that of international economy and building a prosperous India. This policy aimed at self-reliance but with grater stress on the ability to pay for balance of trade. It has recognised the need for development of indigenous technology and manufacturing capabilities to world standards. It also assigned importance for development and promotion of SSI through technology upgradation and efficiency improvement.

In the light of these issues, Industrial Policy 1991 has the following objectives:

- to build on the gains already made

- to maintain a sustained growth in productivity and employment
- to correct the distortions or weaknesses that have crept in, and
- to attain international competitiveness.

The Policy de-regulated the industries in a substantial manner. The main features of the policy are as follows:

i) **Domestic Regulatory Reforms:** The Industrial Policy, 1991, reduced the number of reserved industries. Industries which continue to be reserved for the Public Sector are in areas where security and strategic concerns predominate.

ii) **Abolition of Industrial Licensing:** The new policy has abolished all industrial licensing, irrespective of the level of investment, except for certain industries related to security and strategic concerns, social concerns, related to safety, overriding environmental issues, and manufacture of products of hazardous nature.

iii) **Removal of Mandatory convertibility Clause:** A substantial portion of industrial investment in India is financed by loans from banks and financial institutions. These institutions have so far followed a mandatory practice of including a convertibility clause in their lending operations for new projects, with Industrial Policy, 1991, financial institutions will not impose this mandatory convertibility clause.

iv) **Removal of Investment Controls on Large Business House:** Since the enactment of the Monopolies and Restrictive Trade Practices Act (MRTP Act) in 1969 all firms with assets above a certain size were classified as MRTP firms. This assets limit has been applied to the sum of the assets of firms interconnected through equity shares for management control. Such firms were permitted to enter selected industries only and that also on a case-by-case approval basis. In the new policy this clause has been removed.

v) **Foreign Investment:** As with domestic industrial investment, foreign investment has also been traditionally regulated tightly in India. Now in the case of foreign investment, automatic permission will be available for foreign equity up to 51 per cent in the high priority industries. Foreign investment policy so far has also generally discouraged foreign equity holdings in service areas except for hotels. The government has decided to invite foreign equity holding up to 51 per cent by international trading companies also. In addition to hotels, now 51 per cent equity will also be allowed in other tourist related areas.

Evaluation of New Industrial Policy

The new industrial policy has opened the door of the Indian economy. The major impact may be evaluated in the following way:

i) It has altered the industrial scenario of India. In extent and scope, the policy is a watershed which has been significant for the economic development of the country. The working of industrial enterprise, efficiency, productivity and market have become important determinants of industrial advances.

ii) The delicensing of a host of industries and the abolition of all registration schemes has enabled entrepreneurs to quicken decision-making and more quickly to seige the business opportunities .

iii) The involvement of foreign participation in industry and external trade has been instrumental in the economic growth of the country. Easier facilitation of foreign technology agreements and other related measures has a favourable impact on the industry. It requires further effort to create conducive envrionment for attracting foreign investment in India.

iv) As far as the policy related to public sector is concerned, the policy evaluate the role of the public sector in the economy. The public sector has also entered in those areas in which no commercial logic is served nor is there broader concrete welfare mechanism that is being met. Therefore, it makes sense to disinvest the governments holding in these industries. This will bring competition and the commercial logic would dictate their functioning.

v) The policy on phased manufacturing programme has been scrapped. In this way the case by case approach has been removed. The suitable financial incentives for indigenisation have been built into the external value of rupee and the trade policy.

vi) The new policy is a step towards globalisation. The removal of restrictions and creation of competitive environment may be helpful in improving the productivity of the industry.

Present Industrial Policy

In continuation of the policy of 1991, some fiscal and monetary reforms, to help the industrial policy liberalisation, were taken in 1992-93. The Industrial Policy 1991 and as modified in 1992-93 and subsequently, in fact form the basis of the current industrial policy. The salient feature of the present industrial policy are as follows:

Most of the conditions stipulated in the letters of intent and industrial licences issued earlier to industries are delicensed and waived.

The system of endorsement of capacity expansion under modernisation/renovation is discontinued except in the case of industries which are still under compulsory licensing or are located in restricted areas.

Small scale industries engaged in the manufacture of delicensed items were exempted from obtaining Carry on Business licences on their graduation to medium scale industries.

The private sector has been invited to invest in oil exploration and refining which is other wise reserved for the Public Sector.

