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"Trends of Foreign Direct Investment Flows in India: A Critical Assessment"

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Abstract

The post liberalization industrial policy came in the wake of severe balance of payments crunch. The process initiated in the 1980s did bring about some positive results on the industrial growth front. The industrial policy statement of July 1991 stressed that the government would continue to pursue a policy framework encompassing encouragement of entrepreneurship, development of indigenous technology through investment in research and development, bringing in new technology, dismantling of the regulatory system, development of capital markets and increased competitiveness. It underlines the spread of industrialization to backward areas of the country with active promotion through right kind of incentives, institutions and infrastructure investments. Between year 2000-11, India attracted cumulative FDI inflow of US$237 billion and this represented a growth rate of 23 percent on a CAGR basis. Almost 70 percent of FDI was constituted of equity inflows while the rest was through re-invested earnings capital.

Introduction

The most direct method to measure FDI is an increase in foreign exchange (forex) reserves. Post the liberalization impetus of the 90s, India's reserves swelled from a meager USD 1.2 billion (January 1991) to a comfortable USD 280.7 billion (July 2013). However there is still considerable scope to expand FDI. According to data from the World Investment Report of UNCTAD, FDI inflow was just 4.3 percent of India's Gross fixed capital formation as compared to the global average of 8.3 percent.

Also, FDI stocks as a percentage of GDP stands at 12.2 percent in contrast to the ratio for developing economies at 30.4 percent. Policies and regulations around FDI are set and monitored jointly by RBI and Foreign Investment Promotion Board. It is a vital economic tool because apart from addition to forex reserves, foreign companies help to bridge the gap between domestic savings and investments, provide jobs and contribute to tax revenues of the Government. Most importantly, FDI brings with it better technology and management practices which elevates the standards for domestic companies and makes them more competitive. This has a spiraling effect on the growth of allied industries also. For the end consumers, this translates into better quality of goods and services at lower prices and a greater variety to choose from. In layman terms, it means seeing more global brands in our country, better offers and deals to win customers and higher service quality to ensure retention.

FDI limit enhancement in some sectors such as oil refineries, commodity bourses, power exchanges, and stock exchanges is also expected to be announced soon. These positive signs can be attributed to the foreign investment policy, which ironically is also a hot topic of debate for some left out sectors. National security and monopolistic reasons have restricted sectors like Aviation, Retail, Banking, Infrastructure and real estate and Broadcasting and Media from attracting FDI. It is also felt that participation of foreign entities in financial and commodity markets and pension funds would add depth and competitiveness to the Indian economy. But even in its present avatar, the long term attractiveness of India as a key growth market remains strong, due to its large and fast-growing middle class consumer spending power[i].

FDI brings both favorable and unfavorable effects to a host country. The favorable effects include an enhanced supply of capital, technology and resources that boost the economic growth rate of a nation. In addition, citizens of the host country are likely to benefit from better job opportunities, higher salaries, more choices of goods and services because of competitive markets. Some of the unfavorable effects of FDI on socio-economic and environmental characteristics include disparity in wages, culture, political corruption, ecology and environment[ii].

Another impact of FDI is that it influences and is influenced by the culture of a host country. Some cultures are supportive to FDI while others are not. For example, the economic ascent of Japan during the 1960's, 70's, and 80's is greatly attributed to its culture in lowering the cost of doing business, while the British culture has narrowed its class distinction over the past 20 years and has seen greater cooperation among labor and management resulting in fewer lost days and enhanced productivity. With respect to India, its traditional culture encompasses a value system that emphasizes on group identity, religious beliefs some of which place greater emphasis on detachment from the material world that discourages entrepreneurial activity, and a rigid caste system that has the potential to limit social mobility along the lines of caste.
Besides affecting culture, the level of political corruption and material well-being, FDI has a potential to affect the environment of a host country. It is documented fact that there is a wide chasm between developed and developing nations with respect to environmental regulations. Historically, developed countries have well-conceived environmental regulations that are actively enforced, while developing countries have weak environmental regulations and are not properly enforced. Studies in environmental economics report that developing countries are pollution havens because of weak environmental regulations[iii]. Critics contend that MNC's take full advantage of lax regulations by locating their manufacturing and production facilities in these countries to lower cost of production to maximize profits. Hence, the current debate with regard to the impact of FDI on environmental pollution has centered on MNC's that have been involved in exploitation of "pollution havens"