The power sector is now open to both domestic and foreign private investment.

Thus, the objective of the present Industrial Policy is to globalise the Indian economy and provide freer play of market forces in the domestic economy.

Check Your Progress A

1) Enumerate three objectives of industrial policy resolution of 1956.

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2) Enumerate four objectives of new industrial policy 1991.

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3) Enumerate two impacts of new industrial policy.

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4) State whether the following statements are **True** or **False**.

i) The aim of 1948 industrial policy was that the state must play a progressively active role in the development of industries.

ii) The industrial policy resolution of 1956 laid stress on private sector.

iii) The industrial policy 1980 emphasised the commitment of the government to rapid and balanced industrialisation.

iv) New industrial policy 1991 focussed on the attainment of international competitiveness.

v) New industrial policy did not remove the investment control on large business house.

6.4 NATURE AND IMPORTANCE OF FOREIGN INVESTMENT

On capital account, inflow of net foreign assistance has receded over the period. Thus, the choice is left between borrowing and inviting foreign investment. This is a situation, with some marginal differences, like that of a corporate body which in order to expand has either to raise debt or equity capital.

It appears that for at least the next about a decade, India will have to pay back its debt and interest on this by generating surpluses on capital account. Current account surplus on a stable basis, specially in the context of globalisation policy, is not foreseable in the near future. Therefore, the choice for India, to amortize the external debt is not between current account and capital account, but between borrowing and liberalising foreign investment.

The merit of borrowing is that the return on the amount borrowed is given. A country borrows, like a corporate body, at a given interest rate. Therefore, the outflows in the form of interest on the amount borrowed by the country is known. Since the liabilities are given, it provides a shield to the borrowing country from the excessive exploitation by the lending country or institution.

However, borrowing also carry with it a demerit that it is a debt and has to be returned along with the interest. The amount borrowed is used wisely or foolishly, productively or unproductively is not a responsibility of the lender. In case the amount is used productively, and the productivity of the borrowed capital exceeds the rate of interest, it is wise to borrow. However, if the interest rate paid exceeds the productivity of the capital employed it becomes difficult to pay back. In fact India faced a problem of this type. The amount borrowed by India, somehow, was not used in a way that the productivity exceeded the interest paid. Till the middle of the eighties India borrowed from the International Institutions though at a very nominal rate, still the productivity was lower and this led to the repayment problem. Added to this was the current account payment problems and consequently the situation worsened.

Foreign investment has the advantage that it does not create any liability for the receiving country. The investments, as in the domestic economy, even in foreign countries are made at the investors risk. There may be difference in the risk intensity for the investment made in the domestic economy and abroad, but qualitatively there is a little difference. As far investment in India is concerned, the risk element may be lower than that in the industrialised countries. Given a rising demand and a normal life span of production equipment, the risk element is very low because long term cyclical down trend is unlikely. Foreign investment may bring capital, new technology and new management into the host country. It may further help in stimulating the economic activities and creating employment avenues.

However, for the receiving economy whereas no liability to pay back is created, in another sense the liability is not specified and this could lead to excessive outflow of resources in the form of profits. Given the demand for goods and services, the economy may be exploited excessively. There is also a danger of adverse impact on local enterprises specially as in

India. In the case of foreign investment, investment may not take place as in the best interest of the country. Usually the investment decision by the MNCs are on profitability basis which over a period may not prove in the best interest of a country.

Of late, International production and trade have been growing fast in the recent years. This requires increased amount of international investment. The country requires international investment for enhancing the production, trade and distribution capabilities. The need for international investment is felt more in developing countries where the capital is in scarce. The international investment may be in the form of foreign direct investment and portfolio investment. You have already learnt them in detail in Unit 6, Block 2, IBO-01. To recapitulate, Foreign Direct Investment occurs when a investor based in the country acquires an asset in another country with the interest to manage the asset. Whereas, portfolio investment normally moves to investment in financial stocks, bonds and other financial instruments.

Broadly, of the two types of investments, direct and portfolio, the former is better than the latter. In the case of FDI at least it brings with it the new technology. The local production and over the period there is a transfer of technology, how slow it may be. On the other hand foreign protfolio investment (FPI) is devoid of this virtue, at least over a short to medium terms of investments. In the free play foreign investor through FPI may acquire the management rights in the local units and exist whenever they like. There is no permanent stake in the case of portfolio holding.