India’s record GDP growth throughout the last decade has lifted millions out of poverty and made the country a favored destination for foreign direct investment. However, the sharp downturn in Europe and the United States, coupled with significant domestic challenges, has slowed this trend and stands to disrupt future growth.

The Indian economy recovered well after the global financial crisis due to a fiscal stimulus package and also many social programs like the Mahatma Gandhi National Rural Employment Guarantee Act. These activities created employment and demand that resulted in 9% GDP growth in 2010. However, GDP expansion for 2011 is now expected to be 7.0%, not the forecasted 8.5%.

The scale economies of organized retailing would likely have offered consumers a wider variety of products at lower prices, with safeguards like quality control and checking for counterfeit products, including infringed American goods. Organized retailers would also have to buy products directly from Indian farmers and producers, paving the way for better price realization. The provision of 50% FDI from the United States and elsewhere in back-end infrastructure for storage, logistics, and better extension services would substantially reduce wastage in India's farm produce, which is one of the highest in the world. The provision of 30% sourcing from Indian SMEs would have helped expand capacity, improve quality, and get exposure to international supply chains, making them internally competitive over time.

The government should have discussed the retail FDI matter with opposition parties and its alliance partners before getting approval from the cabinet. It eventually succumbed to outside pressure and suspended FDI in multi-brand retailing, and is unlikely to reopen the issue until after the 2012 state elections in Uttar Pradesh, Punjab, Uttarakhand, Manipur, and Goa. The Singh government would like to weigh its political position in these states after the elections before it makes tough decisions on issues such as FDI in multi-brand retailing. The flip-flop in retail FDI has created more uncertainty among investors and created doubts about further big-ticket market reforms in the near future.

To move forward, it is time that the Singh government talks to opposition and alliance partners about the benefits of multi-brand retail FDI. However, the political climate will be much clearer after parties position themselves leading to the state elections early this year. In addition, the government also needs to educate stakeholders like producers and consumers about the beneficial effects of FDI in multi-brand retailing, as not enough has been done on this front.

The Indian economy's biggest strength is that India is still the second-fastest growing nation next to China, with an annual growth rate of over 7%, and its growth is mostly led by domestic demand. Therefore, the government needs to do everything possible to sustain investors' confidence and a positive market sentiment. To indicate that India is serious about market reform, the government should put on the fast track some of the other big-ticket reforms such as retail FDI, banking, pension, insurance, civil aviation, labor reforms, land acquisition, and clarity over environmental issues. Movement toward reform and good governance are necessary to bring back investor confidence in the Indian economy.

The industrial sector has slowed down due to increasing costs of production, increases in policy rates over the last few quarters, numerous scams and damage to corporate credibility, renewed debate over land acquisition, and environmental clearances. Unfortunately, governance and corruption issues are delaying reforms, leading to a loss of faith in the Indian economy.

India's economic slowdown may certainly affect the country's external sectors, including the country's bilateral trade with the United States. China's cost of domestic production is rising, and many investors, including some from the United States, are looking to India as an alternative destination. As many foreign investors look to tap into India's domestic market, capital inflows could decrease. In fact, if the downturn continues, there may be more outflows of capital from India than inflows to India.

Growth is necessary for the government to meet the socioeconomic infrastructure requirements for a majority of the population. Lagging investor confidence and an economic slowdown in manufacturing and industry would disappoint the aspirations of millions of young people searching for jobs. With a median age of 25 years, India has a young population compared to other Asian countries like Japan and China, which need to deal with an aging population. Now India must sustain its growth and create jobs to reap the rewards of its population dividend.

The post-liberalization period has been remarkable for FDI in India. It has created a conducive environment for foreign investment by abolishing industrial licensing, establishing institutions, and lifting FDI equity ceilings, shifting more sectors to the automatic route, providing incentives, and liberalizing foreign exchange regulations. Consequently, FDI inflows, negligible before 1991, have increased substantially. FDI in India is still concentrated in a few sectors and states. Factors that hinder FDI inflows include infrastructure bottlenecks, rigid and complicated labor laws, lack of coordination between the states and the central government, lack of reforms at the state level, FDI equity caps in many potential sectors, and delays in getting multiple clearances and approvals[iv].

The most pressing issue for the Indian economy now is to improve competitiveness across all sectors. If India desires to be an economic power, it needs to reduce trade and transaction costs, improve governance, and carry out institutional reforms for effective law enforcement. A serious problem that might halt the Indian economy's growth is the country's infrastructure bottleneck. Lack of high-quality physical and social infrastructures have led to high costs in trade and transaction costs, thereby lowering India's economic competitiveness. The planning commission has estimated that the infrastructure sector requires investment of up to $1 trillion in the 12th Five Year Plan (2012–17), but it may be difficult to raise such funds.

The service sector, which was the driver of growth for the last two decades, has also showed signs of a slowdown in the last few quarters. Decreased output in the industrial sector, along with low demand for India's services in the United States and Europe, has resulted in a slowdown for services exports as well. Given the current situation, particularly the European debt crisis and the overall slowdown in developed countries, a moderation in exports in general, and trade in services in particular, is expected.

India also faces internal problems, such as widespread poverty, corruption, and poor governance. Market reforms over the last two decades have created opportunities for the private sector to grow, resulting in a high growth rate, but they have also produced high inequality in India. Growing inequality and a high poverty rate (more than 30% of the population) are the biggest challenges to sustained economic growth, and if not addressed properly, will create disharmony.

A primary step that the Indian government must take to reduce inequality and poverty is to improve productivity growth in agriculture. More than 56% of the total labor force depends on agriculture, although this sector contributes only 16% to India's total GDP. The government should institute policies that provide education and vocational training in order to move people out of agriculture and make use of opportunities in the market economy.

The fall of the rupee by more than 15% since August 2011 is a blow to India's economy. Costlier imports of petroleum products, steel, and rubber will add pressure to the price of production in manufacturing and inflation in general, which has been around 9% for the last couple of years. In fact, India's top exports are in the same industry as India's top imports, showing high and increasing intra-industry trade. In some industries, like automobiles, electronics, and computer hardware, India primarily imports intermediate inputs, and an increase in price for these inputs will be passed onto consumers, which contributes further to price increases. More importantly, rising production costs would reduce profit margins and overall investment activities. The favorable impact on exports would be modest and confined to a few sectors, especially with consumer demand slowing in the United States and Europe.

The present scenario also does not augur well for India's external sector and fiscal deficits. Given the sticky components of imports such as petroleum and expected lower favorable impact on exports, the trade deficit is likely to go up. In addition, a decline in capital inflows would contribute to the current account deficit. The prospect of a higher current account deficit and trade deficit will make investors in general and foreign investors in particular, more skeptical about the Indian economy.

There is no one indicator to detect a turnaround. India's economy faces multiple challenges, including a slowdown across many sectors and high inflation. However, the first thing one should look for is a turnaround in investment trends, particularly in private investment, which has slowed substantially due to a lack of a conducive business environment and policy paralysis. An increase in private investment and inflows of foreign capital, both FDI and institutional investment, would reflect a revival of the Indian economy[v].

The reduced production of capital goods and intermediate goods in the manufacturing sectors over the last few quarters reflects a decrease in overall economic activity. Improvement in manufacturing and an increase in net sales and corporate profits would demonstrate a reversal of trends in these sectors and would be good indicators of a broader economic turnaround. Finally, strong performance in agriculture and the service sector, along with moderate inflation, would likely eliminate existing structural imbalances in the Indian economy.