6.5 FOREIGN INVESTMENT POLICY IN INDIA

The liberalised foreign direct investment policy was brought in July 1991. The policy provided for automatic approval by RBI for projects with foreign equity participation upto 51% of equity in 35 high-priority sectors. For all other proposals of foreign investment, permission was granted on a case by case basis by the FIPB or SIA. The liberalised policy also provided for automatic permission for foreign technology agreements in high priority industries.

Supporting reforms have further strengthened the policy milieu. These include:

- Amendment of Foreign Exchange Regulation Act;
- Reduced list of industries requiring industrial licensing;
- Dilution of MRTP;
- Reduction in number of industries reserved for public sector;
- Liberalisation of imports and reduction in tariffs;
- Convertibility of rupee;
- Opening up of the capital market to foreign investors.

Additionally, as part of its initiatives to promote and protect investments, India became a member of Multilateral Investment Guarantee Agency. Bilateral investment promotion and protection agreements have also been signed with U.K., Russia, Germany, Malaysia, and Denmark. Several others are in the process of being finalised.

Liberalisation of policy and procedural framework has in general been accompanied by revising of special policy-cum-incentive packages for key industrial sectors like telecom, hydrocarbons, tourism, drugs and pharmaceuticals, etc.

The subsequent restructured Foreign Investment Promotion Board (FIPB) and streamlining of procedures is another positive endeavour in the direction of augmenting foreign direct investment. A new Foreign Investment Promotion Council has been constituted to formulate policy guidelines and to devise an approach for enlarging FDI into the country. The Council comprises of mainly professionals from the corporate sector.

Recent Foreign Investment Policy

The foreign investment plays on important role in the growth of the economy. Let us study major aspects of recent foreign investment policy. They are discussed as below:

i) Several initiatives have been taken by the government of India to enhance the flow of FDI into the country. A Foreign Investment Implementation Authority has been established within the Ministry of Industry in order to ensure that approvals for foreign investments are quickly translated into actual projects. The approval time has been reduced to 30 days in case of FIPB clearance.

ii) The government has permitted foreign corporates and high net worth individuals to invest through SEBI registered FIIS. Such investments will be subject to a sub-limit of 5% within the aggregate limit for FII portfolio investments of 24% in a single company. SEBI registered domestic fund managers have been permitted to manage foreign funds for investment in the Indian capital market through the portfolio investment route. These funds should be channeled through internationally recognised financial institutions and subject to the reporting requirements as applicable to FIIS.

iii) RBI has granted general permission to Mutual Funds for issuing units to NRIs/PIOs/ OCBs subject to certain specified norms. The approval procedures have been simplified by the RBI in respect of NRIs/PIOs/OCBs by granting them general permission in lieu of a case by case approval procedure in a large number of areas.

iv) Foreign owned Indian holding companies have been permitted to make downstream investments within permissible equity limits through the automatic route. Such holding companies must bring the requisite funds from abroad. The need to obtain prior approval of the FIPB for increasing foreign equity within already approved limits has been dispensed with in all cases where the minimum original project cost was upto Rs. 600 crore.

v) The operational norms of software companies regarding overseas investments and mode of financing acquisition of overseas software companies have been liberalised. Indian Software Companies listed in foreign exchange and have already floated ADR/GDR issues have been permitted to acquire foreign software companies. They have been allowed to issue ADRs/GDRs without reference to the Government of India or the RBI up to US$ 100 million. The proposals beyond US$100 million would be examined by special composite committee in the RBI.

vi) Indian companies have been allowed to access the ADR/GDR markets through an automatic route without the prior approval of the Ministry of Finance subject to the specified norms and post-issue reporting requirement. Such issues would need to conform to the existing FDI policy and permissible only in areas where FDI is permissible.

vii) An Insurance Regulatory Development Act (IRDA), 1999 has been passed by Parliament. It seeks to promote private sector participation in the insurance sector. Foreign equity stake in the domestic private insurance companies has been permitted upto a maximum of 26% of the total paid up capital.

viii) The Government of India has taken a major decision to place all items under the automatic route for FDI/NRI/OCB investment except for a small negative list.

ix) The automatic route would be available to all foreign and NRI investors with the facility to bring in 100% FDI/NRI/OCB investment subject to sectoral policies and sectoral caps. All proposals for investment in public sector units and EOU/EPZ/ EHTP/STP units would qualify for automatic approval.