According to AT Kearney report India sits in 3rd place on the FDI Confidence Index globally. European and North American investors place it 3rd, while Asia-Pacific investors' rank it 4th. India is the top location for nonfinancial services investment, and also scores highly in heavy industries, light industries and financial services. Even during economic crisis looming largely on other economies, FDI inflows to India soared from US$25.1billion in 2007 to US$41.6billion in 2008.
The measures introduced by the government to liberalize provisions relating to FDI in 1991 lure investors from every corner of the world. As a result FDI inflows during 1991-92 to March 2010 in India increased manifold as compared to during mid-1948 to March 1990. As per the fact sheet on FDI, there was Rs 6,303.36 billion FDI equity inflows between the periods of August 1991 to January 2011.
The FDI inflows in India during mid-1948 were Rs 2.56 billion. It is almost double in March 1964 and increases further to Rs. 9.16 billion. India received a cumulative FDI inflow of Rs. 53.84 billion during mid-1948 to march 1990 as compared to Rs.1,418.64 billion during August 1991 to march 2010. An annual FDI inflow indicates that FDI went up from around negligible amounts in 1991-92 to around US$9 billion in 2006-07. It then hiked to around US$22 billion in 2007-08, rising to around US$37 billion by 2009-10.

In fact when foreign direct investment into India had "tumbled 32 per cent to just US$3.4 billion" , as mentioned in financial times during January to March 2011 that it emerged that net FDI flows in the month of April alone amounted to US$3.1 billion. Also, FDI is all about long term investment. Companies have already invested in to India and are unlikely to move elsewhere. Unless any dramatic negative changes in policy, FDI will continue to inch upwards[vi].

The Impact of FDI on India's Manufacturing Sector

Foreign direct investment (FDI) has risen considerably in post-reform India. The work and category of FDI has changed significantly since India has opened up to world markets. This has fueled high prospect that FDI may serve up as a channel to advanced economic growth. However, it turns out that the development effects of FDI differ extensively across sectors. FDI stocks and production are equally reinforcing the domestic manufacturing sector.

India is ranked second in the world in terms of manufacturing capability, according to the "2010 Global Manufacturing Competitiveness Index'" by Deloitte Touche Tohmatsu and the US Council on

Competitiveness. India's workforce of scientists, researchers, and engineers, together with its English-speaking workforce and democratic regime, the report says, make it an attractive destination for manufacturers. In 2010, the indicator of the overall condition of the manufacturing sector has moved up to 126.5 for the appraisal quarter, its highest reading since the April-June 2007 quarter. In the last quarter of the year, the manufacturing industry showed positive results despite less than impressive performance in other sectors.

Growth in India's manufacturing sector

Approximately 50 sectors in India's domestic manufacturing sector grew by 39 percent during the April – December 2010 period, achieving the "excellent growth" category. These segments are air conditioners, natural gas, tractors, nitrogen fertilizers, ball bearings, electrical and cable wires, auto components, construction equipment, electric fans and the tire industry. Twenty-two segments entered the "high growth" group, registering a growth of 17.3 percent during the first nine months of the existing fiscal. Industries such as utility vehicles, crude oil, power transformers, energy meters, alcoholic beverages and textile machinery have registered around 10-20 percent growth.

In 2008-09, following the global meltdown, the growth rate of the Indian economy dropped to 6.7% from an average growth of 8.8% in the preceding five years. It is worth noting that India's GDP growth in 2008-09 was one of the highest in the world. This reflected, in part, the resilience of the country's growth impulses to a severe external shock and was also indicative of the fact that the Indian economy is still not open enough. The decrease in economic growth was the sharpest in the third quarter of 2008- 09. During the fourth quarter the down-turn was arrested mainly due to the good performance of India's agriculture sector, despite the continuing poor performance of industrial and services sectors. During the fourth quarter of 2008-09, real GDP growth was estimated at 5.8% as compared with 8.6% in the corresponding period of the previous fiscal.

The backbone of India's spectacular growth between 2003 and 2008 was robust domestic demand. The high growth trajectory came to a halt in the third quarter of 2008- 09. In real terms, during 2008- 09 the growth in private consumption demand decreased to 2.9% from 8.5% in 2007-08. Coupled with a decrease in the investment demand this was a major blow for the economy, as private consumption accounted for almost 55% of GDP in 2008-09. This offset the sharp increase in government consumption expenditure, which expanded by 20.2% in 2008-09, resulting in the contribution of government consumption expenditure to the real GDP growth (at market pieces) in 2008-09 at 32.5% as against of only 8.0% in 2007-08.

The last quarter of 2008-09 and the first quarter of 2009-10 witnessed slight recovery from the downturn, though at an extreme sluggish rate. Private consumption and investment demand continued to decelerate during the first quarter of 2009-10. Government consumption expenditure growth, which had increased sharply in the third and fourth quarters of 2008-09, also dropped marginally during the first quarter of 2009-10. The real GDP growth measured from the demand side was slightly higher at 6.1 % during the first quarter of 2009-10, than the preceding two quarters (GDP growth rate was 5.8% for both last two quarters of 2008-089). During the second quarter of 2009-10, real GDP growth picked up to 7.9% hinting at recovery of the growth of Indian economy-according to the advance estimates released by the CSO, the Indian economy is expected to grow by 7.2% in 2009-10.

Thus, the Indian economy performed remarkably well, despite the global economic crisis. The IMF, in its latest update, has projected growth rates for the year 2009 and 2010 for the world economy at (-) 0.8% and 3.9% respectively while the projections for India by the IMF are 5.6% and 7.7% respectively. Despite impressive growth figures and projections, the poor performance figures and projections, the poor performance of external sector and service sector call for nuanced policy interventions.

As a result of difficult financing conditions prevailing in the international credit markets and increased risk aversion by the lending counterparties, gross inflows of short-term trade credit to India declined by 12.2 per cent to US$ 41.8 billion during 2008-09. Export credit as a percentage of net banking credit also fell from 5.5 per cent as on March 28, 2008 to 4.6 per cent as on March 27, 2009 and further to 4.1 per cent as on January 15, 2010 .On the other hand, short-term trade credit repayments registered an increase of 37.9 per cent during 2008-09 to touch US$ 43.7 billion. Since the gap between the inflows and outflows of short-term trade credit to India were limited to a net outflow of US$ 1.9 billion during 2008-09, financing of short term trade credit did not pose much of a problem .This trend also continued in 2009-10. During the first half of 2009-10, the gross inflow of short term trade credit stood at US$ 21.7 billion, lower by 9.2 per cent than that in the corresponding period in 2008-09, while the outflows at US$ 22.3 billion were higher by 17.5 per cent, thereby resulting in a net outflow of US$ 0.6 billion.

India's external sector has performed remarkably well in the last few years. Till the advent of the crisis, in 2007-08 Indian merchandise trade had shown robust growth. According to the Directorate General of Commercial Intelligence and Statistics (DGCI&S) data, the growth of merchandise exports and imports increased to 25.8% and 29.0%, respectively, during 2007-08 as compared with 22.6% and 24.5%, respectively in 2006-07. One important feature of the export trend of the recent years has been the declining share of developed nations like the EU and the US and the increasing share of the developing countries.

In the recent past, merchandise imports have increased mainly, due to an unprecedented rise in international crude oil prices and continued buoyancy in capital goods imports. Petroleum, oil and lubricants (POL) continue to be the single largest component of our import basket, accounting almost 33% of India's imports in 2007-08. POL imports registered a high growth of 39.4% during 2007-08, owing to the high price level of crude. The growth in this sector in volume terms has remained relatively low. Thus higher import growth relative to exports in recent years has resulted in widening of the trade deficit.