6.6 INFLOW OF FDI IN INDIA

Flow of Foreign Direct Investment in India till the end of the eighties has been negligible low. It is only with the New Economic Policy and policy of globalisation in 1991, that the flow of FDI started looking up. Look at Table 6.1 which shows foreign investment flow in India. The country has witnessed progress in the inflow of foreign investments. The foreign investment has increased from 133 million dollar in 1991-92 to 6133 million dollar in the year 1996-97. It has further decelerated in two subsequent years and reached 2401 million dollar in 1998-99.

Table 6.1 Foreign Investment Flow in India

(US $ million)

Year	Direct Investment	Portfolio Investment	Total
1991-92	129	4	133
1992-93	315	244	559
1993-94	586	3567	4153
1994-95	1314	3824	5138
1995-96	2144	2748	4892
1996-97	2821	3312	6133
1997-98	3557	1828	5385
1998-99	2462	-61	2401

Source: Economic Survey, 1999-2000, GOI.

The major causes of less FDI inflow are: non-availability of the infrastructure; like transport and power, indifference of some of the states to the policy of liberalisation and globalisation and political instability at the centre.

6.6.1 Country-wise Inflow

The country-wise analysis of FDI shows that Mauritius is the dominant source of inflows, followed by USA, Japan, Netherlands and Germany in the year 1998. One possible explanation for the dominance of Mauritius is the double taxation treaty between the two countries, which favours the routing of investment through this country. Although inflows from different source countries fluctuate from time to time. It is seen that inflows from Mauritius, Germany, Netherlands, Singapore, and Korea are steadily increasing over the last three years.

Table 6.2 Country-wise FDI Inflows

(Rs. in crores)

Name of Countries	1994-95	1995-96	1996-97	1997-98	1998-99
Mauritius	617.7	1697.0	3004.7	3346.3	2482.2
USA	636.9	650.9	857.6	2554.7	1904.9
Japan	298.1	203.8	343.3	607.5	989.0
Netherlands	140.2	166.7	439.3	590.5	224.2
Germany	108.5	333.6	589.9	562.7	477.7
UK	450.5	237.1	192.4	467.7	N.A.
Hongkong	67.1	334.6	147.4	231.8	N.A.
Singapore	76.8	201.1	268.4	N.A.	N.A.
France	44.6	210.9	N.A.	N.A.	N.A.
Total	2738.0	4743.0	7312.0	10985.9	8414.3

Source: Statistical Outline of India 1999-2000.

6.6.2 Industry-wise Distribution

Look at Table 6.3 which shows industry-wise distribution of FDI inflows in India. It shows that during the year 1998-99, engineering sector continued to remain at the top of the list among the FDI recipients followed by chemicals and allied products. Services sector were the third and electronics and electrical equipment were fourth largest recipients of FDI. The finance sector has improved in the area of FDI recipients and become the fifth largest recipients followed by computers and pharmaceuticals.

Table 6.3 Industry-wise Distribution of FDI Inflows

(Rs. Crores)

Sectors	1994-95	1995-96	1996-97	1997-98	1998-99
Engineering	413.2	842.5	2592.2	2155.1	1799.1
Chemical & allied products	443.3	423.8	1078.5	956.2	1579.7
Services	293.2	336.0	53.9	1194.1	1550.3
Electronics & Electronics equipment	177.1	433.6	545.4	2395.6	960.4
Finance	306.9	903.3	770.4	549.7	777.6
Computers	32.0	174.3	208.4	517.2	446.7
Pharmaceuticals	31.7	183.2	169.0	125.6	119.6
Total	2738.0	4743.0	7312.0	10985.9	8414.3

Source: Statistical Outline of India, 1999-2000.

6.7 AN EVALUATION OF INVESTMENT POLICY

There is evidence to show that India has managed to occupy a quasi- "top of mind" slot in the preceding years among foreign investors. The impact of these developments may take some time to be felt, especially because FDI means a long-term commitment for a company and is made only when evaluated and accepted within its strategic planning framework. This is especially true because the "bandwagon effect" appears to be high in the case of FDI flows. The fact that a investor has a wide array of locational choices complicates the situation. It is, therefore, necessary to evaluate whether the policy package and the operating environment need modification to push the FDI flows to a higher trajectory. Let us discuss the major issues related to FDI flows.