Though India's external sector's performance deteriorated in the second half of 2007-08, the situation became grimmer in 2008-09. Due to lower oil and fertilizer prices, and lower domestic demand, the fall in import growth in the last quarter of 2008-09 was sharper than the fall in export growth. But as the grip of financial crisis strengthened, exports too dropped on month-on-month basis from October 2008 onwards, for eight successive months. Import growth witnessed a deceleration during October-November 2008, before turning negative thereafter. The decline in imports was the sharpest during April 2009 (-39.4%) in relation to the high growth recorded during April 2008 (41.4%). The decline in imports was on account of both reduced demand for oil and non-oil imports. This declining trade performance of India was in tandem with developments in the global scenario.

The grim scenario worldwide improved from mid 2009. In India, in the first quarter of 2009-10, despite the upward turn in economic activity, the external sector's performance, overall, remained sluggish. India's imports of goods and services contracted faster than exports, and as a result net exports, which had negative contribution to GDP in the previous quarters, turned positive.

The sign of recovery of Indian exports was strongly visible from October 2009 when the decline in exports in October 2009 was only 6.6% in US$ terms (US$13.19 billion in October 2009 vis-à-vis US$ 14.13 billion in October, 2008). However, on a quarterly basis, cumulative value of exports for the period April- December, 2009 was US$ 117.6 billion (Rs 563304 crore) as against US$ 147.6 billion (Rs. 652919 crore) registering a negative growth of 20.3% in US$ terms and 13.7% in Rupee terms over the same period last year.

Despite the increased risk aversion among investors and the credit crunch in international market, foreign direct investment in India has remained steady, even during the financial turbulence worldwide. This partly reflects India's sound financial structure and the consequent attractiveness of Indian market as long term investment destination. Policies undertaken by government to sustain inflows of capital have also played a positive role. FDI inflow experienced a declining trend in the first three quarters of 2008-09, but has shown improvement in the fourth quarter. The sectors which received major part of this FDI flow are the manufacturing sector (21.1%) followed by financial services (19.4%) and the construction sector (9.9%). The revival in capital flows witnessed during the first quarter of 2009-10 gathered momentum during the second quarter of 2009-10.

Increasing trend of FDI in Different areas

Transportation and Communication Infrastructure (TCI)

Better transport and communication facilities are expected to provide easy and quick access to input and output markets making the environment largely business conducive. Therefore, the states with better TCI are likely to attract greater FDI inflows (Kumar, 2002[vii]; Archana, 2006[viii]). However, such positive association may not necessarily hold, especially when foreign investment is directed towards developing infrastructure or the foreign investors develop the required infrastructure or FDI comes in through mergers and acquisitions instead of Greenfield investments. In addition, the requirement of TCI for FDI is largely industry-specific. There are studies (e.g., Chakravorty, 2003)[ix] that find no significant influence of infrastructure in determining the location of FDI. The influence of TCI on FDI, therefore, depends on how these diverse forces empirically dominate each other.

Power Supply (PWR)

Availability of electricity along with other infrastructural parameters is instrumental for bringing in private investment (Ghosh and De, 2005)[x], whereas shortage of it is likely to restrict investment inflows. The states with more power shortage are likely to receive less FDI inflows. However, when the foreign investors develop their own source of power, it may not become a significant determinant of FDI inflows. For example, Nunnenkamp and Stracke (2007)[xi] do not find power supply as a significant determinant of FDI in Indian states. The impact of power supply on FDI inflows, therefore, depends on the relative strength of these diverse forces.

Educational Infrastructure (EDUI)

Investment requires availability of qualified human capital (Moosa, 2005)[xii] and, therefore, promoting education is considered as crucial for overall development of an economy (Sen and Pal, 2005). A number of studies (e.g., Noorbakhsh et al. 2001[xiii]; Quazi, 2007[xiv]; Nunnenkamp[xv]) observe significant influence of human capital on FDI inflows. The states with good educational infrastructure can attract greater FDI inflows. However, since human resources are highly mobile, availability of quality manpower at the local level may not necessarily be a pre-condition for choice of investment locations. Instead, the potential investors may look at availability of semi-skilled/unskilled workforce at the local level while making investment decisions. Further, there are sectors that engage large number of unskilled/semi-skilled workforce and investment in these sectors may be directed towards the states even with poor educational infrastructure to source necessary workforce at lower wage rate. Hence, the impact of educational infrastructure on FDI inflows depends largely on the nature of industry.

Health infrastructure (HI)

Good health facilities have positive impact on labour productivity (Sen and Pal, 2005)[xvi]. Therefore, one may expect a positive relationship between health infrastructure and FDI inflows. However, considering that human capital is highly mobile, such a positive relationship may not necessarily hold. Hence, the impact of health infrastructure on FDI inflows is largely an empirical issue.

Profitability (PROF)

Higher profitability of the existing enterprises in a state indicates better business environment and hence encourages potential investors to invest therein. It also raises the ability and willingness of the existing

enterprises to expand their business. Profitability also represents factors like size of the existing firms, their market share (Gale, 1972)[xvii], market concentration (Mishra, 2008)[xviii], and past profitability and growth. Therefore, the states with higher profitability of the existing enterprises may be expected to attract greater FDI inflows. However, entry of new firms and expansion of existing ones may reduce profitability and hence FDI inflows in the long-run.

Risks of Investment (RI)

As many of the potential investors are risk-averse, market risks are likely to play crucial role in selecting investment location. From a firm's perspective, risks and returns are considered as the important performance characteristics that are likely to influence entry decisions. Generally, higher risks reduce the likelihood of entry unless the potential entrant is risk prone (Basant and Saha, 2005)[xix]. Greater risks also restrict expansion of the existing firms. Hence, one may expect less FDI inflows into the states where the existing enterprises suffer from the problem of greater variability in profitability. However, if the investors are risks lovers for greater returns, investment may go up.

Conclusions

The Northern and Central states namely, Chhattisgarh, Delhi, Haryana, HP, J&K, MP, Punjab, Rajasthan, UP and Uttarakhand, are agrarian economies well known as 'the food basket of India' with a gradual shift to high-tech industries and service sectors. Currently they constitute about 34% of India's total GSDP 1and have huge potential to grow further. Few of the states like Delhi boast of world class infrastructure while the rapidly growing new states of Uttarakhand and Chhattisgarh have a promising future in tourism and industry sectors. Punjab and Haryana, which comprise the 'wheat basket of India', have shown high potential growth in the cropping intensity. Himalayan states of J&K and HP have shown immense potential in terms of alternate energy generation, while Rajasthan and UP are making efforts to boost the agri-business.

India announced its new trade policy for 2009-14 on 27th August 2009. The short term objective of the new trade policy is to arrest and reverse the decreasing trend in exports and to provide additional support to the sectors worst hit by the global recession. The announced policy objectives aim to achieve an annual export growth of 15%, with an annual export target of US$ 200 billion by March 2011 and by 2014 to return to the high export growth path of around 25% per annum. The long term objective is set to double India's share in global trade by 2020.

Government aims to achieve this goal through a clutch of policy measures including fiscal incentives, institutional changes, procedural rationalization, enhanced market access across the world, diversification of export markets, improvements in infrastructure related to exports; reduction in transaction costs, and provision for full refund of all indirect taxes and levies. It is also a stated objective to encourage labour intensive sectors like textiles, leather and handicrafts, which have been the worst impacted by the recession, particularly from the point of view of job loss.

An analysis of trends in FDI flows reveal that India registered decreasing trend of nearly 49% in the financial year 2009-10 i.e., from US$ 35.6 billion in 2008-09 to US$ 24.1 billion since the eruption of global financial crisis in 2008-09. Above graph witnessed that strong rebound during 2010-11 flowed US$ 34.84 billion and 2011-12 it is US$ 46.8 billion on the back of improved corporate profitability and some improvement in M&A activities at India.

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