1. The FDI Policy determines the ease of accessing the domestic market and the terms and conditions of entry. But the other policy regime and the operating environment determine the project viability, the progress of project implementation and successful business operations. An investor, therefore, cannot concern himself with only what the New Industrial Policy provides but he must evaluate the entire spectrum of rules, regulations and operating conditions once he is in. Consequently, issues like law and order conditions, labour policy, etc., become as important as the FDI Policy itself.

2. The State-level policies and procedures require to be considered. In the Indian polity, the States provide the location, the infrastructure, and the works. They also extend, increasingly these days, a host of incentives to attract investment, irrespective of their origin. State Governments and their agencies are responsible for the numerous clearances, approvals and operating procedures. It is this whole package of laws, systems and procedures and not the FDI Policy as such which is considered by any far-sighted investor. And this is where India seems to lose out to other competing countries.

3. A policy may be evaluated in terms of transparency. It appears that on this counts, foreign investors have some reservations. This means that the ground rules are required to be clearly laid out.

4. Stability is another important element in any policy appraisal. Unless the corporate body is sure that the present policy will continue for some time, it is not in a position to take a decision. Unfortunately, the record with respect to stability is rather poor. The classic case relates to tax laws, some of which are changed in every budget, sometimes with retrospective effect.

5. Another issue is that the incremental character and *ad hocism* in policy-making should be avoided as far as possible. Policy relating to foreign investment in the power sector is a classic case where policies and procedures have been in a state of flux for a long time. So is the case of the Telecommunication sector.

6. The purpose may not be served by attempting a linkage between FDI and export promotion through the policy. It is quite clear that some firms, in fact the majority, is contemplating coming to India to take advantage of the burgeoning domestic market. This is not necessarily the case with respect to India only. A recent UN Study on FDI, which found China to be largest recipient of FDI among developing countries concluded that attractions of China are high growth rate, rising income and large domestic market. However, since labour is cheap, some firms are also using China as a production centre for export. These are precisely the attractions of India as well, though the magnitudes of the parameters are lower except that of labour cost. Whether a firm will use its foreign investment to service a domestic market or its global operations, is a part of its strategic decisions and it may be left to them. It is definitely possible to influence this decision-making by appropriately redefining the policy and building in an incentive package for its export-orientation.

7. The importance currently being accorded to FDI proposals for infrastructure development, the export-orientation of the policy will be ab-initio infructuous. Any incentive-based policy suffers from the deficiency that it can be ineffective if other contending countries change their policy package and, therefore, a certain amount of competitive bargaining creeps in the system. The export angle is best left to the potential investing firms. Given the low cost and high skill factor of Indian labour, it is almost inevitable that India will be rated high by many firms as an off-shore production-cum-sourcing centre. The role of the Government in this context will be to create an enabling environment which facilitates global trading, viz. transport/communication facilities of international class, efficient management of customs procedure, liberal, transparent and simple export-import policies and procedures. The resultant export endeavour of the foreign firms would be self-motivated and more permanent than any incentives/obligation-based export behaviour.

8. The liberalisation policies should be directed in such a way as to encourage the North to invest in sectors involving high and sophisticated technology and both the North & South in Portfolio investment. Further encouragement should be given to the NRIs to invest in India. There is also a need to woo the OECDs to invest in India. Since the balance-of-payments effects, export-intensity and import-intensity effects of different investors differ, while actually wooing foreign investors, firms with better track-records should be selected. Therefore, foreign investment should be directed by types of investors and countries. Foreign investment should also be directed by uses. As pointed out, the cheap labour, the country is constantly flaunting to the foreign investor, no longer commands the kind of attraction constantly it did previously. A second look at India's self-portrayal giving priority to the rising stock of skilled manpower at a fairly cheaper rate will be a better strategy. So a change is needed to woo foreign investment to skill-oriented technology ventures. All-out efforts must be made to liberalise in the context of foreign technology ventures while greater encouragement for domestic firms should be given in other types of investment.

9. Foreign investment should be directed to sectors involving high and sophisticated technology which in turn can lead to greater transfer of hard technology. All-out efforts to liberalise in this direction including even higher royalty payments or lump sum payments to acquire latest technology or tax concession on technical fees and royalties is desirable. In fact greater foreign investment in oil exploration without forsaking India's majority share and control in such ventures is desirable. The analysis of linkages leads us to the inference that foreign investment should be directed to the right sectors after considering both the direct and linkage effects on production, employment and income generation. Foreign investment should not only be directed to sectors with high linkages, but these linkages should also be reaped by India.

10. While foreign investment in consumer goods sector has to be allowed to make the package more attractive for foreign investors, this should be like the butter applied on bread to make it more palatable. But if this is in excess, then the gains already made by domestic firms in particular, and India in general, may be lost.

Check Your Progress B

1) Distinguish between foreign direct investment and portfolio investment.

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2) Enumerate four major reform areas related to foreign investment policy in India.

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3) Enumerate three benefits of foreign investment.

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4) State whether the following statements are **True** or **False**.

i) The merit of borrowing is that the return on the amount borrowed is given.

ii) Foreign investment create liability for the receiving country.

iii) A Foreign Investment Implementation Authority has been established within the Ministry of Commerce.

iv) The foreign investment flow in India has been decreasing since 1996-97.

v) USA is the dominant source of FDI inflow in India.

6.8 LET US SUM UP

The first industrial policy was announced in 1948. The aim of the policy was that the State must play a progressively active role in the development of the industries. The subsequent industrial policy 1956 further stressed on industrialisation and expansion of Public Sector. Many changes were made in the industrial policy several times. The industrial policy 1980 advocated the maximisation of productivity, growth, export and generation of adequate employment. The industrial policy 1991 emphasised on the removal of poverty, attainment of social and economic justice and integration of the domestic economy with that of international economy.

Foreign investment has been considered as an important vehicle of economic growth. Foreign investment brings capital, new technology and new management in to the host country. It helps in stimulating the economic activities and creates employment. There are two types of foreign investment. One is foreign direct investment and the other is portfolio investment. Foreign direct investment is better because it accelerates the production activities in the host country.

Foreign investment policy has been further liberalised in India. In order to augment foreign investment, Foreign Investment Promotion Board has been restructured and the procedures have been streamlined. A new Foreign Investment Promotion Council has been constituted to formulate policy guidelines and approach for enlarging FDI into the country. In the recent foreign investment policy, several initiatives have been taken by the government to enhance the flow of FDI in India.

India has witnessed an increase in foreign investment from 1991-92 to 1996-97. Thereafter, it has decelerated. Mauritius is the dominant source of inflow followed by USA, Japan, Netherlands and Germany in 1998. Engineering sector has been the largest recipient of FDI followed by Chemical & allied, Services and Electronics and electronics equipment.

6.9 KEY WORDS

Foreign Direct Investment: Refers to investment in a foreign country where investor retains control over the investment.

Foreign Institutional Investor: Financial Institutions who invest money in a foreign country.

Portfolio Investment: An investment in a foreign country where the investing party does not seek control over the investment.

6.10 ANSWERS TO CHECK YOUR PROGRESS

A4 i) True ii) False iii) True iv) True v) False

B4 i) True ii) False iii) False iv) True v) False

6.11 TERMINAL QUESTIONS

1. What are the objectives of new industrial policy? Analyse the main features of the policy.
2. Do you think that the new industrial policy has a favourable impact on the economy. Discuss.
3. Do you think that the foreign investment is better than borrowings. Discuss.
4. Describe the main features of the recent foreign investment policy of India.
5. Analyse the inflow of FDI in reference to countries and the industries.
6. Evaluate the foreign investment policy of India.

UNIT 7 EXPORT PROCESSING ZONES, EXPORT ORIENTED UNITS AND EXPORT HOUSES

Structure

7.0 OBJECTIVES

After studying this unit, you should be able to:

- define EPZs and EOUs
- describe the eligibility and approval criteria
- explain the benefits and facilities provided to such units
- describe the export performance of EPZs & EOUs
- define the Special Economic Zone
- explain the benefits and facilities given to SEZs
- describe various status of Export Houses
- discuss the benefits and facilities provided to Export Houses.

7.1 INTRODUCTION

Export promotion policy is directed to ensure larger exportable surpluses. Larger surplus requires more production activity. EPZ/EOU/SEZ units have been created to increase production base for the export purposes. Duty free import of all types of inputs are permitted to such units alongwith several incentives to enhance the exports. Besides exporters having a record of export performance over the years are granted the status of various categories of Export Houses. In this unit, you will learn the procedures, facilities and benefits of EPZs, EOUs and SEZs. You will be further acquainted with the criteria, benefits and facilities of various categories of Export Houses.